TRUTH IN LENDING—1963-64

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

EIGHTY-EIGHTH CONGRESS

FIRST AND SECOND SESSIONS

ON

S. 750

A BILL TO ASSIST IN THE PROMOTION OF ECONOMIC STABILIZATION BY REQUIRING THE DISCLOSURE OF FINANCE CHARGES IN CONNECTION WITH EXTENSIONS OF CREDIT

PART 2

AUGUST 24, 1963, LOUISVILLE, KY.
NOVEMBER 22, 1963, AND JANUARY 11, 1964, BOSTON, MASS.

Printed for the use of the Committee on Banking and Currency

U.S. GOVERNMENT PRINTING OFFICE
23-902 WASHINGTON : 1964

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C., 20402 - Price $5.25

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CONTENTS

The same contents appears in both parts 1 and 2

Part 1: New York, Pittsburgh
Pages 1-700

Part 2: Louisville, Boston
Pages 701-1676

WITNESSES

FRIDAY, AUGUST 16—NEW YORK, N.Y.

ALPHABETICAL LIST OF WITNESSES

LETTERS, TELEGRAMS, AND DATA SUPPLIED FOR THE RECORD

INDEX OF ORGANIZATIONS

TRUTH IN LENDING—1963

SATURDAY, AUGUST 24, 1963

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON PRODUCTION AND STABILIZATION,
Louisville, Ky.

The subcommittee met, pursuant to notice, at 10 a.m., in the courtroom of the Federal Referee in Bankruptcy, Senator Paul Douglas, chairman of the subcommittee, presiding.

Present: Senators Douglas (chairman), Bennett, and Simpson.

The CHAIRMAN. I would like to make a preliminary statement or two. I am going to request that there be no smoking in the room, and second, no expressions of approval or disapproval. This is not a formal judicial hearing. It is a congressional hearing. We want to have it as informal as possible so that the people will not feel overawed by the surroundings, but we want to have it dignified. We ask that the witnesses be treated courteously and the Senators be treated with courtesy.

We will begin in just a minute or two.

I may say also it is our intention to hold an afternoon hearing as well, and I think we are all staying over until tomorrow so that any witnesses that aren't heard in the afternoon may have the opportunity of being heard in the evening.

We would like to begin the hearing, if the photographers will tell us when they are ready.

Senator BENNETT. While we are waiting for the photographers, since we are not under the pressure we were under yesterday, could we decide now about when we might break up for lunch, and for how long a period?

The CHAIRMAN. I would suggest, if it's satisfactory to my colleagues, that we break up at 12:30 and convene at 2 o'clock.

Senator BENNETT. I'm sure that is all right.

The CHAIRMAN. The committee will come to order. The full Committee on Banking and Currency as well as the Subcommittee on Production and Stabilization has authorized the subcommittee to hold hearings in four cities outside of Washington, D.C., subject to the restriction that we will spend not more than $4,700 in holding these hearings.

Last week we held two hearings in New York City on Friday and Saturday. Yesterday we held almost seven and a half hours of hearings in Pittsburgh, and today we are meeting in the verdant city of Louisville.

We will hold hearings in a fourth city to be determined at a later time, probably sometime in the fall.

We shall try to conduct these hearings with fairness. It is well known that my colleagues and I differ on the merits of Senate 750, and perhaps at times this attitude may be displayed in the questioning or comments which we may make. But I want to assure both sides that we want to have them given the opportunity to present their case, and we do not question the motives of anyone who appears as a witness, and indeed I cannot question the motives of my colleagues. I highly value them personally.

Proponents of the bill have given us a list of some 13 witnesses, the opponents a list of 6, but I understand the first 4 of those are combined in panels of 2 each. But I guess we have as of now, four appearances, but there may be a fifth.

It is my intention, therefore, unless my colleagues object, to have the proponents first, as is usually the case, but have them cut off their testimony after the first three or four have testified, and then the opponents this morning may have the floor and may put on two appearances.

Senator BENNETT. Do you think we can do all of this this morning?

The CHAIRMAN. We hope so.

Senator BENNETT. I think we would like to have part of our testimony on this morning because of the newspaper situation.

The CHAIRMAN. I may say that I always try to follow the principle that the opponents will have a chance both morning and afternoon, so that they may have full access to the news. This is what we did in New York and in Pittsburgh, and it is what we will do in Louisville.

I have no statement to make. If there are no further statements, we will ask the first witness, Mr. Patrick Kirwan, to take the stand.

Mr. Kirwan.

Is Mr. Kirwan here? Will someone go in the hallway and call Mr. Kirwan, please?

A SPECTATOR. Senator, may I make a suggestion, sir? There are quite a few of us who, of course, would like to hear the proceedings but because of the limitations of space in this room, the people in the hall can't get in.

Would it be amiss to suggest that we move to a courtroom?

The CHAIRMAN. I appreciate that suggestion and the spirit with which it is made.

We wanted to hold the hearing in an informal courtroom. If you hold it in a huge courtroom, the witnesses might be overawed. We are glad there is such a great interest in this bill, as evidenced by the large crowd that has come out, and which we did not anticipate, but all arrangements have been made to hold the hearing in this room, and we shall continue to hold the hearing in this room.

Thank you very much.

Mr. Kirwan, we are very glad to have you here. There are no microphones, I see, for you. I wondered if you would speak up so as many people as possible can hear you.

It is our custom in all of these hearings to have the witnesses identify themselves first, with their name and address.

Senator BENNETT. Is there an extra microphone over there?

The CHAIRMAN. Do you have a prepared statement?

Mr. KIRWAN. Yes.

The CHAIRMAN. May we have copies distributed?

STATEMENT OF PATRICK KIRWAN, TEACHER AT J. M. ATHERTON HIGH SCHOOL, LOUISVILLE, KY.

Mr. KIRWAN. My name is Patrick Kirwan. I live here in Louisville where I teach English at J. M. Atherton High School. I am appearing here today as a consumer, a regular customer of a number of merchants in town.

Contrary to the statements made by the local chamber of commerce, there is a lot of interest in the hearings being held here today by this subcommittee. The matter of full disclosure of interest costs has interested me to the point where I started investigating the various plans available here in town.

It is my conclusion that we consumers would all be better served by the enactment of Senate bill 750. Let me give you an example of why I say so.

During the course of my investigations into credit plans, I came across two offered by Sears, Roebuck & Co. These two plans provide convincing evidence of the need for disclosure of interest costs in terms of a simple annual interest rate. Using this yardstick, I have come up with some interesting figures on the cost of the two plans offered consumers in the 1963 Sears summer-fall catalog.

In a minute I shall go to that chart and show you what I mean. You can see that on the left Sears is explaining its revolving charge account plan. In paragraph 2(A) (2) the company states customers will be charged 1½ percent per month on the unpaid balance. We all know this represents an annual rate of 18 percent per year.

On the right, the next page from the Sears catalog is reproduced. This is their "no money down" plan which I will show has some pretty interesting credit charges.

Incidentally, to get the interest rate figures shown on the chart you have to use a pretty complicated formula known as the constant ratio formula. Then you have to compute the actual number of monthly payments, which you get by adding the credit charge to the cash price and dividing by the monthly payment. Once you do that, you plug in the figures and come up with the interest expressed in terms of a simple annual rate.

I might add that I used the lower price figures in each category to get the maximum charge payable.

Now let me go to the chart and explain the different credit costs, and what I think——

The CHAIRMAN. May I come with you, too?

Mr. KIRWAN. Yes.

Now I am no authority on what is the proper interest rate that should be charged, and I don't intend to try to set myself up as an expert on what should be an equitable interest charge.

The CHAIRMAN. Mr. Kirwan, this bill does not attempt to find it either. It does not fix any maximum rate.

Mr. KIRWAN. Yes.

But here we have these figures, starting with a lower principal amount up to $10, an interest rate of 51½ percent; then $10 to $12.50 jumps to 63 percent; then from $12.51 to $15, it bounces down to 50.8 percent; and $15 to $20, to 48 percent interest. There is a gradual reduction then as the amount of the loan or the principal of the financing——

Senator BENNETT. Will you tell the audience what that lowest rate is? It's up to $10.

Mr. KIRWAN. Yes. Up to $10——

Senator BENNETT. Total loan; with all the bookkeeping that has to go into handle the total obligation against which you can only collect or charge against $10.

At another point I'd like to—I'm not up at the chart, but another point I'd like to get clear: Do you consider this interest?

Mr. KIRWAN. I consider it interest. Well, it's also interest and what you want to call it, carrying charge?

Senator BENNETT. But as you explained these, you have been saying this is a 51 percent interest rate; this is a 48 percent interest rate. And I assume that you consider all these charges interest.

Mr. KIRWAN. Senator, I'm inclined to think that the average consumer would consider it an interest rate. In other words, if I borrowed $10 and paid back $12, I consider that the $2 I'm paying back is interest. I don't care what they call it. For all practical purposes it is interest, at least, it is to me.

Senator BENNETT. That's the point I wanted to be sure of.

Mr. KIRWAN. What fascinates me most about these figures is apparently when they worked out the rates, they indulged in quite a bit of caprice. I cannot see why there should be these charges of 51 percent, 63 percent, 50.8 percent; why there couldn't be some consistency about the charges, interest or otherwise, that go into this chart that they have.

The CHAIRMAN. Here's one that's 24.2 percent?

Mr. KIRWAN. 27.9.

The CHAIRMAN. Here's one that adjusts to 27, goes down to 23.6, goes up to 23.5, 26.5.

Mr. KIRWAN. In almost each category here where the dividing lines are, the rate jumps up on the first one and then comes back down as the amount increased in each bracket.

The CHAIRMAN. What's the final interest rate?

Mr. KIRWAN. The final interest rate gets down to 17 percent.

The CHAIRMAN. Or finance charge?

Mr. KIRWAN. Yes; 17.2.

The CHAIRMAN. That's for——

Mr. KIRWAN. That's for anything until $280.

Another interesting thing about this Sears plan which I found in going over these things—and incidentally I am a regular customer of Sears; I have dealt with them for years and have no doubt that I shall continue to be a good customer of Sears. But this plan, the one that I mentioned in my prepared statement, is actually a much better plan for the average consumer if he is going to be financing anything in the neighborhood of $100 or $150 on down, because on this plan it is only 18 percent, whereas on this plan, it runs as high as 50 percent. After you pass roughly, oh, $180 for financing, then this plan becomes a better plan because it is a little bit less than 18 percent that you pay back.

The CHAIRMAN. Mr. Kirwan, may I ask: have you checked your figures? Are you certain that these percentages are accurate?

Mr. KIRWAN. Yes, sir.

I'm not a mathematics teacher; I'm an English teacher. But I believe I can compute these.

The CHAIRMAN. Have you gone over them twice?

Mr. KIRWAN. Yes.

The CHAIRMAN. And the results are the same?

Mr. KIRWAN. Yes.

The CHAIRMAN. And what about these others?

Mr. KIRWAN. Well, the same general principle applies in these others. These of course—this plan for 24 months, up to 24 months to pay; you might not take that long, of course, on some of the smaller loans. This is up to 36 months.

Senator SIMPSON. When you say "this one," would you say—use an expression like "homefurnishings" accounts and then for the other one, use "applicance" terms, so we can differentiate between the types of accounts?

Mr. KIRWAN. All right, sir.

This one over here, up to 36 months, of course involves the larger appliances, the thing that costs, well, costs upto $500 on this chart. Of course, it can be for amounts in addition to $500. If you want to, Sears will furnish you with those figures.

The CHAIRMAN. Would you like to have this exhibit made a part of the record?

Mr. KIRWAN. Yes, sir; I would.

The CHAIRMAN. Without objection, they will become committee insert.

Senator BENNETT. I want the record to clearly show that the annual interest rates which appear on the exhibits (pp. 706 and 709) are not part of the material in Sears catalog.

(The exhibits are reproduced as follows:)

AGREEMENT
FOR SEARS REVOLVING
CHARGE ACCOUNT

SEARS, ROEBUCK AND CO., PHILADELPHIA 32, PA.

In consideration of your selling merchandise to me on Sears Revolving CHARGE ACCOUNT, I agree to the following regarding all purchases made by me or on my Sears Revolving CHARGE ACCOUNT Identification:

1. I have the privilege of a 30-day charge account, in which case I will pay the full amount for all merchandise purchased within 30 days from the date of each billing statement.
2. If I do not pay the full amount for all merchandise purchased within 30 days from the date of each billing statement, the following terms shall be in effect:

(A) I will pay the time sale price for each item purchased consisting of:

(1) The cash sale price, and

(2) An amount of time price differential computed at 1½% of the balance at the beginning of each monthly billing period, until the full amount of all purchases and time price differentials thereon are paid in full.

18%

(B) I will pay for the merchandise purchased in monthly installments which shall be computed according to the following schedule:

If the unpaid balance is:	The scheduled monthly payment will be:
$ .01–$ 10.00	BALANCE
10.01– 100.00	$10.00
100.01– 150.00	15.00
150.01– 200.00	20.00
200.01– 250.00	25.00
250.01– 300.00	30.00
300.01– 350.00	35.00
Over $350.00	1/10 of account balance

I will pay each monthly installment computed according to the schedule at left upon the receipt of each statement. If I fail to pay any installment in full when due, at your option the full balance shall become immediately due.

(C) You are to send me a statement each month which will show the unpaid balance for merchandise purchased, your time price differential computed on the balance at the beginning of each monthly billing period, and the amount of the monthly installment coming due.

(D) I have the right to pay in advance.

____
(CUSTOMER'S SIGNATURE)

ACCEPTED,
SEARS, ROEBUCK AND CO.

By______________________________

Date______________________

NAME (PLEASE PRINT) ____________

Print names of other members of family authorized to buy on your account. Duplicate identification will be issued.

ADDRESS ____________ 1 ____________

CITY ______ ZONE ______ STATE ______ 2 ____________

PREVIOUS SEARS ACCOUNT? ______ IS ACCOUNT PAID IN FULL? ______ DATE FINAL PAYMENT MADE ______ AT WHAT SEARS STORE? ______

AGE? ______ MARRIED? ______ WIFE'S FIRST NAME ______ NUMBER OF DEPENDENTS? ______

HOW LONG AT PRESENT ADDRESS? ______ OWN ☐ BOARD ☐ RENT ☐ MONTHLY RENT OR MORTGAGE PAYMENT $ ______ PHONE NO. ______

FORMER ADDRESS (IF LESS THAN 2 YEARS AT PRESENT ADDRESS) ______ HOW LONG? ______

EMPLOYER ______ STREET ADDRESS ______ CITY AND STATE ______

HOW LONG? ______ OCCUPATION? ______ WEEKLY EARNINGS $ ______

FORMER EMPLOYER (IF LESS THAN 1 YR. WITH PRESENT EMPLOYER) ______ HOW LONG? ______

NAME OF WIFE'S EMPLOYER ______ ADDRESS OF WIFE'S EMPLOYER ______ WIFE'S WEEKLY INCOME $ ______

NAME OF YOUR BANK ______ STREET ADDRESS ______ CITY AND STATE ______ SAVINGS ☐ CHECKING ☐

IF A FARMER, HOW LARGE IS YOUR FARM? ______ ACRES. ______ HOW MANY ACRES UNDER CULTIVATION? ______

EXPLAIN OTHER INCOME, IF ANY ______

GIVE BELOW THE NAMES AND ADDRESSES OF TWO STORES WITH WHICH YOU HAVE HAD CREDIT DEALINGS OR TWO BUSINESS MEN WHO KNOW YOU

NAME ______ STREET ADDRESS ______ CITY AND STATE ______

NAME ______ STREET ADDRESS ______ CITY AND STATE ______

The information above will be kept strictly confidential

744 SEARS

No Money Down!

BUY ANYTHING SEARS SELLS ON CREDIT— AND MAKE NO DOWN PAYMENT WHATEVER

It's Easy to open an account

Simply answer the questions on back of order blank, have the head of the household sign it and mail to Sears. Or inquire at your nearest Sears Catalog Sales Office or Retail Store Catalog Sales Department. Just be sure your order totals $20 or more. Remember, there is no down payment required on anything you buy from this or any other Sears Catalogs.

It's Easy to "add-on" to your account

No down payment and in many instances no increase in monthly payments when you "add-on" orders to your open account. "Add-on" orders must total $5 or more. Write on your order "Add to my account." Show account number and sign agreement on back of order blank. Or, phone or visit your Catalog Sales Office or Retail Catalog Sales Department.

Use several accounts at once if you wish

You can use several Sears Easy Terms Accounts at the same time—each one is tailored to fit your particular needs.

Whichever you use, don't forget to open a Sears Revolving CHARGE ACCOUNT for your everyday needs (no minimum purchase required). See preceding pages for all information and special application form.

On orders shipped by Parcel Post, freight or express, shipping charges are added to your Sears Revolving Charge or Easy Payment Account. No need to figure transportation. Charges for service or installation of Sears merchandise may also be added to your credit account.

SEARS EASY TERMS—Up to 18, 24 or 36 months to pay

Up to 18 months to pay

on anything you buy from Sears

MINIMUM PURCHASE TO OPEN AN ACCOUNT

$20.00

MINIMUM "ADD-ON" PURCHASE

$5.00

Up to 24 months to pay

on Home Furnishings and these items:

Adding Machines
Arc Welders
Attic Fans
Awnings
Cabinet Sinks
Curtains
Diamonds
Dishwashers
Draperies
Evaporative Coolers
Food Blenders (built-in)
Furniture
Garbage Disposers
Garden Tillers
Garden Tractors
Hearing Aids
Hospital Beds
Jeweled Watches
Mattresses
Milk Coolers (electric)
Milkers
Photo Equipment
Power Mowers and Edgers
Power Tools
Rugs and Floor Coverings
Salon Massagers
Snow Plows
Typewriters
Venetian Blinds
Vitalizer Chairs
Water Heaters
Water Softeners
Wheel Chairs

—Plus all items listed at right

Up to 36 months to pay

on Appliances and these items:

Air Conditioners and Dehumidifiers
Clothes Dryers
Electric Refrigerators and Freezers
Floor Polishers Household Type
High Fidelity Components
High Fidelity Sets
Ironers
Pianos and Organs
Phonographs, Radios and Recorders
Sewing Machines
Stoves and Ranges
Television Sets
Vacuum Cleaners
Washers

Simple annual interest rate	If Total Cash Price (plus any sales tax and shipping charge, less any deposit) amounts to	We Shall Add for Credit Price	Amount Payable Monthly is
51.5	Up to $10.00	10%	$3.00
63.1	$10.01 to 12.50	$1.25	
50.8	12.51 to 15.00	1.50	
48.0	15.01 to 20.00	2.00	
45.3	20.01 to 25.00	2.50	4.00
36.0	25.01 to 30.00	3.00	
36.3	30.01 to 35.00	3.50	5.00
31.1	35.01 to 40.00	4.00	
27.2	40.01 to 45.00	4.50	
24.4	45.01 to 50.00	5.00	
27.9	50.01 to 55.00	6.00	6.00
23.6	55.01 to 60.00		
26.5	60.01 to 65.00	7.00	7.00
23.0	65.01 to 70.00		
25.5	70.01 to 80.00	8.00	8.00
23.6	80.01 to 90.00	9.00	8.50
22.0	90.01 to 100.00	10.00	9.00
21.8	100.01 to 110.00	11.00	10.00
19.8	110.01 to 120.00	12.00	10.00
18.1	120.01 to 130.00	13.00	10.00
18.3	130.01 to 140.00	14.00	11.00
18.9	140.01 to 160.00	16.00	11.50
18.6	160.01 to 180.00	19.00	12.50
18.2	180.01 to 200.00	21.00	14.00
17.4	200.01 to 220.00	23.00	15.00
17.4	220.01 to 240.00	26.00	16.00
17.7	240.01 to 260.00	30.00	17.00
17.2	260.01 to 280.00	33.00	17.50

Write for terms over $280.00

Simple annual interest rate	If Total Cash Price (plus any sales tax and shipping charge, less any deposit) amounts to	We Shall Add for Credit Price	Amount Payable Monthly is
25.4	$50.01 to $55.00	$6.50	$5.00
22.8	55.01 to 60.00	7.00	5.00
20.6	60.01 to 65.00	7.50	5.00
18.9	65.01 to 70.00	8.00	5.00
20.2	70.01 to 80.00	10.00	5.00
18.6	80.01 to 90.00	12.00	5.00
17.6	90.01 to 100.00	14.00	5.00
17.8	100.01 to 110.00	15.00	6.00
18.1	110.01 to 120.00	17.00	6.50
18.2	120.01 to 130.00	19.00	7.00
18.4	130.01 to 140.00	21.00	7.50
19.1	140.01 to 160.00	24.00	8.00
19.2	160.01 to 180.00	28.00	9.00
18.5	180.01 to 200.00	32.00	9.50
18.0	200.01 to 220.00	35.00	10.50
17.9	220.01 to 240.00	38.50	11.50
17.7	240.01 to 260.00	41.50	12.50
17.6	260.01 to 280.00	45.00	13.50
16.9	280.01 to 300.00	48.00	14.00
16.7	300.01 to 320.00	51.00	15.00
16.7	320.01 to 340.00	54.50	16.00
16.6	340.01 to 360.00	57.50	17.00
16.6	360.01 to 380.00	61.00	18.00
16.6	380.01 to 400.00	64.00	19.00
16.5	400.01 to 420.00	67.00	20.00
16.5	420.01 to 440.00	70.50	21.00
16.5	440.01 to 460.00	73.50	22.00
16.5	460.01 to 480.00	77.00	23.00
16.5	480.01 to 500.00	80.00	24.00

Write for terms over $500.00

Simple annual interest rate	If Total Cash Price (plus any sales tax and shipping charge, less any deposit) amounts to	We Shall Add for Credit Price	Amount Payable Monthly is
25.4	$50.01 to $55.00	$6.50	$5.00
22.8	55.01 to 60.00	7.00	5.00
20.6	60.01 to 65.00	7.50	5.00
18.9	65.01 to 70.00	8.00	5.00
20.2	70.01 to 80.00	10.00	5.00
18.6	80.01 to 90.00	12.00	5.00
17.1	90.01 to 100.00	14.00	5.00
17.9	100.01 to 110.00	16.50	5.50
18.4	110.01 to 120.00	19.00	6.00
18.5	120.01 to 130.00	21.00	6.50
18.6	130.01 to 140.00	23.00	7.00
19.3	140.01 to 160.00	26.00	7.50
19.3	160.01 to 180.00	30.00	8.50
18.8	180.01 to 200.00	35.00	9.00
19.0	200.01 to 220.00	39.50	10.00
18.4	220.01 to 240.00	44.00	10.50
17.9	240.01 to 260.00	49.00	11.00
17.6	260.01 to 280.00	54.00	11.50
17.3	280.01 to 300.00	59.00	12.00
17.6	300.01 to 320.00	64.00	13.00
17.6	320.01 to 340.00	70.00	13.50
17.4	340.01 to 360.00	75.50	14.00
17.3	360.01 to 380.00	81.50	14.50
17.2	380.01 to 400.00	87.50	15.00
17.1	400.01 to 420.00	93.50	15.50
17.0	420.01 to 440.00	100.00	16.00
17.0	440.01 to 460.00	106.50	16.50
17.0	460.01 to 480.00	113.00	17.00
17.0	480.01 to 500.00	120.00	17.50

Write for terms over $500.00

Mr. KIRWAN. Of course Sears put this out. I got these figures from Sears.

Senator BENNETT. No objection.

I think both these pages are in the records, but I have no objection to putting them in again.

The CHAIRMAN. Thank you very much.

One point I want to make: the home office of Sears, Roebuck is, of course, my city of Chicago. It is a very honored company. In our city, a great many of the officers and principal owners of Sears, Roebuck are personal friends of mine, and very honorable people.

One of the big revolutions in the retail trade, mail-order houses, was when Julius Rosenwald in 1896, I believe, insisted that the catalog be accurate and describe the quality of the goods. Up to that time, the mail-order catalogs had not been very reliable, and it is a matter of record that Sears, Roebuck, up until that time, had not been very honorable.

In this mail-order catalog, Mr. Rosenwald insisted on a truthful catalog and an accurate description of goods. It was predicted that he would fail, and since then it has gone on to a great success.

Now I've been trying to convince the officials of Sears, Roebuck for some time that they should do the same thing on their credit charges that they have done on the quality of goods. Thus far, I have been unsuccessful, but I have hopes that I may be successful in the future. I hope that Sears, Roebuck will lead the procession for the definition of true credit charges in both dollars and true annual interest rate on the outstanding unpaid balance.

Mr. KIRWAN. I might add, Senator, that I consider myself a good customer of Sears, because I think Sears does put out very high-class merchandise, and I intend to remain a customer of Sears. But I don't know of any reason why anyone should object to my knowing or anyone else knowing what they are having to pay for financing their purchases.

The CHAIRMAN. Do you have some questions, Senator Bennett?

Senator BENNETT. Yes, I've got a number of questions, Mr. Kirwan.

Turning first to the chart to which you first referred, the customer is told in dollars, is he not?

Mr. KIRWAN. Yes, he's told. Well, he can figure it in dollars.

Senator BENNETT. He doesn't have to figure. He just reads the chart and he is told in dollars how much he has to pay for the service. Then Sears, for whatever reason, makes the same——

Wait a minute. I could be wrong.

It says: We shall add for credit price a certain number of dollars, except in the lowest category (from $1 to $10) where they say we'll add 10 percent, so if it's $9 they will add 90 cents; if it's $5 they will add 50 cents. And they said, if it is $10 to $12 they'll add $1.25. And if it's $12.51 to $15, they will add $1.50. So the chart does tell the customer how much he will pay in dollars for that service. He doesn't have to figure as far as dollars are concerned; he is told.

Do you agree with that?

Mr. KIRWAN. Yes, I do.

Senator BENNETT. OK.

Now, you are an English teacher?

Mr. KIRWAN. Yes, sir.

Senator BENNETT. I graduated in English. That was my major, and so we at least have that background. And I taught in high school the first year I was out of college.

As an English teacher, I am sure you have frequent opportunity to use a dictionary.

Mr. KIRWAN. Yes, sir.

Senator BENNETT. Have you ever looked up the word "interest" in a dictionary?

Mr. KIRWAN. I don't recall whether I have or not, Senator.

Senator BENNETT. If I were to read you what Webster's new international 1944 edition says on interest, you would think this might be a pretty good place to go?

Mr. KIRWAN. I have plenty of confidence in Mr. Webster; yes, sir.

Senator BENNETT. Page 1294 in that dictionary says this:

Most economists agree that interest has two meanings, a certain relatively fixed rate representing pure payment for the loan of money which is called net interest—

Now, isn't this the thing you are thinking about when you say "interest," when you say Sears is charging 50-percent interest? Once your tongue slipped and you said that Sears will loan you money at these rates. They don't loan you money but they'll certainly sell you merchandise.

But when you're thinking of interest you are thinking of interest in terms of a saving and loan association paying a depositor, which is a pure payment for the use of money. Is that right?

Mr. KIRWAN. Yes, I think that is true.

Senator BENNETT. But when you are talking about Sears you are also thinking the same way; but let me go on with the definition: "and the larger and more variable sum"—which the dictionary calls "gross interest," which includes one or more things beyond a rate for the loan of money, and the dictionary says: "including payments for risk, depreciation, et cetera."

In other words, there is a difference between interest which is only for the use of money—and I'm afraid that's what most people think about—and interest as you used the term, and as Senator Douglas used the term this morning——

The CHAIRMAN. Now just a minute.

Senator BENNETT. He corrected himself. His tongue slipped and he said "interest," then he went back and said "simple annual rate."

The CHAIRMAN. Since my name has been brought into it, let me say it is not the intention of this bill, nor is it the intention of the sponsors of the bill to decide on the question of net profit or net interest——

Senator BENNETT. I didn't say "net profit."

The CHAIRMAN. Just a minute. [Continuing:]—to the lender. It is our purpose to find out what the gross charges are to the borrower or the buyer.

Senator BENNETT. Well, will you allow me to complete my investigation?

The CHAIRMAN. Certainly.

Senator BENNETT. He's just confusing it now. But the record will show that up to this point, both the witness and the Senator, looking at the Sears chart, have referred to these charges as "interest." The

Senator corrected himself and said it meant finance charges, but the witness did not correct himself.

Now let me read it to you from the bill. The bill says:

Any creditor agreeing to extend credit to any persons—

well, this is revolving charge. What you were looking at was not revolving charges. It is on page 3:

Except as provided in subsection (b), any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear statement in writing setting forth, to the extent applicable and in accordance with rules and regulations prescribed by the Board, the following information—

(1) The cash price or delivered price of the property or service to be acquired;

(2) The amounts, if any, to be credited as downpayment and/or trade-in;

(3) The difference between the amounts set forth under clauses (1) and (2);

(4) The charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit—

Now stop and listen to that again:

You must add to the figure which eventually will be figured as the simple annual rate, all charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit.

The CHAIRMAN. Senator, may I say that——

Senator BENNETT. Yes.

The CHAIRMAN. Of course those charges which are not incident to the extension of credit are not used in the computation of the true average annual rate on the outstanding balance. It is only those charges which are incident to the credit transaction.

Senator BENNETT. Well, will you tell me where those charges are taken out of the total? You must itemize them.

The CHAIRMAN. No. 6 is finance charge. The finance charge works in terms of dollars and cents. And then farther back, at the bottom of page 2:

"Finance charge" means the sum of all the charges (including but not limited to interest, fees, service charges, and discounts)—

Senator BENNETT. All right, then. This is a better place for me to work from.

The CHAIRMAN. Just a moment. [Continuing:]

which any person to whom credit is extended incurs in connection with, and as an incident to, the extension of such credit.

But if it is not incident to the extension of the credit, then it is not included.

Senator BENNETT. All right, then, the bottom of page 2:

"Finance charge" means the sum of all the charges (including, but not limited to interest, fees, service charges, and discounts) which any person to whom credit is extended incurs in connection with, and as incident to, the extension of such credit.

Now my point, and I am sure the Senator will not agree with me, is that Sears incurs a lot of other charges in extending this credit which are not simple interest. They incur charges for posting the account; they incure charges for mailing your statement every month, which, with today's stamp, costs a nickel; and they incur charges to maintain a credit bureau, a credit service inside the store to know whether you are worthy of being trusted with this amount. It isn't everybody that walks in off the street and just says: "I want to buy this for that purpose." These are charges incident to the extension of the credit.

And I submit that it is not truth to say that these charges that are found on our first chart are simple interest. They are rather, by Mr. Webster's definition, gross interest.

Mr. KIRWAN. Well, Senator, I don't think many consumers are going to get out Mr. Webster's dictionary when they go in to buy an item. If the item costs $100, and that is what the advertised price of it is, and they finance it, and they pay a total cost of—I don't care whether you call it interest or what you call it—if they pay $110, they figure they have paid $10 in interest, carrying charge, whatever you want. That's what they are interested in.

The CHAIRMAN. This is the point I wanted to make. This is the thing that confuses the person who relies on what the Senator calls a "simple annual rate." He figures that Sears should be able to furnish all these charges on the same basis that a credit union or a bank loans him money, and that it is fair to compare a charge made in a store which has all these additional services to furnish, with a charge made when someone comes in and borrows a very large amount in one particular installment.

Now Sears tells you the number of dollars that you are required to pay. The Kentucky law tells you the number of dollars that you are required to pay, and you can make your decision. Many witnesses have said in the many hearings we have held——

Senator BENNETT. Didn't the witness just say that if you are interested in dollars you are required to pay, Sears tell you, and if you think they are too many dollars, you can go and check somewhere else?

My point is, and I'm glad you brought this up early, that it is not truth to compare, as most people do, automatically, because I agree they don't go to Webster's; they are not conscious of the fact that this bill requires the seller to include in the figure which he transfers to a rate, a lot of charges that the bank does not, or the credit union. It doesn't figure in because it doesn't have them. Now let's go to the other side.

I would like to come up here to the exhibit so I can be sure of reading the language we are talking about. For the people who haven't been traveling around with us, may I say there have been hours of discussion between Senator Douglas and me and between us and our witnesses as to the meaning of "revolving charge account." Let me read the language that's here in the exhibit. It says:

> I will pay the time sale price for each item purchased consisting of: (1) The cash sale price, and (2) an amount of time price differential.

Now what is "time price differential"? Is that interest?

Mr. KIRWAN. Are you asking me, sir?

Senator BENNETT. Yes.

Mr. KIRWAN. I think to the average consumer that's what it is going to be. But have you read the Kentucky law? That very carefully sets forth that the time price differential is not interest.

The CHAIRMAN. May I interject.

Senator BENNETT. Sure. I knew you would.

The CHAIRMAN. The time price differential was designed as a means of avoiding the usury laws which fix 6 percent in most States as the maximum rate. Now—— [Laughter.]

Senator BENNETT. But it is not interest. All right. Let me go back. This is an English teacher who is used to the exact meanings of words, and one of the basic sources of disagreement on this bill rises out of the point I am trying to make. Many people feel that a merchant should be able to provide all his services at a price which can be compared with the price a bank charges for a fairly large single credit transaction.

Let's read more of this:

The amount of time price differential computed at—

This is the way the time price differential is computed—

1½ percent of the balance at the beginning of each monthly billing period, until the full amount of all purchases and time price differentials thereon are paid in full.

This doesn't say 1½ percent for the privilege of using credit for 1 month, because, in a revolving charge account, the balance changes from day to day. The balance at the end of the month is not the same all through the month as is the case in a credit union loan which is paid. One payment is made once a month and no additions are made to the charge.

Now, getting down to semantics, we are getting down to the point, as I say, over which we have argued. You can't argue 1½ percent, you can't multiply 1½ times 12 and get 18 percent and have a true statement of the actual charge the customer pays for the simple use of money or credit during the time this account is running, because he can buy at his own choice, he can pay at his own choice.

Yesterday we had a demonstration, or I put into the record a demonstration of the amount of the actual rate the customer pays on a revolving charge account, which rate depends on the day of the month on which the account comes up to be balanced. So I think when you say we assume that 1½ times 12 is interest, and then when we assume that 1½ times 12 automatically produces 18 percent, that you are making an assumption that is false. Under the bill, if it is adopted, every lender must himself prove the cost to every customer, because under the bill, assuming that he agrees with Senator Douglas, and he makes the statement at the beginning of the time, or when he opens the account, that 1½ percent a month is 18 percent a year, then under the bill, at the end of every month he has to send the customer a statement, and that statement has to be calculated not before the fact, but after it. And that is to show the actual simple annual rate created by the transactions inside the month.

In the examples we used yesterday, if the particular account had belonged to a man whose initial was "D" and it came on the third or fourth day of the month in the cycle billing, his statement would have shown a true interest earning of 9½ percent. But without any change in the figures, if his name began with "P" and it came in another point in the cycle billing, the true interest rate was 12½ percent.

The CHAIRMAN. Senator, I hope you will forgive me if I say I'm not quite certain whether Mr. Kirwan is the witness or whether you are the witness. [Laughter.]

I thought we reached an informal agreement that no witness was to take more than 15 minutes. I believe Mr. Kirwan took 7 minutes, and I believe you took something like 20 minutes.

We would like to have permission to put on the proponents rather than have the proponents' time taken over by excessively long statements by the opponents. I say that with courtesy.

Senator BENNETT. I know. [Laughter.]

I feel the same way.

If this testimony were left unchallenged, it just makes these flat assumptions. It says, we all know that this represents 18 percent.

Mr. KIRWAN. You haven't convinced me yet that it doesn't, Senator.

Senator BENNETT. I don't expect to, because as my father used to say, "A woman convinced against her will is of the same opinion still." But I don't know what more definite evidence can be shown. If you can be shown on a single account, without varying, except by varying the day of the month on which the account is totaled and the bill is rendered, you make a change in the rate from 9 to 12 percent, this should indicate that it is not 18.

Mr. KIRWAN. One final remark I'd like to make, and I'd like you to think about: Why is there so much caprice in these various items? Why can't there be a consistent——

Senator BENNETT. I think I can give you the answer.

In developing a chart like that, they try to round it out, in this case, in the small end of the chart, to 25 cents, $1.25, $1.50, $2. Then they round it out to $2.50, $3, $3.50, $4. That is where the "caprice" comes in. It's an attempt to round out the amount. I think the customer would be confused if you say to him, if you buy something for $25 your annual charge is $2.57, and if you buy $23, why your annual charge is $2.31, or something to that effect. People think in round terms, and that I'm quite sure is why it is that way; and these two charges are simply bracketed together for convenience and simplicity.

Senator SIMPSON. Mr. Chairman, just one question.

Mr. Kirwan, are you intimating that the 1½ percent charged is capricious? Is that your point?

Mr. KIRWAN. Oh, no. I'm talking about the other charts, where it varies up and down.

Senator SIMPSON. There is no contention about what the 1½-percent charge is?

Mr. KIRWAN. Oh, no. I think that is one thing— it's perfectly clear to the customer—in the revolving account it's quite clear to him what he is paying.

Senator BENNETT. Let me point out, too, if you tried to apply exactly the same rate to every possible variation, you would not have a chart that doesn't fill a little less than half a page. You would have a chart bigger than a Sears, Roebuck catalog itself.

The CHAIRMAN. Thank you very much, Mr. Kirwan.

Our second witness will be the very distinguished citizen of Louisville, Judge S. W. Kellerman.

I'm afraid we kept the judge out in the hallway.

Senator BENNETT. Let's clear out because this is his court.

The CHAIRMAN. I hoped that we had a seat for you here. I regret that you had to stand outside. We are here by your courtesy, and we appreciate your presence very much.

Judge KELLERMAN. That's all right.

I don't know if you are having any trouble with the acoustics. I hold court in this room. Perhaps some of these people back here can't hear.

It would be my suggestion, and you can check, that if I move around on that side all you gentlemen could hear me, and the people here could hear.

The CHAIRMAN. Do as you wish.

Senator BENNETT. That's much better.

Judge KELLERMAN. I think everyone will hear better.

STATEMENT OF S. W. KELLERMAN, JR., REFEREE IN BANKRUPTCY FOR THE U.S. DISTRICT COURT FOR THE WESTERN DISTRICT OF KENTUCKY

Judge KELLERMAN. My name is Kellerman. I am S. W. Kellerman, Jr. I am a referee in bankruptcy for the U.S. District Court for the Western District of Kentucky. My area encompasses an area of 55 miles on each side of the straight line, running from Louisville to Bowling Green, Ky., and encompasses 28 adjacent counties. I was appointed referee in bankruptcy in July 1962.

I graduated from the University of Louisville School of Law in February of 1950, and entered the general practice of law in October of 1950. Since 1950, I have been associated with this court in various capacities; as attorney for the trustee, as a trustee, as attorney for the bankrupt, and as attorney for creditors. Now during that time I have handled approximaely 4,700 cases.

Now since I became referee in 1962, I have presided over approximately 1,600 cases. I have been intimately acquainted with 6,300 cases that have been filed here in this district.

Now our records go back to 1898. We have had roughly 29,500 files, so since that time I have participated in some 22 percent of all cases filed here in this district.

The records of this court indicate that in 1950, when I became referee, 214 cases were filed in the entire year. If the present caseload continues and we project the number of cases that we will hear this year as well as those already filed, it is conceivable that we will have approximately 2,300 cases filed here.

The CHAIRMAN. Judge, 7 months of 1963 have passed. Could you give us a rough figure of the number of cases filed thus far?

Judge KELLERMAN. Approximately 1,400. In the month of May we had 207 cases filed and keeping in mind that in all 1950 we had 214, we are running almost as many cases a month now as we did the entire year in 1950.

The CHAIRMAN. Now let's nail that down a little—200 cases a month, 12 months in a year; you estimate that it would be approximately 2,400 cases?

Judge KELLERMAN. I think 2,300. There are seasonal adjustments from time to time.

The CHAIRMAN. As compared to 214 in 1950 for the entire year?

Judge KELLERMAN. Yes.

The CHAIRMAN. So it will be roughly from 11 to 12 times as many cases now as in 1950?

Judge KELLERMAN. That's right. And we can only project these figures into the future. We have nothing to go on definitely.

The CHAIRMAN. What percentage of these cases are personal bankruptcy cases as compared to business bankruptcy cases?

Judge KELLERMAN. Approximately 95 percent.

The CHAIRMAN. Ninety-five percent are personal bankruptcy cases?

Judge KELLERMAN. Yes.

The CHAIRMAN. Not business bankruptcy?

Judge KELLERMAN. We call them nonbusiness bankruptcy.

The CHAIRMAN. Ninety-five percent?

Judge KELLERMAN. Yes.

The CHAIRMAN. Thank you.

Judge KELLERMAN. All right, sir.

As you gentlemen will realize, the bankruptcy law was promulgated by the U.S. Congress, which relieves a person of all legal obligations for payment of all indebtedness he has.

In my experience in this court, approximately 60 percent of all bankrupts are under 35 years of age, approximately, and I might add are either unskilled or semiskilled laborers. Approximately 60 percent of the petitioners lack a completed high school education, and 40 percent of these men lack a grade school education; that is, after the eighth grade. Many of these indicate to me that they have less than a fourth grade education.

The CHAIRMAN. Now are these people with less than an eighth grade education or less than a fourth grade education confined to the foreign born?

Judge KELLERMAN. No, sir. They are native born. I'd say native. We have a rural community that gravitates toward Louisville.

Senator BENNETT. You have a very small foreign born population in Kentucky, I would think.

Judge KELLERMAN. In my opinion; yes, sir.

The CHAIRMAN. These are mostly native born?

Judge KELLERMAN. Kentuckians, but very few of them are from Louisville. These are all opinions.

The CHAIRMAN. Based on wide knowledge.

Judge KELLERMAN. Yes, sir.

As you readily see, a good many petitioners lack a formal education and consequently are easy prey to persons exploiting them through sharp business practices.

Senator SIMPSON. May I ask right there, Judge Kellerman, are some of those practices so flagrant as to be violations of interstate law?

Judge KELLERMAN. In my opinion they are not, Senator.

For example, our interest rates for small-loan companies are set by State law. That's a hard figure.

Senator BENNETT. But people go bankrupt even though they borrow at rates permitted by State laws?

Judge KELLERMAN. That's right.

Senator BENNETT. You know this bill sets no limits on rates.

Judge KELLERMAN. That's right.

Now I'm not concerned with the actions of the stupid, I mean to this extent: If I were to lend a man $1 today and he were to agree to pay me back $2 tomorrow, that's his prerogative. If, however, a person who is ignorant borrows money and because of a lack of education is tricked into signing a document calling for a high interest rate, that person must and should be protected by an appropriate law.

Senator SIMPSON. If he is tricked into it, then the trickster would be subject to criminal law there, would he not?

Judge KELLERMAN. It's a question of trickery, Senator, and it is a question of lack of knowledge, and it is a question of the language being couched in language even an educated man couldn't ascertain the true interest charge.

You indicate to me when you want me to proceed. I don't want to interrupt your questions.

Senator SIMPSON. You go ahead.

The CHAIRMAN. You're doing fine, Judge. Go right ahead. [Laughter.]

Judge KELLERMAN. My personal opinion is that the most unforgivable of all crimes is to extract an unfair profit from the sweat of the workingman's brow by exploiting his ignorance.

Because the Board of Aldermen of the City of Louisville has failed to enact a truth-in-lending ordinance, and because the Kentucky Legislature has failed to enact a similar State statute, I believe that the Federal Government should enact a law requiring truth in lending.

Approximately 95 percent of the bankrupts in this court list at least one lending agency. Approximately 50 percent of the bankrupts list from two to four. And just last week one man appeared who had nine lending agencies that were creditors of his.

Senator BENNETT. Maybe they'll go bankrupt. [Laughter.]

Judge KELLERMAN. By simple calculation he had take-home pay of $214 a month and his payments ran $216 a month. However, I think the man must have figured on living on fresh air and excitement. [Laughter.]

Senator BENNETT. But you say you are not concerned with the stupid?

Judge KELLERMAN. That's right.

Senator BENNETT. You don't think this man was stupid?

Judge KELLERMAN. I do think he was.

The CHAIRMAN. Now wait a minute.

Judge KELLERMAN. You sit here and you weigh, Senator, who was more stupid, the man who buys, the ignorant man that buys, or the learned seller who sells to a man who knows he can't pay? You have mixed emotions. [Laughter.]

Senator BENNETT. Just in that same case, this man may have been stupid, but I cannot believe he was able to conceal from the people who loaned him money the fact that he owed money to eight other finance companies.

Judge KELLERMAN. Senator, I——

Senator BENNETT. You don't know and neither do I.

Judge KELLERMAN. When I practice law I get into things like that, but as I sit on the bench, I confine my statements to testimony.

I wish I had known the question would be propounded, I might have inquired and I would have given you an answer.

Senator BENNETT. I think it is a natural assumption that there was some breakdown in communications because no businessman would put himself in a position where he was expecting to be paid out of income which was $100 a month less than the obligation.

Judge KELLERMAN. Yes.

The CHAIRMAN. Judge, do any of these lending agencies tell them what the true annual rate of the finance charge is on the unpaid balance?

Judge KELLERMAN. They indicated to me that they signed these documents. Many documents are signed in blank.

Senator BENNETT. That's a violation of Kentucky law.

Judge KELLERMAN. It may be. I'm not acquainted with that.

Now the following statements were actually made in this court by bankrupts. The names of the creditors and the bankrupts are omitted for very obvious reasons. I hope you will bear with me, but here's one case now.

This man came in and this is sworn testimony that developed from the stand here:

An official of a small loan company told this bankrupt that the interest was 3½ percent. What he was not told was that this was a 3½-percent per month deal, rather than per year. The bankrupt had a sixth grade education. And he stated that he would not have borrowed the money had he known the true interest rate.

The CHAIRMAN. Judge, at 12 months in a year, this meant that the true rate was 42 percent a year. Is that correct?

Judge KELLERMAN. Yes, it is.

Now, that's graduated. I think when it is over $150 it is 3½ percent; then when it drops down to less than $150, it becomes 1½ percent. I may be corrected there.

Senator BENNETT. It is the other way around.

Judge KELLERMAN. Reverse. Excuse me.

Senator BENNETT. When he borrows a small amount, his rate is high. Then when he gets up higher, it reduces.

Judge KELLERMAN. Yes; I stand corrected. I'm sorry.

The CHAIRMAN. Is this common, do you think, Judge, of people paying the full rate of 3½ percent a month, or 42 percent a year?

Judge KELLERMAN. In most of our small loans that's the set rate.

The CHAIRMAN. In other words the maximum rate becomes the verbatim rate?

Judge KELLERMAN. Yes, sir.

The CHAIRMAN. In other words, it's not merely a feeling which a few finance companies reach but it's the prevailing rate which the finance companies charge. Is that correct?

Judge KELLERMAN. Yes.

Senator, if I might say, these are statements which have come to me in the past several years. But may I make the point that the Kentucky law puts a limit of 20 percent as the highest charge that can be made.

The CHAIRMAN. In small loan companies?

Senator BENNETT. The petty loan act provides that on loans up to $150 the maximum rate is 20 percent.

The CHAIRMAN. A year?

Senator BENNETT. Yes, sir.

The CHAIRMAN. Add on or discount?

Senator BENNETT. This is just a loan. You go in the bank and borrow the money.

The CHAIRMAN. Well, an add-on loan or a discount rate, as you know, where the rate is charged on the original amount of the obligation and not on the unpaid balance, such a rate is only one-half, approximately, of what the true annual rate is on the outstanding unpaid balance. So an add-on or discount rate of 20 percent is an approximate rate of 40 percent; isn't that right?

Senator BENNETT. I'm wrong. This is computed on the full amount of cash advance, though repayable in installments, so this is 40 percent.

The CHAIRMAN. I'm very glad we brought that point up. [Laughter.]

Senator BENNETT. You see, I'm trying to get truth even though my face might be momentarily red. [Laughter.]

The CHAIRMAN. This is something we all try to do, and I will try to follow your example. [Laughter.]

Senator SIMPSON. Judge Kellerman, I was interested in what you are saying about these people not understanding. If the words are not intelligible to them, would percentages or dollars be more meaningful?

Judge KELLERMAN. In my opinion—I always have to say "in my opinion," most people realize 6 percent is an ordinary interest rate, and most people borrowing money are willing to pay the 6 percent a year. In my opinion, if this is inserted in this contract that it would put this man on notice that he is paying a higher interest rate per annum than he expected to pay.

Senator SIMPSON. In your work you haven't had the time to assist in following up violations of the law, for instance, in the bankruptcy field?

Judge KELLERMAN. We are interested in administering adjudication of this nature in a judicial manner and the men who come in here as petitioners all have attorneys, and if the attorney feels that there has been a violation, then we feel it is up to him to report the irregularity to the State banking committee.

The CHAIRMAN. Please continue.

Judge KELLERMAN. Now the next case concerns a man who owed a loan company, and he asked how much the interest rate was. And the man told him that it was 6 percent, plus a little more.

The CHAIRMAN. How much is a little more, Judge?

Judge KELLERMAN. It was a small lending agency and it would be extended out to your 20-percent figure or your 42-percent figure.

The CHAIRMAN. In other words, not at 6 percent but at 40 or 42 percent; is that right?

Judge KELLERMAN. That's right.

The CHAIRMAN. So the "plus a little more" was 34 percent?

Judge KELLERMAN. That's right.

The CHAIRMAN. I would say there is lots of "plus" in there but not much "little more."

Judge KELLERMAN. The above examples are repeated time and time again. I have two cases here in which I have discussed those two points.

Now in our office here we have approximately 3,500 cases and we can just take these 2. There is very little difference between these 2 and any 1 of the other 3,500 cases which I have.

At this point, would you——

Senator BENNETT. You want your testimony to indicate that 3,500 people went bankrupt because they borrowed money at rates higher than they thought they were paying?

Judge KELLERMAN. Yes, sir, because I feel this way——

Now wait a minute, Senator. I don't want to get off base here. [Laughter.] There are certain things that cause bankruptcies.

Senator BENNETT. That's right.

Judge KELLERMAN. One of them is marital difficulty. Another one is an abnormal medical expense; they are abnormally high. There are such things as sickness and layoffs and things like that. But once these things take place, they start to trek to the loan company and that borrowing money to pay off this indebtedness is like drinking yourself sober. It can't be done.

Senator BENNETT. Are you speaking about that——

Judge KELLERMAN. Of the 3,500 cases I have to state that with the exception of those with marital problems, and those with abnormal medical expenses and strikes and layoffs and things like that, I would say that at least 2,200 of these cases here, I would say—I have no way of checking—but 2,200 are caused by abnormally high interest rates.

The CHAIRMAN. That's 40 percent of the total number.

Judge KELLERMAN. Yes, sir.

Senator BENNETT. You didn't say anything about the garnishment laws in Kentucky. Do you think this contributes to the bankruptcy situation?

Judge KELLERMAN. In my opinion it does, because the garnishment laws were written in 1892. Our entire exemption statutes were written then and where, for example, we can't find anywhere in the law that a refrigerator is exempt—it is exempt, the homestead exemption in Kentucky only applies for $1,000. In 1892, the entire house cost $1,000.

Our wage exemption law—incidentally, we still exempt oxen and so many chickens. [Laughter.]

Senator BENNETT. A man who goes bankrupt better go and buy some oxen.

The CHAIRMAN. Where would he keep them in Louisville? [Laughter.]

Senator BENNETT. At Churchill Downs. [Laughter.]

Judge KELLERMAN. As to your question, the wage exemption in 1892 was probably the most advanced exemption statute in the United States because it allowed a $67.50 wage exemption per month. Now it is conceivable that much can be made in half a week. So because of our antiquated statutes, a good number of these cases are the result, the direct result of garnishment.

Senator BENNETT. If the garnishment statute in Kentucky were brought up to date and made more comparable, for instance, with the statutes we faced yesterday in Pennsylvania, would that change the number of bankruptcies?

Judge KELLERMAN. Yes, sir.

Anything we could give this man—suppose we go back and bring this exemption statute so it is as advanced today as it was in 1892. We would exempt $125 a week, or $600 a month. There would be no garnishment and in my opinion it would diminish the bankruptcy law entirely. It depends upon what the exemption statute for wages would be, but if it is advanced and it keeps up with the cost of living as it has changed from 1892 to the present, it would diminish the bankruptcies, in my opinion, at least 50 percent.

Senator BENNETT. Wouldn't it have a much more beneficial effect to change the garnishment law than to pass the Douglas bill?

Judge KELLERMAN. In my opinion, both should be done.

Senator BENNETT. You are a good politician. [Laughter.]

Judge KELLERMAN. No, sir; I'm not. I'm the world worst.

The CHAIRMAN. May I say this? We want to get through the morning, and as my colleagues told the witness, I still have some time to complete. We want to have a chance for the remaining proponents and for the opponents to be heard. I wonder if we could hold our questioning to a minimum.

Judge KELLERMAN. All right, sir.

Senator SIMPSON. Mr. Chairman, I seldom consume as much of the time as you or my colleagues do.

The CHAIRMAN. That's right.

Senator SIMPSON. I would like to be entitled to one.

The CHAIRMAN. Certainly.

Seantor SIMPSON. I noticed the distinguished background and I have a high regard for this gentleman's testimony. I was going to ask, Judge, do you have any right under the bankruptcy statutes of Kentucky to declare contracts void that are in violation of State statutes?

Judge KELLERMAN. We have none. We have to take the bankrupt as we find him with the documents that he has signed.

Senator SIMPSON. Do you think it would be helpful to you if you had the right to declare it null and void?

Judge KELLERMAN. I think not.

Senator SIMPSON. You don't think so?

Judge KELLERMAN. No, sir.

Senator SIMPSON. I know in some States it works out very well.

Judge KELLERMAN. It may in some States, but I don't believe that it would here at all.

Senator SIMPSON. Thank you, Mr. Chairman.

You were up near the top of the page.

Judge KELLERMAN. All right, sir.

Even though the interest charges are printed in the note which the debtor signs here in Kentucky, the language in many cases is evasive or it is uncertain, and even an educated person will have great difficulty in ascertaining the true interest rate.

I believe that the true interest rate should be set forth in exact yearly percentages and in exact dollar amounts above the signature of the borrower, and in ink of a contrasting color to that used to print the document and the color of the document itself.

As to the penalties of the bill, I believe that the wrongdoer should be fined not more than $5,000, or imprisoned for not more than 1 year, or both.

The CHAIRMAN. Only for willful violation?

Judge KELLERMAN. Only for willful violation.

The passage of this proposed act can work no possible hardship upon any legitimate business who seeks only to sell his merchandise and to exact a fair carrying charge for carrying this account over a period of months or years. In fact, such fair dealings with creditors would help immeasureable in carrying on a reputable business.

Only those already exploiting the weak and the ignorant can be heard to cry.

In conclusion, I believe that it would be to the best interest of the majority of most persons concerned to introduce and to urge passage of bill S. 750, known as the truth-in-lending bill, not with the idea of assisting the stupid, but with the sole purpose of helping the weak and the ignorant know under what facts and under what circumstances they are borrowing money, or are financing the purchase of goods.

Senator SIMPSON. May I ask, Judge, do you think there is more need for education of these people in that group?

Judge KELLERMAN. In my opinion, there is, sir. It seems like—in my opinion, somewhere along the line, the schools have not taught the basic economics. Now since these people, a good number of them, are dropouts, it is my opinion—and most of them are union people—that the unions should get these men who are now 25 or 30 years old and discuss with them the facts of economic life. Somewhere along the line they didn't learn in the home, and they didn't learn in the schools, and they are here now, and the union must take up the slack.

Senator BENNETT. That's OK for those men who are members of unions. There are still many people in Kentucky who are not, who probably face the same problem.

Judge KELLERMAN. It can be done, I believe.

Somebody referred to the TV program as a waste area. Perhaps for one-half hour some night they could put on a basic economics class and acquaint people with these things. The TV people could do this. Maybe other communities could do a great service by doing for them now what they didn't learn to do as youngsters, as teenagers, and as young people.

The CHAIRMAN. Judge, do you think the city has the responsibility to have credit counseling for citizens?

Judge KELLERMAN. Senator Douglas, I believe that our agency for legal aid here would take care of any situation, that they would go to them and acquaint them with what their problem is.

The CHAIRMAN. Legal aid helps people once they are in trouble, but it doesn't keep them out of trouble.

Judge KELLERMAN. That's right. And sometimes we lawyers, we're kind of like a doctor; people come to us too late. But when they come in advance and at the proper time, in my opinion they can receive assistance.

Senator BENNETT. If I understand what you are saying, you would welcome any reputable, well-trained organization that would take on the responsibility of providing economic education?

The CHAIRMAN. I would say: So would I.

Senator BENNETT. So would I.

Judge KELLERMAN. I would say first it must begin in the home, then it must continue in the school, and I think the union has an obligation to its people.

The CHAIRMAN. A statement of its annual rates in contracts would also be an important item in education.

Judge KELLERMAN. Yes, sir.

The CHAIRMAN. It would be part of education.

Judge KELLERMAN. Somehow economics in the schools is an enigma, but it is a basic necessity that should be taught just like reading, writing——

Senator BENNETT. Hear! Hear!

Judge KELLERMAN. Do you have any questions, sir?

Senator BENNETT. No further questions.

The CHAIRMAN. I want to thank you for your testimony, which I think has been amongst the best testimony we have received in a long program of hearings, and it is the first testimony from a referee of bankruptcy. And it makes me feel in the remaining hearings that we have that we should try to get hold of one of the referees of bankruptcy in this other city and get testimony from him.

And I wonder if you would be willing to show me some of the cases in the file that you have. I understand that you have a file of many thousands of cases.

Judge KELLERMAN. Seventeen file cabinets.

The CHAIRMAN. I don't promise to read all of them, but I'd like to go in and pick out a few at random during the noon hour.

Judge KELLERMAN. Yes, sir.

The CHAIRMAN. Would you let me do that?

Judge KELLERMAN. The office is available to you and the other good Senators if you so desire.

The CHAIRMAN. Thank you very much.

Judge KELLERMAN. I want to say in summary that I have no ax to grind. I come here as an individual that has seen these various things and I call them to your attention.

The CHAIRMAN. I realize you have no ax to grind. I am delighted at having no ax to grind and that your honest experience has led you to endorse Senate bill 750.

Thank you very much.

Judge KELLERMAN. Thank you very much.

The CHAIRMAN. Wait a minute. Perhaps one of my colleagues might have a question.

Senator BENNETT. No; I think the Senator should be allowed the last space for his own witness. [Laughter.]

The CHAIRMAN. Thank you very much.

Judge KELLERMAN. All right.

(The complete statement of Judge Kellerman follows:)

STATEMENT OF S. W. KELLERMAN, JR., REFEREE IN BANKRUPTCY FOR THE U.S. DISTRICT COURT FOR THE WESTERN DISTRICT OF KENTUCKY

I am S. W. Kellerman, Jr., referee in bankruptcy for the U.S. District Court for the Western District of Kentucky. The jurisdiction of this bankruptcy court extends roughly 55 miles on either side of a straight line, running from Louisville to Bowling Green, Ky., and encompasses 28 adjacent counties. I was appointed referee in bankruptcy in July 1962.

I graduated from the University of Louisville School of Law in February 1950, and entered the general practice of law in October of 1950. Since 1950, and until my appointment as referee in 1962, I, personally, handled approximately 4,700 cases, as a trustee and as an attorney for either bankrupts or creditors.

Since I became referee in 1962, I have presided over approximately 1,600 cases, all told, as referee in bankruptcy, as an attorney, and as a trustee I have, personally, handled a total of approximately 6,300 bankruptcy cases.

The records in the U.S. district court here in Louisville reflect that in 1950, 214 cases were filed in the jurisdiction over which I presently preside as referee. If the present caseload continues, it is not beyond the realm of probability that a total of 2,300 bankruptcy cases will be filed in this jurisdiction for the year ending December 31, 1963; a record number for any one year.

As you gentlemen realize, the Bankruptcy Act is a law promulgated by the U.S. Congress, which relieves a petitioner of all legal obligations for payment of his indebtedness.

In my experience in this court approximately 60 percent of all bankrupts are under the age of 35 years and are either unskilled, or semiskilled workers.

Approximately 60 percent of all the petitioners lack a completed high school education. Approximately 40 percent of all petitioners lack a completed formal grade school education; many of those having attended the fourth grade or less.

As you can readily see, a good many petitioners lack a formal education and consequently, are easy prey to persons exploiting them through sharp business practices.

I am not concerned with the actions of the stupid. My sole concern is that the ignorant have full knowledge of what they are doing.

If a person is stupid enough to pay a high interest rate on money lent to him; and he has knoweldge of the fact that the interest rate is a high percentage, he has no complaint and can seek no pity.

If, however, a person, who is ignorant, borrows money and because of a lack of education, is tricked into signing a document calling for high interest rates; that person must and should be protected by an appropriate law.

My personal opinion is that the most unforgivable of all crimes is to extract an unfair profit from the sweat of the workingman's brow by exploiting his ignorance.

Because the Board of Aldermen of the city of Louisville have failed to enact truth-in-lending ordinance, and because the Kentucky Legislature has failed to enact a similar State statute, I believe that the Federal Government should enact a law requiring truth in lending.

Approximately 95 percent of the bankrupts in this court list at least one lending agency as a creditor. Approximately 50 percent of the bankrupts list from two to four lending agencies as creditors, and one recent petitioner listing nine lending agencies to whom he was indebted.

The following statements were actually made in this court of bankrupts. The names of the creditors and the bankrupts are omitted for a very obvious reason:

(1) An official of a small loan company told him that the interest was 3½ percent. What he was not told was that this 3½ percent was for a month, rather than for a year. This bankrupt had a sixth grade education. He would not have borrowed the money had he known the true interest rate.

(2) This man owed a loan company and was told by an agent of the loan company that the interest rate was "6 percent plus a little more."

The above examples are repeated time and time again in this court.

I am fully convinced that if debtors had true knowledge of the interest rate and carrying charges attached to a purchase, or to a loan; many loans would have never been made, nor would many purchases have been made.

Even though the interest charges are printed in note, which the debtor signs, the language is so evasive that even an educated person will have great difficulty ascertaining the true interest rate.

I believe that the true interest rate should be set forth in exact yearly percentages and in exact dollar amounts above the signature of the borrower, and in ink of a contrasting color to that used in the print of the document and in the document itself.

As to the penalties in such a bill, I believe that the wrongdoer should be fined not more than $5,000, or imprisoned for not more than 1 year, or both.

The passage of this proposed act can work no possible hardship upon a legitimate business, who seeks only to sell his merchandise, and to exact a fair carrying charge for carrying this account over a period of months or years. In fact, such fair dealings with creditors would help immeasurably in carrying on a reputable business.

Only those already exploiting the weak and the ignorant can be heard to cry.

In conclusion, I believe that it would be to the best interest of the majority of most persons concerned to introduce and to urge passage of bill S. 750, known as the Truth in Lending Act, not with the idea of helping the stupid, but with the sole purpose of helping the weak and the ignorant know under what facts and under what circumstances they are borrowing money, or one financing the purchase of goods.

Senator BENNETT. I think the location of that chair was a very happy thing, and I would suggest other witnesses use it.

Can you hear better back there?

VOICES. Yes.

The CHAIRMAN. Our next witness is the Reverend Dr. John S. Chambers of Lexington, Ky., representing the Kentucky Federation of Churches.

We are very glad to have you, Doctor.

STATEMENT OF JOHN S. CHAMBERS, EXECUTIVE DIRECTOR, KENTUCKY COUNCIL OF CHURCHES

Dr. CHAMBERS. Thank you, Senator.

I think they can hear me very well anyhow, I believe. If it is satisfactory to the floor I can move the chair.

The CHAIRMAN. Go ahead, Doctor.

Dr. CHAMBERS. My name is John S. Chambers. I am the executive director of the Kentucky Council of Churches, an interdenominational organization representing 17 Protestant denominational judicatories, and 2,600 churches with 600,000 members in the State of Kentucky. The social action department of the council has long been interested in the kind of legislation being considered here today.

May I say that I am very happy to have this opportunity to testify before this Senate subcommittee. It is my first appearance before one.

It is a great credit to the chairman, the distinguished Senator from Illinois, that this congressional committee has journeyed into the heartland of America to hear testimony on S. 750. I think such regional hearings provide a major service to large numbers of Americans who may never before have had a chance to learn about the legislative process in such detail. I think the hearings will be of value in Kentucky long after the distinguished members of the committee have returned to Washington.

I should also like to say that my appearance here is in accordance with the policy of the assembly of the Kentucky Council of Churches. The assembly is the governing body of the council. Not long ago it passed a resolution on consumer credit which relates directly to the subject matter of S. 750. A part of the resolution reads in part, and I quote:

> That we urge all businessmen, in view of their moral and social responsibility, to operate their consumer credit services so that when money is borrowed the borrower shall be given a clear statement in writing setting forth two facts:
>
> (1) The total charges for the cost of the money he borrows; and
>
> (2) An expression of these charges as the simple annual interest rate on the unpaid balance.

You will note that this portion of the resolution coincides with the main thrust of the disclosure sections of S. 750.

The CHAIRMAN. When was that resolution adopted?

Dr. CHAMBERS. In November of 1961, a year ago last November. It has not been altered in any way since.

The resolution passed by the assembly of the Kentucky Council of Churches was based on the belief that it is now impossible for the consumer to compare costs between competing sellers of credit since the true cost, that is the cost related to the usage of credits, can be determined by only a few. In fact, most persons able to compute true credit charges are themselves involved in the consumer credit business, and have this knowledge. This is a result of their vocations.

We all know that in medieval times an interest charge of more than 6 percent interest, computed on an annual basis, was considered by many to be usurious. Nowadays, of course, interest charges double the medieval rate are not considered excessive for some types of credit—notably consumer credit. That does not mean, however, that no interest charge can termed usurious. Some protection must be afforded the consumer.

The modern concept of morality in the extention of credit depends upon full disclosure to the borrower of the cost of credit in terms that he, the borrower, can understand. If full, uniform disclosure of credit is made, then the various costs of credit can be assessed by the consumer and a judgment can be made by him, using the dual criteria of his need measured against the cost of the credit. Possession of information about the true costs of credit in simple form is essential for the consumer to make his judgment. Without this information, the consumer cannot exercise his sovereignty, and it is this sovereignty which is the basis of a free market economy.

Deceptive and misleading methods of stating credit costs are certainly not in the public interest. Those deceived and misled, unfortunately, are often those who can least afford the pressures of burdensome debt. Groups in the population, such as Negroes, Mexicans, and Puerto Ricans, and others, lacking social experience, can be assisted immeasurably by the system of full disclosure in clear and unmistakable terms such as those outlined in this bill.

Others we believe who can be helped by such legislation include the young families, where the head of the household is under 30 years old, and a large group which has been characterized as the "debt prone" or the "emotionally immature." Ideally, the social responsibility exercised by the business community would make this type of legislation unnecessary. But laws of this kind become essential when there is an absence of voluntary social justice.

Experienced ministers of all churches know the heartaches, the anxieties, and the grave dangers to the solidarity of the family and the harmony of the home, all of which can be caused by the unwise use of credit. We sincerely hope that disclosure will arouse a greater awareness of the relative value of credit, enable more rational decisionmaking, and result generally in more provident and productive uses of credit.

I am happy to have the opportunity to express these views that are shared by a large segment of the religious community of our State. As we are concerned with the total welfare of our society we endeavor to give moral support to whatever measures we believe will contribute to its well-being. We believe that this particular kind of legislation is both morally right and economically sound, that it will aid a large number of people and can injure none. We urge that it be enacted.

The CHAIRMAN. Thank you very much, Dr. Chambers. That is a splendid statement, not only on a very high ethical level, but with a great deal of practical understanding of the world as it is, with an awareness of the difficulties.

I have no questions, but I wish to commend you tremendously.

Senator BENNETT. I'm not going to ask any questions, Doctor, but since you represent a group of churches whose fundamental interest is in truth, I am sure you will be concerned with the problems that the practical men face as to whether or not, in fact, it is possible to compute the simple annual rate as the bill requires. I would agree with you that if it were practical and simple, as some of the people seem to feel it is, there wouldn't be the objection that is being made to the bill.

I would like to—I said I have no questions, but are you familiar with the Kentucky laws affecting credit?

Dr. CHAMBERS. There are many degrees of familiarity. I know something about it, but not a great deal.

Senator BENNETT. Did you appear before the Kentucky Legislature urging them to include in the Kentucky laws the calculation of a simple annual rate, or anybody representing your organization?

Dr. CHAMBERS. Individuals within the organization did. I did not. The organization did not send a statement to the legislature other than that the members of the legislature, individually, received copies of this resolution.

Senator BENNETT. I have no further questions.

The CHAIRMAN. This question of truth: You may remember how there was a Roman procurator by the name of Pontius Pilate who, when Jesus was brought before him, asked the question, "What is truth?" And Pontius Pilate would not stay for an answer.

Senator BENNETT. We have stayed 4 years to try to find an answer to the question, "What is truth?" and we are still groping for it.

I appreciate your testimony. No further comments.

Senator SIMPSON. I would like to compliment you on your testimony.

I would like to say, you wouldn't go as far as to recommend, would you, the Federal Government take over the field of consumer credit?

Dr. CHAMBERS. I don't know. I'm not making recommendations of that kind. The Kentucky Council of Churches passed this resolution addressed to the business community into the Legislature of Kentucky. It coincides with the same type of legislation embraced in this bill, and, therefore, I felt compelled to speak.

Senator SIMPSON. Thank you.

With respect to your colloquy with Senator Bennett, do I understand there was a bill in the Kentucky Legislature that sought to establish the annual rate of intrest?

Dr. CHAMBERS. There either were three or four bills dealing with different phases of this.

Senator SIMPSON. They were not passed?

Dr. CHAMBERS. No.

Senator SIMPSON. Were there any hearings on this bill?

Dr. CHAMBERS. I cannot answer that.

Senator SIMPSON. Thank you.

The CHAIRMAN. Thank you very much.

Now who do you have?

Senator BENNETT. Mr. John Masterson and Mr. Willenbrink.

The CHAIRMAN Then the first witness for the opposition is Mr. John Masterson, representing the Louisville Retail Merchants Association, accompanied by Mr. Lawrence Willenbrink of the Kentucky Retail Merchants Association.

Will those gentlemen please come forward?

Senator BENNETT. They are out in the hall, apparently.

Mr. MASTERSON. We are sorry we took so much time. We had to come in out of a crowded bullpen.

STATEMENT OF J. LAWRENCE WILLENBRINK, CHAIRMAN OF THE BOARD OF THE KENTUCKY MERCHANTS ASSOCIATION

Mr. WILLENBRINK. I am J. Lawrence Willenbrink and I am chairman of the board of the Kentucky Merchants Association with a membership of over 2,800.

The Kentucky Merchants Association is on record with a resolution of the board of directors opposing this particular legislation.

I don't intend to take up valuable time in collaborating and Mr. Masterson will cover any questions.

STATEMENT OF JOHN MASTERSON IN BEHALF OF THE LOUISVILLE RETAIL MERCHANTS ASSOCIATION

Mr. MASTERSON. Mr. Chairman, I have prepared a written statement which I request be made part of the record.

The CHAIRMAN. That will be done.

(Mr. Masterson's complete prepared statement follows his verbal testimony.)

Mr. MASTERSON. Gentlemen, before I introduce myself and the parties I represent, I would like to express my appreciation and that of the association which I represent for the honor of appearing before this subcommittee of the U.S. Senate to present the views of this organization as well as my own on the important matter now before you.

My name is Jack Masterson and I am appearing before you today in behalf of the Louisville Retail Merchants Association and as a member of the Kentucky Retail Merchants Association whose membership numbers approximately 2,800. The majority of these members are small merchants, Senators, and in Kentucky, when we say "small merchants" we mean it. There are fewer people in Kentucky than there are in two counties, two Long Island counties in the State of New York.

The Louisville Retail Merchants Association is composed of retail merchants in the city of Louisville and its immediate surrounding territory. Most of these merchants have been in business in this community for 50 years. Specifically, the reasons I appear before you today are fourfold:

First, both of the organizations I have mentioned; namely, the Kentucky Retail Merchants Association and the Louisville Retail Merchants Association, do a very large volume of installment business.

Second, I am treasurer of Stewart's Dry Goods Co., one of the oldest and largest retail merchants in the State. Actually, it is 119 years old, and we have been doing a large volume of installment credit business during a great portion of that time; therefore, my company also is vitally interested in this matter. Here I would like to point out, Senators, we are large in Kentucky; we are very small compared to New York, Pittsburgh, or any of the rest.

Third, as a citizen and resident of Greater Louisville, I am interested in seeing that the volume of retail business continues to expand so as to maintain standards of living, payrolls, and support the general economy.

Fourth, the fourth reason is that at the time the Kentucky Retail Installment Sales Act was first proposed in the legislature of this Commonwealth, we studied the measure very carefully and concluded that it was the most effective means of curing whatever malpractices might exist in the retail industry. This statute requires, among other provisions, the full disclosure of the time-price differential in connection with the purchase of goods and services on an installment transaction, expressed in dollars and cents. In addition to this, specific disclosures regarding revolving charge accounts are also required which I will discuss later.

In this respect we believe that the present Kentucky law to which I have referred is, in fact, full disclosure to the purchaser. I have observed that S. 750 is called the truth-in-lending bill. I am so convinced that the Retail Installment Sales Act in Kentucky so thoroughly accomplished the same purpose that I now sincerely regret that we didn't call our bill in Kentucky the truth-in-purchasing bill.

We strongly supported this measure and urged it be adopted. We were extremely pleased to see that the bill was enacted. We are of the opinion that the passage of our bill by an overwhelming majority has accomplished and will continue to accomplish the purpose for which it was intended. Incidentally, while this measure was under consideration, the Louisville Retail Merchants Association appointed a committee to study the matter, and I had the honor of being chairman of the committee. The views I have just expressed are my personal ones and I am confident are expressed by the committee and membership of the organizations as a whole.

The Retail Installment Sales Act in Kentucky, to the best of my knowledge, was actively supported by the Kentucky Chamber of Commerce, Louisville Chamber of Commerce, the Associated Industries of Kentucky, the Kentucky Retail Hardware Association, the Kentucky Jewelers Association, the Farm Bureau, the Kentucky Retail Merchants, the Louisville Retail Merchants Association, the Kentucky Chain Store Council, and the majority of the chambers of commerce throughout the other cities of the State.

Now, with respect to S. 750 with which this committee is concerned, I would like to submit my views and those of my constituents, if I may borrow a political phrase.

We as retail merchants would like to make this fa clear. We fully support the full disclosure of the service charge t he customer doing business on an installment credit basis. It is im rative in our business to maintain good customer relationship. In view of this we go into great detail to explain to our customer what she is paying in the way of service charge. This prevents any question on future transactions of this type.

We are opposed to any unnecessary burdensome requirements which can only tend to confuse and offer nothing in the way of protection to the customer.

The Kentucky Retail Installment Sales Act requires the seller in the agreement with the purchaser clearly to set forth an itemization in dollars and cents of the cost involved in an installment transaction for goods and/or services or a combination of both. We honestly feel that the statement of the service charge expressed in dollars and cents is the best possible method adequately to inform the purchaser of this cost. With this information he or she can easily shop for credit as well as shop the retail price.

The CHAIRMAN. Mr. Masterson, does the Kentucky act provide for the statement of the service charges as the true annual rate on the outstanding unpaid balance?

Mr. MASTERSON. No, it does not, sir. It does not, and at the same time in the legislature there was a bill introduced that it be required. It came under study at the same time this bill did, and our bill was chosen by the committee that was studying the bill for passage.

The CHAIRMAN. Were the hearings on the true annual rate bill offered in one day or——

Mr. MASTERSON. The true annual rate bill was introduced on January 25 and to the best of my knowledge it was referred to the committee.

The CHAIRMAN. Were there hearings before the committee?

Mr. MASTERSON. That I don't know.

Senator BENNETT. Were there hearings on your bill?

Mr. MASTERSON. Yes, sir.

Senator BENNETT. Did they hear on both bills at the same time?

Mr. MASTERSON. I assume, but one was introduced on January 23, our bill, and the so-called Truth in Lending Act, the Senate bill, was introduced on January 25.

The CHAIRMAN. Mr. Masterson, on this legislation it is my understanding that there were no hearings on the true annual rate bill.

Mr. MASTERSON. I'm no expert on that either.

In previous hearings it has been clearly shown the difficulties and complexities of complying with the requirement of converting the service charge to an annual and monthly rate. This conversion is not possible under the conditions of the revolving charge type of account unless the retailer states an arbitrary maximum percent which is untrue. This is impossible unless we assume an untrue purchase date, an untrue payment date, and an untrue annual rate.

To further emphasize our convictions the expense of extracting a monthly percentage rate would be so prohibitive that it would force the majority of retail merchants, especially the small retail merchants, out of the credit installment business.

The CHAIRMAN. Mr. Masterson, I wish to say that it is not impossible to state a monthly rate. You state that on the second paragraph on page 4 and repeat it again in the third paragraph on page 4. Now don't you state the monthly rate?

Mr. MASTERSON. Senator, are you going back to the third paragraph?

The CHAIRMAN. Second paragraph. You say:

> In previous hearings it has been clearly shown the difficulties and complexities of complying with the requirement of converting the service charge to an annual and monthly rate. This conversion is not possible under the conditions of the revolving charge type of account——

And then you go further in the third paragraph:

To further emphasize our convictions, the expense of extracting a monthly percentage rate would be so prohibitive that it would force the majority of retail merchants out of the credit installment business.

Mr. MASTERSON. One is before the fact and the other is after the fact. As has been clearly shown in previous hearings, it is an after-the-fact case. A revolving credit type transaction has a different time factor according to the date on which it was purchased—according to the date on which the billing period falls.

So before the fact, unless we assume a purchase date, a payment date, and an annual rate, we can't do it.

The CHAIRMAN. I wonder if we opened the Sears chart——

Senator BENNETT. While it is being opened, in your second paragraph, talking on about costs, you say the costs would be prohibitive.

Mr. MASTERSON. That is correct.

Senator BENNETT. You can calculate?

Mr. MASTERSON. Yes, as an after-the-fact.

Senator BENNETT. In your previous remark you were referring to the fact of the difficulty of operating before the fact?

Mr. MASTERSON. Yes, that is correct.

The CHAIRMAN. Mr. Masterson, I wonder if you would be willing to step up here.

Now this seems to be a preparation before the fact. In consideration of your selling rate, correct me on this. A revolving charge account agrees with the following:

Regarding all purchases made on my Sears charge account indentification—and then it goes on—a price differential computed at 1½ percent of the balance at the beginning of each monthly payment period until the full amount of all purchases and time differentials therein are paid in full.

Now that is prior to the purchase and prior to the opening of the account.

Mr. MASTERSON. That is correct, sir; but we could not tell you at the time what the yield would be. This is a mechanical transaction.

The CHAIRMAN. Yes, but they state it is a monthly rate of 1½ percent.

Mr. MASTERSON. That is correct.

The CHAIRMAN. You have said it is impossible to have a monthly 1½ percent.

Mr. MASTERSON. This is not a monthly rate, sir. This is a fee that is charged on the ending balance as of a billing date. There are no 2 months—there are no billing periods the same. Each month has a different time element.

The CHAIRMAN. Could you do what Sears rulebook has done?

Mr. MASTERSON. We do it.

The CHAIRMAN. Then you can do it?

Mr. MASTERSON. The question comes—My name is "M." My date is closed on the 17th, from the 17th of January to the 17th of February. It would be a different time element from the 17th of February to the 17th of March. So when you refer to a monthly element you are not talking about a 30-day element as such. You are talking about a billing period, under our system of billing, the cycle billing of accounts.

The CHAIRMAN. You use that period?

Mr. MASTERSON. Pardon?

The CHAIRMAN. You use that period?

Mr. MASTERSON. It has no effect on it at all, the time elements.

Let me show you. I have an illustration here, if I may break in at this point.

Senator SIMPSON. Put it up here please.

Mr. MASTERSON. I'll mark this so I know when I will have to come back.

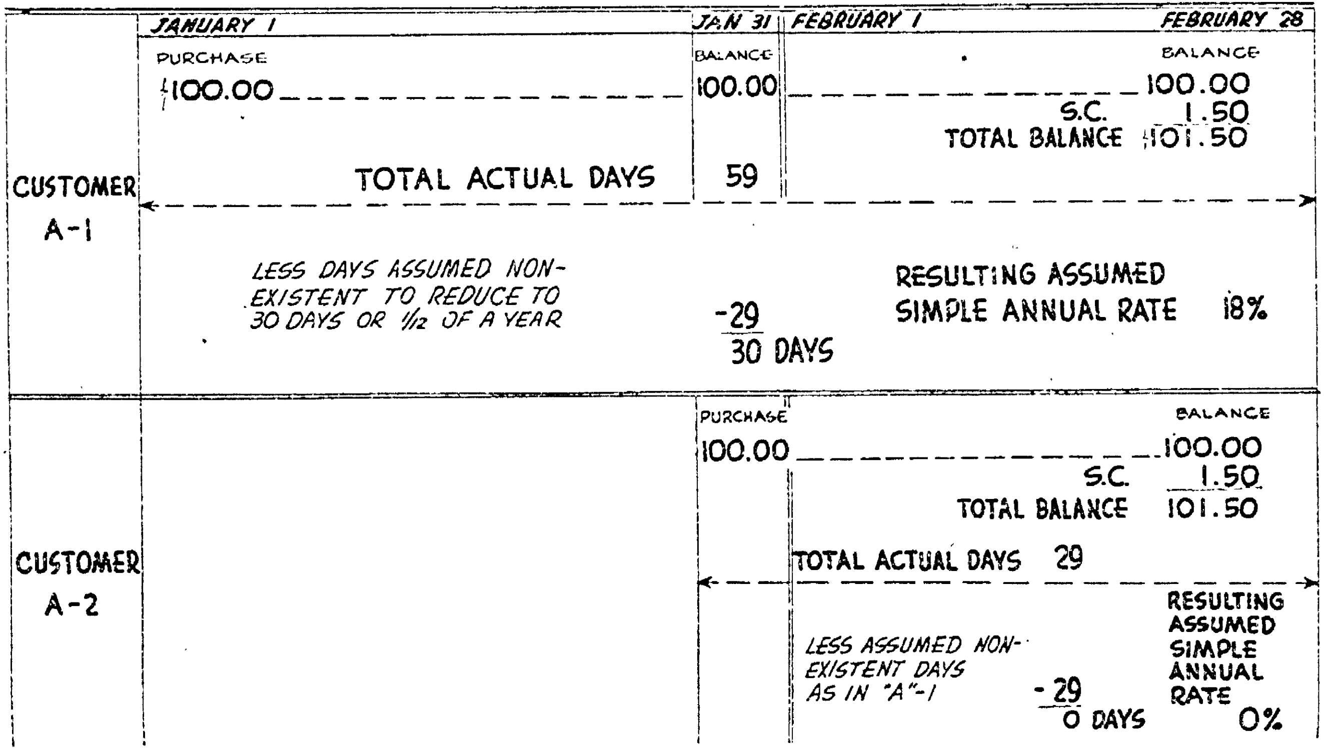
Now if I can take just a moment—and somebody will have to pardon my back——

Senator BENNETT. Can someone step up and hold that for you?

Mr. MASTERSON. Let's take as a statement of a paradox, as has been brought out in previous testimony, that we have in here a free credit element of 30 days. There is no such thing in this business. Take this paradox of assuming untrue purchase and payment dates. This is what we state we would have to do to come to any true percent-annual rate.

(The illustration mentioned follows:)

THE PARADOX OF ASSUMING UNTRUE PURCHASE and PAYMENT DATES



Mr. MASTERSON. A customer whose billing cycle is January 31, her last billing cycle had closed on December 31. So that after her cycle closes, she comes in and makes a $100 purchase. On January 31, it makes no difference if it is 28, 29, 30, or 31 days, we bill it when that cycle closes. When the cycle closes, we bill her for $100.

We then come to the end of the month of February, February 28. Now she has a prerogative at that time. She can pay that account in full and she will have no service charge, or she can pay it in full on February 2, February 15, February 18, or February 28. There are no service fees. But if she elects the option not to, we then assess a service fee of $1.50 on the balance of $100.

Here we have involved 59 days of actual time, let's assume, to arrive at this mythical rate of 18 percent. Then assume that we have a nonexistence of 29 days, to reduce the 59 days to 30 days or one-twelfth of a year. We then can say it is a simple assumed annual rate of 18 percent.

Now also in that same period, the same billings are billed for the same identical ending in the order of the alphabet to persons of the same names. She comes in on January 31. She buys the same $100. We bill her that day, as of that day. Now we might be 2 or 3 days late in billing, and good merchants will only take 3 or 4 days to get all their bills out. But we bill her as of the 31st and right on that day, we bill her for $100.

At the end of February 28, we send her another billing, providing she doesn't pay the $100, with a service fee of $1.50. Total days actually used, 29. Now if we assume 29 days in the first example, we assume 29 days in the second example, we come up with no days involved.

Now the rate involved in this particular case is 1½ times zero, which is zero. We are charging her the $1.50 in this case for the services involved, the auditing out of the ticket, the writing of the ticket, the handling of the customer, the establishment of her controls—our controls; the billing of it, the mailing of it, the cost of purchase, the cost of postage, the cost of return envelopes for her to send a payment back to us, and the cost of handling the payment when it comes back in. There is no time factor involved in it at all, Senator.

The CHAIRMAN. Mr. Masterson, you see the Sears statement on their revolving credit charge. Do you think their statement of 1½ percent on the monthly balance is a truthful statement?

Mr. MASTERSON. Yes, sir.

Senator BENNETT. But is it a truthful statement of the simple annual rate?

Mr. MASTERSON. No, sir.

Senator BENNETT. In terms of interest?

Mr. MASTERSON. It is a 1½-percent fee on the unpaid balance. It has nothing to do with their annual rate.

The CHAIRMAN. It is a truthful monthly rate?

Mr. MASTERSON. It is not a rate as such, as you say. It is 1½ percent.

The CHAIRMAN. Isn't that a rate?

Mr. MASTERSON. It's an establishment of a fee. In describing the adjustment of the fee——

The CHAIRMAN. Let's clear that up. Isn't that the rate of a particular figure on a particular day?

Mr. MASTERSON. That's correct.

Senator BENNETT. Not a particular period of time?

Mr. MASTERSON. That's right.

The CHAIRMAN. Then that brings me to the question of a possible constructive way of working—solving these apparent difficulties which I think are more apparent than real.

I wonder if you would take our bill and look at page 5, subparagraph (F). The present wording is—and I may say up until (F), all the way through from (A) to (F), the wording is identical with the New York law on revolving credit which was drafted by, or in cooperation with, the New York Retail Merchants' Association. And I may say also that the entire section (A) to (E) plus (F) was found workable and satisfactory by Mr. Edward Gudeman, at the time Under Secretary of Commerce, but who previously has been an executive vice president of Sears, Roebuck, and as a matter of fact devised the revolving credit plan for Sears, Roebuck.

Senator BENNETT. May I at this point report that Sears, Roebuck are indignant about the claim that Mr. Gudeman evolved the revolving credit plan, and I have a letter which I'd like to put in the record from a man outside of Sears, Roebuck which indicates the development of the revolving credit plan.

The CHAIRMAN. It will be made a part of the record.

(The letter follows:)

J. C. PENNEY CO., INC.,
New York, N.Y., August 20, 1963.

Hon. WALLACE F. BENNETT,
Senate Office Building, Washington, D.C.

DEAR SENATOR BENNETT: At the New York credit hearings, there were some inaccuracies in the statements and implications of both Senator Douglas and Senator Proxmire that Sears and particularly Mr. Gudeman discovered revolving credit, I would like to present the following facts.

Back in the 1930's, stores started to experiment with revolving credit. Wanamaker's were the first to advertise it in 1938 and J. Anton Hagios, who was the manager of the Credit Management Division of the National Retail Dry Goods Association, published an article in the 1938-39 yearbook of CMD explaining Wanamaker's revolving credit plan in detail. Many stores were immediately interested in this type of credit, but regulation W prevented its adoption and Wanamaker's and other stores that had started it had to stop it.

As quickly as regulation W was removed at the end of the war, a great many of us installed it in our stores. I do not recall exactly when regulation W went out, but I know that I installed it in the Neusteter Co. in Denver in the middle forties and all the other Denver stores immediately followed. This same situation occurred across the country. In 1950, I installed revolving credit in the Winkleman Co., Detroit, Mich. I recall very distinctly the early part of 1951, several representatives of Sears called to visit with me to get as much information as possible about revolving credit as they were then installing it in several locations.

Further, in 1938, the Department of Commerce, Bureau of Foreign and Domestic Commerce, published "Retail Credit Survey in 1938." On page 63 of this report under a heading, "Deferred Payment Plans for General Merchandise," they discussed revolving credit accounts in department stores.

Further, in December 1957, a survey on revolving credit was issued by Robert H. Cole, associate professor of business organization and management of the University of Nebraska. On page 3 of this report, he states, "Contrary to the belief of many people, revolving credit is not a post-World War II development.

Instead, revolving credit actually was born out of the depression of the 1930's. At that time one of the large eastern department stores had a number of accounts with fairly large balances, and these customers simply did not have the money to pay according to the terms of the accounts. As a result, the store decided to put these accounts on a convenient payment account basis, added a service charge, and received $10 every month. The idea worked out so well that many of these customers expressed a desire to continue under the plan, and thus revolving credit was born."

In 1938 Wanamaker's created a considerable stir in retailing circles by announcing its new credit service which it dramatically chose to call revolving credit. This plan, which was quite different from the revolving credit plan commonly in effect today, called for the sale of soft goods to the customer on an account which would be completely liquidated in four monthly payments. No service or extra charges were posted to the account. An excerpt from Wanamaker's advertisement used in connection with the introduction of its revolving credit plan is shown in the accompanying illustration.

1. Shortly thereafter, Filene's in Boston, Bamberger's in Newark, and Bloomingdale's in New York introduced plans of their own design that offered terms with a service charge added each month on the unpaid balance.

During World War II, regulation W, in requiring downpayments on all purchases over $10, acted as a strong deterrent to the expansion of this type of retail credit, but with the lifting of this regulation, many types of retail stores—both large and small—have become interested in this type of plan and so widespread has been its adoption that over the past few years the importance of revolving credit has increased at a terrific pace.

The following references to revolving credit are contained in the following yearbooks of the Credit Management Division of the National Retail Merchants Association. As you may or may not know, these yearbooks are a transcript of the proceedings at our annual credit conferences:

Page 69: Yearbook 1940
Page 185: Yearbook 1943
Pages 226, 238, 241: Yearbook 1947
Pages 107, 136, 151: Yearbook 1948
Page 26: Yearbook 1949

I think anyone would agree that the implications that either Sears or Mr. Gudeman had anything to do with the creation of revolving credit would be as wrong as the "truthfulness" implied in Senator Douglas' bill.

Sincerely,

S. O. PATTERSON,
General Credit Manager.

[Credit Management Yearbook, 1938–39]

WANAMAKER'S "REVOLVING CREDIT" PLAN

By J. Anton Hagios,
Manager, Credit Management Division, National Retail Dry Goods Association, New York

Wanamaker's created a considerable stir in retail circles when during the past year the store announced a new credit service which it deftly chose to give the dramatic designation of "revolving credit," and which some trade observers believe has probably already netted the store about $100,000 worth of new business since the plan was first introduced several weeks ago.

In principle the "revolving credit" idea is not new at all—in fact, L. Bamberger & Co., through its junior charge account plan, has been offering much the same service with smaller credit limits for the last 2 or 3 years. As in the case with Bamberger's junior charge account, a customer can now get a certain line of credit at Wanamaker's, say $200, and every time she makes a specified monthly payment of say $50 she gets more credit equal to the amount of this payment, leaving, of course, a balance of $150 constantly outstanding, or "revolving" as Wanamaker's calls it, on their books. This process can go on definitely so long as the customer continues to buy every month up to the limit of her monthly payment. Unlike Bamberger's junior charge account, however, which has a maximum credit limit of $50 and permits $5 more credit every time a $5 payment is made, Wanamaker's is aggressively directing its credit sales promotion efforts to reach higher income groups with a view to getting an initial "revolving credit" unit sale of $200 or more per account.

The novel aspects of this plan consist primarily of the spectacular advertising copy which featured its announcement in the New York City press in such a way as to capture public imagination.

From the consumer point of view, after reading the advertisement the consumer could very well say to himself, "Under this plan I won't have to buy my fall requirements at three or four stores where I have charge accounts with $50 credit limits, nor will I have three or four bills totaling $150 to $200 staring me in the face 30 days hence and all coming due at once."

From the store point of view the plan is distinct in that it is designed to tie the customer closely and permanently to the store, provided his credit record continues to be good.

The plan was evolved, and no doubt its introduction was timed to insure its initial success, to take care of the peak purchases with which many prospective customers are confronted at this particular season. It has always been considered good business for a sales-minded credit manager to grant (in individual instances) a good customer, upon request, the privilege of making occasional peak purchases on his regular charge account and permit him to pay for them on a 30-, 60-, or 90-day basis without a carrying charge. However, it remained for Wanamaker's to publicize the fact that this privilege is available to any and all who can qualify from the credit standpoint, by an arresting and novel advertisement outlining the plan in simple, understandable language.

The revolving credit plan, in the opinion of trade observers, is simply Wanamaker's answer to meet the situation brought on by the numerous short-term installment credit plans which have come into use during the past 2 or 3 years in the New York market. It is distinct from these plans, however, in that it offers the convenience of a charge account plus 4 months without a carrying charge and without a contract.

The introduction of the plan has not resulted in the slightest lowering of the store's well-known credit standards, according to M. C. Harris, credit manager of the store. "I know only one way to grant credit," he said, "and that is on the basis of the moral and financial responsibility of the customer requesting it." A complete credit report for each applicant for a revolving credit account is secured the same as has always been done in the past in connection with the store's other credit services.

The credit procedure of handling revolving credit accounts is the same as handling regular charge accounts except that the credit manager personally checks all revolving credit applications before they are finally accepted or rejected as the case may be. Applications are taken at the credit office and the customer is requested to sign the application form which is identical with the regular 30-day charge account application form except for color. The interviewer finds out approximately how much credit the applicant requires and the limit is fixed definitely after the credit investigation is completed. The customer is then notified that the account has been opened and what the credit limit is. The fact that a signature is required must not be confused with the statement in the advertisement which says that no "signing" is required. What is meant in the advertisement is that there is no contract similar to the deferred payment contract. The signature on the application form is secured primarily for identification purposes such as in the case of cashing checks, etc. A separate ledger control is maintained for all revolving credit accounts and purchases under the plan are authorized in the usual way. All revolving credit account records are flagged by a different colored tab. A special billing force is maintained for posting purchases made on this plan, which is located within close proximity to the authorizing divisions to enable the authorizers to check quickly on the current status of a customer's purchases. The customer makes purchases on this plan the same as he would on a regular charge account basis and at the end of the month he receives a statement. No date is specified as to when payment is to be made except that it must be during the following month.

An excerpt from Wanamaker's advertisement used in this connection is reproduced below.

A revolving credit account is not permitted to have any other accounts in the store. If a customer has a charge account and prefers to switch over to a revolving credit account, her charge account is closed.

WHAT IS "REVOLVING CREDIT"?

Let us illustrate: You need $200 worth of going-back-to-school clothes for the children. You apply to Wanamaker's Credit Department. After verification of a few simple facts, we notify you that you may have the $200 worth of school clothes (or whatever you want) right now.[1] You are to pay us $50 a month. And every month when you pay us $50, you are entitled to $50 more credit. That's where the "revolving" part comes in. (The oftener you liquidate, the oftener you will be able to use your maximum credit of $200 to iron out the purchasing peaks that may loom up.) Revolving credit gives you credit when you need it, and yet prevents you from overspending till you're caught up." You are thinking to yourself, "But won't I have to sign something?"; "Won't I have to show you deposit books or life insurance policies?" You don't have to sign a thing. This is a friendly transaction—no signing, no formality, no inquisition.

Wanamaker's believes in your moral stability.

Wanamaker's believes in your financial future.

Revolving credit is no invention of ours. It has long been the basis for sound financing in banking and business. Wanamaker's is first to bring this sound financing service to family budgets. Every family occasionally finds itself with a big unexpected lump of expenditure (school, wedding, graduation, college, etc.) that threatens to knock its budget galley west. Suddenly John needs a typewriter, mother needs a winter coat, father needs a suit. Don't go out and borrow. Don't sign promissory notes. Don't burden your future with carrying charges. Come to Wanamaker's friendly credit department—where revolving credit will give you all the comfort of a regular charge account—plus 4 months to pay and no carrying charge.

The CHAIRMAN. Now I come to the constructive suggestion which I hope will meet the difficulties present. "F" is "the simple annual percentage rate or rates providing a yield equal to the finance charge imposed."

Now suppose instead of that, instead of the present line 18, we used the present line 17, namely, "The simple annual percentage rate or rates" but substituted for line 18, "on the monthly balance." In other words, if we take the monthly balance and compute simple annual percentage rate on the monthly balance?

Senator BENNETT. Well, I was thinking about that. You can't compute a simple annual rate on a figure that has no time factor.

The CHAIRMAN. But on the monthly balance——

Mr. MASTERSON. It still has no time factor.

The CHAIRMAN. The monthly rate is computed on the time of the monthly balance. Why can't the yearly rate be computed on the monthly balance?

Mr. MASTERSON. It is not a computation as such. As we showed, it can be charged on a 1-day time element or any time, or——

The CHAIRMAN. It is now charged on the monthly balance. Why can't it be charged in yearly terms on a monthly balance? The base will be the same.

Mr. MASTERSON. It will not be the same.

The CHAIRMAN. The yearly rate is simply 12 times the monthly rate.

Mr. MASTERSON. Let's go to another point: the complexities of Kentucky——

The CHAIRMAN. I wish you would study this.

Mr. MASTERSON. Could I just throw in one more complexity of Kentucky?

The CHAIRMAN. Right.

Mr. MASTERSON. For competitive reasons we have this deal, 90 days is considered cash in Kentucky. When we establish these particular time-based deals, if that customer decides anywhere within, actually, that first 119 days or 120 days—because it is really not a 90-day deal,

[1] Of course if you spend less than the $200 your monthly payments would be graded accordingly. Or maybe you need only $50 credit—that's all right, too.

but expressing it to the customer they say 90 days is cash; it's really three billing periods, but that is a complicated figure for any woman who shops at the store.

What you say is 90 days is cash. Any time during that she can pay. And if she doesn't, then you begin your factor——

Senator BENNETT. And go back?

Mr. MASTERSON. And go back to the beginning.

The CHAIRMAN. I wish you would continue to consider this language, because we are seeking, honestly seeking a way of meeting these difficulties.

Mr. MASTERSON. Senator, when we went to Frankfort——

The CHAIRMAN. I hope you will keep an open mind on this.

Mr. MASTERSON. I hope you will, Senator. [Laughter.]

The CHAIRMAN. Yes; we will.

As a matter of fact, we have revised this section to take account of some of the difficulties which were coming up. We hope that no one will multiply technicalities in order to defeat a purpose which is correct.

Senator BENNETT. May I ask the witness a question?

Would you read again the language you propose, or might consider changing—adding or revising?

The CHAIRMAN. Yes.

The present language in lines 17 and 18 on page 5 of the bill is: "the simple annual percentage rate or rates providing a yield equal to the finance charge imposed."

Senator BENNETT. Then it would be changed to——

The CHAIRMAN. It would be changed to read: "the simple annual percentage rate or rates on the monthly balance——"

Senator BENNETT. Have you got that down?

Mr. MASTERSON. Yes, sir.

Senator BENNETT. Let me ask you this question: Under the law, under the bill if the law is passed, you would still be required to submit a monthly report to the customer. Would the change of this language change at all the fact that the figure you gave at the beginning of the program would always be different from the figure which you give your customer at the end of the month?

Mr. MASTERSON. Absolutely, it would not change the problem.

Senator BENNETT. All right, now.

Earlier today I gave the problem created by simply changing an account from one billing date to another. I don't know whether you could hear me out in the bullpen?

Mr. MASTERSON. No, sir.

Senator BENNETT. Yesterday we took an account, ran it for 4 months, considered it as though it began with "D," say, "Douglas," and calculated the actual amount earned on that account or the actual calculated simple annual rate. And then we took the same account and moved it over to the date on which it would fall if his last name were "Paul," instead of his first name. We changed the billing cycle 12 days. When we changed the billing cycle, we raised the actual interest rate from 9½ to 12½ percent, because of the complex—because of the effect on an individual account.

If this language were adopted, would it change that situation?

Mr. MASTERSON. No, sir.

Senator BENNETT. Thank you.

The CHAIRMAN. Now may I say in this connection: If you will look at a Sears, Roebuck agreement for revolving charge accounts, paragraph 2(a) subparagraph (2), dealing with this it says: "The amount of time price differential computed at 1½ percent on the balance at the beginning of each month." Now as I remember it—my memory may have been wrong—Sears says it can be computed. I would like to say: Suppose we define this just as Sears, Roebuck defines it. Suppose we take the Sears, Roebuck language. Would that term be acceptable to you?

Mr. MASTERSON. Our contract states, sir, 15 cents per $10 of ending balance.

Senator BENNETT. You don't talk about time price or monthly rate or anything else?

Mr. MASTERSON. No. But it is 1½.

The CHAIRMAN. I don't know if there are any representatives of Sears, Roebuck here or not, but I'm ready to enter into negotiations with them. Possibly we might adopt our own language and simply provide it be stated as a yearly basis and not merely a monthly basis. It would show 18 percent on the monthly balance at the beginning of each month, instead of 1½ percent above; this monthly cycle conceals the fact or doesn't mention the fact there are 12 months in a year.

Mr. MASTERSON. Providing she wants to use them, sir. But she is told every month on the statement the dollar and cent cost of carrying that.

The CHAIRMAN. I am tentatively—not firmly, but tentatively ready to accept Sears, Roebuck's language, and I would hope this causes the Sears, Roebuck & Co., which led the way toward truth in its catalog, to become the leader in "truth in lending."

And your firm has a deserved fine reputation. I hope that you will join, too, and this hearing will be fruitful in enabling Louisville to move forward at the head of the procession.

Senator BENNETT. May I say this:

Similar statements made by the chairman in other hearings have made Sears realize the statement in their catalog is not an accurate statement of their program. And I think they are going to correct it.

The CHAIRMAN. You mean it is not accurate?

Senator BENNETT. Your interpretation. Your interpretation of this program is not accurate, so they are going to attempt to correct it so that what they say cannot be misinterpreted. [Laughter.]

The CHAIRMAN. If that statement is correct, what I say will have no avail. The truth is mighty and it is beyond the realm of attack by a Senator or anybody else.

Senator BENNETT. I think it was Paul who said in the Bible that it is not open to personal interpretation, and that's what we are having here with respect to the Sears, Roebuck bible. [Laughter.]

The CHAIRMAN. Let me say that I am ready to enter into conference with the retail merchants of this State or of the Nation to get a satisfactory solution of any technical difficulties that may be involved in this matter.

Senator SIMPSON. Mr. Chairman, that's where I come in, too. I have repeatedly insisted on that. I'm now on the committee and it seems to me that we should make a clearer study on this bill, because it is so vague and imprecise.

We are always asking witnesses every place we go to come in and help us out, and I think we should have enough talent in the U.S. Senate and in legal departments to frame a bill that is understandable.

The CHAIRMAN. I deeply appreciate the statement of the Senator from Wyoming because in effect what he is saying is that we should have more hearings on this subject so that we can bring out these facts.

Senator SIMPSON. Heaven forbid.

The CHAIRMAN. This is precisely what I have been trying to get for a long time, and unfortunately up to this date, the Senator from Wyoming and the Senator from Utah have opposed this. But now that they want the deeper study, I believe we should have hearings in many more cities and I confidently expect they would support any motion I would make in the full committee on a subcommittee for additional hearings.

Senator SIMPSON. You know we will oppose it because we have spent $50,000 to date. It is more money than has ever been spent by the Banking and Currency Committee for any investigation and we are still continuing.

The CHAIRMAN. In one breath you ask for more study and in another breath you say there has been too much study.

Senator SIMPSON. We've got the study—we've got the staff to study it in Washington and they are paid for it. That's what I'm talking about.

The CHAIRMAN. I want to say that we get really more material going out in the field like this than when we are exposed to the testimony of high-priced Wall Street lawyers and experts—I don't say you were there——

Mr. MASTERSON. Senator, high-priced——

The CHAIRMAN. What I'm saying: We have gotten more good testimony from you than from those high-priced Wall Street lawyers.

Mr. MASTERSON. If you will give me 2 hours to walk you down the street into a billing department and show you—you talk about a time factor. There is nobody, the U.S. Government or anybody else, who can control this female shopper. She comes in on Tuesday, buys a coat. The following week on Wednesday, she doesn't like it.

The CHAIRMAN. We only ask she be informed, not controlled.

Mr. MASTERSON. She is not penalized for that time factor. The balance at the billing date is when she is charged the fee. She can buy——

The CHAIRMAN. That is exactly——

Mr. MASTERSON. There is no time factor. But you are expressing everything in an annual rate. She can bring it back and decide to take a more expensive one.

The CHAIRMAN. A monthly rate is a subdivision of time.

Mr. MASTERSON. It's a question of how that English language can be read, you know——

The CHAIRMAN. The Senator from Utah has been properly insisting on precision in the English language. I think it is proper to hold Sears, Roebuck to the same standards of precision.

Mr. MASTERSON. I hope you don't hold me to it, Senator.

Senator BENNETT. I think Sears, Roebuck should be given an opportunity to correct their imprecision.

The CHAIRMAN. Let me say this: I am ready to sit down with any of you and try to work out language. At one point where I do not, I think we should compromise, is on this question of enabling Jane Doaks to know what this comes to at an annual rate. Now, on that point I think we cannot.

Senator SIMPSON. Can Jane Doaks ever know what her revolving charge comes to at an annual rate in advance?

The CHAIRMAN. Not now.

Senator BENNETT. Or any other circumstances——

Mr. MASTERSON. No, no.

Senator SIMPSON. Let's get the answer.

Mr. MASTERSON. No.

We can go on and on and I can figure the times——

Senator BENNETT. May I interrupt this to say that the chairman could very properly stop me when he thought I was questioning his witness too long.

May we have our witnesses? May our witnesses proceed?

The CHAIRMAN. Certainly.

Senator BENNETT. Thank you.

The CHAIRMAN. I don't think I took up as much time as the Senator from Utah.

Senator BENNETT. Well, it is 12 o'clock.

Mr. MASTERSON. I lost track, but I'll pick up.

Senator SIMPSON. It is page 4.

Mr. MASTERSON. The other alternative available to the retail merchant, if compelled to comply with this bill, is to bury all or part of the service charges in the retail price of the goods and/or services. This would then penalize the cash customer by not allowing him to take advantage of the lowest possible retail price.

To illustrate what I have previously described I have here several examples of advertisements promoting the sale of merchandise on an installment basis specifically calling the customer's attention to the fact that there are no service charges. It is recognized as a fact by our industry that this type of business cannot be done without incurring additional costs. These advertisements speak for themselves and are attached to my statement for the record.

The CHAIRMAN. They will be made a part of the record.

(The advertisements are reproduced following Mr. Masterson's prepared statement.)

Mr. MASTERSON. For the benefit of the people who are here I would like to point out that all over the country you can find ads for no-charge credit. There is one in the Greensboro Daily News on April 19, a man who advertises no service charges but 1 year to pay. Right here in Louisville, you can buy, as advertised here, a washer valued at $78, no interest or carrying charge; mufflers on a budget plan, no interest. St. Louis: a furrier who goes as high as $1,785, easy terms, no interest or carrying charge. The Lexington paper: sale of a washer, no carrying charge plan. Los Angeles, and of course, Baton Rouge, and on and on and on.

In this one here they say you can get a $600 value of furniture for $398 at $18 per month, and I didn't figure it out but it must be pretty close to a year and a half or 20 months, at no carrying charges.

The CHAIRMAN. Mr. Masterson, have you checked these ads to see that there are no other carrying charges besides interest charges?

Mr. MASTERSON. It doesn't say.

The CHAIRMAN. Of course, ads are not full descriptions. There may be other charges incident to the transaction which would be covered by our bill.

Mr. MASTERSON. There is nothing in here.

The CHAIRMAN. They might call it a fee.

Senator BENNETT. The first ad says:

Most finance plans cost money. Not at Tucker-Jones. You don't have to pay 10 to 18 percent finance charges when you purchase furniture, bedding or floor covering, without any carrying charge whatsoever.

Mr. MASTERSON. The Fort Worth Star-Telegram:

The price you see is the price you pay. The complete price of every piece of furniture is on the price tag. There are no hidden charges. There are no carrying charges. There is no interest added on any purchase for 1 full year.

Now he might charge $75 to deliver it, but right here he says he doesn't have any charges.

The CHAIRMAN. That's just the point.

Senator BENNETT. That has nothing to do with the extension of credit.

Mr. MASTERSON. Absolutely not.

Senator BENNETT. Did you finish?

Mr. MASTERSON. Yes, sir, on that point.

There is another area—I think we have already covered the section when we were going through the clarification of a time period, as far as the service fee is concerned, with the chart, and the fact that the calendar month can go from 28 days to 31 days, and a billing period can go anywhere from 59 days and 60 days, if you figure it in a time basis. There are all kinds of time elements involved in the transaction.

The entire concept of this legislation appears to be designed with the thought that adequate comparisons cannot be made under our present system. This is an untrue assumption which our business community feels leads to unjustified discredit of the general business integrity.

In conclusion, gentlemen, let me thank you very much for the privilege of appearing before this subcommittee.

The CHAIRMAN. I think I have taken up enough time questioning.

Senator BENNETT. I would like to ask one question. Taking you back to page 4 here of your testimony——

Mr. MASTERSON. Yes, sir.

Senator BENNETT. Let me read you the one-sentence paragraph which says:

To further emphasize our convictions the expense of extracting a monthly percentage rate would be so prohibitive that it would force the majority of retail merchants, especially the small retail merchants, out of the credit installment business.

Can you give us any specific evidence that that would be so? How many can your machine post in an hour?

Mr. MASTERSON. At the present time they can post anywhere from 800 to 1,000. The question is how good the girl is.

Senator BENNETT. In an hour?

Mr. MASTERSON. Oh, no.

Senator BENNETT. In a day?

Mr. MASTERSON. In a day.

Senator BENNETT. So that is approximately 100 to 120 an hour?

Mr. MASTERSON. Yes.

Senator BENNETT. If you had the stock number billing on your billing tape and had to compute the exact simple annual rate on every account that you had, on which you drew the balance on that day, how many of those accounts could be computed and prepared to be mailed by a girl?

Mr. MASTERSON. There is no possible way of figuring out what the time element would be because of the volume of purchases.

If we had to compute this yield we would add 10 to 15 people at least in our stores, because of the volume of the business that we have, just to compute this.

Senator BENNETT. In other words, relate that to the number of people you now have working on your accounting routine. Is this an increase of 10 percent, 20 percent?

Mr. MASTERSON. The total number of people that we have—and this is competitive information—is 26 people. So if we had to put on 15, we would increase the staff by 60 percent.

Senator BENNETT. You would almost double the staff.

Mr. MASTERSON. Remember, we have no computer or anything of that kind. It is all a manual operation, the whole thing. And the small merchant who is already involved in so much expense—he is already collecting for the U.S. Government; he is collecting Government withholding tax, the social security tax, and the Federal excise tax. For the State, he is collecting the withholding tax and the sales tax. And in a lot of our cities he is collecting a payroll tax from them. He must maintain all of those records. He now is controlled or is being controlled by the FTC on fur, the sale of furs, the sale of woolens, the sale of all textiles, and in the mill is the control of the sale of jewelry, the sale of handbags, the sale of furniture, completely describing his advertising. He has to, at this point, hire an accountant and a lawyer to make sure he is complying with everything right now.

Senator BENNETT. One more question: Don't many of these small merchants actually in Kentucky still keep their books in pen and ink?

Mr. MASTERSON. Oh, absolutely, absolutely, and an awful lot of them in their head. [Laughter.]

The CHAIRMAN. You are complying with the new Kentucky law, are you not?

Mr. MASTERSON. Yes, sir.

The CHAIRMAN. Well, now, I have here a statement of Kentucky law given to you. It is on page 1279 of this compilation prepared by the Thomas clearinghouse. As I read it, it is identical with the requirements in our bill down to the paragraph (F) that I have read.

And the difficulties which you are stating are entirely confined to the paragraphs (A) to (E), inclusive, a general statement of what the annual rate will be.

Mr. MASTERSON. Well, now, Senator, if you are trying to say that the only thing that we have to complain about the legislation is that, I am afraid we would be back on the other point. You said 15 minutes is all that we have to talk about, so we picked out particular points that we were involved with. But we could go all the way back through the 2,000 pages of testimony that you have.

The CHAIRMAN. This is really occasioned by the Kentucky Act.
Mr. MASTERSON. No, it's not.
The CHAIRMAN. We don't add anything in paragraph (F).
But if I may ask you again: You live under the Kentucky Act?
Mr. MASTERSON. Yes, sir.
Senator BENNETT. Your accountants can still post 800 to 1,000 accounts a day to comply with the Kentucky law?
Mr. MASTERSON. Yes, sir.
Senator BENNETT. That's all. Thank you.
The CHAIRMAN. The accountants under our act wouldn't have to do a thing. All you would have to do would be to print the rate on the slip, which Sears, Roebuck shows on the monthly——
[A chorus of moans.]
Senator BENNETT. At the end of each month they have got to give each individual account a completely separate individual statement.
The CHAIRMAN. I beg your pardon.
Mr. MASTERSON. That is what it says.
The CHAIRMAN. No, no, it does not say it in my paper.
Mr. MASTERSON. No, sir.
Senator BENNETT. Oh, oh, oh, Senator.
The CHAIRMAN. The simple annual rate can be printed on the slip. It should be on the balance.
Senator BENNETT. Turn back to page 4, line 22—

furnish to such person, at the end of each monthly period (which need not be a calendar month) following the entering into of any such agreement, a clear statement in writing setting forth—

all of these things, including the simple annual percentage rate.
The CHAIRMAN. This is identical with the Kentucky Act except the credit statement of the Kentucky Act says:

shall properly supply the buyer with the retail charge agreement and state at the end of each monthly period, which need not be a calendar month, or other regular period, agreed upon in writing, in which there is any unpaid balance, which statement shall show the following—

And then the specific items are identical.
They are identical with the items which we recorded down to and including paragraph (E) on page 5 of the bill, it does not include paragraph (F), but paragraph (F) could be satisfied by a printed statement on the general statement of terms and requires no accounting whatsoever.
Mr. MASTERSON. We would say in our bill the dollars and 1½ percent——
The CHAIRMAN. That would be 18 percent.
Mr. MASTERSON. It is not 18 percent. We are right back where we started. [Laughter.]
Senator BENNETT. Wait a minute.
The CHAIRMAN. Wait a minute.
Senator BENNETT. (F) says the simple annual percentage rate or rates providing a yield equal to the finance charge imposed.
What is a yield?
Mr. MASTERSON. The question was, I think, Senator, what——
The CHAIRMAN. I am going to strike the "yield."
Mr. MASTERSON. Yes. Strike that out.

A simple annual percentage rate or rates on the monthly balance.

The CHAIRMAN. On the balance at the beginning of each month, and that need not be the calendar month.

Senator SIMPSON. We are striking out one now, are we? [Laughter.]

The CHAIRMAN. Wait a minute.

I am attempting to hammer something out here which will minimize the objections of the retail merchants. I think, in its present form, properly interpreted, there is no difficulty. But you get these high-priced lawyers and they can multiply difficulties.

And in order to make it airtight so as the——

Mr. MASTERSON. Senator, I'm not a high-priced lawyer.

The CHAIRMAN. No, no.

You are simply giving the same thing that these——

Mr. MASTERSON. No; I'm not. Wait a minute.

The CHAIRMAN (continuing). Fellows have been giving every city that we've gone to.

Mr. MASTERSON. You say to me that I as a merchant have to say 18 percent. There is no moral nor ethical reason why I should say it, none at all.

The CHAIRMAN. If you——

Mr. MASTERSON. Where is the justice in competition to force me to say 18 percent against everybody who will figure that as interest like you did; in all the hearings you referred to it as interest?

The CHAIRMAN. Do you think Sears, Roebuck should use it?

Mr. MASTERSON. I'm not arguing about what Sears, Roebuck does. I'm not here in defense of Sears, Roebuck.

The CHAIRMAN. They are a big firm.

Mr. MASTERSON. I'm talking about the small merchant. You say go to any one of these towns where there is a credit union. You say that I have to put on 18 percent.

The Labor News right here comes out—one is a credit union. In it they say that you can borrow and the only charge for the loan is interest. The cost is never more than a penny a month for each dollar still owed. So $100 paid back in 12 monthly installments is a total credit cost of $6.50. They don't say any kind of percent, none at all.

But you are going to force me to say 18 percent against their 12.

The CHAIRMAN. The bill hasn't even passed yet.

Mr. MASTERSON. I understand that. But if you can tell us to do it, you're going to put us—where is the justice of forcing us to state that we charge 18 percent against their 12, and everybody has got to consider it as purely a loan of money? And we are not in the money-lending business.

The CHAIRMAN. I think now we are getting to the real objection.

Senator BENNETT. Do you charge 18 percent?

Mr. MASTERSON. No; we don't.

The CHAIRMAN. Your 18 percent, if it really were stated, would contrast with a credit union or a bank rate of 12 percent. Now we are getting really down to facts.

Mr. MASTERSON. Now we are getting back to that same old point. [Laughter.] If we assume that it is an untrue fact, unless we make all kinds of assumptions; right back to the beginning, Senator.

Senator BENNETT. In New York it was Senator Proxmire and another witness that yelled at each other.

Mr. MASTERSON. I'm not yelling. If I am, I'm sorry. I'm a boy from Brooklyn. I was transferred to Kentucky, Senator, and I apologize.

The CHAIRMAN. That's quite all right. [Shaking hands.]

If I shouted, I apologize, too.

Mr. MASTERSON. Thank you very much.

(The complete prepared statement of Mr. Masterson follows:)

STATEMENT OF JOHN MASTERSON, LOUISVILLE RETAIL MERCHANTS ASSOCIATION

Gentlemen, before I introduce myself and the parties I represent, I would like to express my appreciation and that of the association which I represent for the honor of appearing before this subcommittee of the U.S. Senate to present the views of this organization as well as my own on the important matter now before you.

My name is Jack Masterson and I am appearing before you today in behalf of the Louisville Retail Merchants Association and as a member of the Kentucky Retail Merchants Association whose membership numbers approximately 2,800.

The Louisville Retail Merchants Association is composed of retail merchants in the city of Louisville and its immediate surrounding territory. Most of these merchants have been in business in this community for 50 years. Specifically, the reasons I appear before you today are fourfold.

First. Both of the organizations I have mentioned; namely, the Kentucky Retail Merchants Association and the Louisville Retail Merchants Association, do a very large volume of installment business.

Second. I am treasurer of Stewart's Dry Goods Co., one of the oldest and largest retail merchants in the State. Actually, it is 119 years old and we have been doing a large volume of installment credit business during a great portion of that time, therefore, my company also is vitally interested in this matter.

Third. As a citizen and resident of Greater Louisville, I am interested in seeing that the volume of retail business continues to expand so as to maintain standards of living, payrolls, and support the general economy.

Fourth: The fourth reason is that at the time the Kentucky Retail Installment Sales Act was first proposed in the legislature of this Commonwealth, we studied the measure very carefully and concluded that it was the most effective means of curing whatever malpractices might exist in the retail industry. This statute requires among other provisions the full disclosure of the time-price differential in connection with the purchase of goods and services on an installment transaction, expressed in dollars and cents. In addition to this, specific disclosures regarding revolving charge accounts are also required which I will discuss later.

In this respect we believe that the present Kentucky law to which I have referred is, in fact, full disclosure to the purchaser. I have observed that S. 750 is called the truth in lending bill. I am so convinced that the Retail Installment Sales Act in Kentucky so thoroughly accomplished the same purpose that I now sincerely regret that we didn't call our bill in Kentucky the truth in purchasing bill.

We strongly supported this measure and urged it be adopted. We were extremely pleased to see that the bill was enacted. We are of the opinion that the passage of our bill by an overwhelming majority has accomplished and will continue to accomplish the purpose for which it was intended. Incidently, while this measure was under consideration, the Louisville Retail Merchants Association appointed a committee to study the matter and I had the honor of being chairman of the committee. The views I have just expressed are my personal ones and I am confident are expressed by the committee and membership of the organizations as a whole.

The Retail Installment Sales Act in Kentucky, to the best of my knowledge, was actively supported by the Kentucky Chamber of Commerce, Louisville Chamber of Commerce, the Associated Industries of Kentucky, the Kentucky Retail Hardware Association, the Kentucky Jewelers Association, the Farm Bureau, the Kentucky Retail Merchants, the Louisville Retail Merchants Association, the Kentucky Chain Store Council, and the majority of the chambers of commerce throughout the other cities of the State.

Now with respect to S. 750 with which this committee is concerned, I would like to submit my views and those of my constituents, if I may borrow a political phrase.

We as retail merchants would like to make this fact clear. We fully support the full disclosure of the service charge to the customer doing business on an installment-credit basis. It is imperative in our business to maintain good customer relationship. In view of this we go to great detail to explain to our customer what she is paying in the way of service charge. This prevents any question on future transactions of this type.

We are opposed to any unnecessary burdensome requirements which can only tend to confuse and offer nothing in the way of protection to the customer.

The Kentucky Retail Installment Sales Act requires the seller in the agreement with the purchaser clearly to set forth an itemization in dollars and cents of the cost involved in an installment transaction for goods and/or services or a combination of both. We honestly feel that the statement of the service charge expressed in dollars and cents is the best possible method adequately to inform the purchaser of this cost. With this information he or she can easily shop for credit as well as shop the retail price.

In previous hearings it has been clearly shown the difficulties and complexities of complying with the requirement of converting the service charge to an annual and monthly rate. This conversion is not possible under the conditions of the revolving charge type of account unless the retailer states an arbitrary maximum percent which is untrue. This is impossible unless we assume an untrue purchase date, an untrue payment date and an untrue annual rate.

To further emphasize our convictions the expense of extracting a monthly percentage rate would be so prohibitive that it would force the majority of retail merchants especially the small retail merchants out of the credit installment business.

The other alternative available to the retail merchant, if compelled to comply with this bill, is to bury all or part of the service charge in the retail price of the goods and/or services. This would then penalize the cash customer by not allowing him to take advantage of the lowest possible retail price.

To illustrate what I have previously described I have here several examples of advertisements promoting the sale of merchandise on an installment basis specifically calling the customer's attention to the fact that there are no service charges. It is recognized as a fact by our industry that this type of business cannot be done without incurring additional costs. These advertisements speak for themselves and are attached to my statement for the record.

There is another area that I feel needs further clarification. That is the assumption by some members of the committee that we allow a 30-day period free of service charges on installment accounts. I would like to submit there is no free period if the customer does not choose to pay his balance within a given billing period. This is an option to be exercised by the customer. Should the customer choose to pay over a period of installments he would therefore incur a service charge on all of the purchases as of the first billing date. So in this instance there is no free period. The customer that elects to pay the account in full before the second billing date will receive at least 28 days of free service charge and could conceivably receive a maximum of 60 days free of service charge. Incidentally, the majority of the customers using this type of installment elect to pay on an installment basis.

The entire concept of this legislation appears to be designed with the thought that adequate comparisons cannot be made under our present system. This is an untrue assumption which our business community feels leads to unjustified discredit of the general business integrity.

In conclusion, gentlemen, let me again thank you for the privilege of appearing before this subcommittee.

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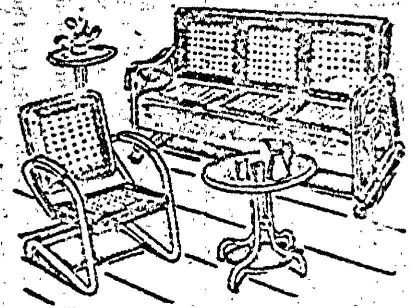

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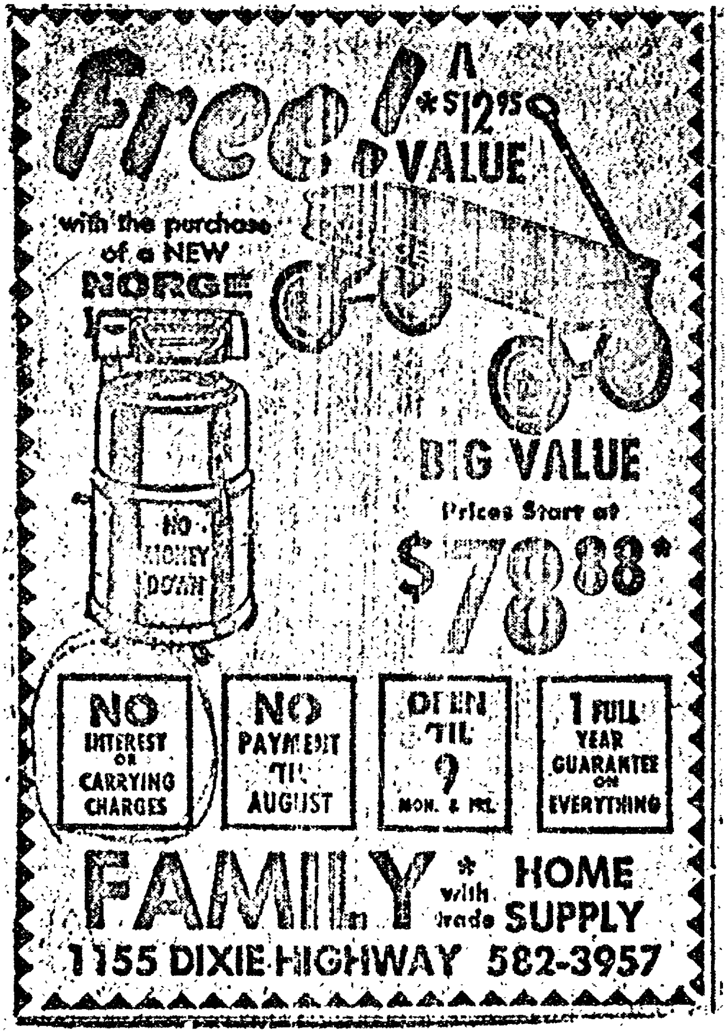
B20—Greensboro Daily News, Friday, April 19, 1963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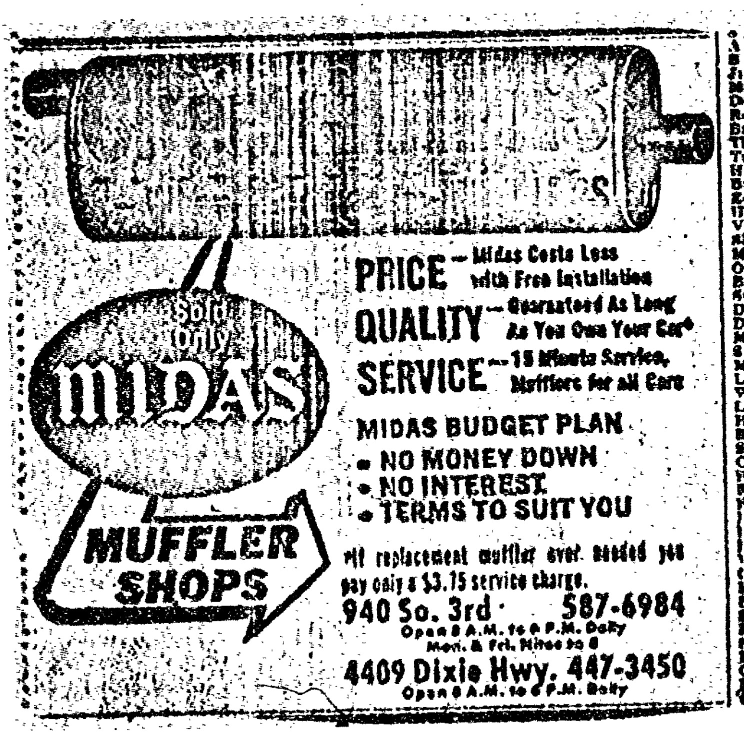
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FRI., MAR. 22, 1963 Los Angeles Times ★

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STATE-TIMES, Baton Rouge, La., Tues., Aug. 13, 1963 7-A

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FORT WORTH STAR-TELEGRAM

Sunday, March 10, 1963

HARRIS P. HOOVER

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The COMPLETE price of every piece of Furniture is on the price tag.

- There are NO Hidden Charges
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Many times our prices are as much as 5% to 25% LESS than prices in other Furniture stores in Fort Worth! . . . BEFORE they add interest and carrying charges.

Come by and compare our prices on:

★ Valentine Seaver ★ Tell City ★ Kroehler ★ Bassett
★ Fogle ★ Town & Country ★ Westinghouse

Compare our deal with any store, ANY place.
This is STRAIGHT TALKING. This is our policy.

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PHONE: BR 5-1286
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The CHAIRMAN. Now the next——

Senator BENNETT. Well, it's 10 after 12.

The CHAIRMAN. Let's take at least 20 minutes of the testimony.

Senator BENNETT. Well, I'm perfectly willing to, except that it probably will be just as many questions with an hour and a half in between.

The CHAIRMAN. Well, I'm very anxious to give to the opponents of this bill equal rights with the proponents, so I'm perfectly willing to have them take the stand now. But if the opponents wish to waive that right and put their witnesses off until afternoon, I will ask another proponent to take the stand. It's up to the proponents.

Senator BENNETT. Just because we are used to looking at alternatives, I suggest we recess now and come back at 1:45, taking the same amount of lunch period, without getting involved. Your witness might run over.

The CHAIRMAN. That's OK.

We will adjourn until 1:45.

(Whereupon, at 12:15 the hearing was recessed to reconvene at 1:45 the same day.)

AFTERNOON SESSION, 1:45 P.M.

The CHAIRMAN. All right. The hour 1:45 having arrived, the committee will come to order.

The first witness this afternoon is Mr. Kenneth Marin, Grand Rapids, Mich. Mr. Marin was at the hearing this morning but was postponed until this afternoon, and Senator Bennett kindly agreed to have him put on first.

Immediately after his testimony, the second set of witnesses for the opposition will testify.

Mr. Marin, we are glad to have you with us.

Mr. MARIN. Thank you, Senator.

STATEMENT OF KENNETH MARIN ON BEHALF OF THE MICHIGAN CREDIT UNION LEAGUE

Mr. MARIN. My name is Kenneth Marin. I live in Grand Rapids, Mich., where I am chairman of the department of economics at Aquinas College. I speak here today as a representative of the Michigan Credit Union League and I also serve as president of CUNA Supply Cooperative, which provides credit union supplies to credit unions.

I would like to say that there are many people in Michigan who would have liked to have a chance to testify before this subcommittee in favor of S. 750 if a hearing site in Michigan had been selected. I regret that it was not possible for this distinguished subcommittee to select a site in the "Water Wonderland" State, but it is to the credit of the chairman of the subcommittee that a central location like Louisville has been chosen for his hearing, during which I am sure a great many witnesses will be heard who otherwise would not have been able to speak on this important legislation.

Credit unions, as you know, are organized to serve two mutually complementary purposes. First, they serve to promote thrift among their members by providing a safe place of deposit and paying a reasonable dividend. Incidentally, this dividend is paid on the basis of a simple annual rate, such as 4½ percent.

The other function of the credit union is to provide loans for constructive purposes at reasonable interest rates. The traditional credit union interest rate is 12 percent, or 1 percent per month, although many credit unions reduce this figure substantially for their members through an interest rebate at the end of the year. The 12-percent figure is the maximum fixed by the Federal Credit Union Act and most State acts.

It is well known, especially to our competitors, that credit unions have enjoyed a great deal of prosperity in recent years. Credit union assets are now in the vicinity of $6 billion. Credit unions number, both Federal and State, about 21,000 in the United States. Currently they hold about 11 percent of the total installment credit outstanding in the Nation.

Yet it is misleading to think of credit unions as large, well-oiled financial institutions. Certainly we are proud of our larger credit unions, those with millions of dollars in assets. But we must remember that the typical credit union is still a small one, with a small fraction of a million dollars in assets. This typical credit union, whether it is in Kentucky or California, is staffed largely by volunteers and is doing an excellent job of providing both a depository for savings and serving as a source of credit.

It is these smaller credit unions which make up the bulk of the credit union movement in the United States. And we are proud of them. We feel they provide their members with more than financial assistance. They teach, in various ways, the value of the democratic process where everyone votes, and the usefulness of a true cooperative spirit. We feel, as credit union members, that we are spiritual brothers with other volunteer cooperatives, such as volunteer firemen, members of farm cooperatives, and a wide variety of citizen groups.

We in the credit union movement have an active interest in social justice. Our origins in this country, in fact, were based on the need then existent for consumer credit at reasonable cost. In the early 20th century, there were only loan sharks for the common man to deal with. Credit unions, starting in 1909, became a major factor in eliminating the role of the usurious lender. We still feel, to be sure, that many people are forced to pay exorbitant interest rates. Our job is not done. But it is now well underway.

We in the credit union movement feel that our crusade to end the charging of excessive interest rates—we feel that's what we have been attempting to do for half a century—can be greatly helped by S. 750, the "truth in lending" bill. This measure's aim is so simple and so commendable that we often wonder why it can be so vigorously opposed.

The key to the bill, in our eyes, is the provision that the customer deserves to know the cost of the credit he is going to get in terms of a simple annual rate. With this yardstick, he could shop around, if this practice were the general rule. I might add parenthetically, that if any practice were the general rule, he could shop around, but he can't do it now by virtue of the fact that there are many different rules in effect in the stating of interest rates. Under the present circumstances he can only be confused, and often finds out later to his chagrin that he is paying a whopping amount for credit.

Credit unions generally state their interest cost in terms of a monthly rate, not an annual rate. In Mr. Masterson's discussion this morning, he said as much on this as is certainly possible. However a credit union stating its rate at 1 percent a month could do exactly what Mr. Masterson did for us this morning in converting immediately in his own head the 12 percent per annum. This is the true rate.

We in the credit union movement are not wedded to this method, however. We are quite willing to agree with the purposes of S. 750 and change the interest statement from a monthly to an annual rate. We feel there is little difficulty in making the switch, although we note that many other credit grantors, following the position that Mr. Masterson emphasized this morning, seem to think it is just about impossible.

Within the past few months, we have been making available through CUNA supply what we call the "little man instant rate converter." This circular slide rule device instantly computes the interest cost to the borrower of any size loan as long as the amount of credit, the monthly payment, and the term of the loan are known.

The CHAIRMAN. Would you be willing to furnish members of the committee copies?

Mr. MARIN. Sure. We have a couple of copies here, and I brought my own personal one along, and I will certainly see that additional copies are made available.

This was developed in conjunction with the University of Wisconsin itself at a very low cost, and we feel it does an excellent job of converting to simple annual interest rates if you know merely these rather easily ascertained figures, that is, the amount of credit, what the monthly payment is, and the term of the loan; 12 months, 18 months, whatever it might be.

Needless to say, the interest cost is expressed in terms of a simple annual rate. I might add that the phrase "little man" derives from the traditional mark of the credit union movement, showing a small figure being protected by his credit union—in the form of an umbrella—from the inevitable rainy day. This has been the official copyright of the credit union movement for many, many years.

The "little people" have always been the victims of the purveyors of high-interest rates. We take pride that the credit union movement has been traditionally opposed to these entrepreneurs. We feel that the movement has been effective in providing a great number of Americans with credit at reasonable rates. After all, making available an alternative source of credit which costs considerably less cannot help but prove effective.

But how are all the "little men" in our population to choose between alternative sources of credit when there is no common yardstick on which to base their judgment? Here S. 750 appears as the savior of these "little people." Knowing the cost of credit in clear, simple terms will arm the common man with the single weapon he now lacks to finish his crusade against excessive money rates.

I hold no sympathy as an economist for those who argue that S. 750 would damage our economy by cutting down on installment credit sales. This is a highly dubious assertion. However, if what these spokesmen are really concerned about is that the consumer will begin shopping around for the best credit buy, then, of course, I do understand them, although I don't sympathize with them. I'm sure there will be a readjustment in many consumers' minds should S. 750 become law, and there would be some readjustments on their sources of credit, and I'm convinced this would be all to the consumers' good.

Once credit becomes just another commodity to be bought and sold, price will loom as the deciding factor; price stated in terms of the simple annual rate of interest, as would be required in S. 750.

When the happy day arrives that S. 750 becomes law, then the jungle of finance charges now confronting consumers would disappear. Until that time, we are urging credit union members to make good use of the "little man instant rate converter" to try and find out what the rate actually is on an alternative contract, the only way we know for the "little people" to actually achieve a common denominator.

I certainly thank you for the opportunity to testify.

The CHAIRMAN. I think your circular slide rule is extraordinary. A simple device. We have used it a great deal. In our previous hearings, we have had Mr. Lindley on the one hand, a very able and very fine representative of the majority, and on the other, Mr. Bradford, check each other and they worked it very well.

But these have been cases where the payments are regular. Now where you get three variables; namely, the amount of the initial indebtedness, the amount of monthly payments, the number of months over which payments are made, then with these three you compute very readily what your annual interest rate is.

But I notice that the afternoon newspapers—I don't want to anticipate testimony, but the afternoon newspapers quote the Kentucky bankers as saying that you cannot compute the true rates when you make regular payments or skip payments. Now can you compute it by this slide rule?

Mr. MARIN. This slide rule was not so designed. Such a slide rule could readily be designed, I am reasonably sure.

The presumption that we had in making this available was that it would be a working tool for credit unions——

The CHAIRMAN. Yes.

Mr. MARIN. And as such, it was designed to meet their particular needs.

The teacher, for instance, in my credit union will frequently ask that the credit union service a moratorium on payments during the summer period when he has no income, and this is credited. Now a credit union, of course, takes its rate as 1 percent per month on the unpaid balance, and should he make no payments for a period of 2, or 3, or 5 or 6 months, he is certainly paying at a true rate equal to 1 percent per month, 12 percent a year on the last balance.

To compute a competitor rate from this particular slide rule as an amount set up with a missed payment or an every-other-month payment or a once-a-year payment would require some redoing of the slide rule. But it was not our purpose obviously to come up here with a tool that would do anything else than to serve the credit union in its day-to-day operation.

The CHAIRMAN. This would provide then for a vast majority of your credit transactions?

Mr. MARIN. Yes, certainly.

I would say our credit union, for instance, serving teachers, probably makes many more such loans with deferred payments than would a credit union serving an industrial group. I would guess—and this is purely a guess—that 95 percent of the teachers have a higher figure than that, for which contracts are set up for equal weekly or twice a month or monthly installments.

The CHAIRMAN. May I ask this: Suppose they are skipped payments and irregular payments. Is there a format which can be used from which the computations can be made?

Mr. MARIN. This embraces the consideration of the formula as the basis for the construction of the slide rule involved. It is true in a typical trade union that this is done from tables and as I understand it, a typical small loan company does it from tables. And they do it on the basis of 1 percent per month on the unpaid balance or 2 percent per month on the unpaid balance, or 2½ percent per month on the unpaid balance, or whatever it is.

The CHAIRMAN. You treat that as the same as 30 percent, or 24 percent, or 12 percent a year?

Mr. MARIN. That is correct.

As I understand the proposed S. 750, Senator Douglas, instead of now saying 1 percent per month, credit unions would now start saying 12 percent a year. We have no objections. We feel that that is our true rate.

The CHAIRMAN. As a matter of fact, in the testimony we took in 1961, Mr. Gannon——

Mr. MARIN. Director of the Bureau of Federal Credit Unions.

The CHAIRMAN. Submitted tables providing for irregular payments of 13, 14, 32, 31 days; and I quote:

> You can figure irregular payments from the credit book?
>
> Yes, sir. If a man is supposed to make a payment on the first of the month, or a skipped payment, he could figure the interest on the payment over on that period of days, whatever days. This could be done in a matter of seconds.

Mr. MARIN. In fact, Senator, that actual credit union interest rate is one-thirtieth of 1 percent per day, and if a payment is made 3 days from the time of the last payment, the interest will be calculated at one-tenth of 1 percent.

The CHAIRMAN. So you could figure this to the day?

Mr. MARIN. We do figure to the day on every transaction.

Senator BENNETT. I was going to ask if you could ask the photographers to turn the light off. We wouldn't be able to live here in a little while.

The CHAIRMAN. Yes.

Mr. MARIN. You hardly need your overcoat at all.

Senator BENNETT. Thank you.

Excuse me. I didn't mean to interrup your last thoughts.

The CHAIRMAN. In other words, any monthly rate—any yearly rate, excuse me, must be converted into a daily rate.

Mr. MARIN. Well, I have heard both sides of this and considered both sides of this as an economist. It is my honest belief, yes, there is no problem here at all.

I know that the retail merchants, as expressed in Mr. Masterson's view this morning, feel there are difficulties. I simply can't fathom those difficulties because we have been doing it for years. This is a matter of fact.

The CHAIRMAN. Are you able to handle your skipped payments?

Mr. MARIN. The skipped payments are done in precisely the same way. If it is 45 days from the last payment, it is 1½ percent. If it is 90 days from the last payment, it is 3 percent, and so on. Each payment consists of 1 percent.

The CHAIRMAN. You do this with volunteer help?

Mr. MARIN. Yes.

Let me just say this: We have 21,000 credit unions in the United States; as I indicated in my basic testimony the vast majority of the unions operate with volunteer help.

The CHAIRMAN. These are not skilled accountants or actuaries?

Mr. MARIN. These are the corollary of the typical salesgirl in any sales store.

The CHAIRMAN. What is the average size of the credit union?

Mr. MARIN. The most recent figures that I recall would be something like $300,000. We have 21,000 holding $6 billion, and it comes out to a little under a third of a million dollars.

The CHAIRMAN. That is called the arithmetic average or the statistical terms of this is the mean?

Mr. MARIN. The arithmetic mean.

The CHAIRMAN. The modes of the most frequent——

Mr. MARIN. Would be somewhat greater. The mode or the median would be much lower, would be my assumption.

The CHAIRMAN. The median would be lower?

Mr. MARIN. Yes, because a very small number are very large credit unions. We have one or two credit unions in the United States today with assets of $20, $25 million. As credit unions go, these are extremely large credit unions. They would be very small financial institutions.

The CHAIRMAN. So you would say that half of the credit unions have assets of less than $100,000?

Mr. MARIN. I think that would be a correct figure, Senator.

The CHAIRMAN. Yet they are able to figure out the interest rates?

Mr. MARIN. They have been doing it from inception.

The CHAIRMAN. And figuring out skipped payments——

Mr. MARIN. Yes.

The CHAIRMAN. And irregular payments?

Mr. MARIN. Yes; with these rather simple tables.

This particular calculator will not take care of all of the cases you indicated, perhaps 95 to 98 percent of the cases. The skipped payments, which is a rather unusual occurrence, would call for the use of a table.

The CHAIRMAN. This is extremely valuable testimony. Thank you very much.

Senator BENNETT. May I question?

The CHAIRMAN. Surely.

Senator BENNETT. I'm sure you know Dr. Robert Johnson.

Mr. MARIN. Dr. Robert Johnson?

Senator BENNETT. Of Michigan State.

Mr. MARIN. I don't know him personally. I know of him.

Senator BENNETT. Do you know of his book on consumer credit?

Mr. MARIN. I might.

Senator BENNETT. "Methods of Stating Consumer Finance Charges," Robert W. Johnson, published by the Graduate School of Business at Columbia University. And he is professor of financial administration, Graduate School of Business at Michigan State University.

Mr. MARIN. I have seen reviews and that is all, Senator.

Senator BENNETT. Dr. Johnson says in his testimony before us, he says:

In 1960 there was outstanding some $56 billion worth of consumer credit; $12.8 billion was in the form of noninstallment credit—

I'm skipping over—

This leaves $43.3 billion of installment credit.

Now is it your testimony that 95 to 98 percent of that can be computed with a "little man's credit rate converter"?

Mr. MARIN. No; I don't think that was my testimony. I would be willing to examine it.

Senator BENNETT. I didn't think it was.

Mr. MARIN. I would be willing to examine the idea of those figures, too, even though I said no such thing.

My contention was that in a credit union 95 to 98 percent of them would break down into this type of transaction. If it is an installment transaction—and of course, credit unions are, by and large, installment transactions—if we are talking straight charge accounts——

Senator BENNETT. There is no charge for that. No problem there.

Mr. MARIN. There is no stated charge.

Senator BENNETT. They are out of it.

Mr. MARIN. There is no stated charge. That's right.

Senator BENNETT. Would this computer be any good for a revolving charge as we were discussing this morning?

Mr. MARIN. I think this computer would not, but I think a similar computer could be easily set up.

I might add, Senator, at the time this was first proposed, a little over a year ago, we were told by a number of people it couldn't be done, and it exists. Now I'm not suggesting for a moment that this computer as it is now formulated would be your answer for a revolving charge. I am completely convinced that to create such a computer, a plastic slide rule at $3 or $4 cost, would be a very simple matter, and that any of the universities mathematics departments could solve this for anyone who really wanted it solved in a matter of a couple of months.

The CHAIRMAN. Have you seen the slide rule that the New York Mutual Savings Banks have provided——

Mr. MARIN. Yes, I have.

The CHAIRMAN (continuing). At the cost of 1½ cents?

Mr. MARIN. This, however, is not very accurate. It certainly will be useful in giving an approximate figure.

I might add that this is accurate to one-tenth of 1 percent.

Senator BENNETT. This is fine, because I want to test that further. And I understand you are testifying about the "little man computer" and not the Bowery Savings Bank computer.

Mr. MARIN. That is correct. Because this as I see it is a good borrower's kind of a slide rule, not a lender's slide rule.

Senator BENNETT. May I ask you: Do the lenders, do the officers of the credit union who loan money use this computer to work out the basis of their contracts with their members?

Mr. MARIN. No. Generally the basis of the contract centers in a much more flexible fashion. Credit unions tend to be rather informal and it is more likely to be: I'd like to borrow $600. How long will it take me to pay it back if I can pay you $30 a month?

Senator BENNETT. You can't figure that on this?

Mr. MARIN. Yes, we can. Would you like to have me do it?

Senator BENNETT. No, no.

The CHAIRMAN. Let's get it straight.

Senator BENNETT. Just a minute, Senator. Let me have the witness.

The CHAIRMAN. Surely.

Mr. MARIN. This is the point: If you want me to do it, it could be calculated in the matter of a minute or less.

Senator BENNETT. My basic question is: Do the lending officials of credit unions use this device when they attempt to working out a specific contract with their members?

Mr. MARIN. Generally , no.

Senator BENNETT. Generally, no. All right.

Going back to Dr. Johnson, he says:

This leaves $43.3 billion of installment credit after you take out the 30-day charge.

It would be possible to bury some of the dollar finance in the price of credit——

Mr. MARIN. I think absolutely not.

Senator BENNETT. Let me quote Dr. Johnson to you, please. I didn't ask you whether it would be possible. Let me tell you what Dr. Johnson said.

Mr. MARIN. I am sorry, sir.

Senator BENNETT (reading):

It would be possible—

said Dr. Johnson—

to bury the dollar finance charge in the price of a product service of roughly $26 billion or 60 percent of this amount. These outstandings including revolving credit, checks, and other forms of installment credit would actually come under the credit rate statement legislation, for reliable estimates are not available of the amount of credit outstanding under these plans. This leaves only $17.3 billion out of $56 billion as a maximum on which consumers can rely for a truthful presentation of annual rates.

I am sure this includes credit union loans.

This sum represents 40 percent of the installment credit and 31 percent of the total consumer credit, and Dr. Johnson says in effect that on 60 percent of all installment credit and 69 percent of all consumer credit, it is impossible to translate to a simple rate.

Mr. MARIN. Senator, I am certainly aware of this position taken by Dr. Johnson and by a very small number of other——

Senator BENNETT. You said you didn't know Dr. Johnson's book but had only read reviews.

Mr. MARIN. However, if I may continue, the facts are that the gratuitous assumption, which is all that you have quoted of Dr. Johnson, as to the ability to hide out any interest rate in the purchase price is a gratuitous assumption which he states as a fact. He has not proven this, and it is the body of economic theory, and I think that Senator Douglas as a professional economist will concur, that this presumed total monopoly control of the market, and there is no competition.

Senator BENNETT. We don't want to get into this presumption. You disagree——

Mr. MARIN. However, if you are quoting an economist as an authority, it seems to me that you should find out whether or not other economists agree with that position.

And on the position which you just quoted from Dr. Johnson, I daresay 90 percent or better of economists would disagree.

Senator BENNETT. All right.

Now you have your copy of this. You say that 95 to 98 percent of these problems can be solved by it. I have two for you, and they are very simple, and you have got a computer. I will give you this one, if you don't want to take that one out.

Let me read it to you, and Mr. Lindley can try it, too.

The CHAIRMAN. Let Mr. Bradford, who is a very able man, try it also.

Senator BENNETT. Aren't you afraid he will come up with the answer for me?

The CHAIRMAN. I have complete confidence in Mr. Bradford.

Senator BENNETT. But not in me.

The CHAIRMAN. I didn't say that.

I want to say Mr. Bradford is one of the most honorable men I have ever met, and it is a great pleasure to be associated with him. And I mean it.

Mr. BRADFORD. Thank you very much, Senator.

Senator BENNETT. All right, here is my question: A man buys $169.95, with a carrying charge here of $17.05 to be added to that, which rounds out, with a payable $11 a month for 17 months.

Mr. MARIN. I think this can be quite easily computed. It will not be as direct, as you are undoubtedly aware, in stacking it ahead of time. It will not be a direct computation, and it is not the computation that this was designed to ever handle. It can be done, however.

Senator BENNETT. This is a simple business. The amount owed is simple; the numbed of months is within the 18-month limit; and the amount of the monthly payment is in rounded dollar figures.

Now you can compute it, but your wheel can't compute it. And this is probably one of the reasons why your lending officers don't use the wheel when they loan you money.

Mr. MARIN. Not at all, Senator. If I may: The reason that this will not compute that calculation is that this is not the kind of a transaction that any credit union would ever have to make, and after all, this was not designed to handle it.

Now what you are saying in effect, sir, is that this design for credit unions will not do a job designed for somebody who levies an add-on charge. The credit unions do not levy an add-on charge. No credit union will ever state his charge as $169.95 with $17.05 to be added.

Senator BENNETT. Wait a minute. Senator, let me have my witness.

The CHAIRMAN. Sure, it's my witness, and I will try to protect him. [Laughter.]

Senator BENNETT. You need to.

It isn't the fact that \$17.05 is added to \$169.95. That takes it off your wheel. Let's add them on before we start, and say a purchaser buys \$187 worth, which is \$169.95 plus 17.05.

The answer is, isn't it, that your wheel can't handle 17 months?

Mr. MARIN. I'm sorry. I thought you said 18 months.

Senator BENNETT. I didn't say 18 months, I said 17 months.

Mr. MARIN. This wheel as currently set up does not have a 17-month contract on it. As I indicated earlier, in the typical credit union transaction again, the man does not ask for a given number of months; he asks for a definite number of dollars. I want to pay \$30 a month; how long will it take? And we can tell him.

Senator BENNETT. Suppose he wants the given amount of dollars and says how many months will it take, and the answer is 17 months.

Mr. MARIN. It will be on here between 16 and 18, or 15 and 18.

Senator BENNETT. You cannot figure it?

Mr. MARIN. As a matter of fact it won't be exactly 17 months. It will probably be more or less.

Senator BENNETT. You are trying to change my figure. My example is it pays out exactly in 17 months.

Mr. MARIN. Senator, I'm not trying to change your figure at all. I'm trying to suggest that this particular application was never intended for this particular slide rule.

Senator BENNETT. Let me give you another one.

The CHAIRMAN. May I move to another—may I say something on the first one before you move to another one?

Senator BENNETT. Yes; yes.

The CHAIRMAN. As a matter of fact there are not many indebtedness for irregular months such as 17 or 13. It is generally, 6, 12, 18, 24, 30, 36, half a year, a year, a year and a half, 2 years, 2½, 3 years, and that is usually it.

Senator BENNETT. The point is, if you are going to use the "Little Man's Instant Rate Converter" you have got to force the pattern of credit into a fixed pattern which matches the computer.

Mr. MARIN. The other way around, Senator. The pattern existed and the computer was designed to meet it.

Our pattern has been forced on us by law since 1909.

Senator BENNETT. OK.

But you said it would handle 95 to 98 percent——

Mr. MARIN (continuing). Of the credit union cases. And it will, Senator. I repeat that.

This is not designed for anything but credit unions.

Senator BENNETT. This has been offered by the chairman as a basis for figuring every example that has come up here in the last 3 or 4 days of hearings.

Mr. MARIN. And with modifications it can be done, done but not the way it now exists.

Senator BENNETT. All right.

The CHAIRMAN. I would like to——

Senator BENNETT. Let me give you another question——

The CHAIRMAN. Wait a minute.

I would like to call attention to pages 494, 495, and 496 of the 1961 hearings, which reproduced three pages of a credit union calculator.

Senator BENNETT. Which is a table.

The CHAIRMAN. Which is a table.

It will enable you to operate on skipped days, on irregular payments, and irregular months; 13 days, 14 days, 23 days, 31 days, and so on.

Mr. MARIN. If a member of a credit union insisted upon a 17-month contract, this would create no problem, but it would not be done on this (the calculator), because it's a very unusual situation to ask for a 17-month contract.

Senator BENNETT. That's the point I want to make.

The CHAIRMAN. Now——

Senator BENNETT. Please, let me try another one.

The CHAIRMAN. All right.

Senator BENNETT. I'll add the purchase and the carrying charge together so you won't be disturbed by the add-on.

This is a purchase of $187, payable at $11 a month. The purchase is made on the first day of February 1963. Now this is payable at $11 a month until paid, beginning the 11th of June 1963.

Mr. MARIN. You're having a delay of some 45 days?

Senator BENNETT. You're having March, April, May, and June; you have a 4-month delay.

Mr. MARIN. A 4-month delay.

Again, as I indicated earlier—In this instance, Senator, you are delaying $187 4 months before any payment is made?

Senator BENNETT. Yes.

Mr. MARIN. This will add another add-on of $1.87 for the 4 months, and you would calculate strictly from there.

The CHAIRMAN. Under the Douglas bill you would have to tell them in advance.

Mr. MARIN. It's 1 percent per month on the unpaid balance, always.

The CHAIRMAN. The rate is 1 percent per month.

Mr. MARIN. Twelve percent per year.

The CHAIRMAN. Given that fact, you would be able to compute it?

Mr. MARIN. Instantly. For the first 4 months it will cost him $1.87.

Senator BENNETT. Well, compute it instantly then.

Mr. MARIN. $1.87, 4 months delay, four times that—this will have to be added on to the initial amount of the loan.

Senator BENNETT. That isn't——

Mr. MARIN. You'll have to do it, sir. Under the rules you have established, of having no payments for 4 months, they will have to pay interest at 1 percent per month to the contract.

Senator BENNETT. This would be a credit union contract?

Mr. MARIN. That's correct; required by law.

Senator BENNETT. The contract can be made with an individual?

Mr. MARIN. At one and a half percent per month——

Senator BENNETT. No. Now wait a minute.

The item will be sold to you and your payments will start 4 months later.

Mr. MARIN. All right, then it's one and a half percent per month. They would take one and a half times 4 months. If it's 1 percent——

Senator BENNETT. Don't confuse it now. That's not the question.

Mr. MARIN. If——

Senator BENNETT. If the total carrying charges—well, I'll give it to you the other way.

The purchase was $169.95 and the total carrying charge for the whole contract is $17.05, including the 4 months before he starts to pay, before he started to pay on the account.

Mr. MARIN. Then the $1.87 can be deducted from the $17.05 for those 4 months. In other words, a $1.87—and I apologize for not having an adding machine, in my credit union I would have an adding machine.

Senator BENNETT. You've got this Little Man Rate Computer. [Laughter.]

Mr. MARIN. This was not designed to be an adding machine.

Now we have $1.87 times 4, that would be, let's see—that's $7.48. It would have to be deducted from your $17.05; that's under the ground rules which you have established.

I might just add, they are unusual ground rules for credit unions.

Senator BENNETT. I am talking about——

Mr. MARIN. $9.57 is the actual cost of the interest from the effective day of the first payment.

Now you are going to have how long a period of time?

Senator BENNETT. Paying it out at $11 a month.

Mr. MARIN. Paying it out at $11 a month. Then you have a starting——

Senator BENNETT. You can calculate the number of months by dividing it into it, can't you into the amount you owe; can't you.

Mr. MARIN. Not if you're not going to have an unpaid balance. This is basically what merchandising——

Senator BENNETT. In this case, the $11 pays it off.

The CHAIRMAN. How many months?

Senator BENNETT. This is for him to find out.

Mr. MARIN. This is one of the things we need to know.

Senator BENNETT. Can't you use your pencil and divide this by 11?

Mr. MARIN. If I am going to do that, I would suggest this would not be the proper approach.

Senator BENNETT. OK, that's what I wanted you to admit.

Mr. MARIN. Senator, I admitted this before I started.

First of all, 95 to 98 percent of the credit unions in the credit union cases—neither of the cases you cited, I dare say, is ever present in a credit union. The nature of the law will not permit this kind of a statement of charges, and we have to operate under the law as it is now written.

Senator BENNETT. The law will not allow you to loan a man money and then postpone payments for 4 months?

Mr. MARIN. If we charge 1 percent per month on the unpaid balance. You had us put an add-on to begin with, which presumably was going to take care of the whole contract. It can't be done this way. He will be charged one-thirtieth of 1 percent per day for the duration of this contract on the unpaid balance on each day.

Senator BENNETT. Then you would warn me and Mr. Bradford that we should be a little careful when we use this Little Man's Computer on noncredit union cases?

Mr. MARIN. No, not noncredit union cases; cases which do not require a separate contract of so many months and a given balance of given monthly repayments. It will work just as well in any contract, which is the typical contract, where I pay so much a month, every month, for a given number of months.

If you are going to have a delay of 4 months, or skip a payment, then you will need a modification of this slide rule. I would merely contend, sir, that that is a very infrequent occurrence in the granting of installment credit.

Senator BENNETT. We have a witness who is coming on after you—well, there is just one other question:

Mr. Marin, I am not going to follow this up, except to ask you to supply me or the committee the information that this question raises. I am sure you haven't got it at your fingertips. (See p. 1623 ff.)

On the first page of your statement you said credit unions are organized to serve two mutual complimentary purposes, first by providing a safe place for deposits and paying a reasonable dividend. Are the deposits of savings of credit union depositors insured, as in savings and loan banks?

Mr. MARIN. Deposit insurance of the FDIC or FLSIC type; is that what you mean?

Senator BENNETT. Yes.

Mr. MARIN. No.

Senator BENNETT. They are not?

Mr. MARIN. This is a position that the credit unions take, rather animatedly, to this point. It is under constant survey.

Up to this point, the credit union movement had opposed any such insurance, as a matter of principle. That is, the leader of the movement does not wish insurance for reasons that I could go into——

Senator BENNETT. Yes. The thing I would like to have you furnish me, and I think the leaders of the movement would have this information, how much money has been lost, say, in the last 5 years, by credit union officers, by embezzlement?

Mr. MARIN. By embezzlement by the credit union officers?

Of course, you are covered by bond. I could give you a very good approximation. For instance, in the State of Michigan, which I know best, this represents approximately 10 percent of the assets of the credit union movement, just roughly, with better than a million members with a neighborhood of five and a half or six billion dollars credit union assets, there has not been a cent lost.

Senator BENNETT. You say not a cent lost anywhere in the United States?

Mr. MARIN. No; I am saying there has been very little.

If I may say now, I think it becomes almost necessary, in order to defend the position you put me in, that I do—we have opposed this. The question is, Why, why don't credit unions want FDIC- or FLSIC-type insurance. The basic answer is that there is no need for it. That is the answer to your question. The losses are negligible, virtually nonexistent.

Second, it would create another layer of control which would create no good purpose, and would, as a matter of fact, not do anything for the little man. The little man is not losing any money now.

The credit union bond, which will cover embezzlement cases, is the best in the industry. It is generally, even in a credit union, of a hundred thousand dollars. Every individual who handles money at all is bonded for 100 percent of the true assets of that credit union, no matter what they are stated on the books. If anyone has been embezzling, this hundred thousand dollar credit union is probably an eight hundred thousand dollar credit union. If losses occur, the $800,000 will be bonded, up to a maximum loss of $1 million.

Senator BENNETT. I was interested in the reason you gave, that it would impose another layer of control which is not needed to protect the people.

Wouldn't the Douglas bill impose another layer of control on all consumer lenders?

Mr. MARIN. Now when you say not needed by the people, I am against you. This is a real distinction, because in the case of the Douglas bill, there is real exploitation, I feel, without it. In the case of FDIC insurance for credit unions, there is no exploitation, there is no loss.

Senator BENNETT. Would you supply me with a schedule showing the losses above the bonds that have occurred, State by State?

Mr. MARIN. I am sure this information is available, and I will certainly see you are given it.

Senator BENNETT. Thank you.

The CHAIRMAN. May I ask also that you furnish the comparative rates of bonding of credit union officials, as compared with coverages of commercial banks?

Mr. MARIN. I suspect this would also be an easy statistic to bring out, Senator. The rate is quite low.

And the reason the rate is low, as is indicated by my previous testimony, is because of the extremely low ratio, extremely low. The major bond carrier who carries the bonds, cover maybe 90 percent of all credit unions, and again in the last quarter increased the dividends, which is to say, reduces the net cost of the bonds.

Senator BENNETT. Does the bond cover losses other than embezzlement?

Mr. MARIN. The bond covers any loss, even mysterious disappearance, even by people who are not employed by the credit union.

For instance, in a volunteer operation a person is asked to deliver a package. He just asks, "Joe, could you take this over for me?" and Joe on the way down finds an envelope containing $6,000, and goes to Mexico with it. He is acting as an agent of the credit union, and the bond covers it. This is the broadest bond written in the financial movement, I think.

Senator BENNETT. I would like to have the information.

Mr. MARIN. Yes.

The CHAIRMAN. I wonder if it would be too much trouble if you would also compare the bonds for credit unions, and credit union officials with the bonds for commercial banks, not merely on rates but on coverage.

Mr. MARIN. The credit union coverage is vastly broad in both terms of percentages of assets covered. The typical bank official, for instance, would have a position bond of $100,000, maybe $1 million; in very many cases, if it's a small bank, he may have a position bond of as little as $10,000 or $15,000 or $25,000.

As I indicated before, the credit union official has a $100,000 assets bond. The credit union bond typically not only covers defraud cases, embezzlement, and mysterious disappearance, fire, and so on, it also covers persons not even employed by the credit union, if they are acting as agents for the credit union. Generally speaking, it is held to be true that the credit union bond is undoubtedly the best bond that is in the financial industry.

The CHAIRMAN. I am going to ask unanimous consent for Mr. Lindley and Mr. Bradford to prepare a letter addressed to the FDIC and FLSIC, and the Federal Credit Union Department, HEW, on the type of bonding in all three of these sets of institutions: commercial banks, savings and loans organizations, and credit unions.

(The correspondence may be found beginning on pp. 1573–1621.)

Senator BENNETT. No objection.

The CHAIRMAN. Very good.

Senator BENNETT. No other questions.

Senator SIMPSON. No questions.

The CHAIRMAN. Thank you very much.

Our next witness is Mr. Robert E. Hatton, general counsel, Kentucky Bankers Association.

Mr. Hatton is accompanied by Dr. L. L. Scott. Will you gentlemen come forward?

STATEMENT OF ROBERT E. HATTON, GENERAL COUNSEL OF THE KENTUCKY BANKERS ASSOCIATION; ACCOMPANIED BY DR. L. L. SCOTT

Mr. HATTON. Mr. Chairman, I am not one of these high-priced Wall Street lawyers. I am a Kentucky lawyer. I have two requests to make of the committee.

I have an exhibit over there and if we could get rid of that Sears, Roebuck exhibit so I could get my exhibit in there, I would appreciate it.

The second request: Dr. Scott is here with me and I would like to have him sitting at my left beside me so if we could just repossess this chair at the moment, I believe we can get started.

The CHAIRMAN. Certainly.

Mr. HATTON. Thank you very much.

I am Robert E. Hatton, Louisville, Ky., attorney of the firm of Hatton, Smith, Britt & Friedlander. I am also general counsel for the Kentucky Bankers Association, a position I have held since early 1946.

I might say for the Senator from Illinois, this was on my release from the same branch of service in which the Senator from Illinois has served with such distinction, the U.S. Marine Corps.

The Kentucky Bankers Association for which I speak numbers among its membership 338 out of a total of 351 State and National banks in Kentucky. I am authorized by the Kentucky Bankers Association to state its official position on S. 750 as it relates to the banking industry in Kentucky.

Now, the average bank in Kentucky is a small bank. Ninety percent of Kentucky banks have total resources of less that $15 million. Seventy percent of Kentucky banks have total resources of less than $5 million. And, in this respect, Kentucky, we believe, is representative of many of the States of the Union. On an average, a $5-million bank would have not more than 10 employees, probably not more than 2 of whom would be authorized to approve loans.

The Kentucky Bankers Association strongly favors the objective of full disclosure of the dollar amount of finance charges in connection with the extension of consumer credit. We have in Kentucky, laws governing banks which were enacted in 1946, the Motor Vehicle Installment Sales Act of 1956, the Petty Loan Companies Act which was amended in 1960, and in 1962, the act governing industrial loan companies was substantially strengthened.

Senator BENNETT. Would you tell us what the difference is between petty loan companies and industrial loan companies?

Mr. HATTON. Yes. The petty loan company is a loan company that can lend up to $800, sir. The previous limit prior to 1960, I believe, was $300.

Senator BENNETT. What about an industrial loan?

Mr. HATTON. An industrial loan company, sir, can lend up to $5,000. Also the installment sales contract law likewise was enacted in 1962.

Now, I cite this background of legislation to demonstrate that we in Kentucky do believe in full disclosure to the borrower of the dollar amount of the cost of his consumer credit. Incidentally, we believe the general assembly has provided adequate penalties for the enforcement of the several laws. It is interesting to note that out of all lending agencies in Kentucky only credit unions are presently exempt from the provision for full disclosure, to the borrowers.

Because the Kentucky Bankers Association believes the borrower is adequately protected under Kentucky law, we oppose the enactment of any Federal legislation in this field.

The CHAIRMAN. Suppose there would be a Federal law which omitted the requirement for a true annual rate on the outstanding balance, but did require the statement of the total charges in dollars and cents. Would you oppose that?

Mr. HATTON. Yes, we would, because we do not believe Federal law is necessary. We speak as Kentuckians.

The CHAIRMAN. I understand; in other words, you are opposed to any Federal legislation.

Mr. HATTON. Yes, because we in Kentucky believe we have adequately provided protection, sir.

The CHAIRMAN. I understand.

Mr. HATTON. Specifically we oppose S. 750 for the following reasons:

1. It is unnecessary, and will seriously impair teacher and farmer credit in Kentucky.

2. S. 750 is objectionable in that it combines into one bill the regulation of lenders and sellers of goods.

3. Its requirement that finance charges be expressed in terms of simple annual rate is unworkable in the case of many loans and does not benefit the borrower.

4. Expressing finance charges in dollars and cents rather than as an annual percentage is more intelligible to the average borrower.

5. Customary and beneficial current banking practices would become unworkable, or require substantial change: (*a*) The present lender's demand notes would become unlawful; (*b*) a lender could not provide for delinquency charges in advance; (*c*) demand loans secured by policies of life insurance or other collateral—thus having no fixed date of maturity—would become illegal; (*d*) a difficult format would have to be devised for construction loans in connection with new residential housing and perhaps some other types of building; (*e*) mortgage lending would be adversely affected.

6. The penalties appear unduly severe.

I shall make a brief reference to each of the foregoing:

Federal legislation is unnecessary and will seriously impair teacher and farmer credit in Kentucky: The Kentucky Bankers Association believes that the regulation of the extension of consumer credit is a matter of State rather than Federal concern. We recognize, sir, that in many fields Federal legislation is required, but not in the field of consumer credit. The policing of Federal legislation is required, but not in the field of consumer credit. The policing of Federal legislation would not be the proper function of any existing Federal agency.

If there be no existing Federal agency, then the policing must, necessarily, be assigned to a new agency. This would increase the bureaucracy which many feel is already too great at the Federal level.

We believe that the efforts of the Congress of the United States should be directed toward a reduction of the cost of Government rather than expanding the Federal Government activities into fields more properly the subject of State regulations.

In 1960, the Kentucky Bankers Association by joint effort with the Kentucky Education Association developed in Kentucky the teacher-banker credit plan. Both the KEA and KBA felt that all too often teachers were forced to borrow at high rates to finance their plans for the summer months when their salary no longer continued.

The teacher-banker credit plan was tailored especially to meet this need. Among its elements were: (1) Low borrowing costs, (2) loan repayments separated over a convenient number of months, (3) waiver of payments during vacation periods, (4) life insurance provided through KBA covering the unpaid balance of the loan at no additional cost to the borrower, and (5) credit established for future needs.

The plan was announced to the membership of the Bankers Association on March 20, 1961. By April 5, 1961, more than 100 banks had joined in the plan. And now 163 of the banks of Kentucky are participating.

This plan was signally recognized at the executive council meeting of the American Bankers Association at its meeting April 6–8, 1961, at White Sulphur Springs, W. Va.

For the committee's benefit I tender the promotional material issued in connection with the plan. I would like to show it to the committee if I may.

The CHAIRMAN. Surely, you may offer them for the record.

(The material mentioned is reproduced as follows:)

A SEED BRINGS FORTH FRUIT . . .

LET'S USE IT WISELY

Recently you have received information dealing with the development of the KBA-KEA program for servicing teachers' financial needs. There is a lot in the background of this story that goes beyond recent negotiations that brought the program to its present status.

Actually the beginning of the story dates back through the many years of pleasant relationship between the Kentucky Bankers Association and the Kentucky Education Association. The two associations have worked together on many useful projects. During the late 30's and early 40's the bankers sponsored essay and public speaking contests which were carried out through the schools with the aid of the KEA. More recently KBA vigorously supported KEA's successful effort for the legislative approval of the Kentucky Foundation Program for Education and joined with them in advocating that it be fully financed.

During this period a feeling of mutual respect and admiration has sprung up between the executive secretaries of the two associations -- Marvin Dodson, representing the teachers and Ralph Fontaine of the bankers. On many occasions, especially during the long legislative sessions at Frankfort, these two men have had opportunities to discuss problems of their respective organizations. It was during one of these informal conversations some time ago that the seed for the present program was planted.

Down through the years, the idea was cultivated and fertilized, so to speak, and now the "fruit" has matured and is ready for harvest. The value of the crop is still to be determined. That depends upon the individual banks of the state. Harvested wisely and used wisely it will bring great returns to both teachers and bankers. Allowed to drop and decay it will be useless and wasted.

To be sure, it will require some efforts on the part of the bankers to reap all the benefits of the program. It will require a certain effort to contact the teachers — explain the program and make adjustments in time-worn lending practices. But, in the opinion of many — the benefits will be well worth the efforts. Here is an opportunity to render effective and friendly service to a select group of trained and respected citizens — citizens who come in contact almost daily with youth in its formative years of living. Here, too, is a challenge to the bankers of Kentucky to prove that private commercial banking is alert, aggressive and adaptable.

Bankers have met even greater challenges in the past and there is no doubt in the minds of the officers of the Kentucky Bankers Association that, given the opportunity to study and understand the program, they will again prove their leadership in the field of credit.

REPRINTED FROM KENTUCKY BANKER, JANUARY, 1961

Kentucky Bankers Association
INCORPORATED

OFFICE OF THE EXECUTIVE SECRETARY
400, 401, 402 HILLIARD BUILDING
418 W. JEFFERSON STREET
PHONE: JUNIPER 2-2483
LOUISVILLE 2, KENTUCKY

FROM: Ralph Fontaine, Executive Secretary March 20, 1961

TO: All members, KBA

At last we are enclosing a sample copy of the promotional material and information in connection with the KEA-KBA Teacher-Banker Credit Plan. This includes credit card, folder, proof of newspaper ad, order form, insurance information and a return postal card. Within a few days you will also receive an "application for loan" form which may be used by your teacher-customer. The credit card, newspaper mats and folder can be ordered direct from the Advertising Department of the American Bankers Association, 12 East 36 St., New York 16, N. Y. The copyright line will not appear on the material imprinted with the name of your bank.

A great deal has been said about this unique plan and we are now at the point of decision.

We can truthfully say that the eyes of banking are focused upon us as evidenced by the fact that your association has received requests for information from numerous banks and state associations throughout the nation. Also, the American Bankers Association is eagerly awaiting the results from Kentucky. The success or failure of this venture depends upon your willingness to participate and it is our ardent hope that a great majority of the banks in Kentucky will support this project.

Please indicate your decision on the enclosed postal card and return it to this office.

Charter members of the KEA-KBA Teacher-Banker Credit Plan will be listed in a future issue of the KENTUCKY SCHOOL JOURNAL.

TEACHER - BANKER LOW COST LOANS FOR TEACHERS CREDIT PLAN

MORE THAN 100 BANKS HAVE JOINED SINCE MARCH 25

MEMBER BANKS OF THE KENTUCKY BANKERS ASSOCIATION

If you are one of the more than 100 Kentucky banks which have seen the advantages of the new KEA-KBA Teacher-Banker Credit Plan, and have agreed to promote the Plan, please accept our sincere congratulations. However, if you have not yet endorsed the Plan, please read carefully the facts in this folder, with a view to mailing the postage-free card enclosed.

The Kentucky Bankers Association, working with the Kentucky Education Association initiated this Plan. That fact is recognized nationally. We are preparing a special display for use at the Executive Council Meeting of the American Bankers Association, April 16-18, Greenbrier Hotel, White Sulphur Springs, West Virginia. Since all Kentucky banks participating in the Plan will be listed on the display -- and we know you will want to be included -- we request that the enclosed card of acceptance be returned to us not later than April 15.

Again: please review this folder carefully, noting the attractive materials which you will receive to advertise and promote the Plan.

Sincerely yours,

Ralph Fontaine

Ralph Fontaine
Executive Secretary

P. S. The attractive ad on the back of the folder appeared in the April, Convention Issue of the Kentucky Education Association School Journal which was mailed to 26,000 teachers. This ad will be repeated in the May issue - the last issue before the school year ends. Opposite the ad the K. E. A. will offer its wholehearted editorial endorsement of the Plan, and will list those banks which have agreed to participate.

SIGN UP TODAY !!!!

We need your card by not later than April 15.

emr
April 5, 1961

KBA

NOW — Here Are

Promotional Materials

to Help Your Bank "Sell" the

TEACHER-BANKER

CREDIT PLAN

Here — ready for immediate use — are promotional aids created to help your bank initiate the Teacher-Banker Credit Plan developed jointly by the Kentucky Bankers Association and the Kentucky Education Association.

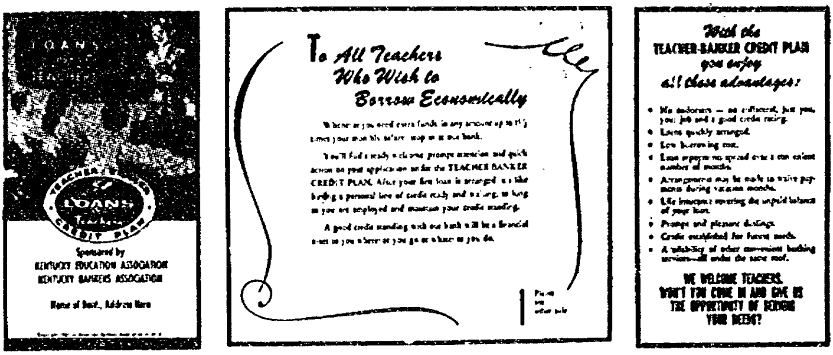
An eye-catching advertisement, prepared for publication over your own bank signature in your local newspaper, explains the Credit Plan and points out its advantages to prospective users, your community's teachers.

An effective two-color folder, which can be used as a statement enclosure, mailed out to special lists, and/or distributed in your bank lobby, covers the same ground in somewhat more detail — and provides another avenue to reaching your prospects. Your bank signature will be imprinted on the cover of folders you order, if you so specify.

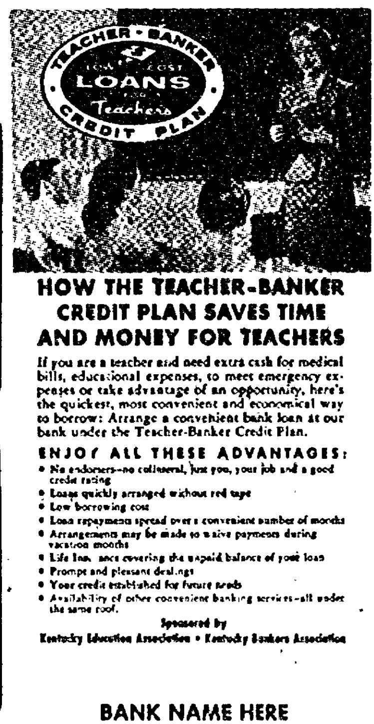
Last but not least, there is an attractively designed official Credit Card for your bank to issue to each teacher who joins your Plan.

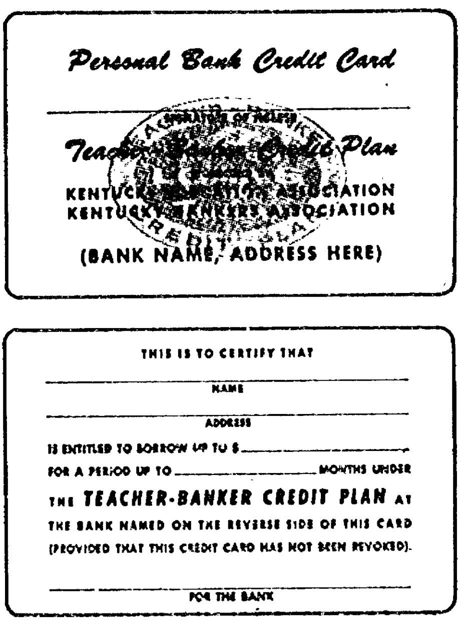
These aids, prepared in cooperation with the Advertising Department of the American Bankers Association, are illustrated in reduced size on the opposite page. A proof of the newspaper ad and sample copies of the folder and Credit Card have been mailed to every KBA member bank, together with price information and an order form. If this material has not reached you, if it has been mislaid, or if you would like an additional "promotional kit," simply write to the Kentucky Bankers Association, 419 W. Jefferson Street, Louisville 2, Kentucky.

Here are the tools. Doing the job — one which can bring great rewards both to teachers and to bankers — is up to you!



Above: 4-page folder, printed in blue and black.
Right: Newspaper ad, 2 columns x 8½", in complete mat form.
Below: Credit Card, printed in blue and black; shown here ACTUAL SIZE.





NOW BORROW 1½ TIMES YOUR MONTHLY SALARY

TAKE UP TO 18 MONTHS TO RE-PAY

with NEW KEA-KBA

Teacher-Banker Credit Plan

Thanks to the combined efforts of the Kentucky Education Association and the Kentucky Bankers Association, qualified teachers can now borrow up to 1½ times their monthly salary . . . and be allowed up to 18 months to repay.

- Your Credit Standing Serves as Collateral
- Perfect for any Emergency—borrow for sickness, travel, further studies
- Your Loan is Life-Insured at no additional cost
- If necessary, you can defer payments during summer months when not drawing salary
- For loans in excess of 1½ times your monthly salary, see your local banker

For Complete Details

SEE YOUR LOCAL BANKER

(The above ad appeared in the April convention issue of the KEA Journal and will be rerun in the May issue, the last issue before the school season closes. It also appeared in the September 1961 issue of the Kentucky School Journal.)

(Kentucky School Journal, September 1961)

Do you ever need money for an emergency?
Do you know where you can get it?

LOOK FOR THIS SYMBOL

THIS BANK IS A MEMBER
TEACHER - BANKER
LOW COST
LOANS
FOR
Teachers
CREDIT PLAN
SPONSORED BY KEA · KBA

THIS IDENTIFIES YOUR LOCAL BANK AS A PARTICIPANT

IN THE

KEA-KBA TEACHER-BANKER CREDIT PLAN

This plan is a pioneering effort of the Kentucky Education Association, in cooperation, with the Kentucky Bankers Association, to provide school teachers a much needed source of low cost personal installment credit.

If you do not have the collateral to secure a conventional loan, perhaps this is the plan you need to have. Contact your local banker and discuss your financial needs with him. He will help you work out the credit program most suited to your needs and to your ability to repay.

Teachers have been considered a good credit risk; this plan recognizes that. Kentucky is the first state in the country where the state association has been able to work out a suitable plan with the banker group.

GROUP LIFE COVERAGE for KEA-KBA TEACHERS

CREDIT PLAN

1. All loans to teachers under this plan must carry credit life insurance. For those banks that do not have their own plan, the Kentucky Bankers Association has made arrangements with the Lincoln National Life Insurance Company to insure these loans through your association office.

2. HOW DOES IT WORK?

If you wish, all KEA-KBA Consumer Credit notes with participating banks will automatically be insured by the Lincoln National Life Insurance Company. The Insurance Company does not require names of individuals, only the total monthly outstanding balance reported monthly on remittance report to the KEA.

3. WHAT IS MAXIMUM AMOUNT OF INSURANCE?

Initially, individual loan balances up to $1,500.00

4. HOW ARE DEATH CLAIMS PAID?

Immediately on receipt by the Insurance Company, through the KEA, of the completed claim form, which will be provided.

5. WHAT DOES THE INSURANCE COST?

No cost to borrower, (included in the 6% discount). Bank pays KEA $.75 monthly per $1,000 on outstanding balance of all KEA-KBA Consumer Credit notes. This represents an annual cost of $4.88 on a $1,000 twelve-month reducing note. Cost is proportionate for shorter and longer term notes.

6. HOW DOES A BANK ENTER THIS KEA-KBA INSURANCE PLAN?

By signing and returning the proper form, which will be sent to those banks indicating on the enclosed card that they wish to participate.

Mr. HATTON. If you will note, sir, as a part of that plan, material is furnished showing the provisions for a deferred payment. I would, if the Senator considers it worthy, like to have it admitted.

The CHAIRMAN. Yes.

Mr. HATTON. I would point out that we are very proud of the banker-credit program in Kentucky. Now, Kentucky is primarily an agricultural State, so I want to address my next remarks to the farmer credit situation here.

Tobacco is the greatest single cash farm crop. In 1948 Kentucky Bankers Association established an agricultural office. The function of this office was to relay information to the farmer concerning crop production techniques, credit, and other information. Each year on the average more than 90 banker-farmer meetings are held throughout Kentucky. As a result of this close relationship between banker and farmer, the banks of Kentucky have developed loan plans which are tailored to the farmer's specific needs. The plans in their essence provide for low monthly payments during most of the year with a substantially higher payment in December or January when the tobacco crop is marketed. If the farmer has other high seasonal income such as the sale of hay or cattle, the plan can be adjusted to reflect a higher payment during those months when the farmer's income is higher.

We believe the effectiveness of both teacher and farmer credit would be seriously impaired by the enactment of S. 750 as I shall point out later.

The next point, sir:

Lenders and sellers should be regulated by separate acts: The Kentucky Bankers Association believes that it is entirely proper, as has been done in Kentucky, to treat by separate acts the regulation of installment selling from installment lending, and to require in each case the cost of credit to be expressed in terms of dollars and cents.

The selling of merchandise and the lending of money are two entirely different businesses. Of the seven items required to be disclosed by section 4(a) of the bill, only the last four are applicable to lending as disinguished from selling. We of the banking industry in Kentucky believe that separate State legislation should govern banks insofar as their operations are concerned. We accord to other lending institutions such as building and loan associations, industrial loan companies, small loan companies, and credit unions the same degree of independence as we expect for banks.

It is true in Kentucky that each of these lending institutions is supervised by the commissioner of banking, but different techniques are involved in the supervision and examination of a bank than are involved in the case of an industrial loan company or of any other type of lending institution. With banks, it is the depositor's money which is being loaned. Consequently the responsibility of the banker is, in the first instance, to his depositor.

It is for this reason among others that we proposed in 1946 legislation requiring full disclosure in the case of banks, and that is the law today.

I am informed by the Honorable Hugh Rogers, Kentucky Commissioner of Banking and Securities, that there has been a minimum of violations of any sort by banks in connection with installment lending, and I know of no violation in the matter of disclosure.

I understand also from communication with the commissioner that he has conveyed those thoughts to the chairman of the committee, and I believe one or two other members of the committee by letter.

The CHAIRMAN. We have not received a letter.

Mr. HATTON. I was informed it went to Washington.

The CHAIRMAN. When it is received, we will make it part of the record.

Mr. HATTON. All right.

(The letter follows:)

COMMONWEALTH OF KENTUCKY,
DEPARTMENT OF BANKING,
Frankfort, Ky., August 20, 1963.

Hon. PAUL H. DOUGLAS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR DOUGLAS: With the enactment in 1962 of the Industrial Loan Act requiring disclosure and bringing in all lenders except automobile dealers and retail merchants, both of which are covered by separate laws, all persons lending in excess of 6 percent simple interest are now regulated by the department of banking and securities.

Since the adoption of that legislation and the revision of banking installment credit laws and the 1960 revision of the Small Loan Act violations have been at a minimum. The few observed are believed to be due to unfamiliarity with this new legislation.

Yours very truly,

H. A. ROGERS, *Commissioner.*

This is a true copy.

(A similar letter was received by Senator Bennett.)

Mr. HATTON. Expressing finance charges in terms of simple annual rate is difficult if not impossible in the case of many loans, and there is no corresponding benefit to the borrower.

I have discussed previously the teacher-banker credit plan and the farmer-banker credit plan. In fact, a large percent of loans made are tailored to the individual needs of the borrower which may vary widely as to the times and amounts the borrower is able to meet and pay. The interval of payment and the amounts of payment are frequently completely irregular.

Other variations in lending practice normally affect the difficulty of the computation. Repayments may vary according to the ability of the borrower in seasonal industries to repay. There may be a "balloon" payment due at the end of the period. These variations make the task far more difficult and beyond the ability of the average banker to compute, nor do they benefit the average borrower.

The simple annual rate requirement would penalize the honest lenders who are already regulated by present laws and competition. It would, we believe, do nothing to control the unscrupulous and dishonest who prey on the unwary, careless, ignorant, and uneducated.

I have prepared a chart to illustrate three examples, and for the committee's convenience, a blowup.

I must admit that I am no mathematician. I admit that at the outset and I shall prove it. I have, however, attempted to compute the annual rate and have been unable to do so. Admittedly defeated, I then approached several trained mathematicians, among them being Dr. L. L. Scott, professor of mathematics at the University of Louisville. And I must say I hadn't known Dr. Scott until Tuesday, I believe it was Tuesday afternoon, wasn't it?

Dr. SCOTT. Yes.

Mr. HATTON. I asked them to tell me what the simple annual rate is in each example of three typical loans, and I had them give me their work papers to show how they arrived at their computations. Incidentally, I said, Doctor, all I wanted to do was get some answers.

I am assured that the following examples are characteristic of loans of this nature.

1. A schoolteacher in June wishes to borrow for her summer education. Since she has no income in the summer, being vacation, she wishes to skip payments in July, August, and September. She needs $1,620 payable over a 2-year period in 18 installments.

2. A dairy farmer in June needs to buy a new refrigerated tank for his milk to upgrade his dairy. He can pay small regular payments from his milk checks but in December he wishes to make a larger payment from the proceeds from his tobacco sales. He likewise wishes to borrow $1,620 repayable in 24 payments.

3. This is simply a variation of problem No. 1. An independent bulldozer operator needs $1,620 for repairs on his tractor. He asks

that he be allowed to miss payments in January, February, and March, and make 18 payments during the 2-year period.

In each case the face of the note is $1,800 from which the bank deducts a finance charge at $5 per $100 or $10 for the 2-year period. The dollar cost is therefore $180, but what is the simple annual rate?

(The chart mentioned follows:)

A 2-year loan of	$1,800
5 percent discount, 2 years	180
Cash to borrower	1,620

	A teacher repays 18 at $100	A farmer repays 22 at $50, 2 at $350	A dozer operator repays 18 at $100
June 1	$1,800	$1,800	$1,800
1. July 1	1,800	1,750	1,700
2. Aug. 1	1,800	1,700	1,600
3. Sept. 1	1,800	1,650	1,500
4. Oct. 1	1,700	1,600	1,400
5. Nov. 1	1,600	1,550	1,300
6. Dec. 1	1,500	1,200	1,200
7. Jan. 1	1,400	1,150	1,200
8. Feb. 1	1,300	1,100	1,200
9. Mar. 1	1,200	1,050	1,200
10. Apr. 1	1,100	1,000	1,100
11. May 1	1,000	950	1,000
12. June 1	900	900	900
13. July 1	900	850	800
14. Aug. 1	900	800	700
15. Sept. 1	900	750	600
16. Oct. 1	800	700	500
17. Nov. 1	700	650	400
18. Dec. 1	600	300	300
19. Jan. 1	500	250	200
20. Feb. 1	400	200	200
21. Mar. 1	300	150	200
22. Apr. 1	200	100	200
23. May 1	100	50	100
24. June 1	0	0	0

Mr. Hatton. I may say, sir, the reason we used 10 percent is that we thought it would make the problem easier to compute, as long as we went in decimals.

Now let's see what happens.

On a 2-year loan of $1,800, the banker deducts $5 per $100 per year, or $180, and the borrower gets $1,620.

In the teacher example, the balance remains the same until the teacher gets her first paycheck in October, then she pays $100 a month. Then doesn't pay any more in July, and the next payment starts the following October.

Now, in the case of the farmer, you will note each payment is $50 except the payment made in the month of December of each year, when he figures from his tobacco crop that he will pay an additional $300, making that payment $350.

Now, we could have varied that problem by adding hay crops in there and cattle, but we are trying to make it simple, and as I said, I had gone to three people. I had gone first to a banker, a graduate in economics and who is in charge of electronic data processing, a machine for one of the banks. Here is the answer he gave me to problem No. 1: 10.3 percent, that's for the teacher problem.

On example No. 2: 11.7 percent was the answer.

For example No. 3, he gave me 12.7 percent.

I then went to a certified public accountant of an accounting firm, I might add, that does work for banks. Now these are the answers he gave me: 9.21 for the teacher; 10.44 in example No. 2; and 10.95 in example No. 3 for the bulldozer.

The CHAIRMAN. May I ask this: Did they all use the same formula?

Mr. HATTON. I don't know, sir. I don't know.

The CHAIRMAN. This is crucial. If you had different formulas, naturally you would get different results in this.

In this bill, the supervising agency, the Federal Reserve Board, would have the power to prescribe the formula.

Mr. HATTON. Sir, I brought their work papers and I'll be glad to file them because I wouldn't know what formula they did use. If you would like to have these work papers, I'll be glad to submit them. I did bring a mathematician with me.

The CHAIRMAN. I might say, Mr. Scott's brother is a very close friend of mine and a political associate, so I'm very glad to welcome him.

Mr. HATTON. Thank you. I didn't know what he was going to give me when I went to see him.

Before I talk about Mr. Scott's testimony, I also went to see a graduate of the Harvard Business School, and these are the answers he gave me.

In the example of the teacher, 12.6316 percent; and in the case of the farmer, 9.7297 percent; he was really carrying them out. In example No. 3, 12.6315 percent.

Senator BENNETT. He got almost the same answer on 1 and 3.

Mr. HATTON. Yes, sir.

Now, I asked Dr. Scott to give me his work papers and also to write me a letter and tell me what method he used, and his letter is dated August 23, 1963. I got it yesterday afternoon. I would like to file it with the committee. I don't understand it yet. [Laughter.]

The CHAIRMAN. That will be done.

(The letter referred to follows:)

UNIVERSITY OF LOUISVILLE,
COLLEGE OF ARTS AND SCIENCES,
DEPARTMENT OF MATHEMATICS,
Louisville, Ky., August 23, 1963.

Mr. ROBERT E. HATTON,
General Counsel, Kentucky Bankers Association,
Louisville, Ky.

DEAR MR. HATTON: As attorney for the Kentucky Bankers Association, you have requested that I make a study of the problem of determining the "true annual rate" for a number of loans of the type which are frequently obtained from the banks of Kentucky. You have designated these the "teacher's loan," "farmer's loan," and "bulldozer's loan." The purpose of this letter is to report my findings.

In all of my calculations, I have used the U.S. rule which the U.S. Supreme Court decreed in 1839 to be the correct rule for the determination of interest in situations where payments are made in installments. This rule requires that, when a payment is received, it first be applied to the accrued interest on that date and then that the balance, if any, be applied to the reduction of the outstanding principal. This is equivalent to viewing the sequence of payments as an annuity based on a certain compound interest rate and it is this rate which is determined by the U.S. rule. For this reason, the U.S. rule is frequently referred to as the "annuity method" (also the actuarial method).

The teacher and bulldozer loans are both examples of the same general type; i.e., 2-year, 5-percent loans with 18 equal payments and 3 consecutive deferred payments within each 12-month period. For such loans, let X be the number of payments which are made before the first 3-month deferment period sets in. (Note that if this is to be considered as a 2-year loan then X may assume any one of the values 0, 1, 2, 3, 4, 5, 6, 7, or 8, but no others.) Assuming that the deferred payment periods are July 1, August 1, and September 1, as in the case of the teacher loan, then the above values for X correspond to the loan dates June 1, May 1, April 1, March 1, February 1, January 1, December 1, November 1, and October 1, respectively. Let i be the interest which is being charged each month, let A be the face value of the note. (Thus $0.9A$ equals proceeds) and then each payment is $A/18$. Application of the U.S. rule leads to the following:

$$\text{(I)} \qquad (A\overline{X}|i+A\overline{X+12}|i+A\overline{24}|i)-(A\overline{X+13}|i+A\overline{X+15}|i)=16.2.$$

In equation (I), the $A\overline{n}|i$ denote the usual present value of an ordinary annuity certain of \$1 at the end of each interest period for a total of n periods and with interest i per period—their values are found in an annuity table. If in addition we define $A\overline{o}|i=0$, then equation (I) may be used to find the monthly interest rate i which corresponds to any one of the nine values $X=0, 1, 2, 3, 4, 5, 6, 7$, or 8, which might occur in either of the farmer or bulldozer type loans. The "true annual rate" j is then found by $j=12i$ and expressed as a rate j, compounded monthly.

As an example of the above, $X=0$ corresponds for the teacher loan to the loan date June 1 and the resulting equation (let $X=0$ in (I)) is:

$$(A\overline{12}|i+A\overline{24}|i)-(A\overline{13}|i+A\overline{15}|i)=16.2.$$

This equation has i as the only variable and by interpolation in an annuity table, I have determined that $i=73/96$ percent per month which yields a "true annual rate" $j=9.125$ percent compounded monthly.

For the bulldozer loan, $X=6$ corresponds to the loan date June 1—i.e., six payments are made before the first deferred period of January, February, and March. Now let $X=6$ in equation (I) and we have:

$$(A\overline{6}|i+A\overline{18}|i+A\overline{24}|i)-(A\overline{19}|i+A\overline{21}|i)=16.2.$$

This has solution $i=827/920$ percent per month and "true annual rate" $j=10.787$ percent compounded monthly.

Thus for the teacher-bulldozer-type loan for a 2-year term, at a 5-percent discount, with 18 equal payments, 3 deferred periods each year, the deferred periods always occurring during the same 3-month period each year, one may use equation (I) and an annuity table to compile a chart which will have 9 lines—1 for each of $X=0, 1, 2, 3, 4, 5, 6, 7$, or 8—and which will show on each line the corresponding "true annual rate" as determined by the U.S. rule. However, if one should change any one of the above variables—for example use a 6-percent discount rate or make a 3-year loan or allow two deferments each year, not consecutively, but one on July 1 and one on September 1 or any other such combination of changes—then one would have to derive a new equation corresponding to (I) (since (I) would no longer apply) and then using it, compute a new chart which instead of 9 lines might contain 7 or 11, etc. It is apparent that given any one of the very many possible varitations of the teacher-type loan, one should with a sufficient exercise of ingenuity and mathematical skill, be able to derive an equation which with the aid of an annuity table would permit the computation of a chart giving the "true annual rate" pending upon the date upon which a loan of that particular description is made. However, it is obvious that the number of such charts which would be required to meet the great variety of commonly occurring loans would approach an astronomical figure.

Now consider the "farmer loan" with 2-year term, 5-percent discount, no deferments, equal payments with the exception that an additional amount is paid once each year and on the same date each year. Let X be the number of the payment which first includes the additional amount. Thus $X=1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11$, or 12 depending upon whether the first of the two additional payments are made at the end of the first, second, third, etc., month. Let i be the monthly interest rate, let A be the face value of the note, let R be the regular monthly payment and $R+W$ the larger payment—hence, $A=24\ R+2W$. Application of the annuity method now yields:

$$\text{(II)}\quad A\overline{24}|i+\frac{W}{R}[(A\overline{X}|i+A\overline{X+12}|i)-(A\overline{X-1}|i+A\overline{X+11}|i)]=\frac{9(24R+2W)}{10R}$$

Where, if we again define $A\overline{o}|i=O$, then X may assume any one of the values 1 through 12. It is immediately apparent that the "farmer loan" fitting a given set of specifications, such as 2-year, 5-percent discount, etc., will require charts with 12 lines. Furthermore, they will require many more charts than the corresponding "teacher loans." This is due to the fact that, whereas in equation (I) only X and i occur as variables, in equation (II) the ratio W/R also occurs as a variable.

For the particular example of the farmer loan which you gave me, X=6, A=1,800, R=50, and W=300, and the ratio W/R=6. Thus applying equation (II) we have:

$$A\overline{24}|i+6[(A\overline{6}|i+A\overline{18}|i)-(A\overline{5}|i+A\overline{17}|i)]=32.4.$$

This and the anuity table yields i=347/400 percent per month and the "true rate" j=10.41 percent, compounded monthly.

As part of my report, I am attaching my derivations of equations (I) and (II) together with samples of the calculations which are involved in using annuity tables to solve these equations for the monthly rate i.

It is certainly the case that a variety of other methods are currently available for determining "true annual rates." In view of the Supreme Court's decree regarding the use of the U.S. rule, there would seem to be a question as to the legality of these other rules when applied to compute interest rates as installment payments. These rules are based upon other methods for determining what portion of each payment is to be applied to interest and what portion is to be applied to principal. Examples are the constant ratio, the direct ratio, the minimum yield, and the maximum yield methods. These give within widely varying degrees of accuracy, an approximation to the "true rate" as determined by the U.S. rule. Once derived and available, such rules are usually easier to apply than equations (I) and (II) above. However, the above methods also require that the rule be varied as the conditions under which the loan is made varies. To my knowledge, such approximation rules are presently available only in a very limited number of the cases which I have described above; for example, I know of no such rule which would apply, without considerable modification, to the three relatively simple examples which you have given me. Such existing rules usually assume regular payments of the same amount, etc.

In conclusion, my research into this matter has led me to the opinion that the enactment of a "truth in lending" bill of the type currently being proposed in the U.S. Senate would certainly place an unreasonable burden upon the lender, provided it requires him to inform the borrower as to the "true annual rate" in addition to such information as the dollar charge, etc. To my knowledge, charts and formulas are not presently available which would enable one to arrive at even good aproximations of a true annual rate in each of the very many varied cases which arise in current banking practice. If the agency designated to administer such a law, should solve this problem by permitting very naive rules yielding only very poor approximations, then one would be forced to question the value which such a rate would have for the borrower and what judgements he would be justified in basing upon such a rate but which he could not equally well make based upon his knowledge of the dollar charge.

Sincerely yours,

LELAND L. SCOTT,
Associate Professor of Mathematics.

The CHAIRMAN. That's probably not a reflection on Dr. Scott.

Mr. HATTON. No. No, sir, I'm sure it's not a reflection on Dr. Scott. I admit it's a reflection on me, but I would just like to read his conclusion here.

The CHAIRMAN. I hold in my hand a booklet entitled "Installment Financing Practical Handbook," published by the Commercial Credit of Baltimore, which I think has a price of something around a dollar

On pages 8 and 9, it gives the methods of working out just such problems.

I will give this to you, and this will enable you to do it.

Mr. HATTON. If that will enable me to do it, it will be the first time.

The CHAIRMAN. If you can't do it, get one of your clerks with only a high school education to do it. [Laughter.]

Mr. HATTON. I can't understand it, Senator, honestly.

The doctor tried to put this in words of one syllable.

The CHAIRMAN. I guess the abler you are, the more difficulty you have.

Mr. HATTON. Now I will read to you, sir, the last paragraph of the conclusions Dr. Scott gave me.

In conclusion—

this is on page 4 of this letter, sir—

In conclusion, my research into this matter has led me to the opinion that enactment of a "truth in lending" bill of the type currently being proposed in the U.S. Senate would certainly place an unreasonable budent upon the lender, provided it requires him to inform the borrower as to the "true annual rate" in addition to such information as the dollar charge, et cetera. To my knowledge, charts and formulas are not presently available which would enable one to arrive at even good approximations of a "true annual rate" in each of the very many varied cases which arise in current banking practice. If the agency designated to administer such a law should solve this problem by permitting very naive rules yielding only very poor approximations, then one would be forced to question the value which such a rate would have for the borrower and what judgments he would be justified in basing upon such a rate but which he could not equally well make based upon his knowledge of the dollar charge.

I can understand that. And another thing, I would like to call attention to one other thing.

In the last sentence of the first paragraph on page 3:

However, it is obvious that the number of such charts which would be required to meet with the great variety of commonly occurring loans would approach an astronomical figure.

And gentlemen, I can understand that part.

Now, maybe these computers—the only one I've worked with is this little thing put out by the savings bank. Maybe these computers would give us the answer.

Mr. Bradford and Mr. Lindley, can they work it out on that?

The CHAIRMAN. It's admitted that this circular slide rule does not deal with skip payments and irregular payments but what we do say is that the tables following the standard formulas do permit you to do this. I have here a set of tables, sheets, and charts which apparently are not known to Dr. Scott.

Mr. HATTON. If these will help Dr. Scott, I am sure he will be glad to have them.

The CHAIRMAN. These are down to two decimal points.

Mr. HATTON. Now I undestand these are where payments are skipped, are they, or are these regular payments?

The CHAIRMAN. Regular.

Mr. HATTON. Oh. I can almost do that, Senator. [Laughter.] I'm not talking about that. I'm talking about where you skip payments.

The CHAIRMAN. We are getting one of these for you when this comes out.

Mr. HATTON. Does that show where you skip payments?

The CHAIRMAN. Yes. Skipped payments and regular payments.

Mr. HATTON. Who puts that out?

The CHAIRMAN. The Commercial Credit Corporation of Baltimore. This is not a commercial for them. However, I will be very glad to give a copy of this to the bankers association.

Mr. HATTON. And we'll accept that with pleasure.

The CHAIRMAN. We'll have to take this one back. It's not an Indian gift, but we'll send you a duplicate.

Mr. HATTON. May I look at it just a minute?

The CHAIRMAN. Yes, indeed. I was going to give you a computer, too.

Mr. HATTON. Well, thank you so much.

The CHAIRMAN. In testimony of my affection and esteem.

Senator BENNETT. I'll give you mine. I have no use for it. [Laughter.]

The CHAIRMAN. You may have that.

Mr. HATTON. Now this one I'll return to you, but I understand this has been given to me.

The CHAIRMAN. Yes. I gave that one to you.

Mr. HATTON. Thank you so much.

The CHAIRMAN. I'll autograph it, if you wish. [Laughter.]

Mr. HATTON. Will you please? I would appreciate that. I am a great admirer of the Senator. [Laughter.]

The CHAIRMAN. I'll do it later. I know the autograph will be cherished.

Mr. HATTON. It certainly will be, sir.

I am more than impressed by the fact that these professionals had difficulty in working out a problem which a lending officer in a $5 million bank must work out several times a day, each loan varying slightly from the other.

If S. 750 is enacted into law, the small banker in Kentucky, the schoolteacher, and the farmer and other small borrowers having special problems will be penalized because the small banker, being unable to make the computation, may not make the loan.

The average borrower understands dollars and cents, but I do not believe that he understands these percentages, unless he is smarter than I am.

To attempt to equate finance charges in terms of simple annual rates is like trying to find a common denominator for apples, eggs, meat, and fish.

The CHAIRMAN. You mean the dollar is not a common unit?

Mr. HATTON. No, sir. I would say, to equate finance charges.

Senator BENNETT. In simple annual rates.

Mr. HATTON. It's in simple annual rates, sir. And to do that, I would say again, it's like trying to find a common denominator for apples, eggs, meat, and fish.

The CHAIRMAN. A dollar is a dollar.

Mr. HATTON. A dollar is a dollar.

The CHAIRMAN. Or, as Mrs. Stein would say, a dollar is a dollar is a dollar is a dollar.

Mr. HATTON. I certainly agree, sir.

In order to maintain the minimal rate consonant with the number of times an installment transaction must be handled, it is a recognized principle that the delinquent borrower must pay some additional charge lest the prompt borrower be penalized. For that reason many lenders require borrowers to pay additional sums in the event of nonpayment when due of an installment (so-called late payment charges, or payment of a certain portion of the collection charge of the entire loan defaulted). The definition of the finance charge in the proposed bill is so broad that it appears impossible from the beginning.

At the time of the transaction it is difficult if not impossible to compute the simple annual rate when it is not known what costs will be charged to the borrower. Not only are finance charges in many cases difficult, if not impossible, to express in terms of annual rate, but it is unreasonable to require them to be so expressed, and there is no resulting benefit to the borrower who understands dollars and cents far better than he does percentages.

Now a word about revolving credit, and I didn't ask the doctor about that. But if what was said by Mr. Masterson and what was said by Mr. Millstein in New York in the case of retail credit transactions, if they are right, then the bankers are going to have the same kind of problem in the case of check credit or automatic credit.

The CHAIRMAN. If they are wrong?

Mr. HATTON. If they are wrong, I state no opinion. But if they are right, we are in the same boat as they are, sir.

Senator BENNETT. May I interrupt you at this point?

Mr. HATTON. Yes, sir.

Senator BENNETT. I would like to offer for the record, Mr. Chairman, a publication of the Citizen's Fidelity Bank which contains an interesting sentence. It contains 11 questions with answers to these questions. One question is, "How much does my Citizen's automatic credit account cost me?" And the answer is, "The cost is one-half of 1 percent interest and one-half of 1 percent charge per month on your outstanding balance."

In other words, they separate the interest from the service charge. In other words, you pay charges on only what you use. This is an approach to the problem expressing the cost of revolving credit that we haven't seen yet, as far as I know, in the hearing. And in view of the colloquy between me and the first witness this morning, Mr. Kirwan, when we got into a philosophical debate about what is interest, it is "interesting" that this bank is expressing its charge to its customers of a total of 1 percent per month for a check credit plan, or the revolving credit plan, separates interest from the other charges, indicating that the bank understands the difference between the two.

(The publication mentioned follows:)

ANSWERS TO QUESTIONS YOU MAY HAVE ABOUT CITIZENS AUTOMATIC CREDIT

Including Copy of Loan Agreement Section of Application

CITIZENS FIDELITY BANK & TRUST CO., LOUISVILLE

MEMBER, FEDERAL DEPOSIT INSURANCE CORPORATION, FEDERAL RESERVE SYSTEM

Answers to question you may have about Citizens Automatic Credit:

Your Citizens Automatic Credit Account is a revolving loan account, against which you write your own checks. Prearranged credit enables you to buy what, when, and where you wish. You pay bills or purchase goods and services with your own checks.

1. Question. What is the maximum of credit available to me in my Citizens Automatic Credit Account?

Answer. The maximum credit available for your use (up to the amount approved by the bank) is 20 times the agreed monthly repayment. You may apply at any time to have your maximum credit increased.

2. Question. Do I have to use all my credit at one time?

Answer. No; you may use whatever amount you wish—whenever you wish—up to the maximum credit of your Citizens Automatic Credit Account. Your monthly payments reduce your loan and correspondingly increase the amount of credit available to you.

3. Question. How do I use my Citizens Automatic Credit Account?

Answer. You receive a supply of checks imprinted with your name. You use these checks to pay bills, to purchase goods or services, or to obtain currency. When your checks are presented to us, we make loans to you for the amounts drawn.

4. Question. Does my account have to be repaid in full before I use it again?

Answer. No; subject to the termination provisions of your agreement it runs as long as you want to use it provided your monthly payments are made regularly and your checks do not exceed the amount available in your Citizens Automatic Credit Account.

5. Question. How do I repay the amounts borrowed?

Answer. You repay monthly an amount which is one-twentieth (1/20) of the amount of your maximum credit. Payments are due each month as long as your account shows a loan balance. However, if the amount you owe is less than the amount of your regular monthly payment, you pay only the balance.

6. Question. When is my regular monthly payment due?

Answer. Payment is due on the day of the month you selected in your application. A Payment Notice is sent to you ten days ahead of that time.

7. Question. How do I know the amount borrowed and the amount due?

Answer. Whenever you are borrowing you will receive each month a detailed statement showing (1) the charges to your account; (2) the payments you have made; (3) the balance you owe; (4) the amount of credit balance available for your use. At the same time you will also receive a Payment Notice to be returned with your next payment.

8. Question, How much does my Citizens Automatic Credit Account cost me?

Answer. The cost is ½ of 1% interest and ½ of 1% charge per month on your outstanding balance. In other words, you pay charges only on what you use—no loan, no cost.

9. Question. May I have a Citizens Automatic Credit Account jointly with my husband or wife?

Answer. Yes; a joint Citizens Automatic Credit Account is ideal for family use. It makes it possible for you to budget payment of major expenditures. You make purchases with your special checks and repay us over a period of months.

10. Question. Is my Citizens Automatic Credit Account a real revolving loan account?

Answer. It certainly is. You may use your Citizens Automatic Credit Account to buy whatever goods or services you require, wherever and whenever you wish. Its use is principally for the payment of major household expenditures—those which you prefer to budget such as medical bills, household appliances, home repairs, tuition, vacation, travel, taxes, insurance, and gifts to charitable institutions or others.

11. Question. Do I get life insurance protection?

Answer. The life of the borrower, if not over age 65, is automatically insured at no additional cost for the amount of the unmatured loan balance.

POINTS TO REMEMBER

With a Citizens Automatic Credit Account:

Your Account does not have to be paid in full before you can use it again.

You do not have to make out an application every time you want to borrow money.

Within the terms of your agreement and legal limitations you can use your Account to buy whatever—whenever—wherever you want.

There is no charge until you use your Account.

You create your own loans as needed by simply signing checks.

Life insurance protection at no additional cost.

No mortgage is required.

COPY OF THE WORDING IN THE LOAN AGREEMENT SECTION OF THE CITIZENS AUTOMATIC CREDIT ACCOUNT APPLICATION WHICH YOU HAVE FILLED OUT AND SIGNED

On the basis of the information I have furnished you above and upon my credit standing, I request you to open a Citizens Automatic Credit Account for me under which you will establish for me, in the manner and subject to the conditions appearing below, my personal line of credit against which you will lend me, from time to time, such amounts as will not exceed at any one time outstanding---- -------------- ($----------) Dollars, or any smaller sum which you may approve (hereafter called "Personal Credit Limit"). Our agreement is that if you accept this Application you will (1) furnish me with a supply of checks (hereafter called "Personal Credit Checks") bearing my printed name which I will use exclusively in drawing against my Citizens Automatic Credit Account, and (2) send me written confirmation that you have accepted my Application and notification of the amount of my Personal Credit Limit. Payment by you of any check properly drawn hereunder on my Personal Credit Checks shall create a loan by you to me in the amount so paid, and you shall be under no obligation to pay any checks hereunder (a) unless drawn on my Personal Credit Checks or (b) which will increase my Citizens Automatic Credit Account balance above my Personal Credit Limit.

I promise to repay you at your office all principal amounts borrowed hereunder, together with interest at the rate of one half (½) of one per cent (1%) per month on outstanding balances and your charges shall not exceed one half (½) of one per cent (1%) per month on outstanding balances. You will charge interest and charges each month to my Citizens Automatic Credit Account; and on or before the (check one) --5th --10th --15th --20th --25th --30th day of each month I promise to pay you on account regular consecutive monthly installments equal to (check one) --one twelfth (1/12) --one eighteenth (1/18) --one twentieth (1/20) of my Personal Credit Limit, or such lesser amount as may be required to reduce my Citizens Automatic Credit Account to zero. I shall have the right to repay my loan in whole or in part at any time before the maturity and will only use the proceeds for legal purposes. Each month you will furnish me a statement of account showing all checks paid by you, interest and charges debited to my account and payments made and balances owing by me hereunder. I will consider and accept such statement of account as correct unless I notify you in writing of errors within thirty (30) days thereafter.

If I fail to make any payment when due or default in the performance of any other obligation due you, or in the event of the death of the undersigned borrower prior to the complete repayment of the indebtedness represented hereby, then your commitment to make further loans or pay checks shall immediately terminate and all sums then owed by me to you shall immediately become due and payable without demand or notice which are hereby waived, and I promise to pay such sums to you forthwith. If you accept this Application and Agreement your commitment to make loans to me will run to me exclusively and I shall not assign any rights hereunder to anyone. Either you or the undersigned borrower may terminate this Agreement at any time as to future loans by written notice of one party or the other, but no such termination shall in any way affect any checks properly drawn and issued hereunder prior thereto or my obligation to pay all sums borrowed hereunder or the remaining provisions hereof. If this Application is signed by myself and a co-signer each of us may draw checks on my Citizens Automatic Credit Account, and as used herein the words "I", "my", and me" shall be taken to mean "we", "our", and "us" and this Agreement shall constitute the joint and several obligation of each of us.

Dated-------------------- 19----

Borrower

Co-Signer

The CHAIRMAN. I would again want to emphasize that we are not passing judgment on banks or the lenders. We are not trying to determine the net profit to the lender.

What we are trying to determine is gross cost to the buyer or borrowers.

Senator BENNETT. I should like to make the point, Mr. Chairman, that in the question I have given you, there is no reference to income to the bank. It says the cost to the borrower. How much does my Citizen's automatic credit account cost me, the borrower? And the answer is, It costs you one-half of 1 percent interest, one-half of 1 percent as a charge for the service.

The CHAIRMAN. And the two together make up the finance charge. The rate is 1 percent per month, or 12 percent per year. All we ask is that the yearly rate be stated as well as the monthly rate on the finance charge.

Senator BENNETT. While you put the two together, and talk about them, as you have many times, and as the witness did this morning, all the whole 1 percent interest, the bank says only half of it is interest.

The CHAIRMAN. I must protest, I must protest. The term in the bill is finance charge.

Senator BENNETT. Simple annual rate.

The CHAIRMAN. I have always used, in recent years, the term finance charge. Once in a while one's tongue slips inadvertently, just as certain times the tongue of the Senator from Utah has slipped.

But we've tried to be very careful on this point.

Senator BENNETT. I would suggest the chairman go back and read yesterday's transcript. You will find the word "interest," that you used the word "interest" yesterday 25 or 30 times. You use it every time the question of excessive charges arises. You always call it excessive interest and compare them.

The CHAIRMAN. The term I used this morning was "gross interest charge."

Senator BENNETT. You never thought of the words "gross interest charge" until I used it this morning. [Laughter.]

The CHAIRMAN. I, too, look up words in Webster's dictionary.

Senator BENNETT. You never used the words "gross interest" in any of the hearings until just now.

The CHAIRMAN. Let it be said from now on we will use the term "gross interest."

Mr. HATTON. Thank you all for this rest period.

Finance charges expressed in terms of dollars and cents are more understandable to the average borrower. Any child can understand what an article costs in dollars and cents. Few adults can compute percentage rates or simple annual rate in terms of a percentage where such factors as deferred and "balloon" payments are involved. If these experts cannot accurately compute such annual rates percentagewise, then what earthly comparative benefit can a percentage annual rate have to the average shopper for credit.

Requirement of simple annual rate disclosure of the total amount of the finance charge puts lenders on an unequal competitive basis with sellers of merchandise.

That's one of the reasons we don't want to be regulated by the same act. Disclosure of the so-called simple annual rate, assuming it could be accurately computed, will undoubtedly put lenders at a disadvantage with sellers, because they, the sellers, can vary the so-called cash price of the item being sold, and can, in effect, conceal actual or true cost of credit.

I understand that others have heretofore demonstrated that the lender or seller will incur substantial additional cost if he is required to compute the simple annual rate at the time of the transaction.

The CHAIRMAN. Wouldn't you modify that statement to the simple annual gross interest rate?

Mr. HATTON. No, sir; I don't us interest at all.

The CHAIRMAN. In order to follow up your suggestion made by my friend from Utah.

Mr. HATTON. I didn't accept that suggestion. I don't see it as interest. I don't think it's interest.

The CHAIRMAN. I see. Do you disagree with Senator Bennett?

Mr. HATTON. On the word "interest."

Senator BENNETT. May I point out, in using the phrase "simple annual rate," he is only trying to give you an expression which you can understand because this is what you wrote into the bill.

The CHAIRMAN. We are trying to get him to find your high level here. [Laughter.]

Mr. HATTON. Under our competitive system it is far more likely that this cost will be passed along to the buyer or borrower than be absorbed by the seller or lender as the case may be.

Similarly, it is reasonable to assume that all borrowers will ultimately have to absorb whatever cost is incident to the risk of unintentional violation of the proposed bill. One might well ask, Why burden borrowers with these additional costs of overhead and management unless there be a demonstrable need to do so?

Now on this next point, customary and beneficial banking practices would become unlawful or require substantial change.

A. We are assured that because of the broad definition of credit is S. 750, it is clear that a demand note would become illegal. Unless a note bears a fixed date of maturity, the dollars and cents cost of the finance charge cannot be computed.

B. I am sure you are aware that persons borrow money to form a life insurance estate. While it is true man is mortal, the precise maturity of a loan secured by life insurance cannot be determined in advance. One might well ask, What social purpose is to be served by making such transactions illegal?

The CHAIRMAN. Under A, you seem to be opposed to disclosure of the dollar and cents clause.

Mr. HATTON. Yes, sir.

The CHAIRMAN. In B, you are opposed to the disclosure on an interest rate basis.

Mr. HATTON. No, sir——

Senator BENNETT. Do you see anything that appears as an interest rate?

The CHAIRMAN. On a number of months rather.

Mr. HATTON. That's right; I don't know how you can tell in advance what the dollar and cents cost of finance charges are going to be.

Senator BENNETT. Mr. Hatton, isn't it true that both A and B are the same problem?

Mr. HATTON. They are the same problem. One is collateral life insurance or it might be any other type of collateral.

Senator BENNETT. In A, the bank enforces it, and in B, the Lord enforces it.

Mr. HATTON. That's right. I didn't want to blame Him. [Laughter.]

The CHAIRMAN. That's broadminded of you.

Mr. HATTON. Thank you.

C. A similar consideration makes construction loans in aid of new housing and other building suspect of violation. This might affect new housing starts. The problem here is that the bank gives a commitment letter applicable to principal amounts advanced by the way of progress payments at different times. The total advance, of course, is ultimately consolidated in the permanent financing. But how does one compute the dollar amount or a simple annual rate unless the date and amount of each advance is known and a definitive maturity can be established for the so-called takeout?

Because in most cases, there is a commitment fee, in most cases. Now the commitment fee is based on an extension of a certain amount of credit. I am talking about consumer credit, not the type of exempted business. Suppose in a case the fellow decided he didn't need all the money, then that commitment fee he had to pay would be at a higher percentage. If he took his whole amount now—you don't know, due to the demands made, when these notes are going to be paid. You can't know what the dollar amount is.

Now it's true in Kentucky that State banks can make long-term mortgage loans. As this committee is well aware, national banks are restricted by Federal law in making long-term mortgage loans.

D. A brief word about mortgage loans. These loans are now quoted at a simple annual rate. They are long-term loans. S. 750 would require the finance charge also to be stated in terms of dollars and cents. I note from the testimony in 1962 of Mr. Robert Weaver, Administrator of the Housing and Home Finance Agency, at page 168 of the record, there were inserted certain tables showing the cost of various loans. A $10,000 loan at 5½ percent over a period of 30 years would cost in interest alone $10,429. The FHA insurance premium would amount to $948, making a total interest—and there I use interest in its true sense—and insurance cost of $11,377. To this amount, would, of course, have to be added closing costs, title examinations, and recording fees, and in some instances insurance premiums. Traditionally, mortgage loans have been disclosed as a simple annual rate. To suddenly require the disclosure of the dollar amount of finance charges might well have a depressing effect upon the real estate market.

The CHAIRMAN. Do you favor having the rate on mortgage loans disclosed as a simple annual rate?

Mr. HATTON. Yes, sir; as a simple interest, sir.

The CHAIRMAN. A simple annual rate.

Mr. HATTON. No, sir. I do not see the reason—when I say annual rate, I am thinking about finance charge, which is such items as closing costs.

The CHAIRMAN. You include that.

Mr. HATTON. Those are already given to the borrower in dollars and cents at the time of closing, sir.

Senator BENNETT. In other words, you are saying you would prefer that mortgage lending continue in the present pattern?

Mr. HATTON. Yes.

The CHAIRMAN. You are opposed to this principle when applied to installment loans or bank loans?

Mr. HATTON. No, sir; to consumer credit-type loans. I am not opposed to it on demand notes. Demand notes—I don't know how you could do it.

The CHAIRMAN. I am speaking of the simple annual rate now. Do you approve that for mortgage loans but not for installment loans?

Mr. HATTON. That is correct, sir. Insofar as installment loans——

The CHAIRMAN. Now you approve of having the dollar-and-cent cost for the short time loans?

Mr. HATTON. Term or demand loans?

Senator BENNETT. I think he is talking about short time installment loans.

Mr. HATTON. When I say consumer credit, I am nc trying to be evasive. I mean those that are paid in equal or variables.

The CHAIRMAN. Short time loans like those you have up on the board.

Mr. HATTON. Those are dollars and cents.

The CHAIRMAN. You approve of the statement of the dollar-and-cent cost?

Mr. HATTON. Absolutely.

The CHAIRMAN. You don't approve of the statement of dollar-and-cent cost of mortgage loans?

Mr. HATTON. No, sir. I don't think it is—those traditionally—those are loans where payments do not vary in those cases.

The CHAIRMAN. They might vary.

Mr. HATTON. They could, sir, but that would depend——

The CHAIRMAN. It might vary.

Mr. HATTON. I believe, sir, if I could finish, that in the case of mortgage loans, which we have known for years and we know the difference between a 5½ loan and a 6——

The CHAIRMAN. What you are doing is this: you are using a completely different principle for short time or consumer loans, and long time mortgage loans.

Mr. HATTON. Yes, sir.

The CHAIRMAN. In the case of long time mortgage loans, do you approve of a simple annual rate but not a statement of dollars and cents?

Mr. HATTON. That's right.

The CHAIRMAN. In the case of short-term loans you approve of dollars and cents but not the simple annual rate?

Mr. HATTON. Yes, sir. And I find no inconsistency.

The CHAIRMAN. The reason you give for not having the dollars and cents quoted on a mortgage loan is that they might have a depressing effect upon the real estate market.

In other words, if people knew what the total amount was that they were paying in interest, they might not buy the house.

Mr. HATTON. I feel, sir, that if the average buyer of a house, where he is going to borrow $10,000 and get a 5½-percent FHA loan, is told he is going to pay $11,337 interest, he would take a long time before he bought that house, although it's probably——

The CHAIRMAN. Would it be well for him in helping him to make a more intelligent judgment should you bait the trap with lack of knowledge?

Mr. HATTON. No, sir. I don't think it is baiting a trap.

The CHAIRMAN. What you are saying is he wouldn't do it if he knew what the total amount of payments in interest and other charges would be, so, therefore, you don't want to let him know it so he can go ahead and buy the house even though if he did have the knowledge he wouldn't do it. I would say that's baiting a trap with lack of information.

Mr. HATTON. Sir, if it's baiting a trap, that I believe—now this is what Dr. Scott tells me. He tells me that the principle used in those mortgage loans is what you would call the U.S. rule——

The CHAIRMAN. We are not talking about what is, we are talking about what should be.

Mr. HATTON. I think that it is entirely proper because people understand that.

The CHAIRMAN. What you are simply saying is, "Let's continue what we are doing?"

Mr. HATTON. Yes, sir.

The CHAIRMAN. Under this traditional system that you have, the total amount of the finance charges is not stated over the life of the mortgage.

Now you approve of the true annual rate, but now there's the statement of the total charges because you say people might not buy the house. This seems to be more important to you than if the individual should make the correct judgment.

Mr. HATTON. No, sir. Not at all. I am not interested except as a citizen. I represent no builders.

The CHAIRMAN. I understand that.

Mr. HATTON. Now——

The CHAIRMAN. In a similar fashion, is your objection to having a true annual rate on the short time loan—you feel that if that is stated, people wouldn't buy as many automobiles or refrigerators or television sets or washing machines?

Mr. HATTON. No, sir. When you say short-term loans, I think of one thing. I think of a 60-day note, a 90-day note.

The CHAIRMAN. It is also installment selling.

Mr. HATTON. I don't——

The CHAIRMAN. That's all we've been dealing about.

Senator BENNETT. You've been talking about installment loans.

Mr. HATTON. I've been talking about installment loans.

The CHAIRMAN. Yes.

Mr. HATTON. Yes.

The CHAIRMAN. Consumer credit.

Mr. HATTON. Consumer credit, as I refer to it.

The CHAIRMAN. That's given by merchants and finance companies as well as by banks.

Mr. HATTON. The only point I was trying to develop, Senator, when you say short-term loans, I am thinking about 60- or 90-day notes.

Now I think they should be expressed in terms——

The CHAIRMAN. Under 5 years.

Mr. HATTON. Well, they are short-term loans; yes.

The CHAIRMAN. That's what we are speaking about, installment credit.

Mr. HATTON. No, sir. We are not on the same wavelength.

Senator BENNETT. May I get into this?

Mr. HATTON. Yes, sir.

The CHAIRMAN. You may temporarily, but I'm not going to let you get in permanently. [Laughter.]

Senator BENNETT. Isn't it a fact——

The CHAIRMAN. I haven't had an answer yet.

Senator BENNETT. I'm trying to get you one.

Mr. HATTON. Maybe I'm trying to give one—I'm sorry. Excuse me, sir.

Senator BENNETT. Isn't it a fact that when a person makes a mortgage to buy a house, he then gets notice from a bank that he has a payment of so much per month in dollars, and he attempts to equate that payment with the rent he may have been paying, and he is interested in the rate at which he borrows the money at the time he makes the mortgage; thereafter he is not interested in that rate. But every month he is conscious of the amount of money he has to pay out. If you tell him that in order to get this house, you no longer say to him, you're going to pay $85 a month, which he can afford, you're going to say to him, this house is going to cost you $21,377, and he knows he is only going to get a $10,000 house for this money, he becomes, I think, confused; because the other pattern is the pattern on which houses have been sold and financed for a long time.

Mr. HATTON. That's right.

Senator BENNETT. When you get over to consumer installment finance, he thinks of a mortgage payment as he did on the house in dollars.

Once he makes the mortgage, he is no longer interested in the rate of interest but—once he makes the consumer installment contract, his interest becomes—it focuses upon the amount of dollars he has to pay every month, so on that basis, the dollar amount which you have been telling us is more important than the simple annual rate, it becomes the way in which this man thinks.

Now he is interested in the rate only one time—when he makes the deal.

Senator Douglas, and I am sure I am quoting him accurately, feels that the simple annual rate should be stated in order that people may use credit wisely and shop for credit.

The CHAIRMAN. For the total amount.

Senator BENNETT. Speaking of the simple annual rate for a moment: when a man goes to buy a house, he is not thinking of a choice between buying a house and making a contract for a revolving charge account for a department store. They can be quoted at different rates without ever confusing the buyer or making him feel that he lacks adequate knowledge to shop wisely for credit. If he is buying a house, he is going to a half dozen mortgage lenders and select the lender and the rate and the deal he likes best. If he's going to get into revolving charge business, he would probably go to two or three stores, or go to all of them and set up a similar account so he can buy what he wants at each store.

I agree with you, that there is no competition in the man's mind between the rates when he buys a house, and the question of whether he knows how much the rate is or how much money he is going to pay and the rates when he makes a short-term consumer-type installment loan.

Mr. HATTON. The Senator left out the short-term loan, the consumer-type loan. That's where we have a difference——

The CHAIRMAN. Just a minute. Let's see if we can understand this. You say, on a short-term loan, on short-term credit, that the cost in dollars and cents should be stated, but not the true annual rate.

Mr. HATTON. No, sir; I did not. I say in short-term consumer or installment loans.

The CHAIRMAN. All right. Short-term consumer——

Mr. HATTON. Or installments.

The CHAIRMAN. Credit. The dollar and cents cost should be stated but not the true annual rates?

Mr. HATTON. That is correct, sir.

The CHAIRMAN. You say that in long-term credit——

Senator BENNETT. Mortgage loans.

Mr. HATTON. Long-term mortgage loans. It's important there. There are three types, at least.

The CHAIRMAN. What about a long-term consumer loan? What would you do then? Would you state the true annual rate, but not the dollars?

Mr. HATTON. I believe, and I recognize in 1962, we took off the time limit in Kentucky, sir, and I believe that that is applicable to banks. And I believe it is a question to which the Senator addressed himself.

The CHAIRMAN. Exactly so.

Mr. HATTON. I am glad I anticipated you, sir.

The CHAIRMAN. You may have anticipated the question. Now I would like to get the answer. [Laughter.]

Mr. HATTON. All right, sir. I think, and this I truly believe, instead of this being for a 2-year or a 10-year period, we told this fellow it's going to cost him $900, or whatever the amount is—I think the fellow would be crazy to make the loan. I think this is a thing that would warn him.

The CHAIRMAN. We're trying to get at this. Suppose you have a long-time consumer loan, or consumer credit, would you state the true annual rates but not the total amount?

Mr. HATTON. No, sir.

The CHAIRMAN. You would simply state the total amount?

Mr. HATTON. Yes, sir. And that man, if he borrowed $1,620 and couldn't get any better credit than a 10-year loan at $10 discount, I think you ought to tell that man, let him go try to borrow someplace where he can get a better rate.

The CHAIRMAN. You do believe, then, that in long-time loans, the total amount in dollars and cents should be stated?

Mr. HATTON. In long time consumer——

The CHAIRMAN. What's the difference between long-time consumer rate and a long-time mortgage rate?

Mr. HATTON. Sir, there's all the difference in the world, because in your mortgage rate, your interest—I don't know how it's computed, but at least when I make payments, when I bought my house, I got a long sheet of paper. On that sheet of paper it tells me my first payment reduces the interest by so much, and the principal by so much.

The CHAIRMAN. Let me say, that the computation of the interest on a long-term mortgage is perfectly clear. It's a true annual rate on the outstanding, unpaid balance.

Mr. HATTON. I think that's right, sir.

The CHAIRMAN. That's right. And it is stated, computed every month.

Mr. HATTON. Yes, sir.

The CHAIRMAN. Then you do believe in a true annual rate?

Mr. HATTON. For long-term mortgage loans, yes, sir.

The CHAIRMAN. Then why not on long-term consumer credit?

Mr. HATTON. Sir, I think you'll be doing this man a disservice to tell him that he ought to borrow where it would cost him $900 to get $1,620 and tell him he is going to get it at a $5 charge. I think that would be doing him a disservice.

The CHAIRMAN. Of course, $5 is a 10 percent charge.

Mr. HATTON. $5 a year.

Senator BENNETT. Mr. Chairman, may I tell a story at this point?

The CHAIRMAN. I'll give you 5 minutes in which to tell your story.

Senator BENNETT. It won't take me that long.

The CHAIRMAN. It seems to me, Mr. Hatton, you've involved yourself in some great contradictions.

Mr. HATTON. I don't think so, sir.

Senator BENNETT. This is a story, of which this reminds me. It's a story that comes from our country, where we have a great many Navajo Indians who do not speak English. Occasionally they run afoul of the courts, and they get into court and the story—of course, the questions have to be asked through an interpreter, and the answer has to come back through an interpreter—and the question was asked of a Navajo, and he really took off, and he talked and he talked and he gestured and his voice went up and down and the Navajo language is quite a language because it has 8 or 10 versions, 8 or 10 words for each concept. The word "dog" may have 10 words, whether a dog is lying down, standing up, or running.

After this had gone on for 10 minutes, the judge said to the interpreter, we can't go on with this, we are not getting anywhere. Stop the man, and tell us what he said.

So the interpreter talked to the Navajo and the Navajo stopped, and the interpreter said, "he said no."

The CHAIRMAN. I object to this interpretation of the replies by Mr. Hatton.

Senator BENNETT. I think he said, "No."

The CHAIRMAN. Now, Mr. Hatton.

Mr. HATTON. Yes, Mr. Chairman.

The CHAIRMAN. Suppose you have a 5-year mortgage on a house.

Senator BENNETT. Here we go again.

The CHAIRMAN. How would you have these finance charges quoted, as a true annual rate, or the total amount of payments.

Mr. HATTON. Sir, I would do it this way—

The CHAIRMAN. A 5-year mortgage.

Mr. HATTON. A 5-year mortgage on the house; yes, sir. I would, at the time that the house was bought, I would have a mortgage lender give a dollar-and-cents amount of the closing costs and of the fees.

Then I would have him tell that this was payable at a certain rate of interest and have him give me an amortization table to show it,

The CHAIRMAN. In other words, you would have both a statement of total dollars-and-cents cost, and then the true annual rate. Both of them?

Mr. HATTON. Yes, sir.

The CHAIRMAN. That's precisely what we're asking for.

Mr. HATTON. No, sir.

Senator BENNETT. Mr. Chairman, I have to raise the question raised of me at the beginning of this session. You've taken our witness over this questioning for nearly 20 minutes, and I think the time has come for him to finish his statement and let's call it a day.

The CHAIRMAN. Let me say I think the witness is a very charming fellow, but has involved himself in hopeless contradiction.

I really think that you should think this over when you read the record. You remind me of the character in Stephen Leacock's story, who mounted his horse and rode off in all directions. [Laughter.]

Senator BENNETT. Led into temptation by the Senator from Illinois.

The CHAIRMAN. Go ahead.

Mr. HATTON. The penalties are too severe.

Finally, our banking communities are vitally concerned by the proposed penalties. Litigation is an expensive luxury. To encourage such in the event of an unintentional violation of the statute is a disservice to our already overworked judiciary. Every lender will be fair game for threatened litigation by aggressive attorneys and unhappy borrowers. Even if the lender should succeed in successfully resisting the claim, he may be found liable under the proposed bill for the cost of litigation, including reasonable attorney's fees.

It would be sufficient to raise the threat of litigation if two mathematicians disagreed on the accuracy of the computation of simple annual rate. Surely, in such an event, there should be a provision permitting the creditor to be made whole for any loss incurred without further penalty in the event of unintentional violation.

For these reasons we oppose the enactment of S. 750. We believe that the disclosure requirements of lending institutions and selling institutions should require the disclosure of the true cost of consumer credit in terms of dollars and cents.

I think on the words "consumer credit," Senator, is where we have been failing to communicate.

Thank you, sir. I do appreciate the extreme courtesy of letting me finish, as you all did, sir.

The CHAIRMAN. I have no further questions.

Senator BENNETT. No questions.

The CHAIRMAN. Thank you very much.

Is Dr. Scott going to testify?

Mr. HATTON. No, sir; but he is available.

Senator BENNETT. I think since it is half past 3, Dr. Scott, the letter you put in the record would be adequate for us.

(The complete prepared statement of Mr. Hatton follows:)

TESTIMONY OF ROBERT E. HATTON, ATTORNEY AND GENERAL COUNSEL OF THE KENTUCKY BANKERS ASSOCIATION

I am Robert E. Hatton, Louisville, Ky., attorney of the firm of Hatton, Smith, Britt & Friedlander, general counsel for the Kentucky Bankers Association, a position I have held since early 1946.

The Kentucky Bankers Association for which I speak numbers among its membership 388 out of a total of 351 State and National banks in Kentucky and I am authorized by the association to state its official position on S. 750 as it relates to the banking industry in Kentucky.

The average bank in Kentucky is a small bank. Ninety percent of Kentucky banks have total resources of $15 million or less. Seventy percent of Kentucky banks have total resources of $5 million or less. And, in this respect, Kentucky, we believe, is representative of many of the States of the Union. On an average, such a bank would have not more than 10 employees, probably not more than 2 of whom would be authorized to approve loans.

The Kentucky Bankers Association strongly favors the objective of full disclosure of the dollar amount of finance charges in connection with the extension of consumer credit. The people of Kentucky have supported this policy and it is now part of the following statutes: (1) The banking law KRS 287.215(7), 1946. (2) The Motor Vehicle Installment Sales Act KRS 190.100, 1956. (3) Petty loan companies; KRS 288.540, 1960. (4) Industrial loan companies KRS 291.-510(3), 1962. (5) Installment sales contract law; 371.210—330, 1962.

This background of legislation demonstrates that we in Kentucky do believe in full disclosure to the borrower of the dollar amount of the cost of his consumer credit. Incidentally, the general assembly has provided adequate penalties for the enforcement of the several laws. Only credit unions are presently exempt from the provision for full disclosure.

Because the Kentucky Bankers Association believes the borrower is adequately protected under Kentucky law, we oppose the enactment of any Federal legislation in this field.

Specifically we oppose S. 750 for the following reasons:

(1) It is unnecessary, and will seriously impair teacher and farmer credit in Kentucky.

(2) S. 750 is objectionable in that it combines into one bill the regulation of lenders and sellers of goods.

(3) Its requirement that finance charges be expressed in terms of simple annual rate is unworkable in the case of many loans and does not benefit the borrower.

(4) Expressing finance charges in dollars and cents rather than as an annual percentage is more intelligible to the average borrower.

(5) Customary and beneficial current banking practices would become unworkable or require substantial change: (*a*) The present lender's demand notes would be unlawful; (*b*) a lender could not provide for delinquency charges in advance; (*c*) demand loans secured by policies of life insurance or other collateral—thus having no fixed date of maturity—would become illegal; (*d*) a difficult format would have to be devised for construction loans in connection with new residential housing and perhaps some other types of building; (*e*) mortgage lending would be adversely affected.

(6) The penalties appear unduly severe.

I shall make a brief reference to each of the foregoing:

FEDERAL LEGISLATION IS UNNECESSARY AND WILL SERIOUSLY IMPAIR TEACHER AND FARMER CREDIT IN KENTUCKY

The Kentucky Bankers Association believes that the regulation of the extension of consumer credit is a matter of State rather than Federal concern. We recognize that in many fields Federal legislation is required, but not in the field of consumer credit. The policing of Federal legislation would not be the proper function of any existing Federal agency.

If there be no existing Federal agency, then the policing must, necessarily, be assigned to a new agency. This would increase the bureaucracy which many feel is already too great at the Federal level.

We believe that the efforts of the Congress of the United States should be directed toward a reduction of the cost of Government rather than expanding the Federal Government activities into fields more properly the subject of State regulations.

In 1960, the Kentucky Bankers Association and the Kentucky Education Association, by joint effort, developed in Kentucky the teacher-banker credit plan. Both the KEA and KBA felt that all too often teachers were forced to borrow at high rates to finance their plans for the months when their salary no longer continued. The teacher-banker credit plan was tailored especially to meet this need. Among its elements were: (1) Low borrowing costs; (2) loan repayments separated over a convenient number of months; (3) waiver of payments during vacation months; (4) life insurance provided through KBA covering the unpaid balance of the loan at no additional cost to the borrower; and (5) credit established for future needs.

The plan was announced to the membership of the association on March 20, 1961. By April 5, 1961, more than 100 banks had joined in the plan. And now 163 of the banks of Kentucky are participating. This plan was signally recognized at the executive council meeting of the American Bankers Association at its meeting April 6–8, 1961, at White Sulphur Springs, W. Va. For the committee's benefit I tender the promotional material issued in connection with the plan.

Kentucky is primarily an agricultural State. Now, as to the farmer credit situation here, tobacco is the greatest single cash farm crop. In 1948, Kentucky Bankers Association established an agricultural office. The function of this office was to relay information to the farmer concerning crop production techniques, credit, and other information. Each year more than 90 banker-farmer meetings are held throughout Kentucky. As a result of this close relationship between banker and farmer, the banks of Kentucky have developed loan plans which are tailored to the farmer's specific needs. The plans in their essence provide for low monthly payments during most of the year with a substantially higher payment in December or January when the farmer's tobacco crop is marketed. If the farmer has other high seasonal income such as the sale of hay or cattle, the plan can be adjusted to reflect a higher payment during those months when the farmer's income is higher.

The effectiveness of both teacher and farmer credit would be seriously impaired by the enactment of S. 750 as I shall point out later.

LENDERS AND SELLERS SHOULD BE REGULATED BY SEPARATE ACTS

The Kentucky Bankers Association believes that it is entirely proper, as has been done in Kentucky, to treat by separate acts the regulation of installment selling from installment lending, and to require in each case the cost of credit to be expressed in terms of dollars and cents.

The selling of merchandise and the lending of money are two entirely different businesses. Of the seven items required to be disclosed by section 4(a) of the bill, only the last four are applicable to lending as distinguished from selling. We of the banking industry in Kentucky believe that separate State legislation should govern banks insofar as their operations are concerned. We accord to other lending institutions such as building and loan associations, industrial loan companies, small loan companies, and credit unions the same degree of independence as we expect for banks. It is true in Kentucky that each of these lending institutions is supervised by the commissioner of banking, but different techniques are involved in the supervision and examination of a bank than are involved in the case of an industrial loan company or of any other type of lending institution. With banks, it is the depositor's money which is being loaned. Consequently the responsibility of the banker is, in the first instance, to his depositor. It is for this reason among others that we proposed in 1946 legislation requiring full disclosure in the case of banks, and that is the law today.

I am informed by the Honorable Hugh Rogers, Kentucky commissioner of banking and securities, that there has been a minimum of violations of any sort by banks in connection with installment lending, and I know of no violation in the matter of disclosure.

Expressing finance charges in terms of simple annual rate is difficult if not impossible in the case of many loans, and there is no corresponding benefit to the borrower.

I have discussed previously the teacher-banker credit plan and the farmer-banker credit plan in Kentucky. In fact a large percent of loans made are tailored to the individual needs of the borrower which vary widely as to the times and amounts the borrower is able to meet and pay. The interval of payment and the amounts of payment are frequently completely irregular.

Other variations in lending practice normally affect the difficulty of the computation. Repayments may vary depending upon the ability of the borrower in seasonal industries to repay. There may be a "balloon" payment due at the end of the period. These variations make the task far more difficult and beyond the ability of the average banker to compute, nor do they benefit the average borrower.

The simple annual rate requirement would penalize the honest lenders who are already regulated by present laws and competition. It would do nothing to control the unscrupulous and dishonest who prey on the unwary, careless, ignorant, and uneducated.

I have prepared a chart to illustrate three examples, and for the committee's convenience, a blowup.

I must admit that I am no mathematician. I have however, attempted to compute the annual rate and have been unable to do so. Admittedly defeated, I, then, approached several trained mathematicians, among them being Dr. L. L. Scott, professor of mathematics at the University of Louisville, and asked them to tell me what the simple annual rate is in each example of three typical loans and I asked them to give me their work papers, to show how they arrived at their computations.

I am assured that the following examples are characteristic of loans of this nature.

1. A schoolteacher in June wishes to borrow for her summer education. Since she has no income in the summer, being vacation, she wishes to skip payments in July, August, and September. She needs $1,620 payable over a 2-year period in 18 installments.

2. A dairy farmer in June needs to buy a new refrigerated tank for his milk to upgrade his dairy. He can pay small regular payments from his milk checks but in December he wishes to make a larger payment from the proceeds from his tobacco sales. He likewise wishes to borrow $1,620 repayable in 24 payments.

3. This is simply a variation of example No. 1. An independent bulldozer operator needs $1,620 for repairs on his tractor. He asks that he be allowed to miss payments in January, February, and March, and make 18 payments during the 2-year period.

In each case the face of the note is $1,800 from which the bank deducts a finance charge at $5 per $100 or $10 for the 2-year period. The dollar cost is therefore $180, but what is the simple annual rate?

A 2-year loan of	$1,800
5-percent discount—2 years	180
Cash to borrower	1,620

	A teacher repays 18 at $100	A farmer repays 22 at $50 and 2 at $350	A bulldozer operator repays 18 at $100
June 1	$1,800	$1,800	$1,800
1. July 1	1,800	1,750	1,700
2. Aug. 1	1,800	1,700	1,600
3. Sept. 1	1,800	1,650	1,500
4. Oct. 1	1,700	1,600	1,400
5. Nov. 1	1,600	1,550	1,300
6. Dec. 1	1,500	1,200	1,200
7. Jan. 1	1,400	1,150	1,200
8. Feb. 1	1,300	1,100	1,200
9. Mar. 1	1,200	1,050	1,200
10. Apr. 1	1,100	1,000	1,100
11. May 1	1,000	950	1,000
12. June 1	900	900	900
13. July 1	900	850	800
14. Aug. 1	900	800	700
15. Sept. 1	900	750	600
16. Oct. 1	800	700	500
17. Nov. 1	700	650	400
18. Dec. 1	600	300	300
19. Jan. 1	500	250	200
20. Feb. 1	400	200	200
21. Mar. 1	300	150	200
22. Apr. 1	200	100	200
23. May 1	100	50	100
24. June 1	0	0	0

These are answers that I have gotten from the experts to whom I submitted the problems:

A banker who is a graduate in economics and in charge of electronic data processing for one of the banks answered: Example 1, 10.3 percent: example 2, 11.7 percent; example 3, 12.7 percent.

A certified public accountant gave the following answer: Example 1, 9.21 percent; example 2, 10.44 percent; example 3, 10.95 percent.

Dr. Scott gave me the following answer: Example 1, 9.125 percent; example 2, 10.41 percent; example 3, 10.79 percent.

A recent graduate of Harvard Business School answered: Example 1, 12.6316 percent; example 2, 9.7297 percent; example 3, 12.6315 percent.

I am more than impressed by the fact that these professionals had difficulty in working out a problem which a lending officer in a $5 million bank must work out several times a day, each loan varying slightly from the other.

If S. 750 is enacted into law, the small banker in Kentucky, the schoolteacher, and the farmer and other small borrowers having special problems will be penalized because the small banker, being unable to make the computation may not make the loan.

The average borrower understands dollars and cents, but I do not believe that he understands these involved percentages.

To attempt to equate finance charges in terms of simple annual rates is like trying to find a common denominator for apples, eggs, meat, and fish.

In order to maintain the minimal rate consonant with the number of times an installment transaction must be handled, it is a recognized principle that the delinquent borrower must pay some additional charge lest the prompt borrower be penalized. For that reason many lenders require borrowers to pay additional sums in the event of nonpayment when due of an installment (so-called late payment charges, or payment of a certain portion of the collection charge of the entire loan defaulted). The definition of the finance charge in the proposed bill is so broad that it appears impossible from the beginning.

At the time of the transaction it is difficult if not impossible to compute the simple annual rate when it is not known what costs will be charged to the borrower. Not only are finance charges in many cases difficult, if not impossible to express in terms of annual rate, but it is unreasonable to require them to be so expressed, and there is no resulting benefit to the borrower who understands dollars and cents far better than he does percentages.

Another type of banking credit which is very difficult to state in terms of simple annual rate is revolving credit, automatic credit, or check credit. This committee has already heard testimony in New York concerning the problems encountered by retail merchants in their revolving credit plans. The conclusion of Mr. Millstein's testimony was to the effect that it is impossible to state these in terms of simple annual rate. If it is impossible for the merchants to do so, then it would be equally impossible for the banks to do so, assuming like factors.

FINANCE CHARGES EXPRESSED IN TERMS OF DOLLARS AND CENTS ARE MORE UNDERSTANDABLE TO THE AVERAGE BORROWER

Any child can understand what an article costs in dollars and cents. Few adults can compute percentage rates on simple installment loans. Many of the best mathematical minds cannot compute the simple annual rate in terms of a percentage where such factors as deferred and "balloon" payments are involved. If these experts cannot accurately compute such annual rates percentagewise, then what earthly comparative benefit can a percentage annual rate have to the average shopper for credit?

Requirement of simple annual rate disclosure of the total amount of the finance charge puts lenders on an unequal competitive basis with sellers of merchandise. Disclosure of the so-called simple annual rate, assuming it could be accurately computed, will undoubtedly put lenders at a disadvantage with sellers because they, the sellers, can vary the so-called cash price of the item being sold, and can, in effect, conceal actual or true cost of credit.

I understand that others have heretofore demonstrated that the lender or seller will incur substantial additional cost of he is required to compute the simple annual rate at the time of the transaction. Under our competitive system it is far more likely that this cost will be passed along to the buyer or borrower than be absorbed by the seller or lender as the case may be.

Similarly, it is reasonable to assume that all borrowers will ultimately have to absorb whatever cost incident to the risk of unintentional violation of the proposed bill. One might well ask why burden borrowers with these additional costs of overhead and management unless there be a demonstrable need to do so.

CUSTOMARY AND BENEFICIAL BANKING PRACTICES WOULD BECOME UNLAWFUL OR REQUIRE SUBSTANTIAL CHANGE

A. We are assured that because of the broad definition of credit in S. 750, it is clear that a demand note would become illegal. Unless a note bears a fixed date of maturity, the dollars-and-cents cost of the finance charge cannot be computed.

B. I am sure you are aware that persons borrow money to form a life insurance estate. While it is true man is mortal, the precise maturity of a loan secured by life insurance cannot be determined in advance. One might well add what social purpose is to be served by making such transactions illegal?

C. A similar consideration makes construction loans in aid of new housing and other building suspect of violation. This might affect new housing starts. The problem here is that the bank gives a commitment letter applicable to principal amounts advanced by the way of progress payments at different times. The total advance, of course, is ultimately consolidated in the permanent financing. But how does one compute the dollar amount or a simple annual rate unless the date and amount of each advance is known and a definitive maturity can be established for the so-called takeout?

D. A brief word about mortgage loans. These loans are now quoted at a simple annual rate. They are long-term loans. S. 750 would require the finance charge also to be stated in terms of dollars and cents. I note from the testimony in 1962 of Mr. Robert Weaver, Administrator of the Housing and Finance Agency, at page 168 of the record, there were inserted certain tables showing the cost of various mortgage loans. A $10,000 loan at 5¼ percent over a period of 30 years would cost in interest alone $10,429. The FHA insurance premium would amount to $948, making a total interest and insurance cost of $11,377. To this amount, would, of course, have to be added closing costs ,title examination, and recording fees, and in some instances insurance premiums. Traditionally, mortgage loans have been disclosed as a simple annual rate. To suddenly require the disclosure of the dollar amount of finance charges might well have a depressing effect upon the real estate market.

THE PENALTIES ARE TOO SEVERE

Finally, our banking communities are vitally concerned by the proposed penalties. Litigation is an expensive luxury. To encourage such in the event of an unintentional violation of the statute is a disservice to our already overworked judiciary. Every lender will be fair game for threatened litigation by aggressive attorneys and unhappy borrowers. Even if the lender should succeed in successfully resisting the claim, he may be found liable under the proposed bill for the cost of litigation, including reasonable attorney's fees. It would be sufficient to raise the threat of litigation if two mathematicians disagreed on the accuracy of the computation of simple annual rate. Surely, in such an event, there should be a provision permitting the creditor to be made whole for any loss incurred without further penalty in the event of unintentional violation.

CONCLUSION

For these reasons we oppose the enactment of S. 750. We believe that the disclosure requirements of lending institutions and selling institutions should require the disclosure of the true cost of consumer credit in terms of dollars and cents.

(The following letters were later received for the record:)

KENTUCKY BANKERS ASSOCIATION, INC.,
Louisville, Ky., September 12, 1963.

Hon. PAUL H. DOUGLAS,
Chairman of the Production and Stabilization Subcommittee of the Senate Committee on Banking and Currency, Senate Office Building, Washington, D.C.

DEAR SENATOR DOUGLAS: You will recall that I appeared as a witness on behalf of the Kentucky Bankers Association at the hearings on S. 750 in Louisville, Ky., on August 24 of this year. I wish to amplify and expand on my remarks on the effect of S. 750 on mortgage lending transactions in general. I respectfully request that this letter be included in the record as constituting a supplementary statement of the Kentucky Bankers Association on S. 750. The element of time and the nature of the questioning did not provide adequate opportunity for me to express or develop fully my views with regard to the problems raised by S. 750.

Under section 3(3) of the bill the term "finance charge" is defined as—

"The sum *of all the charges* (including but not limited to interest, fees, service charges, and discounts) which any person to whom credit is extended incurs *in connection with, and as an incident to,* the extension of such credit." [Italic supplied.]

I wish to point out that this definition of "finance charge" would require a mortgage lender to characterize or state many items as finance charges which are not correctly or traditionally finance charges in mortage lending transactions. This definition would, of necessity, include elements which normally do not accrue to the lender and which the bill would require to be stated as finance charges but which are actually not finance charges. Section 4(a)(6) requires that the finance charge (as defined under sec. (3)) be expressed in terms of dollars and cents. This requirement that many elements of a mortgage financing transaction which are not truly finance charges be stated as such and that they be expressed in terms of dollars and cents would serve to confuse a mortgage borrower and would, in fact, result in a substantial distortion of mortgage finance charges over and above their proper level. Moreover, I wish to point out that the inclusion in the dollar requirement under section 4(a)(6) of charges which are not truly finance charges and the requirement in section 4(a)(7) that such charges be converted to a simple annual rate in many cases would result in an inflation of the true interest rate.

The requirement of the bill relating to the dollar statement of finance charges (as defined under section 3(3)) and the simple annual rate requirement of section 4(a)(7) would, because of the substantial distortion which would often result from these requirements, very possibly tend to have some depressing effect upon the real estate market. Because of the unrealistic and unsatisfactory definition of finance charge (as it would be applied to mortgage financing) under section 3(3), a mortgage borrower could be led to believe that he is paying a substantially larger finance charge than is actually the case. The conversion of distorted finance charges to a simple annual rate also could cause the rate to appear to be usurious.

I invite your attention to the fact that it would be extremely difficult if not impossible under the terms of the bill to determine whether or not many charges are in fact incident to the extension of mortgage credit for the reason that there are in excess of 20 items which may or may not be construed to be "incident to" the extension of such credit. Some of these charges are, for example, survey, appraisal, title examination, inspection and escrow company charges in the case of construction loans, property inspection, title insurance, recording cost, broker's fees, preparation of instruments, settlement charges, apportionment of taxes and assessments, local transfer or ad valorem taxes, notary fees, revenue stamps, credit reports, various insurance premiums and fees, and many more. The question of whether or not these and other charges, which arise in connection with mortgage credit, are incident to the extension of such credit depends upon local law as well as tradition and custom which varies from State to State and from community to community.

In this connection, it is appropriate to cite the testimony of Neal J. Hardy, Commissioner of the Federal Housing Administration, HHFA, and Milton P. Semer, General Counsel of that Agency, before your subcommittee on May 15, 1962. In response to questioning, Mr. Hardy, who appeared as a proponent of the bill, stated:

"* * * closing costs vary so much from jurisdiction to jurisdiction that it would be virtually impossible to do a standard set of closing cost items."

Mr. Semer, when asked to explain what charges are incident to and what charges are not incident to a mortgage, stated:

"* * * I think that both of my colleagues feel that we are getting into legal waters here.

"In a closing sheet of 20, 25, or 30 items there will be some States in which some items will be incident to and some States in which they will not."

Although Mr. Semer testified as a proponent of the bill, I quite agree with his view that "we are getting into legal waters here." It is abundantly clear that no conceivable amendment to the bill and no possible regulatory language could be devised which would cure this defect of statutory construction or solve the jurisdictional discrepancies which exist among the several States in this matter.

Moreover, in such matters as title search and title policy, where the seller or lender makes the search or writes the policy on the borrower's behalf and passes the cost on to him at the time of closing, the definition "incident to the extension of credit" requires the cost of the search and the policy to have to be converted to simple interest—even though no monetary benefit accrues to the lender from either the search or the policy.

Additionally, I wish to point out that the provision in section 4 which requires the furnishing of a statement "prior to consummation of the transaction" poses other obvious difficulties for the reason that the consummation of a real estate transaction occurs at the time of final settlement. In many cases it would be extremely difficult if not impossible to estimate closing costs accurately prior to the consummation of the transaction. This may be particularly true in the case of loans to finance new construction.

I also wish to direct your attention to the fact that there is an inherent distinction between mortgage financing and consumer and/or installment financing. One of the most significant points of distinction which must be taken into consideration is the length or duration of a loan which is one of the principal factors in determining the cost of borrowing. If one considers this premise in its broadest implications, it is soon realized that the simple annual rate in mortgage financing does not in fact reflect the same cost factors that are reflected by the simple annual rate in consumer or installment loan financing. In the former situation the cost of borrowing is many times greater because it is spread over a period of perhaps some 20 to 30 years. In the latter situation the cost of borrowing is smaller and is normally spread over a period of from 30 to 90 days or from 1 to 5 years. In each case a simple annual rate may be given but this truly does not reflect the differences in cost which are borne by the borrower in each situation. Moreover, it is to be noted that the effect of depreciation on consumer goods is a much more significant factor in consumer financing than it is in home financing. Consumer goods depreciate at a much more rapid rate than does the average home. The effect of the slower depreciation in the case of a house must be considered in the light of relatively higher financing costs which attend mortgage lending.

I respectfully direct your attention to the facts and principles stated above and wish to reiterate that the Kentucky Bankers Association is firmly opposed to S. 750 on the grounds stated herein, as well as on the grounds stated in my testimony of August 24 before your subcommittee.

Yours very truly,

ROBERT E. HATTON.

UNIVERSITY OF LOUISVILLE,
Louisville, Ky., August 28, 1963.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Production and Stabilization,
Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: As you will recall, I appeared before your subcommittee in Louisville, Ky., on August 24, 1963, as a cowitness with Mr. Robert E. Hatton, general counsel for the Kentucky Bankers Association. However, due to the lack of time, I did not have an opportunity to state my views regarding the general problem of determining the "simple annual rate" on consumer loans which are to be repaid in installments. Therefore, I would very much appreciate it, sir, if you would include the following statement in the record of the hearing on the "truth in lending bill," S. 750, which your subcommittee conducted in Louisville.

When I first became aware of the fact that S. 750 would require the lender to state the simple annual rate at which he proposes to lend money, my immediate reaction was that this seemed to be a most reasonable requirement and one to which no honest lender could possibly object. Consequently, when Mr. Hatton asked me to study the problem of determining simple annual rates, I agreed, but I also told him that I could not guarantee that my findings would support the thesis that it is often very difficult to make an accurate determination of such rates. Much to my surprise, my investigations into this problem have forced me to the conclusion that for a great variety of frequently occurring consumer loans the problem of determining an accurate and true simple annual rate is indeed very complicated and difficult. Furthermore, the difficulty is not resolved by using the constant ratio, direct ratio, or other approximations, rather than the annuity method for defining the true annual rate. There are a great many variables whose values must be specified in order to describe a given loan and these variables play an important role in the determination of a formula for the annual rate. This is true regardless of the definition one uses for the true rate. The result is that an almost infinite variety of formulas would be required to cover all conceivable cases which might arise. Moreover, I cannot see how one could settle this problem by the use of tables, since the formulas are necessary for the compilation of the tables.

In conclusion, it is my considered judgment that the requirement in S. 750 of a true and reasonably accurate statement of the simple annual rate would place an unreasonable burden upon the lender and would present great practical difficulties in many of the situations which arise in current consumer loan practice. If the agency, designated to administer such a requirement, should solve this dilemma by permitting the use of inaccurate rules which yield very poor approximations and untrue simple annual rates, then one must wonder what possible value could a knowledge of such rates have for the borrower, and is it not possibly the case that they might frequently serve to misinform, rather than to inform?

Sincerely yours,

LELAND L. SCOTT.

The CHAIRMAN. Thank you very much.

The next witness is——

Senator SIMPSON. May I suggest a 5-minute recess.

The CHAIRMAN. We'll take a 5-minute recess.

(A short recess was taken.)

The CHAIRMAN. The committee will come to order.

The next witness is the Honorable Tom Raney.

Senator Raney?

STATEMENT OF THOMAS RANEY, DEPARTMENT OF LABOR, STATE OF KENTUCKY

The CHAIRMAN. Thank you for coming, Senator. You've been very patient waiting.

Senator BENNETT. Before you start, Mr. Raney, we have lost a witness, and we're not sure if the man is here or intends to come.

Is there a representative of the Lexington Chamber of Commerce here?

(No response.)

Senator BENNETT. All right.

The CHAIRMAN. He'll be very welcome whenever he does come.

Senator BENNETT. Apparently he is not coming. This was a little bit indefinite all along.

The CHAIRMAN. Senator Raney, will you continue?

Senator RANEY. I'd like to state I am just getting over a case of laryngitis. I may have a little trouble reaching the people in the rear, but I will try.

Senator BENNETT. I have some cough drops. That might help.

Senator RANEY. I'm afraid right now it wouldn't. Maybe afterward.

Senator BENNETT. All right.

Senator RANEY. My name is Tom Raney. I live in Pike County, Ky. During the 1962 session of the Kentucky General Assembly, I served as a senator from Pike County. It was the privilege of State Senator Everett White and myself to introduce at that time Senate bill 124, a bill similar in content and objectives to S. 750.

There are many of us in Kentucky who believe that legislation of this sort is necessary to give the consumer a chance to make a sound decision on using credit after comparing interest costs that are stated in a forthright, simple manner. Unfortunately, our senate bill did not pass, and prospects in the future appear dim for the reasons I will outline later.

My purpose in apppearing before this Subcommittee on Production and Stabilization today is to convey to you my belief that this vital legislation cannot be enacted at the State level. I say this fully aware that one of the arguments used against the Federal bill, S. 750, is that if there really is a need for such legislation, that it should be enacted on the State level, not on the Federal level.

That this is a commonly voiced criticism can be proven by referring to an article which appeared in the August 19 issue of the Louisville Times. In this article, the author, Dick Berger, listed this argument as one of four most frequently mentioned by business groups who oppose the Federal bill. Since Mr. Berger's background as an expert writer on the subject of consumer credit is well known, I think it is fair to accept his judgment that the interposition of State jurisdiction in this matter is a major point by the opponents.

It is my belief, as I mentioned earlier, that such legislation as "truth in lending" cannot, in fact, be passed on the State level. Once the desirability of this type of law is accepted, there is no recourse left than to pursue its passage by the U.S. Congress. I make this statement only after the most careful analysis of the past history of the legislation in Kentucky and its future prospects.

I would also like to say at the outset that this belief of mine in no way reflects on the integrity or abilities of the legislators that make up the Kentucky General Assembly. Legislators are, in my opinion, no better and no worse than the public at large, and they genearlly try to do what they think is better for their constituents.

Senator SIMPSON. Senator Raney, are you asserting here that you don't believe in representative form of government?

Senator RANEY. I hope that is not what it implies to you, sir. It certainly is not what is intended.

Senator SIMPSON. I'm afraid it does. If it does to me, it probably would to others. I'm surprised at the statements. I just wanted to inquire if you felt State representative government is falling down.

Senator RANEY. What?

Senator SIMPSON. State representative government is falling down.

Senator RANEY. Perhaps if you'll permit me to finish——

Senator SIMPSON. Go ahead.

Senator BENNETT. May I warn you, you are talking to a former Governor?

Senator RANEY. That's perfectly all right with me. [Laughter.]

The CHAIRMAN. You've talked to Governors before.

Senator RANEY. Yes.

Senator SIMPSON. You've been to the Senate. I'm sure you've had that experience.

Senator RANEY. Yes, sir. It doesn't affect me in any way.

Do you mind if I go to the beginning of the paragraph?

I would like to say at the outset, that this belief of mine in no way reflects on the integrity or abilities of the legislators that make up the Kentucky General Assembly.

I hope that will clear you up on that, sir.

Legislators are, in my opinion, no better and no worse, than the public at large, and they generally try to do what they think is best for their constituents.

The problem of passing this type of sophisticated legislation rests on other grounds, which I will explain in my statement.

I would like now to give you some background on the history of the bill I cosponsored in the 1962 session of the assembly. We are all aware that this type of legislation is controversial. Strong lobbying groups opposed the disclosures required by Senate bill 124.

For a number of reasons, there appeared to me to be more than normal pressure brought to bear by the opponents of Senate bill 124.

For example, the introduction of the bill was accompanied by a great deal of publicity in the press, and efforts were made to confuse the public by distorting the intent of the bill. In an effort by opposing groups to defeat Senate bill 124, another bill was introduced. This bill also bore the label of the "truth in lending" measure but it was, in fact, a retail credit sales law. It cannot be denied that the substitute bill provided for some disclosures of credit costs, but it failed to contain the key requirement: that cost be stated in terms of true annual interest.

Senator SIMPSON. Was the other bill passed, may I ask?

Senator RANEY. Yes, sir; it was.

Senator SIMPSON. You are taking issue with the fact that they passed another bill instead of yours?

Senator RANEY. I am not taking issue with it. I am taking a statement of fact as I see it—just what took place during the session. I'm giving that merely as my belief as to why it could not be passed on a State level here.

Senator SIMPSON. That surprises me, that statement, that it can't be passed on a State level here.

Are you advocating more authority of the legislature, more authority of the other State's legislature, sir?

Senator RANEY. It's not my intention to do that.

Senator SIMPSON. You certainly do with your statements, and it certainly surprises me, but go ahead.

The CHAIRMAN. Your later material, which I had a chance to glance at, gives a detailed explanation.

Senator RANEY. I hope I may be able to clear the Senator up on it as we go along. If not, I'll answer your questions on it.

Ironically, this so-called consumer bill also legalized many service charges and refinance charges that now are being imposed by sellers of retail credit. In my opinion, this substitute bill was far from being one to benefit consumers. It, in fact, heavily favored creditors.

This was the legislative situation as it developed in the 1962 session of the general assembly. The distinguished members of this committee will agree, I am sure, that such a conflict between legislative goals requires calm, careful deliberations. This, as we shall see, is an impossible ideal in Kentucky legislature and in State legislatures generally across the country.

Senator SIMPSON. I think that's an unwarranted assumption, and I think it's the strangest thing I've ever heard, a State senator say that representative government doesn't work. It doesn't happen in the State of Wyoming. It may happen in the State of Kentucky . even doubt that.

Senator RANEY. You may doubt it, sir, but it certainly does happen here, if you'll just let me finish my statement.

The CHAIRMAN. I like my colleague from Wyoming very much. We get along very well as individuals. But I don't think he should challenge the motives of the senator from Kentucky.

Senator RANEY. May I say, sir, it makes little difference to me what his motives are or what his questions are. It doesn't bother me one way or the other. I've heard those things before.

Instead of the deliberate, well-planned pace necessary for consideration of such a complex piece of legislation, the Kentucky General Assembly was faced with considering nearly a thousand bills and resolutions in the space of 60 days. Our truth-in-lending bill was just one of these. In those short 2 months, the supporters of senate bill 124 found themselves confronted with the task of informing the members of the general assembly about the seriousness of the consumer credit problem, and about the undesirable effects it was having upon Kentuckians and the State's economic life.

This task would have been formidable if senate bill 124 were the only one being considered in the 60 days. As it was, with senate bill 124 being only one among a thousand, the task proved overwhelming, and, ultimately, impossible.

Our bill, unfortunately, did not pass. Nor am I at all optimistic about its chances in future legislative sessions. The pressure of time and the burden of the many bills will prove too much to overcome. Permit me to explain why:

In order to operate at all, the Kentucky General Assembly operates on a number of unwritten ground rules to speed things along. These include: (1) Lightning committee hearings where witnesses are heard from on a perfunctory basis; and (2) keeping controversial bills from ever reaching a vote. These rules may sound ill-conceived and even vicious when exposed in this manner, but believe me, without them the legislature could not function at all.

The CHAIRMAN. Did you ever get a hearing on this bill?

Senator RANEY. No, sir. We did not.

The CHAIRMAN. They never gave you a hearing?

Senator RANEY. No, sir.

The CHAIRMAN. They did give a hearing to the other bill?

Senator RANEY. Hearings were granted on the other bill. We were not given an invitation to attend.

Senator BENNETT. Were the other hearings perfunctory and lightning?

Senator RANEY. I was not at that hearing; I don't know.

Senator BENNETT. You made the statement that "lightning committee hearings" were held, where witnesses were heard on a prefunctory basis.

Senator RANEY. I am not referring to this bill at the present time, but to other bills before the legislation and the general procedure.

Senator BENNETT. Then your statement does not cover all bills offered and considered by the Kentucky legislation?

Senator RANEY. No, sir, it does not.

Obviously, this sort of operation makes it difficult or impossible for anything as complicated as a truth-in-lending bill to gain the thorough attention it deserves from the members of the general assembly.

Senator SIMPSON. Did the other bills gain this proper attention at the time, or were they inadvertently passed?

Senator RANEY. Many of them did gain attention. But the greater part of them did not, sir.

It is far easier to ignore this bill and get on to other matters, perhaps as vital as appropriations, that are not so controversial. For these reasons, I am not optimistic about getting our bill passed in Kentucky, desirable as it is.

You may argue that the problem is Kentucky's alone, not the Nation's. But I think that the problem of the overburdened legislature is not only germane to Kentucky, but to just about every State in the Union.

Senator SIMPSON. How do you know that?

Senator RANEY. The same way that you would know the things that take place in other States—by keeping in contact and reading the programs, televising, and newspapers of other State legislations.

Senator SIMPSON. Have you found in other States of the Union——

Senator RANEY. In many of them, I find they have the same problems.

Senator SIMPSON. Do I take it, then, you advocate that our lives and privileges and liberties should be controlled by the Federal Government; that the State legislatures be dissolved?

Senator RANEY. No, no, that's not my thought at all. It's not my intention to convey such a thought.

Senator SIMPSON. I confess, Senator, I don't want to argue with you, but your statement surely sounds like it.

Senator RANEY. Well, perhaps to you it does. I am offering it for such as it may be worth. Let me state to you, sir, that I had thought that this hearing was to be conducted for the purpose of trying to ascertain as to whether or not there was a need for such a law, particularly as it referred to Kentucky and the Nation, and you would welcome such information as may be necessary, that Congress may use.

Senator SIMPSON. Of course. But believe me, Senator, I hope you are not objecting to some repugnant question, even though they may be embarrassing. By the same token, you embarrass me, and members of this committee, if this is true about our Government, which I am trying to delineate, and trying to ascertain from you.

Now if you take objection to my asking you questions, I'll desist.

Senator RANEY. I am not taking objection. I just want you to know the reason why I make the statements I am making. If you would follow my statement, I would be glad to answer your questions.

Senator SIMPSON. I'm trying to. All right, go ahead.

Senator RANEY. As I was saying, you may argue that the problem is Kentucky's alone, not the Nation's. But I think the problem of the overburdened legislature is not germane to Kentucky——

The CHAIRMAN. Is not only germane to Kentucky.

Senator RANEY. Is not only germane to Kentucky, but to just about every State in the Union. Perhaps you may be an exception.

From talks I have had with friends in other States, I have discovered that many other State legislators face an impossible job when they respond to the call to go to the State capital for annual or biennial meetings.

I am reminded, too, of a program produced by NBC television called "Man in the Middle." This program graphically told of the problems, similar to ours here in Kentucky, that legislators faced in Minnesota and South Carolina. The story was the same in both States: too much work and too little time.

The television program made the useful point that integrity—or lack of it—of the individual legislators was not the core of the problem in the States. The problem is one of old institutions, operating under 19th century rules and laws, trying to cope with 20th century problems.

It is my opinion that Federal legislation on such matters as truth in lending is the only answer to the problem posed by the situation in State legislatures. I say this because there seems little likelihood that legislatures—at least in Kentucky—will be overhauled in the future. And such a bill as Kentucky's bill 124 is too vital to await reorganization.

The CHAIRMAN. Thank you, Senator. I thank you for coming here. I think your testimony is very honest and very impressive. I know that legislators do not like to cast reflections upon their colleagues.

I would like to ask you, however, would you be willing to speculate why this other bill was pushed through and why yours was never able to get even a hearing?

Senator RANEY. Senator, I think similar questions have been answered here.

First, let me say that time in the Kentucky Legislature does not permit—the space of time that we have to give proper consideration to the bills. There are many bills that come before us.

The CHAIRMAN. Why did the other bill get rapid treatment, go through express, while yours were put on a siding?

Senator RANEY. Because of the pressure groups with varied opinions. The different senators in areas were able to sell them a bill of goods that we simply were not able to do. In other words, they outlobbied us, and they were able to accomplish this.

The CHAIRMAN. Isn't it true, that the public's views, generally, are not represented, that generally the lobbyists, where special interests, which have a great deal at stake in given measures, are represented?

Senator RANEY. That is true in Kentucky, very much so.

The CHAIRMAN. You sometimes felt it was true in Washington, too.

Senator SIMPSON. Yes; we've been laboring for 8 months, and we brought forth a mouse today in Washington. [Laughter.]

Senator RANEY. What does this have to do with my testimony, sir?

Senator SIMPSON. Your analogy was the Federal Government could do it. If you are thinking that the State government is slower with its biannual legislation than the U.S. Senate and House of Representatives, you're whistling "Dixie." [Laughter.]

The CHAIRMAN. May I say, also, we've had trouble in holding hearings, too.

Senator SIMPSON. I haven't seen any evidence of it.

The CHAIRMAN. We failed last year by a vote of 5 to 4 in the subcommittee.

Senator BENNETT. Not to hold hearings, Senator. You held hearings last year.

The CHAIRMAN. Outside of Washington. We had the most desperate struggle to hold hearings outside of Washington this year.

Senator BENNETT. May I make the point again that this subcommittee has held more pages of hearings on this bill than any other bill in the history of the Senate Banking Committee.

The CHAIRMAN. It has held hearings in Washington, where high-priced Wall Street lawyers could testify.

Senator BENNETT. And high-priced labor union officials who came, and the credit union people. They came down.

The CHAIRMAN. A great many of them coming here giving testimony were John Q. Public and Jane Doe.

Senator RANEY. May I say, sir, that your statement about all the hearings and pages of hearings, and so on, to me, just exemplifies my point, but in Kentucky, in the time allowed limited legislators, is such an expense that they do not have the opportunity to give the time that you do.

For instance, you are here today, and you told us this morning you have been in three other meetings and hope to go to another one, which shows you do have more time to give consideration to things of such importance as truth in lending that we cannot do, on the State level.

Senator BENNETT. I agree that 60 days is less than our normal pattern of 7 to 8 months. This year, we're going to go to 12 months.

Senator RANEY. I believe you are going to hold hearings between the recesses.

Senator BENNETT. Most of the time, most of these weeks, we have had 2 to 3 days a week, so there's no use opening that up.

The CHAIRMAN. Let the record show that the bipartisan coalition does its work of deciding on bills very well. [Laughter.]

Senator BENNETT. This opens up a vast new opportunity for repartee. The President's party controls the Senate 2 to 1; in the House, 3 to 2—yet, the minority always gets blamed for murdering the baby.

The CHAIRMAN. At the time, there are two political parties, but when we made up Congress there were at least four political parties. We have the progressive Democrats, primarily but not exclusively from the North; the conservative Democrats, primarily from the South——

Senator SIMPSON. Conservative and progressive. [Laughter.]

The CHAIRMAN. The conservative Republicans, consisting of the vast mass of Republicans, and the progressive Republicans, a small but gallant band. [Laughter.] [Applause.]

This is a coalition of the conservative Democrat and the conservative Republican, blood brothers who have really dominated Congress for the last 25 years, and are in the seats of power as chairmen of the committees.

Senator BENNETT. Would you say the majority leader of the Senate belongs to this unholy alliance?

The CHAIRMAN. I never try to be personal about that. [Laughter.]

Senator BENNETT. I heard you say something. You used two words to describe Republicans, and I hope you said "vast mass," and not "vast mess."

THE CHAIRMAN. Whatever I thought, I would never use the words "vast mess." [Laughter.]

Senator SIMPSON. I take it, Senator Raney, from what you say here, that your particular legislature is an inefficient body.

Senator RANEY. It is, to the degree that we do not have the time to allow to each and every important measure that comes before it. We do not have the time to consider them as they should be considered before they are passed.

Senator SIMPSON. How often do you meet?

Senator RANEY. We meet every 3 years for 60 days.

Senator SIMPSON. Most people will probably disagree with you and say you're taking too long a time with those 60 days.

Senator RANEY. With some, yes.

Senator BENNETT. Just for the record, there were introduced in the last Congress of the United States over 17,000 bills. We passed 1,500 out of the 17,000, so the sponsors of the other 15,000 bills could say, "There wasn't time to get to our bills. We were rushed. Nobody gave us any attention."

Mr. Raney, I would like to question you about another matter pertaining directly to the legislation before us.

I have in my hand a copy of Senate 124.

Senator RANEY. Yes, sir.

Senator BENNETT. As I read it, that section referring to revolving credit, did not contain a requirement that a simple annual rate be stated in advance; as I understand it, you gave the seller an alternative of either stating the simple annual rates—these are the words:

> Either at the time of consummation of the transaction *or* the regular billing of the person to whom credit is extended a statement reflecting the uniform repayment schedule of the creditor, the actual finance charges per $100 or multiple or division thereof, at each maturity, and the percentage that the finance charge bears to the total amount of credit expressed as a simple annual rate at each maturity.

Now, can you tell me what that alternative was that you gave to the seller? What does that mean?

Senator RANEY. Senator, I confess that I do not know or remember what—too much of what was in the bill. I have not seen the bill since the session ended.

Senator BENNETT. When did the session end?

Senator RANEY. 1962. March of 1962. I don't remember too much of what was in the bill at that time. So much time has passed since, I can only say I didn't give as much consideration in studying the bill as I should have before, because we didn't have the time and it did not come before a hearing that would cause us to put emphasis on the bill.

Senator BENNETT. Someone else wrote the bill and you introduced it?

Senator RANEY. Yes. I cosponsored the bill or cosigned it.

Senator BENNETT. Everett White and Tom Raney were the two senators?

Senator RANEY. Right.

Senator BENNETT. Another interesting alternative to the revolving charge account statement given to the customer are these words:

> At the time of the regular billing or the person to whom credit is extended, a statement reflecting the amount of credit that has been extended, the amount of payments or other credits to the account, the actual finance charge assessed at that billing in dollars and cents, and the rate at which finance charges are, or will be, assessed against the person, expressed as a simple annual rate.

In other words, this seems to me to be after the fact, after the obligation has been incurred. You require in your bill that it be stated then. This part was in S. 750 until this morning, and then the Senator offered to make some changes which would no longer require the statement of this kind of information, specific information regarding each account at the end of the billing period.

The CHAIRMAN. I want to read the record very carefully on that and see if that is what I did offer.

Senator RANEY. If you refer back to my initial statement, at the beginning, on the first page, you will note that I said that it was similar in content and objective.

Senator BENNETT. The thing I am interested in is making clear for the record that this bill is not essentially the same as the bill we are considering here today, S. 750. If adopted, insofar as revolving charges are concerned, it would not have required revelation in advance, which is the basis of our disagreement.

Senator RANEY. May I say I don't want to get into discussion about the mechanics of either bill. I am not well enough versed on it. My purpose in appearing here was to give to you a picture why Kentucky, in my opinion, cannot pass such a bill in this State. If such a bill, or such legislation may be enacted, it would have to come from Congress. That's the purpose of my appearing here.

Senator BENNETT. You have also said, in answer to me, that you didn't understand what was in your bill or you no longer remember what was in the bill.

Senator RANEY. That's right. I remember some of it.

The CHAIRMAN. He's not an expert on the details.

Senator BENNETT. This is a basic point of the bill.

Senator RANEY. I am not an expert in details of it at all.

Senator BENNETT. I won't pursue that question any further.

Senator RANEY. I am not testifying as an expert; I am testifying only as to why I think Kentucky cannot now, or in the future for many years, pass such legislation.

It will have to be done on a Federal level, if it is done.

Senator BENNETT. No further questions.

The CHAIRMAN. Thank you, Tom. You are a very public-spirited man.

Senator RANEY. Thank you.

The CHAIRMAN. The hearing has gone on for so many hours that some of our witnesses have been compelled to leave: Judge Blakey Helm was to testify of a wide experience with people in trouble in his capacity.

I am going to ask unanimous consent that his statement be made part of the record.

Senator BENNETT. No objections.

(The statement follows:)

STATEMENT OF BLAKEY HELM, ATTORNEY AT LAW, FORMER JUDGE OF JEFFERSON CIRCUIT COURT, CHANCERY BRANCH, JEFFERSON COUNTY, KY., PRESIDENT, LEGAL AID SOCIETY OF LOUISVILLE, KY.

THE KENTUCKY ACT OF 1960 WITH REFERENCE TO PETTY LOAN COMPANIES

This act applies only to companies which procure a license for the making of small loans of $800 or less. The observations have nothing to do with the question of issual or revocation of licenses. They apply only to the provisions as to operation under the act.

Section 13 of the act, now published as K.R.S., 288.530, contains 12 subsections. The first subsection authorizes a licensee to lend not exceeding $800 under a schedule of charges of 20 percent per annum for the first $150, 15 percent per annum for the next $450, and 11 percent per annum for the net balance up to $800. The face amount of the note is the sum of the principal plus all interest charges for the designated period. The amount of the monthly payment is determined by dividing the total of the principal plus all interest by the number of months of the loan.

Fortunately, my experience with this act has not been as a borrower. Nor has it been as a lender. But the operations of this section have come before me for duties of interpretation.

Subsection (6) provides that, if the contract of loan is prepaid in full by cash, a new loan, or otherwise before the final installment date, the portion of the charges applicable to the full installment periods following the installment date nearest the date of prepayment shall be refunded. As my experience was in court hearings, it did not deal with persons who were either paying or refunding.

A further provision of subsection (6) is as follows:

"If judgment is obtained before the final installment date the contract balance shall be reduced by the refund which would be required for the prepayment in full as of the date judgment is obtained."

The provision compels a litigant, an attorney, and a judge to consider just exactly what credit should be given on a judgment which is given before the final installment is due.

In one case which was pending before me in 1961 there had been a loan of $639.89 cash with interest added of $203.11 making the face of the note $840. The debtor had paid one installment of $35 on the 24-month note. This left a balance due of $805. The maker of the note made no further payments. The holder filed suit for $805 with interest at 6 percent from the date of default, not referring to rights of the debtor under K.R.S. 288.530(6).

The debtor failed to answer and the noteholder asked for judgment by default, as so often happens. The burden was on somebody to find out what amount should be adjudged to the noteholder. It was in a position to collect its note because it had a mortgage on a Plymouth automobile.

I could find very few people who were thinking along the line of protecting indigent debtors, so I called in attorneys for several loan companies to get suggestions on how to determine the amount of principal and interest which the court could adjudge in this default. I was never satisfied that I had the correct answer.

The reason for this memorandum is purely to show the difficulty which this statute brings to people trying to comply with it, or enforce it.

As I understand a judgment taken after a note has run for 10 months can legally give judgment in full for the 10 accrued installments, but the following 14 installments should have deductions made of all interest charges included in those installments.

This is on the theory that when judgment is rendered there is no longer any credit being extended in the note. The judgment bears interest.

The purpose of this statement is to attempt to express to this committee the need for the borrowers to have some knowledge of what the obligation will be in the future months—as well as the day he borrows the money.

I am sure that any legislation, Kentucky or Federal, which does make this kind of information available to the borrower will render a real service not only to the persons needing to borrow money but to the litigants, the lawyers, and the court officials attempting to comply with legislation of this type. It might even add something to the buying power of the borrower who receives a credit to which the law entitles him, but which generally is not manifest from either the petitions or the exhibits in these default judgment cases.

The CHAIRMAN. Very good. Our next witness is Mr. Thomas T. Pogue, of Columbus, who has driven down a long distance to attend this hearing and has engagements in the evening which he must meet. I am going to ask the Louisville witnesses if they would be willing to defer to him so he may get back to Columbus.

STATEMENT OF THOMAS T. POGUE, OHIO DIRECTOR, UNITED CONSUMERS OF AMERICA

The CHAIRMAN. We are very glad to have you with us, Mr. Pogue. This is a regional hearing and not merely a local hearing.

Mr. POGUE. Thank you.

Senator BENNETT. What does that sign say? United Consumers?

Mr. POGUE. United Consumers. Thank you, Senator, and members of the committee. My name is Thomas T. Pogue. I was born in Muhlenberg County, Ky., in the heart of the western Kentucky coalfields.

I have a degree in history and economics. I went back to Muhlenberg County and taught school there—high school—teaching government and economics, and it was there that the birth of an idea came into existence.

That was, in viewing the exploitation of the consumer by most other organized groups, a definite need was eminent—that the consumer should be organized.

So today I am here as the Ohio director of the United Consumers of Ohio, which is a State-administrated unit of United Consumers of America, about which you will be hearing plenty more.

My formal statement is as follows:

United Consumers of Ohio endorses and supports the basic principles of providing the consuming public with truthful and full disclosure of all conditions of credit and particularly providing both oral and written statements of actual credit charges in total dollars and cents and the true simple annual interest rates without request by the consumer and before the consumer signs any contract.

Considering all known proposals, it is recognized that the truth-in-lending bill, sponsored by Senator Douglas, of Illinois, provides the consumer with the best protection available at this time, disregarding maximums of interest rates.

Every consumer organization and every labor organization in the United States has, to the best of our knowledge, stated that they support without hesitation the truth-in-lending bill.

Before I read further, I would like you to know that members of our Advisory Board—who are Dr. B. F. Lamb, past president for 35 years of the Ohio Council of Churches; Rev. John Wilson, executive secretary of the Ohio Council of Churches; David Kane, president of the Ohio AFL-CIO; Orville Jones, educational director of the Ohio AFL-CIO; Dr. Clinton Warne, associate professor of economics at Ohio State University; Dr. Leland Gordon, professor of economics at Dennison University; Charles Remy, public relations director of the Ohio Credit Union League; Theodore Saker, attorney and former Administrative Assistant to Attorney General McElroy; Dr. Joseph Blair, educational Services manager of Nationwide Insurance; and Carl Bair, who is special consultant to the president of Nationwide Insurance—that these organizations and their representatives support wholeheartedly the following statement:

The abuse of consumer credit in Ohio by the exploitation of ignorance for profit is particularly vicious for the following reasons:

One, the consumer is denied the possession of all the facts regarding the conditions of credit.

Two, there is an evasion of usury laws by lack of an adequate definition of "interest" as to the all-inclusive price to be paid for the use of money or credit, and that's a definition from Webster's.

Three, court delays and postponement thwart justice in most cases for the consumer and become more expensive than the cost of the fraud.

Four, signing notes and contracts containing a "no recourse" clause when sold to a third party deprives the consumer of a bargaining lever when a product or service is unsatisfactory or misrepresented, whether it be the product or the terms of credit.

Five, signing of notes and contracts containing a "cognovit" clause deprives the consumer of his rights of defense regardless of circumstances, bringing an unnecessarily high number of bankruptcies.

Roadblocks of frustration confuse the consumer's mind into apathy regarding conditions and tranquilize the consumer into impulse buying for easier shearing.

The CHAIRMAN. You say "shearing," not "sharing."

Mr. POGUE. I sure do—you know, like the sheep.

The CHAIRMAN. You compare the consumer to a lamb whose wool is sheared?

Mr. POGUE. I'm afraid, in this case, Senator, I have to. That's the condition of the consumer in the United States at the present time.

Senator BENNETT. All consumers?

Mr. POGUE. Well, I'll say 95 percent and give you the leeway of 5.

Senator BENNETT. So, 95 percent of the consumers are cheated, defrauded, and sheared?

Mr. POGUE. That's exactly what I said.

Senator BENNETT. You are saying 95 percent of the consumer transactions are part of this shearing process?

Mr. POGUE. I said that, too, Senator.

Senator BENNETT. That's what I thought you said.

Mr. POGUE. The placing of individual cases of credit abuse and the various complex manipulations and techniques of fraud performed by lenders has been presented over the years at these hearings by numerous so-called authorities in the consumer credit field.

Senator SIMPSON. Everybody else is wrong but you.

Mr. POGUE. No. Everyone is out of step but you, Senator, not me. I'm with the 95 percent. I'm trying to protect them. I'm not trying to protect the vested pocketbook interests of the people who are depriving and cheating the American consumer.

The CHAIRMAN. Right there, Mr. Pogue. Senator Simpson isn't either.

So, let's proceed.

Mr. POGUE. Thank you, Senator.

Senator BENNETT. I think the gentleman is drawing a perfect picture of the reliability of his testimony, and I hope he continues to talk naturally into the record. [Laughter.]

Mr. POGUE. That's one thing you can be sure you can count on.

It is not our intent to duplicate these efforts and bog down in the intricate details and cause further confusion.

Representation of the actual point of view of the ultimate consumer is the most rare occurrence in political, social, and economic life.

United Consumers of Ohio goes directly to the consumer to determine the existence and nature of their problems as a consumer, not so-called authorities who as a byproduct present some useful information but who consciously or unconsciously have biased their judgment in attempting to prove a point of view for their patrons in business and industry or their supported organizations.

Now, we realize that it can only be expected in most cases that so-called authorities receiving this support, directly or indirectly, will attempt to justify the current conditions or fog up the issue with abstract economic theories based upon unrealistic assumptions of "if," which have been repeated and repeated where in some places it is accepted without question, in argument on both sides of an issue.

United Consumers knows from firsthand knowledge, from the thousands of consumers surveyed by our organization that without even one exception, the consumer has stated absolutely "yes," when asked the question: Do you believe that you should be told before you sign a note or contract what the true annual interest rate the bank or finance company is actually charging you?

The consumer needs and wants to know the total cost and true simple annual interest rates so that the consumer can shop for credit and compare the real cost and conditions of payment.

Senator BENNETT. What good would it do to shop if 95 percent of the people he shopped among are liars and thieves and exploiters?

Mr. POGUE. They've been trying to knock out sin for many years, but they are still working at it day and night and all of us commit sin, now, don't we?

Senator BENNETT. Speak for yourself. [Laughter.]

Mr. POGUE. Oh, I am. [Laughter.] I try to speak of nothing about which I know very little.

The CHAIRMAN. There, let me say—well, I won't say it.

Mr. POGUE. Let me take it one more step. The one act of violence accorded or recorded to Christ was when he drove the lenders out of the temple. Do you remember that—that's in the Bible.

In the Lord's Prayer, we say, "Forgive us our debts——"

Senator SIMPSON. Don't say it in any school system. [Laughter.]

Mr. POGUE. We're not in school, Senator. [Laughter.] "Forgive us our debts, as we forgive our debtors."

Senator SIMPSON. We use "trespasses."

Mr. POGUE. Oh, I knew you would, Senator; I knew you would.

Senator SIMPSON. You don't like my religion either? [Laughter.]

Mr. POGUE. Thank you.

I am one of those southern Baptists.

Now, this next statement, I think, carries the meat:

By bribery of premium and gimmicks as inducement to buy, by misrepresentation of quality and quantity of product and services, and by minimizing the cost of product and failing to disclose in understandable simple terms the true cost and simple annual interest rate on credit, the consumer is beguiled into wasteful overspending and accepting overextension of credit which has resulted in gigantic social cost and in public and personal tragedy.

Public tragedy is reflected in historical study of the economic factors involved in our cycles of boom and bust in the last 100 years. The deliberate manipulation of extending and retracting credit was a vital factor. The rich grew richer, and the number of poor consumers increased.

Personal tragedy is reflected in the mounting increases in—marriage problems and divorce rates; juvenile delinquency and family instability, garnishment, unemployment, and bankruptcy; educational dropouts and failure to attain higher levels of education; psychological pressure and acts of criminal violence; mental breakdown and suicide; moral decay and loss of respect for obtaining justice.

The truth-in-lending bill is a definite step in the direction of informing the consumer and providing a basis for rational judgment instead of emotional impulse in buying, thereby creating greater public and personal stability.

Then, I have stated, we respectfully request the privilege of extending our remarks, if it becomes appropriate.

The CHAIRMAN. Thank you very much.

Mr. POGUE. I would like to extend my remarks, if I may.

The CHAIRMAN. Certainly.

Mr. POGUE. Seven or eight points have come up that we think are of vital significance throughout these hearings and previous hearings.

Businessmen have testified that they could not figure the rates of interest. Now, gentlemen, how does a businessman borrow as a businessman when he borrows from the bank; or how does the bank borrow?

Or when he is paying interest on my savings, how does he tell me about it?

How does he tell the consumer?

It's rather odd, gentlemen, and it's also particular in big industry that these rates, in percentages, mean millions of dollars, so they have them down to a quarter of 1 percent and a half of 1 percent, but it's never all this gimmickry which we get when we borrow money or when we are offered credit. Now, why?

Why is it that the businessman can't understand it, when he is charging us—but the minute he's borrowing, he becomes a genius in finance?

There's basic inconsistency in principle, as stated in these previous hearings and at the hearing today, particularly in which the statement was made, in one case we want dollars and cents; that's in short-term credit. But in long-term credit, let's have it in simple interest rates.

Now, why?

Gentlemen, it's like this: If I was going to sell you 10,000 units of something, why try to tell you how much 1 unit will cost? See? It minimizes the cost.

But when I try to tell you what a saving I'm making for you, how it figures out with 10,000—boy—look, look what a tremendous figure it is.

It is this gimmickry, this displaying of semantics, this misrepresentation and twisting, bringing misconception, the lack of information, of knowledge on which sound judgment can be formed—this is an inconsistency.

For instance, also, I have been a member of the staff of the National Federation of Independent Businesses for 5 months and was a district manager. This organization is larger than your five largest trade organizations all rolled into one.

Five months under the vice president of public relations. These men walk in and they say, all of a sudden, "No, we do not want Federal control—it's terrible."

But these same men will be in Washington testifying, "Let's have fair trade." Now, is that not Federal control? This is basic inconsistency of principle, moral principle, even.

Senator BENNETT. I don't like to interrupt this, but when we in Congress say we would like to extend our remarks, this means that we request permission to put additional material in writing in the Record, rather than continue to testify verbally.

I thought we were giving this witness permission to submit written statements.

Mr. POGUE. I am not a Senator. I have not been a member of the legislature. Even though I have been a teacher of government. I should, Senator, have known this point. My apologies, and I shall renew my request. Give me about 5 more minutes, and I will shut up.

I do know that two previous witnesses one behalf of the opposition got an hour each or more.

The CHAIRMAN. Do you think you can wind up in 6 or 7 minutes?

Mr. POGUE. Yes, Senator, I can.

Senator BENNETT. Fine.

The CHAIRMAN. We want to be generous.

Mr. POGUE. Now, it has also been brought up that there has been a tremendous cost in administering this law. Right now, our country is in a huge defict anyway, and we should not take on any more deficits. You know, it's more than magical, the concern for deficits of the Government; but the lack of concern for deficits of the personal nature, of the indebtedness of the individual, is also there.

Now, why is this basic inconsistency allowed to persist in testimony and go somewhat unchallenged. Local merchants in Columbus have come to our organization and while we were still new, telling us about the various technics in which, for instance, a charging system is made.

Pay in 30 days; no charge. The Senator even mentioned it today; "No charge." But in Columbus we have an organization that costs the merchant 6 percent. The retail merchants representative today said all costs are paid by the consumer, so I have to pay that additional 6 percent anyway.

No cost? It's a lie. We would like for the consumer to be told the truth.

Senator BENNETT. Now, wait a minute. The merchant says, "No charge"; is that a lie?

Mr. POGUE. Of what? The merchant doesn't say anything of no charge.

Senator BENNETT. I was quoting your words.

Mr. POGUE. The charge is in the system.

Senator BENNETT. There is no charge to the consumer, but there is a cost to the merchant. I think there is a definite difference.

Mr. POGUE. Any cost that a merchant has is a charge to me, Senator, if I buy the product at 6 percent. This man has made $2 million in the business. I think he knows what he is talking about.

Now, let me conclude before my 5 minutes. We can sit up here and give all kinds of testimony from organizations who have taken the money out of the consumers' pocket and paid the bill to come here in these various organizations, to testify before various types of hearings.

Fine. We have our high-powered lawyers, as was said, from business on Wall Street. One of those was also mentioned from New York.

I am not a high-priced attorney. I haven't drawn one copper. These hearings are beneficial and, in fact, present to the public exactly what we are trying to do in the promotion of truth in lending.

And from this standpoint they have been very, very essential. We wanted to have at least a presentation of the ideas of a consumer group that I came in from Columbus to be here today.

I realize that the emotional appeal, the sincerity I have in believing in my mission of coming here, could well be inferred, as it was, that—well, this will kind of, taint up your responsible position of leadership, or you are not a very responsible witness, you know.

I don't like it. I am just as responsible as you.

Senator SIMPSON. Every laborer is worthy of his hire.

Mr. POGUE. Thank you, sir. Thank you. One is paid with a labor of love and the other with canker sores. I will take the labor of love.

The CHAIRMAN. Thank you very much for coming.

Mr. POGUE. Thank you, Senator.

(The following information was supplied by Mr. Pogue:)

UNITED CONSUMERS OF AMERICA, UNITED STATES, OHIO DIRECTOR, COLUMBUS, OHIO

United Consumers of Ohio began to organize, promote, and serve the consumers of Ohio on May 23, 1963.

United Consumers is a nonprofit, nonpartisan organization of consumer membership working for consumer protection.

The consumer's pocketbook and buying power will be better protected by (1) helping the consumer to "know what you are buying" and "get what you pay for," (2) bargaining for a better price, quality, quantity, and availability of products and services, and (3) combating and defeating consumer fraud.

United Consumers proposes to raise the consumers' level of living by action programs of research, education, and legislation.

United Consumers provides the consuming public with (1) consumer complaint center (in Columbus-Franklin County, phone 221–3318) as a consumer service and as a research and investigative arm; (2) clearinghouse of information and education on consumer problems; and (3) coordinator of consumer activities on a local and State level.

Research programs provides investigation in (1) food purity, packaging, and pricing; (2) housing availability, quality, and pricing; (3) utility, transportation, insurance, and hospitalization rates; (4) employment agencies; (5) trading stamps and premiums; (6) advertising of tobacco and alcholic products; (7) drugs and medicines safety, effectiveness, and pricing; (8) water resources; (9) credit; (10) competition, price fixing, and fair trade.

Educational programs provide for creating opportunities of consumer education using all media such as newsletters, newspapers, magazines, radio, TV, and various classes, conferences, and public meetings and establishing consumer units particularly in churches, activity groups, (service clubs and civic organizations), unions, and schools. To demonstrate the degree of existence on consumer fraud and the effectiveness of present law and its enforcement for consumer protection, United Consumers of Ohio will request grand jury investigations of consumer fraud in each county of every district in which United Consumers opens its operations and also periodically thereafter.

Legislative programs for 1964 provide for (1) consumer representation in State government by creating in the executive branch (*a*) consumer counsel, (*b*) department of consumers, (*c*) consumer advisory council; and by creating in the legislative branch (*d*) consumer committees in both houses of the general assembly; (2) consumer protection by enacting the following (*a*) truth in lending, (*b*) truth in packaging, (*c*) truth in advertising, (*d*) truth in pricing, (*e*) abolish cognovit note, (f) abolish referral selling; and (8) adequate appropriations for State agencies to provide enforcement of existing law for consumer protection.

Yearly voting membership dues of $2 for regular, $5 for sustaining, (?) for contributing, and nonvoting associate membership for (?) provides (1) subscription to the United Consumers with special issues ballot to be mailed to Congressman, (2) special research bulletins, (3) consumer counseling programs and conferences, (4) debt counseling services, (5) consumer complaint services, (6) representation to any person and any organization—governmental or nongovernmental—concerned with consumer interests under any circumstances, and (7) action for the enactment and enforcement of law for consumer protection.

United Consumers of Ohio is a State administrative unit for United Consumers of America—U.S. incorporated in Columbus, Ohio, on May 23, 1963. Incorporating officers as ordinary consumers were: Thomas T. Pogue, of Columbus, president; Clyde Howell, of Dayton, vice president; Willis E. McNabb, of Hebron, vice president; and Charles Strohl, of Hilliard, secretary-treasurer.

The State office for United Consumers of Ohio has been opened at 205 North High Street in Columbus, Ohio, and will be followed by district offices in Cleveland, Cincinnati, Dayton, Toledo, Akron, Canton, Youngstown, Lima, Bowling Green, Portsmouth, Springfield, Marion, Athens, Warren, Elyria, Zanesville, Mansfield, and Steubenville.

A former government and economics teacher, Thomas T. Pogue, of Columbus (age 33), serves as the full-time Ohio director giving reality to United Consumers becoming a strong and respected voice representing the consumers point of view.

The members of United Consumers Advisory Board are:

Dr. B. F. Lamb, past president of the Ohio Council of Churches for 35 years.
Rev. John Wilson, executive secretary of the Ohio Council of Churches.
David Kane, president of the Ohio AFL–CIO.
Orville Jones, educational director of the Ohio AFL–CIO.
Dr. Clinton Warne, associate professor of economics at Ohio State University.
Dr. Leland Gordan, professor of economics at Dennison University.
Charles Remy, public relations director of Ohio Credit Union League.
Theodore Saker, attorney and former administrative assistant to Attorney General McElroy.
Dr. Joseph Blair, educational services manager of Nationwide Insurance.
Carl Bair, special consultant to Nationwide Insurance.

The CHAIRMAN. The next witness is Nancy Von Bokern. As I understand, Mrs. Von Bokern has some associates here today.

STATEMENT OF NANCY VON BOKERN, INTERNATIONAL REPRESENTATIVE, RETAIL CLERKS INTERNATIONAL ASSOCIATION

The CHAIRMAN. You have been very patient, Mrs. Von Bokern. Do you have some associates with you?

Mrs. VON BOKERN. No, I don't, Senator.

The CHAIRMAN. We are very glad to have you testify.

Mrs. VON BOKERN. Thank you.

My name is Nancy Von Bokern. I am an international representative for the Retail Clerks International Association, assigned to the southeastern divisional office in Cincinnati, Ohio. The territory in which I work consists of Kentucky, Indiana, Virginia, West Vrginia, Michigan, and parts of Ohio and Canada. I maintain an office here in Louisville.

Working as I do with clerks in hundreds of retail establishments in these States and Canada, I have found a need for the bill both from the point of view of the seller and of the consumer. Obviously, when our clerks aren't selling they are consumers. And when they are selling, they get a pretty good idea of the problems of other buyers—problems that are intensified by the credit practices of many retailers.

It is my conviction that S. 750, if passed, will be a useful instrument in clearing up the fog that shrouds too many credit transactions today.

It will not perform miracles. Persons choosing to take on debt in excess of their ability to repay will still be able to do so. But it is my feeling that the bill will help a vast number of people who take on the burdensome obligations of installment contracts unaware of what credit is costing them.

The other day, while preparing material for my statement, I came across an atircle in the Courier-Journal of August 20. The headline itself spoke volumes about the situation of the present-day consumer. It read: "Consumer Buying Credited for Rosier Outlook Here."

The story that followed was based on a finding by the Louisville Chamber of Commerce that (and I quote):

> A strong consumer-buying trend has kept the Louisville economy out of the summer doldrums and new gains are in sight. * * *

I couldn't help wondering whether the headlines writer for the story wasn't making a pun by using the word "credited" in the headline. Was this, I wondered, an indication of where the strength lay in the consumer-buying trend? Unfortunately, no answer was forthcoming in the rest of the article. The chamber of commerce was merely reporting that retail sales were continuing to rise in the first half of August.

There was no indication given whether credit transactions were playing a major role in this increase, although from what we know of retail sales practices, it can be surmised that credit was a factor, if not the factor.

The story left me with mixed emotions. I was glad to read that the much-abused consumer was still sturdy, that he was continuing to spend great chunks of his income to keep the economy of Louisville running.

The CHAIRMAN. I notice you used the masculine—that "he" was continuing to spend great chunks. Now, don't you do your sex a disservice? Shouldn't it be "she"?

Mrs. VON BOKERN. Well, he or she—I think we all——

The CHAIRMAN. Perhaps it should be chunks of "their" income.

Mrs. VON BOKERN. The woman does the greatest deal of buying, Senator.

Senator BENNETT. I would like to share with you something I heard while I was in high school and I have enjoyed it every since: "Man embraces woman."

Mrs. VON BOKERN. I was disturbed by a question that crept into my mind: What if the Louisville consumer was unable to pay out, in one form or another, record amounts of money? Would our great city's economy flounder?

You can well imagine my feelings when I later came across a statement made during the 1961 hearings on the previous version of S. 750. The statement, made by a representative of one of the great retail chains, seemed to bear out my worst doubts. Here is what the gentleman said:

> This legislative proposal would disrupt the distribution and sale of consumer goods at a time when our economy requires all the support possible from consumer purchases * * *. If the bill should become law, installment sales of consumer goods would be curtailed.

You can imagine how I felt, preparing testimony in favor of S. 750, a bill that apparently would remove the finger in the dike that was keeping Louisville's economy high and dry. I asked myself whether I shouldn't stay home today rather than testify in support of a measure that would wreak havoc on Louisville.

But my pride in the Louisville consumer wouldn't let me do it. I felt bound to come here and speak in support of S. 750, even if it meant flying in the face of the best minds in the chamber of commerce. My conclusion, gentlemen, is this:

Today's consumer, without the benefit of clear and honest disclosure of credit costs, is already courageous enough to carry the economy of Louisville along on his shoulders; think what he would do if he were permitted to know fully the cost of credit he is paying.

I'm not so sure that the passage of S. 750 wouldn't result in a millenium for retail sales.

If we accept the importance of the consumer in our present-day economy, I can't see how we can deny this selfsame person the right to know exactly what he is offered in the way of credit costs. The consumer is supposed to know the cost and quality of items he buys. Theoretically, the retailer who offers merchandise at prices higher than those offered for goods of similar quality will suffer loss of sales and perhaps be forced out of business. That is the law of the marketplace.

There is no such law in the case of consumer credit. In fact, all grantors of credit, whether they are offering 15 or 30 percent interest annually, seem to be doing well. One of the prime reasons for this obviously is the fact that the consumer is not offered the choice between the 18- and 30-percent figures. Instead, he is told he may pay so much down and make so many installment payments of a certain size.

By agreeing to do this, the consumer may be getting a deal at 18 percent or may be paying through the nose at 30 percent. This holds true in a variety of retail contracts, such as those involved in the sale of furniture, clothing, and appliances.

I personally cannot see how mere disclosure will affect the volume of retail sales. The consumer's needs won't change simply because he knows what his credit is costing. However, this knowledge may very well induce him to seek an alternate source of credit. He may, for example, visit a merchant extending credit at 12 percent on an annual basis and buy clothes there rather than pay another department store 18 percent for the same privilege.

S. 750 also may help to remove from the shoulders of the consumer some of the burden of keeping the economy moving again. To hear some people tell it, the consumer would be positively un-American to retrench his installment buying. But would it be un-American for the consumer to seek out the best credit buy before buying on time? S. 750 would assist immeasurably in that search.

I would like to add a word here about comments made at previous hearings of this subcommittee concerning the ability of clerks to comply with S. 750's provisions. There have been statements made that the bill would impose an impossible burden of computation and clerical work upon retail clerks. Some opponents claim the bill would force merchants to hire additional help to assure compliance.

May I say that I personally do not feel that there is anything in the bill more complicated than the present types of credit transactions that are made in retail establishments today. If a clerk has been handling installment sales contracts, he can easily learn to comply with the bill's provisions. As a corollary, if the merchant would spend as much time explaining the bill's requirements as he ordinarily does explaining his sales contracts, then I'm sure our clerks would experience no trouble.

The subject of education by labor organizations was brought up in testimony this morning by Judge Kellerman.

We realize that there is a tremendous job to be done and Mr. Land will have more to say about it; however, I would like to say that we are doing the best we can to educate our people. We feel this is a task everyone should help with.

Why can't the merchants and lenders here in Louisville join with us in a concerted effort to teach the public the full truth about the economic facts of life?

I can assure you that labor movements in Louisville will give full support to such an undertaking. We know there is a job to be done.

Thank you very much for hearing my testimony. I hope S. 750 becomes law.

The CHAIRMAN. Thank you very, very much.

It take it that what you are saying is the Retail Clerks International Union will cooperate to try to educate its members and the general public about the facts of credit costs. You would like to have the merchants and bankers cooperate with you?

Mrs. VON BOKERN. Right; we certainly would.

Senator BENNETT. May I ask Mrs. Von Bokern a question? According to the information I have, you have been, at one time, employed by a finance company?

Mrs. VON BOKERN. No.

Senator BENNETT. Then, I am sorry. My information indicates you were formerly employed by the Associated Loan Co.

Mrs. VON BOKERN. My daughter.

Senator BENNETT. I see. Since you are an authority on retail credit associations, have you been a retail clerk?

Mrs. VON BOKERN. Yes; I have.

Senator BENNETT. Behind the counter in a store?

Mrs. VON BOKERN. For 13 years, sir.

The CHAIRMAN. I would like to ask from what source did the Senator from Utah gather this personal information?

Senator BENNETT. Well, the Senator has sources, just as the Senator from Illinois has sources. I don't think this is derogatory information, because she is talking about experience, and I was just trying to find out whether she had, in fact, any experience in computing finance charges herself.

She said it was her daughter.

Mrs. VON BOKERN. Yes, sir.

Senator BENNETT. But you have stood behind the counter in a store?

Mrs. VON BOKERN. Yes, sir; for 13 years on Fourth Street here in Louisville.

Senator BENNETT. Now, on page 5 of your testimony, you talk about the comments that have been made about the ability of clerks to to figure this rate.

Mrs. VON BOKERN. Yes.

Senator BENNETT. In your work behind the counter, did you have anything to do with installment accounts?

Mrs. VON BOKERN. No, sir.

Senator BENNETT. You did not?

Well, maybe a little more time would be required for the task that I would like to give you. If you had been called as a witness 2 or 3 hours ago, I would have asked you to try to work this problem out while you were here.

But since it is 5 o'clock, I am going to give you a problem, which is the kind a clerk might be asked to work out behind the counter. Now I won't put any limited amount of help on this to you.

Will you take this question home and time yourself, so that you could tell us, after you have had some help in getting the information, how much time it took you to figure this.

I will read the question:

A lady purchased a washer on the 15th of February 1962 for a cash price of $179.95, with a $23.50 finance charge, an add-on charge, payable in 23 installments of $8.50, and a final installment of $7.95. The payments were to begin on April 1.

The customer paid six scheduled monthly payments. On the 15th of September, she decided to buy a drier and add it to her account.

The cash price of the drier was the same as the washer: $179.95. The same finance charge of $23.50 is added, and a new purchase is added to the old balance.

The new monthly payment on the combined balance is to be $15 a month for 23 months, and a final payment of $10.90.

Now, according to Senator Douglas' bill, you would have to give the lady who bought this the following information:

The percentage that the finance charge bears to the total amount to be financed, expressed as a simple annual rate on the average outstanding unpaid balance of the obligation.

The percentage rate, I ask you to compute. This is the rate you would give the woman at the time she made this purchase.

She had already paid 6 months on her washer. Now, she comes in and buys a drier and adds the two together. I would like to have you do this job. If possible, I would like to have you submit the worksheets that you use for the calculations, and a record of the amount of time that it took you to do it.

In the face of the fact that you testified that any clerk can easily learn to do it with a little training I want you to try it.

Of course, your situation will be different than the clerks, because you can work it at your own time. The clerk standing behind the counter has got to work this out while the customers come in, other customers are there pressing for attention, perhaps; and these are the problems.

Now, I am frankly trying to demonstrate that it is not as easy as it sounds. I have said earlier, I will be honest with you—I gave a similar problem to a lady who made a similar kind of statement a week ago today, a week ago yesterday. She thought she could figure it before she left the room, but I still haven't had her answer, after a week.

Now, this—take your time. Get the help you need and find out how to do it. Then, tell me when you are through whether you think it is as easy as it sounds.

Mrs. VON BOKERN. May I say, Senator, the average consumer, I think, if given the even rather than the odd time payments of 24 months, would be able to figure the interest she was paying.

Senator BENNETT. I will be glad to send you a problem with even amounts.

Mrs. VON BOKERN. It doesn't make any difference to me. I just want to comment that I do think the average consumer would be able to figure the even rather than the odd months easier.

Senator BENNETT. My impression is that if you had one of these Little Man's interest rate computers, that would make a difference, but I am sure you could multiply by 17 as easy as you can multiply by 18.

Mrs. VON BOKERN. Well, sure, I will be glad to appear any time on behalf of S. 750.

The CHAIRMAN. We asked a question of the American Bar Association 2 years ago. We asked them to supply some information and to give an answer to questions. We haven't heard from them yet. [Laughter.]

And that's from the high-priced, high-salaried lawyers in the finance industry.

Now, without making any comparison with the man that was personally involved this afternoon in an event that occurred 1900-and-some years ago, do you remember the Sadducee who asked of Jesus, concerning a certain woman—he said, "This woman has been successively married to seven men, each one of whom has died."

Then, the Sadducee thought he was going to demolish Jesus by asking, "Now, to whom is she married in Heaven?"

And the answer was very simple: "In Heaven they neither marry nor are given in marriage." In other words, the question bears little resemblance to reality.

I would say when the American Bar Association answers our questions, then I think it will be proper to answer his question 2 years from now. [Laughter.]

Senator BENNETT. The American Bar Association was asked for an opinion. You are asked for a mathematical computation. This is not a highly complicated question. Now, if you want to change these figures, if you want to round out the amounts, instead of $179, make it $200.

Cast your own problem, as long as you retain the basic pattern of the question, which is that the woman buys one appliance, and after she has paid for a certain length of time, she buys another appliance, and your job is to figure out these simple annual rates on the second appliance.

This is a job that is faced by many retail clerks in many stores in this country every week.

Thank you.

Mrs. VON BOKERN. Thank you.

(Subsequent to the hearings Senator Bennett sent the witness the following letter:)

OCTOBER 1, 1963.

MRS. NANCY VON BOKERN,
Retail Clerks International Association,
Louisville, Ky.

DEAR MRS. VON BOKERN: I am curious to know if you have been able to work the problem which I gave you in connection with the hearings on S. 750, held in Louisville on August 24. I am not trying to badger you but I am sincerely interested in having an answer. You will recall that I also asked you to furnish me your worksheets and also an indication of the time it took you to work it out.

In the event that you have lost or misplaced the problem advise me and I will send you another copy of it.

Sincerely,

WALLACE F. BENNETT.

The CHAIRMAN. I think the opponents should now put on a witness.

Senator BENNETT. Mr. Richard M. Carter, vice president of the Kentucky Central Life Insurance Co.

While Mr. Carter is coming up, I would like to offer for the record a statement of Mr. Laurie Leonhardt, Jr., who would have appeared as a witness. We will now offer his statement.

The CHAIRMAN. It will be done.

(The statement referred to follows:)

STATEMENT OF LAURIE LEONHARDT, JR., TREASURER, LEONHARDT APPLIANCES

Mr. Chairman and members of the subcommittee, my name is Laurie Leonhardt, Jr. I am treasurer and assistant general manager of Leonhardt Appliances, Inc., and Leonhardt Appliances-Shively, Inc.

I wish to thank you for the opportunity to appear before this subcommittee in behalf of our firms. Ours is a small business, employing 24 people. My father started this firm 18 years ago when he opened one store. Today, we have four retail appliance stores in the Louisville area and have become an important part of the appliance sales business in Louisville. We feel our growth has been due to our dedicated policies of truth, value, and service.

We know the products we sell, we explain them fully to the customer and back them up with our own trained service department. When we sell our appliances we also offer financing which has features of value for our customer.

As treasurer of our firm, I am opposed to S. 750, especially section 7 on page 4, "the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the average outstanding unpaid balance of the obligation." I am opposed to this for the following reasons: The Commonwealth of Kentucky has lately enacted its own "truth in lending" bill in the form of a retail installment sales act and this law completely protects the consumer by providing that the retail installment contract must be filled out completely with all spaces filled in including the total dollars and cents of financing charge.

I would like to submit to the members of the subcommittee one of our retail installment contracts. You will note at the top in bold type a notice to the buyer: "Notice to the buyer: Do not sign this contract before you read it or if it contains blank spaces. You are entitle to a copy of this contract before you sign."

In addition, the following is required to be listed:

Cash price
Less trade-in
Cash price with trade
Kentucky sales and use tax
Basic price
Less cash downpayment
Unpaid cash balance
Filing fee
Principal balance
Finance charge
Time balance
Outstanding balance of previous contracts
Total time balance

And you will note at the very bottom a statement in very bold type: "I hereby acknowledge the receipt of a copy of this retail installment contract."

The Commonwealth of Kentucky can and has taken care of its own. To comply with this proposed law and to calculate the simple annual rate is hazardous, difficult, and not always revealing. We have several policies built into our credit package that cannot be reflected in "simple annual rate." No charge for 90-day accounts. This includes contracts written for 12, 18, 24, or more months. Even if a buyer signs a contract for 24 installments he can pay the cash amount within a 90-day period and obtain a paid in full receipt. Even this policy must be flexible. As a small firm we must bend to the demands of the buyer to maintain good will and this often results in extending this 90-day credit to 120 days or more.

The proponents of this bill seem to have the large, well-equipped credit offices in mind when this bill was drafted. Small retailers, because of competition, must operate on a more personal basis with its customers. We cannot always follow hard and fast rules. If a customer signs an installment contract to pay on the 5th of the month he may pay as late as the 25th, or even skip a month now and then. Sometimes he may pay two installments in 1 month. We make no penalty charge. The small retail merchant who extends credit to its customers cannot afford to rebuff the debtor for an irregularity in his payment.

Often our installment customers must sometimes completely miss a payment because of illness, short workweek, or for other reasons. We cannot charge a penalty in this instance. Some individuals may be in a situation where their vacation has taken more money than planned. Some of our customers are members of unions which have gone out on strike. These are all situations where creditors are not paid each and every payday. We must understand the problems of these people with whom we deal and the misfortunes which occur. We recognize customers may take 26 to 28 months or even 30 months to pay a 24-month account. Our desirable prospects for future business are customers who insist on the same terms and rates we allowed them in the past.

Sometimes debtors have severe changes in income or family status, a breadwinner dies or goes into the Army, the working wife's job is terminated by an unexpected pregnancy. These things happen in people's daily lives. Under these conditions we will lower the monthly installments, stretch out the contract, and help them adjust to their new situation without extra charge.

In the above cases, it would be impossible for us to determine simple annual rate until the contract has been completed.

Over the past several years we have expanded our share of this market area because of the service we have performed for the consumer in Louisville. We have done so with a reasonable profit. We have increased our share of the market with bargains, competitive pricing of our merchandise and our liberal financing policies. We spend thousands of dollars each year to advertise our merchandise competitively. If we could tell our financing story as easily in advertising we could increase our market still more. A statement of simple annual rate will not tell the whole story or a true story.

In fact, it will hurt us competitively speaking. We and other small businesses cannot have our hands tied by complex rules and regulations. We do not want our customers to have to support an expensive bureaucracy that forces us to tell our story in a way that will confuse our customers. We have found that freedom to operate in a competitive market keeps us on our toes, it develops better values for the consumer and a larger share of the market for us.

May I thank you again for this opportunity to be heard.

The CHAIRMAN. We are very glad to have you here, Mr. Carter.

STATEMENT OF RICHARD M. CARTER, CHIEF ACTUARY AND VICE PRESIDENT OF KENTUCKY CENTRAL LIFE INSURANCE CO.

Mr. CARTER. Thank you, Senator. Mr. Chairman and members of the subcommitee, my name is Richard M. Carter. I am chief actuary and a vice president of Kentucky Central Life Insurance Co. and a vice president of Kentucky Central Insurance Co., both of Lexington, Ky. Kentucky Central Life is the oldest and the second largest life insurance company domiciled in the Commonwealth of Kentucky. It has operated since 1902 and is currently licensed to operate in nearly 40 States.

I majored in actuarial mathematics at the University of Michigan and received my B.S. degree in 1932. I received my M.S. degree in actuarial mathematics there in 1934. Until 1944 I was employed by a firm of certified public accountants and during this period specialized in insurance examination work which this firm handled for the insurance department of the Commonwealth of Kentucky. I joined Kentucky Central Life as assistant actuary on March 1, 1944, and have since then worked almost exclusively with actuarial, investment, and Federal income tax matters.

I wish to conserve the time of this subcommittee and will therefore be as brief as possible in expressing the reasons for my company's opposition to Senate bill 750.

This morning, a witness before this committee stated that no reputable lender can possibly be harmed by the bill; "that only those already exploiting the weak and the ignorant could be heard to cry" about the bill.

My company and all other legal reserve life insurance companies are lenders. I seriously doubt that any individual in this room would, upon mature thought, dare place himself in the untenable position of implying or inferring that such companies are not reputable lenders. Yet my company is certain that passage of Senate bill 750 will be most harmful to its operations and consequently to its policyowners. Thus, the statement of the previous witness referred to above is, I am sure innocently, on its face invalid and inaccurate.

The definition of credit contained in section 3, part (2), of the bill is so broad and, possibly, so vague that it would be difficult, if not impossible, for my company to determine which of its loans, investments, or other transactions are included therein. Certainly, the definition covers the making or granting of monthly payment mortgage loans and of policy loans, including automatic premium loans. In my opinion it also covers the making of any investment which earns interest as it includes—

any option, demand, lien, pledge, or other claim against, or for the delivery of, property or money; any purchase, or other acquisition of, or any credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

And I quoted that.

Thus, the making of deposits at interest in banks and in savings and loan associations and the purchase, either from the original issuer or in the open market, of corporate bonds, of obligations of States and political subdivisions thereof, and even of obligations of the U.S. Government are included in the definition of granting "credit."

The CHAIRMAN. Mr. Carter, I would be very glad to go over it in detail with you, but I say for the record what I have said over and over again:

"It is not the intention of this bill to cover business and government loans."

Mr. CARTER. I am sure it's not. But it does, Senator.

The CHAIRMAN. I don't think it does.

Mr. CARTER. If not, I would like to have it plainly stated, Senator.

The CHAIRMAN. Will you turn to page 6, line 23.

Mr. CARTER. I have it, sir.

The CHAIRMAN. May I read it to you:

The Board, the Federal Reserve Board, which chartered the bill and is charged with the administration of the bill:

The Board shall exempt those credit transactions involving extensions of credit to business firms, governments, or governmental agencies or instrumentalities, as to which it determines adherence to the disclosure requirements of this act is not necessary to carry out the purpose of this act.

Mr. CARTER. Yes, I read it. It is a discretionary provision. They have full powers.

The CHAIRMAN. Wait a minute. The term "shall," I always thought, is mandatory. It does not say "may." It says the Board "shall."

Mr. CARTER. But if you will read the last clause of the section, it qualifies the word "shall" and leaves to the Board discretion in the determination——

The CHAIRMAN. You always have to have some administrative discretion in these matters. Administrative discretion is subject to the general instructions laid down by the legislatures.

Mr. CARTER. Why not specifically exempt such things in the bill?

The CHAIRMAN. Would you accept this if we had a period after instrumentalities—"The Board shall exempt those credit transactions involving extensions of credit to business firms, governments or governmental agencies or instrumentalities," period, and then strike out all the remainder: "as to which it determines adherence to the disclosure requirement of this act is not necessary to carry out the purpose of this act"?

I am ready to have it stop at that point and eliminate the rest.

Mr. CARTER. That's right; as far as this particular point is concerned, that would be satisfactory.

The only question it would leave in my mind at all would be whether or not there would be other things perhaps not quite as obvious——

The CHAIRMAN. This would meet your objection?

Mr. CARTER. Yes.

The CHAIRMAN. I would say that is satisfactory to me. It, I think, is real progress, and I want to thank you for coming.

Mr. CARTER. Thank you.

Senator BENNETT. Let the record show it is a witness who is an opponent of the bill who contributed to the progress. Hooray for us.

The CHAIRMAN. Let me say this: I am ready to take good suggestions from whatever unlikely source they may come. [Laughter.]

Senator BENNETT. I wouldn't spoil that little triumph for anything.

The CHAIRMAN. I am striving for the truth.

Mr. CARTER. I thought that's where this objection would end up. I was just leading up with this, sir: I knew this could be easily corrected.

The Kentucky Central Life Insurance Co. contracts approved by the insurance commissioners of States in which we are licensed to operate include a policy loan provision and an automatic premium loan option provision. The policy loan provision allows a policy owner to make a loan at any time up to the amount of the policy owner's equity and at a stated interest rate. Policy owners have the privilege of paying off all or any part of this loan at any time with a full credit for any so-called unearned interest.

The CHAIRMAN. You do state the interest rate?

Mr. CARTER. This is stated in the policy.

The CHAIRMAN. As long as you stated it, it would satisfy the conditions.

Senator BENNETT. But you cannot state the dollars.

Mr. CARTER. Yes; that's what I am leading up to.

The CHAIRMAN. It's the dollar charge you object to?

Mr. CARTER. Yes; you are ahead of me. Up until that point I was just explaining the provisions. I had not raised an objection yet.

The CHAIRMAN. Button, button, who's got the button?

First, you criticize the statement of the interest—I don't say you, but the opponents criticize the statement of the true annual rate, but accept the dollar charge.

Now, you accept the true annual interest rate, but object to the dollar charge.

Mr. CARTER. As a matter of fact, we go out of our way to state the true annual interest rate.

The CHAIRMAN. I was going to congratulate you on that.

Mr. CARTER. We could state it on terms that would appear more favorable to us.

The CHAIRMAN. Don't you think other businesses should follow your high example and state the true annual rate of all of their loans?

Mr. CARTER. This is a question that I don't feel qualified on, as an expert, to express an opinion.

The CHAIRMAN. And, likewise, you don't feel qualified to object to it?

Mr. CARTER. To answer you, "Yes"—I will say this: If it would not entail hardships in determining it, and if it would not entail additional costs that would require them to raise the amounts of their charges and interest rates to cover the additional cost, I would see no objection.

The CHAIRMAN. It does not entail hardship for you.

Mr. CARTER. Correct.

The CHAIRMAN. I think we are making great progress here. This is a very fine witness.

Senator BENNETT. It seems to me that the witness is demonstrating that there is a wide variety of types of loans. Some of them are automatically made. In some cases the amount of interest is available in advance. In other cases, the amount of dollars might be stated in advance. But your problem here is to state both—in order to comply with the bill you are called upon to state something that you cannot state under any circumstances.

Mr. CARTER. That is correct.

As a matter of fact, it would appear to me that requiring just one of the two statements, allowing a choice of one or the other, would help the bill to a great extent, although it would not by any means completely cure the difficulties that would be experienced in operating under it.

Senator BENNETT. Go ahead and finish your statement.

Mr. CARTER. Well, part of this has already been gone over. It is impossible for a life insurance company to tell a borrowing policyowner, at any time prior to full repayment of a policy loan, the finance charges expressed in terms of dollars and cents because it has no advance knowledge of when and in what amounts the repayments will be made; such times and amounts are governed entirely by the complete freedom of action granted by the policy-loan provision to the borrowers.

The CHAIRMAN. May I say I think it would come under the revolving credit feature of the bill, which requires the rate but does not require the precise amount.

And if that is not clear in the bill we will be perfectly ready to make it clear.

Mr. CARTER. Did you say that you thought we did or we did not?

The CHAIRMAN. I said I thought you did, but if specific authority does not exist in the bill under the revolving credit, I would personally add at this moment: We will be ready to change the language so it would——

Senator BENNETT. Is there any connection between a policy loan and a revolving charge account in a department store?

Mr. CARTER. I will bring this up later, if you will allow me the freedom to do that.

The CHAIRMAN. In this case, I would ask you to look on page 5, lines 19 to 24.

Mr. CARTER. I have it.

The CHAIRMAN (reading):

> As used in this subsection, the term "revolving" or "open-end credit plan" means a credit plan under which the total amount of credit to be utilized, the dollar amount of the finance charge to be assessed, and the amounts and times of repayment are not specified at the time an agreement to extend credit pursuant to such plan is entered into.

Mr. CARTER. Yes, sir.

The CHAIRMAN. It seems to me, from your definition of the policy loan, it would come under this provision.

Mr. CARTER. Well, I wasn't sure which it would come under, and I refer to both of them, but frankly I think we would prefer to come under the other provision.

Under the other provision, we would simply be unable to comply with it in any manner whatsoever.

Under the revolving credit provision, it would be too costly for us to stay in business.

The CHAIRMAN. In other words, you prefer to come under the definition that you say is unworkable? [Laughter.]

Mr. CARTER. In regard to policy loans, it is impossible for life insurance companies to comply with the requirements of section 4(a)(6) of the bill, that the finance charges be expressed in terms of dollars and cents.

I also wish to point out that in the case of any monthly payment mortgage loan with a prepayment privilege exercisable upon payment of a charge therefor, such as is normally—well, I think always included in FHA and VA loans and normally included in conventional loans, it is impossible to comply with the requirements of section 4(a)(6), the one I just mentioned, and also with those of section 4(a)(7)—

> that the percentage that the finance charge bears to the total amount to be financed is to be expressed as a simple annual interest rate on the average outstanding unpaid balance of the obligation.

Any amount or percentage expressed in writing in advance by the lender would be altered by the borrower exercising the prepayment privilege and would, it appears, subject the lender to to the penalties prescribed by section 7(a) unless the lender waived the contractual charge for the privilege of repayment.

The CHAIRMAN. You are going very fast for me. As I understand you, you said, in your judgment, you can't compute the finance charge in these cases, either in terms of dollars and cents or the simple annual rate?

Mr. CARTER. Yes. On the monthly payment mortgage loan where prepayment privileges are written into the mortgage contract for a specified fee.

The CHAIRMAN. Why couldn't that be done in the original contract?

Mr. CARTER. Because no one knows what the ultimate charge in dollars and cents will be or what the ultimate rate, expressed in percentage as simple annual interest will be, unless they know whether or not the prepayment privilege will be exercised and, if it will be exercised, when it will be exercised.

The CHAIRMAN. As I see it, what you are saying is that the man who borrows the money may not be able to pay on time and where you have lapses in payments you can't predict in advance?

Mr. CARTER. No, sir. Do you understand the prepayment of mortgage loans, Senator Douglas?

The CHAIRMAN. Certainly, if I can get up enough money, I try to prepay some of mine. [Laughter.]

Mr. CARTER. On all FHA loans, and I believe on all VA loans in the mortgage loan contract, there is a provision that—I don't know exactly what the provision is, but I know, in general, these provisions. Of course, the contract requires a payment of so much per month, from which the proper portion is allocated to interest and principal. The borrower does not have the right to prepay the full balance of the loan, or any more than his monthly payments during the first year of the loan. Thereafter he may—at any time—pay off the full balance of his loan. If he does so, in addition to paying the balance and any amount of accrued interest at that time, he pays a fee amounting to 1 percent of the original loan.

The CHAIRMAN. Well?

Mr. CARTER. Now, he is charged a fee because of being granted this prepayment privilege if he voluntarily avails himself of it; that fee becomes a charge, as defined by this bill.

The CHAIRMAN. I seem to be unable to get through to you. It is probably my fault.

Again, I want to emphasize: this bill simply requires a statement of the original terms. It does not require a continuous revision as circumstances change.

Senator BENNETT. It requires a statement in full of the entire amount of credit charge in dollars.

Mr. CARTER. You had better reword it again, sir.

Senator BENNETT. To the end of the contract.

The CHAIRMAN. Under the original conditions which I stated, period.

Senator BENNETT. One of the conditions is that a man will pay a 1-percent fee if he repays in advance. That is part of the original conditions.

Now, how do you calculate that into a statement of the total dollar amount?

Mr. CARTER. You can't.

Senator BENNETT. You can't?

Mr. CARTER. If it is stated as a flat, unvarying fee, you could do it on an either/or basis. If he avails himself of it, the amount is so much; if he does not, it is so much.

But you cannot possibly make calculations as to the rate that he pays, expressing a simple annual percentage, unless you wanted to give him two or three pages, expressing it for each different instant of time, during the 20 years of the mortgage—or whatever the period of the mortgage is.

The CHAIRMAN. The real estate mortgages which you now loan on, do you state the simple annual interest rate on the outstanding balance?

Mr. CARTER. Yes.

The CHAIRMAN. That's all.

Mr. CARTER. But I would like to have it covered in the bill. I have seen administrators—particularly in the area of income tax—issue some very peculiar regulations, sometimes appearing to contravene the expressed intent of the Senate and the House.

The CHAIRMAN. We state, very clearly, the finance charge expresses the simple annual rate on the outstanding unpaid balance of the obligation. All we are asking you to do on this item is what you do now, insofar as the dollar-and-cents basis is concerned, if conditions are laid down in the original contract, if they are fulfilled, what was the total amount?

Senator BENNETT. May I ask the witness a question.

If, let's say, on a 25-year mortgage, at the end of the fourth or fifth year, the man decided to pay off the total and he had a 1-percent prepayment charge, wouldn't this affect the rate?

Mr. CARTER. Drastically.

Senator BENNETT. As well as the dollar?

Mr. CARTER. Drastically.

The CHAIRMAN. This retrospective—this is something else again.

Mr. CARTER. Reword the bill so it doesn't say you have to do something you can't do. [Laughter.] Because there is no place in the bill, any part you read, where it says that all you are required under section 4(a) is to express the rate that is originally agreed on. You must take account of all possible charges that can be imposed.

The CHAIRMAN. I think the illustration which I gave of Sadducess, the question to Jesus, applies very well here.

Senator BENNETT. You realize the position you are putting yourself in, don't you?

The CHAIRMAN. Wait, am I the Sadducee?

Senator BENNETT. No, you're Jesus. [Laughter.]

The CHAIRMAN. I don't claim any resemblance. [Laughter.] I wish there were a resemblance, but I cannot claim it.

Mr. CARTER. I can't understand why we are really having any contention on this point, because you appear to believe that the bill already says that it does not involve the point I am bringing out. Now, if one or the other is incorrect on this, cannot we put it on the basis of submitting it to competent technicians to decide and have it corrected?

The CHAIRMAN. As of the——

Mr. CARTER. If I'm wrong, leave it as it is; if you are wrong——

The CHAIRMAN. Now, we are cooking. Absolutely. If I may say, I'm not a lawyer—of course, I didn't draft this bill. We had many, many consultations with the best legislative draftsmen in the country, and they worked out this language, but if this doesn't meet the situation as I represent it, we will make the changes—and we would welcome your assistance.

Mr. CARTER. Thank you, sir.

The CHAIRMAN. We would love constructive help, granted that the purpose is good, instead of using all these technicalities. I would not say you're doing it, which has the effect of fogging the issue and obscuring the general principles——

Senator SIMPSON. This has been my contention all along. I'm glad you're coming to my point of view.

The CHAIRMAN. The trouble with you, Senator, is you won't accept a general principle.

Senator SIMPSON. I can't accept it, when it is basically wrong.

The CHAIRMAN. Then, we can move, if you accept a general principle.

Mr. CARTER. Let me say something here, sir. I realize that I'm bringing up technical points. These are points that can be easily corrected, but please remember this: I do not consider myself a particularly intelligent reader of draft legislation. I have not had a great deal of experience with it, and yet in the brief period that I have had a copy of this bill available to read, I have found so many technical errors that it frightens me to death to consider how many more I may have missed and if these technical errors can exist, as far as we are concerned, they can certainly exist for other companies, too, other types of lenders.

Now, I am thoroughly in agreement with the principle of truth in lending, but it seems to me that it should be primarily attacked by education rather than by legislation. Certainly, you could provide severe penalties for people that deliberately mislead and misinform in their advertising, and so on, for what they are doing, without trying to pin down in legislation every little detail of operating a business.

Senator BENNETT. Why don't you go on to the next line, since the Senator has indicated he would be glad to consider this one?

Mr. CARTER. I think we do have a real problem, Senator, in connection with the policy loan situation.

If a policy loan is not covered under section 4(a), it must be covered under section 4(b) which specifies in part (2) that any creditor agreeing to extend credit to any person shall furnish to each such person at the end of each monthly period following the entering into of any such agreement a written statement setting forth six different items of information.

When a policy is issued by a life insurance company, it has at that time entered into an agreement to make a policy loan or policy loans at any time requested to do so by the policy owner in accordance with the provisions of the policy. Under the present wording of S. 750 it might be required to furnish each policy owner a rather lengthy statement each month even though most of such statements would be to the effect that no loan was outstanding. It would certainly be compelled to furnish this statement monthly to each policy owner having a loan on his policy if this type of loan is covered under section 4(b).

The CHAIRMAN. Let me say that it is not our purpose to require these statements every month. If there is any ambiguity on this bill, we will be very glad to have help.

The main thrust of this bill is that the original agreement will state the conditions.

Mr. CARTER. Well, that could very easily, of course, be corrected by getting the wording out of there, where it says "agreeing to extend credit" and at least make it so that the lender has to actually enter into the transaction and make the loan before this provision would apply.

The company would certainly be compelled to furnish these statements monthly to each policy owner having a loan on his policy.

The CHAIRMAN. It's not the intent——

Mr. CARTER. All right. I am very glad to hear that, but no discretionary power for this is contained in the present wording.

Now, another serious problem to our company and to the insurance industry which will result from the proposed bill is the handling of automatic premium loans.

This is one of the most valuable privileges granted the policy owner by a life insurance contract. This option may be elected by the policy owner in the application for the policy or subsequently by written notice. If elected, it continues in effect until revoked by written notice.

While in effect, it becomes operative whenever any premium remains unpaid at the end of its grace period, and a net cash value is available under the terms of the policy.

Senator BENNETT. By this, you mean that any holder of life insurance who comes up to a date when a premium is due has the privilege then, if he applies for it, so the premium will be paid out of the cash surrender value of the policy?

Mr. CARTER. Of course, that which you outlined is something that is granted in all policies issued under regulatory bodies, and this is a little different.

You are speaking of a case where the policy owner takes positive action and applies for is. My next sentence will tell you: At the time the option becomes operative—if it has been previously elected, it becomes operative; that is, if it hasn't been revoked and the policy has a cash value—then, the company automatically grants a loan to pay a premium for a period determined in accordance with certain conditions set forth in the policy.

Senator BENNETT. In other words, it could be a loan for a year if the premium is on an annual basis, or it could be for 6 months, if it's a semiannual premium basis?

Mr. CARTER. That's correct. And if there is not enough value to make a loan for even a month, a month's premium, we will lend him enough for whatever days it will cover.

Senator BENNETT. In other words, you exhaust their value in order to help them carry the premium?

Mr. CARTER. That's right.

Senator SIMPSON. And you do that voluntarily?

Senator BENNETT. Automatically.

Mr. CARTER. Automatically, if the policy owner has elected to have this done. It's an election he could make at any time, as long as no premium is already in default. And he can revoke it at any time.

Senator BENNETT. Do most of your policyholders use this system?

Mr. CARTER. Yes, they do. It is very valuable to the insuring public, because if an insured inadvertently misses payment of a premium and goes past his 31-day grace period, the policy is automatically kept in full force, and all the provisions as to double indemnity, premium waiver, or anything else are kept in full force, and the policy owner now, if he wishes to resume payments on the policy, can either pay the loan off if he wants to, or leave the loan on there if he wants to, and just start paying premiums again.

Senator BENNETT. I am going to check my policy to see that it has that.

Mr. CARTER. He can do it without having to submit any evidence of insurability, as he would be required to do if he did not have this provision.

Senator BENNETT. You call that an automatic premium loan?

Mr. CARTER. Automatic premium loan; yes.

Senator BENNETT. I am going to do some checking on Monday.

Mr. CARTER. Well, if you have one in your policy, sir, it will be very valuable.

Senator BENNETT. And if I don't have one, I will get one.

Mr. CARTER. The majority of companies offer it; not all. The granting by the company of the automatic premium loan option unquestionably places it in the position of a creditor agreeing to extend credit pursuant to a revolving or open-end credit plan, and subjects it to the requirements of section 4(b).

Now, I think you commented that you would be willing to revise this section so we wouldn't have to make monthly statements under it, but very frankly, I doubt that you could make any revision of the bill that would leave us unaffected, in any way, on this matter of automatic premium loans.

The CHAIRMAN. I was afraid of that. [Laughter.]

Mr. CARTER. I'll tell you why: I know you never intended your bill to strike at things like this.

Senator BENNETT. This is the first time, I think, any member of the committee has realized that the bill did strike at this.

The CHAIRMAN. I am not sure it does, but if it does, we will make the changes. I hope Mr. Carter will come out then and support the bill.

Mr. CARTER. As I told you, I am pretty worried about finding as much in it as I found in such a brief time, and I am sure there must be other technical defects, other things that I missed. [Laughter.] I am sure, since we are finding these difficulties, it seems very likely that difficulties would be found by other types of lenders.

The CHAIRMAN. Are you an attorney?

Mr. CARTER. No, sir; I am not.

The CHAIRMAN. An actuary.

Mr. CARTER. I am afraid it doesn't sound very complimentary.

Senator BENNETT. You realize the Senators from Illinois and Utah are not attorneys.

Senator SIMPSON. Yes, but I'm getting a little worried about the two Senators—one, an economist, and another a businessman and former English teacher. I'm the lawyer on the committee. I think these things apply to me, so don't take them too hard yourself. [Laughter.]

Senator BENNETT. All three of us are subjects of derision.

Mr. CARTER. I certainly want to apologize if I have indicated anything like that. I said that I was going to try to be brief—but I'm afraid I haven't—and may have worded things poorly, on that account.

Senator BENNETT. I think this has been very important.

The CHAIRMAN. Our discussion has been very helpful. We look forward to cooperation with you in making constructive suggestions as to how the language can be improved and so forth. Then, we hope Kentucky will join our procession.

Senator BENNETT. They have already joined the procession against the bill.

Mr. CARTER. The average size of automatic premium loans is, of course, quite small; on the other hand, the handling costs in connection with the granting of and the repayment of such loans are considerable.

Automatic loans are offered only as a convenience and benefit to the policy owners and my company is quite satisfied if its costs in connection therewith, do not exceed the interest earned thereon.

The automatic premium loan option is not a standard policy provision required by the regulations under which we operate. My company would not be inclined to assume additional significant costs attributable to this option—it would simply not include the option in future policies.

Now, I think I have just two more short paragraphs here.

Senator BENNETT. Are you just going to read now from your dittoed statement?

Mr. CARTER. With one exception: I made a minor change in it. First I said the increased costs would be primarily attributable to policy loan handling under this bill, and would result in our seeking permission from regulatory bodies under which we operate to specify higher interest rates in future policies to cover our increased costs. Also, in our restoring full contract interest rates for loans on certain policies issued prior to 1946, where we had voluntarily reduced them—it was a very minor reduction, but it was a reduction. If we weren't able to obtain relief from that source, we would then be compelled to raise our overall premium rates to cover the additional operating costs and still maintain the same margin of profits, which, I think, are quite reasonable. If that should be done, then all future policyowners would be forced to pay a portion of the costs which were attributable to the ones that did borrow.

Finally, I would like to say that the penalty provisions of section 7(a) of the bill are most objectionable. They are harsh and they are unreasonable as far as penalties are concerned.

For any "violation" of the disclosure provisions—and I have the word "violation" in quotes—there is an automatic penalty of $100 or twice the amount of the finance charge. I have been unable to find anything in my copy of this proposed bill waiving or excluding the application of these penalties to a creditor who has become an inadvertent and innocent "violator"—again in quotes—because of a clerical or mathematical error, even of a most trivial amount, or because of action by the borrower completely outside the control of the creditor.

The CHAIRMAN. Thank you very much.

Mr. CARTER. Thank you, sir.

Senator SIMPSON. I just want to say this: Mr. Carter, I want to compliment you on one of the finest statements we've had in three hearings to date.

Mr. CARTER. Thank you very much, sir.

Senator BENNETT. I think it has been very constructive.

(The complete prepared statement of Mr. Carter follows:)

STATEMENT OF RICHARD M. CARTER, CHIEF ACTUARY AND VICE PRESIDENT OF KENTUCKY CENTRAL LIFE INSURANCE CO.

Mr. Chairman and members of the subcommittee, my name is Richard M. Carter. I am chief actuary and a vice president of Kentucky Central Life Insurance Co. and a vice president of Kentucky Central Insurance Co., both of Lexington, Ky. Kentucky Central Life is the oldest and second largest life insurance company domiciled in the Commonwealth of Kentucky. It has operated since 1902 and is currently licensed to operate in nearly 40 States.

I majored in actuarial mathematics at the University of Michigan and received my B.S. degree in 1932. I received my M.S. degree in actuarial mathematics there in 1934. Until 1944 I was employed by a firm of certified public accountants and during this period specialized in insurance examination work which this firm handled for the insurance department of the Commonwealth of Kentucky. I joined Kentucky Central Life as assistant actuary on March 1, 1944, and have since then worked almost exclusively with actuarial, investment, and Federal income tax matters.

I wish to conserve the time of this subcommittee and will therefore be as brief as possible in expressing the reasons for my company's opposition to Senate bill 750.

This morning a witness before this committee stated that no reputable lender can possibly be harmed by the bill; "that only those already exploiting the weak and the ignorant can be heard to cry" about the bill. My company and all other legal reserve life insurance companies are lenders. I seriously doubt that any individual in this room would, upon mature thought, dare place himself in the untenable position of implying or inferring that such companies are not reputable lenders. Yet my company is certain that passage of Senate bill 750 will be most harmful to its operations and consequently to its policyowners. Thus, the statement of the previous witness referred to above is, I am sure innocently, on its face invalid and inaccurate.

The definition of credit contained in section 3, part (2), of the bill is so broad and, possibly, so vague that it would be difficult, if not impossible, for my company to determine which of its loans, investments, or other transactions are included therein. Certainly, the definition covers the making or granting of monthly payment mortgage loans and of policy loans, including automatic premium loans. In my opinion it also covers the making of any investment which earns interest as it includes "any option, demand, lien, pledge, or other claim against, or for the delivery of, property or money; any purchase, or other acquisition of, or any credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect." Thus, the making of deposits at interest in banks and in savings and loan associations and the purchase, either from the original issuer or in the open market, of corporate bonds, of obligations of States and political subdivisions thereof, and even of obligations of the U.S. Government are included in the definition of granting "credit."

The Kentucky Central Life Insurance Co. contracts approved by the insurance commissioners of all States in which we are licensed to operate include a policy loan provision and an automatic premium loan option provision. The policy loan provision allows a policyowner to make a loan at any time up to the amount of the policyowner's equity and at stated interest rate. Policyowners have the privilege of paying off all or any part of this loan at any time with a full credit for any so-called unearned interest.

It is impossible for a life insurance company to tell a borrowing policyowner, at any time prior to full repayment of the policy loan, the finance charges expressed in terms of dollars and cents because it has no advance knowledge of when and in what amounts repayments will be made; such times and amounts are governed entirely by the complete freedom of action granted by the policy loan provision to the borrowers. Thus, in regard to policy loans, it is impossible for a life insurance company to comply with the requirements of section 4(a)(6) of the bill that the finance charge is to be expressed in terms of dollars and cents.

I also wish to point out that in the case of any monthly payment mortgage with a prepayment privilege exercisable upon payment of a charge therefor, such as is normally included in FHA, VA, and many conventional-type mortgage loans, it is impossible to comply with the requirements of section 4(a)(6) and also with those of section 4(a)(7) that the percentage that the finance charge bears to the total amount to be financed is to be expressed as a simple annual interest rate on the average outstanding unpaid balance of the obligation. Any amount or percentage expressed in writing in advance by the lender would be altered by the borrower exercising the prepayment privilege and would, it appears, subject the lender to the penalties prescribed by section 7(a) unless the lender waived the contractual charge for the privilege of prepayment.

If a policy loan is not covered under section 4(a), it must be covered under section 4(b) which specified in part (2) that any creditor agreeing to extend credit to any person shall furnish to each such person at the end of each monthly period following the entering into of any such agreement a written statement setting forth six different items of information.

When a policy is issued by a life insurance company, it has at that time entered into an agreement to make a policy loan or policy loans at any time requested to do so by the policyowner in accordance with the provisions of the policy. Under the present wording of S. 750 it might be required to furnish each policyowner a rather lengthy statement each month even though most of such statements would be to the effect that no loan was outstanding. It would certainly be compelled to furnish this statement monthly to each policyowner having a loan on his policy if this type of loan is covered under section 4(b).

A serious problem arises in connection with the automatic premium loan option, one of the most valuable privileges granted a policy owner by a life insurance contract. This option may be elected by the policy owner in the application for the policy or subsequently by written notice; if elected, it continues in effect until revoked by written notice. While in effect, it becomes operative whenever any premium due remains unpaid a the end of its grace period and a net cash value is available under the terms of the policy. At any time that the option becomes operative, the company automatically grants a loan to pay a premium for a period determined in accordance with conditions set forth in the policy. The granting by the company of the automatic premium loan option unquestionably places it in the position of a creditor agreeing to extend credit pursuant to a revolving or open-end credit plan and subjects it to the requirements of section 4(b). The average size of automatic premium loans is, of course, quite small; on the other hand, the handling costs in connection with the granting of and the repayment of such loans are considerable. Automatic loans are offered only as a convenience and benefit to the policy owners and my company is quite satisfied if its costs in connection therewith do not exceed the interest earned thereon. The automatic premium loan option is not a standard policy provision required by the regulations under which we operate; my company would not be inclined to assume additional significant costs attributable to this option—it would simply not include the option in future policies.

The increased clerical, machine rental, postage, and other operating expenses, primarily attributable to policy loans, my company would surely experience under the provisions of this bill would probably result in it seeking permission from the regulatory bodies under which it operates to specify higher loan interest rates in future policies and in it restoring full contract interest rates (voluntarily reduced by my company some years ago) for loans on policies issued prior to 1946.

If my company needed and was unable to obtain adequate relief from this source, it would then be compelled to raise premium rates on future policies in order to cover the additional operating costs forced on it by Senate bill 750. As a result, future policy owners who do not borrow on their policies would bear a large share of the cost attributable to both past and future borrowing policy owners.

Finally, the penalty provisions of section 7(a) of this bill are most objectionable. Harsh, oppressive, and unreasonable penalties are prescribed therein for any "violation" (and I have placed the word violation in quotes) of the bill's disclosure of information provisions. I have been unable to find anything in my copy of this proposed bill waiving or excluding the application of these penalties to a creditor who has become an inadvertent and innocent "violator" (again in quotes) because of a clerical or mathematical error, even a most trivial amount, or because of action by the borrower completely outside the control of the creditor.

Thank you.

Senator BENNETT. Now, I was about to suggest to the remaining witnesses of the opponents, Mr. Ezzell, Mr. William Ezzell, who has been waiting all day— I was going to suggest that he just put his statement into the record. If he would like to read it, I would withhold that.

The CHAIRMAN. There are two Ezzells.

Senator BENNETT. This is William, from Lexington.

The CHAIRMAN. I would like to put on some proponents. They have waited all day, too.

Senator BENNETT. I am just trying to get this man's statement in the record without him appearing.

The CHAIRMAN. Very good.

Senator BENNETT. Would you be willing to put your statement in the record, or would you prefer to wait and read it?

Mr. WILLIAM EZZELL. I could reduce it somewhat, I think.

Senator BENNETT. Then, we'll ask you to wait. We have a problem: Our staff people have got to fly back to Washington tonight and we are trying to hurry things along so they can catch their plane.

We are going to continue to be here, however. If you prefer to make this statement verbally, certainly that's your privilege, and we will ask you to wait.

The CHAIRMAN. Would Mr. Edward S. Bonnie take the stand?

STATEMENT OF EDWARD S. BONNIE, ATTORNEY, LOUISVILLE, KY.

The CHAIRMAN. Mr. Bonnie, we are very glad to have you. Mr. Bonnie has waited all day.

Mr. BONNIE. I have no objection to simply submitting my statement, if it will help.

The CHAIRMAN. Well, it's only two pages, is it not?

Mr. BONNIE. It's approximately four.

The CHAIRMAN. Well, I don't think it will take much time. Would you read it?

Mr. BONNIE. All right, sir.

Senator Douglas, Senator Bennett, Senator Simpson, and those assembled: My name is Edward S. Bonnie. I am engaged in the general practice of law in Louisville, Ky.

I have been interested in the problems which have given birth to Senate bill 750 for several years. In 1957 I did a reasonably comprehensive study of Kentucky's small loan law, and their conditional sales and installment sales law. In 1958, for the Health and Welfare Council of the Community Chest, I chairmaned a study of legal aid in Louisville and Jefferson County, during the course of which many facts and opinions concerning the use and misuse of credit were brought to my attention. During the course of this study and with the invaluable help of Emmet Field, general counsel of the Legal Aid Society, a Community Chest agency, my committee compiled a great many significant figures on the economic problems of those people in this community who were without funds with which to employ private counsel.

During the years 1959 and 1960 I was president of the Legal Aid Society, and since 1957 and continuing to date, have been a director of this independent Community Chest agency. I want to make it plain that the opinions I state here today are personal opinions derived from my experience as stated above, and do not in any way reflect the opinions or positions of any executive, employee, or director of the Legal Aid Society.

I am in favor of Senate bill 750, and supply the following facts and opinions upon which I base this view:

(1) The local economic picture: From the years 1958 through 1962, the Legal Aid Society handled 16,726 cases arising from debt and involving wage-earning debtors, which figure comprised 53.7 percent of the total caseload of the Legal Aid Society during these years. Although these cases were only 53.7 percent of the total caseload of the Legal Aid Society, these cases consumed more than 65 percent of the Legal Aid Society's office time.

The CHAIRMAN. In other words, these cases were more than half of the total number of cases, approximately two-thirds?

Mr. BONNIE. Yes; that's correct.

During the 5-year period mentioned above, the average national legal aid experience in economic cases was running approximately 28 percent of the total caseload. As you can see, Louisville's economic caseload was running almost double the national average. Our local experience also displayed during these years, and continues to display, a very high percentage of cases requiring court action and reference to bankruptcy court.

Louisville has been, in my opinion, for the past several years an accuratee barometer of the ups and downs in our national economy. The caseload of the national Legal Aid Society was at its highest in 1958, a recession year. During 1962, this figure dropped, and for the first quarter of 1963 was down again.

(2) Causes of Louisville's economic picture for debtors: Kentucky's antiquated exemption law still refers to "1 yoke of oxen, 1 wagon, 3 hoes, 1 loom and spinning wheel;" makes the collection by garnishment of wages extremely easy, and a crushing burden on the debtor.

Senator SIMPSON. I don't like to interrupt you, but we have a law in Wyoming that is similar. We have one that when two trains are running in opposite directions and they pass each other, one will stop until the other passes.

Mr. BONNIE. You have hope, Senator?

The CHAIRMAN. Have you ever repealed that yet?

Senator SIMPSON. Not yet.

Mr. BONNIE. I have hope, Senator.

But let me emphasize this point: There can be no debtor or debt without credit, and when credit is extended without the debtor being accurately informed with reference to the extent of his obligation, and the cost of credit, many debtors get involved beyond their capacities and, too often, no doubt, beyond their intentions.

There are those in this community who are fortunate enough to be able to purchase necessities with cash, or who can postpone purchases when the terms are too high, but I know of too many, many cases where the wage earner must make a purchase and doesn't have the knowledge to figure out interest rates, discount features, insurance charges, or the temerity to stop the salesman in order to figure out for himself the sum he is being asked to pay for an item which he must buy, whether it be a means of conveyance, a refrigerator, or whatever.

(3) Kentucky's progress in the consumer credit field: Kentucky has passed two laws in recent years which have helped the consumer using credit. The first law I refer to is the Motor Vehicle Retail Installment Sales Act of 1956, which took many significant steps to protect the motor vehicle purchaser from the occasional unscrupulous automobile dealer. This bill was a big help to the reputable automobile dealers, and was certainly intended to, and was, a big help to the automobile purchaser.

The next significant step in this same area was the Duffy bill of 1962—that bill has been discussed here today—which extended the protections of the aforementioned bill, to the many other consumer credit areas.

It has been my experience that these bills referred to above still do not require enough information on the sales contract, mortgage, or other instrument of obligation to fully protect the credit buyer.

(4) Senate bill 750 is needed in this community: The Truth in Lending Act will help, in my opinion, a failure in Kentucky's present laws by requiring the inclusion of the "finance charge" in writing to each person to whom credit is extended before the consummation of the transaction. In addition, the broad definition of "finance charge" will stop the circumvention of other language which has given attorneys in this community a great deal of trouble in past years.

And, last, this bill will make interest rates an item of open competition between retail merchants.

Senate bill 750 puts more responsibility on the person or business extending credit to the consumer. This is exactly where the responsibility should rest. It is my opinion, based on many cases which I have handled and observed, that the consumer has neither the knowledge nor the financial resources to argue extensively with his creditor. I have heard it so often that it haunts me, "I am sorry, but you signed that contract and it's perfectly legal," or "Mister, you have a good case, but I cannot afford to handle it for the amount involved."

This is particularly distressing to the legal community and should be distressing to the business community.

I like the provisions of the Senate bill 750 because they will be adequate to insure the protection of the rights of those who, for many years, in this community, found it difficult to protect themselves.

The CHAIRMAN. Thank you very much. We appreciate your patience and your very excellent statement.

Senator BENNETT. No questions.

Senator SIMPSON. I have two very brief—I take it you would be in favor, in view of your statement, to exemption laws?

Mr. BONNIE. Yes; I would.

Senator SIMPSON. Would you think it would be helpful if wages were totally exempt from garnishment attachment?

Mr. BONNIE. I think that would be too much in favor of the debtor. I think there can be—there is a middle ground. At this point, I feel the debtor hasn't a sufficient amount exempted.

Senator SIMPSON. Thank you very much.

The CHAIRMAN. Thank you very much.

Now I will ask Mr. Sam Ezelle to take the stand.

STATEMENT OF SAMUEL EZELLE, DIRECTOR, KENTUCKY STATE AFL-CIO

Senator SIMPSON. We've reached a point here that they don't spell their names the same.

Mr. EZELLE. That's quite true, Senator. I have long heard of my fellow Kentuckian with the same name. Today is the first time I have had the privilege of meeting him.

Mr. Chairman and members of the subcommittee, my name is Sam Ezelle and I am the executive director of the Kentucky State AFL-CIO, with 135 members of Kentucky. My office and my home are located here in the city of Louisville.

The Kentucky State AFL-CIO has supported the provisions of Senate bill S. 750 since the bill was first introduced. We believed, at the outset, that it was important, needed legislation.

In the years that have followed, as consumer credit has occupied an evermore important role in our economy, the need for the bill has become more and more urgent. My organization welcomes you gentlemen to this beautiful city to enjoy the hospitality of Louisville, Ky., and hear the interest of the working people in the truth in lending bill.

We were somewhat chagrined to learn of the inhospitable attitude shown to you by the local chamber of commerce through its representative, Mr. William Kerber. I can assure this committee that there is not a member of the chamber of commerce who would be willing, as a businessman, to borrow money without knowing the true annual interest rate on the money he is borrowing.

Certainly those clever people they employ to file income taxes for them are capable of solving the simple problem of telling the customers the simple truth about the annual interest rate they are expected to pay.

We view with some alarm the confusion that now surrounds the extension of consumer credit. This confusion can only work to the detriment of the consumer. I notice Mr. Hatton was somewhat confused in earlier testimony, like the culprit of the Arkansas Snake Railroad. It wiggles in and out, and it wiggles out and in, and it left the people all in doubt as to whether its zigzag track was going east or going back. [Laughter.]

You gentlemen may be interested to know what kind of trouble that a borrower can get in here in the Blue Grass State, due to some ancient State law. The passage of Senate bill 750 will help consumers in this State avoid some of the pitfalls provided by State law.

Now the Kentucky law relating to garnishment mentioned by Mr. Bonnie is a case in point. This statute has not been changed since the Spanish-American War. We've been trying to get it amended since 1954, but we haven't succeeded. The very people that Mr. Kerber, of the chamber of commerce, represents, try to prevent any change in this outmoded State law.

Today, they would be against protection of the consumer to Federal protection and legislation.

The simple truth of it is, gentlemen, that a lot of low income people that I see every day in my work, particularly, are urged by advertising or high-pressure salesmen, to buy beyond their means. These people, as consumers, are not able to shop around for reasonable credit charges, because the truth of the annual interest rate they are paying is never made known to them. They don't know what they are paying.

In Kentucky the retail outlets don't have to worry much about collecting a bill, because no matter how ridiculous the interest rate may be, they have this old, 1891 personal exemption law to protect them.

Just a few weeks ago, an employee of a tobacco factory came to our office and he had been sold a used car, which was a little better than junk.

His employer had a well-established rule, which is common in this community, that an employee served with three garnishments will lose his or her job.

This person had a wife, a house full of children, and a junky used car. He had paid 6 months on the car when he came in, and he got sick and got behind with his payments. He offered to give them the car back. They just let him alone, but he owned about as much after 6 months as he did to begin with when he drove off the lot.

The used car lot didn't want to take the old, rattletrap car back, and would have proceeded with the man's third garnishment, if he hadn't come in to us.

We talked to them on the telephone and just literally shamed them, Senator, into giving the man another chance.

Now the Kentucky revised statute, mentioned by Mr. Bonnie—I've made several copies for you gentlemen, for your amusement, and maybe to your enlightenment You may be interested in looking it over.

You'll notice the following properties are exempted:

Two work beasts, or one work beast and one yoke of oxen; two plows and gear; one loom and spinning wheel, and a pair of cards; one table; 10 head of sheep, not to exceed $25 in value—

that's not much sheep—

* * * all family portraits and pictures.

That's how old this statute is.

Cooking utensils not to exceed $25 in value.

(The portion of the Kentucky revised statute referred to follows:)

427.010 (1697) Exempt personal property of a person with a family.

The following property of a person with a family resident in this state is exempt from execution, attachment, distress or fee-bill:

(1) Two work beasts, or one work beast and one yoke of oxen; two plows and gear; one wagon, cart or dray and gear; two axes, three hoes, one spade, one shovel; two cows and calves; beds, bedding and furniture, sufficient for family use; one loom and spinning wheel and pair of cards; all of the spun yard and manufactured cloth manufactured by the family necessary for family use; carpeting for all family rooms in use; one table; books, not to exceed seventy-five dollars in value; two saddles and their appurtenances; two bridles; six chairs, or so many as do not exceed ten dollars in value; one cradle; poultry on hand, not to exceed one hundred dollars in value; ten head of sheep, not to exceed twenty-five dollars in value; all wearing apparel; sufficient provisions, including breadstuff and animal products, to sustain the family for one year; provender suitable for livestock, if there is any livestock, not to exceed seventy dollars in value, or, if such provender is not on hand, such other property as does not exceed that sum in value; washing apparatus, not to exceed seventy-five dollars in value; one sewing machine; all family portraits and pictures; one cooking stove and appurtenances; cooking utensils, not to exceed twenty-five dollars in value.

(2) Ninety percent of the salary, wages or income earned by labor, of every person earning a salary, wages or income of seventy-five dollars or less per month. The lien created by service of garnishment, execution, or attachment shall only affect ten percent of such salary, wages or income earned at the time fo service of process.

(3) Sixty-seven dollars and fifty cents per month of the salary, wages or income earned by labor, of any person earning a salary, wages or income in excess of seventy-five dollars per month.

The CHAIRMAN. I see there's not only a loom and a spinning wheel, but a pair of cards that are stated.

Mr. EZELLE. A lot of people wouldn't know what that is, and I'm one of them.

Senator BENNETT. I know what that is. They card wool by having two devices that have nails studded in the face, and you rub the two across the wool and this straightens the wool out, so it's all pointing in the same direction before they can weave it. That's what a pair of cards are.

Mr. EZELLE. We don't see them now.

The CHAIRMAN. Senator Bennett is one of the greatest authorities on the 19th century that we have. [Laughter.]

Senator BENNETT. As a matter of fact, this goes back to the 10th century.

The CHAIRMAN. All right. Strike out "19th" and substitute "medieval period."

Mr. EZELLE. Most of the exercise I get nowadays is pushing 43. So you go way before my time. But this shows you how out of date this is. I'm glad the Senator enlightened me about the clause.

Now in their day, this was, no doubt, an adequate statute. This staute also provided an exemption of $67.50 per month of the salary and wages or income of someone making $75 or less per month.

In 1891 this virtually meant that all of the salary was exempt, because $3 a day was a pretty fair wage in those days.

I have been told by other authorities on the last century that this was so. Obviously, when this law was drafted, it was meant to allow a borrower to retain the items that were necessary.

In this complicated age, of course, the statute offers little or no protection for the consumer. Now, this law does mean that the creditor has the advantages, as Mr. Bonnie pointed out so capably.

The lender doesn't have to worry about making a bad loan with these excessive interest rates. The creditor can starve the people to death until the payment is made by this statute, and as we have noted most employers do not tolerate unlimited garnishment.

The result of all of this is that the garnishment is a powerful weapon, indeed, in Kentucky by lenders to keep the borrowers with interest rates well in line.

I would like to add another comment on the aspects of the garnishment situation. It has come to my attention that a number of potential witnesses have not appeared before the subcommittee to discuss their credit transactions. They have been frightened away from doing so. It seems that these people, mostly low income people—and I remind you that the average education in Kentucky is 8.7 years, I am sorry to say—many of these people who owe money are afraid that when their creditors and/or their employers find out about their testimony, some technicality might possibly be used to endanger their employment, and they don't want that.

We must frankly admit that if we were in their exact shoes we would think twice about antagonizing creditors who hold such power over them.

The threat of garnishment is a reality in Kentucky. Now, another point should be made about the credit situation: Our State has laws setting limits on the amounts of interest that creditors can charge borrowers, with one major exception, and that exception is in the field of retail credit, where any rate is now permissible. Small loan companies have interesting practices of buying installment paper.

Some retail merchants who have themselves negotiated contracts, at any rate they can get, do this. Thus, the small loan companies cash in on the high rates prevalent in the retail credit area when they deal with the public directly and make small loans.

This State law specifies the maximum rate they may charge. For example, 36 percent on a loan of $150, which would seem enough, but buying installment papers from a retail dealer is a loophole, widely used by small loan companies in Kentucky to get around the limitations that the law sets on the lending rates.

The CHAIRMAN. That's very important, what you're saying now.

Mr. EZELLE. In all this wonderland, it is the average Kentuckian who does the suffering.

The CHAIRMAN. You mean the 42-percent limit doesn't hold, that there is no limit on installment sales?

Mr. EZELLE. That's right.

The CHAIRMAN. Installment sales can go above 42 percent and then be sold to a finance company which, because it is buying paper from a retail concern is not held under the Small Loan Act?

Mr. EZELLE. That's true, sir, and can use this loophole.

The CHAIRMAN. That's very important.

Senator BENNETT. Use it to do what?

Mr. EZELLE. Use it to make more interest than they would legally be allowed to do.

Senator BENNETT. This does not affect the amount that the consumer who made the note had to pay. This does not increase the burden on him.

Mr. EZELLE. Well, I imagine it's in the cost someplace, if the paper is to be sold to another business. I would expect that it's hidden in there someplace.

At any rate, he doesn't have a chance.

Senator BENNETT. Once the paper has been executed, the fact it is sold does not automatically increase the amount the man has to pay.

Mr. EZELLE. In fact, this practice exists, Senator, if you please. Plenty of able brains draw slogans of easy credit with terms that sound sweet but in reality are as bitter as quinine.

Even if the customer has the ability to understand the terms of the contract, it is likely to be printed in yellow ink on yellow paper. It is high time this sort of fleecing be brought to an end.

The consumer deserves legal protection so he might know, in unmistakable terms, what he is being soaked for in installment buying. We are convinced that Senate bill 750 will give the people of this State and of this Nation such protection.

We do not hope and the sponsors of the bill would not hold that Senate bill 750 is a panacea. We know it is not a cure-all, but it is a minimum measure needed to insure the consumer of a fair deal and a free choice of credit cost at the marketplace.

I want to emphasize our belief that the Government cannot be expected to hold the consumer's hand and protect him from the temptation of buying gadgets that he may not need. We know that, but the Government does, we feel, have an obligation to make certain that the consumer is protected from deceptive selling prices, and is provided with truthful admission of credit charges, so he can make a reasonable, intelligent choice, as to how he wishes to spend his earnings.

Now, this has been a recognized principle in other types of consumer legislation, protective legislation, such as the truth-in-packaging legislation.

The Louisville Chamber of Commerce should not fear a bill that requires their members to tell the truth to this community.

We believe that the overwhelming majority of businessmen in this community, Senator, and in this State are honest and willing for their customers to have the actual facts concerning the true cost of credit purchases.

For those businessmen who practice chicanery and deceit and gouge the public with tricky credit charges, we should not concern ourselves with. I was somewhat amused by Mr. Carter, who testified previously. Mr. Carter is a representative of that great financial dynasty in the Commonwealth of Kentucky under Garvest Kincaid, and I would expect Mr. Carter and his employer, Mr. Kincaid, to be rather opposed to any Federal legislation in this matter to protect the public.

There has always been trouble in making simple mathematical deductions here. For example, just 2 years ago, the Kentucky Finance Co., which is probably the same empire, was fined in Federal court $5,000, and forced to pay $44,325 in back wages. That's an organization Mr. Carter represents, so they have had trouble making finance adjustments before, you know. Mathematics gives them a great deal of trouble.

Senate bill 750, gentlemen, will expose this type of retail abuse of the consumer as they should be exposed. So we give this bill a wholehearted endorsement and respectfully ask that it be passed.

The CHAIRMAN. Thank you very much. I have no questions.

Senator BENNETT. No questions.

The CHAIRMAN. Now, we will call as the next witness Mr. William Ezzell, president of the Central Kentucky Mortgage Co.

STATEMENT OF WILLIAM EZZELL, PRESIDENT, CENTRAL KENTUCKY MORTGAGE CO.

Mr. WILLIAM EZZELL. I've known Sam, because he is the one who gets his picture in the paper. [Laughter.]

Senators, my name is William E. Ezzell. I am president of the Central Kentucky Mortgage Co.

We appreciate this opportunity to express our opinion on S. 750, the proposed bill for the full disclosure of finance charges. There is no question but that consumers are entitled to know what the cost of credit is. Our interest in this bill stems from our activity in real estate loans—a vital component of the homebuilding and construction industry which contributes significantly to our national welfare.

Because the construction industry is so vital to the national welfare and because homes represent such an important investment for people, this industry has received much governmental attention at both the State and Federal levels. As a result, there is some doubt in our minds whether the home purchaser would be benefited additionally by some of the requirements of the proposed legislation.

In any one market area there is seldom a variation in interest rates paid in excess of three-fourths to 1 percent between a prime mortgage and a risky mortgage. There are several reasons for this. First and foremost is the fact that mortgage interest rates are a common subject of conversation among homeowners and prospective home buyers. Not less important is the fact that the interest rate on the mortgage is a prime factor in the sale of the realty. This factor is unique to real estate among consumer selling. Because this is so, the sellers of real estate, builders and licensed real estate dealers, are professional in their approach to the money market. The benefit of their knowledge accrues directly to the consumer. And then, too, we have found the average home-loan seeker to be a well-informed individual who does not sign a loan application until after he shops the market.

Closely allied to the importance of the mortgage interest rate to the sale is the fact that there is no other area of consumer finance in which the competition among lenders is of such direct benefit to the consumer. The terms of every real estate loan are a reflection of the general availability of funds and the risk inherent in the specific transaction. Even in times of a relative shortage of mortgage money, there are numerous businesses, such as mortgage bankers and savings and loans, who have no alternative areas of investment and continue to compete.

The low interest rates prevailing in the real estate industry are not due entirely to this competition, but it plays a major part. Some of the other factors are:

1. Present State laws imposing interest ceilings.
2. The stability in value of the security.
3. The comparative safety of real estate loans as compared to other types of consumer finance.

We believe it is fair to say that present conditions in the mortgage business resulting from custom, law, regulation, economic conditions and the low degree of risk in loans is such that real estate loans in any market are made at as low an interest rate as is consistent with attracting funds. Further disclosure would not benefit consumers through lower rates.

As a matter of fact, it would be completely unrealistic to be required to point out to the borrower under a long-term real estate mortgage loan the total cost of interest he would pay over a 20- 25- 30-year period. The home purchase transaction in the life of the average real estate purchaser is the largest single investment he will make in his lifetime, and the long-term mortgage lending transaction enables him to secure a home of his own. Most persons could not accumulate the purchase price of the house prior to the purchasing of it and the only feasible way for him to acquire a home is through long-term mortgage financing. To present the prospective home buyer and mortgagor with the total of interest he will pay over a long-term period in connection with the purchase of his home can have a number of harmful effects. First, the average home buyer and mortgagor will not keep the same mortgage to its maturity, and it would be quite unlikely for him to ever pay the entire amount of interest which would be paid if the loan were kept by him to maturity. To illustrate this, figures compiled by the Financial Publishing Co. of Boston[1] indicate the average life of loans of varying original terms is:

	Years
13 years or less	5.80
13 through 17 years	7.20
18 through 22 years	8.44
23 through 25 years	10.23
30 years (estimated)	12.00

In connection with the above table, you can readily understand that the average person buys a number of homes in his lifetime, and that mortgages are constantly being paid off, assumed, et cetera, so that it is quite unlikely that the average mortgagor will ever pay the total interest on the mortgage loan which he originally makes.

We feel that it is also unrealistic to point out to the mortgagor, in connection with a long-term real estate mortgage, that he will be required to pay what seems to be an enormous amount of interest for the use of the sizable sum he is borrowing since, as a matter of fact, it is absolutely necessary for the average real estate mortgagor to purchase his home by the use of a long-term mortgage, and to dissuade him from entering into a long-term mortgage transaction is not a service to the home buyer.

Actually, as I stated before, the long-term mortgage is made at the lowest possible competitive rate of interest and the entering into the mortgage transaction is ordinarily of great service to the mortgagor, in that it is the only way he can obtain a home of his own. It is impractical to feel that the disclosure of the total amount of interest to be paid by the mortgagor in a long-term real estate mortgage transaction can have any salutary effect.

The Federal Housing Administration and other related Federal mortgage agencies have really become the standard for the entire industry of real estate mortgage financing. These agencies, and consequently all mortgage lenders, always follow full disclosure principles, including the furnishing of an amortization schedule to the borrower, showing the amount of interest to be paid. The record that has been set by the Federal Housing Administration and the Veterans' Administration as home financing agencies has practically placed them in an unassailable position, particularly from an honesty-to-the-borrower standpoint.

It is conceivable that in most cases presenting a home purchaser with the gross interest figures that would be paid by him on a long-term home loan would completely kill the transaction. Similarly, if all young men were confronted with an estimate of the amounts they would be forced to earn and pay to satisfy the bills of a lifetime for

[1] From figures out of FHA's 24th annual report in 1957.

raising a family—groceries, utilities, rent, et cetera—we would have a country of overpopulated monastic orders and caves full of hermits.

I would suspect that the authors of this bill were striving mainly to provide full disclosure protection to that segment of the public using credit to purchase objects which have a high obsolescence factor and will depreciate faster in some cases than the loan can be repaid. In this regard it seems that the fast depreciation in value of the item being financed is the real threat to the individual's economy, rather than the credit cost that makes the purchase possible.

One of the greatest industries in America is the homebuilding industry and the associated home supply and home lending industries. Anything which could cause a dampening or depressant effect on this industry could have the gravest economic consequences for America.

There is a great difference between the financing of quickly depreciating personal property and chattels and the financing of real estate which, under ordinary circumstances, actually increases in value. The matter of a disclosure of interest charges on relatively short-term loans in connection with personal property and the matter of requiring the disclosure of interest charges for long-term mortgage loans in connection with real estate is not the same thing at all. The two situations are not analogous.

Aside from these considerations, this bill if applied to real estate financing as literally as it is written, would present extremely difficult interpretation and administration problems. I am thinking principally of the construction lending area.

For the moment, let us consider the cash buyer. If the reasoning of this proposed legislation is carried out, a statement should be given to the cash buyer explaining how much investment income he will be losing if he puts his money into the purchase considered. In other words, gentlemen, the protection question involved is whether to buy or not to buy.

In the real estate area the workings of the marketplace, plus competition between lending institutions, plus close surveillance by Federal agencies, plus the greater sophistication of the average home buyer, has and will serve better than anything else to protect the economy and the individual buyer.

In short, gentlemen, I sincerely feel that it would not be a benefit to consumers or to the economy to include real estate mortgage transactions in the terms of this bill. The main effect of the requirements, as to a disclosure of interest in real estate mortgage transactions, would be to make an unnecessary emphasis on interest in an unrealistic fashion without a balanced picture of the benefits accruing to the mortgagor from his investment in the real estate over the long term.

The CHAIRMAN. Thank you, Mr. Ezzell. Do you think that the true annual rate should be used on short-term transactions, as it is on long-term mortgage transactions?

Mr. WILLIAM EZZELL. I think there would be no problem in that area.

Senator BENNETT. What area? Mortgage area?

Mr. WILLIAM EZZELL. Here is what I am trying to express——

The CHAIRMAN. What I am saying is, do you think it should be used in the short-term area, if used in the mortgage area?

Mr. WILLIAM EZZELL. I think they are two different businesses, Senator. I am not familiar with the consumer loan business. This is an entirely different kettle of fish.

The CHAIRMAN. I assume you are aware that the Mutual Savings Bank, U.S. Savings and Loan Association, which represents the two largest groups, I suppose, of lenders on home mortgages, have endorsed this bill?

Mr. WILLIAM EZZELL. I have heard of that, yes, sir. But you're not all the way to the post yet. You know, out in Kentucky we have racehorses, and a lot of things can happen before you go to the post.

The CHAIRMAN. These two associations, I suppose, between them there are $100 billion.

Mr. WILLIAM EZZELL. Yes, sir.

The CHAIRMAN. They have endorsed the bill.

Mr. WILLIAM EZZELL. I discussed just now in the lobby—two savings and loan officials are there, and they were appalled at the fact that the association had taken that stand.

The CHAIRMAN. Of course you know the Housing and Home Finance Agency distributed something like a million copies, I think, of what the total finance charges would be over the life of mortgages of various years.

Mr. WILLIAM EZZELL. Yes.

The CHAIRMAN. These have been distributed by the lenders, and the interesting initial report is that these have not discouraged their making of loans.

Mr. WILLIAM EZZELL. Things like that have been done ever since FHA has been in existence.

The CHAIRMAN. No, no. Not on total charges.

Mr. WILLIAM EZZELL. The pamphlets have always——

The CHAIRMAN. Not on total charges. This is new. I think it's something like a million copies that have been distributed. It has no effect whatsoever on diminishing the number——

Senator BENNETT. Had it any effect on you or other lenders, as far as you know?

Mr. WILLIAM EZZELL. This is the first time I have seen it. I don't know where it is used.

The CHAIRMAN. We'll be glad to see that you get a thousand copies to distribute.

Mr. WILLIAM EZZELL. Well, fine. This wouldn't disturb me near as much as sitting down and saying, Now, look, this $14,000 house——

Senator BENNETT. That's what it does.

Mr. WILLIAM EZZELL. No, it doesn't do that. It's not like sitting a man down and saying, Look, this is a $14,000 loan, and when you sign on the dotted line, you are going to have a total interest of $15,381.

The CHAIRMAN. That's exactly what the pamphlet does.

Senator BENNETT. That is what the pamphlet is supposed to do.

Mr. WILLIAM EZZELL. There is no place on here that you will have to sign like you will when this bill comes out.

Senator BENNETT. Do you make FHA loans?

Mr. WILLIAM EZZELL. Yes, sir.

Senator BENNETT. And they've never sent you any of these?

Mr. WILLIAM EZZELL. No. Normally, these things come out on request.

The CHAIRMAN. We will see that you get a thousand copies.

Mr. WILLIAM EZZELL. Fine.

Senator BENNETT. On the request of the Senator from Illinois, not you. [Laughter.]

The CHAIRMAN. To help you. [Laughter.]

Mr. WILLIAM EZZELL. The FHA schedule on the amortization really boils down to his particular situation. The point I want to make, however, gentlemen, is that I don't think mortgage home lending industries should be included in this bill.

It's a completely different type of financing. There is no comparison between the home mortgage business and the consumer finance business.

Senator BENNETT. Thank you.

The CHAIRMAN. Thank you, Mr. Ezzell. I am grateful for your patience in waiting around. You may have had an education in consumer finance today. You may be able to set up a subsidiary. [Laughter.] The final witness is Mr. Eugene F. Land, president of the Greater Louisville Central Labor Council.

STATEMENT OF EUGENE F. LAND, PRESIDENT, GREATER LOUISVILLE LABOR COUNCIL AND JEFFERSON COUNTY COMMITTEE ON POLITICAL EDUCATION

Mr. LAND. My name is Eugene F. Land. I am president of the Greater Louisville Central Labor Council and the Jefferson County Committee on Political Education. On behalf of the members of these organizations, I would like to welcome the distinguished members of this subcommittee to Louisville. We are glad you are here. We feel that this hearing will contribute to a greater understanding of consumer credit problems in Kentucky.

In the August 6 edition of the Louisville Times there appeared a story stating the Louisville Chamber of Commerce was opposed to today's hearings on S. 750. The spokesman for the chamber said he did not detect any interest in the hearing here in Louisville and that it should be held elsewhere.

This statement seemed to us to be so far from the truth that a special meeting of the Jefferson County Committee on Political Education was called. At the meeting, the members voted unanimously to inform the subcommittee that we did, in fact, want hearings to be held there. It was also agreed that, contrary to the statement by the representative of the chamber of commerce, there is a tremendous amount of interest in this legislation to protect consumers of our community.

As a result of this special meeting, I wired the distinguished chairman of this subcommittee, telling him in substance what I have related.

(The telegram follows:)

[Telegram]

LOUISVILLE, KY., *August 8, 1963.*

Senator PAUL DOUGLAS,
Senate Office Building, Washington, D.C.:

In the Tuesday, August 6, Louisville Times there is a story stating the chamber of commerce opposition to your public hearing on a truth-in-lending bill, planned for August 24, in our city. The chamber spokesmen stated they do not detect any interest here and do not want it.

In a special called meeting of Jefferson County COPE the delegates voted unanimously to inform you that we want the hearings to be held here, and there is a tremendous amount of interest in this legislation to protect the consumers of our community.

EUGENE F. LAND,
President, Greater Louisville Central Labor Council and Jefferson County COPE.

Mr. LAND. The members of this subcommittee may be interested to know that the Greater Louisville Central Labor Council has been interested in truth in lending legislation for some time. As far back as December 5, 1961, the council passed a resolution supporting the bill that was then pending in the U.S. Senate.

We, as members of the council, feel that the bill will help the economy of Louisville and the rest of the Nation by permitting the consumer to make a free choice between sellers of credit. The country will benefit by having sellers of merchandise open to freer competition; the consumer will benefit by having a yardstick to use in judging the cost of credit offered him. I am, of course, referring to the provision in S. 750 that would require extenders of credit to state the cost of credit in terms of simple annual interest.

We feel that this provision is the heart of the legislation. With it, the consumer will have the information he needs to buy wisely. As it is now, the consumer is confronted with a bewildering variety of credit plans, none of which state their costs in such a way that they may be easily compared.

The benefits of S. 750 seem to be so clear that I find it hard to understand how anyone can oppose it. Why should anyone object to the truth revealed in the cost of credit expressed in terms of a simple annual rate?

We of the Greater Louisville Central Labor Council do not know why. We do know that S. 750 is a deserving piece of legislation and we urge its passage.

I have an additional statement.

This morning, in his testimony, Judge Kellerman mentioned that labor unions and other organizations should be teaching their members the economic facts of life. We in the Louisville Central Labor Council couldn't agree more.

I would like to point out for the record some things labor is doing to help clear things up for its members. We are trying to do a job of education, but it's a huge task, as you gentlemen know.

One of the major educational efforts is the 2-week summer school held each year by the Kentucky State AFL–CIO, by Brother Sam Ezzell who was just speaking. This school is held in Lexington at the University of Kentucky.

In addition the autoworkers, which I'm a member of, and the steelworkers hold schools for their members at Purdue University in Indiana.

Senator BENNETT. Are these for leaders or for members?

Mr. LAND. These are for members and the leaders, primarily for the members.

Another one of the educational projects is the preparation and distribution of pamphlets discussing a wide variety of economic topics.

In one I have here, there is a full discussion of the credit problems faced by consumers and an explanation of the truth in lending bill.

If anyone would care to have them, I would like to pass them out.

The CHAIRMAN. Thank you.

Mr. LAND. One last item I would mention is the conference held here 2 years ago on consumer problems.

This was sponsored by the Education Committee of the Greater Louisville Central Labor Council. We were honored to have as guest speaker the late Senator Estes Kefauver, of Tennessee.

In conclusion, I would like to say I have no intention of implying that organized labor is doing a complete job of educating its members. The problems that need illumination are many and complex.

But we recognize the need for education that exists and we are taking steps to meet it.

I also feel this Senate bill 750 is a necessary bill, due to the fact that we do need a tremendous amount of education.

The CHAIRMAN. Thank you very much, Mr. Land. You have issued a pamphlet by the AFL–CIO, entitled "In Your Interest," which I think is one of the best statements I have ever read.

Mr. LAND. Thank you. This is just sample copies of the various ones.

The CHAIRMAN. There is a subtitle underneath, "The Truth in Lending Bill."

Here is one on packaging: "It's What's Inside That Counts."

Mr. LAND. We certainly support the truth in lending bill and urge its passage.

The CHAIRMAN. This is one: "Better Housing for Better America."

Thank you, Mr. Land.

Senator BENNETT. No other questions.

The CHAIRMAN. I believe this concludes our hearing.

I want to thank all the witnesses. I think the testimony has been excellent. Now, we have been in session——

Senator BENNETT. Eight and a half hours, minus the time we have had for lunch. Seven and a half hours.

The CHAIRMAN. About $7\frac{1}{2}$ hours.

Senator SIMPSON. Again, I want to say I appreciate the very fair and fine manner with which you have handled the hearings, and this Kentucky hearing has been another example of the same.

The CHAIRMAN. Thank you very much. I want to say I appreciate the passages of my colleagues that sometime add to the gaiety of the proceedings, and—as in the case of attorneys in court—it is understood that there is no animus behind our remarks.

Senator BENNETT. We are all riding home together, tomorrow morning on the same plane, and I don't think there will be any explosion.

Senator SIMPSON. That's what he thinks. I'm left behind again. [Laughter.]

The CHAIRMAN. I would like to thank Judge Kellerman for the use of his courtroom.

Judge KELLERMAN. It's quite all right; thank you.

The CHAIRMAN. The hearing is adjourned.

(Whereupon, at 6:25 p.m., the hearing was adjourned.)

(The pamphlet mentioned above is reproduced as follows:)

IN YOUR INTEREST . . .

THE NEED FOR THE "TRUTH IN LENDING" BILL

The purpose of this bill is to require that the American consumer be given the truth, the whole truth, and nothing but the truth about the interest rates and finance charges he is asked to pay when he borrows money or buys an article on the installment plan.

Let me make it clear that it is not our purpose to control credit. It is not our intention to pre-empt state authority over the level of rates and charges. Our objective is, above all, to strip the disguises and camouflage which frequently hide or distort the true price of credit.

—Senator Paul Douglas (D., Ill.) at the opening of 1960 hearings on the Consumer Credit Labeling Bill

INDUSTRIAL UNION DEPARTMENT, AFL-CIO

WALTER P. REUTHER	JAMES B. CAREY
President	*Secretary-Treasurer*

Vice-Presidents

I. W. Abel	A. F. Hartung	William Pollock
J. A. Beirne	Albert J. Hayes	Frank Rosenblum
Joseph Curran	O. A. Knight	Louis Stulberg
Gordon Freeman	Paul L. Phillips	Arnold Zander

In Your Interest

A CONSUMER buys a product on the installment plan. His purchase contract calls for monthly repayments to cover principal and carrying charges. The true interest rate isn't stated. Has the consumer the right to know?

State law permits a loan company to charge three or three and one-half percent per month interest on the unpaid balance on a small loan. The true annual rate isn't indicated. Has the borrower the right to know?

Few Americans have any notion of the real cost of the money they borrow. The careful shopper who prides himself upon getting a bargain often dissipates far more than he saves by accepting extortionate installment terms. Unscrupulous merchants and lenders often go to extremes in making credit "easy" because of the rich interest crop to be harvested.

Senator Paul Douglas has long taken the position that the consumer is entitled to full disclosure legislation regarding costs of consumer credit. This year, the Senator and twenty-one of his colleagues have joined together in introducing S. 1740, the "Truth in Lending" bill. The Senators are of the view that there is a great public need for a bill requiring the seller or lender to state the true annual interest rate on consumer credit.

Senator Douglas introduced a "Consumer Credit Labeling" bill into the Senate last year. Hearings were completed on the bill, which was similar to this year's "Truth in Lending" bill. The hearings aroused considerable public interest and support as they revealed startling abuses of consumer credit.

EAGER BORROWERS

AMERICANS are the world's most eager borrowers. Two out of three U. S. families are in debt. About half make regular monthly installment payments each month before meeting other family needs. A third make regular monthly repayments on mortgages. Another quarter owe for personal loans, charge accounts, and similar credit. Many families carry more than one kind of debt. In family life as in American business and government, credit makes the mare go.

Personal debt in America has mounted to $200 billion. Of this, about $140 billion is mortgage debt, while installment debt accounts for another $55 billion. About thirteen cents out of every dollar of personal income goes for repayment of installment loans.

Mortgage credit has increased six-fold since World War II's end, while installment credit has

increased eight-fold. Today, the demand for such credit—and its supply—is among our most important economic indicators. During more prosperous moments, the business and government economists worry lest installment debt be expanded too rapidly. During recessions, cheers go up every time consumer credit shows signs of expansion.

Almost every American family uses some form of consumer credit at some time during its existence, but it is used least among the very poor and the wealthy. Consumer credit is used with most frequency by those "middle-income" families with incomes of from \$4,000 to \$10,000 annually.

Installment buying has made possible the American standard of living. Home ownership would be far less widespread were it not for long-term mortgages with repayment stretched out for twenty, twenty-five, or thirty years. At least two-thirds of all automobiles and half of TV sets are bought on credit. The small down-payment with the regular monthly repayment have given the consumer a unique role in American life.

Consumer credit is of major importance to U. S. industry and its workers. Without it, the wheels of industry would soon grind to a jarring stop and millions would be thrown out of jobs.

Because it is so vital to all, consumer credit should be treated with respect. If the consumer loses faith because he is swindled, cheated, or fooled, the results will be catastrophic. A law to deter the serious abuses of consumer credit is worthy of widespread public support.

National concern with the size and cost of the federal debt is fully understandable. On the other hand, it is difficult to understand the woeful complacency about the size and cost of consumer debt. The installment buyer is left entirely to his own devices although all of us will sink if he goes down.

Easy credit and the ruthless imposition of consumer debt upon the unwary have led to frightful abuse and sometimes to tragic consequence. Because of ignorance regarding the true costs of money, lives have been needlessly scarred or even wrecked. Unless excesses are halted, the entire American business community may be discredited.

If the real average price of personal and mortgage credit is six percent, consumers will pay out $12 billion in interest each year. If the price is eight percent, consumers will pay out $16 billion—about half the nation's annual education bill.

A one percent increase in interest rates is great enough to price hundreds of thousands of moderate-income families out of the housing market. On a $13,500 mortgage, one percent represents a monthly payment of $11.25 over a twenty-five year period. The home buyer who fails to note the interest charge carefully may find that he has saddled himself with a burden beyond his ability to carry.

Mortgage interest rates generally are clearly stated. The consumer usually is able to tell what his annual interest rate will be. This has led to greater understanding and care in signing home purchase contracts.

TRICKS OF THE TRADE

Installment credit and personal loans are an entirely different matter. These generally are of relatively short term—one, two or three years, or a period of months. Usually, interest is figured from a complex table and is stated in terms of a monthly rate. In some cases, a flat service charge of so many dollars per hundred is added on. Often, no provision is made for rebate when repayment is completed in advance of the stipulated term of the loan.

Sellers in the consumer credit market often advertise loan charges as "just pennies a week" or a "dollar a month for each $50." To the unwary, the cost seems small. Actually, the interest charges continue at a "dollar a month for each $50" over the life of the contract. The actual cost figures out to $12 a year for each $50, or a rate of twenty-four percent.

To confuse the more wary, the seller often seeks to set up repayment schedules of seven, nine, or twenty-six months, or some other such odd period. This makes it difficult for the buyer to compute the interest rate, especially when the salesman persists with a high-pressure sales talk.

The low-income family has least understanding of the abuses of consumer credit. Unable to buy higher cost items for cash, these families often turn to unscrupulous merchants who pad high profits with still higher carrying charges.

Helen Hall, director of New York's famed Henry Street settlement, filed a statement during last year's hearings on the "Consumer Credit Labeling" bill, She related the case of a shipping clerk with take-home pay of $68 a week.

The shipping clerk, his wife, and three children were radiant with happiness when they were able to move from a furnished room to a five-room apartment in a low-income city housing development. Faced with the need to furnish the apartment, they turned to a peddler who had always sold them everything they required from soap to shoes.

The peddler took the family to a furniture store where they were sold a bill of goods—$1,800 worth of furniture on the installment plan. The peddler came to their apartment to collect the downpayment and then disappeared from the scene.

From then on, the family dealt with a finance company. Payments were $60 a month. The family had no contract, only a sales slip from the furniture store.

After two months, the jerry-built furniture started to come apart. Complaints to the store were of no avail. Finally, in desperation, the family withheld payments, although money was set aside to meet them.

The finance company turned the case over to the city marshal's office. Following investigation, payments were reduced to $28 per month, but the full debt remained to burden the family.

"Today, three years later," wrote Miss Hall, "Mr. Phillips is still paying off his furniture. . . . The furniture is falling apart, but the company has made sure it will be paid because his wages have been garnisheed."

WAGES GARNISHEED

The case of William Rodriguez, made news because it was climaxed by tragedy. Easy credit at high cost entrapped Rodriguez, who found his way out in suicide at age 23. Rodriguez supported a wife and four young children on a mail order clerk's pay of $66 weekly. He owed $700 in time payments.

Two reporters investigating the death of the young Puerto Rican found that a finance company had garnisheed his wages for $80.20, an acceptance company for $34.15, and a furniture store for $167.

"I'm up to my neck in debt and can't go any further," Rodriguez wrote in his suicide note. Police found in the young father's pocket a bill with a note warning that if he didn't pay up his employer would be notified.

A *Washington Post and Times Herald* reporter found in 1960 that easy credit at high prices is readily available to anyone with a job and a wage to be garnisheed. After the District of Columbia's easy credit mill was exposed, the capital's garnishment law was improved. Throughout the country, however, the courts in too many cases still serve as collection agencies for loan firms who justify their high interest charges on the ground of risk taking.

A prize-winning series of articles by *Washington Star* reporter Miriam Ottenberg revealed finance charges on used cars as high as thirty percent, credit insurance costs double the normal, and "balloon payments" of $200 or more still due on an auto after the "final" payment was made. Miss Ottenberg reported that the courts have ruled that finance charges are not interest and do not come under Washington, D. C.'s usury laws.

Reporter Ottenberg described how buyers were enticed into used car lots by advertisements offering a used car for $1,495, with only a dollar down. She reported that the customer would end up by paying a total price of $2,195. The additional $700 covered loans from two finance companies to cover a down payment and a heavy insurance bill. The buyer affixing his signature to the complex contract proffered him was hooked.

The Ottenberg series revealed tie-ups between used car dealers and finance companies. Concealed in the fine print of purchase contracts were true interest charges of twenty percent, hidden insurance charges, and lump-sum payments due after regular installments were completed.

Thanks to the Ottenberg articles, Congress enacted "reform" legislation for the District of Columbia. The new law left much to be desired, although it was an improvement. Annual interest charges of from sixteen percent on new cars to thirty-two percent on used cars over four years old are still legal.

TRUE RATES

THROUGHOUT the nation, the purchaser of a new or used car on installments is still very much at the mercy of the fine print. Used cars financed in the twenty-six states without rate regulation carry true interest charges up to 275 percent. In some of the twenty-four states with "regulation" true interest charges are as high as forty-three percent.

The common true interest rate on small loans is actually thirty percent. Rates of thirty-six to forty-two percent are permitted in many states. Legal maximums under present state law run from twenty-four to forty-eight percent. To the borrower, the rate is stated as two, three, three and one-half, or four percent per month on the unpaid balance.

Some consumer credit ads are viciously misleading. One placed before the Senate subcommittee proclaimed boldly that Florida law now permits a "new and better way to borrow." The ad stated in smaller type that there would be "no monthly interest charges" to borrowers. The key word was "monthly." Repayment, of course, was clearly on a monthly basis.

The more sophisticated and the better credit risk usually turns to banks for loans. Even these borrowers are woefully ignorant of the true cost of money. Professional and businessmen who borrow for personal needs or who buy on credit are among the ill-informed.

Ten thousand commercial banks underwrite or directly finance $15 billion in consumer credit. These banks usually advertise loans at a stipulated annual rate, although an increasing number advertise a monthly interest charge. True interest costs are usually far higher than advertised rates.

The borrower of $1,000 repayable over one year in regular installments may think that he is paying only six percent on his bank loan. But the borrower actually has the use of $500 on the "average" over the year. His true interest rate is twelve percent.

The common rate for personal loans at a bank is twelve percent. The legal permissible maximum under state law runs from twelve to forty-two percent. Maximum rates for credit unions is twelve percent by law.

Richard L. D. Morse, professor of family finance at the Kansas State University, last year presented to the Senate subcommittee a survey showing responses of lending firms to a survey on interest rates. Each lender was requested to ask what the monthly payment would be on a $200 loan to purchase a $300 used car, to be repaid in twelve monthly installments. Each was also asked to state the annual interest rate on the loan.

Five lenders said the monthly repayment would be $18.67. The same lenders reported four different annual interest rates for the same amount of repayment; twelve percent, nine percent, six percent, eight percent, and again, twelve percent.

Four other lenders reported a monthly payment of $18.33. Each of the four stipulated a different interest rate on the identical repayment: 7.5 percent, ten percent, thirteen percent, and nine percent.

The true annual interest rate with a repayment of $18.67 is about twenty-two percent. The true annual rate with a repayment of $18.33 is approximately eighteen percent.

These were chartered lending concerns, supposedly experts in their fields. None was a fly-by-night firm. Each had years of experience in consumer finance.

Chairman William McChesney Martin of the Federal Reserve Board has confessed that he is confused by the vagaries of consumer finance. Dr. Theodore O. Yntema, Ford Motors vice-president in charge of finance, has stated that the "variety and complexity of finance and insurance arrangements and the charges for them are such as almost to defy comprehension."

"It is impossible," the Ford official added, "for the average buyer to appraise the rates for the finance and insurance services offered, as compared with alternatives elsewhere."

TRUTH BILL

THE "Truth in Lending" bill would require full disclosure of charges to the consumer. It would in no way interfere with the buyer-seller relationship, nor is it an attempt to regulate the terms of installment buying. The bill is an attempt to prevent the abuse of consumer credit so that it may remain a bulwark of the U. S. living standard and a useful and legitimate tool of commerce.

The measure would require the following information to be disclosed:

- The cash price, or, in the case of installment credit, the delivered price of the article or service to be performed;
- The amount to be credited as a down-payment and/or trade-in allowance when the purchase is to be financed through consumer credit;
- The difference between the two amounts: the actual amount of the purchase price being financed;
- A listing of all charges in connection with the transaction not directly resulting from extension of credit. In the case of an automobile, this would include a listing of all insurance charges;
- The total amount of cost to be financed;
- The finance charge expressed in dollars and cents. This would include all interest, service charges, discounts, and other charges incident to extension of credit;
- The finance costs expressed as a simple annual interest rate on the outstanding unpaid balance or obligation due.

The bill would require the seller or lender to give the consumer the basic information he requires to make an intelligent decision. It would give the consumer an intelligent yardstick that he could use in shopping around to compare actual prices and the costs of credit.

Mutual savings banks, the Federal Reserve Board, the Federal Trade Commission, the Home and Housing Agency, savings and loan associations, the AFL-CIO, and the Department of Health, Education, and Welfare have recorded themselves in favor of the bill.

Opposition has come chiefly

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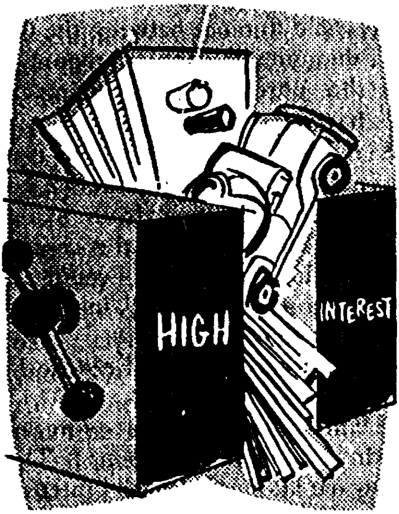


from small loan associations, the U. S. Chamber of Commerce, retail stores, and easy credit merchants of various kinds. Each of these has stated that business has nothing to hide. Each, however, is vigorous in its desire to continue the present camouflage.

The opposition argues that a federal law represents intrusion into states' rights. The truth is that state law has permitted sad abuse and that few states have shown any desire to correct present ills. Further, the bill is well within the jurisdiction of the federal government under the Constitution's money clauses.

The usual arguments regarding the creation of a vast federal bureaucracy to enforce the law have also been raised. The same argument was raised when the Automobile Information Disclosure Act was passed in 1958. With passage of this law, the "pack" has disappeared from auto retailing. Consumers now know what is on the car and what the manufacturers' list price is for each item. The law has helped the consumer, has helped to restore true competition, and has brought a measure of truth and sanity into auto advertising. No great federal bureaucracy has sprung up to plague the auto industry.

The argument has also been raised that it will take an expert to compute the true interest rate, and that the ordinary salesman cannot do so. This argument was effectively answered by Earl B. Schwulst, president of the famous Bowery Savings Bank of New York.

"They have tables. You can figure [the true interest rate] out to the dollar. . . . They have tables to figure that very easily," Mr. Schwulst said.

"I recognize," added the banker, "the importance of consumer credit and I know that if we didn't have consumer credit and installment credit the economy would probably not have grown and expanded as it has, and I would never say that this credit *per se* is a bad thing. I know that many people would be unable to enjoy many of the blessings of good living if they were not able to borrow or purchase on credit. And this bill does not say that consumer credit and installment credit are bad."

There are many good reasons for a full disclosure law in the field of consumer credit. Not the least of these is the improvement of business ethics. But, the marketplace aside, life in latter-day 20th century America demands that the consumer be entitled to know the truth about credit and it costs to him.

America has boasted across the world of her free enterprise system. But no enterprise system is truly free if it is based upon withholding the truth from the average citizen. A free society demands that the consumer be given the facts by which to make an intelligent choice, whether he takes advantage of that knowledge or not.

A free enterprise system should be one of fair competition. Unless the consumer has a yardstick by which to measure the costs of credit, there will be little fair competition. Unless our economy is competitive, the government ultimately will be forced to regulate prices and profits. The "Truth in Lending" bill would help the business community by protecting it from the unscrupulous dealer and lender. The merchant or lender who is honest and above-board has nothing to hide.

Economic stabilization demands information regarding the costs of credit. Unchecked personal credit expansion can lead to large-scale defaulting on debt. The result can be crash and disaster. By the same token, too great an expansion in any one period can lead to excessive contraction in the period following as people repay debt. This creates recession and unemployment and is in nobody's interest over the longer run.

Today, America faces grave danger from the abuses of consumer credit. Even teenagers are being urged to open up revolving credit accounts, complete with service charges.

As Senator Douglas has said, the very least we can do is require the contents of the teenage credit package to be labeled accurately. The same would hold true for the parents who are also susceptible to the credit habit.

Some have argued that the demand for credit is inelastic and self-regulating, that the price of credit has little to do with demand. If this is true, supply and demand have indeed become meaningless in our world.

The argument in any case has little validity as a reason for not providing full information to consumers. If the truth is made known to those who buy on time, greater elasticity together with greater economic stability may result in our economy.

Register YOUR support for "Truth in Lending" legislation:

- Write to your Senator in support of S. 1740.

- Write to your Representative asking him to support "Truth in Lending" legislation.

- Have your local union endorse S. 1740 by resolution and forward copies to Senator Douglas and your Senator and Representative.

- Have your lodge, civic association, club, or fraternal organization endorse the measure and pass the information on to your Senator and Representative and to Senator Douglas.

- Explain the bill to your fellow employees, neighbors, and fellow club members and urge them to write.

AMERICAN CONSUMERS DESERVE THE TRUTH!

(The text of Kentucky's proposed Truth in Lending Act follows.)

AN ACT RELATING TO CREDIT AND THE DISCLOSURE OF FINANCE CHARGES

SENATE BILL NO. 124, KENTUCKY REGULAR SESSION

By: White & Raney, As Introduced: 1/25/62

Be it enacted by the General Assembly of the Commonwealth of Kentucky:

SECTION 1. This Act may be cited as the "Truth-in-Lending Act."

SECTION 2. As used in this Act, unless the context otherwise requires, the term—

(1) "Commissioner" means the Commissioner of the Department of Banking.

(2) "Department" means the Department of Banking.

(3) "Credit" or "Credit Transaction" means any loan, mortgage, deed of trust, advance or discount; any conditional sales contract; any contract to sell. or sale, or contract of sale of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract; any rental purchase contract; any contract or arrangement for the hire, bailment, or leasing of property; any option, demand. lien, pledge, or other claim against, or for the delivery of, property or money; any purchase, or other acquisition of, or any credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions for a similar purpose or effect.

(4) "Time-Price Differential" means any addition to the purchase price over that for which the property or services would sell if payment were made in cash.

(5) "Finance Charge" means the amount or value paid, or contracted to be paid, for the extension or use of credit and shall include loan fees, service charges, discounts, interest, time price differential, investigation fees, and similar charges incident to the extension or use of credit, or the use or forbearance or detention of money. It shall not include the following charges: (a) Recording and releasing fees, (b) Appraisal fees, (c) Title Inspection fees, (d) Premiums for Title Insurance, Credit Life Insurance, Health and Accident Insurance, Fire and Casualty Insurance, or other exclusions that may be determined by the Commissioner from time to time.

(6) "Creditor" means any person engaged in the business of extending credit (including any person who as a regular business practice makes loans or sells or rents property or services, or adjusts debts of others, on a time, credit, or installment basis, either as principal or as agent) who requires, as an incident to the extension of credit, the payment of finance charges.

(7) "Person" means any individual, corporation, partnership, association, or other organized group of persons, or the legal successor or representative of the foregoing, and includes the Commonwealth of Kentucky or any other government, or any agency thereof, or any of its political subdivisions, or any agency of the foregoing.

SECTION 3. (a) Any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear statement in writing setting forth, to the extent applicable and in accordance with the rules and regulations prescribed by the Department, the following information:

(1) The amount of credit extended or the cash price or delivered price of the property or service to be acquired;

(2) The amounts, if any, to be credited either as downpayment or trade-in, or both;

(3) The difference between the amounts set forth under clauses (1) and (2);

(4) The Finance Charges, individually itemized, which are paid or to be paid by such person in connection with the transaction which are incident to the extension of credit;

(5) The total amount to be financed and the net proceeds to the person to whom credit is extended;

(6) The Finance Charge expressed in terms of dollars and cents; and

(7) The percentage (to the nearest per centum) that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

(b) Creditors extending credit on revolving, open end, add-on, or similar plans wherein the total amount of credit extended, finance charges in dollars and cents or terms of repayment, are not known at the time of the consummation of the transaction may, in lieu of Subsection 6 and 7 above, in accordance with regulations prescribed by the Commissioner, furnish (1) either at the time of the consummation of the transaction or at the regular billing of the person to whom credit is extended a statement reflecting the uniform repayment schedule of the creditor, the actual finance charges per one hundred dollars or multiple or division thereof at each maturity, and the percentage that the finance charge bears to the total amount of credit expressed as a simple annual rate at each maturity, or (2) at the time of the regular billing of the person to whom credit is extended, a statement reflecting the amount of credit that has been extended, the amount of payments or other credits to the account, the actual finance charge assessed at that billing in dollars and cents, and the rate at which finance charges are, or will be, assessed against the person, expressed as a simple annual rate.

(c) The provisions of Section 3(a) and 3(b) shall not apply to any credit transaction wherein the finance charge does not exceed the legal rate of interest provided for in K.R.S. 360.010.

SECTION 4. (a) The Department, through the Commissioner, shall prescribe such rules and regulations as may be necessary or proper in carrying out the provision of this Act. Any rule or regulation prescribed hereunder may contain such classifications and differentiations, and may provide for such adjustments and exceptions as in the judgment of the Commissioner are necessary or proper to effectuate the purposes of this Act, or to prevent circumvention or evasion, or to facilitate the enforcement of this Act, or any rule or regulation issued hereunder. In prescribing any exceptions hereunder with respect to any particular type of credit transaction the Commissioner shall determine that the items of information required to be disclosed under Section 3 of this Act are required to be disclosed under another law or regulation. The Commissioner may exempt those credit transactions between business firms as to which it determines adherence to the disclosure requirements of this Act is not necessary to carry out the purpose of this Act.

(b) In the exercise of its powers under this section, the Department shall request the views of other State departments, agencies, boards and commissions exercising regulatory functions with respect to creditors, or any class of creditors, which are subject to the provisions of this Act, and such agencies shall furnish such views upon request of the Department.

SECTION 5. (a) Any creditor who in connection with any credit transaction fails to disclose to any person any information in violation of this Act or any regulation issued thereunder shall be liable to such person in the amount of one hundred dollars, or in an amount equal to twice the finance charge required by such creditor in connection with such transaction, whichever is greater, except that such liability shall not exceed two thousand dollars on any credit transaction. Action to recover such penalty may be brought by such person within one year from the date of the occurrence of the violation, in any court of competent jurisdiction. In any action under this subsection in which any person is entitled to a recovery, the creditor shall be liable for reasonable attorney's fees and court costs as determined by the court.

(b) Except as specified in subsection (a) of this section, nothing contained in this Act or any regulation hereunder shall affect the validity or enforcibility of any contract or transaction.

(c) Any person who willfully violates any provision of this Act or any regulation issued thereunder shall be fined not more than two thousand dollars or imprisoned not more than six months, or both.

(d) No punishment or penalty provided by this Act shall apply to the United States, or any agency thereof, or to the Commonwealth of Kentucky, or to any State, any political subdivision thereof, or any agency of any State or political subdivision.

(e) A final judgment hereafter rendered in any criminal proceeding brought by or on behalf of the Commonwealth of Kentucky under this Act to the effect that a defendant has willfully violated this Act shall be prima facie evidence against such defendant in an action or proceeding brought by any other party against such defendant under this Act or by the Commonwealth of Kentucky under this Act as to all matters respecting which said judgment would be an estoppel as between the parties thereto.

SECTION 6. This Act shall become effective on January 1, 1963.

(The Kentucky statutes regulating installment sales contracts follow:)

Kentucky

INSTALLMENT SALES CONTRACTS

Laws 1962, Ch. 136, effective January 1, 1963

[¶ 1261]

Sec. 371.210. Definitions for KRS 371.210 to 371.330. As used in KRS 371.210 to 371.330 [¶ 1261—1284], unless the context otherwise requires:

(1) "Goods" means all tangible chattels personal when purchased primarily for personal, family or household use and not for commercial, industrial or agricultural use, but not including motor vehicles as herein defined, money, things in action or intangible personal property other than merchandise certificates or coupons as herein described. The term includes such chattels which are furnished or used, at the sale of or subsequently, in the modernization, rehabilitation, repair, alteration, improvement or construction of real property as to become a part thereof whether or not severable therefrom. The term also includes merchandise certificates or coupons, issued by a retail seller, not redeemable in cash and to be used in their face amount in lieu of cash.

(2) "Services" means work, labor or services of any kind when purchased primarily for personal, family or household use and not for commercial or business use, but not including services for which the prices charged are required by law to be determined or approved by or to be filed, subject to approval or disapproval, with the United States or any state, or any department, division, agency, officer or official of either as in the case of transportation services.

(3) "Motor vehicle" means any automobile, mobile home, motorcycle, truck trailer, semitrailer, truck tractor and bus designed and used primarily to transport persons or property on a public highway, or any vehicle designed to run only on rails or tracks or in the air, excepting however, any boat trailer and any vehicle propelled or drawn exclusively by muscular power.

(4) "Retail buyer" or "buyer" means a person who buys or agrees to buy goods or obtain services or agrees to have services rendered or furnished, from a retail seller.

(5) "Retail seller" or "seller" means a person regularly and principally engaged in the business of selling goods to retail buyers.

(6) "Retail installment transaction" means any transaction in which a retail buyer purchases goods or services from a retail seller pursuant to a retail installment contract or a retail charge agreement, as defined in this section, which provides for a time price differential, as defined in this section, and under which the buyer agrees to pay the unpaid balance in one or more installments.

(7) "Retail installment contract" means an instrument, other than a retail charge agreement or an instrument reflecting a sale made pursuant thereto, entered into in this state evidencing a retail installment transaction. The term "retail installment contract" may include a chattel mortgage, a security agreement, a conditional sale contract and a contract in the form of a bailment or a lease if the bailee or lessee contracts to pay as compensation for their use a sum substantially equivalent to or in excess of the value of the goods sold and if it is agreed that the bailee or lessee is bound to become, or for no other or a merely nominal consideration, has the option of becoming the owner of the goods upon full compliance with the provisions of the bailment or lease.

(8) "Retail charge agreement" means an instrument prescribing the terms of retail installment transactions which may be made thereunder from time to time and under the terms of which a time price differential, as defined in this section, is to be computed in relation to the buyer's unpaid balance from time to time.

(9) "Time price differential" however denominated or expressed, means the amount which is paid or payable for the privilege of purchasing goods or services to be paid for by the buyer in installments over a period of time. It does not include the amount, if any, charged for insurance premiums, delinquency charges, attorney's fees, court costs, or official fees.

(10) "Cash sale price" means the price stated in a retail installment contract or in a sales slip or other memorandum furnished by a retail seller to a retail buyer under or in connection with a retail charge agreement, for which the seller would have sold or furnished to the buyer and the

buyer would have bought or obtained from the seller the goods or services which are the subject matter of a retail installment transaction, if the sale had been a sale for cash. The cash sale price may include any taxes and charges for delivery, installation, servicing, repairs, alterations or improvements.

(11) "Official fees" means the amount of the fees prescribed by law for filing, recording or otherwise perfecting, and releasing or satisfying, a retained title, lien or other security interest created by a retail installment transaction.

(12) "Time sale price" means the total of the cash sale price of the goods or services and the amount, if any, included for insurance, if a separate identified charge is made therefor, and the official fees and the time price differential.

(13) "Principal balance" means the cash sale price of the goods or services which are the subject matter of a retail installment contract plus the amounts, if any, included therein, if a separate identified charge is made therefor and stated in the contract, for insurance and official fees, less the amount of the buyer's down payment in money or goods or both.

(14) "Holder" means the retail seller of the goods or services under the retail installment contract or retail charge agreement or the assignee if the retail installment contract or the retail charge agreement or any indebtedness under either has been sold or otherwise transferred.

(15) "Person" means an individual, partnership, joint venture, corporation, association or any other group, however organized.

(16) Words of the masculine gender include the feminine and the neuter and, when the sense so indicates, words of the neuter gender may refer to any gender. [Comp. at ¶ 101, 105, 240, 510, 620.]

[¶ 1262]

Sec. 371.220. Requisites of retail installment contract. (1) Each retail installment contract shall be in writing, dated, signed by the retail buyer, and completed as to all essential provisions, except as otherwise provided in KRS 371.250 [¶ 1269]. [Comp. at ¶ 130.]

[¶ 1263]

Sec. 371.220 (contd.). [Type size for contract—Notice to buyer.] (2) The printed or typed portion of the contract, other than instructions for completion, shall be in a size equal to at least eight point type. The contract shall be designated "Retail Installment Contract" and shall contain substantially the following notice printed or typed in a size equal to at least ten point bold type:

"NOTICE TO THE BUYER. DO NOT SIGN THIS CONTRACT BEFORE YOU READ IT OR IF IT CONTAINS BLANK SPACES. YOU ARE ENTITLED TO A COPY OF THE CONTRACT YOU SIGN." [Comp. at ¶ 130, 150.]

[¶ 1264]

Sec. 371.220 (contd.). [Contract copy to buyer—Rescission right—Acknowledgement of delivery of copy.] (3) The retail seller shall deliver to the retail buyer, or mail to him at his address shown on the retail installment contract, a copy of the contract as accepted by the seller. Until the seller does so a buyer, who has not received delivery of the goods or been furnished or rendered the services, shall have the right to rescind his contract and to receive a refund of all payments made and return of all goods traded in to the seller on account of or in contemplation of the contract, or if such goods cannot be returned, the value thereof. Any acknowledgment by the buyer of delivery of a copy of the contract shall be in a size equal to at least ten point bold type and, if contained in the contract, shall appear directly above the buyer's signature. [Comp. at ¶ 130, 160, 360, 370.]

[¶ 1265]

Sec. 371.220 (contd.). [Names and addresses of parties—Description.] (4) The retail installment contract shall contain the names of the seller and the buyer, the place of business of the seller, the residence or other address of the buyer as specified by the buyer and a description or identification of the goods sold or to be sold, or services furnished or rendered or to be furnished or rendered. [Comp. at ¶ 130, 150.]

[¶ 1266]

Sec. 371.220 (contd.). [Contract items.] (5) The retail installment contract shall contain the following items:

(a) The cash sale price of the goods or services;

(b) The amount of the buyer's down payment, identifying the amounts paid in money and allowed for goods traded in;

(c) The difference between items (a) and (b);

(d) The aggregate amount, if any, included for insurance, if a separate identified charge is made therefor, specifying the type or types of insurance and the term or terms of coverage;

(e) The aggregate amount of official fees;

(f) The principal balance, which is the sum of items (c), (d) and (e);

(g) The amount of the time price differential; and

(h) The amount of the time balance owed by the buyer to the seller, which is the sum of items (f) and (g) and, except as otherwise provided in the next two sentences, the maximum number of installment payments required and the amount of each installment and the due date of each payment necessary to pay such balance. If installment payments other than the final payment are stated as a series of equal scheduled amounts and if the amount of the final installment payment does not substantially exceed the scheduled amount of each preceding installment payment, the maximum number of payments and the amount and due date of each payment need not be separately stated and the amount of the scheduled final installment payment may be stated as the remaining unpaid balance. The due date of the first installment payment may be fixed by a day or date or may be fixed by reference to the date of the contract or to the time of delivery or installation.

The above items need not be stated in the sequence or order set forth; additional items may be included to explain the computations made in determining the amount to be paid by the buyer. [Comp. at ¶ 130, 140, 350.]

[¶ 1267]

Sec. 371.230. Contracts composed of more than one document. A retail installment contract need not be contained in a single document. If the contract is contained in more than one document, one such document shall be an original document signed by the retail buyer, stated to be applicable to purchases of goods or services to be made by the retail buyer from time to time. In such case such document, together with the sales slip, account book or other written statement relating to each purchase, shall set forth all of the information required by KRS 371.220 to 371.290 [¶ 1262—1278] and shall constitute the retail installment contract for each purchase. On each succeeding purchase pursuant to such original document, the sales slip, account book or other written statement may at the option of the seller constitute the memorandum required by KRS 371.290 [¶ 1276—1278]. [Comp. at ¶ 130, 470.]

[¶ 1268]

Sec. 371.240. Contracts made by mail. (1) Retail installment contracts negotiated and entered into by mail without personal solicitation by salesmen or other representatives of the seller and based upon a catalog of the seller, or other printed solicitation of business, if such catalog or other printed solicitation clearly sets forth the cash sale prices and other terms of sales to be made through such medium, may be made as provided in this section. The provisions of KRS 371.210 to 371.330 [¶ 1261—1284] with respect to retail installment contracts shall be applicable to such sales, except that:

(a) The designation and notice provisions of subsection (2) [¶ 1263] of KRS 371.220 shall not be applicable to such contract; and

(b) The retail installment contract, when completed by the buyer, need not contain the items required by subsection (5) [¶ 1266] of KRS 371.220.

(2) When the contract is received from the retail buyer, the seller shall prepare a written memorandum containing all of the information required by subsection (5) [¶ 1266] of KRS 371.220 to be included in a retail installment contract. In lieu of delivering a copy of the contract to the retail buyer as provided in subsection (3) [¶ 1264] of KRS 371.220, the seller shall deliver to the buyer a copy of such memorandum prior to the due date of the first installment payable under the contract. [Comp. at ¶ 130.]

[¶ 1269]

Sec. 371.250. Contract not to be signed in blank—Acknowledgement of delivery of copy. A retail installment contract shall not be signed by any party thereto when it contains blank spaces of items which are essential provisions of the transaction; provided, however, if delivery of the goods is not made at the time of the execution of the contract, the identifying numbers or marks of the goods or similar information and the due date of the first installment may be inserted by the seller in the seller's counterpart of the contract after it has been signed by the buyer. The buyer's acknowledgment, conforming to the requirements of KRS 371.220 to 371.290 [¶ 1262—1278], of delivery of a copy of the contract shall be presumptive proof or, in the case of a holder of the contract without knowledge to the contrary when he purchases it, conclusive proof of such delivery and of compliance with this subsection in any action or proceeding. [Comp. at ¶ 130, 160, 370.]

[¶ 1270]

Sec. 371.260. Time price differential—Prepayment. (1) Notwithstanding the provisions of any other law, a retail installment contract payable in substantially equal successive monthly installments beginning one month from the date of the contract may provide for, and the seller or holder may then charge, collect and receive a time price differential. [Comp. at ¶ 130.]

[¶ 1271]

Sec. 371.260 (contd.). [Credit upon anticipation of payment.] (2) Notwithstanding the provisions of any retail installment contract to the contrary, any buyer may prepay in full the unpaid time balance thereof at any time before its final due date and, if he does so, shall receive a refund credit thereon for such prepayment. The amount of such refund credit shall represent at least as great a proportion of the original time price differential, after deducting therefrom a maximum of ten dollars, as (a) the sum of the monthly unpaid balances under the schedule of payments in the contract beginning as of the date after such prepayment which is the next succeeding monthly anniversary date of the due date of the first installment under the contract, or, if the prepayment is prior to the due date of the first installment under the contract, then as of the date after such prepayment which is the next succeeding monthly anniversary date of the date of the contract, bears to (b) the sum of all the monthly unpaid balances under the schedule of installment payments in the contract. Where the amount of refund credit is less than one dollar, no refund credit need be made. [Comp. at ¶ 330, 370.]

[¶ 1272]

Sec. 371.270. Charge for installment defaults—Refinancing options. (1) The holder of any retail installment contract, if it so provides, may collect a delinquency and collection charge on each installment in default for a period of more than ten days in the amount not to exceed five percent of each installment or five dollars, whichever is less, "provided that a minimum charge of one dollar may be made," or, in lieu thereof, interest after maturity on each such installment not to exceed the highest lawful contract rate. [Comp. at ¶ 250.]

[¶ 1273]

Sec. 371.270 (contd.). [Refinancing retail installment contract—Charges.] (2) The holder of a retail installment contract upon request by the buyer, may agree to an amendment thereto to extend or defer the schedule due date of all or any part of any installment or installments or to renew, restate or reschedule the unpaid balance of the contract, and may collect for same a refinance charge not to exceed an amount ascertained as provided under either of the following optional methods of computation:

Option I. The refinance charge may be computed on the amount of the scheduled installment or installments extended or deferred for the period of extension or deferment at the rate of one and one-half percent per month; provided that a minimum deferment charge of one dollar shall be permitted. Such amendment may also include payment by the buyer of the additional cost to the holder of premiums for continuing in force any insurance coverages provided for in the contract until the end of such deferral period, and of any additional necessary official fees.

Option II. The refinance charge may be computed as follows: The sum of the unpaid balance as of the refinancing date and the cost for any insurance and other benefits incidental to the refinancing, and for any additional necessary official fees and any accrued delinquency and collection charges, after deducting a refund credit as for prepayment pursuant to subsection (2) of KRS 371.260 [¶ 1271], shall constitute a principal balance for such refinancing on which the refinance charge may be computed for the term of the refinanced contract at the applicable rate for finance charges. Acquisition costs under the refund schedule in subsection (2) of KRS 371.260 [¶ 1271] shall not apply in calculating refinance charges. [Comp. at ¶ 260.]

[¶ 1274]

Sec. 371.270 (contd.). [Amendment to be written—Delivered or mailed to buyer.] (3) The amendment to the contract must be confirmed in a writing signed by the holder. The writing shall set forth the terms of the amendment and the new due dates and amounts of the installments, and shall either be delivered to the buyer or mailed to him at his address as shown on the contract. Said writing together with the original contract and any previous amendments thereto shall constitute the retail installment contract. [Comp. at ¶ 260.]

[¶ 1275]

Sec. 371.280. Written statement of payments and amount unpaid. Upon written request of the buyer, the holder of a retail installment contract shall give or forward to the buyer a written statement of the dates and amounts of payments and the total amount unpaid under the contract. A buyer shall be given a written receipt for any payment when made in cash. Such a statement or receipt shall be given the buyer once without charge; if any additional statement is requested by the buyer, it shall be supplied by the holder at a charge not in excess of one dollar for each additional statement or receipt so supplied. [Comp. at ¶ 240, 370.]

[¶ 1276]

Sec. 371.290. Consolidation of subsequent purchases with existing contract—Memorandum—Allocation of payments. (1) If, in a retail installment transaction, a retail buyer makes any subsequent purchases of goods or services from a retail seller from whom he has previously purchased goods or services under one or more retail installment contracts, and the amounts under such previous contract or contracts have not been fully paid, the subsequent purchases may, at the seller's option, be included in and consolidated with one or more of the previous contract or contracts. Each subsequent purchase shall be a separate retail installment contract under KRS 371.210 to 371.330 [¶ 1261—1284], notwithstanding that the same may be included in and consolidated with one or more of such previous contract or contracts. All the provisions of KRS 371.210 to 371.330 with respect to retail installment contracts shall be applicable to such subsequent purchases except as hereinafter stated in subsections (2) to (7) [¶ 1277—1278] of this section. [Comp. at ¶ 470.]

[¶ 1277]

Sec. 371.290 (contd.). [Consolidation memorandum in lieu of contract—Items included.] (2) In the event of such consolidation, in lieu of the buyer's executing a retail installment contract respecting each subsequent purchase, as provided in KRS 371.220 to 371.290 [¶ 1262—1278], it shall be sufficient if the seller shall prepare a written memorandum of each subsequent purchase, in which case the provisions of subsections (1) [¶ 1262], (2) [¶ 1263], (3) [¶ 1264] and (4) [¶ 1265] of KRS 371.220 [¶ 1262—1266] shall not be applicable. Unless previously furnished in writing to the buyer by the seller, by sales slip, memoranda or otherwise, such memorandum shall set forth with respect to each subsequent purchase the following:

(a) The cash sale price of the goods or services;

(b) The amount of the buyer's down payment, identifying the amounts paid in money and allowed for goods traded in;

(c) The difference between items (a) and (b);

(d) The aggregate amount, if any, included for insurance, if a separate identified charge is made therefor, specifying the type or types of insurance and the term or terms of coverage;

(e) The aggregate amount of official fees;

(f) The principal balance, which is the sum of items (a), (b) and (c);

(g) The amount or rate of the time price differential;

(h) The amount of the time balance owed by the buyer to the seller, which is the sum of items (f) and (g);

(i) The outstanding balance of the previous contract or contracts;

(j) The consolidated time balance which is the sum of items (h) and (i);

(k) The revised installments applicable to the consolidated time balance, if any.

The seller shall deliver to the buyer a copy of such memorandum prior to the due date of the first installment of such consolidated contract. [Comp. at ¶ 470.]

[¶ 1278]

Sec. 371.290 (contd.). [Application of payments prior to and after subsequent purchases—Exception for goods attached.] (3) When such subsequent purchases are made, if the seller has retained title or taken a lien or other security interest in any of the goods purchased under any one of the contracts included in the consolidation;

(4) The entire amount of all payments made prior to such subsequent purchases shall be deemed to have been applied on the previous purchases;

(5) Each payment after such subsequent purchases made on this consolidated contract shall be deemed to have been allocated to all of the various purchases in the same ratio as the original cash sale prices of the various purchases bear to the total of all;

(6) Where the amount of each installment payment is increased in connection with such subsequent purchases, at the seller's option, the subsequent payments may be deemed to be allocated as follows: an amount equal to the original periodic payment to the previous purchase, the balance to the subsequent purchase. However, the amount of any down payment on the subsequent purchase shall be allocated in its entirety to such subsequent purchase.

(7) The provisions of subsections (3), (4), (5) and (6) of this section shall not apply to cases where such previous and subsequent purchases involve equipment, parts, or other goods attached or affixed to goods previously purchased and not fully paid, or to services in connection therewith rendered by the seller at the buyer's request. [Comp. at ¶ 470.]

[¶ 1279]

Sec. 371.300. Requisites of retail charge agreement. (1) Each retail charge agreement shall be in writing and signed by the buyer. A copy of any such agreement executed on or after January 1, 1963, shall be delivered or mailed to the buyer by the seller prior to the date on which the first payment is due thereunder. Any acknowledgment by the buyer of delivery of a copy of the agreement contained in the body thereof shall be in a size equal to at least ten point bold type and shall appear directly above the buyer's signature. No agreement executed on or after January 1, 1963, shall be signed by the buyer when it contains blank spaces to be filled in after it has been signed. The buyer's acknowledgment, conforming to the requirements of this subsection, of delivery of a copy of an agreement, shall be presumptive proof, in any action or proceeding, of such delivery and that the agreement, when signed, did not contain any blank spaces as provided in KRS 371.210 to 371.330 [¶ 1261—1284]. All retail charge agreements executed on or after January 1, 1963, shall state the maximum amount or rate of the time price differential to be charged and paid pursuant thereto. Any such agreement shall contain substantially the following notice printed or typed in a size equal to at least ten point bold type:

"NOTICE TO THE BUYER—DO NOT SIGN THIS AGREEMENT BEFORE YOU READ IT OR IF IT CONTAINS BLANK SPACES. YOU ARE ENTITLED TO A COPY OF THE AGREEMENT YOU SIGN." [Comp. at ¶ 620.]

[¶ 1280]

Sec. 371.300 (contd.). [Monthly statement to buyer—Retail charge agreement.] (2) The seller shall promptly supply the buyer under the retail charge agreement with a statement as of the end of each monthly period, which need not be a calendar month, or other regular period agreed upon in writing by the seller and the buyer, in which there is any unpaid balance thereunder, which statement shall recite the following:

(a) The unpaid balance under the retail charge agreement at the beginning and at the end of the period;

(b) Unless otherwise furnished by the seller to the buyer by sales slip, memorandum, or otherwise, a description or identification of the goods or services purchased during the period, the cash sale price and the date of each purchase;

(c) The payments made by the buyer to the seller and any other credits to the buyer during the period;

(d) The amount, if any, of any time price differential for such period; and

(e) A legend to the effect that the buyer may at any time pay his total unpaid balance or any part thereof. [Comp. at ¶ 620.]

[¶ 1281]

Sec. 371.300 (contd.). [Time price differential—Retail charge agreement.] (3) A retail charge agreement may provide for, and the seller or holder may then, notwithstanding the provisions of any other law, charge, collect and receive, in addition to the cash price, a time price differential for the privilege of paying in installments thereunder. [Comp. at ¶ 620.]

[¶ 1282]

Sec. 371.310. Assignment of contracts and agreements. Notwithstanding the provisions of any other law: (1) An assignee may purchase or acquire or agree to purchase or acquire any retail installment contract or retail charge agreement or any indebtedness under either from a seller on such terms and conditions and for such price as may be mutually agreed upon;

(2) Filing of the assignment, notice to the buyer of the assignment and any requirement that the seller be deprived of dominion over payments upon a retail installment contract or retail charge agreement, or over the goods if returned to or repossessed by the seller, shall not be necessary to the validity of a written assignment of the retail installment contract or retail charge agreement or any indebtedness under either as against creditors, subsequent purchasers, pledgees, mortgagees and lien claimants of the seller; and

(3) Unless the buyer has notice of the assignment of his retail installment contract, retail charge agreement or any indebtedness under either, payment therefor made by the buyer to the holder last known to him shall be binding upon all subsequent holders. [Comp. at ¶ 340.]

[¶ 1283]

Sec. 371.320. Prior acts and agreements of retail buyer do not waive requirements of KRS 371.210 to 371.330. No act or agreement of the retail buyer before or at the time of the making of a retail installment contract, retail charge agreement or purchases thereunder shall constitute a valid waiver of any of the provisions of KRS 371.210 to 371.330 [¶ 1261—1284] or of any remedies granted to the buyer by law. [Comp. at ¶ 270, 370.]

[¶ 1284]

Sec. 371.330. KRS 371.210 to 371.330 do not affect validity of pre-1963 contracts. The provisions of KRS 371.210 to 371.330 [¶ 1261—1284] shall not invalidate or make unlawful retail installment contracts or retail charge agreements executed prior to January 1, 1963.

Penalties

[¶ 1289]

Sec. 371.990. Penalties. (1) Any person who violates any of the provisions of KRS 371.130, or assents to any such violation shall be fined not less than fifty nor more than two hundred dollars for each offense.

(2) Any person who shall wilfully and intentionally violate any provision of KRS 371.210 to 371.330 [¶ 1261—1284] shall be guilty of a misdemeanor and upon conviction shall be punished by a fine not exceeding five hundred dollars or by imprisonment for not more than six months, or both.

(3) Any person who violates any provision of KRS 371.210 to 371.330 [¶ 1261—1284] except as a result of an accidental or bona fide error shall be barred from the recovery of any time price differential, or any delinquency or collection charge under or in connection with the related retail installment contract or retail charge agreement; but the holder may nevertheless recover from the buyer an amount equal to the cash price of the goods or services and the cost to the seller or holder of any insurance included in the transaction.

(4) Notwithstanding the provisions of subsections (2), (3) and (4) of this section, any failure, other than a wilful and intentional failure, to comply with any provisions of KRS 371.210 to 371.330 [¶ 1261—1284] may be corrected within ten days after the holder is notified thereof in writing by the buyer and, if so corrected, neither the seller nor the holder is subject to any penalty under subsections (2), (3) and (4) of this section. [Comp. at ¶ 360.]

(Additional material from Louisville and vicinity follows:)

STATEMENT OF HOTEL & RESTAURANT EMPLOYEES & BARTENDERS LOCAL 181, AFL-CIO

We fully support the requirement of the bill that every consumer credit contract shall disclose the total finance charges being made and shall state such charges in terms of a simple annual rate on the outstanding unpaid credit balance.

This type of legislation is urgently needed on a national basis, we are convinced, although, of course, my testimony will be limited to our experience here in Louisville. Speaking along this line, may I take the time to say it is the belief of our union that the distinguished chairman has performed a signal public service in bringing the truth about lending practices to the attention of the American public.

Too often, those of us living some distance from Washington feel a certain remoteness from the public hearings that go on day after day in our Nation's Capital. Therefore, we feel that you, Senator Douglas, have served our country well by taking the current hearings on truth in lending away from Washington and bringing them to areas that seldom have an opportunity to participate in this important work of Government.

It gives us pleasure to be able to participate in this hearing. We hope that our statement will make some small contribution to the record you are building up in favor of your bill. We are vitally convinced that S. 750, if enacted, will become a major safeguard in the continuing battle consumers wage to get the most for their hard-earned money.

A labor union has, as you can well imagine, a very keen interest in the terms upon which credit is extended to consumers. Union members are among the most frequent users of installment credit. Figures from the AFL-CIO's Research Department in Washington indicate that union members carry more debt than the population generally . One survey done by the University of Michigan showed that 65 percent of union members carried installment debt, compared to 48 percent of other families. The survey was conducted in 1950, but I think it is safe to say that the relative spread, if not the exact figures, remains unchanged.

The bill, as we know, applies to all consumer credit. It is our feeling, based on our experience here in Louisville, that the bill is most badly needed in the field of installment credit. We have all seen the type of advertisement that features a relatively expensive retail item offered on credit terms that seem, at first glance, too easy to turn down. Yet when such terms are examined, and their cost is figured in terms of true annual interest, the total cost to the consumer often turns out to be substantially higher than the advertisement would indicate.

Your hearings have supplied convincing evidence of widespread public confusion about the true cost of credit, and most especially, installment credit. This ignorance extends through all income and education levels of the population. The damage is greatest, of course, to the less fortunate who have far less in the way of resources to meet their debt obligations and who consequently can often remain in debt indefinitely.

We think it is high time that all borrowers and buyers on time be let in on the secret of how much any given credit commitment is going to cost, both in dollars and cents and in terms of an annual rate.

The main reason why consumers have so little comprehension of what their credit is costing them is not hard to find: there is usually no disclosure of the finance charge in the agreement the individual signs. The borrower simply is told the total he is supposed to repay and what his monthly installment is.

Even when a rate is given, there is such a variety offered to the borrower in terms of percentages that the result can only be confusion. For example, the rate on a mortgage loan is stated in terms of true annual interest.

The interest paid on a savings or share account in a savings and loan association or credit union is stated in terms of true annual interest. If an individual chooses to borrow from a bank, however, he is faced with a new type of rate, stated in terms of a percentage discount on the face amount of the loan.

A quotation of "8 percent discount" sounds like an interest rate. But in true annual interest terms it comes out to something over 16 percent.

A borrower going to his credit union will be told the interest rate in terms of so much percent per month on the unpaid balance. The credit union rate is fixed by law at no more than 1 percent per month—or 12 percent per year.

It is well known that department stores charge in the vicinity of 1½ percent per month on the unpaid balance of an installment account. This does not seem like much of an increase over the charge of 1 percent per month made by a credit union. However, in terms of annual interest the rate is 18 percent, thus 6 percent higher than the credit union annual rate.

A small loan company also states its charges on a monthly basis. Thus a borrower is told he need pay only 3 percent per month on his loan. What he isn't told—but should be told—is that he is paying a rate of 36 percent for the use of that money on an annual basis.

The result of the varying types of statements on interest rates is that people think the rates are lower than they really are in terms of the annual interest concept. People also find it very difficult, as a result, to make any kind of intelligent choice between the various creditors available.

The great merit of S. 750 is that it will eliminate the confusion over costs in the consumer credit market. It will provide the individual with a clear understanding of what costs he is undertaking when he obtains credit, and it will, through the uniform statement of charges in terms of an annual rate, make it possible for the consumer to distinguish between the various offers of credit on the basis of their cost.

For these reasons we fully support S. 750 and urge its passage.

LEXINGTON, KY., *June 25, 1963.*

Hon. Senator PAUL H. DOUGLAS,
U.S. Senate, Washington, D.C.:

We strongly support your fight for truth in lending bill S. 750. We invite you and your committee to hold hearings on the bill in Kentucky.

BLUE GRASS CREDIT UNION CO.,
L. A. PIERCE, *President.*

JACK DURRETT, BUILDER, INC.,
Jefferson, Ky., August 23, 1963.

Mr. JONATHAN LINDLEY,
Senate Committee on Banking and Currency,
Washington, D.C.

DEAR MR. LINDLEY: As another Kentucky businessman, may I sincerely request your minute and thorough analyzation of the Douglas bill (S. 750) the so called truth in lending bill, and please, may I go on record as objecting to said bill most strenously, and I am in accord with the same view as taken and stated by our Louisville Chamber of Commerce.

Thank you most sincerely for time and interest in this matter as well as many times in the past, and wishing you continued good health and success.

Warmest regards,

JACK DURRETT, *President.*

[Louisville Courier-Journal, July 31, 1963]

BOTH SIDES TO TESTIFY ON CREDIT

Opponents as well as proponents of a proposed Federal truth-in-lending bill will testify here August 24 at a U.S. Senate subcommittee hearing on the legislation.

Senator Paul H. Douglas, Democrat, of Illinois, whose group will hold the all-day hearing here, said today he does not anticipate issuing subpenas for prospective witnesses. The hearing probably will be in the Federal building.

Douglas said in a telephone interview that his subcommittee on production and stabilization "wants to hear about cases of individuals who have had experiences in borrowing money or using consumer credit."

WANTS FIRSTHAND DATA

Douglas said that two earlier public hearings on the bill conducted in Washington produced testimony from "representatives of organizations who supplied second hand stuff, which isn't as good as firsthand information."

He said, "We are inviting opponents as well as the general public to air their views." The Louisville hearing will be broken down into morning and afternoon sessions.

It is expensive, Douglas said, "for users of consumer credit and small borrowers to come to Washington to appear before Congress, so we have decided to go to them."

Douglas' bill would require all lenders or installment-plan sellers to tell their customers in writing the cost of the loan or extension of credit in both dollars and cents and as an annual simple interest rate.

The truth-in-lending bill has drawn vigorous opposition from business groups since its introduction in 1960.

[From the Louisville (Ky.) Courier-Journal, August 1963]

Chamber of Commerce Director Raps Coverage of Senate Hearing Planned Here

A director of the Louisville Chamber of Commerce yesterday accused the Courier-Journal and the Louisville Times of unfairly implying the chamber is opposed to a Senate subcommittee holding a hearing here on the truth-in-lending bill.

Lewis M. Benn, manager of the J. C. Penney Co., Inc., here, coupled this criticism with an attack on the bill itself.

Benn's comments at the monthly meeting of the chamber directors centered around a letter written by Lewis B. Kerberg, chamber administrative secretary to Senator Paul H. Douglas, Democrat, of Illinois.

SCHEDULED AUGUST 24

Douglas heads a subcommittee of the Senate Banking and Currency Committee, which has scheduled a public hearing on the bill here August 24.

Kerberg's letter of July 24 informed Douglas that the 1962 Kentucky General Assembly enacted legislation providing for tighter lending rules and a State truth-in-lending law covering retail operations.

The letter said:

"I would think the committee would prefer to hold the hearings in States that do not have such legislation.

"The newspaper story quotes you as saying you are bringing the subcommittee here because of the great interest in credit reform in Kentucky, and we would be interested in learning how you measure or evaluate this great interest, since we are unable to detect it here in Kentucky, particularly since passage of the aforementioned State legislation.

ASKS ABOUT REQUESTS

"Additionally, the news story quotes your office as saying 'the group is coming to Louisville in response to local requests.' In our inquiries we have been unable to find out who made such requests. We would appreciate your advising us of the initiators of such requests."

Douglas' bill would require disclosure of finance charges on loans and installment sales, expressed in simple annual interest before such transactions are completed.

"There was nothing in Bill's (Kerberg's letter to say we don't want him to come or that the chamber of commerce is opposed to his coming," Benn said.

But Benn said a headline in Tuesday's Times said "Loan Probe Here Fought by Chamber of Commerce," a Courier headline Wednesday said "Hearing Due Here Despite Protest," and a Courier editorial yesterday was headlined "The Chamber Is Out of Line on the Hearing."

CLAIMS PUBLICITY TRY

"I think it's a sad state of affairs," Benn said. "The whole thing seems to be an effort to get the wrong publicity for us and good publicity for Douglas, who's riding a wonderful gravy train of national publicity.

"I wouldn't be surprised if Douglas wanted the bill to fail so he could continue to ride it," he said.

Benn also charged that the newspapers "never once" contacted Kerberg or the chamber about the letter "and I don't think that's fair."

Kerberg made no comment during the meeting on this point, but later told a reporter that he had been contacted by the Times the day the existence of the letter was discovered. He did not add that he was also contacted by a Courier-Journal reporter.

TERMS PLAN DIFFICULT

Turning to the bill itself, Benn said it would be "almost impossible" for retailers to compute the annual simple interest on open-end and revolving credit plans, and then report this to the customer monthly, as the bill would require.

He said this would involve a complication of doing business similar to regulations set up by the newspapers here to be followed by advertisers.

"It would seem that the simplest thing in the world to do would be to buy space in the newspaper," Benn said.

Yet he said the Courier-Journal and Times require advertisers to follow 24 pages of regulations that include such things as extra charges for last-minute changes in ad copy.

BRINGS UP DISCOUNT

Benn said he was not criticizing the papers for having such regulations. He said he cited them as problems peculiar to the newspaper business, just as stating simple annual interest would be a problem peculiar to retailers.

Benn also said the newspapers, through their 10 percent discount for cash payment of classified ad charges, actually are charging 520 percent annual interest to a person who buys an ad a week for a year and doesn't pay cash.

Another chamber director, Merle E. Robertson, president and chairman of the board of Liberty National Bank & Trust Co., also opposed the bill.

He said bankers "find no fault with the Douglas bill except you can't do it." He said a team of mathematicians recently tried to figure out how to comply with the bill and each expert came up with a different answer.

Both Robertson and Benn called on the newspapers to educate the people on the other side of the question.

The only other director to speak on the point was L. Eugene Johnson, chamber president and president of Blue Boar Cafeteria Co., Inc.

Johnson said nowhere did the minutes show the chamber was on record as approving or disapproving the Douglas bill.

Benn corrected him to say that the chamber last April 11 did go on record as opposing the bill, "but that still doesn't mean we're fighting Douglas' coming here."

[From the Louisville (Ky.) Times, Aug. 6, 1963]

LOAN PROBE HERE FOUGHT BY CHAMBER OF COMMERCE

(By Dick Berger)

The Louisville Chamber of Commerce has suggested to Senator Paul H. Douglas, Democrat, of Illinois, that his public hearing on a truth-in-lending bill planned for Louisville on August 24 be held somewhere else.

In addition, the chamber in a letter dated July 26, said that it would like to present a number of witnesses at the hearing, if it is definitely going to be held.

Douglas announced last month that his subcommittee of the Senate Banking and Currency Committee would be here to get grassroots sentiment on the Senator's bill now pending in Congress.

The letter to Douglas was signed by Lewis B. Kerberg, the Louisville chamber's administrative secretary.

Kerberg said today the group has not yet heard from Douglas.

Kerberg said the chamber "some time ago" took a "position of opposition" to Douglas' bill which would require lenders and installment sellers to reveal the cost of making loans and selling on time in both dollars and cents and as an annual simple interest rate.

Kerberg said "a good many members of the chamber have let us know they want to testify and be heard."

He said a special meeting of such members has been called for 9 a.m. Monday in the Roof Garden of the Brown Hotel.

At the meeting, Kerberg said, members of the chamber who wish to protest against the bill will coordinate their proposed statements.

Kerberg, in his letter to Douglas, said the Kentucky legislature in 1962 "enacted legislation providing for tighter lending rules and a State truth-in-lending law covering retail operations."

(The law, however, did not provide for expressing the cost as a simple annual interest rate, the main point of dispute about Douglas' bill.)

Kerberg wrote the Senator, "I would think the committee would prefer to hold the hearings in States that do not have such legislation."

LOCAL ATTENTION NOTED

Kerberg also noted that Douglas was quoted as saying he is bringing the subcommittee here because "of the great interest in credit reforms in Kentucky."

He said the chamber "would be interested in learning how you measure or evaluate this great interest, since we are unable to detect it here in Kentucky."

Kerberg also wrote that Douglas' announcement of the visit here said: "The group is coming to Louisville in response to local requests."

REQUEST SOURCE ASKED

The Louisvillian continued: "In our inquiries we are unable to find out who made such requests. We would appreciate your advising us of the initiators of such requests."

[From the Louisville (Ky.) Courier-Journal, Aug. 7, 1963]

HEARING DUE HERE DESPITE PROTEST

The Senate Banking and Currency Committee said yesterday in Washington public hearings on a truth-in-lending bill will be held in Louisville despite a protest by the Louisville Chamber of Commerce.

A committee spokesman said hearings were scheduled here because of interest expressed by Kentuckians in the proposed legislation.

The spokesman also said Louisville was selected because of recently passed Kentucky legislation stiffening lending laws. The Kentucky law, however, does not include a provision for a simple listing of the annual interest rate on loans, a key provision of the proposed Federal law.

DOUGLAS TO HEAD UNIT

The hearings will be held by a subcommittee headed by Senator Paul H. Douglas, Democrat, of Illinois.

The Louisville chamber disclosed its opposition in a letter to Senator Douglas, made public yesterday.

Louis B. Kerberg, the chamber's administrative secretary, said in his letter, "I would think the committee would prefer to hold the hearings in States that do not have such legislation."

He added, however, that if the hearings are going to be held here, many chamber members want to testify.

The chamber has gone on record as being opposed to credit reform.

[From the Louisville (Ky.) Times, Aug. 7, 1963]

LETTERS TO THE EDITOR

TRUTH IN LENDING

To the EDITOR:

Although my firm is a member of the chamber of commerce, I take exception to the letter sent to Senator Douglas about holding a public hearing in Louisville for the truth-in-lending bill. The chamber will not admit it, but what it has politely said to the Senator is that he should stay away.

The consumer will not like this attitude and will look upon merchants with even more suspicion. The legitimate businessman has nothing to hide. Regard for the customer should have first consideration.

Buying on credit is not always wise, but I feel there are times anyone might have to.

All retailers should let their customers know exactly what they are paying for credit in a truthful manner.

BARRY GORDON, *Manager.*

[From the Louisville (Ky.) Courier-Journal, Aug. 8, 1963]

AIK CALLS SESSION TO PLAN LOAN TESTIMONY

Associated Industries of Kentucky has called a meeting Monday to plan Kentucky testimony to be presented at a hearing here August 24 by the Senate Banking and Currency Committee on the "truth-in-lending" bill now before Congress.

James G. Michaux, of the legal staff of Federated Stores in Cincinnati, will discuss the evolution of the bill and what type of testimony is needed from business interests. The meeting will be at 9 a.m. in the Brown Hotel Roof Garden.

The AIK announcement said the meeting is open to all who have an interest in the bill, including retail merchants, banks, savings and loan associations, automobile dealers, and credit managers.

[From the Louisville (Ky.) Courier-Journal, Aug. 8, 1963]

THE CHAMBER IS OUT OF LINE ON THE HEARING

A letter from a spokesman for the Louisville Chamber of Commerce telling a Senate subcommittee, in effect, that it has no business holding a public hearing here and should go elsewhere was presumptuous and in bad taste. It was directed to a subcommittee of the Senate Banking and Currency Committee, which is to meet here August 24. Its purpose is to sound out grassroots sentiment on a truth-in-lending bill sponsored by Senator Paul Douglas, who is chairman of the subcommittee. The bill would require lenders and installment sellers to reveal the cost of making loans and selling on time in both dollars and cents and as an annual simple interest rate.

The Louisville chamber is on record in opposition to the proposed legislation, which, of course, is its privilege. It will have an opportunity to make its position clear at the public hearing. Lewis Kerberg, administrative secretary for the chamber, would have not been open to criticism had he confined himself to telling the subcommittee the chamber intended to present witnesses in opposition to the legislation at the public hearing.

Instead, he said the chamber saw no reason for the subcommittee to hold a hearing here at all since Kentucky in 1962 passed legislation tightening controls over credit practices. He also quarreled with Senator Douglas' statement that one reason the subcommittee wanted to meet here is because of "the great interest in credit reforms in Kentucky." Mr. Kerberg wrote the Senator that the chamber "would be interested in learning how you measure or evaluate this great interest, since we are unable to detect it here in Kentucky * * *."

We don't know how Mr. Kerberg and those he speaks for define "interest" but it is extremely doubtful that the legislation enacted in 1962 would have seen the light of day if no one was interested in credit reforms. It is disingenuous, however, to imply that the passage of the legislation solved the problem. The law does not require expressing the cost of credit as a simple annual interest rate, which is the main point of the Douglas bill pending before Congress.

Another example of local interest in curbing credit abuses came last fall when the Louisville Board of Aldermen adopted an ordinance designed to regulate debt adjustment firms. But there is no State law regulating debt adjusters in the sense that banks and loan companies are regulated—despite evidence of widespread abuses on the part of some debt adjustment firms.

The chamber to the contrary, the record suggests that there is interest here in credit reforms and that there is room for them. In any event, Senator Douglas' group is only attempting to sound out opinion on the subject, which is a legitimate function of a congressional committee considering legislation.

[From the Louisville (Ky.) Times, Aug. 9, 1963]

Borrowers Have a Right To Know

Senator Paul H. Douglas of Illinois favors a Federal truth-in-lending law. So does the Louisville Times. The Louisville Chamber of Commerce opposes it. The chamber has suggested that Senator Douglas take his public hearing on the question somewhere else, or—failing that—it has requested an opportunity to supply witnesses to oppose the proposed bill.

As chairman of the subcommittee of the Senate Banking and Currency Committee studying the truth-in-lending proposal, Senator Douglas has announced that the hearing will go on as scheduled in Louisville August 24, but that "opponents will have equal time with the proponents."

That is fair enough.

Last year the Kentucky General Assembly passed one version of the truth-in-lending law after Louisville Times Reporter Dick Berger uncovered some horrible examples of borrowers being victimized by creditors. The Kentucky statute is called the installment sales contract law and exempts from its requirements only those time purchases for commercial, industrial, and agricultural uses and automobile sales. The latter were already covered by law.

The Kentucky law does not set interest rates but does set maximum charges. It does require that buyers be given contracts on all time sales before the transactions are completed, and that each contract must state the cash sale price, downpayment or trade-in allowance, net unpaid balance, interest charged in dollars and cents, the number and amount of payments, and other information.

This is substantial protection. It is not all that the Kentucky Credit Union League had hoped to have enacted into law. The league had hoped to have interest charges expressed in simple annual interest percentage as well as in dollars and cents.

The bill being proposed by Senator Douglas would require that people who buy merchandise on time or who borrow money be told how much they are paying for credit in simple annual interest. If the chamber of commerce spokesmen for the opposition are able to produce convincing evidence that this is impractical, it may be found that an acceptable formula can be found in something similar to Kentucky's law—which was a retail merchants' substitute for the original proposal here.

At any rate, Senator Douglas has promised both sides an impartial hearing, and we hope it produces information that will help Congress decide in favor of informing the buyer or borrower exactly what credit costs he incurs when he signs a contract.

[From the Louisville Times, Aug. 19, 1963]

Interest Is Not So Simple Any More; Pros and Cons Line Up for Truth-in-Lending Probe

(By Dick Berger)

Nearly everyone today is buying something on time or borrowing money, but hardly anyone knows just what this privilege costs.

This lack of awareness lies behind much of the controversy over a proposed truth-in-lending law now before Congress. A Senate subcommittee will hold a hearing on the bill here Saturday.

The law would not put limits on how much interest a lender or seller-on-credit could charge.

It would simply require lenders and credit sellers to tell the borrower, in plain terms, what the credit is costing.

It would require that the credit charge be expressed in dollars and cents and in simple annual interest.

The rub comes over stating the interest rate.

SOME CALLED IMPRACTICAL

Lenders and credit merchants are convinced that if people knew the rate of interest they had to pay, they'd do less borrowing and less buying on time, thereby hurting business.

They also say it's mathematically impossible to compute the simple annual interest on some types of credit extensions—principally on revolving charge accounts and open-end accounts.

Interest is something few people understand.

Take the man who borrows $100 from his bank and pays it back in equal monthly installments over 1 year. If his credit charge was $6, he probably thinks he's paying 6 percent interest.

He isn't. He's paying a shade under 12 percent.

This is because the average amount he owes over the course of the year was $50, since the debt is whittled down as the year progresses.

In other words, the 6 percent was figured on the whole $100, but at the end of about 6 months he had already paid back $50. Actual interest is computed on the average amount of debt over the period of the loan, not the initial debt.

Twelve percent is about the lowest annual rate of interest the consumer pays for loans from commercial lenders these days, outside of real estate loans.

Business loans from commercial lenders, however, generally still are 6 percent, because businessmen usually can offer lenders excellent security.

The businessman-borrower normally repays such loans in a lump sum at the end of the loan's term, and not in installments.

Interest rates on real estate loans are generally actually about 6 percent a year. Interest on these loans is computed on the unpaid balance, not on the total amount of the loan.

SOME "FOR INSTANCES" FOR KENTUCKY BORROWERS

Here are some examples of what the bill, if it were to become law, would mean to Kentuckians, illustrated by using credit rates now commonly in use throughout the State and within legal limits:

> If Mr. A wanted to finance for 36 months through an auto dealer the $2,000 due on his new car, the dealer would be required to tell the customer that the finance charge would be $460 (if this was the amount to be charged). and the interest rate would be 15 percent a year.
>
> If Mr. B went to a small loan company and wanted to borrow $800 for 2 years, and pay it back in equal monthly installments, the lender would have to say the finance cost would be $238.96, and the interest rate would be just above 28 percent per year.
>
> If Mrs. C opened a revolving charge account—to which she could add new credit purchases while making monthly payments on her balance—and the finance charge was 1½ percent a month, the store would have to tell her that the rate was actually 18 percent a year on the unpaid balance.

Whether the consumer would behave any differently if he knew the interest he was paying is problematical. People obviously are willing to pay the dollar difference involved in buying now and paying later.

One reason for this is the 6-percent myth. Most consumers apparently feel this is the amount of interest generally charged.

This matter was discussed last year in testimony taken in Washington by the subcommittee which is coming here.

FEDERAL AID GIVES BOTH SIDES OF CASE

Appearing in favor of the bill was former Under Secretary of Commerce Edward Gudeman, who knows the problem from both the side of the consumer and the vantage point of the seller on credit.

Gudeman, before holding the Government post, was for 7 years one of the top vice presidents of one of the Nation's largest department store chains. In his job in private industry he was responsible for instituting the company's revolving charge account plan—one of the many 18-percent types.

Gudeman traced the 6-percent interest rate back to medieval church doctrine, which suggested that the maximum interest on loans to consumers ought to be that figure.

With the advent of the 20th century the installment plan made its appearance, and merchants began to compute the 6-percent rate on the whole amount of the transaction. With payments made in equal installments, the actual rate therefore doubled.

Gudeman testified:

"Lenders and merchants are opposed to the simple annual rate disclosure * * * because they fear the reaction of their customers who would now be fully aware that the annual rate on any type of nonmortgage credit will usually be in excess of 6 percent—the mythical fair credit price.

"Obviously, the idea of a 6-percent credit charge is a myth under the conditions applying to a modern installment credit system and this requires explanation to the public * * *."

The Senate subcommittee which will hold the daylong public hearing on the bill Saturday in the Federal building, is headed by Senator Paul H. Douglas, Democrat, of Illinois, a former economics professor.

The proposal has yet to budge out of Douglas' subcommittee, much less reach the Senate floor.

Testimony for and against the bill, taken in Washington hearings in 1960, 1961, and 1962, fills more than 2,000 pages.

Douglas announced a year and a half ago his intention to hold a public hearing in Louisville. His announcement came after a series of stories in the Louisville Times which outlined numerous consumer-loan abuses.

Shortly after that, the Kentucky General Assembly enacted legislation tightening some lending laws and also new laws covering installment purchases.

The new lending laws covered only industrial loan company operations, not loans by banks, small loan companies, or other commercial lenders.

The installment purchase law requires credit merchant to disclose the dollar costs of financing, but not the interest rate.

BUSINESSMEN PRESENT FOUR-POINT ARGUMENT

Four main arguments are used by the business groups which have voiced opposition to the bill:

People already know what they are paying in dollars and cents for loans and credit, so there is no need for the bill.

Even if there really is a need for such legislation, it should be enacted on the State level, not on the Federal level.

The requirement of disclosure of the true interest rate is too difficult for merchants to comply with, and it is too costly and time consuming to make such computations.

American business is a free enterprise system, and the Government should not bring into being just another Federal regulation.

BACKERS OF MEASURE SUMMARIZE CASE

The arguments made by Douglas and the bill's supporters fall mainly into these categories:

Disclosure of the dollar cost and the interest or finance rate would let the consumer compare accurately the costs of various credit plans, and thus let him shop for credit in an informed manner as he does for other items in the family budget.

Consumer credit has soared in a buying and borrowing explosion that has quadrupled since 1945 and today finds the consumer paying $15 billion a year for interest and credit charges on an outstanding total debt of $230 billion. Of the total, more than $48 billion is in installment debt, $15 billion in noninstallment debt, and $168 billion in home-mortgage debt.

The number of personal (family) bankruptcies has skyrocketed along with the credit boom, and is more than double now than the bankruptcy rate during the great depression of the 1930's.

The bill would help stabilize the economy, invigorate business competition, and eliminate the possibility of deception from a major part of the economy.

[From the Courier-Journal, Louisville, Ky., Aug. 24, 1963]

SENATE GROUP TO GET VIEWS ON LOAN BILL

FOES OF MEASURE CLAIM IT WOULD IMPAIR CREDIT OF TEACHERS AND FARMERS

(By George Gill)

Two major opponents of the Federal "truth-in-lending" bill will tell a Senate subcommittee here today that the bill would force the majority of retailers out of the credit business and would "seriously impair" teacher and farmer credit in Kentucky.

And proponents of the bill will declare that it would clear up "the fog that shrouds too many credit transactions today" and would be a "savior" to the common man.

The hearing, first of its kind here, will open at 10 a.m., in room 214 of the Federal Building and is expected to last up to 6 or 7 hours.

DOUGLAS TO PRESIDE

Presiding will be Senator Paul H. Douglas, Democrat, of Illinois, author of the bill and head of the Production and Stabilization Subcommittee of the Senate Committee on Banking and Currency.

Sitting with Douglas will be two opponents of the bill, Senators Wallace F. Bennett, Republican, of Utah and Milward L. Simpson, Republican, of Wyoming.

The subcommittee has held similar hearings in New York and Pittsburgh.

The "truth-in-lending" bill would require disclosure of finance charges on loans and installment sales, stated in both dollars and cents and in simple annual percentage rates on the unpaid balance.

Based on prepared testimony that could be obtained yesterday, some of the arguments to be presented today are listed below.

TO OPPOSE BILL

Robert E. Hatton, general counsel for the Kentucky Bankers Association, will oppose the bill in behalf of the association, arguing that it would "seriously impair teacher and farmer credit in Kentucky."

Hatton says special borrowing plans have been worked out for both groups—for teachers so that no payments are due during vacation months and for farmers so that the larger payments are due when income is available from seasonal crop sales.

Because of these variations, Hatton says, the computations of simple, annual interest required by the bill are "beyond the ability of the average banker to compute.

"If the bill becomes law," he argues, "the small banker in Kentucky, the schoolteacher, and the farmer, and other small borrowers having special problems will be penalized because the small banker, being unable to make the computation, may not make the loan.

"The average borrower understands dollars and cents, but I do not believe that he understands these involved percentages.

"To attempt to equate finance charges in terms of simple annual rates is like trying to find a common denominator for apples, eggs, meat, and fish."

WANT IT SEPARATE

The bankers' association, Hatton's testimony says, also opposes the bill because regulation of lenders and sellers should be handled separately.

Also, he argues, many current banking practices, such as notes with no fixed maturity date, would become illegal under the bill.

Mortgage loans also would suffer, Hatton says, because they traditionally are figured in simple annual rates. In dollars, he says, the 5½ percent interest on a 30-year, $10,000 mortgage would be $10,429.

"To suddenly require the disclosure of the dollar amount of finance charges might well have a depressing effect upon the real estate market," he says.

John E. Masterson, treasurer of Stewart Dry Goods Co., will represent the Louisville Retail Merchants Association in opposing the bill.

HELD EXPENSIVE

Masterson's prepared testimony says the association supports the full disclosure of service charges to customers and that Kentucky law already requires the seller to state in dollars and cents the cost of installment sales.

But, he says, to convert charges to annual and monthly interest rates is so expensive "that it would force the majority of retail merchants out of the credit-installment business."

The alternative, he declared, would be to bury service charges in the retail price.

"This would then penalize the cash customer by not allowing him to take advantage of the lowest possible retail price," he says.

On the affirmative side, Mrs. Nancy Von Bokern, international representative for the Retail Clerks International Association, says the bill "will be a useful instrument in clearing up the fog that shrouds too many credit transactions today.

"It will not perform miracles," she says. "Persons choosing to take on debt in excess of their ability to repay will still be able to do so.

"But it is my feeling that the bill will help a vast number of people who take on the burdensome obligations of installment contracts unaware of what credit is costing them."

INTRICACY DENIED

Mrs. Von Bokern said that the bill requires nothing any more complicated than required by present types of credit transactions.

"If a clerk has been handling installment-sales contracts, he can easily learn to comply with the bill's provisions," she says. "As a corollary, if the merchant would spend as much time explaining the bill's requirements as he ordinarily does explaining his sales contracts, then I'm sure our clerks would experience no trouble."

State Senator Tom Raney says in prepared testimony that a truth-in-lending bill must be passed on the Federal level because State legislatures are too overburdened with other bills to give the matter the attention it deserves.

He cited a bill he cosponsored in the 1962 general assembly that would have required that true annual interest be stated.

DIDN'T HAVE CLAUSE

"Our bill, unfortunately, did not pass," he says. "Nor am I at all optimistic about its chances in future legislative sessions. The pressure of time and the burden of the many bills will prove too much to overcome. * * *."

The bill that did pass, Raney says, did not contain the annual-interest requirement.

"This bill also bore the label of a truth-in-lending measure, but it was in fact a retail credit sales law."

Testimony of Kenneth Marin, Grand Rapids, Mich., who represents the Michigan Credit Union League, says the Douglas bill would be a "savior" to the "little men."

He argues it would give the common man a yardstick with which to shop for the most advantageous credit plan available.

[From the Louisville Times, Louisville, Aug. 24, 1963]

SENATORS CONDUCT PROBE: LOUISVILLIANS ARGUE BOTH SIDES AT TRUTH-IN-LENDING HEARING

(By Dick Berger)

Most of Louisville's personal bankruptcies involves people who "are easy prey to persons exploiting them through sharp business practices," the U.S. referee in bankruptcy here said today.

He testified here before three U.S. Senators who heard pro and con opinions and evidence on a truth-in-lending bill.

The referee, S. W. Kellerman, Jr., was one of the leadoff witnesses before a U.S. Senate subcommittee in the first public hearing of its kind ever held here.

Kellerman testified that passage of the proposed bill can only help merchants "in carrying on a reputable business."

He said, "Only those already exploiting the weak and the ignorant can be heard to cry" about the bill.

The subcommittee's hearings—held in the Federal Building—are on the bill, sponsored by Senator Paul H. Douglas, Democrat, of Illinois.

Douglas' bill would require all lenders and retail installment sellers to disclose to borrowers or buyers the credit charges they are paying.

The disclosure would have to be both in dollars and cents and in percentage as a simple annual rate.

OTHERS CRITICIZE MEASURE

Two of the opposition witnesses who testified against the bill saw things differently from Kellerman, who endorsed it.

Robert E. Hatton, a Louisville attorney and general counsel for the Kentucky Bankers Association, said that many lenders cannot compute annual rates as the law would require. He said the bill is unworkable.

Jack Masterson, treasurer of Stewart Dry Goods Co., appeared on behalf of the Louisville Merchants Association. He said the cost of computing credit rates in percentages would force most Louisville businessmen out of the installment business.

Senator Douglas, a former professor of economics, arrived with two other subcommittee members last night from a public hearing conducted yesterday in Pittsburgh.

The other members are Senator Wallace F. Bennett, Republican, of Utah, a former president of the National Association of Manufacturers; and Senator Milward L. Simpson, Republican, of Wyoming, a lawyer and former Wyoming Governor. Both men are outspokenly opposed to the bill.

The two Republicans and Douglas were at odds here within minutes after their airplane landed at Standiford Field.

About 50 men, women, and children, representing local labor unions, were on hand.

The unionists carried placards saying: "Does the Truth Hurt?" "Help the Little Man," and "Senator Douglas, Keep It Up." One little girl, about 5, held a sign reading "Help My Daddy Know the Truth."

Douglas, chuckling, posed with the sign bearers for news photographers. His first comment was, "If the Lord be with us, who can be against us?"

DECLINE PICTURE REQUEST

Bennett and Simpson pushed through the crowd unnoticed.

Before leaving the airport they were asked by a reporter to pose for a picture with Douglas. Both declined. Bennett said the demonstration was "contrived and artificial."

At an airport press conference later, Douglas said he had reviewed the Kentucky credit situation.

He said he was "surprised to learn that Kentucky is one of the few States still lacking controls over credit charges which retail merchants make."

He said this is a matter that States should have laws on. His bill, he said, does not set rates; it requires their disclosure.

Prepared statements of 10 witnesses who favor the bill were made available to the press in advance of the hearing.

Spokesmen for those opposing the bill were asked to furnish the statements of their witnesses. They supplied only the advance statements of Hatton and Masterson.

Bankruptcy Referee Kellerman said he has "personally handled a total of approximately 6,300 bankruptcy cases" either as referee or trustee in bankruptcy here in the last 12 years.

In 1950, he said, 214 cases were filed here. This year there probably will be 2,300—a record.

He said 60 percent of all bankrupts here are either unskilled or semiskilled workers. Sixty percent lack a completed high school education, and many have only attended the fourth grade or less.

These bankrupts, he said, are easy prey for exploitation and need the protection of law.

Kellerman said he favors a Federal truth-in-lending bill because "the Board of Aldermen of the City of Louisville has failed to enact a truth-in-lending ordinance." So has the Kentucky General Assembly failed to pass such a law, he said.

Debtors, he said, do not know what they are paying for loans or for installment purchases.

His court records show, he said, that "even though the interest charges are printed in the (promissory) note which the debtor signs, the language is so evasive that even an educated person will have great difficulty in ascertaining the true interest rate."

OBJECTIONS SPELLED OUT

One of the leading opposition witnesses to the bill was Hatton, the State bankers association counsel.

In his prepared statement, Hatton said the banking group "strongly favors the objective of full disclosure of the dollar amount of finance charges in connection with the extension of consumer credit."

He said Kentucky laws require this in five fields of lending or extending credit—on consumer bank loans, installment auto sales, small-loan companies, industrial-loan companies, and on retail installment sales.

Hatton said the KBA, however, opposes "the enactment of any Federal legislation in this field" because:

It is unnecessary and "will seriously impair teacher and farmer credit in Kentucky."

The Douglas bill "is objectionable" because it lumps together "the regulation of lenders and sellers of goods."

The requirement that charges be expressed in terms of simple annual rate "is unworkable in the case of many loans and does not benefit the borrower."

The usual and "current banking practices would become unworkable or require substantial change."

Penalties in the bill (up to a $5,000 fine or a year in jail or both for willful violation) "appear unduly severe."

Hatton said the simple annual rate requirement would "penalize the honest lenders" while doing "nothing to control the unscrupulous and dishonest who prey on the unwary, careless, ignorant, and uneducated."

SAYS EXPERTS DIFFERED

He said he had asked four experts to try to compute the simple annual interest rate on three typical loans, and each gave him different answers.

Hatton said the proposed law would put "lenders at a disadvantage with sellers" because sellers "can vary the so-called cash price * * * and can in effect conceal actual or true cost of credit."

Another proponent of the bill was former State Senator Tom Raney, who resigned last June. He was the coauthor of a truth-in-lending bill which was introduced in the 1962 legislature, but did not pass.

He urged passage of the Douglas bill in his statement, saying he wanted "to convey to you my belief that this vital legislation cannot be enacted at the State level."

REPORTS PRESSURE

Raney said his bill received "more than normal pressure (which was) brought to bear by the opponents * * *."

He said a substitute bill was introduced and was enacted. It was sponsored by the Retail Merchants Division of the Louisville Chamber of Commerce.

This bill, now law, he said "legalized many service charges and refinance charges" now in use. The law, Raney said, "was far from being one to benefit consumers. It in fact heavily favored creditors."

Another major opponent was Masterson, who not only appeared in behalf of the Louisville Retail Merchants Association, but also testified as a member of the Kentucky Retail Merchants Association.

Masterson said in his statement that his group studied the bill which the legislature passed and "concluded that it was the most effective means of curing whatever malpractices might exist in the retail industry."

CITES PRESENT MEASURE

He said the present law does provide full disclosure of finance charges to the purchaser.

Speaking for the retail merchants, Masterson said, "We fully support the full disclosure of the service charge (in dollars, not as a simple anual rate) to the customer doing business on an installment credit basis."

Masterson said that the expenses of computing credit rates in percentages would be so prohibitive that it would force the majority of retail merchants out of the credit installment business."

He said the "entire concept" of the Douglas bill appears to be "designed with the thought that adequate (price) comparisons cannot be made under our present system."

This, he said, "is an untrue assumption which our business community feels leads to unjustified discredit of the general business integrity."

CONSUMER TELLS STORY

Another witness for the bill was Hugh Strong, a Louisvillian who said that last spring he paid a credit rate of 164 percent a year on a furniture purchase.

Strong, in his prepared statement, told this story:

Last December he bought $143 worth of furniture from the Bell Furniture Co. He paid $10 down and owed a balance of $133. He made the first $9 monthly payment in January to the furniture company.

In February he got a letter from the Century Discount Co. saying that the note and mortgage he had given to the furniture company had been bought by the discount company.

FIGURES OUT INTEREST RATE

The discount company said he owed $180.24 payable in 24 payments of $7.51 a month. He checked with his lawyer and found that he apparently had "signed some papers allowing them to do this."

The discount "company called me on the phone and demanded the payment. They threatened to garnishee my wages * * * so I paid the bill which they said totaled $153.83 including a rebate of $26.41."

Since then, Strong said, he has "found out that the cost of the credit charges amounted to 164 percent since I paid $162.83 for $133 of furniture for less than 3 months."

He said he hoped "that this law will be passed so other people won't fall into this kind of trap."

Another witness testifying for the bill was Edward S. Bonnie, an attorney, a director of the Louisville Legal Aid Society, and a former president of the group.

Bonnie, who noted that he was speaking only for himself, said the legal aid group from 1958 through 1962 handled 16,726 cases involving wage earning debtors.

The legal work involving Louisville's poor debtors, he said, "was running almost double the national average" during that 5-year span.

CRITICIZES STATE'S LAW

Bonnie said Kentucky's "antiquated" garnishment law "makes the collection by garnishment of wages extremely easy, and a crushing burden on the debtor."

He said the Kentucky laws covering auto installment sales and retail installment sales are good statutes.

But, he said, both laws "still do not require enough information * * * to fully protect the credit buyer."

He said Louisville buyers have "neither the knowledge nor the financial resources to argue extensively" with their creditors.

Another witness for the bill was Mrs. Nancy Von Bokern of Louisville. She is local representative for the Retail Clerks International Association.

She said the members of her union are the people who handle the writing up of installment credit sales. The clerks, she said, despite earlier testimony, would not have any trouble computing simple annual credit rates if the bill is enacted.

Mrs. Von Bokern added:

"Today's consumer, without the benefit of clear and honest disclosure of credit costs, is already courageous enough to carry the economy of Louisville along on his shoulders; think what he would do if he were permitted to know fully the cost of credit he is paying."

LABOR AID FAVORS PLAN

Also testifying for the bill was Eugene F. Land, president of both the Greater Louisville Central Labor Council and Jefferson County Committee on Political Education.

He said the labor council feels "the bill will help the economy of Louisville and the rest of the Nation * * *."

Land asked, "Why should anyone object to the truth revealed in the cost of credit expressed in terms of a simple annual rate?"

Also testifying for the bill was John S. Chambers, executive director of the Kentucky Council of Churches.

"This particular kind of legislation is both morally right and economically sound," he said. Such a law, he said, "will aid a large number of people and injure none."

TEACHER FOR BILL

Other witnesses appearing for the bill included:

Patrick Kirwan, an English teacher at Atherton High School. He had prepared a chart showing simple annual rates charged on installment sales under two credit plans used by Sears, Roebuck & Co. His chart showed that the rates ranged upward from 18 percent a year.

Kenneth Marin, Grand Rapids, Mich., chairman of the department of economics at Aquinas College and a representative of the Credit Union National Association. He said his group has devised an economical slide rule which any person can use to determine interest rates.

[From the Courier-Journal, Louisville, Aug. 25, 1963]

BUT IT'S "INTEREST-ING": LOAN-BILL HEARING NOISY

By James Driscoll

A shouted argument between Illinois Senator Paul H. Douglas and a representative of the Louisville Retail Merchants Association highlighted yesterday's hearing here on a proposed "truth-in-lending" bill.

Democrat Douglas and two Republican Senators, Wallace F. Bennett, of Utah, and Milward L. Simpson, of Wyoming, conducted the hearing. Thirteen witnesses appeared during the day-long session.

The argument was between Douglas and John E. Masterson, treasurer of Stewart Dry Goods Co., who was representing the merchants association. It was over whether it is possible to state the simple annual interest rate for so-called revolving credit accounts in stores.

"NO TIME FACTOR"

Masterson said it is impossible to include the rate in monthly statements to customers because "there is no time factor involved in the rate."

He said the rate would vary from customer to customer because billing dates vary according to the first letter of the last name of a customer.

Douglas disagreed, saying that the annual rate could be expressed simply as 12 times the monthly rate. In most cases the monthly rate or service charge is 1½ percent, so the yearly rate would be 18 percent, Douglas said.

Masterson replied that this would place retail stores in an unfair competitive position.

"Where's the justice in forcing us to state 18 percent when the credit unions can state 12 percent? We're not in the money-lending business," Masterson said.

LO, THE WOMEN

He added that "no one, not the Federal Government or anyone else, can control the female shopper." She may buy a coat on a "90-days-cash" basis, then later switch it to a charge account, Masterson said. This makes it impossible to send her a true statement of annual interest rate, he said.

Douglas said he wasn't trying to control the female shopper, just inform her.

Douglas said he is "ready to confer with the retail merchants of the State and the Nation to iron out details and language of the bill."

Sharp words also developed between Senator Bennett and Kenneth Marin, Grand Rapids, Mich., an economics professor and representative of the Michigan Credit Union League.

GIVEN PROBLEM

Marin showed the "Little Man's Instant Rate Computer," a device he said now is used by many credit unions to figure loan charges and payments. He said it was easy to use.

Bennett asked him to work out a credit problem involving an item priced at $169.95, a carrying charge of $17.05, and payments of $11 a month. How many months would it take to pay off the bill, Bennett asked?

Marin replied that the problem was a "stacked deck," and that the cardboard computer was designed to meet only the needs of credit unions. He said credit unions could not legally make such a transaction.

Later Robert E. Hatton, general counsel of the Kentucky Bankers Association which opposes the bill, underwent persistent questioning by Douglas.

Hatton said that the bill's requirement to state a simple annual interest rate would be impossible to figure in a "skip-payment" loan for farmers or teachers who do not have income every month.

After some byplay about the Little Man's Computer, Douglas gave Hatton a set of tables which he said gave answers for such loan problems.

GOT AUTOGRAPH

Hatton then asked Douglas to autograph a Little Man's Computer and give it to him, which he did.

Douglas pressed Hatton on why he approved stating the annual interest rate for long-term mortgage loans, but not the dollars and cents cost, and at the same time approved the opposite procedure for short-term consumer loans.

Hatton said it was traditional to give the interest rate on mortgages and the dollar cost on short-term loans.

Douglas then said that Hatton "is a charming fellow but has involved himself in hopeless contradictions."

Douglas wrote the bill and is seeking grassroots support for it. The other two Senators strongly oppose it.

Among others who testified were these in favor of the bill:

(1) The Reverend John S. Chambers, Lexington, executive director of the Kentucky Council of Churches.

He said the council's assembly passed a resolution 2 years ago urging that all businessmen clearly state credit charges in both dollars and cents and the simple annual interest rate on the unpaid balance.

The Douglas bill also calls for those two steps.

Mr. Chambers said that "without this information the consumer can't exercise his sovereignty." He said the legislation particularly would help minorities, young families, and "debt-prone or emotionally unsure people."

"This is morally right and economically sound. It will aid a large number of people and can injure none," Mr. Chambers said.

(2) S. W. Kellerman, referee in bankruptcy for the U.S. district court here. He said that most people going bankrupt "lack a formal education and * * * are easy prey to persons exploiting them through sharp business practices"

IGNORES THE STUPID

"I am not concerned with the actions of the stupid. My sole concern is that the ignorant have full knowledge of what they are doing," Kellerman said.

He added that the act "can work no hardship upon a legitimate business."

(3) Patrick Kirwan, an English teacher at Atherton High School. He described a "no downpayment" plan at Sears, Roebuck which he said contains "quite a bit of caprice in making out rates."

Senator Bennett said the rates varied probably because the service charges were rounded off to the nearest quarter.

Earlier at a press conference Senators Bennett and Simpson said the problem of credit abuses is real, but should be handled by States, not the Federal Government.

"This is a peculiarly intrastate problem, very rarely interstate," Simpson said.

Bennett said that if the Douglas bill becomes law no one will be able to borrow money on a life-insurance policy because of problems in stating the annual rate.

IN THEORY ONLY

He termed Douglas a "theoretical economist with no practical experience in banking or business—he believes housewives actually care about the interest rate."

Bennett added that President John F. Kennedy is supporting the bill because the administration owes favors to Douglas. "The support was given without the President and the men around him really knowing what's in the bill," Bennett said.

After the hearing, Senator Bennett said that Douglas "has admitted that the key provision of the bill is unworkable."

Bennett said that Douglas, in effect, admitted that a statement of simple annual interest is impossible to figure out on a revolving charge account.

Bennett made a similar statement near the end of the hearing, and Douglas said that he didn't think he made such a remark, but would doublecheck the transcript of the hearing.

ISSUES IN AIR

Bennett said that hearings in Louisville, Pittsburgh, and New York have left the basic issues in the air on whether a lending law is needed.

He added that only a better education program can protect consumers from being cheated in credit transactions.

About 80 persons attended the meeting in a small room in the Federal building. Some of the witnesses were forced to wait outside the overflowing room until their turn to testify.

TRUTH IN LENDING—1963

FRIDAY, NOVEMBER 22, 1963

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON PRODUCTION AND STABILIZATION,
Boston, Mass.

The subcommittee met, pursuant to notice, at 10 a.m., Senator Paul Douglas (chairman of the subcommittee) presiding.

Present: Senators Douglas (chairman) and Bennett.

The CHAIRMAN. The committee will come to order. In the interest of time I will not make a preliminary statement. I am glad to come back to the State I came from 71 years ago. I lived most of my early years in the State of Maine after my ancestor ~~William Douglas~~ had jumped overboard from a boat in Boston Harbor in the cold month of November.

We are very happy in having some very distinguished witnesses this morning. The time will be equally divided between the proponents and the opponents. We plan to recess at approximately 12:30 this morning, and reconvene at 2 o'clock in the afternoon. The first hour and a quarter, therefore, will be in the hands of the proponents, and the second hour and a quarter will be in the hands of the opponents. If there is any extra time taken, either morning or afternoon, it will be evenly divided between the two sides.

Our purpose is to get an airing of the subject. We want everybody to feel free to take part. For the record I would like to include a series of telegrams endorsing the bill which have come from Representative Paul C. Menton, Watertown, Middlesex County; and Representative George W. Spartichino, and Representative David Bartley of Holyoke, and Donald J. Manning of Waltham, and Representative Thomas C. Wojtkowski of Pittsfield.

I would also like to include a number of other messages from organizations in the State of Maine which arrived this morning.

(The telegrams and letters follow:)

WATERTOWN, MASS., *November 21, 1963.*

Senator PAUL DOUGLAS,
Parker House, Boston:

Welcome to Boston. Wish you the best at your hearing tomorrow and Saturday. Please record me strongly in favor of Federal truth-in-lending bill.

PAUL C. MENTON, *Representative.*

CAMBRIDGE, MASS., *November 21, 1963.*

Senator PAUL H. DOUGLAS,
The Parker House, Boston.

DEAR SENATOR: My recent experience with an attempt to reduce the rates of small loans at the Massachusetts Legislature has shown me the extent that small loan lobbyists will go to to scuttle bills of this nature. Opposition to my bill came from the most unexpected places. But even in defeat I felt that there was victory in that it was the first time that true interest rates on small loans were discussed in the open and printed in the newspapers. Please record me as strongly endorsing your Federal truth-in-lending bill, S. 750, which you are so courageously fighting for.

GEORGE W. SPARTICHINO,
Representative, Third Middlesex District, Middlesex County, Mass.

HOLYOKE, MASS., *November 22, 1963.*

U.S. Senator PAUL DOUGLAS,
Parker House, Boston.

DEAR SENATOR DOUGLAS: I feel one of the significant pieces of legislation in 1964 will be your truth-in-lending proposal. You have my full and complete support in this measure.

DAVID BARTLEY, *Representative.*

WALTHAM, MASS., *November 21, 1963.*

SENATOR DOUGLAS,
Parker House, Boston:

Wish to commend you for your fight on behalf of consumers with your truth-in-credit bill. Please record me in favor.

DONALD J. MANNING, *Representative.*

PITTSFIELD, MASS., *November 21, 1963.*

U.S. Senator PAUL H. DOUGLAS,
Parker House, Boston:

On behalf of many Berkshire citizens who cannot attend the important hearings on the truth-in-lending bill in Boston. May I cordially welcome you to New England. The work of your subcommittee in exploring current consumer credit practices in great detail has received national acclaim because of its vital concern to protect the interests of the average consumer. In this part of the State, as elsewhere, the average person, who must borrow money to finance his needs, is often unaware or poorly informed about credit charges and interest rates he pays for various types of credit. Your bill, to require full disclosure of interests costs, would go a long way to ease the minds of many and clarify a situation where even experts in the finance industry admit that consumers are not adequately informed by lenders about the cost of credit. You are performing a valuable service to the public and I wish to commend you for it and hope your bill is successfully enacted into law.

THOMAS C. WOJTKOWSKI, *Representative.*

BANGOR, MAINE, *November 20, 1963.*

Senator PAUL DOUGLAS.

DEAR SENATOR DOUGLAS: Attached hereto are statements from a few labor organizations within the State of Maine.

Will you kindly enter these into the records of the hearing on bill S. 750 (truth in lending)?

I am sorry that I am unable to attend the hearing but wish you every success in the passage of this so-necessary bill.

Sincerely yours,

DOROTHY SHORETTE,
Director, Maine WAD-COPE.

TRUCK DRIVERS, WAREHOUSEMEN & HELPERS UNION,
Portland, Maine, November 15, 1963.

To Whom It May Concern:

This is with reference to S. 750, "truth-in-lending bill."

This organization is in favor of this bill because of discussion with our members about the money they borrow—it is not fully explained as to what they are to pay in total interest.

A favorable report for passage of this bill by your committee will be appreciated by many members of this organization.

Very truly yours,

ALBERT PAGE, *Secretary-Treasurer.*

INTERNATIONAL HOD CARRIERS', BUILDING & COMMON LABORERS' UNION OF AMERICA,
Portland, Maine, November 18, 1963.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Banking and Currency.

DEAR SENATOR DOUGLAS: This is to advise you that Local No. 12 of the International Hod Carriers', Building & Common Laborers' Union wishes to go on record as favoring the passage of S. 750 (truth in lending).

We will appreciate it very much if this is inserted into the minutes of the hearing which will be held by you and your committee on November 22 and 23, 1963.

Hoping that you have every success in having this bill enacted and with kindest regards, I remain,

Sincerely yours,

EDMUND A. ACETO,
Recording and Corresponding Secretary.

SOUTHERN MAINE BUILDING & CONSTRUCTION TRADES COUNCIL,
Portland, Maine, November 18, 1963.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Banking and Currency.

DEAR SENATOR DOUGLAS: At the last meeting of the Southern Maine Building & Construction Trades Council composed of 29 craft unions and whose jurisdiction is the 8 southern counties of the State of Maine, discussed S. 750, known as the truth-in-lending bill, very thoroughly, and this council decided that this bill is very much needed by the workingman who sometimes has to borrow money to pay bills with or has not enough money to buy a house so has to borrow money from a loan association.

This bill is very much needed in this country of ours and, therefore, this council wishes to go on record as favoring this bill and requests that this letter be inserted into the minutes of the hearing to be held in Boston on November 22 and 23, 1963.

Hoping that you will be successful in having this bill enacted into law and if there is any help and assistance we can give, please advise.

Sincerely yours,

ROBERT J. ROSSI, *Secretary-Treasurer.*

UNITED BROTHERHOOD OF CARPENTERS & JOINERS OF AMERICA,
LOCAL 517,
Portland, Maine, November 18, 1963.

To Whom It May Concern:

This is to advise that the officers and men of Local No. 517, United Brotherhood of Carpenters & Joiners of America, request wholeheartedly your support in passage of the truth in lending bill, S. 750.

Respectfully,

KENNETH A. DUNPHE,
Business Representative.

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS,
LOCAL UNION NO. 567,
Portland, Maine, November 19, 1963.

Hon. PAUL DOUGLAS,
Chairman, Subcommittee on Banking and Currency.

DEAR SENATOR DOUGLAS: This local would like to go on record as favoring the passage of bill S. 750.

We feel this truth in lending bill is of the utmost importance to all our members as well as working people throughout the entire country.

Very truly yours,

MICHAEL DUNN, *Business Agent.*

UNITED ASSOCIATION OF JOURNEYMEN AND APPRENTICES OF THE PLUMBING AND PIPE FITTING INDUSTRY OF THE UNITED STATES AND CANADA, LOCAL UNION 217,
Portland, Maine, November 19, 1963.

Senator PAUL DOUGLAS.

DEAR SENATOR DOUGLAS: At a special meeting of local 217, it was resolved by all members present that we want to go on record, in favor of bill S. 750, or the truth and lending bill.

Yours truly,

[SEAL]

MARTIN J. JOYCE,
Business Agent, Local 217.

INDUSTRIAL UNION OF MARINE AND SHIPBUILDING WORKERS OF AMERICA, AFL-CIO, LOCAL NO. 6,
Bath, Maine, November 20, 1963.

Senator PAUL DOUGLAS,
Chairman of Subcommittee on Banking and Currency.

DEAR SIR: The entire membership of local 6, IUMSWA, AFL-CIO, wholeheartedly solicit your support in gaining passage of legislative document S. 750. We feel passage of this bill would be of tremendous value to all members of our local and their families.

Sincerely,

KENNETH L. SNOWDON,
President-Business Agent, Local 6, IUMSWA, AFL-CIO.

The CHAIRMAN. We also have endorsements from a series of other groups to be announced later and placed in the record.

Finally, I should say there should be no smoking in the courtroom.

We are honored in having the first citizen of Massachusetts, the distinguished Governor of this great Commonwealth, the Honorable Endicott Peabody, as our first witness. I used to see Governor Peabody play football and it is a great pleasure to see him here as a witness.

We are now very glad to welcome the Governor of Massachusetts, Governor Peabody.

STATEMENT BY ENDICOTT PEABODY, GOVERNOR OF THE COMMONWEALTH OF MASSACHUSETTS

Governor PEABODY. Thank you, Senator. Senator Bennett, glad to see you here, sir. Senator Douglas, glad to see you, also.

I would like to introduce our banking commissioner, the former mayor of our city, John Hynes; and I would like him to accompany me in making this statement.

The CHAIRMAN. We are very happy to have you here and appreciate your taking time from what I know is a very extraordinary busy life to testify.

Governor PEABODY. I have a statement. There were copies given out. Mr. Smith, will you give a copy of the statement to the Senator?

The CHAIRMAN. You go ahead. The Senator and I will look at this copy together.

Governor PEABODY. There is another copy there.

The CHAIRMAN. All right, proceed in your own way.

Governor PEABODY. Mr. Chairman, Senator Bennett, on behalf of the Commonwealth of Massachusetts may I welcome you both to the Commonwealth. We are certainly happy to have you here looking into this very important problem of truth in lending, which is of concern not only to you in the Federal Government, but to us in the State government.

I appear here as the Governor of the Commonwealth of Massachusetts and as a citizen who is interested in bringing about a clearer understanding of the relationship which exists between a buyer and a seller with reference to the interest or carrying charges connected with the purchase and sale of goods on time and the lending of money. That this has become a subject which has had a profound and significant impact on the Nation's economy is so well known as to require little comment.

However, it might be well for us to recall that in the years which have elapsed since the termination of World War II the credit expansion of this Nation has been so fantastic as hardly appears credible. In 1945 the total installment debt of the United States was approximately $2½ billion whereas on August 31, 1963, it was in excess of $52 billion. It is obvious that the buy-now-and-pay-later system of purchasing and selling has become an integral element of the everyday life of this country. It is natural that this should result in the type of legislation represented by S. 750 and that you should be seeking opinions from the myriad agencies both private and governmental which are affected both directly and indirectly by the charges being made for the sale of goods and services on time and the borrowing of money.

The essence of this matter appears to concern itself with the bill's purpose which would require a more comprehensive disclosure of charges being made in addition to the cost of an article when such article is purchased on time. This disclosure would require, among other things, that the finance charge be expressed in its simple interest per annum equivalent. Very frankly, I fail to understand how there can be serious objection to a measure which seeks publication of the truth by making available to consumers, knowledge which they now generally do not have, provided that a formula can be devised which is fair and reasonable to both the lender or seller on the one hand and the borrower or purchaser on the other of money, goods, or services.

I am aware of the need for action in this general area of consumer participation and we have taken steps in this Commonwealth to clarify the confusion which exists. After a review of the executive and legislative activity in the field of loans and credit since 1945, we came to the conclusion that Massachusetts now has a most incongruous hodgepodge of laws governing some areas and no laws at all pertaining to equally vital segments of the lending industry.

In some cases, our weak and inadequate laws have allowed our citizens to be victimized by all kinds of shady leaders and sharp operators and I propose as Governor of this Commonwealth to bring an end to this disgraceful situation.

Massachusetts is, for example, one of the four States without a usury law and while we have a motor vehicle financing and lending law as well as a second mortgage law, no attempt has been made, so far as I know, to apply the principles of truth in lending to these statutes.

With this in mind, I asked the Massachusetts General Court to enact a resolve seeking a study of this whole field. One of the purposes of this resolve will be to study the need for a truth in credit law. As I said in my message to the legislature there has been in the Commonwealth and the Congress much fruitless discussion of this subject and while the problems are technical in nature, solutions must be found which are fair to both the public and the business interests. I am offering for the record a copy of chapter 152 of the resolves of the Commonwealth for the year 1963 entitled, "Resolve Providing for an Investigation and Study by a Special Commission of the Laws of the Commonwealth Relative to Loans and Credit," and that is attached with the copy of my statement which I have submitted to you.

The CHAIRMAN. That will be entered without objection in the record:

(The resolve follows:)

CHAPTER 152. RESOLVE PROVIDING FOR AN INVESTIGATION AND STUDY BY A SPECIAL COMMISSION OF THE LAWS OF THE COMMONWEALTH RELATIVE TO LOANS AND CREDIT

Resolved, That a special commission, to consist of two members of the senate, three members of the house of representatives, the commissioner of banks or his designee, and seven persons to be appointed by the Governor, is hereby established for the purpose of making an investigation and study relative to the extension and modification of the laws relating to the general subject of loans and credit in the Commonwealth. Said commission shall, in the course of its investigation and study, consider the effectiveness, the enforcement and the administration of the present laws relating to loans and credit, illegal lending operations, and the problems of law enforcement created thereby, practices in the matter of installment credit which practices are against the public interest, the necessity of a "truth in credit" law, so-called, the feasibility of a usury law, and any proposals relating to the general subject of loans and credit.

Said commission may require by summons the attendance and testimony under oath of witnesses and the production of books and papers and may call upon officials of the Commonwealth or any of its political subdivisions for such assistance and information as it may require.

Approved.

Effective October 7, 1963.

Governor PEABODY. In addition to this resolve I also sent a special message to the general court asking for legislation to establish a consumer's council. As a result we now have such an agency whose duty it will be to conduct continuing studies, investigations, and research in all matters affecting consumer interests. There is attached hereto a copy of this act recently enacted.

(The Massachusetts act follows:)

CHAPTER 773. AN ACT ESTABLISHING A CONSUMERS' COUNCIL

Be it enacted, etc.

SECTION 1. Section 17 of chapter 6 of the general laws is hereby amended by inserting after the words "control commission," in line 15, as appearing in section 1 of chapter 623 of the acts of 1958, the words ", the consumers' council."

SEC. 2. Said chapter 6 is hereby further amended by adding after section 114 the following section, under the caption "Consumers' Council":

"SEC. 115. There shall be a consumers' council, hereinafter called the council, consisting of eight members to be appointed by the Governor, with the advice and consent of the executive council, for terms concurrent with that of the Governor, one of whom shall be a member of the Massachusetts State Labor Council, AFL–CIO and no more than five of whom shall be members of the same major political party, and ex officio, the attorney general, the chairman of the public utilities commission, the commissioner of banks, the commissioner of insurance and the commissioner of labor and industries. The chairman of the council shall be designated by the Governor from time to time. Said members shall serve without compensation, but shall receive their expenses necessarily incurred in the performance of their duties. The council shall meet monthly and at other times at the call of the chairman.

"The council shall conduct studies, investigations, and research and advise the executive and legislative branches in matters affecting consumer interests, coordinate consumers' services carried on by departments and agencies, further consumer education, inform the public, through appearances before Federal and State committee, commission, or department hearings, or otherwise, of such policies, decisions, or legislation as are beneficial or detrimental to consumers, inform the Governor, and the attorney general, and other law-enforcement agencies of such violations of laws or regulations affecting consumers as its investigations or studies may reveal, and study and report all matters referred to it by the general court or the Governor. The council may appear, through its chairman or a member or person designated by him, or through the attorney general, for and in behalf of the people of the Commonwealth before boards, commissioners, commissions, departments, or agencies of the Commonwealth in any hearing or matter affecting the rights of the consuming public or in any proceeding seeking the curtailment of railroad services or an increase of rates or costs of services or commodities, and shall be deemed an aggrieved party for the purpose of judicial or administrative review of any decision or ruling in any such proceedings in which it has so appeared, any other provision of law to the contrary notwithstanding. The council may appoint an executive secretary who shall not be subject to chapter 31 and shall with the approval of the Governor and executive council fix his salary. The council may appoint such other assistants, consultants, investigators, and experts as it deems necessary to carry out the provisions of this section. Said council shall be provided with offices in the Statehouse or elsewhere in the city of Boston. It may call upon any department, board, commission, or officer of the Commonwealth or of any political subdivision of the Commonwealth for such information as it may desire in the course of its duties.

"The council may hold public hearings and shall establish rules of procedure governing the conduct of its hearings which shall be made available in printed form to each witness prior to his testimony. Witnesses shall have the right to be represented by counsel and shall before testifying be sworn. The Governor may request of the attorney general such legal assistance as may be necessary in carrying out the duties and functions of the council.

"Approved October 31, 1963.

"Effective January 29, 1934."

Governor PEABODY. I appreciate the opportunity, Mr. Chairman and Senator Bennett, to appear before this subcommittee of the Committee on Banking and Currency of the U.S. Senate, and I hope that your investigation of this field will result in legislation which will serve the pubic interest.

The CHAIRMAN. Thank you very much, Governor; that was a very fine statement. I am not going to question you. You have a very competent organization in Boston known as the Financial Publishing Co. which has its headquarters on 82 Brookline Avenue, I think a block or two from here, which publishes tables and statistics enabling one to solve all the problems connected with this, if I may offer you a copy.

Governor PEABODY. Thank you.

The CHAIRMAN. I think you may find it of interest in dealing with opponents of your proposals. I have no questions.

Senator BENNETT. Governor, I am delighted with your statement, particularly with the words on page 2, which say:

provided that a formula can be devised which is fair and reasonable to both the lender or seller on the one hand and the borrower or purchaser on the other of money, goods, or services.

I am also delighted to know you are setting up a special commission to study the laws of the Commonwealth in this field of credit because this means to me that you want to keep the management of the credit problem inside or within the authority of the Commonwealth. Now, if this bill is passed, any law you pass in the Commonwealth would have to be exactly identical with the Douglas bill or it would be of no force or effect. So I wish you every success on this endeavor on which you have embarked and I personally believe that is the real way to solve the problem.

Governor PEABODY. Well, we are certainly doing it, Senator, and we appreciate the effort made by your committee and through the chairman, to go into this area which is of national concern as well as local concern, and I am sure we can harmonize our efforts to good effect.

The CHAIRMAN. In view of the questions of my friend and colleague to you, may I ask if there was a truth-in-lending bill introduced in the last session of the legislature?

Governor PEABODY. Yes, there was.

The CHAIRMAN. What was its fate?

Governor PEABODY. Referred to the next annual session.

The CHAIRMAN. Let me say in conclusion, when I grew up in New England and learned the wise sayings which were given to all New England boys, there was one that my mother taught me, "Where there is a will, there is a way."

Governor PEABODY. Thank you.

Mr. HYNES. The truth will find it.

The CHAIRMAN. Thank you very much, Governor, we appreciate your coming.

Governor PEABODY. Thank you very much.

The CHAIRMAN. Now, we have heard from the Governor of Massachusetts. I have a message from the Governor of New Hampshire which I will read.

The CHAIRMAN. I should first say that I am a north of Boston boy myself because I grew up in the State of Maine, and I was delighted to get a letter last night from Gov. John W. King of New Hampshire which I should like to read in the record. This is Governor King's statement.

STATEMENT BY JOHN W. KING, GOVERNOR OF THE COMMONWEALTH OF NEW HAMPSHIRE

The truth-in-lending bill appears to be both a simple and modest measure that requires all lenders to disclose to the consumer the costs of using credit in an accurate and uniform manner. This would enable the consumer to compare accurately the costs of alternative credit plans and to shop wisely for credit as he does for other items in the family budget.

Testimony from representatives of almost every segment of the credit industry, from most of the Government departments, from labor unions, consumers' groups, and from many distinguished experts in the field of consumer credit, have been such as to indicate the need for protective legislation. This testimony on current consumer credit practices has demonstrated that the average consumer is often either unaware or badly misinformed about credit charges and interest rates.

Last spring, President Kennedy, in his consumer protection message to the Congress, strongly urged the enactment of the truth-in-lending bill. I also believe that the American consumer is entitled to know the truth about credit rates and charges and to be informed of credit costs so that he can, on the basis of accurate information, exercise his right to make intelligent choices among various credit plans.

It seems clear that the truth-in-lending bill will not only protect consumers but also the ethical and efficient lender. Today the lender or credit extender who wishes to be honest and accurate in disclosing the cost of the credit he is offering can only do so at the peril of losing his customers to competitors who would continue to disclose deceptive or confusing information. Also, the alleged burden of providing such information seems to be disproved by those favoring this legislation.

We in New Hampshire, as in other States, have our problems in comparing costs of credit. Testimonies have been given to show that the consumer is often bewildered by various methods of stating such costs. In view of this, I personally favor legislation designed to eliminate this abuse and offer my appeal for support of this bill to insure a uniformed method of stating true annual interest costs.

(Signed) JOHN W. KING,
Governor.

Senator BENNETT. Mr. Chairman, may I make a brief comment?

The CHAIRMAN. Certainly.

Senator BENNETT. The Governor is a wise man. He says, in his first sentence, "the truth-in-lending bill *appears* to be both a simple and modest measure." If he followed the hearings of this bill over the last 4 years, he would see that this appearance is maybe deceptive.

The CHAIRMAN. Thank you, Senator.

I am very happy to welcome the distinguished former mayor of Boston and present commissioner of banks of the Commonwealth of Massachusetts, the Honorable John B. Hynes, as our secod witness. I can call you Mr. Mayor because I think to be mayor of great American city is one of the highest distinctions any American can obtain.

Mr. HYNES. Thank you, Senator Douglas and Senator Bennett.

STATEMENT OF JOHN B. HYNES, COMMISSIONER OF BANKS FOR THE COMMONWEALTH OF MASSACHUSETTS

Mr. HYNES. My name is John B. Hynes. Since May of this year I have been the commissioner of banks for the Commonwealth of Massachusetts, and in such capacity I welcome the opportunity to explore with the committee, for a few moments, the subject matter of your inquiry seeking the advisability of the enactment of S. 750 or some such similar legislation.

Appearing with me are John P. Clair, general counsel for the banking department; and Robert S. Leadbettor, assistant supervisor of the loan agencies in the banking department and a rate analyst. Both these gentlemen are completely competent to answer any of the technical questions that may be prompted.

We do not presently have a requirement in this Commonwealth that interest or carrying charges be stated or expressed in simple interest equivalents to those who borrow money or purchase durable goods on time. As a matter of fact, our occupation of the latter field is very limited in scope, as contrasted with New York, for example, where I believe all charges on retail sales are covered by legislation.

Chapter 255B of the Massachusetts General Laws limits the charges that may be made on the purchase of motor vehicles to $8 per $100 for new vehicles, $10 per $100 on the sales of automobiles which are not more than 2 years old, and to $12 per $100 in all other cases. This finance charge is required to be computed on the principal balance in a contract which must contain a recitation of the following items:

1. The cash sales price of the motor vehicle;
2. The amount of the buyer's downpayment, itemized as to whether said downpayment is in money or goods;
3. The difference between items 1 and 2;
4 and 5. Must contain the charges for insurance with a full delineation of the types of such coverage;
6. The amount of recording charges;
7. The principal balance;
8. The amount of the finance charge;
9. The time balance which is the sum of items 7 and 8 expressed in dollars;
10. The total time price;
11. A statement of delinquency charges, if any;
12. A statement of the rights of the parties when a repossession is necessary.

You can see by this recitation that in the only consumer goods field where the Commonwealth limits the charge that can be made, there is no requirement that said charge be expressed other than in dollars. In addition to this statute the legislature, through a board established for the purpose, limits the charges for interest and other expenses that may be made for loans of money from $0 to $3,000.

We also have a limitation on loans made where second mortgages on real estate are taken as security. In these two latter situations the interest charge made for the money loaned is computed upon the unpaid monthly balance system, although precomputation of the charges are permitted in a small loan rate order. In the event of anticipatory repayment before maturity of the loan, a rebate is required by the lender, said rebate being based on the rule of the sum of the digits.

While Massachusetts at one time could have been designated as a leader in the consumer credit field, it no longer appears that we may now claim such honor because, among other things, this Commonwealth is but one of four States in the Nation without a usury law although the banking department has been seeking one for more than 10 years. The opposition to this law is very similar to that which is aroused when a truth-in-lending statute is proposed.

The CHAIRMAN. I find this very extraordinary, Mr. Mayor; you have been trying to get a usury law under the administration of both parties?

Mr. HYNES. The administration of both parties.

The CHAIRMAN. And you were not successful?

Mr. HYNES. No, we were not.

The CHAIRMAN. And the same groups oppose the usury law as oppose the truth in lending?

Mr. HYNES. I am informed the same type of opposition.

The CHAIRMAN. Go ahead.

Mr. HYNES. I suppose that it goes to the essence of the free enterprise system to say that if a person enters the marketplace seeking to purchase goods on time or to borrow money, there is nothing insidious, per se, in apprising him as to what his dollar charge will be for the use of said money.

On the other hand, how can there be a reasonable argument proposed which seeks to keep from such consumer the truth as to what he is actually paying in the simple interest equivalent per annum. If the Government is to enter this field it must seek a means of informing the consumer without impeding legitimate business in its day-to-day operation.

We are all mindful of the complexities which could face a seller in attempting to give the buyer a recitation of such simple interest equivalent other than in cases where the contract is carried out as written. It goes without saying that if the consumer repays his loan or makes the payments on time precisely according to contract terms, the simple interest equivalent can be accurately stated. Where there is a deviation, however, such as when the consumer is late in payments and there is no provision for a late charge or in the case of an anticipatory repayment in part or in full before maturity the simple interest charge may, in some cases, be greater or less than such expressed simple interest charge agreed to when the contract was written.

If you can solve this difficulty, I believe you will go a long way toward the laudable purpose of the legislation without hindering retail trade and commerce. Upon this basis I wish to convey my approval of the principles contained in S. 750.

A specific example of this difficulty is obvious from the following: If a person borrows $100 for 1 year on the add-on basis and is charged $6 for the use of this money, thus signing a note for $106, and repays it in equal monthly installments the simple interest equivalent is 10.90 percent. If the money is borrowed for 2 years and repaid in 24 months the simple interest equivalent is 11.13 percent. If the term of the loan is for 60 months the simple interest equivalent is 10.85 percent per annum. In the add-on system, therefore, the simple interest rate will increase during the first 24 months, and will thereafter decrease so that at the end of 5 years it is about the same as it is in the first year.

If we use this same example and apply the discount method, the interest charge on this $100 the first year expressed in the simple interest equivalent is 11.85 percent, 12.95 percent after 24 months, and 15.04 percent at the end of 5 years. In the discount method where the borrower receives less than he actually seeks because the interest is discounted in advance, the rate of charge increases progressively with each month and each year for as long as the contract is written.

Obviously, the impact of the proposed legislation will fall equally upon everyone, whether it be a bank, a second-mortgage lender, a retail store, or other commercial enterprise, and it would appear that the apprehensions which are expressed on the part of some businessmen in opposition to a truth in lending law lose much of their force if we consider the problem after a realistic appraisal of the facts.

Generally speaking, the consumer is now unaware of the true interest rate assessed against him, and a program of education will be necessary to acquaint him and prepare him for the truth. I think a sound argument can be advanced for the proposition that when a consumer is being charged $6 per $100 and repays the amount borrowed in equivalent monthly installments, he naturally assumes he is paying 6 percent. If this average consumer were told that he was in effect paying somewhere between 11 and 15 percent, depending upon the length of the loan and whether the money was being loaned on the discount, add-on, or unpaid monthly balance system with precomputation, he might feel that the lender was deceiving him.

On the other hand, if the true interest rate is advertised and the consumer recognizes the fact that competitive sellers or lenders all reveal the true rate of charge, then his understanding will very soon restore to the business community whatever confidence it may initially lose, if it should lose any.

It is for these reasons that as commissioner of banks I cannot view with alarm a disclosure law as is being proposed by Senator Douglas and a study of which has been requested by Governor Peabody in this Commonwealth.

I should like to take this opportunity, in conclusion, Mr. Chairman and Senator Bennett, to welcome you to the city of Boston where I once served as mayor, and now I am stationed as bank commissioner, to offer you the facilities of my bank commissioner's office for whatever aid or assistance we may render. I appreciate this opportunity to discuss this matter with the committee.

The CHAIRMAN. Thank you very much, Mr. Mayor. I greatly appreciate this paragraph in which you say, "I cannot view with alarm a disclosure law as is being proposed" in S. 750, because I well know the opposition of the powerful banking groups in this State to such a law. I want to commend you for your courage and public spirit in making this statement.

I note on the first page of your testimony you mention banking charges which could be made on the purchase of motor vehicles to $8 per $100 for new vehicles, and $10 per $100 on the sale of automobiles which are not more than 2 years old, and to $12 per $100 in all other cases. I take it these are add-on rates and this excellent Boston institution which has a national reputation, the Financial Publishing Co., on page 4 of the little leaflet which we have given you, page 4 indicates what the true rates are with these nominal add-on rates and you will see that an add-on rate of 8 percent is really a rate of 14.45 percent; if you can read that. That is for new automobiles and add-on rate 10 percent for those less than 2 years old is 17.97 percent or in effect 18 percent; for automobiles which are more than 2 years old, the add-on rate is $12 per $100, the real rate is 21.46 or 21½ percent and this is by the computations of this very reputable Boston company, the Financial Publishing Co., and you don't have to compute it, it is there. They have done it for you.

Mr. HYNES. I have the pamphlet. I am happy to have it.

Senator BENNETT. Mr. Chairman, you closed your discussion of the reading of the statement of Governor King, of New Hampshire, and then went on to the other witness before I had a chance to make a comment on New Hampshire.

I should like to offer for the record a copy of the statutes of New Hampshire on the disclosure of finance charges on personal property, retail installment sales for motor vehicles, for the record.

The CHAIRMAN. That will be done.

(The matter referred to is as follows:)

Statutes in Full Text **35,731**

DISCLOSURE OF FINANCE CHARGES

[¶ 1058]

Sec. 399-B:1. Definitions. Whenever used in this chapter [¶ 1058—1061] the following words shall have the meanings set opposite them below:

I. "Credit," means any loan, residential mortgage, deed of trust, advance, or discount; any conditional sales contract; any contract to sell, or sale, or contract of sale of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract; any contract or arrangement for the hire, bailment, or leasing of property; any option, demand, lien, pledge, or other claim against, or for the delivery of, property or money; any purchase, discount, or other acquisition of, or any credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

II. "Finance charges," includes charges such as interest, fees, service charges, discounts, and other charges associated with the extension of credit.

III. "Person," means any individual, partnership, association, corporation, or unincorporated organization. [Comp. at ¶ 101, 130.]

[¶ 1059]

Sec. 399-B:2. Statement required. Any person engaged in the business of extending credit shall furnish to each person to whom such credit is extended, concurrently with the consummation of the transaction or agreement to extend credit, a clear statement in writing setting forth the finance charges, expressed in dollars, rate of interest, or monthly rate of charge, or a combination thereof, to be borne by such person in connection with such extension of credit as originally scheduled. [Comp. at ¶ 101, 130.]

[¶ 1060]

Sec. 399-B:3. Prohibition. No person shall extend credit in contravention of this chapter. [Comp. at ¶ 130.]

[¶ 1061]

Sec. 399-B:4. Penalty. Any person who willfully violates any provision of this chapter shall be fined not more than five hundred dollars or imprisoned not more than sixty days, or both. [Comp. at ¶ 130.]

STATUTORY LIENS ON PERSONAL PROPERTY

[¶ 1066]

Sec. 444:1. Sale, no due date. Any person having a lien on personal property, other than a security interest covered by chapter 382-A, Article 9 [¶ 701—790] where no time is limited for the payment of the debt or redemption of the property, may sell the same or so much thereof as is needful at auction, notice of the sale being given as herein required, and from the proceeds he may reimburse himself for his debt and the expenses incident to the sale. [Comp. at ¶ 101, 310.] [*As amended by Laws* 1959, *Ch.* 247.]

[¶ 1067]

Sec. 444:2. Sale on default. If a time is limited for the payment of the debt or the redemption of the property, the property may be sold at any time after the expiration of the limited time, upon like notice; provided, that such sale will not be in conflict with the terms of the contract under which the property is holden. [Comp. at ¶ 310.]

[¶ 1068]

Sec. 444:3. Posting notice of sale. Notice of such sale shall be given by posting notices thereof in two or more public places in the town where the property is situate, fourteen days at least before the sale, and, if the value of the property exceed one hundred dollars, by publishing the notice. [Comp. at ¶ 310.]

[¶ 1069]

Sec. 444:4. Notice to owner. A notice of sale shall be served upon the general owner, if resident in the county, the same number of days before the sale, stating in writing the time and place of the sale, the property to be sold and the amount of the lien thereon. [Comp. at ¶ 310.] [*As amended by Laws* 1959, *Ch.* 247.]

Senator BENNETT. Mr. Hynes, I have enjoyed hearing your statement. Senator Douglas and I are obviously inclined to pick out those parts of your statement which we like. I particularly like your statement on page 7, where you say, "and a program of education will be necessary to acquaint him, the customer, and prepare him for the truth."

I should like to offer for the record a publication of the Boston Better Business Bureau, Educational Division, "Facts You Should Know About Your Credit." In other words, this educational process is already beginning, supported by the businessmen of Boston.

The CHAIRMAN. We would be delighted to have that put in the record.

(The pamphlet is reproduced beginning on p. 1179.)

The CHAIRMAN. From the BBB.

Senator BENNETT. Boston Better Business Bureau, four "B's."

In a letter describing this publication, the statement was made that the book was published in 1962, an edition of 100,000, of which, as of November 1, approximately 70,000 have been distributed. I would like to just raise one further question, Mr. Hynes. I assume you endorse the Governor's proposal to have studies made of the consumer program?

Mr. HYNES. Yes, sir; I do.

Senator BENNETT. Therefore, I assume you are not prepared to have the Commonwealth of Massachusetts withdraw completely from the credit area and leave it entirely to the Douglas bill, if it were passed?

Mr. HYNES. I would certainly hope, Senator, any bills enacted by the Massachusetts Legislature and the Congress of the United States would be harmonizing bills; that one certainly should not conflict with the other.

Senator BENNETT. Do you feel if there is a conflict the State of Massachusetts should retreat?

Mr. HYNES. If there is a conflict, the State of Massachusetts is supreme, I think, Senator.

Senator BENNETT. I remember that there was once a group of men who stood in the State of Massachusetts and wouldn't retreat and for that reason today the U.S. Government is supreme in the area and I am glad the spirit of '76 still exists.

Mr. HYNES. So do I.

The CHAIRMAN. May I say, too, that I am glad the spirit of '76 still exists. We may point out that our bill deals with the total statement of finance charges and the true annual rate, but States can introduce other provisions. It covers only a slight, small area of the total field of the regulation in consumer buying and it cannot go beyond this. This bill merely lays out requirements for one area for the protection of consumers.

I well remember how the State of Massachusetts led the country in protective legislation, both in the fields of women and child labor and exposed itself to a competitive disadvantage because of the competition from the Southern States with lower standards, and I can remember how the esteemed Henry Cabot Lodge went to Congress and asked for a Federal child labor law in order to have a minimum standard so those who were unethical could not abuse this. In other words, there is a combination of the State's pioneering and frequently putting themselves at a competitive disadvantage.

So, this is an attempt to lay a floor but in no sense to impose a ceiling on consumer credit practices. So I, too, hope that Massachusetts stands as it stood at Lexington and Concord and Bunker Hill and that the modern Joseph Warrens wage their struggles for the protection of the rank-and-file citizen.

Senator BENNETT. One minute to wave the flag.

The CHAIRMAN. Well, you started this.

Senator BENNETT. I did; that is right.

The CHAIRMAN. And I will wave it just as vigorously.

Mr. HYNES. We like the title of your bill, Senator, "Truth," and we like that word here very much. You find it on the motto of Harvard College, "Veritas."

The CHAIRMAN. That is right.

Mr. HYNES. And in Massachusetts truth has always been on a high pinnacle and many of our men and women in years and generations gone by have become martyrs for the truth and will do so and will be glad to do so again.

The CHAIRMAN. Some of my coreligionists were even whipped and forced with the tail carts through the State of Massachusetts for testifying to what they believed to be the truth and they are now honored with statues near the statehouse.

Senator BENNETT. I am glad they are so honored. Some of us believe that the Douglas bill doesn't tell the truth, so maybe after we have been whipped through Massachusetts, maybe we will be honored.

The CHAIRMAN. You are received with honor in the Nation.

We hoped that the former attorney general of Massachusetts, Mr. Edward J. McCormack, would be able to testify this morning, but Mr. McCormack has been of tremendous help to us in the past when he testified before us in Washington and presented a very able testimony, and he has asked to testify here; but as we all know, his father died a few days ago and the funeral was held, I believe, day before yesterday. Mr. McCormack and his father were very close to each other, and he is not making any public appearances; so that he regretfully cannot come this morning, but I wish publicly to thank him for all he has done and to express our regrets for the death of his father and our appreciation for his services, and we know in due time he, too, will return to the battle. Thank you very much, Mr. Mayor.

Mr. HYNES. It was a pleasure.

The CHAIRMAN. The next witness is the distinguished member of the great and General Court of Massachusetts, who has given service to this cause, State Representative Julius Ansel. Very glad to have you with us.

STATEMENT OF STATE REPRESENTATIVE JULIUS ANSEL, WARD 14, 13TH SUFFOLK DISTRICT, BOSTON, MASS.

Mr. ANSEL. Mr. Chairman, your distinguished colleague, Senator Bennett——

The CHAIRMAN. Give your full name for the record.

Mr. ANSEL. Julius Ansel, representative, ward 14, 13th Suffolk district, Boston, Mass. At the outset I would like to commend you, Senator Douglas and Senator Bennett, for visiting our historic State. You provided a very genuine contribution in this particular field and subject matter, and I know our citizens are grateful, even with the differences that may exist among our citizens on the subject because of your hearing here in Boston, Mass.

I know that there are going to be many testifying on the subject matter, both pro and con, and I am not going to belabor the issue other than to give public approval of your recommendation, Senator Douglas, to your Senate bill.

I feel very strongly that we have arrived in a period of our economy, that it is essential that the Federal Government move forward to eliminate the inequities that presently exist as we know it here in Massachusetts.

I am chagrined at times at the organized opposition who attempt to scuttle progress in this field and to attempt to stop our fellow citizens from knowing the truth and that is basically what your Senate bill will do. It will inform the citizens of the actual charges being imposed, the interest charges by the banks, by the credit agencies, throughout the Nation.

I don't think anyone should normally object to that; that is the essence of good business. I think, frankly, that it was offered in testimony, the pamphlet by the Better Business Bureau. I haven't a particular quarrel with the Better Business Bureau, but they are not too frequently relied upon. I don't think too many people know the Better Business Bureau other than for those events in which they are complainants, and the bureau does provide a compilation of the public services.

I think the time has come when the credit business has been so large and active, particularly in Massachusetts, that our citizens who require the essential needs of credit—and credit does provide some progress to our economy—that they be told what their charges are; that it be spelled out by specifics.

I have been the recipient of many complaints; complaints that were providing much distress to many of our fellow citizens and, frankly, there was little I could tell the mother than to refer their complaint to the attorney general's office of the Commonwealth or to the district attorney's office if I felt that there was criminal negligence in that particular operation. I don't think your Senate petition is an indictment upon business. It merely corrals business to provide better public relations for themselves and to inform our citizens that when they go out and buy on credit or when a banking institution provides a loan, that it be spelled out that they are going to know what they pay in interest charges.

The CHAIRMAN. You have a copy of S. 750; do you endorse the principles involved in the bill?

Mr. ANSEL. I endorse it wholeheartedly.

The CHAIRMAN. We appreciate your support.

Mr. ANSEL. And I want you to know, so far as the Massachusetts Legislature is concerned, we have made much progress in many fields. We are particularly concerned with this particular issue. I talked with my colleagues, the distinguished Representative Quinn and others, and they will give testimony, and I concur with it completely and I hope your distinguished colleague, Senator Bennett, will aid you ultimately in this determination.

Senator BENNETT. I think I am aiding Senator Douglas tremendously by educating him on the real truth in truth-in-lending.

The CHAIRMAN. Thank you very much.

Senator BENNETT. May I have one question? You have read the Douglas bill?

Mr. ANSEL. I will be honest enough to tell you I haven't read it completely, but I know the principle of the document.

Senator BENNETT. I see.

Mr. ANSEL. I know the veracity of it.

Senator BENNETT. You have said when people come to you with problems, all you can do is refer them to the attorney general or the prosecuting attorney. Now, if you had read the Douglas bill, you would know after the Douglas bill is passed, that is all you can do. If a man feels he has a complaint, the Douglas bill leaves on him the responsibility.

The CHAIRMAN. But there will be agencies to deal with this.

Senator BENNETT. What agencies?

The CHAIRMAN. The Federal Reserve.

Senator BENNETT. As I read the bill, the Federal Reserve will have the ultimate responsibility for writing the regulations, but the person who is aggrieved must himself take the matter to court.

The CHAIRMAN. This is true, if there has been willful violations, you can get punitive——

Senator BENNETT. The person is left in the same position as your friends are left.

Mr. ANSEL. Frankly, I think the principle, Senator Bennett, will at least focus attention on those who have been violated, a conference with those who have been doing business and I think the Federal Government will indicate at least there is an attempt to provide for reasonable consideration on this particular commission, and it may be that the Douglas bill, if this particular bill is passed, and it doesn't provide the equities which it is intended to provide, that it can move forward, but I feel at least it is a step in the right direction and if it isn't that serious, then I don't know where all the opposition is coming from.

Senator BENNETT. Well, just reading from the bill on page 8, line 13:

> Action to recover such penalty may be brought by such person within 1 year from the date of the occurrence of the violation, in any court of competent jurisdiction.

In other words, it still leaves to the individual who feels he has been injured, the responsibility to get back the money he thinks he has lost. The Federal Reserve Board won't move out and get the money for him.

The CHAIRMAN. May I point out to my good friend that he didn't read all of the section, he left out all of section 7(C):

> Any person who willfully violates any provision of this act or any regulation issued thereunder shall be fined not more than $5,000 or imprisoned not more than 1 year, or both.

So, there are criminal penalties in the case of willful violations.

Senator BENNETT. But in order to initiate the charge of willful violations of the person who considers himself abused, he must take the initiative.

The CHAIRMAN. But there is also provision for the recovery equal to twice the finance charge imposed.

Senator BENNETT. The operation of this law will be just the same as the operation of your existing laws in Massachusetts.

The CHAIRMAN. Not at all, there are additional requirements to this that have to be served.

Senator BENNETT. I don't want to take more time, because I am presuming on the time of the proponents.

The CHAIRMAN. I will serve notice that I will take equal rights when the opponents speak. Thank you very much.

Mr. ANSEL. Thank you.

The CHAIRMAN. We are very happy to welcome another member of the great General Court of Massachusetts, Representative Paul Murphy. Thank you very much, Mr. Murphy, for coming. We know you are busy and we appreciate your waiting this long.

STATEMENT OF PAUL MURPHY, STATE REPRESENTATIVE, MASSACHUSETTS GENERAL COURT

Mr. MURPHY. Thank you very much, Senator Douglas and members of the committee. I might say, following Representative Ansel, who has been in the forefront on this fight, is like a harmonica player following the 76 trombones. I concur with the remarks made by him.

I am gratified to see this committee come to Boston. I think this problem of determining what credit really costs is a problem that is discussed and felt at the grassroots level with more conviction than most people seem to realize, and I do not exaggerate when I say that people talk about this problem constantly wherever I go. And, as a matter of fact, just recently I was fortunate enough to be able to be televised when I was filing our own truth-in-lending petition in the Commonwealth of Massachusetts, and I must say the response was most gratifying.

The CHAIRMAN. Thank you very much.

Senator BENNETT. I won't delay Mr. Murphy.

The CHAIRMAN. Thank you very much.

Mr. MURPHY. Thank you.

The CHAIRMAN. Mr. Robert DeGiacomo, attorney at law. Mr. DeGiacomo, thank you very much for coming.

STATEMENT OF ROBERT J. DeGIACOMO, ATTORNEY, BOSTON, MASS.

Mr. DEGIACOMO. It is a pleasure to appear before you, Senator Douglas and Senator Bennett.

The CHAIRMAN. Would you give your name and address for the record?

Mr. DEGIACOMO. Mr. Chairman and gentlemen, my name is Robert J. DeGiacomo. I am a lawyer. I live at 519 Gay Street in the town of Westwood, county of Norfolk, Commonwealth of Massachusetts.

I was admitted to the bar of this Commonwealth in 1948. I have been admitted to practice before the U.S. District Court for the District of Massachusetts, the U.S. Court of Appeals for the First Circuit, and the Supreme Court of the United States of America. I am a former assistant corporation counsel for the city of Boston, town counsel for the town of Westwood, counsel to the county of Norfolk retirement system, special counsel to various towns in the Commonwealth and the former first assistant attorney general of the Commonwealth of Massachusetts.

In the last capacity I had the honor of serving with the former attorney general of Massachusetts, Edward J. McCormack, Jr. As a result of the tragic and untimely death of his father, Mr. McCormack, as you pointed out, Senator Douglas, he is unable to appear before you today.

He has requested that I record him in complete support of S. 750, the truth-in-lending bill. Mr. McCormack rests on his testimony before this committee last year.

I am no economist nor mathematician, and I pretend to no expertise in this field. My professional life, however, has been devoted to the study of the relationships of man to his government and the obligations and duties of each to the other. In this Commonwealth this study has been a practical, at times frustrating, and at times profound experience with town, ctiy, county, and State government. I am satisfied that the economist is no different from any other citizen in that he, too, must concern himself with the relationship of man to man, man to government, and the ultimate aims of each. So, I deign to appear before this committee.

In 1915, Walter Lippmann said, and I quote, "That our statute books are cluttered with legislation that represents somebody's good intention rather than an insight into what is possible."

This legislation not only is possible, but it is necessary. It is necessary because I suggest that one of the pillars on which the economy of this country is now firmly established is the continuous promotion and expansion of consumer demand. Consumer demand has come to depend more and more on consumer debt—or, the ability and desire of the citizens of this country to incur and sustain debt over prolonged periods of time. The very meaning of the word "afford" has been changed for the majority of the population of this country.

The purpose of my remarks is not to criticize the prevalent philosophy of debt but rather to acknowledge it as a fact, and in view of this fact to suggest that those in debt or about to incur debt have an absolute right to know what the debt is. If the bill collector has become a central figure in this society then at least those who are subject to him have an absolute right to know why, how, and in what amount.

I am certain that, since this bill's inception, this honorable committee has been deluged by statisticans and their statistics, most of them very profound. I have read some of these statistics, and those which impressed me most were neither bold nor profound, but quite pedestrian, simple, and indeed ordinary. The one great debt of most individuals in this country is the automobile.

The enormity and commonness of the automobile debt of the American public is, I submit, the most eloquent testimony that could be given to this committee for the necessity of the truth-in-lending bill. I understand that from the years 1952 to 1956—and that is 7 years ago—automobile installment debt in this country increased nearly 100 percent. In 1955 one family in four of those with incomes between $3,000 and $4,000 bought an automobile, and 69 percent of those who did so made the purchase on credit. Of families with incomes between $4,000 and $5,000 per year, more than one family in three bought a car in that year, and 66 percent did so on credit.

About 30 percent of the people who purchased automobiles on credit in 1955 had bought their previous car the same way, and still had debt outstanding on that vehicle. I am certain that the corresponding figures for the present year would be much higher. The suggestion then is, gentlemen, that when that percentage of our population is involved in debt on that one article alone, that it is imperative that they know the truth.

The debt business is one of the largest businesses in the United States. There are those who argue that any interference with or regulation of consumer borrowing or debt will automatically restrict consumer demand and thus destroy the economy.

Senator Douglas, the truth-in-lending bill, however, is as I read it, not a restriction; it merely makes the truth a condition of lending. If, when consumers know the truth, they incur debt more intelligently, I fail to understand how this can do anything more than bolster the economy. For even in this debt-ridden society, no one could argue that repossession, rather than repayment, is better for the economy and society.

The following is an illustration used by John Kenneth Galbraith in his book "The Affluent Society," concerning consumer demand and consumer credit.

I suggest it is an apt example of what the truth-in-lending bill would make perfectly clear to the individual about to incur debt. [Reads:]

> Consumer credit is ordinarily repaid in installments, and one of the mathematical tricks of this type of repayment is that a very large increase in interest rates brings a very small increase in the monthly payment. Thus a man who signs a note for $1,800 on the purchase of a new car to be repaid over 24 months, and who agrees to an "add-on" of 6 percent of this amount as interest, will have a total interest bill of $216 and monthly payments of $84. If the interest charge is increased by one-third to an add-on of 8 percent, his total interest obligation becomes $288, but the increase in monthly payments is only $3. The one-third increase in interest brings but a one-thirtieth increase in the monthly payment. This increase can easily be offset by a lengthening of the term of repayment. In practice it is submerged by a variety of additional inspection, insurance, and other charges. Since the customer in contemplating the purchases is aware, not of the interest rate, but of the monthly charge, it will be seen how readily a very large increase in interest charges can, in practice, be offset.

That this is basically a Federal problem, warranting, and indeed, requiring Federal legislation, is self-evident from the very nature of many of the credit purchasers involved in this country.

But, gentlemen, what is not self-evident is why there should be great opposition to the truth.

My experience in town, city, county, and State government in the Commonwealth of Massachusetts has led me to adopt as my guide an axiom of the French poet, Charles Pegüy:

> He who knows the truth, and does not bellow it, makes himself the accomplice of liars and forgers.

I respectfully suggest that such an axiom as this as being apt to any matter which concerns legislation trying to bring to the people the truth.

It is a privilege to have been able to have made a few remarks, which you can see are not the remarks of the economist nor the mathematician, but rather express my own philosophical viewpoint and are completely based on what I consider my responsibility in positions in the past year in the government of this Commonwealth.

The CHAIRMAN. Thank you very much. Will you convey our appreciation to former Attorney General McCormack?

Mr. DEGIACOMO. Yes.

Senator BENNETT. Mr. DeGiacomo, I want to thank you for the Lippmann quote, and I think, more succinctly than anything we have had in these hearings, it describes my interpretation of this law; a law based on somebody's good intentions, which will clutter up the lawbooks because enforcement is not possible.

Now, we are all devoted to truth; the situation created by the use of the word "truth" in the title of a bill automatically casts aspersions on the people who, for one reason or another, feel they should oppose the details of the bill; but I don't think the truth is so limited with respect to credit that it can only be stated in one way and by a specific formula. I don't think that the experience of the American people in developing the credit pattern, the statements of the cost of credit over the years, represents that these methods of stating finance charges are themselves either untrue or that they are immoral. So there is no argument between Senator Douglas and me that we want the people to get the truth, but we who oppose the bill don't think that by forcing all statements of interest into one mold, which in many cases is an impossible situation, is necessary to provide the people with the truth.

Mr. DEGIACOMO. Thank you, Senator Bennett. I am sure that the intentions of yourself and the opponents of the legislation are well-meaning and well-intentioned, as anyone can expect and indeed I intend to cast no reflection on these intentions. However, it would be a deplorable thing if the Members of the Congress of the United States looked at each other and perhaps acted as Pilate to wash their hands and asked each other what is true, because I believe that truth in its essence is a simple thing which is one of the things that interests me in this bill. It appears to be readable legislation and frankly, Senator, much legislation in all phases of government is very difficult to read.

The CHAIRMAN. Mr. DeGiacomo, if I may, I appreciate that reference that you made to one's washing his hands saying "what is truth?" because, as the Bible records, the procurator of Judea, Pontius Pilate, when Jesus was at the trial, washed his hands and said, "What is truth?" and sent a righteous man to death. Thank you.

Senator BENNETT. But we reached the point where the authors of this bill presume to say that they, and they alone, say, "What is truth?" I think truth has many guises.

The CHAIRMAN. Well, I don't wish to continue this duet between us, but I remind my colleagues that the Federal Trade Commission says the add-on and discount rates are untrue and misleading and the real rate is approximately twice the stated rates in these cases. This is a ruling of the Federal Trade Commission. I am not certain, but I think that the automobile company which was so adjudged has never appealed that finding. Thank you very much, Mr. DeGiacomo.

Mr. DEGIACOMO. It has been a pleasure. Thank you.

The CHAIRMAN. Now we are very happy to have four representatives of the mutual savings and loan and banking industry here. In the interest of time I am going to ask them all to come forward and sit here.

Mr. Raymond P. Harold, president of the Worcester Federal Savings & Loan Association. We speak of Worcester as a distant province, but I want to say that we know from outside the State that Worcester is an integral part of this great Commonwealth; but we are also happy to have Edmond F. Dagnino, president of the Boston Federal Savings & Loan Association, and Mr. Sidney Dunn, president of the Volunteer Cooperative Bank of Boston, and Paul F. Ochs, treasurer of the Volunteer Cooperative Bank of Boston. I appreciate all of you coming, and we are happy to have you here.

STATEMENT OF RAYMOND P. HAROLD, PRESIDENT, WORCESTER FEDERAL SAVINGS & LOAN ASSOCIATION, WORCESTER, MASS.

Mr. HAROLD. Senator Douglas, Senator Bennett, ladies and gentlemen, my name is Raymond P. Harold. I am president of Worcester Federal Savings & Loan Association, the largest savings and loan association in New England.

An economist in Europe was recently asked the question: "What do you admire most about our American economic system?" His answer was perhaps as surprising as it is provocative: "I admire it most for its debts." He went on to say that here in the United States, as soon as young people get married, we put them immediately into debt. From the very beginning of their relationship, they therefore must learn how to live on less than they make. This establishes the habit of thrift, a habit which they never lose.

By the time they have reared and educated their children, they no longer need to borrow, but still are so accustomed to saving that they are able to invest—supplying money to savings and loan associations, credit unions, banks, insurance companies, industry, so that the more money can be made available, more loans can be made, and more goods purchased. And in this way the economic ball keeps rolling.

This philosophy fits neatly into Arthur R. Upgren's theory that a wage earner has two periods in his life—one of dissaving, when he borrows from the general economic barrel, and one of saving, when he helps to fill it up again. These two periods have a remarkable way of balancing each other.

There used to be a time when a person was embarrassed to borrow—apologetic to ask for a loan. Now, however, when a person approaches us at the savings and loan association in Worcester, he is not handicapped by any such qualm. He knows he is in the favored position of purchasing something—in this case, credit.

At the same time, he is intelligent enough to know that he must pay for what he receives. Only a fool today expects to get something for nothing. Because we are a federally controlled organization, our charges for this credit are supervised. Even if our consciences did not first make the charge reasonable, the customer is thereby protected. And he has a right to know the full details of the transactions.

In this connection, the late Beardsley Ruml, world famous economist and former chairman of the Federal Home Loan Bank of New

York and the Federal Reserve Bank of New York, some years ago commented that a Federal Home Loan Bank should be just what its name implies and permitted then to loan on anything and everything—not just on houses and property. It is unfortunate for the consumer that we are restricted to this one area of homeownership.

It was in the twenties and thirties, when the dollar-down, dollar-a-month philosophy swept the country, that many agencies and retailers entered the loan business. Though many were beyond reproach, many were also unscrupulous. Charges, most of them hidden, ran sometimes as high as 43 percent. At the moment, $55 to $60 billion are involved in such consumer debts. All too often, we have found it necessary to foreclose a home mortgage because the consumer has been enticed into buying glamorous, luxury items, by what appeared to be an attractive installment plan.

I don't believe we are overextended with credit. Credit is high but so are incomes. Ratios between credit and income and repayments are still small.

Several times in recent years I have traveled to Peru for the State Department to report on housing in that country. I found the Peruvian could not own their own homes largely because of the high interest rates which averaged about 25 percent. The horrified reaction of our leaders at this report seemed to be almost a "holier than thou" attitude, when at the same time they condone the fact that their own fellow citizens are often exploited for such an exorbitant rate as 43 percent in this country.

Senator Paul Douglas has simplified his argument for S. 750 into four statements. People deserve, he says, first, the right to safety; second, the right to be informed; third, the right to choose; and fourth, the right to be heard.

The CHAIRMAN. Mr. Harold, I would like to claim the credit for these statements, but President John F. Kennedy is responsible for them and I have given them some circulation since then. Go ahead. [Laughter.]

Mr. HAROLD. I agree. In reading the voluminous testimony already in the record in opposition to this bill, I am appalled. The arguments are so beside the point, so obviously devious. For instance, the opposition repeatedly emphasized the redtape of procedure, which such legislation would require. All I have to say in rebuttal is that any problem that we have managed to make, we can manage to solve. For years the savings and loans have had charts and rate sheets, with the answers all figured out. We'll gladly lend them to the slow, lazy mathematicians who ask for them.

The implementation of telling the truth is the simple opposite of telling a lie. I am reminded of the old merchant who showed his son a pane of glass and said, "Through this you can see the whole world. But put silver behind the glass, and it becomes a mirror in which you can see only yourself."

I am inclined to think that perhaps the opponents of this bill have been hampered by the silver in back of the issue and have thus limited their vision to their own mercenary advantage.

The CHAIRMAN. I want it understood that I am not the one who says this but the president of the Worcester Federal Savings & Loan Association. Thank you very much. [Laughter.]

Mr. HAROLD. I have nothing but admiration for Chairman Senator Douglas' persistence in pursuing his fight for a passage of this bill. A lesser man would have given up long ago. I began to understand his determination when I learned he was born in Maine.

The CHAIRMAN. Actually I was born in Salem. But at an early age I went to Maine and lived there until I had great trouble making a living and had to migrate.

Mr. HAROLD. Having Yankee trader ancestry makes any of us shrewd bargainers—even, or perhaps especially, when it comes to buying credit.

This truth-in-lending bill speaks clearly. It asks for two things—a full disclosure of the charge made, expressed in dollars and cents, and of the percentage of interest, expressed as an annual rate on unpaid balance. For instance, a man who takes out a 1-year $500 loan, payable in equal monthly installments, might be told he will pay $30 for his money and that the interest rate, therefore, is actually about 12 percent.

The CHAIRMAN. Instead of 6 percent on the top of the statement?

Mr. HAROLD. That is right. This is truth in lending.

With this knowledge, a man will be able to shop as wisely for credit as he does for bread.

The moral rules for loaning were given to us long ago. And someone much wiser than any of us once said, "Ye shall know the truth, and the truth shall make you free." It is an adage which we would do well to remember in our consideration of this legislation which is now before us.

I thank the committee for their courtesy in allowing us to appear.

The CHAIRMAN. I would suggest that each one of the remaining gentlemen make a brief statement. The time will probably run over an hour and a quarter, so we will extend to the opponents an equal amount of extra time.

Senator BENNETT. Oh, yes, we won't shut them off; let them continue.

The CHAIRMAN. Mr. Dagnino, president of the Boston Federal Savings & Loan Association.

STATEMENT OF EDMOND F. DAGNINO, PRESIDENT OF THE BOSTON FEDERAL SAVINGS & LOAN ASSOCIATION

Mr. DAGNINO. Senator, I have no prepared statement. I am in agreement with what Mr. Harold has said. The Federal Savings & Loan Association, as you gentlemen well know, is a federally chartered institution. We, in our instance, can only loan on two or three things—homes, first mortgages, and loans secured by a mortgage, and it is simple interest charged.

The CHAIRMAN. On the outstanding unpaid balance.

Mr. DAGNINO. Yes, under a direct reduction mortgage. It shows the customer, he has it on his book. Secondly, we can loan on our savings accounts and that again is simple interest. We can loan on unsecured loans. I can only speak for the Boston Federal Savings & Loan Association, in our application it is a 5-percent add-on discount, but on our application we show them the equivalent rate in true interest rates.

The CHAIRMAN. But it is just a little under 10 percent.
Mr. DAGNINO. That is correct.
The CHAIRMAN. That is what the Bowery Savings Bank in New York does now.
Mr. DAGNINO. Similar to the FHA, title 1.
The CHAIRMAN. Thank you very much. The next witness, Sidney Dunn, president of the Volunteer Cooperative Bank of Boston.

STATEMENT OF SIDNEY DUNN, PRESIDENT OF THE VOLUNTEER COOPERATIVE BANK OF BOSTON

Mr. DUNN. I shall be brief. We specialize in home loaning as does the Boston Federal Savings & Loan Association. I am here solely for the purpose of supporting this bill. I believe in it, and wish to be recorded as being in favor of the bill.
The CHAIRMAN. Thank you.

STATEMENT OF PAUL F. OCHS, TREASURER OF THE VOLUNTEER COOPERATIVE BANK OF BOSTON

Mr. OCHS. My name is Paul Ochs, treasurer of the Volunteer Cooperative Bank of Boston. I reside at 47 Rowe Street, Milton, and for the past 31 years I have been identified with the banking business; 16 years as a State examiner, resigning in 1948 for the position of treasurer of the Volunteer Cooperative Bank of Boston, a $25 million institution. Unlike the general consumer credit field, the cooperative banks lend on a true interest rate basis and possibly could be excluded from the bill.
However, I am in full accord with the provisions of it set forth therein and unequivocally support the legislation.
The CHAIRMAN. Thank you very much. We appreciate your coming. Gentlemen, I have no questions to ask, except to ask Mr. Harold; if you would state the assets of your savings and loan institution?
Mr. HAROLD. As of yesterday they were $257 million.
The CHAIRMAN. $257 million, a quarter-of-a-billion-dollar bank coming to support this measure. Mr. Dagnino, what are the assets of your institution?
Mr. DAGNINO. $107 million, very small as compared to some of the others in the city of Boston.
The CHAIRMAN. And the Volunteer is about $25 million?
Mr. DUNN. Yes.
The CHAIRMAN. So we have $389 million in favor of truth in lending.
Senator BENNETT. I have one or two observations. If the Douglas bill passes, you will be required to calculate in your so-called simple annual rate, not only the interest but also the charges that you make for handling the account in the beginning; do you do that now, any of you?
Mr. DAGNINO. Yes; we do.
Senator BENNETT. When you quote the customer, do you calculate this in the rate or are you just quoting the rate for the loaning of the money?
Mr. DAGNINO. Any charges we make are charges made for a mortgage, a plot plan fee; he pays for the plot plan fee, the bill we get for that fee; the service is rendered under the mortgage.

Senator BENNETT. I am sure you notify him of this, but under the Douglas bill you will have to include that in the rate you quote him which you apply to the total of the bill; you don't do that now?

Mr. DAGNINO. No, sir.

Mr. HAROLD. Senator, we must get a statement of his entire cost when the loan goes through.

Senator BENNETT. Under the Douglas bill that entire cost must be translated into a simple annual rate. You don't make that computation?

The CHAIRMAN. This bill merely requires that charges incident to the extension of credit will be added.

Mr. HAROLD. Those charges don't come to us.

Senator BENNETT. I made my point.

The CHAIRMAN. I think I have knocked it out of the ball park. [Laughter.]

Senator BENNETT. May I say to the audience that in previous hearings Senator Douglas and I have consumed a lot of time quarreling over what is a charge incident to the extension of credit and I don't want to repeat it now, but I think he will agree there is at least one which must be included in the total cost of your calculation. The second question: On this basis you must show the customer in advance in writing a figure showing the total dollar cost of his credit over the life of his contract. Do any of you do that now?

Mr. DAGNINO. There is a chart on it.

Senator BENNETT. This isn't a question of a chart, you have to show the particulars of his individual loan calculated out to the end. None of you do that now?

Mr. HAROLD. On some of the loans, on many of the loans that are, in fact, granted, you have a chart showing that his total cost will be and under FHA it is required by law, but one factor, one point we do make is try to get the borrower to take out a loan with a shorter maturity; maybe a 15-year loan instead of a 30-year loan, showing he saves so much in dollars.

Senator BENNETT. This is part of your selling program?

Mr. HAROLD. That is right.

Senator BENNETT. I would think if you like the Douglas bill so much and think it is so good that you would adopt its proposals voluntarily.

The CHAIRMAN. If retail merchants will adopt it voluntarily, I am sure these gentlemen will do so.

Senator BENNETT. They are here speaking for themselves.

The CHAIRMAN. Don't hold these gentlemen to higher standards than the retail merchants.

Senator BENNETT. On page 4 of his statement, the witness, Mr. Harold, presumed to take a very lofty position with respect to the opponents of the bill, and this was so obvious the chairman had to disassociate himself with the criticism.

The CHAIRMAN. No, I endorse it, but I didn't originally advance it.

Senator BENNETT. All right, then, he ended his statement by quoting from the Bible, from the greatest figure probably in all human history, whose wisdom we can quote and I would like to give back to him another quote from that same individual: "Father, forgive them for they know not what they do." [Laughter.]

The CHAIRMAN. I will reply to that by a line from Gilbert and Sullivan; namely, "The flowers that bloom in the spring, tra-la-la, have nothing to do with the case." [Laughter.]

Senator BENNETT. Well, I think my source of quotation is infinitely above yours.

The CHAIRMAN. It may be in ethical depth, but in appropriateness I think my comment is to the point.

Senator BENNETT. I would like to ask the two savings and loan gentlemen: Are you members of the United States Saving & Loan League?

Mr. DAGNINO. Yes, sir.

Senator BENNETT. Both of you, Mr. Harold?

Mr. HAROLD. Yes.

Senator BENNETT. And the two cooperatives, you are members of the National Association of Mutual Savings Banks?

Mr. DUNN. Yes.

Mr. OCHS. Yes.

Senator BENNETT. Mr. Chairman, I would like to offer for the record two letters, one from each of these organizations. The United States Saving & Loan League says in a letter dated November 15, addressed to me:

> Almost all mortgage financing is done with simple annual interest rates which are easily understood by the borrower. In other financial areas, such as personal and consumer loans, a variety of methods of computing and stating interest charges have been in use. The league is in favor of encouraging ways and means of making the true cost of all borrowing understandable to the borrower. However, the league takes no position for or against any legislation dealing with interest rate disclosure.

And from the National Association of Mutual Savings Banks:

> I should like to take this opportunity in my capacity as chairman of the Committee on Federal Legislation of the National Association of Mutual Savings Banks to express the support of the principle of—

He uses S. 1740 which was the number of one of the earlier Douglas bills—

> as it applies to the loans secured by mortgages on real property * * *

I would like to refer to the record of the hearings of the original witness who came before us 2 years ago to testify in the name of the national association. He limited his testimony to mortgages on real property. This is on page 161 of the 1961 hearings on S. 1740. I offer these letters and the 1961 testimony for the record.

(The letters and the testimony mentioned follow:)

UNITED STATES SAVINGS AND LOAN LEAGUE,
Chicago, Ill., November 15, 1963.

Hon. WALLACE F. BENNETT,
U.S. Senate, New Senate Office Building, Washington, D.C.

DEAR SENATOR BENNETT: At the U.S. league's annual convention in San Francisco November 4 through 8, our legislative committee adopted a resolution, subsequently confirmed by the board of directors, which will be of interest to you.

The resolution is in the form of a statement to be included in the league's overall legislative program for the year. It reads as follows:

"Almost all mortgage financing is done with simple annual interest rates which are easily understood by the borrower. In other financial areas, such as personal loans and consumer loans, a variety of methods of computing and stating interest charges have been in use.

"The league is in favor of encouraging ways and means of making the true cost of all borrowing understandable to the borrower. However, the league takes no position for or against any legislation dealing with interest rate disclosure."

In a discussion preceding the adoption of the resolution, the point was made that the interest disclosure bill relates primarily to other financial institutions and it did not behoove the U.S. league to take a position on something that is none of our business.

Sincerely,

STEPHEN SLIPHER, *Legislative Director.*

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS,
New York, N.Y., November 19, 1963.

Hon. WALLACE F. BENNETT,
U.S. Senate, Washington, D.C.

DEAR SENATOR BENNETT: You have asked that I clarify the position of the National Association of Mutual Savings Banks in reference to the truth in lending bill, sponsored by Senator Douglas and others.

The National Association of Mutual Savings Banks, through its board of directors, supports the principle of disclosure of financing costs as applied to home mortgage lending.

As the chairman of the Committee on Federal Legislation of the National Association of Mutual Savings Banks testified on July 18, 1961, before the Subcommittee on Production and Stabilization:

"I should like to take this opportunity in my capacity as chairman of the Committee on Federal Legislation of the National Association of Mutual Savings Banks to express support of the principle of S. 1740 as it applies to loans secured by mortgages on real property * * *."

While it is true that individual savings bankers, in commenting for themselves on the truth in lending bill, have adopted a somewhat broader position, the board of directors of the National Association of Mutual Savings Banks, in recognition of the fact that mutual savings banks are primarily concerned with mortgage lending, has stated its support of the bill in terms of mortgage lending.

I hope the above will serve to clearly state the official position of the National Association of Mutual Savings Banks on the legislation concerned.

Sincerely yours,

GROVER W. ENSLEY,
Executive Vice President.

Mr. CRAWFORD. I should like to take this opportunity in my capacity as chairman of the committee on Federal legislation of the National Association of Mutual Savings Banks to express support of the principle of S. 1740 as it applies to loans secured by mortgages on real property, and to reiterate the support accorded S. 2755, 86th Congress, last year in testimony presented to this subcommittee by Mr. Earl B. Schwulst, president and chairman of the board of the Bowery Savings Bank, and by Mr. Robert M. Morgan, chairman of our national association's committee on mortgage investments.

At its midyear meeting in December 1960, our national association adopted a position again supporting the principle of S. 2755 as it applies to loans secured by real property.

The CHAIRMAN. These letters come as something of a surprise to me in view of the fact that both of these organizations have passed resolutions specifically endorsing the principles of S. 750 or predecessor bills. It may be that heat has been turned on them and they are being strategic in qualifications and partial retreat. I think this is a matter for inquiry, but I stand on the record and the presented testimony. We will insert from the pages in the previous hearings where this endorsement was given.

(The insertions follow:)

Mr. CRAWFORD. First, however, I would like to set forth the savings banks' full recognition that installment credit has become a way of life. We are aware of and applaud the fact that most Americans do pay their debts, and that credit losses on carefully checked extensions are low.

We recognize that without credit the economy of this Nation would come to a standstill. We believe that our private debt structure is well within our capacity to pay.

In short, we believe credit when used advisedly is healthy for Americans and for the American economy.

However, as recognized by the president of the Savings Banks Association of New York State in a recent statement, "Credit, like all good things, can be and is being abused."

In this era of credit, we are convinced it is essential for the financial welfare of any family to know not only how to save and how to buy, but also how to borrow.

We believe people should realize the disadvantages as well as the advantages of borrowing or buying on time. Above all, they should know as precisely as possible the cost of installment credit.

In developing the quick credit-cost computer, the Savings Banks Association of New York State was seeking to create a device that would enable the prospective installment borrower, with reasonable accurracy, to determine the true financing cost of his loan or purchase expressed as an annual rate, and thus enable him to borrow wisely.

* * * * * * *

I should like to take this opportunity in my capacity as chairman of the committtee on Federal legislation of the National Association of Mutual Savings Banks to express support of the principle of S. 1740 as it applies to loans secured by mortgages on real property, and to reiterate the support accorded S. 2755, 86th Congress last year in testimony presented to this subcommittee by Mr. Earl B. Schwulst, president and chairman of the board of the Bowery Savings Bank, and by Mr. Robert M. Morgan, chairman of our national association's committee on mortgage investments.

At its midyear meeting in December 1960, our national association adopted a position again supporting the principle of S. 2755 as it applies to loans secured by real property.

While the language of S. 1740 differs somewhat from that in S. 2755, it makes no basic change in the provisions that gained support from Mr. Schwulst and our national association.

* * * * * * *

Professor RODGERS. If I may qualify myself, since you were not here at the beginning, I am an honorary member of the Industrial Bankers Association of many years' standing. I also have acted as consulting economist for a very fine sales finance company in your State.

I want to say to you, sir, that on the basis of my knowledge and experience of more than 30 years in this field the lender who does not know to the third or fourth decimal point what his interest rates are does not last in business very long. The answer is you do not have these chaotic conditions that have been painted. The lender knows exactly what his rates are or he does not last very long. It does not have to be determined by a clerk at the window. They have electrical calculating machines and all sorts of devices and they have experts to calculate it.

Senator PROXMIRE. Would you say this would apply not only to financial institutions, or would you indicate the extent to which in your judgment, on the basis of your experience, you think this would apply to the typical automobile dealer, the typical clothing salesman, and others who would sell on this kind of basis?

Professor RODGERS. The automobile dealer, of course, either uses the bank or uses a sales finance company, and the bank or sales finance company knows exactly. If the automobile dealer wants to know, he can very easily ask. The information is there.

* * * * * * *

Senator PROXMIRE. The point I wanted to emphasize in your testimony, because of your vast and very practical experience with literally hundreds of thousands of these loans over a long period of time, is the point of how complex and difficult and impracticable it is to impose an annual interest rate.

Mr. SCHWULST. I do not think there is any difficulty about quoting the true annual rate on a loan of the kind that you have mentioned, whether the interest or carrying charge is represented by a discount or represented by an add-on, because the tables enable you accurately to figure it. I do not think there is anything complex about it.

* * * * * * *

Senator PROXMIRE. What you are talking about is the very heart of the controversy over this bill. I am certain that if the bill comes up on the floor of the Senate and the House that the big controversy is going to be over whether or not the annual interest or annual rate charge is to be required as well as the finance charge.

What effect would you say there would be on the usefulness of this bill to the consumer if the finance charge is required to be stated in dollars and cents but not the rate?

Mr. SCHWULST. I do not know why you cannot state it on an annual rate basis.

Senator PROXMIRE. That is another point, and I agree with you. But I wondered if you think, looking at it from the standpoint of the consumer who is interested in getting fair treatment in his credit transactions—how useful it is for him to be armed with the finance charge on a loan. In other words, he is told the cost of this $200 is $20 for a certain period of time. He is not told the simple annual interest rate.

Mr. SCHWULST. If he is told the amount of this finance charge, which includes shall we say pure interest plus expenses in extending the credit, all the figures in there, then he is able to see the difference between the cash cost to him of this article and what its cost on a credit basis is going to be. I think he ought to have some knowledge of that. I think it is important that he know what that is.

I would go a step further—and again, mind you, I have already pleaded I am not an expert in this consumer credit field. It would seem to me that in addition to knowing what he has paid during the month in dollars and cents, or during the year or whatever, in the form of finance charges—it would seem to me that the retailer ought to be able to give to this chap when he comes in and signs agreement in accordance with which he is going to be given some credit from time to time as he makes purchases what the rate is per month on this outstanding balance and what the equivalent of that is on an annual basis. In other words, the merchant says, "This is the basis on which we make up this finance charge. It is 1½ percent per month on your monthly balance, and that is the equivalent of 18 percent a year." And he does not have to figure it up for this fellow with respect to each single transaction this man has made during the month.

Senator PROXMIRE. That is fine. I am just wondering if there is not a common denominator value in having a simple annual interest statement made, so that the borrower will know——

Mr. SCHWULST. I think there would be an element of value in it, because if he gets a common denominator, which it seems to me has got to be expressed as the percentage which the cost he is incurring over and above the cash cost of the merchandise, to the amount of the loan or the credit that he has actually had the use of per month, but then convert it to an annual basis, and then he has a yardstick that he can apply when he goes around to various places to make his purchases. He can shop with a standard that he can apply to the finance charge that he is going to have to meet at these various places where he may elect to purchase and he can make a more intelligent decision as to whether to buy the merchandise on credit. That is the point I am trying to get over.

I think that the person who is going to buy on credit or who is going to borrow, a personal loan or whatever, cannot very well compare just pure dollars and cents, with variations in period of time for which this credit may be outstanding, and all that sort of thing. He cannot very well compare one type of credit offering with another type of credit offering unless he can get the cost in each case reduced to some kind of a common denominator.

Senator PROXMIRE. What you are saying is if we knock out the requirement for a statement of the simple annual rate or simple annual interest that we are not giving him the weapon which would be most useful to him?

Mr. SCHWULST. I think you would be sacrificing a very important principle in the bill. I think if you can give him both, that's fine. Give him the dollars and cents, if you can give it, but give him the other yardstick also.

* * * * * * *

Senator PROXMIRE. Sir, as the head of the largest mutual savings bank in the world, I would like very much to have your comment on the statement of Mr.

Carl Bimson, who represented the American Bankers Association this morning. He made five particular objections. The first was, and I quote: "It is our earnest and sincere opinion that the second requirement of this bill, providing that the percentage that such amount bears to the outstanding principal obligation, or unpaid balance, be expressed in terms of simple annual interest, is not necessary to enable the public to compare the cost of consumer credit." I think your position is quite clear, but would you like to summarize it with regard to that particular statement?

Mr. SCHWULST. Would you mind if I read this to myself?

Senator PROXMIRE. Go right ahead.

Mr. SCHWULST. I can only say I do not agree with it. I do not agree with this statement.

Senator PROXMIRE. You think it is necessary?

Mr. SCHWULST. I think it is highly desirable and even necessary, if you are going to give the user of this credit, or the borrower, a uniform yardstick against which he can measure the credit cost quoted him by this retailer or this banker and the terms quoted him by somebody else. I think you have got to have a common denominator in order to relate these things one to the other.

* * * * * * *

Senator PROXMIRE. Let me say that Mr. Beckman—I identified him a little while ago—made the statement he thinks there is a 6-percent block in the public generally. If people are asked to pay more than 6 percent interest, they think they are being charged excessively, no matter how just or fair or necessary it may be. Sometimes, it is clear that these costs are high. You are going to have to charge 12 percent or 15 percent, and it might not be at all unreasonable, but to the public, it is unfair. It is an indication, in their minds, that the person they are dealing with is unscrupulous and so forth.

Do you see that in your business, in your experience of many, many years? Do you think this is a legitimate objection to this bill?

Mr. SCHWULST. I am all for letting the purchaser or the borrower, purchaser or credit, or the borrower, have all the facts so that he can make an intelligent decision. If the true interest cost of this credit is 11 or 12 percent per annum, I see no reason why he should not be told that. Maybe there will be times some people are going to have to explain why this is not an unreasonable burden for him to carry if he is going to buy this article on credit or borrow this money for some purpose.

* * * * * * *

Senator PROXMIRE. I just have one final question. You mentioned this teenage credit, and I hold in my hand a junior charge account for young adults. It says on the reverse side, "This is your junior charge account identification card, which must be presented for all purchasing on your junior charge account." (See p. 460.)

This is just one of a number of these I have seen.

I am wondering what your views are on this kind of thing. I am not publicly identifying any of these firms, but we will show you the card.

Mr. SCHWULST. "For young adults."

Of course, I mentioned, I think, parenthetically, while I was going over my statement, that this is one of the newer developments in the consumer credit field, which I think is very unfortunate. The Bowery Savings Bank and other savings banks and many commercial banks, for that matter, have been, for years, trying to encourage young people to learn the savings habit. We think it is very important for people when they are very young to learn to save a little bit out of their allowances that they get from their parents or out of the little sums that they may be able to earn. The thrift habit ought to be learned when people are young because we need capital in this country and capital comes out of savings.

We have about 75,000 school accounts in our bank. These are children in schools that we encourage to save a little money every week and put it in the bank. We pay them interest on it. These balances usually are so small that it costs the bank money to handle these accounts, but it is an important part of our work. It fulfills a social purpose of the mutual savings bank that we encourage people when they are young, in school, to learn to save. These people, people of this sort, are encouraging, in this kind of credit card thing, these young people to spend and borrow to spend rather than teaching them the fundamental thing they ought to be taught—that is, to save some money.

Senator PROXMIRE. I suspect many of these young people, if they were informed that they were paying, in this case, in most of these cases at least, on a revolving credit plan, 18 percent per annum——

Mr. SCHWULST. I know, and I understand in many of these cases they do not require parents to endorse——

Senator PROXMIRE. That is correct. In this case, the parents have no knowledge of it, but, of course, no parent is going to let his child be in default if the——

Mr. SCHWULST. Being a banker, I try to be reasonably conservative in my statements and watch my words, but it would seem to me that—and I may be a little prejudiced about this, because I am a savings banker and have not, in all my life, except when I bought a house, ever bought anything on the installment plan at all—but it would seem to me that this sort of thing ought to be repudiated by responsible merchants and by their trade associations. I think it is teaching what might become a very bad habit to a lot of these young people at a time of life when they are very formative. They ought to be taught lessons regarding saving rather than spending before they have earned anything, or before they receive anything with which they are going to pay off the accounts, these credit accounts, which they have incurred.

I think this is something like teaching the young to use narcotics. I think it is very bad, very bad indeed. I think the merchants and merchants' associations ought to repudiate this sort of thing. It is this kind of thing which gives the Russians ammunition against our private enterprise system, saying that all we are interested in is building up volume and anything, for the buck.

This is bad, unqualifiedly bad, in my judgment.

Senator BENNETT. Well, I would like to read you the testimony of the man, Mr. Morgan, who spoke for the National Association of Mutual Savings Banks:

> I should like to take this opportunity in my capacity as chairman of the committee on Federal legislation of the National Association of Mutual Savings Banks to express the support of the principle of S. 1740 as it applies to loans secured by mortgages on real property * * *.

And it repeats that.

The CHAIRMAN. I think it is the Five Cents Savings Bank in Boston; I deposited 5 cents with them immediately after his testimony.

Senator BENNETT. I think you had better go get it back. [Laughter.]

Mr. DAGNINO. There are none of us that are members of the National Savings League, they are cooperative banks and all of us are members of the United States Savings. I want to get it straight in the record.

Senator BENNETT. Wait a minute; I was reading this time from the National Association of Mutual Savings Banks, and you are obviously not members of that association.

Mr. DAGNINO. Neither are they.

Senator BENNETT. But you are members of the United States Savings & Loan League?

Mr. DAGNINO. Correct.

Senator BENNETT. The first paragraph of their November 15 letter to me says:

> At the U.S. League's annual convention in San Francisco, November 4 through 8, our legislative committee adopted a resolution, subsequently confirmed by the board of directors, which will be of interest to you—

and I have already quoted the resolution.

The CHAIRMAN. They may have backtracked under heat provided, but originally they were with us. This is interesting, I shall try to make some inquiries as to why they may have backtracked.

Senator BENNETT. Mr. Chairman, I have no further questions.

The CHAIRMAN. I want to thank you gentlemen and appreciate your coming, your public spirit, and I will say that the time for the opponents will be extended for an hour and 25 minutes. I reserve the right to question the opponents for the same amount of time taken by the opponents.

The next witness is Robert Quinn. We are very glad to have you here, Representative Quinn, and we appreciate your presence here.

STATEMENT OF REPRESENTATIVE ROBERT H. QUINN, 12TH SUFFOLK DISTRICT, DEMOCRATIC MAJORITY WHIP, HOUSE OF REPRESENTATIVES, BOSTON, MASS.

Mr. QUINN. Thank you, Senator. I am Robert H. Quinn, representative, 12th district, Suffolk, which is ward 13 of Boston, Democrat majority whip in the Massachusetts House of Representatives.

I thank you for the courtesy extended to me to appear before your committee and I congratulate you gentlemen for your assiduous concern about fully informing the everyday borrower and buyer. If I may interpolate here now, I am in favor of truth, I am in favor of lending, and very much in favor of the author of the words that were quoted here previously by both of you, naturally enough, and I feel somewhat like a discordant note coming in between Mr. Ansel's 76 trombones and Mr. Murphy's harmonica. Yet I am sure we are all in favor of the principle espoused in S. 750.

The Commonwealth of Massachusetts also has been assiduous in its concern for what we might call the retail borrower of money or buyer of credit. Legislation in recent years regulating auto buying financing, the small loan agencies, residential second mortgage rates, and, this present year, the establishment of a consumer's council are only partial but obvious proofs of this. I am happy to have supported such legislation.

It is with the same concern for the people I represent that I appear before you today to question whether S. 750 will adequately protect the buying public or properly assist people in securing the best bargain in money or purchases for themselves.

This law would apply equally to the lending of dollars and the extension of credit, for goods and services. However, there is no warranty on a dollar once it is cashed while an item purchased is a contract subject to many unforeseen ramifications.

Secondly, the time loan is a simple transaction compared, for example, to the innumerable entries in a housewife's charge account.

A third reason follows from the first two. If there is a real distinction between loans and credit and there are so many possible variations in a purchasing transaction, then the attempt to inform people by simplifying without resolving is self-defeating, for it will not really inform, but rather confuse.

Acting upon a special message by Gov. Endicott Peabody our legislature this year passed chapter 152 of the resolves of 1963 providing for a comprehensive study of loans and credit. I respectfully submit that the legislative record indicates we will pursue this study seriously. I am sure that the study will lead to legislation that will resolve more of the problems not covered by our present statutes.

It is my feeling that truth in lending will be accomplished better by acting from experience upon whatever borrowing transactions have greater likelihood to deceive. This item-by-item attack, if I may call it such, and, item by item, removing confusion and possible deceit would help the citizen where he has been hurt.

Of course, this approach of treating the patient where he hurts can much better be done on a State level than by our Federal Congress.

The CHAIRMAN. I appreciate what you say, Senator Quinn, near the bottom of the first page of your statement, you question whether S. 750 will adequately protect the buying public. I have never claimed that it will adequately protect the buying public; I merely said it would afford the minimum protection to the public on the question of credit charges alone and many other features, I think, are needed and which I agree can be handled on the State level, and of course, you do not have a usury law in the State of Massachusetts.

Mr. QUINN. No, we don't; we came close to one last year, Senator, and again the question was whether it completely did the job.

The CHAIRMAN. But you never quite made it.

Mr. QUINN. Didn't quite.

The CHAIRMAN. Who are the groups which opposed the usury law?

Mr. QUINN. Well, there were two different versions of legislation, Senator, as I recall; one that came out of our committee on banks and banking and one that was adopted by the house on the floor of the house after debate. The two different groups were supporting both bills, and I would say that both groups were in favor of abolishing usurious rates, but the cleavage probably occurred in that the recommendation of the banks and banking committee, which was a draft, incidentally, I supported, was from banking groups and other interested citizens. The opposition and the group that adopted, that prevailed in action on the floor of the House, was led by my good friend and former colleague, James R. Lawton, who was the author of what I might call our Massachussetts Baby Douglas bill, and much of their support came from the people whom I was happy to support, who would have supported the consumer's council that was enacted this year. I think that fairly states the cleavage.

The CHAIRMAN. Representative, as I understand it, you supported an effective antiusury bill?

Mr. QUINN. I think I did, Senator.

The CHAIRMAN. I congratulate you on that. (See bill on p. 1125.) Where did you find your major opposition came from?

Mr. QUINN. From my own colleagues that did not feel this was an effective——

The CHAIRMAN. No; the forces behind your colleagues, I am saying. Could you identify the moving forces behind the opposition to an effective antiusury bill?

Mr. QUINN. Out of the legislature?

The CHAIRMAN. Out of the legislature.

Mr. QUINN. For a certainty I could not say.

The CHAIRMAN. Oh, you could not?

Senator BENNETT. Have you not said here today the banks and banking groups supported the legislation you introduced and supported——

Mr. QUINN. Not the legislation I introduced, but that I supported.

Senator BENNETT. They did support this?

Mr. QUINN. Yes.

The CHAIRMAN. Even though you couldn't identify these forces you knew they were there?

Mr. QUINN. No; I didn't know they were there.

The CHAIRMAN. No? Did you feel they were there? You couldn't get your measure through; you knew it meant opposition not merely from the legislature, but groups behind the legislature?

Mr. QUINN. The most able opposition it met, sir, was that of my own colleague, who is now our registrar of motor vehicles and who is an outstanding public servant, one who as far as I am concerned is above reproach in the attitude of legislation.

The CHAIRMAN. Well, I am not saying—you and I are politicians and we know struggles in the legislature, frequently differences of opinions and interests amongst a body of the citizenry. Now, I appreciate your prudence in not naming your opponents, but they were there, weren't they, even though they may not have been in the full glare of the spotlight, did they not?

Mr. QUINN. I am sure there were parties espousing the bill that I supported, and now I am sure there were parties espousing the bill that my colleague, Representative Lawton, supported.

Senator BENNETT. Did the bill fall between two stools?

Mr. QUINN. Yes.

Senator BENNETT. Then the solution fell between two possible solutions?

Mr. QUINN. Between the branches.

The CHAIRMAN. This has been going on for 10 years. Massachusetts is one of the four States of the country which doesn't have a usury law.

Mr. QUINN. More than 10 years, I am sure, but I would say if I knew someone that Attorney DeGiacomo had in mind who had problems with auto financing, I would suggest he contact Mr. Brown in the banking department. I think Massachusetts can be proud of its auto financing statute. If I knew someone who had a problem like Mr. Ansel's constituent, I would go down and see John Clair.

The CHAIRMAN. One of the mysterious things in combat is that you seldom see your opponents. This puzzles a person who goes into combat for the first time, never to see his opponents, but you know by the shells and mortar, that they are there, and you have a rough guess [laughter] of their position.

Mr. QUINN. That is the great virtue of this open hearing, Senator.

The CHAIRMAN. Is this true that some of the people who were for an effective antiusury statute are the same people who are supporting truth in lending?

Mr. QUINN. That is an easy statement; yes, sir. I recall the predecessor banking commissioner was in favor of that bill which came out of our banking committee.

The CHAIRMAN. Well, Representative Quinn, we believe in time that the leaven will work.

Senator BENNETT. May I ask a few questions?

The CHAIRMAN. Surely, it is your witness.

Senator BENNETT. This is very gracious. Mr. Quinn, a couple of years ago a witness from Massachusetts came to Washington and told us that State legislators are under more severe pressures from interested parties, than is the case at the Federal level, and he offered that as a reason why we had to have Federal legislation in this area of consumer credit. This is what Senator Douglas has been talking about; do you feel the pressures are such on you as a member of the General Court of Massachusetts, that you cannot——

The CHAIRMAN. The great and general court.

Senator BENNETT. The great and general court, that you cannot legislate effectively.

Mr. QUINN. Pressures?

Senator BENNETT. Yes.

Mr. QUINN. Well, gosh, I guess there are pressures in every phase of legislation. It was another good Democrat, Senator Bennett, who said, "If you can't stand the heat, stay out of the kitchen." You don't legislate in an ivory tower. God help democracy if we do that.

Senator BENNETT. That is right, but——

Mr. QUINN. Well, my experience with last year's legislation was such that I wouldn't say there were not such heavy pressures bothering me at that time. I can think of many other bills where the pressures were much greater—the death penalty, the antivivisection, in which I had more correspondence than ever before, and our sales tax.

Senator BENNETT. Have you got into antifluoridation yet in Massachusetts? [Laughter.]

Mr. QUINN. Not in my district. [Laughter.]

Senator BENNETT. That is all.

Mr. QUINN. Thank you very much.

The CHAIRMAN. Thank you very much. Do you want to introduce the witnesses?

Senator BENNETT. We have a panel of three bankers and we have Mr. George H. Kimball. It makes no difference to me, if the bankers are under pressure, perhaps they might come forward, if Mr. Kimball is not under pressure. Where is Mr. Kimball, would it be all right to hear the three bankers?

Mr. KIMBALL. Yes.

The CHAIRMAN. The three representatives of the Massachusetts Bankers Association—William Kennedy, the president; Robert Nyere, chairman of the installment credit commission, and James Winchester, executive vice president of Norfolk County Trust Co., Brookline, Mass., accompanied by Thomas Joyce, general counsel, and John Roddy, legislative counsel.

Mr. QUINN. Mr. Chairman, I am also to record Representative Gerald J. Morrisey, 16th Suffolk District in Boston, in favor of the principle espoused here.

The CHAIRMAN. Your principle or in favor of the bill?

Mr. QUINN. He asked me to record him in favor of this hearing just before I began.

The CHAIRMAN. In favor of the bill?

Mr. QUINN. I said in question, "In favor of the principle?" And he said, "Yes."

The CHAIRMAN. Thank you very much. This is representative of the high quality of those here who oppose the bill that they bring in testimony of a colleague in favor of the bill.

I want to welcome you gentlemen here and whichever one of you wishes to proceed first, you may do so.

STATEMENT OF WILLIAM R. KENNEDY ON BEHALF OF THE MASSACHUSETTS BANKERS ASSOCIATION, INC.

Mr. KENNEDY. Senator Douglas and Senator Bennett, my name is William R. Kennedy. I am president of the Massachusetts Bankers Association, Inc., 125 High Street, Boston, Mass., and president of the Union Market National Bank of Watertown, Mass.

I want to thank the committee for the privilege of appearing before you to express the opinion of the Massachusetts Bankers Association on S. 750.

At the outset, I would like to state that the Massachusetts Bankers Association, representing 160 banks, both National and State, has long supported the principle of full disclosure of finance charges in connection with the extension of credit. As tangible evidence of this fact, the Massachusetts Bankers Association sponsored legislation, chapter 580, section 20 of the acts of 1957 and chapter 293 of the acts of 1962, setting forth the disclosure steps among others for conditional sales contracts and the retail sales of motor vehicles. Both of these laws set forth, in detail, the procedures for disclosures.

The Massachusetts Bankers Association does have decided reservations about certain provisions of S. 750; namely, section 4(7) of the bill, as this requirement is impractical, not only from the standpoint of compliance but the impossibility of being able to apply a single simple interest rate to loans where the variables, such as the extension of time, irregular payments, minimum charges, and so on, are commonplace in this type of loan.

The very nature of the business, with its varying type loans creates changing factors that do not lend themselves to a simple annual rate. I have with me today two gentlemen familiar with this type of lending and with your permission, Mr. Chairman, I would like to turn to Mr. Nyere and Mr. Winchester for their detailed discussion of the bill, at the conclusion of my statement.

As I see it, the bill is also defeating the purpose stated in the preamble—

> to promote economic stabilization by requiring disclosure of finance charges in connection with extension of credit.

First, by Massachusetts State law, finance charges must, and are, disclosed in terms of dollar amounts which is the accepted practice of industry.

Second, it is the opinion of the Massachusetts Bankers Association that the confusion which would result in the requirement set forth in 4(7), with the attendant difficulties of administration and additional expense, would diminish the amount of credit extended through legitimate sources, and thereby, cause economic instability, plus increasing the number of people who would turn to illegitimate lending sources, who would operate outside the province of the proposed act, indeed, as they now operate outside the law. The Massachusetts Bankers Association, through its installment credit commission, constantly reviews the lending practices of its members and encourages conformity to the creed of lending practices, set up by the American Bankers Association in 1941.

Experience has demonstrated to us that itemizing charges in dollar amounts is most practical and gives the borrower all the information necessary for full disclosure.

The banks of Massachusetts favor and will benefit from legislation that tends to promote economic growth and stability and to that end the association agrees with the objective of the bill and believes that full disclosure of the dollar amounts of finance charges is beneficial to the people and the economy.

I am grateful to you for the opportunity to appear here today and would like to introduce the chairman of the Installment Lending Committee of the Massachusetts Association, Mr. Robert A. Nyere, vice president of the First National Bank of Boston.

The CHAIRMAN. Thank you very much, Mr. Kennedy. Mr. Nyere, will you proceed? So far as I am concerned, I am not going to ask any questions until all three of you gentlemen have completed your testimony.

STATEMENT OF ROBERT A. NYERE ON BEHALF OF THE INSTALLMENT CREDIT COMMISSION OF THE MASSACHUSETTS BANKERS ASSOCIATION

Mr. NYERE. My name is Robert A. Nyere. I am a vice president of the First National Bank of Boston and the officer in charge of its personal credit department which handles all the installment loans for the bank. However, I am appearing today in my capacity as chairman of the Installment Credit Commission of the Massachusetts Bankers Association, which is a nonprofit corporation whose members include 160 National and State chartered banks in the Commonwealth of Massachusetts.

I appreciate this opportunity to appear before your committee and present to you our comments about S. 750.

First of all, I would like to say that the Installment Credit Commission of the Massachusetts Bankers Association entirely approves of the principle of disclosure of finance charges, so far as this is possible within the framework of different kinds of financing techniques and procedures. We not only approve of it we practice it. The problems comes in trying to apply disclosure both in dollars and cents and by a so-called simple annual rate to every type of financing procedure at the inception of each transaction. The simple fact of the matter is, this just cannot be done.

Since it was publicly announced that your committee had accepted an invitation to come to Boston to conduct hearings on S. 750, we have attempted to acquaint ourselves with some of the testimony presented in previous hearings. Although we could barely scratch the surface of the voluminous testimony already given, nevertheless we were struck with the fact that it is almost impossible to project any new arguments either for or against this bill that have not already been advanced in other hearings. However, we were impressed with three points: (1) In essence the consumer credit industry as a whole is practically unanimous in its opposition to the truth-in-lending bill; (2) the opposition seems to center primarily on the provision which requires that "finance charges" in credit transactions be expressed as "a simple annual rate"; and (3) the reason for this opposition is that it is impossible to comply with this requirement in many, if not most, instances. To conserve time, therefore, my remarks will be largely concerned with the compliance factor as it relates to banks, since I am not in any way an expert in the sales finance or retail store fields.

Banks in this Commonwealth, as in other States, engage in the usual types of consumer credit; namely, personal loans, both unsecured and secured—automobile, boat, and aircraft loans, both direct and indirect—property improvement loans, insurance premium finance loans, and revolving credit loans, better known in this locality as "check-credit." In this connection, installment rates are generally stated in three ways; namely, (1) discount as a percent per annum calculated on the face amount of the obligation; that is, principal plus charge; (2) dollars per hundred per annum (in banking parlance commonly referred to as "add-on") which is calculated only on the principal amount; and (3) percent per month which is used only on revolving credit loans.

If each extension of credit on an installment basis were made on the thesis that every single customer who borrows would repay his obligation in equal monthly payments from the inception of the loan and exactly on the due date, it would not be too much trouble for banks to state their charges in terms of "a simple annual rate" along with the dollar cost.

However, not every installment loan is set up on this regular payment basis—not because the banks want it this way but because the banks' customers request it. Since we are in the business of servicing customers' needs, desires, or wants, we must adapt ourselves to their way of thinking, and this means simply that we must often depart from usual methods of granting loans to satisfy these customers.

Let me give you a few examples. Schoolteachers, of whom there are quite a number, request loans where there are "skip payments" over the summer months when they receive no income. Requests may take the form of a 12-month loan but only nine payments are involved. If skip payments are requested near the inception of the loan, the resulting "simple annual rate" would be less than would apply if the skip payments were set up near the end of the term. To add to this confusion, if a teacher wanted 12 payments over a 15-month period, or even an 18-month period—each request would mean a different calculation and different simple annual rate.

Schoolteachers are not alone in requesting skip-payment loans. Farmers whose income drops over the winter months often ask for special terms, and persons connected with the logging and fishing industry do likewise. In fact, I recall seeing in my own bank a loan application from a drive-in theater for insurance premium financing which called for only six payments a year over 3 years—payments to be made in the summer when the drive-in was open.

Another variable in installment lending is the delayed first payment. Dentists, for example, just graduating from school apply for loans to set up shop which may involve the purchase of equipment, renovating newly acquired quarters, and/or carry them until income can warrant paying the loan. It is common to grant a 3-, 4-, 5- or even 6-month moratorium before the first payment is to fall due. Loans to install new heating systems, air conditioning, or swimming pools may be granted then with delayed payments in the off season to encourage homeowners to get the work done then instead of waiting.

Other variables in installment lending also exist—to mention a few, irregular payments within a prearranged schedule of payments or minimum charges where the transaction is very small—but time does not permit me to expand on these illustrations to any degree.

Please allow me now to turn to another point. There has been used by this committee a slide rule calculator to compute a simple annual rate.

The CHAIRMAN. You mean this one?

Mr. NYERE. Yes.

The CHAIRMAN. And then a more simple one issued by the Savings Banks Association of New York State. By the way I make a present of this to you from the forces of truth-in-lending.

Mr. NYERE. Maybe I can get your autograph on it?

The CHAIRMAN. Yes, I will be glad to do that.

Mr. NYERE. Inherent in these calculations is the fact that payments start 30 days after the extension of credit—but not all contracts have their first payments fall due exactly 30 days after the consummation of the loan. I made a survey of 1 week's installment loans put through in my department last July—601 to be exact—with the following results: 84 loans (or 14 percent) had first payments falling due less than 25 days after the money was granted; 64 loans (or 11 percent) between 26 and 29 days; 72 loans (or 12 percent) in 31 to 34 days; 354 loans (or 59 percent) in 35 days or more and only 27 loans (or 4 percent) in exactly 30 days. If we were to take a 12-month $1,000 loan with a $6 per $100 per annum rate ($60 charge—face amount of note $1,060) and figure a simple annual rate where the first payment would fall due 20, 25, 30, 35, 40, and 45 days after the extension of credit, we would find only *$1* add-on charge but *six* different simple annual rates. Imagine the consternation of two customers granted the same dollar loan for the same period of time at the same rate but with different payment dates trying to figure out why their annual rates were different.

S. 750, in section 4(a) prescribes—

> * * * any creditor shall furnish to each person to whom credit is extended, *prior to the consummation of the transaction*, a clear statement in writing setting forth, et cetera * * *.

In view of the examples quoted above, it would be practically impossible for the average loan interviewer to quote a simple annual rate without help and a great deal of time, because of the mathematical difficulties involved. Personal loan customers have built up certain habits over a long period of time and one of these is refinancing obligations before maturity. Surveys in most banks show anywhere from 60 to 80 percent of the people do just this. Can you imagine the indignation and confusion that would result if customers with good credit records should come to the bank for a loan, expecting their money in a matter of minutes and then be held up unduly just because someone has to go through the gyrations of figuring out a simple annual rate?

Banks today pride themselves on fast service—the commodity (money) they sell is the same—but this type of computation would, at a minimum, cause substantial delays and customer dissatisfaction

The requirement of disclosure prior to the consummation of the transaction produces another extremely serious result. The bank with which I am associated engages in automobile and boat financing exclusively on a direct basis; that is, it makes loans directly to customers and does not buy any dealer paper. To do this it arranges financing terms with a customer before the customer buys an automobile or boat and then issues to the customer a letter of credit which has perforated on it a dollar figure agreed upon between the customer and the bank. Armed with this letter of credit, the customer can shop for an automobile or a boat and, in effect, pay cash for it by drawing a draft, which is printed on the back of the letter of credit, in favor of the dealer. This draft may be for any amount up to the maximum figure printed on the letter of credit. The actual amount of the draft will depend upon the price of the automobile or boat selected.

To realize on this draft the dealer merely deposits it in his bank, and when it reaches our bank it is paid and the loan is set up. Within a matter of days we advise the customer of the full details of the loan, the finance charge, and other pertinent information. But under the procedure outlined in S. 750, we could not possibly give a statement of the loan prior to the consummation of the transaction because we do not know these details until we make the loan by honoring the draft. If S. 750 were to be enacted it might well be that we would have to abandon our distinctive method of automobile and boat financing.

And, Senator, in this respect, this amounts to about $24 million in my bank.

Up to this point I have been speaking about *installment loans*, but at this juncture I would like to turn briefly to revolving credit, or check credit as it is better known in banking circles. S. 750 has attempted to correct the interpretation of revolving credit contained in earlier truth-in-lending bills but, unfortunately, is still fatally defective. Unlike the department store revolving credit in which a monthly charge of about 1½ percent is levied either on a month-end or beginning-of-the-month balances, check-credit charges are usually stated as 1 percent per month on the *daily* average outstanding loan balance *plus* an additional charge of as much as 25 cents for each check paid during any given month.

Section 3, subsection (3) of S. 750 states that finance charge means the sum of all the charges (including but not limited to interest, fees, service charges, and discounts * * *). Check charges are frequently referred to as service charges and, under the definition of finance charge, presumably would have to be added to the interest charge to get the total finance charge.

In section 4(b)(1) we would have to "furnish to such person, prior to agreeing to extend credit under such plan, a clear statement in writing setting forth the simple annual percentage rate or rates at which a finance charge will be imposed." Check-credit rates, as mentioned above *are* quoted to customer in advance in terms of 1 percent per month on the daily average outstanding loan balance plus an additional specific cash charge for each check paid. The charges cannot be quoted as a simple annual percentage rate, because no one can foretell how many checks a customer will use in the course of a year. Since "finance charge" includes both interest and check-charge we have an imponderable that cannot be precalculated. In addition, total charges cannot be quoted at rates at which a finance charge will be imposed because again, by definition, check charges and interest are finance charges and there is the same imponderable that cannot be precalculated. All the information check-credit banks can quote, frankly, is the message that they are now passing along to their customers.

We do not think that it is necessary to comment at any length on previous testimony already furnished the committee on revolving credit but we do wish to add our small voice in disagreeing with the idea that we could relieve ourselves of any penalties by simply multiplying the monthly rate of interest by 12, acknowledging by this act that it would produce a simple annual rate in excess of the true rate which would protect the lender from the penalties imposed for reasons of understatement. As I said before, if a true rate is desired, a rate quoted above or below the true rate is untrue.

In conclusion, I would like to make a few general observations:

(1) In our experience in installment credit, we have found customers more interested in the dollar cost of their loans rather than the rate of interest. They have, by the very nature of our industry, become extremely cost conscious—they think in terms of dollars and cents, not interest; and, as everyone knows, they make payments in dollars and cents, not interest.

(2) Banks handling dealer paper generally do so by telephone and must accept or reject a credit within a short period of time. If an inept salesman is on the other end of the transaction and the matter is too complex for him, considerable valuable time can be lost. Any transactions handled by mail are also subject to this slowdown. S. 750 would seriously interfere with, if not render impossible, many dealer financing arrangements.

(3) While we subscribe to disclosure in principle, certain disclosures are feasible but others are not. Those provided in S. 750, in major part, are simply not feasible.

(4) In Massachusetts by G.L. c255 and 255A, we already have provision for substantial disclosure. Solution of existing problems should be left to Massachusetts and other States.

(5) The computation of a simple annual rate at the inception of each transaction in most cases will be difficult and in many cases impossible. I have been told by several accountants that there are different formulas which can be applied to any given situation and the results would all be different. In other words, who can define a true explanation of a simple annual rate? The bill states that if passed "the board" shall determine the method or methods which may be used in determining the simple annual rate. Therefore, this is akin to a person signing a blank check and asking someone else to fill in the amount.

(6) We feel that a requirement to furnish a written statement of finance charges expressed in terms of simple annual rate is impractical and unnecessary. It will add to the costs of handling consumer credit loans, and in some instances (teachers, for example), it would require a complete recasting of legitimate and proper methods of financing, which added cost will ultimately have to be passed on to the borrower in the form of higher finance charges.

To sum up, in the opinion of Massachusetts banks, S. 750 is unworkable in practice, meets no demonstrated public need or demand, and will result in added costs to all types of lenders and consumers. Obviously, we are seriously opposed to it.

Thank you for allowing me to appear before your committee.

The CHAIRMAN. Thank you very much, Mr. Nyere. The final member of the panel, Mr. James Winchester, vice president of the Norfolk County Trust Co.

STATEMENT OF JAMES P. WINCHESTER, APPEARING FOR THE MASSACHUSETTS BANKERS ASSOCIATION

Mr. WINCHESTER. For the record, my name should be shown as James P. Winchester. I am executive vice president of Norfolk County Trust Co., Brookline, Mass.

Mr. Chairman, we are honored to have your committee visit historic Boston. The people of Boston and the Commonwealth of Massachusetts have written a long and glorious history as our country has marched forward toward fulfillment of the principles of democracy for all our people. We are very proud of our record and our progress toward this goal.

Moving from our great traditions which history has recorded and coming to the subject in which this committee is interested, we find that Massachusetts has pioneered in creating banking institutions to serve the needs of both its industries and its people and also has been a great leader in originating banking legislation and laws relating to the protection of the consumer.

Our first State-chartered commercial bank, the Massachusetts Bank, was organized in February 1784, and is still serving the public under the name of the First National Bank of Boston. We find official records dating back to 1802, of certain reports which were required from our State banks. In 1803, under chapter 132 of our general laws, the seven State commercial banks were directed to make a return of their financial condition twice each year to the Governor and council. In 1838 we had a bank commission, consisting of three members, to supervise the State banks and they were required to make an annual visit to each institution. From the early days of our Republic, Massachusetts exercised control of its commercial banks and recognized the importance of an annual examination, which practice continues to the present day.

The first charter in the United States for a savings institution was granted on December 13, 1816, to the Provident Institution for Savings in the town of Boston, Mass. This thrift institution has been in business for almost 150 years. Our oldest State savings and loan association was chartered in 1879 as the Plainville Savings & Loan Association of North Attleboro, Mass.

A unique system of cooperative banking was established in this Commonwealth in July 1877, when the Pioneer Cooperative Bank of Boston was incorporated. This banking system was established to encourage thrift and home ownership opportunities for the working man. At the present time there are 167 of these banks in operation and their resources amount to approximately $1,500 million. Interest in the credit union movement in the United States was created by Edward A. Filene, a famous Boston merchant, who helped organize our first credit union in 1909.

All of these thrift institutions, like the trust companies, come under the supervision of the division of banks and loan agencies, which publishes complete annual reports showing in considerable detail their progress, earnings, and condition. Massachusetts took the lead in establishing a central fund for the protection of its savings and cooperative banks. Our savings bank life insurance program, which was pioneered by the late Justice Brandeis, has been in operation for 45 years. On June 22, 1908, the Whitman Savings Bank in Whitman, Mass., was the first bank in the Nation to create such a department.

Several years ago the Massachusetts Credit Union Share Insurance Fund was created to permit credit unions to insure their deposit accounts. This is the only such agency today operating in the United States. The Federal credit unions do not yet have such a fund.

In the late 1880's, our State legislators introduced and enacted small loan laws at a time when the workingmen's loan associations were being started. More than half a century ago we established the position of director of small loan agencies, under the department of banking, to supervise licensed small loan companies. The regulation of small loan rates is controlled by a board consisting of the commissioner of banks, the State treasurer, the commissioner of corporations and taxation, and two members appointed by the Governor, one of whom is a representative of organized labor while one is from the general public. We think we can claim another first. In 1962, State senate bill 795, commonly known as the baby Douglas bill, was filed. Although the bill was not enacted into law, it received the endorsement of the Massachusetts Bankers Association.

This condensed record indicates that in Massachusetts, regardless of our divergent interests, we are capable of taking the lead in any forward or progressive legislation for the common good.

Before my time runs out, I should like to get in a commercial and call the committee's attention to the great interest that the people of Norfolk County have in the affairs of our National Government. From this Massachusetts county, presently containing less than one-third of 1 percent of the country's population, have come 3 of the 35 Presidents of the United States.

I wish to state that I am not appearing before the committee as an expert in any specific field, such as legal, consumer credit, mortgage lending, commercial lending, nor as a statistician. I speak to you from the standpoint of an executive banking officer of a moderate sized suburban commercial bank and wish to discuss some of the transactions we encounter in our daily work while serving the financial needs of our customers.

As a result of the numerous hearings on bill S. 750, I am sure the members of this committee are now more expert than any person who may testify before it on the subject of discount, add-on, simple interest, per annum rate, and the methods of calculating all or any of these rates. I am equally sure you are familiar with the problem of quoting rates and charges on demand loans, construction loans, and revolving credit plans.

I have before me a copy of the book entitled "Methods of Stating Consumer Finance Charges," written by Robert W. Johnson, professor of financial administration, Graduate School of Business Administration, Michigan State University, and published by the Graduate School of Banking, Columbia University. I assume that this text has come to your attention. It is a very complete, well documented and scholarly analysis of the problems which are under discussion. In general, the writer has covered the subject quite thoroughly and there is nothing that I would suggest adding to his analysis except that he perhaps should have commented on stock broker customer loans, more commonly known as margin account loans. The charge for this type transaction would be somewhat difficult to figure under the proposed bill.

If this text has not previously been introduced as evidence, I ask that it be accepted and made part of the records of these proceedings.

It is quite clear that loans made to business corporations would be exempt from S. 750. We are not sure to what extent the terminology "business firms" would apply to loans made to small local one-man enterprises.

I would cite the following cases:

(1) One of our customers employs two or three people who work in a small building adjacent to his home. The building is heated from the home heating system and he had applied for a loan to replace the heating system in his house.

(2) An insurance agent wishes a loan to purchase a vehicle which would be used for personal purposes and business purposes.

(3) Last week we made two loans to a young lawyer who has his office in his home—one was for an automobile which he uses in his business and the other was for a new roof on his home.

Would any or all of these loans be subject to S. 750?

Several weeks ago we made a rather large loan to a trust, where the beneficiary is a man approximately 25 years of age. The proceeds are to be loaned by the trustee to a relative of the beneficiary for the purpose of acquiring a business. Our loan obviously is not to a business firm. How would we compute the rate and charges?

The other day, we had a customer apply for a mortgage on a new home. His existing home, which he plans to sell, was free and clear of debt. After we had stated the amount we would be able to advance on a mortgage covering both homes, he requested a $2,500 demand loan to purchase new furniture. He agreed to pay off the $2,500 loan and a stated amount on the mortgage when he sold his old home. How would we handle the rate and charge question on a transaction of this type?

There are but a few of the cases which we handle with some degree of regularity, but they do demonstrate some of the difficulties inherent in the problem under discussion.

Another unresolved question is what provision will be made to prevent a regulation conflict between the Federal Housing Administration program in relation to S. 750?

When the FHA Title I Home Improvement Act was first passed, the regulations stated that the charge would be $5 discount per 100 on the original face value for a 1-year note. The FHA mortgage rates were stated in terms of simple interest. When the Veterans' Administration program was established, we found a similar recognition of the distinction between long-term mortgage debt and short-term installment debt.

This separation of the two classes of loans by two Government agencies supports the long-established premise that we are engaged in handling two different types of business with different elements of cost and with different loss experience.

This distinction is further emphasized in the 27th annual report of the Federal Housing Administration which indicates on page 103 that their mutual mortgage loss reserve fund is approximately 2½ percent of the outstanding balances due on insured mortgages, while they maintain a loss reserve of approximately 6 percent of the outstanding balances of their insured title I home improvement loans.

I should like to confine my remarks in this field to FHA mortgage financing, even though many of these questions apply to VA and conventional type mortgages. Some of the charges incidental to placing a mortgage on the books are usually collected in cash from the customer, but others may be included in the finance charge. There is also a mortgage insurance premium. The present rate of interest quoted on section 203, FHA mortgages is 5¼ percent. Will changes in the regulations be made to include the mortgage insurance premium of one-half of 1 percent in the interest rate, and will this combined rate be further adjusted to provide for those charges which will be added to the financing cost?

As I understand the proposed legislation, after the interest cost is predetermined, the customer who wishes a $10,000 mortgage for a period of 30 years will be given a statement showing that the finance charges for interest computed at 5¼ percent and the mortgage insurance cost at one-half of 1 percent amount of $10,775.61 (these figures were taken from FHA amortization chart), plus whatever closing costs are also considered as part of the finance charge. The FHA regulations require a penalty in the event of prepayment. They also provide for the payment of distribution shares. The amount varies from year to year and from State to State. Will some provision be made to show how these items are to be handled and how the interest rate is to be determined?

There is another area of mortgage financing which should be clarified. This has to do with the rapid growth of the point or discount system. The growing importance of this subject was given recognition in the Federal Savings and Loan Fact Book for the year ending 1961 where it was stated that the discounts on FHA insured mortgages were about 3 percent. The Federal home loan bank report for the year ending 1962 also mentions the growth of discount income.

If a lending institution took a 5-point discount on the previously mentioned $10,000 mortgage, would the interest rate and the total charge be computed on an investment of $9,500?

There has been an extraordinary expansion in the one-to-four-family house mortgage debt in recent years. This debt is now $168 billion and has increased more than 50 percent in the 5-year period from 1957 to 1962. The mortgage expansion growth has been greatest in those areas where mortgage charges are highest. Hence, it does not necessarily follow that economic stability will be maintained solely by stating the amount of interest and charges.

I wish to emphasize that S. 750 is weak because it is vague and accordingly is open to questionable interpretation. It is difficult to make a determination on the merits of a bill when the rules and regulations have not been clearly set forth and where the method of policing and supervising it has not been established.

Let me give an illustration from our experience here in Massachusetts. Notwithstanding the excellent work, over the years, of our Massachusetts State legislators, we experienced last year a problem of interpretation by overlapping enforcement divisions. There was enacted under our small loans law, a rate order in April 1960, setting new maximum gross interest rates.

In October of 1962, two examiners from the Small Loans Division came to our bank and spent 5 to 6 weeks reviewing thousands of transactions on which rebates had been made. They had no criticism of the rebates made under the rule-of-78ths method, and all of our net charges were well below the rates permitted under the rate order. They then recomputed all of the rebates on the basis of the small loans rate order which related to maximum gross charges and applied the formula to our original charges, which were lower than the permitted maximum gross charges.

In our Brookline office they recorded 875 exceptions, on our direct loans, averaging \$1.15 each. And 159 of these rebates contained claimed errors under the small loans law formula of less than \$0.50. And 259 had claimed errors of between \$0.51 and \$1. Only 15 of the 875 so-called rebate errors were over \$5, with the largest amount being \$11. They next reviewed the FHA title I loans and applied their interpretation of the small loans formula to our rebates and completely brushed aside the FHA rebate formula.

The examiners were indifferent to the fact that our gross rates and net charges were substantially lower than those set forth in the division's own rate order of April 1960. Other State banks had a similar experience. The national banking authorities refused to permit the small loan division examiners to inspect the records of national banks in Massachusetts. Although the entire industry locally was in a state of uncertainty over the division's procedures, we stood fast on the principle that this was a faulty interpretation of the law.

Finally, after a series of hearings, the rate order was amended, effective November 12, 1963, to permit the making of certain charges, provided the original charge, plus any late charge, plus any default charge, plus any other charge, did not exceed the allowed maximum rates.

So often, when well-intentioned people propose forward-looking legislation, they have no way of knowing, first, how the laws will be interpreted by supervisory groups and second, how the laws will finally be interpreted by the courts.

An outstanding example of what can happen when statutes are vaguely drawn is found currently in Nebraska where grave problems in the lending process have arisen from the court's interpretation of what was supposed to have been a model law.

Senator BENNETT. At this point may I interject; apparently in Nebraska the legislature has resolved that by passing a new law just a day or two ago, but it was a serious problem in Nebraska.

The CHAIRMAN. I may say there was a billion dollars of usurious loans made in the State of Nebraska.

Senator BENNETT. A billion dollars of legal usurious loans. Now they have remodeled this law so the billion dollars disappears.

The CHAIRMAN. Well, I would like to see the law; it may be defined usury in such elastic terms that was formerly illegal now became legal; that may be. I haven't seen the statute. I may suggest the Governor recommended as a solution the truth-in-lending law.

Senator BENNETT. And I may say that later he appeared before the legislature and withdrew that recommendation.

The CHAIRMAN. Well, there certainly are mysterious forces working in many other States.

Mr. WINCHESTER. Back in the days of the great depression, many financial and industrial experiments were resorted to. Some were successful and some were not. Perhaps the greatest undertaking was the Social Security Act, in which your chairman was vitally interested. I have two of his books in my library, one of them being his excellent text on "Social Security in the United States." I can still recall my enthusiasm over this book because of the realization that this great forward step would help alleviate many unemployment and old-age problems.

Another undertaking was the National Industrial Recovery Act, known as NRA. This started out as a noble experiment, but failed mainly because it was used in restraint of trade and almost brought our competitive system to an end. Senator Douglas in his book "Controlling Depressions," which was written after he had left the NRA, where he had served on the Consumers Advisory Board, and before it was declared unconstitutional, made the following statements on page 234 of the text:

> Unfortunately, however, the codes under the National Recovery Act have operated in almost precisely an opposite direction. So far from restoring competition in the monopolistic industries, they have extended these monopolistic practices into many industries which were formerly competitive. The purposes of the NRA as originally announced were worthy.

The CHAIRMAN. I am glad you mentioned that because the authors of the NRA were the U.S. Chamber of Commerce headed by a distinguished Massachusetts citizen at the time and I am sure he moved with the best of purposes, but the result was to fasten a businessmen's monopoly upon the industries of the country. I happened to be a member of the Consumer's Advisory Board during the period. I got my start in this problem early by proposing a code for the personal credit industry which required the men of the personal credit industry to tell the truth about the true annual interest rates upon the terms of the loan the consumer pays. This was rejected by the code authority. So this was my experience with the NRA. I am very sorry that the U.S. Chamber of Commerce perpetrated such a fraud upon the American public. It is interesting that the business community accepted the NRA when it was proposed by the Chamber of Commerce and supported it as long as the Chamber of Commerce sponsored it. They only attacked it after the Supreme Court declared it unconstitutional. They repudiated their own charge.

Senator BENNETT. It was the NRA passed by Congress and controlled by it.

The CHAIRMAN. The Democratic Party often makes mistakes where it listens to business. [Laughter.]

Senator BENNETT. I would have preferred to have you stopped with a period after the word "mistakes." [Laughter.]

The CHAIRMAN. No; for the sake of truth we get into the later words, or perhaps I should say, it frequently makes mistakes when it listens to big businesses.

Mr. WINCHESTER. Well, here again, we see the familiar pattern of varying interpretations and applications of the law. The act as written delegated powers to the President without standards to guide him and it invaded the field of intrastate commerce reserved for the separate States.

Does S. 750 contain sufficient and clear-cut standards to guide those who will be charged with the responsibility of enforcing it? Does S. 750 conflict with any of the State laws controlling consumer short-term installment and consumer long-term mortgage loans? Does S. 750 contain the seeds of restraint of trade and could it foster monopolistic practices? Shouldn't precaution be used so as to clarify the vague areas of S. 750?

Perhaps we may benefit by the comments of General Hugh Johnson in his book "Blue Eagle—From Eggs to Earth" which he wrote prior to the date the NRA was declared unconstitutional. He stated on page 275 that one fault and weakness in the NRA program was that it lacked:

> A safe method of financing code administration without racketeering and abuse—

and further that—

> It failed to eliminate inconsistent or conflicting provisions among various codes.

On page 276, he stated that the principal blunders were that:

> Service industries should not have been brought under the code—

and that—

> A clear-cut agreement on policy as between the NRA policy, the Federal Trade Commission and the Department of Justice should have been insisted upon at the very outset.

Can these afterthoughts or observations made from the standpoint of experience by the man who was responsible for supervising the NRA help guide us in establishing any new legislation that may be needed to help promote economic stabilization?

The previous comments were intended to complete my statement on S. 750. However, because of recent publications in a nationally circulated magazine and a large metropolitan newspaper, I feel I have a responsibility to comment on these articles.

I have copies for the committee taken from the Reader's Digest of the articles and also an article appearing in last Sunday's Boston Herald.

The CHAIRMAN. You wish to make both of those part of the record?

Mr. WINCHESTER. Yes, sir.

The CHAIRMAN. All right.

Mr. WINCHESTER. On page 157 of the November issue there appears an article, "When You Borrow, When You Buy—Watch Those Interest Rates," by Irwin Ross. In the second paragraph, the last sentence, it states:

> The annual interest rate came to more than 33 percent—a rate which, if indulged in frequently, would bankrupt him.

I believe the author could possibly have been in error; he might even be in error to the extent of 35 percent in quoting the 33-percent rate.

The CHAIRMAN. We will check those figures.

Mr. WINCHESTER. You will check them. I would like to comment on the second case; to state that this vague quotation of the 40-percent rate has no base or facts to support the computation and it is quite typical of the loose and free abuse of the press that we encounter in problems of this type.

I would like to strike out "abuse of the press," and say that the abuse that exists when people or writers quote rates and furnish no data to support the rates. I also call your attention to page 165, the institutions that are represented as being in support of this bill all have one common denominator.

I also introduce a newspaper article that appeared in the Boston Herald last Sunday, November 17, and I would like to identify it. I present this with a great deal of misgiving, but I do it with the best of intentions and in the hope that we can bring about a greater understanding of our mutual problems. I will identify the newspaper article by its first sentence.

> WASHINGTON.—Senator Paul Douglas, Democrat, of Illinois, will be in Boston next Friday and Saturday and the shifty-eyed, easy-credit shylocks won't like it.

To comment in this fashion about the Massachusetts situation, before the hearing, is prejudicial to say the least.

The CHAIRMAN. Let me say this is not my statement and I am sure that the correspondent who made the statement did not mean to include you two gentlemen in his statement, but it established—I want to make it especially clear that you gentlemen are not included in this—it has been established that people of the type of Mr. Valachi who testified before the McClellan committee, and who make the largest part of their incomes with loan shark activities and I am sorry to say the city of Chicago has the so-called Cosa Nostra group, and Mr. Valachi seemed to indicate that it was in Boston. But I especially want to make sure that you gentlemen were certainly not in mind when the correspondent made this statement.

Mr. WINCHESTER. Thank you, Mr. Chairman.

The CHAIRMAN. It is a matter of record before the McClellan committee that one of the rackets in which the Syndicate is engaged in is loan sharking and one of the illustrations given by Valachi is apparently he was making 150 percent, and he stated he didn't want loans repaid; he wanted the money to work, it was working at such a profitable rate. Again let me make it clear this is only one branch, which is probably a relatively small branch but it does indicate some of the abuses which have crept in.

Senator BENNETT. I would like to make the point that people like Valachi who live outside of all law would not change their program if this bill passed or any bill passed.

The CHAIRMAN. I would like to point out that such a law as this would make prosecution possible just as income tax laws made possible criminal prosecution. It should be remembered that Al Capone was sent to prison not because of his criminal activities but because he understated his income. And in similar fashion, if Valachi understated his 150-percent interest rate, he, too, could be prosecuted. So, this gives us an added handle by which we can deal with this branch of criminal activities. Now, again, for the sixth time, let me say that, of course, this doesn't refer to you gentlemen or to your associates.

Mr. WINCHESTER. I call your attention to the fifth paragraph where it is stated:

I haven't found a used car dealer yet who charges less than 26 percent interest and some charge more than 40 percent.

Your committee has met in the States of New York and Pennsylvania. Both States, as well as the Commonwealth of Massachusetts, have motor vehicle financing regulations which establish maximum charges which if computed on a simple annual rate would be below the minimum rate mentioned in this newspaper article.

The CHAIRMAN. Since you quoted me, my statement was based on the survey conducted in the Chicago area. If you can produce evidence of lower rates on used cars—charged by used car dealers in the Boston area, I will be very glad to include them in the record of this hearing. I tried to keep in touch with these charges and this was the result of the survey. We have just produced—here is a standard used car plan of the CIT, and I will ask Mr. Lindley——

Senator BENNETT. I am just pointing out that the Senator is consuming far, far more time than I consumed with his witness and is putting us in a position where we, the opponents——

The CHAIRMAN. I simply call the attention to the fact the witness questioned statements which I had made and I felt that I had to defend myself. I will now extend the time of these gentlemen 10 minutes more.

Senator BENNETT. Well, I would like to make the point we have now reached the point of adjournment, so what are we going to do now?

The CHAIRMAN. Since our group consumed an hour and ten minutes.

Senator BENNETT. An hour and thirty minutes.

The CHAIRMAN. Pardon me, 10 minutes more, wasn't it?

Senator BENNETT. Yes, 15 minutes more.

The CHAIRMAN. Well, certainly this group should have an hour and thirty minutes which would take us to 1 o'clock, and if the Senator from Utah is unhappy because I was trying to defend myself, we will extend it to an hour and forty minutes. I am ready to stay here.

Mr. WINCHESTER. May I suggest, Mr. Chairman, I have two paragraphs left, and I will be able to conclude my presentation. Continuing the paragraph in which we quoted from the newspaper article: It is scarcely conceivable that all used car dealers in these States are regularly imposing charges on their customers in excess of statutory limitations.

Two paragraphs further on, a description of a transaction was given and it states that:

Douglas figures that you would pay 31.1 percent rather than 6 on the declining balance.

Perhaps there was a misquote, but the 31.1 percent stated in the article appears to be much greater than—

The percentage that the finance charge bears to the total amount to be financed expressed in a simple annual rate on the average outstanding balance of the obligation.

That is taken from S. 750.

In conclusion, I am sure I speak for the bankers of the Commonwealth when I say that we favor any legislation which will correct abuses if abuses exist. However, we feel it proper to ask that legislation of this type shall be explicit and shall not retard the proper flow of funds in the channels of commerce.

The CHAIRMAN. Now, I have no more questions except to say two things: The first that the CIT interest rate which we found in our check is 22½ percent and that is a very ethical firm, so I will modify my statement that I have never found interest rates less than 26 percent on used cars. I found one of 22½ percent. I will also say there is obviously a misprint in this newspaper article of the apparent rate of 6 percent and actual rate of 31 percent, and apparently the typesetter of the Boston Herald forgot to ut a 1 in front of the 6; namely, 16 instead.

(The articles mentioned above follow:)

[From Reader's Digest, November 1963]

WHEN YOU BORROW, WHEN YOU BUY—WATCH THOSE INTEREST RATES

THERE IS OFTEN MORE IN THEM THAN MEETS THE EYE OF THE UNWARY—A READER'S DIGEST REPORT TO CONSUMERS

(By Irwin Ross)

When you buy a suit of clothes or a movie ticket, you know exactly what the price is. Not so when you "buy" money. The cost of consumer credit is usually disguised, and the borrower will often pay, unwittingly, a staggering rate of interest, as these citizens discovered:

A Federal employee in New Mexico bought a television set for $285.55. When he asked, he was cheerfully told he could pay for it at the rate of "about $14 per month." Since not a word was said about interest, credit, or finance charges, he assumed the installment arrangement was simply a courtesy extended by the dealer. Over the course of 10 months he paid $147.30. Only then, looking at the paper he'd signed, did he discover that he still owed $206.22—so he had been charged $67.97 to finance the purchase. The annual interest rate came to more than 33 percent—a rate which, if indulged in frequently, would bankrupt him.

A mechanic in Texas bought $1,812.80 worth of househould furniture, for which he made a downpayment of $261.80, and contracted to pay 36 monthly installments of $56.34 each. Only after he was unable to meet all his obligations did he stop to figure out that the furniture was costing him $477.24 in finance charges—a true annual rate of 19.4 percent.

A clerk-typist in Washington, D.C., in need of money because of a family illness, borrowed $1,000 from a bank. Her other debts made it difficult to repay. So, just to meet installments on the loan, she obtained another loan—thus paying extra interest on money to pay interest. In a few months, in a series of Peter-to-Paul operations, she ended up with three bank loans totaling $2,000, a finance company loan of $800, and some $800 in other obligations. Her local credit union, to which she took her troubles, startled her by calculating that she was paying credit charges at the rate of well over 40 percent a year.

These borrowers, like millions of others, were victims of a credit system that is a model of contrived confusion—and sometimes deception. Enormous sums are involved. Consumer debt last year amounted to about $63 billion; $13 out of every $100 in aftertax personal income went to pay installment loans. How much of that outlay represented overcharges is anyone's guess.

It is plainly evident that any consumer seeking credit today needs a detective's persistence and a mathematician's skill to determine what be actually pays in interest. The traditional way of stating the cost of credit is in terms of the annual interest rate—the custom in business and in home mortgages. In consumer credit, however, lenders frequently use slick techniques to make the cost of borrowing seem cheap. There are five main methods:

The add-on.—A bank may offer a loan at the cost of, say, $6 per $100—adding the interest charge right away onto the principal, which is then repaid in 12 monthly installments. This sounds like 6-percent annual interest. Actually it is about 11.58. Because the borrower is steadily paying it off, the average amount of his loan over the course of the year is only about $50; yet he pays out a full $6 interest on $100.

The discount.—In this case, the interest charge of $6 per $100 is deducted when the loan is made, so the borrower receives only $94. He's being charged $6 not on a full $100 but on only $94, in addition to paying interest on parts of the loan after they have been repaid. Thus he pays even a bit more for his money than the borrower who gets a comparable add-on charge.

Monthly rate.—Small loan companies often quote interest rates of 1½ to 3½ percent—per month. Such rates make borrowing sound very cheap. Customers forget that, while the rate is quoted by the month, the loan is usually for a year or more. To figure the true annual rate, multiply by 12; it will range from 18 to 42 percent.

Department stores levy a service charge of, say, 1½ percent per month on "revolving credit" charge accounts. "Service charge" sounds more trifling than "interest rate," and many customers have no idea that they are really paying 18 percent interest for the convenience of charging.

No interest rate quoted at all.—Here the seller merely indicates the size of the downpayment and of the installments to be paid for 12, 24, or 30 months. The total credit cost, in a lump-sum figure, may or may not be mentioned in the contract.

"Loading" the contract.—The credit charge is inflated by extras—investigation fees, processing charges, service charges, high premiums for insurance (even though the borrower may already have insurance that would cover the loan). Many of these fees are merely disguised interest charges.

By no means are all lenders out to fleece the consumer. Many avoid mention of annual interest rates because of the widespread public impression that more than 6 percent a year is usurious—a belief that traces back to medieval church doctrine. When home mortgage credit became widely available at the beginning of this century, ethical lenders held to the historical "fair" rate of 6 percent. But as Edward Gudeman, former Under Secretary of Commerce, points out, "Under the conditions applying to a modern installment credit system, the idea of only a 6-percent credit charge is a myth—and the public should be aware of it. Consumers should know the true cost of credit."

For a $10,000 mortgage, 6 percent annual interest or less can be a reasonable limit—because a building is offered as collateral, and because the loan is large in relation to the bank's administrative cost. But in installment loans of only a few hundred dollars (often with no collateral), the expenses involved in extending credit are relatively high. For one thing, the merchant must borrow his money from a bank—often paying 5 percent or more. Then he has the costs of credit investigation, bookkeeping, billing; sometimes of dunning his customers or hiring a collection agency; also he has an occasional uncollectible account. When all these expenses are taken into consideration, a charge of 12 percent a year—or more—is by no means unreasonable. The customer, however, has a right not to be kept in the dark; he should know what he is really paying.

Automobile, furniture, and home appliance financing seem to provide particular pitfalls for the unwary. The finance company furnishes the dealer with several rate books, with ascending charges—the justification being that some customers are poorer risks than others. However, in States where the law is lax, unscrupulous dealers merely select the highest rate the customer seems likely to pay. Later, part of the credit charge may be kicked back by the finance company to the dealer; the higher the rate, the bigger the kickback.

Testifying about this practice before a Senate committee in 1960, John L. O'Brien of the Better Business Bureau of Greater St. Louis, produced a set of rate charts bearing the code numbers 7–96, 7–150, 7–163. These figures signified that the finance company retained $7 per $100 loaned to the customer, and, depending on which chart was used, kicked back $96, $150, or $163 per $1,000 to the dealer.

Even banks have been known to kick back to dealers. Herbert E. Cheever, vice president of the First National Bank of Brookings, S. Dak., testified to a typical kickback case in which an automobile dealer sent to a bank a customer who needed a $1,200 loan. The bank charged the buyer $220 in finance fees over a 3-year period—and mailed the dealer a $44 check for bringing in the business.

The imprudent buyer may also be lured by ads which offer "no downpayment." And he may find himself signing two loan agreements—one to provide the cash for the normal downpayment, and the other for the balance of his debt. Both loans have to be paid off simultaneously, at rates that often run from 30 to 50 percent.

Once enmeshed in this kind of borrowing, the customer often finds no cheap escape. Sometimes, if he decides to pay off the loan before its term ends, he is faced with an excessive "payoff" rate designed to deter him from doing it. Small-loan companies, particularly, try to keep the customer in debt. As one outfit candidly explained in a staff memorandum, "Keep in mind that when any customer settles his account in full and does not refinance, we are in the same position as a department store whose customer settles his bill and stops making purchases."

Many borrowers are careless; they sign blank contracts, fail to ask the most elementary questions, neglect to read the fine print. Credit costs are quoted in so many different ways, however, that even the prudent have difficulty making realistic comparisons. Who can easily tell whether it is cheaper to take an "add on" rate of $5 per $100 from a bank, or a 1½ percent per month rate from a small-loan company, or a $300 down, $40-a-month deal from a furniture dealer?

Senator Paul H. Douglas, of Illinois, has attempted to provide a standard method of credit labeling to make price comparisons meaningful, through a truth-in-lending bill. Cosponsored by 19 other Senators, the bill requires that lenders state finance charges in two different ways—in dollars and cents, and also as a simple annual rate. The information is to be given to customers in writing, before the transaction is closed. Thus the customer can tell at a glance the exact cost of the credit he is buying.

The Douglas bill does not regulate credit or outlaw any of the various ways credit is now priced. It is simply a full-disclosure bill. Its effect will be that when a bank quotes a $6 per $100 discount rate, it will also have to inform the borrower that this is an annual interest rate of 11.58 percent. Similarly, a department store will have to state that its monthly service charge of 1½ percent is the equivalent of an annual interest rate of 18 percent.

The bill has won the fervent support of credit unions, savings and loan associations, consumer groups, and trade unions. Opposition has come from retailers' associations, auto dealers, small loan companies. The National Association of Mutual Savings Banks supports the bill, though the American Bankers Association opposes it. Some opponents fear it would scare away customers. More likely, full disclosure would cause interest rates to become more competitive, and to fall somewhat as customers shop around.

In the event that such full disclosure becomes law, the public will have to overcome its unrealistic notion that 6 percent is the ceiling for a "fair" annual interest rate. On small loans, repaid in installments over a long period of time, no bank, finance company or retail merchant can charge a true annual rate of 6 percent and break even—let alone make a decent profit. In this area, true interest rates of 9, 10, 12 percent and even higher are by no means extortionate.

There are steps which the prudent borrower can always take to protect himself. He should read every contract carefully before signing, and make his own calculation of credit charges. He can shop around for the best deal; comparisons will generally reveal that banks or credit unions provide the lowest credit rates. And he should always remember that, in the fantasy world of credit advertising, the cheaper sounding deal can sometimes be the most expensive.

[From the Boston Herald, Nov. 17, 1963]

U.S. Senate Hearing in Boston, Interest Rates To Be Aired

WASHINGTON.—Senator Paul Douglas, Democrat, of Illinois, will be in Boston next Friday and Saturday, and the shifty-eyed, easy-credit shylocks won't like it. Douglas, possibly accompanied by four other Senators, will hold hearings all day both days in the Federal courthouse on his pet legislative project, the so-called truth-in-lending bill.

NATIVE OF SALEM, LIVED IN MAINE AS BOY

"I feel at home in New England," Douglas, who was born in Salem, Mass., and spent all of his childhood in Maine commented.

His ancestor, William Douglas, was shanghaied on an Edinburgh, Scotland, street and forced to be a sailor. He settled in Massachusetts near the Rhode

Island border and raised several sons. The W. L. Douglas Shoe Co. is one branch of the family.

Douglas is determined to get legislation passed which will force loan companies, retail stores with long-term credit, automobile dealers, and others to tell customers the true rate of interest they charge. His bill would require them to disclose the dollar amount of the interest and the actual percentage.

"I haven't found a used car dealer yet who charges less than 26 percent interest, and some charge more than 40 percent," Douglas said. "If millions of Americans weren't hoodwinked into paying exorbitant rates of interest, think how much more money there would be in circulation to be spent on other goods and services. It would be a great boom to the economy."

CITES EXAMPLES

Douglas cites some examples:

Say you want to pay $180 of the cost of a new television set over 18 months. You might be told you will pay $11.30 a month, including "carrying charges." What you aren't told, according to Douglas, is that you are really paying 16.4 percent annual interest on the declining balance.

You want to borrow $1,800 to finance a car, and you are told you will pay $59.22 a month for 36 months, including "6 percent annual interest." The interest is figured on the full $1,800 throughout. Douglas figures that you would pay 31.3 percent rather than 6, on the declining balance.

A "LABEL" LAW

According to Douglas, the advertised 5-percent rate on home improvement loans is really 10 percent a year—and that the 4½-percent new car financing plan of some commercial banks is really 9 percent a year.

The Douglas bill, which he is having trouble getting out of the Senate Banking and Currency Committee, would not set any interest rates. It would simply make creditors inform customers as to the true interest rate to be charged.

"You can't find out now," said Douglas. "They won't tell you."

Personal credit in the United States has reached $60 billion, and home buying credit stands at $175 billion, Douglas noted.

"Within a few years," he observed, "the amount of personal debt in this country will be more than the national debt."

He believes Americans are paying more than $20 billion a year in interest charges today.

WITNESSES INVITED

New Englanders wanting to testify before the Douglas subcommittee of the Senate Banking and Currency Committee in Boston should write to the Senator at his Senate Office Building office in Washington. He will honor such requests until he leaves for Boston November 21.

"We are not just going to hear proponents of the bill," Douglas said. "We want to hear the opponents, too."

Four other Senators who may possibly be in Boston for the hearings are Senator Edmund Muskie, Democrat, of Maine; William Proxmire, Democrat, of Wisconsin; Wallace Bennett, Republican, of Utah; and Milward Simpson, Republican, of Wyoming.

Senator Bennett is the leading opponent of the bill. He is a former national president of the National Association of Manufacturers and his brother is president of the National Retail Merchants Association.

Former Massachusetts Attorney General Edward McCormack supported a State truth-in-lending bill for Massachusetts, but it was not passed. McCormack is expected to testify for the Federal bill, as he has done before, during the Boston hearings.

The CHAIRMAN. Thank you, gentlemen. Senator Bennett?

Senator BENNETT. Mr. Nyere, in your statement you went to some length to point out how impossible it was to calculate these simple annual rates in advance. Are you familiar with the fact the Douglas bill also requires you to give the customers in advance a statement of the total dollar costs?

Mr. NYERE. That is right.

Senator BENNETT. And these would be equally difficult if not impossible to carry out?

Mr. NYERE. That is right.

The CHAIRMAN. Is that the only question?

Senator BENNETT. That is the only question at the moment. I may come back.

The CHAIRMAN. Mr. Nyere?

Mr. NYERE. Yes.

The CHAIRMAN. I understand that your objection is directed primarily to the requirement that the true annual interest rate you stated on the outstanding balance?

Mr. NYERE. My objection here is, as I said in my testimony, giving the simple annual rate in every type of procedure is almost impossible in every single case.

The CHAIRMAN. Then your objection is primarily the statement of the true annual interest rate?

Mr. NYERE. In expressing it that way, yes; I feel it would be impossible to express it that way in every single case.

The CHAIRMAN. Do I understand you to say that then in the case of the so-called normal payments; that is, even payments per month, over a fixed period of months, that these could be computed?

Mr. NYERE. That statement is on page 2, yes.

The CHAIRMAN. May I finish?

Mr. NYERE. Yes.

The CHAIRMAN. This is the normal procedure?

Mr. NYERE. Yes.

The CHAIRMAN. So this could be done in the normal run of cases?

Mr. NYERE. Normal from the point of view if every loan was granted. Senator, I mean, taking everything in its proper place.

The CHAIRMAN. I understand.

Mr. NYERE. All right.

The CHAIRMAN. I commend you on this because testimony we have taken indicates that the regular payment form, the vast majority of the payments, that the irregular payments are relatively small percentage of the loans.

Mr. NYERE. I think we are talking about two different things, Senator. I am talking about the fact if a person, if you will permit me—do you want me to take this out? I have a chart here. You have a $1,000 loan for a 12-month term and a 6-percent add-on rate, which of course, would be $60 for the finance charge. Here now in these four examples we have four different simple annual rates.

The CHAIRMAN. What I am coming at is on the equal payments.

Mr. NYERE. Oh, the equal payments; you are the one who referred to the 12 equal payments.

The CHAIRMAN. You say there would be no difficulty in figuring that rate?

Mr. NYERE. No, not if every single loan were to start out on a certain date and payments were to start 30 days after that particular date.

The CHAIRMAN. The testimony we have previously taken seems to indicate that the equal regular payments form the vast majority of the installment loan payments.

Mr. NYERE. That is right.

The CHAIRMAN. So that you start off with the fact this could be done relatively easily on the vast majority of installment loans?

Mr. NYERE. Yes.

The CHAIRMAN. We are in complete agreement, therefore, on this point. I am glad you said this because times past it has been difficult to get testimony on this despite the fact we have statements issued by the finance companies and, incidentally, this slide rule enables it to be done, and I will inscribe one to you, Mr. Nyere, in hopes of a conversion to our cause and with best wishes that you may use this in solving your difficulties—a present to the First National Bank from an impecunious politician.

Now, let me say apparently you don't need this because you say these difficulties are removed but nevertheless I give this to you as an evidence of good will and if you have further difficulties here is a leaflet published by the Financial Publishing Co.

Now, apparently the controversy comes down simply to irregular payments, skip payments; you have not brought in the question of the balloon payments at the end, but skip payments. What you are saying is this cannot be done on a daily basis; is this right?

Mr. NYERE. Senator, I would like to come back to my statement here on the bottom of page 2, to which I subscribe wholeheartedly, and I say that:

> If each extension of credit on an installment basis were made on the thesis that every single customer who borrows would repay his obligation in equal monthly payments from the inception of the loan and exactly on the due date, it would not be too much trouble for banks to state their charges in terms of a simple annual rate along with the dollar cost.

But you have too many variations in connection with this when you say, "is this not the usual type of loan?" Take a 12-month equal-payment loan and the answer to that is "Yes," but you go one step further by saying, "How far away is the first payment going to be from the time that you give out the money?"

Now, if it is only 20 days from the time you give it out, you are going to have one simple annual rate which is going to be higher than one where the first payment date is going to fall due 45 days after the time you give out the money. Even though all 12 payments are made on the appointed day, it is a question of timing as to when your customer comes in to borrow and the bill requires that you give the customer in writing the terms and in dollars and cents on the annual rate. If the borrower wants a payment date 32 days away; I mean, you can't set the thing exactly for 30 in every case, and I quoted figures here that out of 601 loans only 4 percent were made in exactly 30 days. We are operating the installment credit industry in Massachusetts on six cycle dates, and if we have six cycle dates, we are going to have six different annual rates.

The CHAIRMAN. You can use add-on or discount rates?

Mr. NYERE. In Massachusetts we use either the discount or the add-on.

The CHAIRMAN. Now, is it not true that the true annual rate is approximately twice?

Mr. NYERE. Yes.

The CHAIRMAN. The add-on or discount?

Mr. NYERE. Not quite.

The CHAIRMAN. Slightly less in the case of the add-on and slightly more in the case of the discount?

Mr. NYERE. Yes.

The CHAIRMAN. Now, on the question of whether you can figure rates on the daily basis, I introduced in the record of hearings in July 1961, exhibits from the credit union calculator which does this exactly on a daily basis and I took sample provisions for 13, 14, 23, and 31 days, but they are given for the whole gamut of days and I present this to you (see table on pp. 1411–1416). And what the credit unions can do, others can do. The poor credit unions, of course, don't have the great resources certainly of the great First National Bank, but they can do this and I am informed by the Boston Teachers Credit Union that they have testified that they have no difficulty with teachers' loans with skip payments and I think they are going to testify tomorrow and I would appreciate it if you will have some representative present to hear the testimony.

Mr. NYERE. Well, I will be happy to be here, Senator; but as far as these particular tables are concerned, I am beginning to be handed tables after tables after tables and all I have to do is point out that the average loan officer to whom a borrower would be approaching for credit would have a stack of tables on his desk and he would have to go through an undue number of them to calculate the simple annual rate to give it to the individual.

The CHAIRMAN. Here is the poor credit unions able to do this and one of the tremendous financial institutions of the country with resources probably running into the billions of dollars, saying it is unable to do this.

Mr. NYERE. The credit unions are operating under one type of calculation, I think that is 1 percent a month.

The CHAIRMAN. They operate on the daily basis and do deal with this problem of the skip payments.

Senator BENNETT. Mr. Nyere, my friend Senator Douglas has led you up the garden path.

The CHAIRMAN. It is an obvious path.

Senator BENNETT. He has persuaded you to admit and the records shows that you have admitted that the majority of all consumer loans are on the pattern of 12 equal payments, no variations, and on that basis——

The CHAIRMAN. I didn't say 12 payments, I said regular payments.

Senator BENNETT. All right, regular payments, and the thrust of your testimony on page 4 is that out of 601 loans made in July in your department only 4 percent were sufficiently regular so that you could calculate simple annual rate by also applying a chart of this kind.

Mr. NYERE. That was my reply.

Senator BENNETT. Well, I wanted to make sure that this gets into the record.

Mr. NYERE. Yes.

Senator BENNETT. I don't remember the words exactly. He asked you a question, if you agreed with him, and you said that you did and the effect of your testimony of your answer to the question would be to wipe out everything you said on page 4.

The CHAIRMAN. I want to say Mr. Nyere is an honest man and I respect him tremendously; and we will rest on what he said; and, if he wants to change and acknowledge it, I respect him very much indeed.

Senator BENNETT. I think he should have the privilege of changing in this case in order to make sure the testimony is clear.

Mr. NYERE. Senator, I did reply to Senator Douglas and brought out, I think the record will show that I read again my statement on page 2 which if you will note, I mean it is very explicit what I said there and then when I come over to page 4 also in the rebuttal there that I mentioned that only 27 loans or 4 percent out of 601 cases were made where the first payment was exactly 30 days after the loan was granted.

Senator BENNETT. I want to get that perfectly clear in the record.

Mr. NYERE. I read it in my original statement. I came back to it, Senator Douglas, again, and this now is the third time, I think, it is in the record.

The CHAIRMAN. Let the record show I never said all loans were 30-day loans, I simply said the majority of loans were regular installment payments, 30, 60, 90—or rather in terms of months or weeks; for 3 months, 6, 12, 18, 36 months—that they comprised the majority of it, not thirty-day loans, those are short time loans.

Senator BENNETT. Now, I will ask Mr. Nyere on the basis of your testimony on page 4, Do you agree that the vast majority of loans are regular loans in terms of 30, 60, 90?

Mr. NYERE. No; they are not.

The CHAIRMAN. Or in terms of months?

Mr. NYERE. We have all—you have all kinds of different terms.

The CHAIRMAN. Yes; but is not the normal, the regular, equal payments?

Mr. NYERE. Well, for the—in general you would have to say that, but not all of them.

The CHAIRMAN. Exactly.

Senator BENNETT. You are getting back on the same track again. [Laughter.]

The CHAIRMAN. Well, he is a truthful man and he will not testify falsely in behalf of the things in which he believes.

Senator BENNETT. Let's get this straight: What you are saying is that generally people pay the same number of dollars when they pay back on their loan but you have testified here that the amount of time involved is not regular, that only 4 percent of your loans——

Mr. NYERE. That is right.

Senator BENNETT (continuing). Are regular in time?

Mr. NYERE. That is exactly right. That is what I meant and that is exactly what I mean.

Senator BENNETT. Well, this I want to get clear.

Mr. NYERE. Then let's make that very clear for the record.

The CHAIRMAN. The Senator from Utah can muddy up this record just as much as he wishes or try to, but the witness is a truthful man and says the vast majority of equal payment loans in terms of months.

Senator BENNETT. Mr. Nyere, do you think I have muddied your record?

Mr. NYERE. Definitely not.

Senator BENNETT. Thank you very much. Mr. Chairman, for the record, I would like to offer a list of the banks in the United States which extend the revolving check-credit type of service to which Mr. Winchester referred.

The CHAIRMAN. That will be made a part of the record.

(The list follows.)

BANKS EXTENDING REVOLVING CHECK CREDIT

First National Bank, Birmingham, Ala.
First National Bank, Montgomery, Ala.
First National Bank, Phoenix, Ariz.
Valley National Bank, Phoenix, Ariz.
Southern Arizona Bank & Trust Co., Tucson, Ariz.
First National Bank, Little Rock, Ark.
Union National Bank, Little Rock, Ark.
Worthen Bank & Trust Co., Little Rock, Ark.
Simmons First National Bank, Pine Bluff, Ark.
Citizens National Bank, Los Angeles, Calif.
First Western Bank & Trust Co., Los Angeles, Calif.
Security-First National Bank, Los Angeles, Calif.
United California Bank, Los Angeles, Calif.
Mechanics Bank, Richmond, Calif.
San Diego Trust & Savings Bank, San Diego, Calif.
Crocker-Anglo National Bank, San Francisco, Calif.
Wells Fargo Bank, San Francisco, Calif.
Central Bank & Trust Co., Denver, Colo.
Denver United States National Bank, Denver, Colo.
First National Bank, Fort Collins, Colo.
First National Bank, Pueblo, Colo.
Connecticut National Bank, Bridgeport, Conn.
Hartford National Bank & Trust Co., Hartford, Conn.
Second National Bank, New Haven, Conn.
Union & New Haven Trust Co., New Haven, Conn.
State National Bank of Connecticut, Stamford, Conn.
Colonial Bank & Trust Co., Waterbury, Conn.
Bank of Delaware, Wilmington, Del.
Wilmington Trust Co., Wilmington, Del.
Broward National Bank, Fort Lauderdale, Fla.
Coral Ridge National Bank, Fort Lauderdale, Fla.
Fort Lauderdale National Bank, Fort Lauderdale, Fla.
Florida National Bank & Trust Co., Miami, Fla.
Pan American Bank, Miami, Fla.
Mercantile National Bank, Miami Beach, Fla.
First National Bank, Orlando, Fla.
Florida National Bank, St. Petersburg, Fla.
First National Bank of Atlanta, Atlanta, Ga.
Trust Co. of Georgia, Atlanta, Ga.
Georgia Railroad Bank & Trust Co., Augusta, Ga.
Bank of Hawaii, Honolulu, Hawaii.
Continental Illinois National Bank & Trust Co., Chicago, Ill.
Exchange National Bank, Chicago, Ill.
Harris Trust & Savings Bank, Chicago, Ill.
Lake Shore National Bank, Chicago, Ill.
Mutual National Bank, Chicago, Ill.
National Bank of Commerce, Chicago, Ill.
Uptown National Bank, Chicago, Ill.
Millikin National Bank, Decatur, Ill.
First National Bank, Des Plaines, Ill.
First National Bank & Trust Co., Evanston, Ill.
First Galesburg National Bank & Trust Co., Galesburg, Ill.
Elliott State Bank, Jacksonville, Ill.
First National Bank, Peoria, Ill.
First National Bank & Trust Co., Rockford, Ill.
Illinois National Bank & Trust Co., Rockford, Ill.
Springfield Marine Bank, Springfield, Ill.
Little Fort Bank, Waukegan, Ill.
Irwin Union Bank & Trust Co., Columbus, Ind.
Citizens National Bank, Evansville, Ind.
National City Bank, Evansville, Ind.
Fort Wayne National Bank, Fort Wayne, Ind.
Peoples Trust & Savings Co., Fort Wayne, Ind.
American Fletcher National Bank & Trust Co., Indianapolis, Ind.
Indiana National Bank, Indianapolis, Ind.
First National Bank, Madison, Ind.
Merchants National Bank, Muncie, Ind.
Second National Bank, Richmond, Ind.
First Bank & Trust Co., South Bend, Ind.
Terre Haute First National Bank, Terre Haute, Ind.
Merchants National Bank, Cedar Rapids, Iowa
Iowa-Des Moines National Bank, Des Moines, Iowa
Commercial National Bank, Kansas City, Kans.

BANKS EXTENDING REVOLVING CHECK CREDIT—Continued

Merchants National Bank, Kansas City, Kans.
Merchants National Bank, Topeka, Kans.
Citizens Fidelity Bank & Trust Co., Louisville, Ky.
First National Lincoln Bank, Louisville, Ky.
Liberty National Bank & Trust Co., Louisville, Ky.
Guaranty Bank & Trust Co., Alexandria, La.
National Bank of Commerce, New Orleans, La.
Commercial National Bank, Shreveport, La.
First Manufacturers National Bank, Lewiston, Maine
First National Bank, Boston, Mass.
National Shawmut Bank, Boston, Mass.
Harvard Trust Co., Cambridge, Mass.
Valley Bank & Trust Co., Springfield, Mass.
Detroit Bank & Trust Co., Detroit, Mich.
Manufacturers National Bank, Detroit, Mich.
American National Bank & Trust Co., Kalamazoo, Mich.
First National Bank & Trust Co., Kalamazoo, Mich.
First Southdale National Bank, Edina, Minn.
First National Bank, Hopkins, Minn.
First Bloomington Lake National Bank, Minneapolis, Minn.
First National Bank, Minneapolis, Minn.
Midland National Bank, Minneapolis, Minn.
First National Bank, Rochester, Minn.
American National Bank, St. Paul, Minn.
First National Bank, St. Paul, Minn
City National Bank & Trust Co., Kansas City, Mo.
Commerce Trust Co., Kansas City, Mo.
Baden Bank, St. Louis, Mo.
Bank of St. Louis, St. Louis, Mo.
Boatmen's National Bank, St. Louis, Mo.
First National Bank, St. Louis, Mo.
Union National Bank, Springfield, Mo.
First National Bank & Trust Co., Lincoln, Nebr.
First National Bank, Omaha, Nebr.
United States National Bank, Omaha, Nebr.
First National Bank, Reno, Nev.
Second National Bank, Nashua, N.H.
Boardwalk National Bank, Atlantic City, N.J.
First National Bank of Somerset County, Bound Brook, N.J.
Camden Trust Co., Camden, N.J.
First Camden National Bank & Trust Co., Camden, N.J.
Peoples Trust Co., Hackensack, N.J.
First National Iron Bank, Morristown, N.J.
Trust Co. of Morris County, Morristown, N.J.
National Community Bank, Rutherford, N.J.
First Trenton National Bank, Trenton, N.J.
Trenton Trust Co., Trenton, N.J.
Farmers & Mechanics National Bank, Woodbury, N.J.
National Commercial Bank & Trust Co., Albany, N.Y.
First-City National Bank, Binghampton, N.Y.
Manufacturers & Traders Trust Co., Buffalo, N.Y.
Endicott Trust Co., Endicott, N.Y.
Franklin National Bank, Franklin Square, L.I., N.Y.
First National Bank, Glens Falls, N.Y.
Hempstead Bank, Hempstead, N.Y.
Bankers Trust Co., New York, N.Y.
Chemical Bank New York Trust Co., New York, N.Y.
First National City Bank, New York, N.Y.
Manufacturers Hanover Trust Co., New York, N.Y.
Marine Midland Trust Co., New York, N.Y.
Sterling National Bank & Trust Co., New York, N.Y.
Dutchess Bank & Trust Co., Poughkeepsie, N.Y.
First National Bank, Poughkeepsie, N.Y.
Marine Midland National Bank, Poughkeepsie, N.Y.
Lincoln Rochester Trust Co., Rochester, N.Y.
First Trust & Deposit Co., Syracuse, N.Y.
Lincoln National Bank & Trust Co., Syracuse, N.Y.
Oneida National Bank & Trust Co., Utica, N.Y.
Meadow Brook National Bank, West Hempstead, N.Y.
National Bank of Westchester, White Plains, N.Y.
North Carolina National Bank, Charlotte, N.C.
North Carolina National Bank, Greensboro, N.C.
First-Citizens Bank & Trust Co., Smithfield, N.C.
Wachovia Bank & Trust Co., Winston-Salem, N.C.
First National Bank, Cincinnati, Ohio.

BANKS EXTENDING REVOLVING CHECK CREDIT—Continued

Third National Bank & Trust Co., Dayton, Ohio
Winters National Bank & Trust Co., Dayton, Ohio
First National Bank & Trust Co., Hamilton, Ohio
First National Bank, Mansfield, Ohio
First National Bank, Middletown, Ohio
Mahoning National Bank, Youngstown, Ohio
Union National Bank, Youngstown, Ohio
First National Bank & Trust Co., Tulsa, Okla.
First National Bank, Portland, Oreg.
United States National Bank, Portland, Oreg.
Merchants National Bank, Allentown, Pa.
Delaware County National Bank, Chester, Pa.
Montgomery County Bank & Trust Co., Norristown, Pa.
Northwest Pennsylvania Bank & Trust Trust Co., Oil City, Pa.
Fidelity-Philadelphia Trust Co., Philadelphia, Pa.
First Pennsylvania Banking & Trust Co., Philadelphia, Pa.
Girard Trust Corn Exchange Bank, Philadelphia, Pa.
Philadelphia National Bank, Philadelphia, Pa.
Provident Tradesmens Bank & Trust Co., Philadelphia, Pa.
Commonwealth Bank & Trust Co., Pittsburgh, Pa.
Mellon National Bank & Trust Co., Pittsburgh, Pa.
Pittsburgh National Bank, Pittsburgh, Pa.
Berks County Trust Co., Reading, Pa.
Third National Bank & Trust Co., Scranton, Pa.
Peoples National Bank, Tarentum, Pa.
Gallatin National Bank, Uniontown, Pa.
First National Bank, Wilkes-Barre, Pa.
Miners National Bank, Wilkes-Barre, Pa.
York Bank & Trust Co., York, Pa.
South Carolina National Bank, Charleston, S.C.
National Bank of South Dakota, Sioux Falls, S. Dak.
American National Bank & Trust Co., Chattanooga, Tenn.
Hamilton National Bank, Chattanooga, Tenn.
First National Bank, Memphis, Tenn.
First American National Bank, Nashville, Tenn.
Third National Bank, Nashville, Tenn.
First National Bank, Amarillo, Tex.
American National Bank, Austin, Tex.
American National Bank, Beaumont, Tex.
First Security National Bank, Beaumont, Tex.
First National Bank, Dallas, Tex.
First National Bank, Fort Worth, Tex.
National Bank of Commerce, Houston, Tex.
Texas National Bank, Houston, Tex.
Citizens National Bank, Lubbock, Tex.
First National Bank, Odessa, Tex.
Alamo National Bank, San Antonio, Tex.
National Bank of Commerce, San Antonio, Tex.
Victoria Bank & Trust Co., Victoria, Tex.
Citizens National Bank, Waco, Tex.
First National Bank, Waco, Tex.
City National Bank, Wichita Falls, Tex.
First Security Bank, Ogden, Utah
Walker Bank & Trust Co., Salt Lake City, Utah
Zions First National Bank, Salt Lake City, Utah
National Bank of Harrisonburg, Harrisonburg, Va.
National Bank of Commerce, Norfolk, Va.
Central National Bank, Richmond, Va.
First & Merchants National Bank, Richmond, Va.
First National Exchange Bank, Roanoke, Va.
Citizens State Bank, Puyallup, Wash.
Pacific National Bank, Seattle, Wash.
People's National Bank, Seattle, Wash.
Seattle-First National Bank, Seattle, Wash.
Old National Bank, Spokane, Wash.
National Bank of Washington, Tacoma, Wash.
Puget Sound National Bank, Tacoma, Wash.
Commercial Bank of Twisp, Twisp, Wash.
Bank of West Virginia, Charleston, W. Va.
Kanawha Valley Bank, Charleston, W. Va.
First National Bank, Morgantown, W. Va.
Wheeling Dollar Savings & Trust Co., Wheeling, W. Va.
First National Bank, Appleton, Wis.
Stephenson National Bank, Marinette, Wis.
First Wisconsin National Bank, Milwaukee, Wis.
Marine National Exchange Bank, Milwaukee, Wis.
Marshall & Ilsley Bank, Milwaukee, Wis.
First National Bank & Trust Co., Racine, Wis.

Senator BENNETT. And also various types of bank charge accounts similar to revolving check credit and similar check credit plans.

The CHAIRMAN. All right.

(The list follows:)

BANKS EXTENDING CHARGE ACCOUNT CREDIT

Anniston National Bank, Anniston, Ala.
Birmingham Trust National Bank, Birmingham, Ala.
First National Bank, Montgomery, Ala.
Alaska National Bank, Fairbanks, Alaska
Worthen Bank & Trust Co., Little Rock, Ark.
Bank of America, National Trust & Savings Association, San Francisco, Calif.
First National Bank, San Jose, Calif.
Connecticut National Bank, Bridgeport, Conn.
First-New Haven National Bank, New Haven, Conn.
University City Bank, Gainesville, Fla.
Florida National Bank, Key West, Fla.
Florida National Bank, Lakeland, Fla.
Bank of Melbourne & Trust Co., Melbourne, Fla.
Florida National Bank, St. Petersburg, Fla.
Lewis State Bank, Tallahassee, Fla.
International Bank of Tampa, Tampa, Fla.
Bank of Hawaii, Honolulu, Hawaii
Citizens & Southern National Bank, Atlanta, Ga.
Columbus Bank & Trust Co., Columbus, Ga.
St. Claire National Bank, Belleville, Ill.
Capital Bank of Springfield, Springfield, Ill.
Citizens First National Bank, Bloomington, Ind.
Irwin Union Bank & Trust Co., Columbus, Ind.
Old National Bank, Evansville, Ind.
Peoples Trust & Savings Co., Fort Wayne, Ind.
Morris Plan of Indianapolis, Indianapolis, Ind.
Industrial Trust & Savings Bank, Muncie, Ind.
National Bank & Trust Co., South Bend, Ind.
First National Bank & Trust Co., Lexington, Ky.
Bank of Louisiana, New Orleans, La.
Merrimack Valley National Bank, Andover, Mass.
Arlington Trust Co., Lawrence, Mass.
Essex Trust Co., Lynn, Mass.
Citizens Commercial & Savings Bank, Flint, Mich.
First National Bank & Trust Co., Kalamazoo, Mich.
Security Bank, Lincoln Park, Mich.
St. Cloud National Bank, St. Cloud, Minn.
Kirkwood Bank, Kirkwood, Mo.
First National Bank, Omaha, Nebr.
Central Jersey Bank & Trust Co., Allenhurst, N.J.
Haddonfield National Bank, Haddonfield, N.J.
Plainfield Trust State National Bank, Plainfield, N.J.
Trenton Trust Co., Trenton, N.J.
First Trust Co., Albany, N.Y.
Marine Midland Trust Co. of Southern New York, Binghamton, N.Y.
Marine Trust Co. of Western New York, Buffalo, N.Y.
Genesee Valley Union Trust Co., Rochester, N.Y.
Franklin National Bank, Rockville Centre, N.Y.
Marine Midland Trust Co. of Central New York, Syracuse, N.Y.
Manufacturers National Bank, Troy, N.Y.
Marine Midland Trust Co. of the Mohawk Valley, Utica, N.Y.
County Trust Co., White Plains, N.Y.
First Union National Bank, Charlotte, N.C.
Peoples National Bank & Trust Co., Norristown, Pa.
Oak Cliff Bank & Trust Co., Dallas, Tex.
Preston State Bank, Dallas, Tex.
Texas Bank & Trust Co., Dallas, Tex.
Texas National Bank, Houston, Tex.
Mainland Bank & Trust Co., Texas City, Tex.
Bank of Virginia, Richmond, Va.
Bank of Madison, Madison, Wis.

Senator BENNETT. Mr. Kimball is the last name I see on this witness list. We have more this afternoon.

The CHAIRMAN. Thank you, gentlemen, very much.

Senator BENNETT. Thank you. I think we had better hear Mr. Kimball, Mr. Chairman.

The CHAIRMAN. We are very glad to have as our next witness, Mr. George H. Kimball of Portsmouth, N.H., and we thank you, Mr. Kimball, for coming down from Portsmouth and we are very glad to have you come forward.

STATEMENT OF GEORGE H. KIMBALL, OWNER OF KIMBALL'S DEPARTMENT STORE, PORTSMOUTH, N.H.

Mr. KIMBALL. Senator Douglas and Senator Bennett, I want to thank you for extending me time before lunch to speak. I do take exception to the remark retailers are not under more pressure than the bankers because I have Santa Clauses and big parades and this is a busy time of our year.

My name is George H. Kimball, a resident of New Castle, N.H., and owner of Kimball's Department Store in Portsmouth, N.H. Kimball's Store is a family-owned store, specializing in women's and children's apparel. We employ 55 women, and 5 men on a regular full-time basis, and at peak periods have as many as 90 people on the payroll. Our annual volume of business is around $850,000. Our payroll amounts to $184,311 last year. These people pay approximately $28,629 a year in Federal income taxes. The firm pays less than 1 percent of sales in Federal income tax. However, the firm does pay about $15,000 a year in State and municipal taxes. I would classify Kimball's as a small industry in a small community in a small State.

I come here today to speak in opposition to S. 750, the so-called Truth In Lending Act, as I believe its enactment would be detrimental to my business, to the livelihood of my employees, and to the community of Portsmouth, N.H. I also believe its enactment is unnecessary, as at the present time we are furnishing our customers understandable credit information, and the additional amount of information required by S. 750 such as the artificial "simple annual rate" only would confuse and bewilder the consumer.

Credit is a very important tool of the modern retailer, and he cannot survive without it. At Kimball's 65 percent of all our sales are transacted by our optional credit plan, referred to in S. 750 as a revolving or open-end credit plan.

Without the extension of this amount of credit, two things would happen that would put Kimball's into red ink immediately. Anything that would prevent consumers from using our credit plan would immediately reduce our volume, reduce our gross profit, while our fixed costs remain the same, our net profit would be a minus figure instead of a plus figure. At the merchandising level, the consequent reduction in volume would increase markdowns, decrease selection, and further reduce our ability to employ citizens of Portsmouth, to purchase merchandise then from manufacturers throughout our Nation, and most of all erase our Federal tax liability.

To be specific, I would like to discuss section 4(b), starting on line 14 of page 4 of S. 750. Under part (1) the bill requires a store like Kimball's to furnish, prior to the extension of credit, a statement declaring the simple annual rate, at which a finance charge will be imposed.

I submit our credit application which emphasizes to our applicants the following:

This is the yellow sheet here down at the bottom where it says:

The only charge for this credit is 1½ percent of amounts owed for 35 or more days per billing period of the 35 days.

Frankly, no one has been able to tell me what the simple annual rate is that I would have to declare.

When I was in Washington last April, Mr. Lindley indicated that it was about 18 percent. However, it isn't quite that simple, as at our store we submit invoices to our customers every 5 weeks, or about 10 invoices per year.

This plan was initially put into operation now due to the increase of the postage at the time particularly from 3 cents to 4 cents. Now with postage rates up another 25 percent to 5 cents, it is imperative we use this system for economical reasons.

At Kimball's we have a system which is unique, and does not cost the customer as much as other systems. I do not think a store like ours should be subjected to Federal control, since we are already clearly stating to our customer, in a language that she can understand, that our service charge is 1½ percent of ending balance per billing period. As it is, our customers are smarter than we are, they charge at the beginning of each cycle and pay at the end of each cycle, thereby obtaining almost 70 days of credit without any service charge, and believe me this is not the 18 percent that Senator Douglas would have me tell my customers, but can be less than 8 or 9 percent on a simple annual rate.

I am very much opposed to the clear statement of a simple annual percentage rate, as it confuses the shopping public between the words "service charge" and "interest." Under revolving credit, we supply our customers with extra service, for which there is a just charge made. This charge does discourage excessive charging, and it also has the tendency to make customers pay their bills more promptly. For example, we can send seven invoices to a customer for the purchase of one $30 dress. And I show you in the chart here the testimony submitted where she bought a dress on April 3 for $30 and we send out statements every 35 days and she made regular payments of $5 and now the total service charge of this was $1.18 or only 3.9 percent of sale cost.

Purchase made April 3, 1963—1 dress, $30

Invoice date	Payments on account	Balance due	Service charge
May 1, 1963	$5.00	$25.00	$0.38
June 5, 1963	5.00	20.38	.31
July 10, 1963	5.00	15.69	.23
Aug. 14, 1963	5.00	10.92	.17
Sept. 18, 1963	5.00	6.09	.09
Oct. 23, 1963	5.00	1.09	
Nov. 27, 1963	1.09		
Total			[1] 1.18

[1] 3.9 percent of sale.

The above transaction necessitated sending this customer seven separate bills. The cost to the store was at least 25 cents per invoice or a total of $1.75. We charged our customer $1.18 or 3.9 percent of the actual sale. It actually cost the store $0.57 more than the customer paid in service charges.

However, this is worthwhile, as it did increase the store's volume, and cut down possible markdowns. This is further borne out by a recent survey conducted by the accounting firm of Touche, Ross, Bailey, & Smart for the National Retail Merchants Association. This analysis of customer credit costs in department stores is based on a 16-month study, in a total of 80 stores, and credit sales of approximately $375 million.

This study showed that total credit costs for all stores exceeded their $15.8 million total service charge by $6.2 million, which indicated an average deficit of 2.55 percent of credit sales. They also reported that—

> If it were practical to assemble all costs arising because of the existence of credit, the excess of credit costs over service charge revenue would be further increased.

This study included stores with an annual volume ranging from $1 to $100 million annually. I want to point out that there is a distinct difference between the definition of service charge and interest. Any attempt of S. 750 to make any retailer state that the service charge is 18 percent annually is misleading.

It would have the tendency to make the customer believe it was an interest charge. But these other factors, such as monthly billing, stamps, stationery, followup letters, et cetera, are costly. To the customer who wants to be carried for 6 to 10 months, it is only fair that he should pay a charge over the customer who is willing to pay his bills promptly in 30 days or less.

As I am one of less than five stores in a small community using revolving credit, S. 750 would put me in an unfair competitive position, if I had to state that our service charge was 18 percent. This is an untrue figure, as I mentioned before in the sale of the dress, where the service charge was actually only $1.18 or 3.9 percent of the selling price. But if my competitor does not put a service charge on his invoices and S. 750 requires Kimball's store to state 18 percent, it would appear superficially that Kimball's is charging an outrageous rate.

It is bad enough to have competitors make business difficult, but I don't think it necessary for the U.S. Government to pass legislation to hinder my livelihood, especially in view of the fact that we are not hiding information from them, but are now furnishing them with information that they do understand and use.

Over 50 percent of my customers want and use revolving credit. They have little or no objection to the service charge, such as we use. Our customers have always the option of paying their bills in 30 days, and avoiding any charge, but if their needs require, such as at back to school, or Christmas time, we have this service available, and I believe we are justified in making a charge for this service.

In closing, I would like to state that S. 750 is detrimental to the economy of our comunity, State, and Nation, since it curtails business, and does not promote it. If enacted, it would reduce employment and lower the production of merchandise. It is also unfair to the small retailer who wants to use revolving credit, since it puts him in an unfair position. I urge your committee to vote against submitting this bill to Congress, because it will not promote the economic stabilization of our country. Senate bill 750 will only retard the economy of the United States. Thank you.

The CHAIRMAN. Thank you very much, Mr. Kimball, we appreciate your coming down.

Senator BENNETT. You refer to the Touche, Ross study?

Mr. KIMBALL. Yes.

Senator BENNETT. Does your experience bear these findings out?

Mr. KIMBALL. Yes; I think I pointed out in the sale of the dress, that it costs us $1.75, yet as we bill the customer for the dress, our service charge is only $1.18.

Senator BENNETT. This morning in the press conference one of the men questioned me and revealed to me that he formed the opinion that the department stores make no money on the merchandise, they make all their money from the charges for credit; is that right?

Mr. KIMBALL. No; it is not right. Sometimes they get that impression because they don't make a correct cost analysis; they don't put the items in the credit departments. Sure they might take in $10,000 worth of credit charges a year, service charges, but when they add all the cost of labor of sending the bills out and the stamps and the envelopes and putting the bills in the envelopes, and so on; the posting, it adds up to as the Touche, Ross report came out, it cost the store actually more to do the credit business than it did to do the cash business, but it increases the volume.

Senator BENNETT. That is all.

The CHAIRMAN. Although it is said that many stores make more on their revolving credit, approximately 18 percent, in a year than they do from their merchandise, I never made that statement.

Senator BENNETT. I never said——

The CHAIRMAN. This is a statement from the stores themselves. They would not normally say it if it weren't true.

Mr. KIMBALL. I think you are referring to a statement by Mr. Gudeman.

The CHAIRMAN. Not specifically, there are others.

Mr. KIMBALL. I don't think they are making a correct cost analysis. In other words, it actually costs us more than we charge the customer to actually send them a bill.

The CHAIRMAN. There is a very large mail-order house in Chicago and whose financial condition improved very markedly after it installed revolving credit. (See article, p. 1350.)

Mr. KIMBALL. Well, this study of the National Retail Merchants Association just made was a true cost analysis in which they had over 100 stores and I think you will find the Touche, Ross accounting firm in New York is a highly reputable firm. I don't have a copy of the report but I will have the National Retail Merchants Association send you a copy if you would like to have one.

The CHAIRMAN. We would very much like to have it and we will append the statements which we have received.

(A press release follows, and the report begins on p. 1493.)

[Press release of National Retail Merchants Association, New York, Nov. 4, 1963]

NEW YORK, N.Y., November 4, 1963.—Contrary to common opinion, stores do not make money by offering credit to their customers. In fact, providing credit in the department store field is a costly undertaking.

This was the finding of a 16-month study into the actual costs to U.S. department stores of providing customer credit that was officially released today by the National Retail Merchants Association. The study was conducted by the independent public accounting firm of Touche, Ross, Bailey & Smart, New York, which was retained by the association as an impartial research group to provide the first definitive research into retail customer credit costs.

The study of customer credit costs in department stores revealed that the average annual deficit for operating a credit department in the 80 retail stores studied by Touche, Ross, Bailey & Smart came to 2.55 percent of credit sales. The total costs of operating a credit department in these 80 stores was $22 million annually. These same stores suffered a total combined annual deficit of $6.2 million over their revenue from service charges.

Under the direction of Dr. Victor H. Brown, Touche, Ross, Bailey & Smart selected the 80 U.S. retail stores for a thorough study of their credit operations. These stores included some of the largest department store chains in the country as well as a number of smaller, independent stores and provided a representative sampling of American retail operations.

The study included credit cost data from stores operated by the study participants in the Northeast, Midwest, and the South, and with approximately 2 million active customer accounts during the study period. Larger stores were studied because Touche, Ross, Bailey & Smart felt that a conservative approach was necessary to insure the validity of the study. The New York firm pointed out that a larger store, with its greater sales volume, is more able to spread its fixed costs over a greater number of transactions. It is therefore able to provide services at a lower cost per customer than the small retailer.

Credit has sometimes been thought of as a profitable business for the retailer. This has been due to the fact that department stores frequently organized their internal operating statements so that total operating expenses were deducted from gross margin to arrive at an "operating profit." But included within these operating expenses were the costs incurred in extending credit services. Service charge revenue was then added to this "operating profit" as if it were an independent, cost free, source of revenue. Often a superficial examination of this type of statement has led some to suggest that credit is profitable.

Such a conclusion, in the light of the Touche, Ross, Bailey & Smart study, is completely erroneous. Retail credit, the study further points out, is not a business venture. It is a selling tool.

Great efforts were made by Touche, Ross, Bailey & Smart to identify accurately, in the stores being studied, those costs which were incurred to provide credit services to customers. Eight categories of credit costs were studied. These were new account costs, account servicing costs, account collection costs, interests at the conservative rate of 6 percent on accounts receivable investment, space and equipment costs, the cost of additional salespeople required to handle credit customers, management expenses, and other miscellaneous credit costs.

The study examined three main credit account categories. These consisted of regular (30-day) charge accounts, revolving credit accounts, and conventional installment accounts. There were 730,000 regular (30-day) charge accounts in the sample for which statistics were available by type of account. They amounted to 44 percent of the total accounts in this sample. The average sales transaction for this type of account ranged between $6 and $11; the number of average annual sales transactions per account ranged from 18 to 24.

There were 663,000 revolving credit accounts in the store sample. They amounted to 39 percent of the total accounts covered. As a rule, the annual number of revolving credit sales transactions ranged from 18 to 24 per account, while the average sale was between $6 and $10 per sales transaction. During the study period, all stores but one charged $1.50 per $100 of the monthly account balance.

The conventional installment accounts studied included rather broad coverage of accounts that were basically similar as to length of credit repayment terms, unit sales activity per year, and the size of each sales transaction. One or two sale transactions per year were typical for this type of account, while the size of the average transaction ranged between $90 and $160. Also included under this category were accounts on which the customer chose to pay off his account in 3 months because of the 90-day no service charge feature often available on this type of account. Ninety-day payouts were a fairly significant factor for a number of the stores participating in the study, and in some cases, these payouts ran as high as one-fourth to one-third of the store's total installment account sales.

The Touche, Ross, Bailey & Smart study showed that total credit costs for all stores included in the study exceeded their $15.8 million total service charge by $6.2 million. The average deficit for all participants, as stated earlier, came to 2.55 percent of credit sales. This was accomplished with a conservative identification of credit costs. In their sutdy conclusions, the New York accounting firm commented that "if it were practical to assemble all costs arising because of the existence of credit, the excess of credit costs over service charge revenue would be further increased."

The firm further stated that the 6-percent cost assigned in their study to the capital required to finance accounts receivable was very conservative. The 6 prcent was used because of its historic application in published retail figures. It was their belief, Touche, Ross, Bailey & Smart stated, that a more realistic cost of capital figure was probably at least 15 percent. The use of a 6-percent cost of capital figure would be correct if companies operated only on debt capital and without equity capital. However, both equity and debt capital are used to finance accounts receivable. Most businesses generate income at a rate of about 15 percent (or more), before taxes, of total capitalization.

"It seems apparent," the Touche, Ross, Bailey & Smart study concluded, "that the average department store would enhance its profits by eliminating the credit function—if it could maintain, the same sales volume. Not only would it make a greater profit, but it would be doing so on a much smaller investment since discontinuing credit services would also eliminate the need for investing capital in customer's accounts receivable."

In a practical sense, the study reported, eliminating the credit function would not necessarily enhance store profits as sales would undoubtedly be adversely affected. It is clear, therefore, that credit must be justified economically by the department store as a selling tool—not as a separate business venture.

In general, the study revealed, service charge revenues on credit accounts do not equal but, in fact, are less than the conservatively determined costs of credit for these accounts. The excess of costs over revenues amount to 3.76 percent of credit sales on regular (30-day) charge accounts; 1.31 percent of credit sales on revolving credit accounts; and 0.05 percent of credit sales on conventional installment accounts.

It was also shown that the cost of handling the average revolving credit account was about twice the cost of handling the average (30-day) charge account—the costs were $13.64 and $6.73 respectively. The cost per conventional installment account was higher still, amounting to $17.25 per average active account.

In their study conclusions Touche, Ross, Bailey & Smart pointed out that the costs of extending credit to regular (30-day) charge account customers far exceed service charge revenues from these accounts. While no service charges were assessed on regular (30-day) charge customers, this relative disadvantage was partially offset by the greater turnover of the investment in regular charge account balances.

The association, to facilitate the work of Touche, Ross, Bailey & Smart, appointed a special NRMA Advisory Committee on the Study of the Cost of Customer Credit in Department Stores. Chairman of the NRMA committee is Roland H. Kolman, treasurer, the May Co., St. Louis.

The "Study of Customer Credit Costs in Department Stores," conducted by the firm of Touche, Ross, Bailey & Smart, for the National Retail Merchants Association, will be published in full by the association early in 1964. The complete study received the unanimous endorsement of the NRMA board of directors at its quarterly meeting on October 14 in Chicago.

Mr. KIMBALL. Just because somebody testified that way, that they may not have been fully informed.

The CHAIRMAN. Well, as I say, it was obtained from the stores and mail-order houses, themselves, and one of the largest concerns.

Mr. KIMBALL. All I can go by is my own experience and this most recent report which came out a month ago by the National Retail Merchants Association.

(An application for credit form and credit plan submitted by Mr. Kimball follows:)

APPLICATION FOR CREDIT

ACCOUNT NUMBER | APPROVED BY | LIMIT CA MC (C) (P) | DATE

SAME AS | AUTHORIZED PURCHASERS | REPORT DESIRED

LOCAL

FILE

REGULAR

SPECIAL INSTRUCTIONS

MR. MRS. MISS | LAST NAME | FIRST NAME | MIDDLE NAME | WIFE/HUSBAND NAME | SINGLE ☐ SEPARATED ☐ DIVORCED ☐ WIDOW ☐

PRESENT ADDRESS | HOW LONG | PHONE | OWNS ☐ BUYING ☐

FORMER ADDRESS | HOW LONG | BUS. PHONE | RENTS ☐ WITH PARENTS ☐

BUSINESS (HIS) | ADDRESS | HOW LONG | POSITION | BADGE

BUSINESS (HERS) | ADDRESS | HOW LONG | POSITION | BADGE

PERSONAL REFERENCES | ADDRESS | RELATIONSHIP

CHARGE ACCOUNTS | ATHERTON ☐ SCOTTS ☐ | DAY ☐ CASWELL ☐ | JORDANS ☐ WARDS ☐ | NO. OTHERS

CHARGE ACCOUNTS

CHARGE ACCOUNTS

BANK | CHECK ☐ SAVINGS ☐ | REMARKS

"THE ONLY CHARGE FOR THIS ~~CREDIT IS 1½ % OF AMOUNTS OWED~~ FOR 35 OR MORE DAYS PER BILLING PERIOD OF 35 DAYS."

AMOUNT | BUDGET | C. B. A.

TERMS | | TAKEN BY

I HEREBY MAKE APPLICATION FOR A CHARGE ACCOUNT IN MY NAME AND THE NAME OF MY HUSBAND (OR WIFE) WHO HAS AUTHORIZED THE UNDERSIGNED TO OPEN SUCH A CHARGE ACCOUNT. IN CONSIDERATION OF THE EXTENSION OF CREDIT TO US, I AGREE TO BECOME PERSONALLY RESPONSIBLE FOR SAID ACCOUNT IN ADDITION TO MY HUSBAND OR WIFE.

SIGNATURE ____________________

It's New! It's easier!

KIMBALL'S policy has always been to bring you the newest in credit plans.

Now you can start using the new Optional Credit Plan at the Store That Carries The Nicest Things.

For all customers now using our Credit Plan, **you don't have to pay the entire balance.** Just pay on each bill any amount you care to send, as long as it is more than the minimum payment as explained on the reverse side of this folder.

KIMBALL'S will carry forward the remaining balance until the next month, plus your purchases for the next 30 days, and a charge of 1½% of amounts due for 35 or more days.

YOU DON'T HAVE TO WRITE US—YOU DON'T HAVE TO PHONE US. Our credit department will do all the bookkeeping and send you your usual monthly statement.

AND NOW ANOTHER EXTRA—ONLY AT KIMBALL'S: **5 days of grace!** KIMBALL'S new billing system will send out your statement every fifth Wednesday, giving you a full 35 days in which to pay your bill, which means you will have 5 extra days over the old 30-day account system.

Kimball's New Optional Budget Account

Here's a plan which not only applies the permanent budget feature to your regular shopping needs but also gives you EXTRA credit automatically just when you need it most . . Christmas . . Easter . . the beginning of a new season!

Let your balance fluctuate with your needs . . then when you receive your monthly statement including all your purchases for 30 days and the small charge . . pay according to our schedule . . .

See how easily it works....

OPTIONAL BUDGET PAYMENT SCHEDULE

When your Balance is	Minimum Payment
up to $60	$10
$ 61 to $100	$15
$101 to $140	$20
$141 to $170	$30
$171 to $200	$50
$201 to $250	$55
$251 and over	¼ of Balance

Simple . . . isn't it?

You see . . no matter what your budget requirements . . Kimball's caters to them!

And may you always have the joy of shopping in this FINE STORE . . with its FINE REPUTATION for QUALITY and for SERVICE!

Senator BENNETT. I should like to offer for the record at this point a letter written by Mr. Victor H. Brown, who is a manager of the management services department of the Touche, Ross firm who directed the study describing the conditions under which the study has been made.

TOUCHE, ROSS, BAILEY & SMART,
New York, N.Y., November 20, 1963.

Hon. WALLACE F. BENNETT,
Senate Office Building, Washington, D.C.

DEAR SENATOR BENNETT: At the request of Dr. Charles Bradford, I am summarizing in this letter those points wherein we have followed a conservative approach in assembling credit costs for inclusion in our "Study of Consumer Credit Costs in Department Stores," dated October 11, 1963, and prepared for the National Retail Merchants Association.

1. *Study participants comprise primarily large department stores.*—The large store can be expected to enjoy lower credit costs per customer than the smaller store because of the large store's ability to spread fixed credit costs over a larger volume of transactions.

2. *A conservative approach was employed in identifying that portion of store operating costs which are attributable to the credit function.*—When it was necessary to use allocation procedures to apportion costs between credit and noncredit activities, the amount charged to the credit activity was always conservatively determined.

3. *Not all credit costs were included in the study.*—Only those credit costs which could be identified and measured with the requisite degree of accuracy were included in the study. Other store costs are affected by the existence of the credit function in department stores. The existence of credit affects the entire character of a store and its expenses. It results in the incurrence of a number of additional costs, some of which are not readily susceptible to specific measurement. For example, if it were not for credit, it might be possible for stores to operate on a central checkout basis rather than have salespersons assigned to individual selling departments. Other credit costs which are not readily susceptible to accurate measurement include such items as:

A. The cost of handling "extra" returns by credit customers. Commonly, returns from credit customers significantly exceed cash customer returns. This results in extra costs attributable to the existence of credit.

B. The cost of handling "extra" credit deliveries. Commonly, credit customers have merchandise delivered more frequently than do cash customers. This too is a cost of credit.

C. The cost of maintaining the somewhat larger than normal inventories required for credit selling because of the additional amount of merchandise in the hands of credit customers which is destined to be returned to the store.

These and other costs like them are definitely costs of credit since they contribute toward total operating costs. Recognition of their existence is essential in assessing the costs of the credit function. However, no amounts have been shown in the study exhibits for such costs since they could not be measured with the necessary degree of accuracy.

4. *The basic identification principle employed is a conservative one.*—The basic criterion for identifying costs of credit was to identify for each participant those costs which could be discontinued if the credit function were discontinued, assuming no change in total sales volume. This assumption concerning unchanged sales volume was made so as to permit a sound identification of credit costs to be made. Of course, it reflects no opinion concerning the possible reaction of sales volume to the possible elimination of credit services. Applying this criterion, only those store expenses incurred because of the existence of credit were identified as credit costs. Expenses incurred to provide services available to both cash and credit customers were not considered as credit costs. This is a sound though somewhat conservative cost identification principle.

For example, as a cost of credit, we considered only that portion of sales persons time required to process credit transactions (e.g., credit authorization and sales check preparation time) which might be eliminated if the credit function were discontinued. This amounted to only 40 percent of the time which sales persons spend in processing credit transactions. The other 60 percent of the time would probably not be discontinued if the credit function were eliminated. A different cost allocation assumption, which could be justified but which would not be as conservative as the one used in the study, would permit identifying 100 percent of such sales persons time as a credit cost.

5. *A 6-percent cost of capital rate was used in the study.*—As discussed in the report and as detailed in appendix E to the report, the 6-percent cost of capital rate used in the body of the statistical exhibits is a very conservative cost of capital. A more realistic pretax cost rate is probably in excess of 15 percent for most stores. Using the 6-percent rate resulted in conservatively determined credit costs.

We shall be glad to answer any additional questions which you may have concerning our "Study of Consumer Credit Costs in Department Stores."

Very truly yours,

VICTOR H. BROWN,
Manager, Management Services Department.

The CHAIRMAN. Here is a letter given to me by John Hancock Mutual Life taking issue with certain parts of the bill, and, also, a pamphlet on FHA financing which gives equivalent interest rates as well as total interest payments, true annual interest rates on home improvement loans, title law, as quoted thereon and total amounts paid under home mortgages. With unanimous consent these shall be printed as part of the record. This is prepared by the FHA and is being distributed by the building and loan associations, by banks, and by mutual savings banks, by the hundreds of thousands. (See p. 1265.)

(The letter follows:)

JOHN HANCOCK MUTUAL LIFE INSURANCE CO.,
Boston, Mass., November 21, 1963.

HON. PAUL H. DOUGLAS,
Chairman, Subcommittee on Production and Stabilization, Committee on Banking and Currency, U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: The John Hancock Mutual Life Insurance Co. is pleased to have this opportunity to express its views on S. 750 (88th Cong.), the Truth-in-Lending Act, which is currently the subject of hearings before the Subcommittee on Production and Stabilization.

Like life insurance companies generally, our company is engaged in the sale and administration of life and health insurance policies and annuity contracts and in the consequent investment of policy reserves in bonds, stocks, real estate, and mortgages. In part, our concern with the act relates to our investment activities. We earnestly hope that the necessary modifications will be made to exempt clearly loans made to business firms or governmental agencies or instrumentalities, and to prevent the imposition of onerous disclosure requirements with respect to real estate mortgage loans made to persons not exempted.

Our primary concern, however, is with the effect of the act on the transactions directly associated with the daily administration of the policies our company sells: the best example is the common policy loan provision. Under this policy provision, the policyowner is given wide latitude in the borrowing of money, using the policy cash value as security. The loan may not exceed the cash value, but within this one restriction loans may be as large as thousands of dollars or as small as a few dollars, may be repaid in whole or in part at any time or not repaid until the policy proceeds become payable, may be increased numerous times, including increases (automatically, if desired) to provide funds to pay policy premiums.

Obviously, such a flexible loan provision is quite valuable to our policyowners. But equally obviously, this act would apply prohibitively onerous requirements to it. If policy loans are subject to subsection 4(a) it would clearly be impossible to state in advance the dollar amount of interest charges, in view of the flexible repayment provisions. If the policy loan provision, on the other hand, is subject to subsection 4(b), the expenses entailed by the required monthly statements would be far beyond reasonable levels. For a substantial proportion of all loans which are for relatively small amounts, the expenses would certainly exceed the total interest charges paid by the borrowers.

We are sure that such consequences were not desired by the framers of the act and that efforts would be made to avoid them through drafting changes. However, a different course seems appropriate in view of the existing extensive framework of State regulation of insurance.

The insurance laws of Massachusetts include a provision entitling the policyowner:

* * * to a loan from the company of a sum not exceeding its loan value, on the sole security of the policy, with interest at a rate not exceeding 5 percent per annum compounded annually or, at the option of the company, compounded semiannually. The loan value shall be an amount which, together with interest as aforesaid, to the end of the current policy year shall equal the cash surrender value available at the end of the said policy year under the policy * * *.

Another section of the Massachusetts law requires inclusion, in any insurance policy issued there, of specific language having the effect of that quoted. The laws of the other States are very closely similar. The essential effect of these laws is that each policyowner has in his possession a statement of the highly restricted charges which may be made if he exercises his right to borrow.

Whether the act would affect other aspects of insurance company operations is not completely clear. Whatever other areas there may be that could be subject to the act, it is virtually certain that they are already subject to the comprehensive State requirements with respect to policy language, of which the loan requirements described above are only one example. Thus, each policy owner has, in his hands, a document clearly delineating the conditions under which any policy transaction may take place.

The existing State regulation of life insurance seems adequate to insure the basic purpose of the Truth-in-Lending Act, while application of the act to this unique business may be very difficult or impossible without unfortunate effects. It seems to this company most appropriate to exempt from the act the various transactions incident to the sale and administration of the contracts sold by life insurance companies.

Very truly yours,

J. EDWIN MATZ,
Vice President, Actuarial and Accounting.

The CHAIRMAN. Now, we will recess until the afternoon. I had intended that we convene at 2 o'clock. I may say that the opponents had 1 hour and 34 minutes including questioning by me. We have taken 1 hour and 30 minutes including questioning by the Senator. Since I offered them 10 more minutes, they here should have 5½ minutes more this afternoon than the proponents; so that it is understood then this afternoon, the time of the apponents will be 5¼ minutes more.

Senator BENNETT. I will be generous and we will square the account.

The CHAIRMAN. No, no; I insist, lest anyone pounce upon me and accuse me of unfairness. In order to do this I will pay interest on this and give you 6 minutes more. [Laughter.]

Now, this is an article from Fortune, June 1961, included in our hearings for July 1961, which is entitled, "The Monster Speigel Keeps," page 1323 of the hearing. This is a statement, "Financial Vice President Burd says that 40 percent of Speigel's net profit now comes from its service charges." Then he goes on to say:

This statement has probably caused more exasperation in the trade than anything else the maverick company has ever said or done.

Mr. KIMBALL. Don't you think, Senator, that is one man's opinion, just like the article in the Boston Herald was one reporter's opinion? This study by Touche, Ross is a factual study just made and it proves conclusively it costs stores more to send out bills than they are charging on the service charges to the customers.

The CHAIRMAN. Others do not like to concede they make any profit on credit. "In our business," says Andrew Lamb, treasurer of Montgomery Ward, "it is not in the cards to make a profit on credit," and he adds, "we regard credit as a customer service, not as a primary source of profit."

Our author continues:

> What really annoys the competition is Speigel's indiscretion in talking about credit profits. There is an uneasiness in the credit business today, but not only because of the magnitude of consumer debt, but also because over the retailers heads hangs a consumer credit labeling bill, the so-called truth-in-lending bill. This was introduced last year by Senator Paul Douglas, who will undoubtedly hold hearings on the bill again in this session of Congress—and his prediction was correct—and it requires that all installment financing charges be stated in dollars and cents and also as a simple annual rate on the unpaid balance. Almost all merchants, including Speigel's, and their organizations, are violently opposed to it.

They don't want to admit it.

I ask that the article be placed in the record in its entirety. (See p. 1350.)

Shall we adjourn this battle?

Senator BENNETT. Until when?

The CHAIRMAN. Approximately 2:30.

(Whereupon, at 1:07 p.m. of the same day, the hearing was adjourned to reconvene at 2:30 p.m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. Ladies and gentleman, the President of the United States is dead. The country and the world has suffered a great loss. The hearings will be adjourned. Those who wish to submit statements will send them to Washington to be filed.

I am going to ask that we all stand and observe a minute of silent prayer and then I am going to ask Father McEwen to lead us in prayer.

(A minute of silence was then observed by the assembled body.)

Father MCEWEN. Our Father, who art in heaven, hallowed be Thy name. Thy kingdom come, Thy will be done, on earth, as it is in heaven. Give us this day our daily bread and forgive us our trespasses as we forgive our trespassers, and lead us not into temptation, but deliver us from evil. Amen.

Eternal rest grant unto us, O Lord, and may his soul, through the mercy of God, rest in peace. Amen.

(The hearing in the above-entitled matter was thereupon adjourned at 2:37 p.m. of the same day.)

TRUTH IN LENDING—1964

SATURDAY, JANUARY 11, 1964

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON STABILIZATION,
Boston, Mass.

The subcommittee met, pursuant to notice, at 10 a.m., Senator Paul Douglas (chairman of the subcommittee) presiding.

Present: Senators Douglas, Bennett, and Simpson.

The CHAIRMAN. Ladies and gentlemen, if the committee will come to order, these hearings are a continuation of hearings which we had scheduled for November 22d and November 23d. We have held a morning hearing on November 22d, and then of course, came the tragic and terrible assassination of the President, and we immediately discontinued the hearings, and went back to Washington; but we want to complete the hearings, and so that those who did not have a chance to testify in November can do so now, and I am very appreciative of the cooperation of Senators Bennett and Simpson not only in agreeing to the hearing, but coming up and taking part in the hearings, although our views are not identical on the matters, and we have agreed on certain ground rules for the conduct of the hearings.

The proponents will start off and will take approximately an hour and a quarter this morning, and then the opponents will have equal time, and we will observe the same thing in the afternoon, and Senator Bennett and I have reached an agreement that when I poach on his time in cross examining his witnesses at length, it will be charged to me, and when he cross examines our witness, it will be charged to him.

So, these are the ground rules that we have agreed to, and we hope to live up to them, and I hope if we don't, the audience will manifest their disapproval.

Senator BENNETT. Assuming there are no unusual conditions that arrive, if we take 2½ hours, we will plan to adjourn at 12:30?

The CHAIRMAN. I would say—it is 10:12—at 12:40.

Senator BENNETT. Be back when?

The CHAIRMAN. I would think normally at 2:30.

Senator BENNETT. That is fine, that is very good. We could be through about 5 o'clock.

The CHAIRMAN. That is right. Now, Lt. Gov. Frank Belloti will be here to testify later, and were he present here at this time, as he cannot be, I would have called him as the first witness, but in his absence we are going to call others, and we are very much honored in having representatives of the Massachusetts Federation of Business and Professional Women and of the Boston Teachers Women and some of the other unions and women's clubs.

So, I am going to ask Mrs. Frederick Wood of the Massachusetts State Federation of Women's Clubs if she will come forward and be the first witness.

Very happy to have you.

Mrs. Wood. Thank you, Senator.

STATEMENT OF MRS. FREDERICK WOOD, MASSACHUSETTS STATE FEDERATION OF WOMEN'S CLUBS

Mrs. Wood. Mr. Chairman, members of the committee, my name is Mrs. Frederick J. Wood, of 29 Calvin Road, Newtonville, Mass. I am the president of the Massachusetts State Federation of Women's Clubs, an organization of 43,000 members in 375 local clubs throughout the Commonwealth. I have with me the first vice president, Mrs. Martha Chives of Arlington. I have been instructed by the vote of the council of the federation to present the following statement before this committee:

At an official delegate meeting of the federation held October 1961, it was voted unanimously to accept the following resolution on consumer interests as a statement of our common concerns as women and homemakers, to become a basis for program planning in local clubs and as a guide to action before the Massachusetts Legislature if we found such action to be necessary;

Whereas the Massachusetts State Federation of Women's Clubs recognizes that the well-being of home and family are dependent upon consumer knowledge and skills; and

Whereas it has become increasingly difficult for consumers to make choices in buying goods wisely and using services effectively: Therefore be it

Resolved, That the Massachusetts State Federation of Women's Clubs encourages clubwomen to promote and support legal action which requires:

(1) the testing and certification by a governmental agency of materials and additives used as ingredients in foods, drugs, and cosmetics;

(2) a standard of truthfulness and clarity in labeling and packaging all goods destined for retail sale;

(3) further protective regulations in the preparation and distribution of food and drugs; and be it further

Resolved, That local clubs undertake the programs of education in the local community which demonstrate what the cost of credit buying adds to the quoted price of a product.

We found ourselves unable to implement satisfactorily the directive under the final paragraph of the resolution.

In 1962 and again in 1963. therefore, we appeared before the appropriate committee of the Massachusetts Legislature in support of clarifying legislation which would enable us to teach the application of the Federal Reserve formula for the calculation of interest charged as a basis for choice among the various available sources of credit. In the 1963 session the Federation also supported the legislation submitted by Governor Peabody requesting the establishment of a special commission to study the existing Massachusetts statutes and make appropriate recommendations to the legislature further to protect and inform the borrowers of the Commonwealth. The legislation for a study has been enacted and we hope will be implemented by the prompt appointment of the commission.

The absence of State protection or the unavailability of information within any State would, we feel, make the passage of the Douglas act desirable in the interests of the ever-increasing number of families who use a wide variety of short-term credit sources to finance purchases of all types.

Thank you very much.

The Chairman. Thank you, Mrs. Wood, we appreciate your support very much. Senator Bennett may have some questions. I am greatly heartened by your testimony because it was the Federation of Women's Clubs which was the strongest force behind the passage of the original Food and Drug Act.

Mrs. Wood. Yes, we know.

The Chairman. Great supporters of Harvey Wiley throughout his service of the organization, and I am very pleased with your testimony. Senator Bennett?

Senator Bennett. I have one question. This statement was prepared for November 22?

Mrs. Wood. Yes.

Senator Bennett. Were you in the room during the November hearings?

Mrs. Wood. Yes, I was.

Senator Bennett. No other questions.

The Chairman. Senator Simpson?

Senator Simpson. No.

The Chairman. The next witness is Mrs. Martha O'Neil of the Boston Teachers Federal Credit Union. Mrs. O'Neil?

Mrs. O'Neil. I would like to present Mrs. Mary Johnston, president of our Boston Teachers Federal Credit Union, and if it is in order, I would like Mrs. Johnston to make her statement first.

The Chairman. Very good.

STATEMENT OF DR. MARY JOHNSTON, JAMAICA PLAIN, PRESIDENT OF THE BOSTON TEACHERS FEDERAL CREDIT UNION

Dr. Johnston. My name is Dr. Mary Johnston, 20 Martinwood Road, Jamaica Plain, and I am president of the Boston Teachers Federal Credit Union. Our membership is made up of Boston teachers and members of their families and employees of the Boston School Department.

At our past annual meeting the membership voted unanimously to support the truth in lending bill, and we are here this morning to help in this case.

The Chairman. Thank you very much. Mrs. O'Neil?

STATEMENT OF MRS. MARTHA O'NEIL, BOSTON, MASS., TREASURER OF THE BOSTON TEACHERS FEDERAL CREDIT UNION

Mrs. O'Neil. Senator Bennett, Senator Douglas, and Senator Simpson, my name is Martha O'Neil, and I am treasurer of the Boston Teachers Federal Credit Union.

Senator Douglas, and members of the committee, President Kennedy sent to Congress on March 15, 1962, a special message on protecting the consumer interest. In this historic message, the President listed the four rights of consumers. These were as follows: The right to safety, the right to be informed, the right to choose, and the right to be heard. Truth in lending is concerned with the last three of these rights. The right to be informed includes the right of the consumer to be given the facts necessary for him to make an informed choice; the right to choose presupposes that he has been given the knowledge for him to choose wisely; the right to be heard suggests greater participation by the consumer in the governmental process. The President thus made a part of history the convictions which have been growing on those who are familiar with the plight of the consumer in this very complex industrial society.

The President directed the Council of Economic Advisers to create a Consumer Advisory Council which would be commissioned to strive for these goals for consumers. I have here the first annual report of this Council. One of its recommendations urges legislation requiring full disclosure of credit costs or truth in lending, S. 750, the Douglas bill which is our concern today.

When S. 750 becomes law, regulations will be set up, and present methods of stating the cost of loans, revolving credit, and such activities would be standardized and the consumer would have the information to make an intelligent choice.

At present, only the rare consumer knows what he is paying for credit. I have here a conditional sales contract for a vacuum cleaner. The cash price was $85. The consumer paid $25 down, leaving a balance to be financed of $60. I may need some help from Mr. Lindley on these figures.

The CHAIRMAN. Get your slide rules out and we will get you these facts.

Mrs. O'NEIL. It is a little early in the morning for arithmetic, but I will go over the figures again. The cash price was $85, and the consumer paid $25 down, leaving a balance to be financed of $60. A finance charge of $6 was added to the $60, making a total of $66. This was to be paid in installments of $11 per month for 6 months. The charge for this $60 balance over a period of 6 months would have been $2.10 at 12 percent simple interest. It could be fairly stated that the cost to the consumer was actually over 20 percent. What do you make it?

The CHAIRMAN. As I understand it, the debt was $60?

Mrs. O'NEIL. $60, then a finance charge of $6 was added, making $66 at 6 months, at $11 a month which would be $66.

Senator BENNETT. That is $1 a month or——

The CHAIRMAN. No, $11.

Mrs. O'NEIL. No, $1 a month, 6 months in all; in our credit union, that would be $2.10; we charge 12 percent simple interest.

The CHAIRMAN. We have our experts comparing.

Senator SIMPSON. Even the experts disagree.

The CHAIRMAN. No, no, Mr. Bradford is a very fine man, a very accurate man, but he is having a little difficulty.

The experts agree, let me say for the record, that the real interest rate was 34 percent.

Mrs. O'NEIL. Yes; now we will come to the next point. The buyer believed that she was paying 6 percent; to her it sounded like 6 percent. Her husband believed it was 10 percent. On the back of this contract is the following statement:

> If your account is paid in full on or before the date your second payment is due, the finance charge will be $2 only.

My comment. If the balance were paid the next day after the first payment had been made, the interest then would have been over 36 percent on the second balance which then would have been $55, you see. Thus, a penalty was exacted for paying ahead, but the consumer was of the belief that there was a saving if paid ahead of time.

This book is a budget payment book for a set of encyclopedias. The entries on the cover were very confusing to the recipient of this book. They are as follows: Price: $288.45, plus the price of a stand, $22; total, $310.45.

The CHAIRMAN. $288?

Mrs. O'NEIL. $288.45.

The CHAIRMAN. And then $22?

Mrs. O'NEIL. $22 for this bookmobile, which is a stand.

The CHAIRMAN. $310.45?

Mrs. O'NEIL. Yes, and then followed these items: Tax, nothing; transportation, we think that is transportation, $5.37. It might be transaction, our attorney said.

Senator BENNETT. I think it is transportation.

The CHAIRMAN. How much?

Senator BENNETT. $5.37.

Mrs. O'NEIL. She wasn't sure, $5.37, it came all the way from out West, maybe.

The CHAIRMAN. Maybe Chicago, maybe?

Mrs. O'NEIL. Let me think.

The CHAIRMAN. Never mind. [Laughter.]

Senator BENNETT. To anybody living in Boston, west of Dedham. [Laughter.]

Mrs. O'NEIL. Senator Douglas, you are a mindreader, it was Chicago. [Laughter.] The total price, when you add that $5.37, you get a total price of $315.82, and the payment per month was $15.

The CHAIRMAN. $15 a month?

Mrs. O'NEIL. Yes.

The CHAIRMAN. For how many months?

Mrs. O'NEIL. Well, you could find out if you wanted to count the coupons.

Senator BENNETT. Twenty-one.

Mrs. O'NEIL. There are 21 coupons in the book, but there is no mention of the number of months on the cover. The last coupon is for $15.82, and on the back cover is a statement as follows: If your account is paid in full before November 30, 1962, deduct a discount of $14 from the balance due.

Now, this was the due date of the first payment, November 30. Nowhere is the cash price mentioned, so that it is impossible to figure the amount of interest the consumer was paying. You see, because although it says "price" the woman believed that that was not the price she had been told, but the word "price" on the front cover referred to the "time price," the consumer was told.

The CHAIRMAN. In other words, the price quoted was the cash price plus an undetermined amount of interest and nobody knows quite how much it was?

Mrs. O'NEIL. No, that is a complete mystery. We rescued her from that.

The CHAIRMAN. And the article was an encyclopedia?

Mrs. O'NEIL. A set of encyclopedias with a bookmobile stand.

Here is a time payment book from a furniture store. This is the record the customer had. All we have here is a figure under a column entitled "Charge," and the figure is $859.80. Below that is a figure $53.45, presumably the discounted carrying charge. A downpayment of $175 was made on the same day. $175 down payment. Four days later one article was returned and it was faulty, and $39.95 was credited for the item and $3.12 was credited for interest. On the same date another piece of furniture was purchased for $49.95 with a carrying charge of $3.90 added. We estimated the carrying charge to be about 16 percent true rate. However, the only information given on the book is a statement after the word "terms," $70 per month. In addition, the due date is stated as the 28th. The number of months is not stated. Massachusetts law does not have any regulation of such payments; therefore, only the minimum amount of information is stated, and it is very difficult to estimate true rate of interest. Now, you can inspect this if you would like, and maybe you can find something I couldn't find, but we went over that very carefully.

The CHAIRMAN. I must say, as you read it, I am mystified as to how much is being paid for the article and how much for the credit.

Mrs. O'NEIL. You see, on the piece returned, and the new piece bought, we know it was $49.95, and the 3 months' carrying charge, but we don't know how many months for it, and the customer was given nothing else but the book, and I asked him if he had a copy of the note, and he said, "No."

The CHAIRMAN. Does this seem to be a revolving credit plan?

Senator BENNETT. No; but I would think it wouldn't be, because here is a purchase of a whole room of furniture.

Mrs. O'NEIL. They had a fire in the house.

Senator BENNETT. Yes; so they bought it all at one time, and then went back and made a change in one piece of furniture; so I would think this would be an add-on or an installment account, whose balance was reduced each month; wouldn't you describe it that way?

Mrs. O'NEIL. Yes; he was supposed to pay $70 a month.

(The payment book follows:)

[redacted]

How to make Payments

Payments must be made regularly at the office.

Printed figures in the book are your protection for receiving proper credit.

When you are unable to come to the office, please mail in your book with the amount due, and the book will be promptly returned with amount paid, printed for your receipt.

If you find yourself unable to pay as agreed, due to some misfortune, you must report to our Credit Manager on the day your payment falls due, in order to protect your interest. You may be sure we will co-operate with you to any reasonable extent.

IMPORTANT

To avoid errors always bring this book with you when making purchases or payments.

Please remember our permission is required if you wish to move the goods leased from us.

[illegible] RAND -13 15M [illegible] (74) [illegible]

NAME [redacted] ACCT. NO. 4879

ADDRESS

Terms 70 00 M mo WK. III DUE DATE 28th

	DATE	CHARGE	CASH	CREDIT	BALANCE	TRANS.
1	MAR 9 63	[redacted]				AM
2	MAR-9-63		175.00			AL
3	MAR-9-63	859.80				D
4	MAR-9-63	* 53.45			738.25	E
5	MAR 13-63			* 39.95		AX
6	MAR 13-63			* 3.12	695.18	AX
7	MAR 13-63	* 49.95				D
8	MAR 13-63	* 3.90			749.03	E
9	APR 12-63		150.00		599.03	AM
10	MAY 13-63		* 70.00		529.03	AM
11	JUN 15-63		* 129.03		400.00	AM
12	JUL 20-63		* 70.00		330.00	BM

The [redacted], leases these goods to you with the understanding that you will make payments regularly.

13	SEP 30-63		* 70.00		260.00	BM
14	OCT 28-63		* 70.00		* 190.00	BM
15					~~529.03~~	
16			529.03		~~749.03~~	
17			175		~~39.95~~	
18			~~704~~ 03		3.12	
19					~~762.70~~	
20			190			
21			1024		190	
22					704.03	
23					894.03	
24						

The CHAIRMAN. But no statement as to how many months?

Mrs. O'NEIL. No; he didn't know how many months.

The CHAIRMAN. Doesn't the person who made the purchase know how many months?

Mrs. O'NEIL. No; he wasn't sure about how many months. He assumed it would be $70 into that last figure.

The CHAIRMAN. No statement was made as to what the financial charges were in dollars?

Mrs. O'NEIL. No; it doesn't come under the Small Loans Regulatory regulations that must be stated on the book, so this is obviously one of those things that is outside the present law.

Now, let me see: In one instance the customer decided to borrow his money at a cost of 9 percent discounted, believing that price to be cheaper than a rate of 12 percent. He was completely in the dark as to how to figure true rate, and could not be convinced that 12 percent true rate was cheaper. However, he was convinced later when he realized the difference between the monthly payments he was making and the payments he might have been making at 12-percent true rate. In other words, he understood arithmetic, but not interest rates. Here I have a typical payment book for a loan.

The CHAIRMAN. Now, may I say that you have a very excellent financial reporting company in Boston, by the name of the Financial Publishing Co., with headquarters at 82 Brookline Avenue, and they have a simple pamphlet that enables you to translate all these add-on discounts and monthly rates to the yearly rates, very simply, and reading from page 8, I find 9-percent discount rate amounts actually to 17.8-percent true rate.

Mrs. O'NEIL. We tried to convince them of that, but he was like Thomas.

The CHAIRMAN. I would be glad to give you a copy of this.

Mrs. O'NEIL. We would be delighted to have that, and that is the sort of thing that we would be glad to distribute to all of our member teachers who are interested in that sort of thing since the economic textbooks don't give these facts at all. They are very mysterious, too.

I have here a typical payment book for a loan. Information given at the top is as follows: credit life insurance $21.38: principal amount of loan, $1,281.38, and this includes the insurance charge, we decided.

The CHAIRMAN. Oh, it does?

Mrs. O'NEIL. Thirty-eight cents was the clue, and the cash received was $1,260; precomputed interest, $428.62; face amount, $1,710; 30 monthly payments; interest unit for computing refunds and interest charges, 0.9218; recording—and what is r-e-l, I forget now, the r-e-c and the r-e-l fees?

Senator SIMPSON. It sounds like recording and release.

Mrs. O'NEIL. Thank you; recording and releasing the record fee paid by borrower, $3. The total of all charges is $453. There is a chart, required by Massachusetts law, printed below these figures and stating the statutory amounts permitted on small loans. There is no way of figuring the interest to see whether it is correct, unless one has certain charts to use, because, of course, on the first $200 the Massachusetts law permits 2½ percent on that part of the unpaid principal, not exceeding $200. So, of course, you would have to be a financial wizard to figure out 2½ percent on that $200; for 30 months at 2 percent, what is between $200 and $600; and 1¾ percent on everything between $600 and $1,000, and so forth, and by that time you are pretty befuddled.

The CHAIRMAN. These are yearly rates of 30, 24, and 21 percent?

Mrs. O'NEIL. That is the true interest rates.

The CHAIRMAN. Now, did you want to get the average interest rate of the loan as the whole?

Mrs. O'NEIL. That might be interesting, Senator Douglas.

The CHAIRMAN. What is the monthly payment?

Mrs. O'NEIL. The monthly payment was $57.

The CHAIRMAN. $57 for 30 months?

Mrs. O'NEIL. For 30 months.

The CHAIRMAN. And the total indebtedness, or rather the cost of the article?

Mrs. O'NEIL. This is borrowed money, you see.

The CHAIRMAN. Borrowed money, the principal amount of the loan?

Mrs. O'NEIL. It says the principal amount of the loan is $1,281.38, but then the face amount is $1,710.

Senator BENNETT. $1,260 was the amount after your insurance.

The CHAIRMAN. Well, Mr. Webster and Mr. Lindley——

Senator BENNETT. May we give him his name back—Bradford, Bradford is a good name in Massachusetts.

The CHAIRMAN. Yes; he represented Massachusetts for many years.

Mrs. O'NEIL. Webster is one of my favorite Americans.

Mr. BRADFORD. I have a little over 24 percent, 24.2 percent or something like that.

Mrs. O'NEIL. For an average?

The CHAIRMAN. I am told that the experts, Mr. Bradford and Mr. Lindley, now agree on an annual rate of 25.2 percent.

Mrs. O'NEIL. It might be of interest to know that we went over this and figured what it would cost in complete cost in our credit union, and it would have cost $245.40 to the member.

The CHAIRMAN. As compared with?

Mrs. O'NEIL. As compared with, well——

The CHAIRMAN. $453.12?

Mrs. O'NEIL. Yes; and ours would include insurance against death and total disability, and we wouldn't take your car away either. [Laughter.] The next one is option charge accounts. This is one of the many names given to the carrying charge now commonly added to store bills which are over 30 days due. The clerks in the store use a chart which gives the cost in blocks of $10. A consumer owing a balance of $31.50 was charged $0.60, because the amount of the bill fell between $30 and $40. The charge of 60 cents on $31 was nearly 2 percent per month, a true annual interest rate of at least 20 percent, and perhaps nearer 24. This charge is not always stated on the bill, but is referred to as a small option charge—20 percent would not be considered small by most consumers. I like the requirement in section 5 (B) of regulations, "the size of type or lettering which shall be used in setting forth information required by sub-

ACCOUNT NO.	BORROWER'S NAME		WIFE
1032	[redacted]		V

DUE DATE	ADDRESS	DATE MADE	[redacted] PAYT. DUE	DATE EXPIRES
1st	[redacted]	9/23/63	Nov. 1st	

PRINCIPAL AMOUNT OF LOAN:	PRECOMPUTED INTEREST:	FACE AMOUNT:	TOTAL AMOUNT PAYABLE IN
$ 1224.22	$ 503.78	$ 1728.00	36 MONTHLY INSTALLMENTS

CREDIT LIFE INS. CHARGE:	REC. & REL. FEES PAID BY BORROWER:	FIRST INSTALLMENT:	OTHERS:	INT. UNIT: (FOR COMPUTING REBATES & INT. CHARGES:
$ 25.92	$ none	$ 48.00	$48.00	$

AGREED RATE OF INTEREST:

2 1/2% PER MONTH ON THAT PART OF THE UNPAID PRINCIPAL BALANCE NOT EXCEEDING $200
2% PER MONTH ON ANY PART THEREOF EXCEEDING $200 AND NOT EXCEEDING $600
1 1/4% PER MONTH ON ANY PART THEREOF EXCEEDING $600 AND NOT EXCEEDING $1,000. AND
3/4 OF 1% PER MONTH ON ANY REMAINDER THEREOF.
(6% PER ANNUM ON UNPAID PRINCIPAL BALANCES BEGINNING 1 YEAR AFTER SCHEDULED MATURITY.)

THIS IS YOUR RECEIPT BOOK
PLEASE NOTIFY US PROMPTLY OF ANY CHANGE OF ADDRESS

	PREVIOUS BALANCE	DATE	CK	TOTAL PAY'T.	APPLIED TO CHGS/INT.	APPLIED TO FACE AMOUNT OF NOTE	BALANCE DUE
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							

YOU CAN GET MORE MONEY BEFORE PAYING THIS LOAN IN FULL

Mrs. O'NEIL. Thirty years ago, in Boston, a woman went to a private moneylender to borrow $100. She signed "some papers," and was given a check for $200, and told to go downstairs and cash it and bring back the money. The lender kept $100 "as security" and gave her $100. She was about 23 years old. Each year thereafter the lender gave her $100 for Christmas expenses and $100 for vacation in the summer, each time requiring new signatures. Each year for 10 months the woman paid $60 per month on the loans. About 7 years ago——

The CHAIRMAN. You mean 30 months?

Mrs. O'NEIL. No, 30 years, Senator Douglas, she paid this moneylender $60 a month for 10 months; the other 2 months of the year he gave her a $100 for Christmas and $100 for her summer vacation, in the meantime she paid him $60 a month.

The CHAIRMAN. Paid him $600 a year?

Mrs. O'NEIL. Originally he gave her $100, too, don't forget that.

The CHAIRMAN. That was for 30 years?

Mrs. O'NEIL. For 30 years. This is a thing that has made me determined to spend the rest of my life in getting truth in lending passed, Senator Douglas.

The CHAIRMAN. How did you find out about this?

Mrs. O'NEIL. I will tell you. About 7 years ago she was advised to go into bankruptcy, which she did. The lender was named in the case as a creditor for $1,400. However, he required her to sign new papers shortly afterward and she continued her payments of $60 per month. Two years ago she failed to make a payment and was threatened by the lender. The lender said that he would expose her if she did not pay. Unable to do so, she sought my advice. She had heard me on the radio and called me up and asked what I could do for her. I took this case to the Attorney General's Advisory Consumer Council, then in Attorney General McCormack's office. After investigation, the lender agreed to settle his note which then read $2,500, in the amount of $400. We gave him the $400, because she didn't want to go to court. She didn't want to go to the court, and the case was a clear case of usury, but we have no usury law in Massachusetts, and the amount of $2,500 was above our regulated limit of $1,500. What was the true rate of interest here? I can't tell you. The woman had received $6,000 over a period of 30 years, and had paid back three times as much to the lender.

When truth in lending becomes law, borrowers will immediately know the cost of money, and will be able to choose the lending agency which can serve them best for the security they can offer. This will restore true competition to the marketplace and will help business. Many persons will not borrow money for any reason now because they have a vague mistrust of all lending agencies, developed from listening to their more experienced friends. I believe that these persons would join the ranks of those who "buy now and pay later" if they were sure of the cost of borrowing. Surely, American business would be glad to have their trade.

Conclusions: One, the Consumer Advisory Council, established at the request of President Kennedy, has pointed out the right of the consumer to be informed. Two, present methods of stating the cost of borrowing money are greatly varied and difficult to understand. Few people can translate these costs into true annual interest rates. Three, the Douglas bill would serve as an educational program for consumers, and increased understanding of its provisions could provide a safeguard to businessmen who choose to take a stand against deceptive credit practices. Four, the consumer's purchasing power could be increased were he enabled to shop intelligently for credit. This would be good for the economy.

I wish now to congratulate the subcommittee on implementing one of the consumer's rights—the right to be heard. It is my hope that you will use your influence to secure for consumers that other right—the right to be informed—by securing passage of S. 750, the Douglas truth-in-lending bill.

The CHAIRMAN. Thank you very much.

Mrs. O'NEIL. It was a pleasure, Senator.

The CHAIRMAN. Mrs. O'Neil, now, I wonder if we can get an estimate of this extraordinary loan.

Mrs. O'NEIL. I have all the papers on it in my office.

The CHAIRMAN. As I understand it, the actual amount received each year was $200, and the actual amount paid was $600; it sounds like a 600-percent interest.

Mrs. O'NEIL. At least.

The CHAIRMAN. Because the pay graduates every year.

Mrs. O'NEIL. That is right.

The CHAIRMAN. It sounds like 600 percent.

Mrs. O'NEIL. I may say that when I talked to that person who lent her the money, we didn't need a telephone, we could have been heard without one. He said to me, "I have other people like that, too, but you don't know who they are." "Well," I said, "I will try to find out."

The CHAIRMAN. Mrs. O'Neil, may I ask of a majority of cases given, were those of teachers?

Mrs. O'NEIL. Those cases I gave using information I showed you were all teachers.

The CHAIRMAN. Were all teachers?

Mrs. O'NEIL. Yes.

The CHAIRMAN. And, therefore, were greater than average intelligence and greater than average education?

Mrs. O'NEIL. That is right; but if you remember, the chairman of the Federal Reserve Board, Mr. William McChesney Martin, admitted himself in Washington that he couldn't figure out the true annual interest rate on his car loan, and if he can't, I don't think we should be ashamed of any schoolteacher.

The CHAIRMAN. This is an indication that education and intelligence cannot penetrate the mysteries of modern consumer credit. Just a minute. Senator Bennett?

Senator BENNETT. I have no questions of Mrs. O'Neil, except she is a deeply dedicated person. I have my doubts that the Douglas bill would solve any of these problems, but there is no use in our saying it will or won't back and forth between us at this point. There are one or two things I would like to get into the record.

The CHAIRMAN. Surely, on your time.

Senator BENNETT. Of course. Mrs. O'Neil referred to the President's Advisory Council report.

Mrs. O'NEIL. Yes.

Senator BENNETT. I received a copy of this report. I was not surprised that the Council's Consumer Credit Committee endorsed S. 750, in view of the fact that the membership on that committee was headed by Professor Morse, who has already testified for the bill. I notice that one source for the Council's Consumer Credit Committee was the published hearings on the truth-in-lending bill, dating back to 1960. I sat through every minute of those hearings, and I cannot understand how the Council endorses the bill, based on a complete and total study of the hearings. On page 13 of the Council's report are listed five premises and beneficial results which would supposedly flow from the enactment of the Douglas bill. After a careful analysis of each of these premises I would like to submit a memorandum attacking each of these points. Please note all of my quotations are from the hearings and from witnesses who came to testify in support of the bill, not in opposition. If such witnesses do not agree with these premises, I don't see how the Advisory Council can. I should like to submit this statement for the record. (See p. 1283.)

The CHAIRMAN. That will be done.

Mrs. O'NEIL. Is it in order for me to ask Senator Bennett a question?

Senator BENNETT. Yes.

Mr. O'NEIL. If you think the truth in lending is not a solution, do you have a solution in mind?

Senator BENNETT. If you will sit through the hearing today, you will hear an alternative solution.

Mrs. O'NEIL. To a number of intelligent people, myself included, it sounds like a good beginning. I would be very much interested in that.

Senator BENNETT. May I continue with my comment?

Mrs. O'NEIL. Yes.

Senator BENNETT. There has been some question—well, in November I asked all the members of the Consumer Advisory Council if there had been any minority reports filed. All but one member said no minority reports were filed. On November 20 I received a telegram from Mr. Stephen M. Du Brul, Jr., who said: "I have views of dissent on S. 750 and filed a minority report with the Consumer Advisory Council. A copy of the report is forwarded under separate cover." (See p. 1014.) "Others may have filed reports, but I am not aware of them." Signed, Stephen M. Du Brul.

(The telegram follows:)

[Telegram]

NEW YORK, N.Y., *November 20, 1963.*

Senator WALLACE F. BENNETT:

Re your telegram, I have views of dissent on S. 750 and filed a minority report with the Consumer Advisory Council. A copy of the report is forwarded under separate cover. Others may have filed reports, but I am not aware of them.

STEPHEN M. DUBRUL, Jr.

Senator BENNETT. On December 3, I addressed a letter to Mr. Walter W. Heller, Chairman of the Council of Economic Advisers, asking him if there had been any minority reports filed, and he replied to me on December 6—I skip the preliminaries—"No members of the Consumers Advisory Council nor of its Consumer Credit Committee, filed minority or dissenting views on S. 750. One member indicated an intention to file a dissenting vote, but did not do so."

(The correspondence follows:)

DECEMBER 3, 1963.

DR. WALTER W. HELLER,
Chairman, Council of Economic Advisers, Executive Office Building, Washington, D.C.

DEAR MR. HELLER: Two weeks ago before leaving for Boston for hearings on S. 750, the truth-in-lending bill, I wired all members of the Consumer Credit Committee of the Consumer Advisory Council, asking if they had any dissenting views or if they knew any minority reports which had been filed with respect to the Consumer Advisory Council's endorsement of S. 750.

Most of the responses suggest that I contact you. Prof. Richard L. D. Morse, Chairman of the Consumer Credit Committee, suggested specifically that I ask you for your knowledge of any such report. Would you please advise me if any members of that Committee or of the Council as a whole filed minority or dissenting views on S. 750.

Sincerely,

WALLACE F. BENNETT.

CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS,
Washington, December 6, 1963.

HON. WALLACE F. BENNETT,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BENNETT: This will acknowledge your letter of December 3 requesting information on the Consumer Advisory Council's endorsement of S. 750, the pending truth-in-lending bill.

No members of the Consumer Advisory Council, nor of its Consumer Credit Committee, filed minority or dissenting views on S. 750. One member indicated an intention to file a dissenting vote, but did not do so.

Sincerely,

WALTER W. HELLER.

Senator BENNETT. Now, we asked Mr. Heller, or tried to get Mr. Heller on the telephone the other day, to ask him if in fact that report had been filed, since Mr. Du Brul said he did file one but we couldn't get him. A Mr. Joseph Walker in Mr. Heller's office responded, "Yes, the report was received but we have lost it in our files, and we don't know where to find it." I am not going to put Mr. Du Brul's report in the record at this point, because I prefer, if you will let me, to put it in the record after the Consumer Council agrees that it has received it, and have it, and know what it is.

The CHAIRMAN. Let me say so far as I am concerned, I would be very glad to have it put in the record.

Senator BENNETT. Well, he filed it obviously before November 20, because that is the date on which he replied to my letter.

Mrs. O'NEIL. I would be inclined to believe what Mr. Heller said. It is a misunderstanding.

Senator BENNETT. I am sure he didn't know, because the staff accepted it and put it in the files and now they can't find it. I would be glad at this point then——

The CHAIRMAN. I would be glad to put it in the record, if there is a report. (See p. 1014.)

Senator BENNETT. I have no further comment—oh, yes, excuse me, one more. Senator Douglas questioned you and showed you this little financial rate translater. This was introduced in the hearing in Boston when we were here last time, and, of course, I got a copy of it. I made rather careful, or I arranged to have a rather careful study made of the computer and found it had some real weaknesses, and at this point, I would like to offer for the record 2½ pages of criticisms of the financial ratemaker.

The CHAIRMAN. That will be done, and if the rate translater is not already in the record, I ask that it be put in prior to the statement that Senator Bennett made.

(The material mentioned follows:)

FINANCIAL
RATE TRANSLATER
and Guide to
Legal Instalment Sales Rates

Prepared by

FINANCIAL PUBLISHING COMPANY

82 Brookline Avenue, Boston 15, Mass.

KEnmore 6-1827

Specialists in all Tables needed for
Consumer Finance

SUMMARY *of* AUTO FINANCE *and* OTHER GOODS LAWS

(all rates are add-on unless otherwise designated)

ARIZ.:	Autos, Class I, 8%; Class II, 12%. Minimum $15.
CALIF.:	Autos, 12%. Minimum $25. Other Goods: 10% on first $1000, 8% on excess. Minimum under 8 months $10; over, $12.
COLO.:	Autos, Class I, 8%; Class II, 12%; Class III, 15%; Class IV, 17%. Minimum $25. Other Goods: 15% on first $300, 12% on excess to $1000, 10% on excess. Minimum $10.
CONN.:	Autos, Class I, 7%; Class II, 9%; Class III, 12%; Class IV, 14% (if under $300, 15%). Minimum $15.
DEL.:	Autos, Class I, 7%; Class II, 10%; Class III, 13%. Minimum $25. Other Goods: 10% on first $1000, 8% on excess. Minimum 8 months or less, $10; over 8 months, $12.
D. C.:	Autos, Class I, 8%; Class II, 11%; Class III, 14%; Class IV, 16%. Minimum $25.
FLA.:	Autos, Class I, 8%; Class II, 11%; Class III, 15%; Class IV, 17%. Minimum $25. Other Goods, 10%. Minimum $15.
HAWAII:	All goods: 12% discount to 18 months, 9% next 12 months, 6% next 12 months, 3% next 6 months.
IND.:	Autos, Class I, 8%; Class II, 9%; Class III, 11%; Class IV, 14%. Minimum $10. Other Goods, 12%. Minimum $5.
IOWA:	Autos, Class I, 15% actuarial; Class II, 21% actuarial; Class III, 27% actuarial; Class IV, 27% actuarial plus $1 per month, not more than $12. Compute add-on equivalent for 12 months, and apply pro rata. Minimum $25.
KANSAS:	Autos, Class I, 7%; Class II, 10%; Class III, 13%. Other Goods: 12% on first $300, 9% on excess to $1000, 8% on excess. Minimum $15.
KENTUCKY:	Autos, Class I, 9%; Class II, 13%; Class III, 15%.
LOUISIANA:	Same as Iowa.
MAINE:	Autos, Class I, 7%; Class II, 11%; Class III, 13%. Minimum $25.
MARYLAND:	Autos, Class I, 9%; Class II, 12%; Class III, 15%.
MASS.:	Autos, Class I, 8%; Class II, 10%; Class III, 12%.
MICH.:	Autos, Class I, 6%; Class II, 9%; Class III, 12%. Minimum $15.
MINN.:	Autos, Class I, 8%; Class II, 11%; Class III, 13% plus $3.

(continued on page 20)

EXPLANATION

Traditionally the return on money invested is stated as an annual interest rate on the funds actually in use. For monthly payment loans the interest rate per month is 1/12 of the annual interest rate. In these tables we shall call this *annual* interest rate the *actuarial* rate. It is exactly the same rate you talk about for a G. I. mortgage, or an FHA mortgage or any other direct reduction loan. The actuarial rate expresses the true return on an investment; any other is at best an approximation.

Thirty-five states and the District of Columbia now have statutes specifying the maximum finance charge on auto or other installment finance, most of them expressing this maximum rate as an "add-on"; that is, the charge per $100 of original balance per year applied for the full term. The actuarial interest rate on funds actually in use is something less than double the stated rate of charge.

The next 4 pages translate "add-on" rates into actuarial rates, and vice versa.

Bank installment loans are often made on a "discount per year" basis; that is, the charge is deducted from the note instead of added on to the amount borrowed. Pages 8 to 11 are tables translating "discount per year" into actuarial rates, and vice versa.

The FHA Title I home improvement loans prescribe a different method of charge, the "Constant Ratio". Pages 12-15 are tables translating this to actuarial rates, and vice versa.

Pages 2 and 20 summarize the rates named as maximum by statute in each state.

INDEX TO TRANSLATER TABLES

ACTUARIAL EQUIVALENTS *of* ADD-ON RATES

The annual add-on rate is shown as the left hand index. If this rate is applied to the original amount for the full term and the loan is repaid monthly, then the body of the table shows the actuarial rate of return on the money actually outstanding.

Add-on Rate per year	TERM-months 3 mo.	6 mo.	9 mo.	12 mo.	15 mo.	18 mo.	24 mo.	30 mo.	36 mo.
1.00	1.50	1.71	1.80	1.84	1.87	1.89	1.91	1.92	1.93
2.00	3.00	3.42	3.59	3.67	3.72	3.76	3.79	3.81	3.82
3.00	4.49	5.12	5.37	5.49	5.56	5.61	5.66	5.68	5.68
3.50	5.24	5.98	6.26	6.40	6.48	6.53	6.58	6.60	6.60
4.00	5.99	6.82	7.14	7.30	7.39	7.45	7.50	7.52	7.51
4.25	6.36	7.25	7.59	7.75	7.85	7.91	7.96	7.97	7.96
4.50	6.74	7.67	8.03	8.21	8.30	8.36	8.41	8.43	8.41
4.75	7.11	8.10	8.47	8.66	8.76	8.82	8.87	8.88	8.86
5.00	7.48	8.52	8.91	9.10	9.21	9.27	9.32	9.33	9.31
5.25	7.86	8.94	9.35	9.55	9.66	9.73	9.78	9.78	9.76
5.50	8.23	9.37	9.79	10.00	10.11	10.18	10.23	10.23	10.20
5.75	8.60	9.79	10.23	10.45	10.57	10.63	10.68	10.67	10.64
6.00	8.98	10.21	10.67	10.90	11.02	11.08	11.13	11.12	11.08
6.25	9.35	10.64	11.11	11.34	11.46	11.53	11.57	11.56	11.52
6.50	9.72	11.06	11.55	11.79	11.91	11.98	12.02	12.00	11.96
6.75	10.10	11.48	11.99	12.23	12.36	12.43	12.47	12.44	12.39
7.00	10.47	11.90	12.43	12.68	12.81	12.87	12.91	12.88	12.83
7.25	10.84	12.32	12.87	13.12	13.25	13.32	13.35	13.32	13.26
7.50	11.22	12.74	13.30	13.57	13.70	13.77	13.80	13.76	13.69
7.75	11.59	13.17	13.74	14.01	14.14	14.21	14.24	14.19	14.12
8.00	11.96	13.59	14.18	14.45	14.59	14.65	14.68	14.63	14.55
8.25	12.33	14.01	14.61	14.89	15.03	15.10	15.12	15.06	14.97
8.50	12.71	14.43	15.05	15.34	15.48	15.54	15.55	15.49	15.40
8.75	13.08	14.85	15.49	15.78	15.92	15.98	15.99	15.92	15.82
9.00	13.45	15.27	15.92	16.22	16.36	16.42	16.43	16.35	16.24
9.25	13.82	15.69	16.35	16.66	16.80	16.86	16.86	16.78	16.66
9.50	14.19	16.11	16.79	17.10	17.24	17.30	17.29	17.21	17.08
9.75	14.57	16.53	17.22	17.53	17.68	17.74	17.73	17.63	17.50
10.00	14.94	16.94	17.66	17.97	18.12	18.17	18.16	18.06	17.92
10.25	15.31	17.36	18.09	18.41	18.56	18.61	18.59	18.48	18.33
10.50	15.68	17.78	18.52	18.85	18.99	19.05	19.02	18.90	18.75
10.75	16.05	18.20	18.95	19.28	19.43	19.48	19.44	19.32	19.16
11.00	16.43	18.62	19.39	19.72	19.86	19.91	19.87	19.74	19.57
11.25	16.80	19.04	19.82	20.15	20.30	20.35	20.30	20.16	19.98
11.50	17.17	19.45	20.25	20.59	20.73	20.78	20.72	20.57	20.39
11.75	17.54	19.87	20.68	21.02	21.17	21.21	21.15	20.99	20.79
12.00	17.91	20.26	21.11	21.46	21.60	21.64	21.57	21.41	21.20
12.25	18.28	20.63	21.54	21.89	22.03	22.07	21.99	21.82	21.60
12.50	18.65	21.00	21.97	22.32	22.47	22.50	22.42	22.23	22.01
12.75	19.03	21.37	22.40	22.76	22.90	22.93	22.84	22.64	22.41
13.00	19.40	21.74	22.83	23.19	23.33	23.36	23.26	23.05	22.81
13.50	20.14	22.48	23.68	24.05	24.19	24.21	24.09	23.87	23.61
14.00	20.88	23.22	24.54	24.91	25.04	25.06	24.92	24.68	24.40
14.50	21.62	23.97	25.39	25.77	25.90	25.91	25.75	25.49	25.19
15.00	22.36	24.71	26.24	26.62	26.75	26.75	26.58	26.30	25.98
15.50	23.10	25.45	27.09	27.48	27.60	27.60	27.40	27.10	26.76
16.00	23.84	26.19	27.94	28.33	28.45	28.43	28.22	27.89	27.53
16.50	24.58	26.93	28.79	29.18	29.29	29.27	29.03	28.69	28.30
17.00	25.32	27.67	29.64	30.03	30.14	30.10	29.85	29.48	29.07
18.00	26.80	29.15	31.32	31.72	31.81	31.76	31.46	31.04	30.59
19.00	28.28	30.62	32.97	33.40	33.48	33.41	33.06	32.60	32.10
20.00	29.76	32.10	34.44	35.07	35.14	35.05	34.65	34.14	33.60

ACTUARIAL EQUIVALENTS *of* ADD-ON RATES

The annual add-on rate is shown as the left hand index. If this rate is applied to the original amount for the full term and the loan is repaid monthly, then the body of the table shows the actuarial rate of return on the money actually outstanding.

Add-on Rate per year	TERM-months 42 mo.	48 mo.	54 mo.	60 mo.	72 mo.	84 mo.	96 mo.	108 mo.	120 mo.
1.00	1.93	1.93	1.94	1.94	1.94	1.93	1.93	1.93	1.92
2.00	3.82	3.82	3.82	3.82	3.80	3.79	3.77	3.75	3.74
3.00	5.68	5.67	5.66	5.64	5.61	5.57	5.54	5.50	5.46
3.50	6.59	6.58	6.56	6.54	6.49	6.44	6.39	6.34	6.29
4.00	7.50	7.47	7.45	7.42	7.36	7.30	7.23	7.17	7.11
4.25	7.94	7.92	7.89	7.86	7.79	7.72	7.65	7.58	7.51
4.50	8.39	8.36	8.33	8.29	8.22	8.14	8.06	7.98	7.91
4.75	8.84	8.80	8.77	8.72	8.64	8.55	8.47	8.38	8.30
5.00	9.28	9.24	9.20	9.15	9.06	8.97	8.87	8.78	8.69
5.25	9.72	9.68	9.63	9.58	9.48	9.37	9.27	9.17	9.08
5.50	10.16	10.11	10.06	10.01	9.89	9.78	9.67	9.56	9.46
5.75	10.60	10.54	10.49	10.43	10.31	10.18	10.06	9.95	9.84
6.00	11.03	10.97	10.91	10.85	10.72	10.58	10.46	10.33	10.21
6.25	11.47	11.40	11.34	11.27	11.12	10.98	10.85	10.71	10.59
6.50	11.90	11.83	11.76	11.68	11.53	11.38	11.23	11.09	10.96
6.75	12.33	12.25	12.17	12.09	11.93	11.77	11.61	11.47	11.32
7.00	12.76	12.68	12.59	12.50	12.33	12.16	11.99	11.84	11.69
7.25	13.18	13.10	13.00	12.91	12.73	12.55	12.37	12.21	12.05
7.50	13.61	13.51	13.42	13.32	13.12	12.93	12.75	12.57	12.41
7.75	14.03	13.93	13.83	13.72	13.52	13.31	13.12	12.94	12.76
8.00	14.45	14.35	14.24	14.13	13.91	13.69	13.49	13.30	13.12
8.25	14.87	14.76	14.64	14.53	14.29	14.07	13.86	13.66	13.47
8.50	15.29	15.17	15.05	14.92	14.68	14.45	14.23	14.02	13.82
8.75	15.70	15.58	15.45	15.32	15.07	14.82	14.59	14.37	14.16
9.00	16.12	15.99	15.85	15.71	15.45	15.19	14.95	14.72	14.51
9.25	16.53	16.39	16.25	16.11	15.83	15.56	15.31	15.07	14.85
9.50	16.94	16.80	16.65	16.50	16.21	15.93	15.67	15.42	15.19
9.75	17.35	17.20	17.04	16.89	16.58	16.29	16.02	15.77	15.53
10.00	17.76	17.60	17.44	17.27	16.96	16.66	16.38	16.11	15.86
10.25	18.17	18.00	17.83	17.66	17.33	17.02	16.73	16.45	16.20
10.50	18.58	18.40	18.22	18.04	17.70	17.38	17.08	16.79	16.53
10.75	18.98	18.79	18.61	18.42	18.07	17.74	17.42	17.13	16.86
11.00	19.38	19.19	19.00	18.80	18.44	18.09	17.77	17.47	17.19
11.25	19.78	19.58	19.38	19.18	18.80	18.45	18.11	17.80	17.52
11.50	20.18	19.97	19.77	19.56	19.17	18.80	18.46	18.14	17.84
11.75	20.58	20.36	20.15	19.94	19.53	19.15	18.80	18.47	18.17
12.00	20.98	20.75	20.53	20.31	19.89	19.50	19.13	18.80	18.49
12.25	21.37	21.14	20.91	20.68	20.25	19.85	19.47	19.13	18.81
12.50	21.77	21.53	21.29	21.05	20.61	20.19	19.81	19.45	19.13
12.75	22.16	21.91	21.66	21.42	20.96	20.54	20.14	19.78	19.44
13.00	22.55	22.30	22.04	21.79	21.32	20.88	20.47	20.10	19.76
13.50	23.33	23.06	22.79	22.52	22.02	21.56	21.14	20.75	20.39
14.00	24.11	23.82	23.53	23.25	22.72	22.24	21.79	21.38	21.01
14.50	24.88	24.57	24.26	23.97	23.41	22.91	22.44	22.02	21.63
15.00	25.64	25.32	24.99	24.68	24.10	23.57	23.09	22.64	22.24
15.50	26.41	26.06	25.72	25.39	24.79	24.23	23.73	23.27	22.85
16.00	27.16	26.80	26.44	26.10	25.46	24.88	24.36	23.88	23.45
16.50	27.91	27.53	27.16	26.80	26.14	25.54	24.99	24.50	24.05
17.00	28.66	28.26	27.87	27.50	26.81	26.18	25.62	25.11	24.65
18.00	30.14	29.70	29.28	28.88	28.13	27.46	26.86	26.31	25.82
19.00	31.61	31.13	30.67	30.24	29.44	28.72	28.08	27.51	26.99
20.00	33.06	32.54	32.05	31.58	30.73	29.97	29.29	28.68	28.14

23-902 O - 64 - pt. 2--21

ADD-ON EQUIVALENTS *of* ACTUARIAL RATES

The actuarial interest rate shown as the left hand index is applied to the outstanding balances from month to month. The body of the table shows the equivalent "add-on" rate which would be applied to the original amount for the full term.

Annual Actuarial Rate	TERM-months 3 mo.	6 mo.	9 mo.	12 mo.	15 mo.	18 mo.	24 mo.	30 mo.	36 mo.
4.00	2.67	2.34	2.23	2.18	2.15	2.13	2.11	2.10	2.10
4.25	2.84	2.49	2.37	2.32	2.29	2.27	2.24	2.23	2.23
4.50	3.00	2.63	2.51	2.45	2.42	2.40	2.38	2.37	2.36
4.75	3.17	2.78	2.65	2.59	2.56	2.53	2.51	2.50	2.50
5.00	3.34	2.93	2.79	2.73	2.69	2.67	2.65	2.64	2.63
5.25	3.51	3.07	2.93	2.87	2.83	2.81	2.78	2.77	2.77
5.50	3.67	3.22	3.07	3.00	2.96	2.94	2.91	2.90	2.90
5.75	3.84	3.37	3.21	3.14	3.10	3.08	3.05	3.04	3.04
6.00	4.01	3.51	3.36	3.28	3.24	3.21	3.18	3.17	3.17
6.25	4.17	3.66	3.50	3.42	3.37	3.35	3.32	3.31	3.31
6.50	4.34	3.81	3.64	3.56	3.51	3.48	3.46	3.45	3.45
6.75	4.51	3.96	3.78	3.69	3.65	3.62	3.59	3.58	3.58
7.00	4.68	4.10	3.92	3.83	3.78	3.76	3.73	3.72	3.72
7.25	4.84	4.25	4.06	3.97	3.92	3.89	3.86	3.85	3.86
7.50	5.01	4.40	4.20	4.11	4.06	4.03	4.00	3.99	3.99
7.75	5.18	4.55	4.34	4.25	4.20	4.16	4.14	4.13	4.13
8.00	5.35	4.69	4.48	4.39	4.33	4.30	4.27	4.27	4.27
8.25	5.51	4.84	4.63	4.52	4.47	4.44	4.41	4.40	4.41
8.50	5.68	4.99	4.77	4.66	4.61	4.58	4.55	4.54	4.55
8.75	5.85	5.14	4.91	4.80	4.75	4.71	4.68	4.68	4.69
9.00	6.01	5.28	5.05	4.94	4.88	4.85	4.82	4.82	4.83
9.25	6.18	5.43	5.19	5.08	5.02	4.99	4.96	4.96	4.97
9.50	6.35	5.58	5.33	5.22	5.16	5.13	5.10	5.10	5.11
9.75	6.52	5.73	5.48	5.36	5.30	5.26	5.24	5.23	5.25
10.00	6.69	5.87	5.62	5.50	5.44	5.40	5.37	5.37	5.39
10.50	7.02	6.17	5.90	5.78	5.71	5.68	5.65	5.65	5.67
11.00	7.36	6.47	6.19	6.06	5.99	5.96	5.93	5.93	5.95
11.50	7.69	6.76	6.47	6.34	6.27	6.23	6.21	6.22	6.24
12.00	8.03	7.06	6.76	6.62	6.55	6.51	6.49	6.50	6.52
12.50	8.36	7.35	7.04	6.90	6.83	6.79	6.77	6.78	6.81
13.00	8.70	7.65	7.33	7.18	7.11	7.07	7.05	7.07	7.10
13.50	9.03	7.95	7.61	7.46	7.39	7.35	7.33	7.35	7.39
14.00	9.37	8.25	7.90	7.74	7.67	7.63	7.62	7.64	7.68
14.50	9.71	8.54	8.18	8.03	7.95	7.91	7.90	7.93	7.97
15.00	10.04	8.84	8.47	8.31	8.23	8.20	8.18	8.21	8.27
15.50	10.38	9.14	8.76	8.59	8.51	8.48	8.47	8.50	8.56
16.00	10.71	9.44	9.05	8.88	8.80	8.76	8.76	8.79	8.86
16.50	11.05	9.73	9.33	9.16	9.08	9.04	9.04	9.09	9.15
17.00	11.39	10.03	9.62	9.45	9.36	9.33	9.33	9.38	9.45
17.50	11.72	10.33	9.91	9.73	9.65	9.61	9.62	9.67	9.75
18.00	12.06	10.63	10.20	10.02	9.93	9.90	9.91	9.97	10.05
18.50	12.40	10.93	10.49	10.30	10.22	10.19	10.20	10.26	10.35
19.00	12.73	11.23	10.78	10.59	10.50	10.47	10.49	10.56	10.65
19.50	13.07	11.53	11.07	10.87	10.79	10.76	10.78	10.86	10.96
20.00	13.41	11.83	11.36	11.16	11.08	11.05	11.07	11.16	11.26
20.50	13.74	12.13	11.65	11.45	11.36	11.34	11.37	11.46	11.57
21.00	14.08	12.43	11.94	11.74	11.65	11.63	11.66	11.76	11.88
21.50	14.42	12.73	12.23	12.02	11.94	11.92	11.96	12.06	12.19
22.00	14.76	13.03	12.52	12.31	12.23	12.21	12.25	12.36	12.50
23.00	15.43	13.63	13.10	12.89	12.81	12.79	12.85	12.97	13.12
24.00	16.11	14.23	13.69	13.47	13.39	13.38	13.45	13.58	13.75
25.00	16.78	14.83	14.27	14.05	13.97	13.96	14.05	14.20	14.38

ADD-ON EQUIVALENTS *of* ACTUARIAL RATES

The actuarial interest rate shown as the left hand index is applied to the outstanding balances from month to month. The body of the table shows the equivalent "add-on" rate which would be applied to the original amount for the full term.

Annual Actuarial Rate	TERM-months 42 mo.	48 mo.	54 mo.	60 mo.	72 mo.	84 mo.	96 mo.	108 mo.	120 mo.
4.00	2.09	2.09	2.10	2.10	2.11	2.12	2.13	2.14	2.15
4.25	2.23	2.23	2.23	2.24	2.24	2.26	2.27	2.28	2.29
4.50	2.36	2.36	2.37	2.37	2.38	2.39	2.41	2.42	2.44
4.75	2.50	2.50	2.50	2.51	2.52	2.53	2.55	2.57	2.58
5.00	2.63	2.64	2.64	2.65	2.66	2.67	2.69	2.71	2.73
5.25	2.77	2.77	2.78	2.78	2.80	2.82	2.84	2.85	2.88
5.50	2.90	2.91	2.91	2.92	2.94	2.96	2.98	3.00	3.02
5.75	3.04	3.04	3.05	3.06	3.08	3.10	3.12	3.15	3.17
6.00	3.18	3.18	3.19	3.20	3.22	3.24	3.27	3.30	3.32
6.25	3.31	3.32	3.33	3.34	3.36	3.39	3.42	3.44	3.47
6.50	3.45	3.46	3.47	3.48	3.51	3.53	3.56	3.59	3.63
6.75	3.59	3.60	3.61	3.62	3.65	3.68	3.71	3.74	3.78
7.00	3.73	3.74	3.75	3.76	3.79	3.83	3.86	3.90	3.93
7.25	3.86	3.87	3.89	3.90	3.94	3.97	4.01	4.05	4.09
7.50	4.00	4.01	4.03	4.05	4.08	4.12	4.16	4.20	4.24
7.75	4.14	4.15	4.17	4.19	4.23	4.27	4.31	4.36	4.40
8.00	4.28	4.30	4.31	4.33	4.37	4.42	4.46	4.51	4.56
8.25	4.42	4.44	4.46	4.48	4.52	4.57	4.62	4.67	4.72
8.50	4.56	4.58	4.60	4.62	4.67	4.72	4.77	4.82	4.88
8.75	4.70	4.72	4.74	4.76	4.82	4.87	4.93	4.98	5.04
9.00	4.84	4.86	4.89	4.91	4.96	5.02	5.08	5.14	5.20
9.25	4.98	5.00	5.03	5.06	5.11	5.17	5.24	5.30	5.36
9.50	5.12	5.15	5.17	5.20	5.26	5.33	5.39	5.46	5.53
9.75	5.27	5.29	5.32	5.35	5.41	5.48	5.55	5.62	5.69
10.00	5.41	5.44	5.46	5.50	5.56	5.64	5.71	5.78	5.86
10.50	5.69	5.72	5.76	5.79	5.87	5.95	6.03	6.11	6.19
11.00	5.98	6.01	6.05	6.09	6.17	6.26	6.35	6.44	6.53
11.50	6.27	6.31	6.35	6.39	6.48	6.58	6.68	6.77	6.87
12.00	6.56	6.60	6.65	6.69	6.79	6.90	7.00	7.11	7.22
12.50	6.85	6.90	6.95	7.00	7.11	7.22	7.33	7.45	7.57
13.00	7.14	7.19	7.25	7.30	7.42	7.54	7.67	7.79	7.92
13.50	7.44	7.49	7.55	7.61	7.74	7.87	8.01	8.14	8.27
14.00	7.73	7.79	7.86	7.92	8.06	8.20	8.35	8.49	8.63
14.50	8.03	8.09	8.16	8.23	8.38	8.54	8.69	8.84	8.99
15.00	8.33	8.40	8.47	8.55	8.71	8.87	9.03	9.20	9.36
15.50	8.63	8.70	8.78	8.86	9.03	9.21	9.38	9.56	9.73
16.00	8.93	9.01	9.09	9.18	9.36	9.55	9.73	9.92	10.10
16.50	9.23	9.32	9.41	9.50	9.70	9.89	10.09	10.28	10.48
17.00	9.53	9.63	9.72	9.82	10.03	10.24	10.45	10.65	10.86
17.50	9.84	9.94	10.04	10.15	10.36	10.59	10.81	11.02	11.24
18.00	10.15	10.25	10.36	10.47	10.70	10.94	11.17	11.40	11.62
18.50	10.45	10.56	10.68	10.80	11.04	11.29	11.53	11.77	12.01
19.00	10.76	10.88	11.00	11.13	11.39	11.64	11.90	12.15	12.40
19.50	11.07	11.20	11.33	11.46	11.73	12.00	12.27	12.54	12.79
20.00	11.39	11.52	11.65	11.79	12.08	12.36	12.64	12.92	13.19
20.50	11.70	11.84	11.98	12.13	12.43	12.72	13.02	13.31	13.59
21.00	12.01	12.16	12.31	12.46	12.78	13.09	13.40	13.70	13.99
21.50	12.33	12.48	12.64	12.80	13.13	13.46	13.78	14.09	14.40
22.00	12.65	12.81	12.97	13.14	13.48	13.83	14.16	14.49	14.80
23.00	13.29	13.46	13.64	13.83	14.20	14.57	14.93	15.29	15.63
24.00	13.93	14.12	14.32	14.52	14.93	15.33	15.72	16.09	16.46
25.00	14.58	14.79	15.00	15.22	15.66	16.09	16.51	16.91	17.30

ACTUARIAL EQUIVALENT *of* DISCOUNT RATES

The annual discount rate is shown as the left hand index. If this rate is applied to the total note for the full term and the loan is repaid monthly, then the body of the table shows the actuarial rate of return on the money actually outstanding.

Discount Rate per year	TERM-months: 3 mo.	6 mo.	9 mo.	12 mo.	15 mo.	18 mo.	24 mo.	30 mo.	36 mo.
1.00	1.50	1.72	1.81	1.86	1.89	1.91	1.95	1.97	1.99
1.25	1.88	2.15	2.27	2.33	2.37	2.40	2.44	2.47	2.50
1.50	2.26	2.59	2.72	2.80	2.85	2.89	2.94	2.98	3.01
1.75	2.63	3.02	3.18	3.27	3.33	3.38	3.44	3.49	3.53
2.00	3.01	3.46	3.64	3.75	3.82	3.87	3.95	4.01	4.06
2.25	3.39	3.89	4.10	4.22	4.30	4.37	4.46	4.53	4.59
2.50	3.77	4.33	4.56	4.70	4.79	4.87	4.97	5.06	5.13
2.75	4.15	4.76	5.03	5.18	5.29	5.37	5.49	5.59	5.68
3.00	4.53	5.20	5.49	5.66	5.78	5.87	6.01	6.13	6.23
3.25	4.91	5.64	5.96	6.14	6.28	6.38	6.54	6.67	6.78
3.50	5.29	6.08	6.42	6.63	6.77	6.89	7.07	7.21	7.35
3.75	5.67	6.52	6.89	7.12	7.27	7.40	7.60	7.77	7.92
4.00	6.05	6.96	7.36	7.60	7.78	7.92	8.14	8.32	8.50
4.25	6.43	7.41	7.83	8.09	8.28	8.43	8.68	8.89	9.08
4.50	6.81	7.85	8.31	8.59	8.79	8.95	9.22	9.46	9.67
4.75	7.20	8.29	8.78	9.08	9.30	9.48	9.77	10.03	10.27
5.00	7.58	8.74	9.26	9.58	9.81	10.01	10.33	10.61	10.88
5.25	7.96	9.18	9.73	10.07	10.33	10.54	10.89	11.19	11.49
5.50	8.35	9.63	10.21	10.57	10.85	11.07	11.45	11.79	12.11
5.75	8.73	10.08	10.69	11.08	11.37	11.61	12.02	12.38	12.74
6.00	9.11	10.53	11.11	11.58	11.89	12.15	12.59	12.99	13.38
6.25	9.50	10.98	11.65	12.09	12.41	12.69	13.16	13.60	14.02
6.50	9.88	11.43	12.14	12.59	12.94	13.24	13.75	14.21	14.68
6.75	10.27	11.88	12.62	13.10	13.47	13.78	14.33	14.84	15.34
7.00	10.66	12.33	13.10	13.61	14.00	14.34	14.92	15.47	16.01
7.25	11.04	12.78	13.60	14.13	14.54	14.89	15.52	16.10	16.69
7.50	11.43	13.24	14.09	14.64	15.08	15.45	16.12	16.75	17.38
7.75	11.82	13.69	14.58	15.16	15.62	16.01	16.72	17.40	18.08
8.00	12.20	14.15	15.07	15.68	16.16	16.58	17.33	18.06	18.79
8.25	12.59	14.60	15.56	16.20	16.71	17.15	17.95	18.72	19.51
8.50	12.98	15.06	16.06	16.73	17.26	17.72	18.57	19.39	20.24
8.75	13.37	15.52	16.55	17.25	17.81	18.30	19.20	20.07	20.98
9.00	13.76	15.98	17.05	17.78	18.36	18.88	19.83	20.76	21.73
9.25	14.15	16.44	17.55	18.31	18.92	19.46	20.47	21.46	22.49
9.50	14.54	16.90	18.05	18.84	19.48	20.05	21.11	22.16	23.27
9.75	14.93	17.36	18.56	19.38	20.04	20.64	21.76	22.88	24.06
10.00	15.32	17.83	19.06	19.91	20.61	21.24	22.42	23.60	24.85
10.25	15.71	18.29	19.56	20.45	21.18	21.84	23.08	24.33	25.66
10.50	16.10	18.75	20.07	20.99	21.75	22.44	23.74	25.07	26.49
10.75	16.50	19.22	20.58	21.53	22.33	23.04	24.42	25.82	27.33
11.00	16.89	19.69	21.09	22.08	22.90	23.65	25.09	26.57	28.18
11.25	17.28	20.16	21.60	22.63	23.48	24.27	25.78	27.34	29.04
11.50	17.67	20.62	22.12	23.18	24.07	24.89	26.47	28.12	29.92
11.75	18.07	21.09	22.63	23.73	24.66	25.51	27.17	28.90	30.82
12.00	18.46	21.56	23.15	24.28	25.25	26.14	27.87	29.70	31.73
12.25	18.86	22.04	23.66	24.84	25.84	26.77	28.59	30.51	32.65
12.50	19.25	22.51	24.18	25.40	26.44	27.40	29.30	31.33	33.60
12.75	19.65	22.98	24.71	25.96	27.04	28.04	30.03	32.16	34.55
13.00	20.04	23.46	25.23	26.52	27.64	28.68	30.76	33.00	35.53
13.25	20.44	23.93	25.75	27.09	28.25	29.33	31.50	33.85	36.53
13.50	20.84	24.41	26.28	27.66	28.85	29.98	32.25	34.71	37.54

ACTUARIAL EQUIVALENT *of* DISCOUNT RATES

The annual discount rate is shown as the left hand index. If this rate is applied to the total note for the full term and the loan is repaid monthly, then the body of the table shows the actuarial rate of return on the money actually outstanding.

Discount Rate per year	TERM-months 42 mo.	48 mo.	54 mo.	60 mo.	72 mo.	84 mo.	96 mo.	108 mo.	120 mo.
1.00	2.00	2.01	2.03	2.04	2.06	2.08	2.09	2.11	2.13
1.25	2.52	2.54	2.55	2.57	2.60	2.63	2.66	2.68	2.71
1.50	3.04	3.07	3.09	3.11	3.15	3.20	3.24	3.28	3.32
1.75	3.57	3.60	3.63	3.66	3.72	3.78	3.83	3.89	3.95
2.00	4.11	4.15	4.19	4.23	4.30	4.38	4.45	4.53	4.61
2.25	4.65	4.70	4.75	4.80	4.90	4.99	5.09	5.19	5.30
2.50	5.20	5.26	5.32	5.38	5.50	5.63	5.75	5.88	6.02
2.75	5.76	5.83	5.91	5.98	6.13	6.28	6.44	6.60	6.77
3.00	6.32	6.41	6.50	6.59	6.77	6.95	7.15	7.35	7.57
3.25	6.89	7.00	7.11	7.21	7.42	7.65	7.88	8.13	8.40
3.50	7.47	7.60	7.72	7.84	8.10	8.36	8.65	8.95	9.28
3.75	8.06	8.21	8.35	8.49	8.79	9.10	9.44	9.81	10.21
4.00	8.66	8.82	8.99	9.15	9.50	9.87	10.27	10.71	11.20
4.25	9.27	9.45	9.64	9.83	10.23	10.66	11.14	11.66	12.25
4.50	9.88	10.09	10.30	10.52	10.98	11.49	12.04	12.67	13.37
4.75	10.51	10.74	10.98	11.23	11.76	12.34	12.99	13.73	14.57
5.00	11.14	11.40	11.67	11.96	12.56	13.23	13.98	14.85	15.86
5.25	11.78	12.08	12.38	12.70	13.38	14.15	15.02	16.05	17.26
5.50	12.43	12.76	13.10	13.46	14.23	15.11	16.12	17.32	18.77
5.75	13.09	13.46	13.84	14.24	15.11	16.11	17.28	18.69	20.42
6.00	13.77	14.17	14.59	15.04	16.02	17.15	18.51	20.16	22.24
6.25	14.45	14.90	15.36	15.86					
6.50	15.15	15.63	16.15	16.70					
6.75	15.85	16.39	16.96	17.56					
7.00	16.57	17.15	17.78	18.45					
7.25	17.30	17.94	18.62	19.37					
7.50	18.04	18.74	19.49	20.31					
7.75	18.79	19.55	20.38	21.28					
8.00	19.56	20.39	21.29	22.28					
8.25	20.34	21.24	22.22	23.31					
8.50	21.14	22.11	23.18	24.37					
8.75	21.95	23.00	24.17	25.47					
9.00	22.77	23.91	25.18	26.61					
9.25	23.61	24.84	26.22	27.79					
9.50	24.47	25.80	27.29	29.01					
9.75	25.34	26.77	28.40	30.27					
10.00	26.23	27.77	29.53	31.58					
10.25	27.14	28.80	30.71	32.95					
10.50	28.06	29.85	31.92	34.37					
10.75	29.01	30.93	33.17	35.65					
11.00	29.98	32.04	34.47	37.39					
11.25	30.96	33.18	35.81	39.01					
11.50	31.97	34.35	37.20	40.70					
11.75	33.00	35.56	38.64	42.47					
12.00	34.05	36.80	40.13	44.33					
12.25	35.13	38.07	41.69	46.28					
12.50	36.23	39.39	43.31	47.99					
12.75	37.36	40.75	44.99	49.68					

DISCOUNT RATE EQUIVALENTS *of* ACTUARIAL RATES

The actuarial interest rate shown as the left hand index is applied to the outstanding balances from month to month. The body of the table shows the equivalent discount rate to be applied to the total note for the full term.

Annual Actuarial Rate	3 mo.	6 mo.	9 mo.	12 mo.	15 mo.	18 mo.	24 mo.	30 mo.	36 mo.
	TERM-months								
4.00	2.65	2.31	2.20	2.13	2.09	2.06	2.02	2.00	1.97
4.25	2.82	2.46	2.33	2.26	2.22	2.19	2.15	2.12	2.09
4.50	2.98	2.60	2.47	2.40	2.35	2.32	2.27	2.23	2.21
4.75	3.15	2.74	2.60	2.53	2.48	2.44	2.39	2.35	2.32
5.00	3.31	2.88	2.74	2.66	2.60	2.57	2.51	2.47	2.44
5.25	3.47	3.03	2.87	2.79	2.73	2.69	2.63	2.59	2.55
5.50	3.64	3.17	3.00	2.92	2.86	2.82	2.75	2.71	2.67
5.75	3.80	3.31	3.14	3.05	2.99	2.94	2.87	2.82	2.78
6.00	3.97	3.45	3.27	3.18	3.11	3.06	2.99	2.94	2.90
6.25	4.13	3.60	3.41	3.30	3.24	3.19	3.11	3.06	3.01
6.50	4.29	3.74	3.54	3.43	3.36	3.31	3.23	3.17	3.12
6.75	4.46	3.88	3.67	3.56	3.49	3.43	3.35	3.29	3.23
7.00	4.62	4.02	3.81	3.69	3.61	3.56	3.47	3.40	3.35
7.25	4.79	4.16	3.94	3.82	3.74	3.68	3.59	3.52	3.46
7.50	4.95	4.30	4.07	3.95	3.8C	3.80	3.70	3.63	3.57
7.75	5.11	4.44	4.21	4.07	3.99	3.92	3.82	3.74	3.68
8.00	5.27	4.58	4.34	4.20	4.11	4.04	3.94	3.85	3.79
8.25	5.44	4.73	4.47	4.33	4.23	4.16	4.05	3.97	3.89
8.50	5.60	4.87	4.60	4.46	4.36	4.28	4.17	4.08	4.00
8.75	5.76	5.01	4.73	4.58	4.48	4.40	4.28	4.19	4.11
9.00	5.93	5.15	4.87	4.71	4.60	4.52	4.40	4.30	4.22
9.25	6.09	5.29	5.00	4.84	4.73	4.64	4.51	4.41	4.32
9.50	6.25	5.43	5.13	4.96	4.85	4.76	4.63	4.52	4.43
9.75	6.41	5.57	5.26	5.09	4.97	4.88	4.74	4.63	4.53
10.00	6.58	5.71	5.39	5.21	5.09	5.00	4.85	4.74	4.64
10.50	6.90	5.98	5.65	5.46	5.33	5.23	5.08	4.95	4.85
11.00	7.22	6.26	5.91	5.71	5.57	5.47	5.30	5.17	5.05
11.50	7.55	6.54	6.17	5.96	5.81	5.70	5.52	5.38	5.25
12.00	7.87	6.82	6.43	6.21	6.05	5.93	5.74	5.59	5.46
12.50	8.19	7.09	6.69	6.45	6.29	6.16	5.96	5.80	5.66
13.00	8.51	7.37	6.94	6.70	6.53	6.39	6.18	6.01	5.85
13.50	8.83	7.64	7.20	6.94	6.76	6.62	6.39	6.21	6.05
14.00	9.15	7.92	7.46	7.19	7.00	6.85	6.61	6.41	6.24
14.50	9.48	8.19	7.71	7.43	7.23	7.07	6.82	6.61	6.43
15.00	9.80	8.47	7.97	7.67	7.46	7.30	7.03	6.81	6.62
15.50	10.12	8.74	8.22	7.91	7.70	7.52	7.24	7.01	6.81
16.00	10.43	9.01	8.47	8.15	7.93	7.74	7.45	7.21	7.00
16.50	10.75	9.28	8.72	8.39	[illegible]15	7.96	7.66	7.40	7.18
17.00	11.07	9.55	8.97	8.63	[illegible]8	8.18	7.86	7.60	7.36
17.50	11.39	9.82	9.22	8.87	8.61	8.40	8.07	7.79	7.54
18.00	1[illegible].71	10.09	9.47	9.10	8.84	8.62	8.27	7.98	7.72
18.50	12.[illegible]2	[illegible]0.36	9.72	9.34	9.06	8.84	8.47	8.17	7.90
19.00	12.34	10.63	9.97	9.57	9.29	9.05	8.67	8.35	8.07
19.50	12.66	10.90	10.22	9.81	9.51	9.27	8.87	8.54	8.25
20.00	12.97	11.17	10.46	10.04	9.73	9.48	9.07	8.72	8.42
20.50	13.29	11.43	10.71	10.27	9.95	9.69	9.26	8.90	8.59
21.00	13.[illegible]	11.70	10.96	10.50	10.17	9.90	9.46	9.09	8.76
21.50	13.92	11.97	11.20	10.73	10.39	10.11	9.65	9.26	8.92
22.00	14.23	12.23	11.44	10.96	10.61	10.32	9.84	9.44	9.09
23.00	14.86	12.76	11.93	11.42	11.04	10.73	10.22	9.79	9.41
24.00	15.48	13.29	12.41	11.87	11.47	11.14	10.60	10.14	9.73
25.00	16.11	13.81	12.89	12.32	11.90	11.55	10.97	10.48	10.05

Discount Rate Equivalents of Actuarial Rates

The actuarial interest rate shown as the left hand index is applied to the outstanding balances from month to month. The body of the table shows the equivalent discount rate to be applied to the total note for the full term.

Annual Actuarial Rate	TERM-months 42 mo.	48 mo.	54 mo.	60 mo.	72 mo.	84 mo.	96 mo.	108 mo.	120 mo.
4.00	1.95	1.93	1.92	1.90	1.87	1.84	1.82	1.79	1.77
4.25	2.07	2.05	2.03	2.01	1.98	1.95	1.92	1.89	1.86
4.50	2.18	2.16	2.14	2.12	2.08	2.05	2.02	1.99	1.96
4.75	2.30	2.27	2.25	2.23	2.19	2.15	2.12	2.08	2.05
5.00	2.41	2.38	2.36	2.34	2.29	2.25	2.21	2.18	2.14
5.25	2.52	2.49	2.47	2.44	2.40	2.35	2.31	2.27	2.23
5.50	2.64	2.60	2.58	2.55	2.50	2.45	2.41	2.36	2.32
5.75	2.75	2.71	2.68	2.65	2.60	2.55	2.50	2.45	2.41
6.00	2.86	2.82	2.79	2.76	2.70	2.64	2.59	2.54	2.49
6.25	2.97	2.93	2.90	2.86	2.80	2.74	2.68	2.63	2.58
6.50	3.08	3.04	3.00	2.96	2.90	2.83	2.77	2.72	2.66
6.75	3.19	3.14	3.10	3.07	2.99	2.93	2.86	2.80	2.74
7.00	3.30	3.25	3.21	3.17	3.09	3.02	2.95	2.88	2.82
7.25	3.40	3.35	3.31	3.27	3.18	3.11	3.04	2.97	2.90
7.50	3.51	3.46	3.41	3.36	3.28	3.20	3.12	3.05	2.98
7.75	3.62	3.56	3.51	3.46	3.37	3.29	3.21	3.13	3.06
8.00	3.72	3.67	3.61	3.56	3.46	3.37	3.29	3.21	3.13
8.25	3.83	3.77	3.71	3.66	3.56	3.46	3.37	3.29	3.21
8.50	3.93	3.87	3.81	3.75	3.65	3.55	3.45	3.36	3.28
8.75	4.04	3.97	3.91	3.85	3.74	3.63	3.53	3.44	3.35
9.00	4.14	4.07	4.00	3.94	3.82	3.72	3.61	3.51	3.42
9.25	4.24	4.17	4.10	4.04	3.91	3.80	3.69	3.59	3.49
9.50	4.35	4.27	4.20	4.13	4.00	3.88	3.77	3.66	3.56
9.75	4.45	4.37	4.29	4.22	4.09	3.96	3.84	3.73	3.63
10.00	4.55	4.46	4.39	4.31	4.17	4.04	3.92	3.80	3.69
10.50	4.75	4.66	4.57	4.49	4.34	4.20	4.07	3.94	3.82
11.00	4.95	4.85	4.76	4.67	4.51	4.35	4.21	4.08	3.95
11.50	5.14	5.04	4.94	4.84	4.67	4.50	4.35	4.21	4.07
12.00	5.33	5.22	5.12	5.01	4.83	4.65	4.49	4.34	4.19
12.50	5.53	5.41	5.29	5.18	4.98	4.80	4.62	4.46	4.31
13.00	5.71	5.59	5.46	5.35	5.14	4.94	4.75	4.58	4.42
13.50	5.90	5.76	5.64	5.51	5.29	5.08	4.88	4.70	4.53
14.00	6.09	5.94	5.80	5.67	5.43	5.21	5.00	4.81	4.63
14.50	6.27	6.11	5.97	5.83	5.58	5.34	5.13	4.92	4.74
15.00	6.45	6.29	6.13	5.99	5.72	5.47	5.24	5.03	4.83
15.50	6.63	6.46	6.29	6.14	5.86	5.60	5.36	5.14	4.93
16.00	6.80	6.62	6.45	6.29	6.00	5.72	5.47	5.24	5.03
16.50	6.98	6.79	6.61	6.44	6.13	5.84	5.58	5.34	5.12
17.00	7.15	6.95	6.76	6.59	6.26	5.96	5.69	5.44	5.21
17.50	7.32	7.11	6.92	6.73	6.39	6.08	5.80	5.53	5.29
18.00	7.49	7.27	7.07	6.87	6.52	6.19	5.90	5.63	5.38
18.50	7.65	7.43	7.21	7.01	6.64	6.31	6.00	5.72	5.46
19.00	7.82	7.58	7.36	7.15	6.76	6.42	6.10	5.80	5.54
19.50	7.98	7.73	7.50	7.29	6.88	6.52	6.19	5.89	5.61
20.00	8.14	7.88	7.64	7.42	7.00	6.63	6.29	5.97	5.69
20.50	8.30	8.03	7.78	7.55	7.12	6.73	6.38	6.06	5.76
21.00	8.46	8.18	7.92	7.68	7.23	6.83	6.47	6.13	5.83
21.50	8.61	8.33	8.06	7.81	7.34	6.93	6.55	6.21	5.90
22.00	8.77	8.47	8.19	7.93	7.45	7.03	6.64	6.29	5.97
23.00	9.07	8.75	8.45	8.18	7.67	7.21	6.80	6.43	6.10
24.00	9.36	9.02	8.71	8.41	7.87	7.39	6.96	6.57	6.22
25.00	9.65	9.29	8.96	8.64	8.07	7.57	7.11	6.71	6.34

ACTUARIAL EQUIVALENTS *of* CONSTANT RATIO

A plan frequently followed is to use a discount rate for a 12-month loan, then from this determine the ratio of charge to *average* outstanding balance for the 12-month loan, and apply this same ratio for other terms (hence the name "constant ratio" plan). However, the use of an

1 year Discount Rate	TERM-months 3 mo.	6 mo.	9 mo.	12 mo.	15 mo.	18 mo.	24 mo.	30 mo.	36 mo.
1.00	1.86	1.86	1.86	1.86	1.86	1.86	1.85	1.85	1.85
2.00	3.76	3.76	3.75	3.75	3.74	3.73	3.72	3.71	3.70
3.00	5.70	5.69	5.67	5.66	5.65	5.63	5.61	5.58	5.56
3.50	6.68	6.67	6.65	6.63	6.61	6.59	6.56	6.52	6.49
4.00	7.68	7.65	7.63	7.60	7.58	7.56	7.51	7.47	7.43
4.25	8.18	8.15	8.12	8.09	8.07	8.04	7.99	7.94	7.89
4.50	8.68	8.65	8.62	8.59	8.56	8.53	8.47	8.42	8.36
4.75	9.18	9.15	9.11	9.08	9.05	9.02	8.95	8.89	8.83
5.00	9.69	9.65	9.61	9.58	9.54	9.50	9.43	9.37	9.30
5.25	10.20	10.16	10.12	10.07	10.03	9.99	9.92	9.84	9.77
5.50	10.71	10.67	10.62	10.57	10.53	10.49	10.40	10.32	10.24
5.75	11.23	11.18	11.13	11.08	11.03	10.98	10.89	10.80	10.71
6.00	11.75	11.69	11.63	11.58	11.53	11.47	11.37	11.27	11.18
6.25	12.27	12.20	12.14	12.09	12.03	11.97	11.86	11.75	11.65
6.50	12.79	12.72	12.66	12.59	12.53	12.47	12.35	12.24	12.12
6.75	13.31	13.24	13.17	13.10	13.04	12.97	12.84	12.72	12.60
7.00	13.84	13.76	13.69	13.61	13.54	13.47	13.33	13.20	13.07
7.25	14.37	14.29	14.21	14.13	14.05	13.97	13.82	13.68	13.55
7.50	14.91	14.82	14.73	14.64	14.56	14.48	14.32	14.17	14.02
7.75	15.44	15.35	15.25	15.16	15.07	14.98	14.81	14.65	14.50
8.00	15.98	15.88	15.78	15.68	15.58	15.49	15.31	15.14	14.97
8.25	16.52	16.41	16.31	16.20	16.10	16.00	15.81	15.63	15.45
8.50	17.07	16.95	16.84	16.73	16.62	16.51	16.31	16.11	15.93
8.75	17.62	17.49	17.37	17.25	17.14	17.02	16.81	16.60	16.41
9.00	18.17	18.03	17.91	17.78	17.66	17.54	17.31	17.09	16.89
9.25	18.72	18.58	18.44	18.31	18.18	18.05	17.81	17.58	17.37
9.50	19.28	19.13	18.98	18.84	18.71	18.57	18.32	18.08	17.85
9.75	19.84	19.68	19.52	19.38	19.23	19.09	18.82	18.57	18.33
10.00	20.40	20.23	20.07	19.91	19.76	19.61	19.33	19.07	18.81
10.25	20.96	20.79	20.62	20.45	20.29	20.14	19.84	19.56	19.30
10.50	21.53	21.35	21.17	20.99	20.82	20.66	20.35	20.06	19.78
10.75	22.10	21.91	21.72	21.53	21.36	21.19	20.86	20.56	20.27
11.00	22.68	22.47	22.27	22.08	21.90	21.72	21.38	21.06	20.75
11.25	23.25	23.04	22.83	22.63	22.43	22.25	21.89	21.56	21.24
11.50	23.83	23.61	23.39	23.18	22.97	22.78	22.41	22.06	21.73
11.75	24.42	24.18	23.95	23.73	23.52	23.31	22.92	22.56	22.22
12.00	25.00	24.75	24.51	24.28	24.06	23.85	23.44	23.06	22.71
12.25	25.59	25.33	25.08	24.84	24.61	24.39	23.96	23.57	23.20
12.50	26.19	25.91	25.65	25.40	25.16	24.93	24.49	24.08	23.69
12.75	26.78	26.50	26.22	25.96	25.71	25.47	25.01	24.58	24.19
13.00	27.38	27.08	26.80	26.52	26.26	26.01	25.53	25.09	24.68
13.25	27.98	27.67	27.38	27.09	26.82	26.56	26.06	25.60	25.18
13.50	28.59	28.26	27.96	27.66	27.37	27.10	26.59	26.11	25.67
13.75	29.20	28.86	28.54	28.23	27.93	27.65	27.12	26.63	26.17
14.00	29.81	29.46	29.12	28.80	28.50	28.20	27.65	27.14	26.67
14.50	31.04	30.66	30.30	29.96	29.63	29.31	28.72	28.17	27.67
15.00	32.29	31.88	31.49	31.12	30.77	30.43	29.79	29.21	28.68
15.50	33.56	33.09	32.69	32.29	31.91	31.55	30.88	30.26	29.69
16.00	34.84	34.36	33.91	33.48	33.07	32.69	31.96	31.31	30.70
16.50	36.12	35.61	35.13	34.67	34.24	33.83	33.06	32.36	31.72

ACTUARIAL EQUIVALENTS *of* CONSTANT RATIO

average really assumes that there is the same interest and the same principal in each installment, which is an over-simplification. The table shows the true actuarial rate on outstanding funds.

1 year Discount Rate	TERM-months 42 mo.	48 mo.	54 mo.	60 mo.	72 mo.	84 mo.	96 mo.	108 mo.	120 mo.
1.00	1.85	1.84	1.84	1.84	1.83	1.83	1.82	1.82	1.81
2.00	3.69	3.68	3.67	3.66	3.64	3.62	3.60	3.58	3.56
3.00	5.54	5.51	5.49	5.47	5.42	5.38	5.34	5.30	5.26
3.50	6.46	6.43	6.40	6.37	6.31	6.25	6.19	6.14	6.09
4.00	7.38	7.34	7.30	7.26	7.19	7.11	7.04	6.98	6.91
4.25	7.85	7.80	7.75	7.71	7.62	7.54	7.47	7.39	7.32
4.50	8.31	8.26	8.21	8.16	8.06	7.97	7.89	7.80	7.73
4.75	8.77	8.71	8.66	8.60	8.50	8.40	8.31	8.22	8.13
5.00	9.23	9.17	9.11	9.05	8.94	8.83	8.72	8.63	8.53
5.25	9.70	9.63	9.56	9.50	9.37	9.25	9.14	9.03	8.93
5.50	10.16	10.09	10.01	9.94	9.81	9.68	9.56	9.44	9.33
5.75	10.62	10.54	10.46	10.39	10.24	10.10	9.97	9.85	9.73
6.00	11.09	11.00	10.91	10.83	10.67	10.52	10.38	10.25	10.12
6.25	11.55	11.46	11.37	11.28	11.11	10.95	10.80	10.65	10.52
6.50	12.02	11.92	11.82	11.72	11.54	11.37	11.21	11.06	10.91
6.75	12.48	12.37	12.27	12.16	11.97	11.79	11.62	11.46	11.30
7.00	12.95	12.83	12.72	12.61	12.40	12.21	12.03	11.86	11.70
7.25	13.42	13.29	13.17	13.05	12.83	12.63	12.43	12.25	12.09
7.50	13.88	13.75	13.62	13.50	13.26	13.04	12.84	12.65	12.47
7.75	14.35	14.21	14.07	13.94	13.69	13.46	13.25	13.05	12.86
8.00	14.82	14.67	14.52	14.38	14.12	13.88	13.65	13.44	13.25
8.25	15.28	15.13	14.97	14.83	14.55	14.30	14.06	13.84	13.63
8.50	15.75	15.58	15.42	15.27	14.98	14.71	14.46	14.23	14.02
8.75	16.22	16.04	15.88	15.71	15.41	15.13	14.87	14.63	14.40
9.00	16.69	16.51	16.33	16.16	15.84	15.54	15.27	15.02	14.79
9.25	17.16	16.97	16.78	16.60	16.27	15.96	15.68	15.42	15.17
9.50	17.63	17.43	17.23	17.04	16.69	16.37	16.08	15.81	15.56
9.75	18.10	17.89	17.68	17.49	17.12	16.79	16.48	16.20	15.94
10.00	18.58	18.35	18.14	17.93	17.55	17.20	16.88	16.59	16.32
10.25	19.05	18.81	18.59	18.38	17.98	17.62	17.29	16.98	16.70
10.50	19.52	19.28	19.04	18.82	18.41	18.03	17.69	17.37	17.08
10.75	20.00	19.74	19.50	19.26	18.84	18.45	18.09	17.77	17.47
11.00	20.47	20.20	19.95	19.71	19.26	18.86	18.49	18.16	17.85
11.25	20.95	20.67	20.40	20.15	19.69	19.27	18.89	18.55	18.23
11.50	21.42	21.13	20.86	20.60	20.12	19.69	19.30	18.94	18.61
11.75	21.90	21.60	21.31	21.05	20.55	20.10	19.70	19.33	18.99
12.00	22.38	22.07	21.77	21.49	20.98	20.52	20.10	19.72	19.37
12.25	22.86	22.53	22.23	21.94	21.41	20.93	20.50	20.11	19.75
12.50	23.34	23.00	22.68	22.39	21.84	21.35	20.90	20.50	20.13
12.75	23.82	23.47	23.14	22.83	22.27	21.76	21.31	20.89	20.51
13.00	24.30	23.94	23.60	23.28	22.70	22.18	21.71	21.28	20.90
13.25	24.78	24.41	24.06	23.73	23.13	22.59	22.11	21.67	21.28
13.50	25.26	24.88	24.52	24.18	23.56	23.01	22.51	22.07	21.66
13.75	25.75	25.35	24.98	24.63	23.99	23.43	22.92	22.46	22.04
14.00	26.23	25.82	25.44	25.08	24.42	23.84	23.32	22.85	22.43
14.50	27.20	26.77	26.36	25.98	25.29	24.68	24.13	23.64	23.19
15.00	28.18	27.72	27.29	26.89	26.16	25.51	24.94	24.43	23.96
15.50	29.16	28.67	28.22	27.79	27.03	26.35	25.75	25.22	24.73
16.00	30.14	29.63	29.15	28.71	27.90	27.19	26.57	26.01	25.51
16.50	31.13	30.59	30.09	29.62	28.78	28.04	27.39	26.80	25.28

CONSTANT RATIO RATE EQUIVALENTS *of* ACTUARIAL RATES

The actuarial interest rate in the left hand index is applied to the outstanding balances from month to month. The body of the table shows the equivalent 1 Year Discount Rate to be applied on the constant ratio plan.

Annual Actuarial Rate	TERM-months 3 mo.	6 mo.	9 mo.	12 mo.	15 mo.	18 mo.	24 mo.	30 mo.	36 mo.
4.00	2.12	2.13	2.13	2.13	2.14	2.14	2.15	2.15	2.16
4.25	2.25	2.26	2.26	2.26	2.27	2.27	2.28	2.29	2.30
4.50	2.38	2.39	2.39	2.40	2.40	2.40	2.41	2.42	2.43
4.75	2.51	2.52	2.52	2.53	2.53	2.54	2.55	2.56	2.56
5.00	2.64	2.65	2.65	2.66	2.66	2.67	2.68	2.69	2.70
5.25	2.77	2.77	2.78	2.79	2.79	2.80	2.81	2.82	2.83
5.50	2.90	2.90	2.91	2.92	2.92	2.93	2.94	2.95	2.97
5.75	3.03	3.03	3.04	3.05	3.05	3.06	3.07	3.09	3.10
6.00	3.15	3.16	3.17	3.18	3.18	3.19	3.21	3.22	3.24
6.25	3.28	3.29	3.30	3.30	3.31	3.32	3.34	3.35	3.37
6.50	3.41	3.42	3.40	3.43	3.44	3.45	3.47	3.49	3.50
6.75	3.53	3.54	3.55	3.56	3.57	3.58	3.60	3.62	3.64
7.00	3.66	3.67	3.68	3.69	3.70	3.71	3.73	3.75	3.77
7.25	3.79	3.80	3.81	3.82	3.83	3.84	3.86	3.88	3.91
7.50	3.91	3.92	3.94	3.95	3.96	3.97	3.99	4.02	4.04
7.75	4.04	4.05	4.06	4.07	4.09	4.10	4.12	4.15	4.17
8.00	4.16	4.18	4.19	4.20	4.22	4.23	4.25	4.28	4.31
8.25	4.29	4.30	4.31	4.33	4.34	4.36	4.38	4.41	4.44
8.50	4.41	4.43	4.44	4.46	4.47	4.49	4.52	4.54	4.57
8.75	4.54	4.55	4.57	4.58	4.60	4.61	4.65	4.68	4.71
9.00	4.66	4.68	4.69	4.71	4.73	4.74	4.78	4.81	4.84
9.25	4.78	4.80	4.82	4.84	4.85	4.87	4.90	4.94	4.97
9.50	4.91	4.92	4.94	4.96	4.98	5.00	5.03	5.07	5.11
9.75	5.03	5.05	5.07	5.09	5.11	5.13	5.16	5.20	5.24
10.00	5.15	5.17	5.19	5.21	5.23	5.25	5.29	5.33	5.37
10.50	5.40	5.42	5.44	5.46	5.48	5.51	5.55	5.60	5.64
11.00	5.64	5.66	5.69	5.71	5.74	5.76	5.81	5.86	5.90
11.50	5.88	5.91	5.93	5.96	5.99	6.01	6.07	6.12	6.17
12.00	6.12	6.15	6.18	6.21	6.24	6.26	6.32	6.38	6.43
12.50	6.36	6.39	6.42	6.45	6.48	6.52	6.58	6.64	6.70
13.00	6.60	6.63	6.67	6.70	6.73	6.77	6.83	6.90	6.96
13.50	6.84	6.87	6.91	6.94	6.98	7.01	7.09	7.16	7.23
14.00	7.07	7.11	7.15	7.19	7.23	7.26	7.34	7.41	7.49
14.50	7.31	7.35	7.39	7.43	7.47	7.51	7.59	7.67	7.75
15.00	7.54	7.59	7.63	7.67	7.72	7.76	7.84	7.93	8.01
15.50	7.78	7.82	7.87	7.91	7.96	8.00	8.10	8.19	8.28
16.00	8.01	8.06	8.10	8.15	8.20	8.25	8.35	8.44	8.54
16.50	8.24	8.29	8.34	8.39	8.44	8.49	8.60	8.70	8.80
17.00	8.47	8.52	8.58	8.63	8.68	8.74	8.85	8.95	9.06
17.50	8.70	8.75	8.81	8.87	8.92	8.98	9.09	9.21	9.32
18.00	8.92	8.98	9.04	9.10	9.16	9.22	9.34	9.46	9.58
18.50	9.15	9.21	9.28	9.34	9.40	9.47	9.59	9.72	9.84
19.00	9.38	9.44	9.30	9.57	9.64	9.71	9.84	9.97	10.10
19.50	9.60	9.67	9.74	9.81	9.88	9.95	10.08	10.22	10.35
20.00	9.82	9.90	9.97	10.04	10.11	10.18	10.33	10.47	10.61
20.50	10.05	10.12	10.20	10.27	10.35	10.42	10.57	10.72	10.87
21.00	10.27	10.35	10.42	10.50	10.58	10.66	10.82	10.97	11.13
21.50	10.49	10.57	10.65	10.73	10.82	10.90	11.06	11.22	11.38
22.00	10.71	10.79	10.88	10.96	11.05	11.13	11.30	11.48	11.64
23.00	11.14	11.23	11.33	11.42	11.51	11.60	11.79	11.97	12.15
24.00	11.57	11.67	11.77	11.87	11.97	12.07	12.27	12.46	12.66
25.00	12.00	12.11	12.21	12.32	12.43	12.53	12.75	12.95	13.16

CONSTANT RATIO RATE EQUIVALENTS *of* ACTUARIAL RATES

The actuarial interest rate in the left hand index is applied to the outstanding balances from month to month. The body of the table shows the equivalent 1 Year Discount Rate to be applied on the constant ratio plan.

Annual Actuarial Rate	TERM - months 42 mo.	48 mo.	54 mo.	60 mo.	72 mo.	84 mo.	96 mo.	108 mo.	120 mo.
4.00	2.17	2.17	2.18	2.19	2.20	2.22	2.23	2.24	2.26
4.25	2.30	2.31	2.32	2.33	2.34	2.36	2.37	2.39	2.40
4.50	2.44	2.45	2.46	2.46	2.48	2.50	2.52	2.53	2.55
4.75	2.57	2.58	2.59	2.60	2.62	2.64	2.66	2.68	2.70
5.00	2.71	2.72	2.73	2.74	2.76	2.78	2.81	2.83	2.85
5.25	2.85	2.86	2.87	2.88	2.90	2.93	2.95	2.97	3.00
5.50	2.98	2.99	3.01	3.02	3.04	3.07	3.10	3.12	3.15
5.75	3.12	3.13	3.14	3.16	3.19	3.21	3.24	3.27	3.30
6.00	3.25	3.27	3.28	3.30	3.33	3.36	3.39	3.42	3.45
6.25	3.39	3.40	3.42	3.44	3.47	3.50	3.53	3.57	3.60
6.50	3.52	3.54	3.56	3.57	3.61	3.65	3.68	3.71	3.75
6.75	3.66	3.68	3.70	3.71	3.75	3.79	3.83	3.86	3.90
7.00	3.79	3.81	3.83	3.85	3.89	3.93	3.97	4.01	4.05
7.25	3.93	3.95	3.97	3.99	4.04	4.08	4.12	4.16	4.21
7.50	4.06	4.09	4.11	4.13	4.18	4.22	4.27	4.32	4.36
7.75	4.20	4.22	4.25	4.27	4.32	4.37	4.42	4.47	4.52
8.00	4.33	4.36	4.39	4.41	4.46	4.52	4.57	4.62	4.67
8.25	4.47	4.50	4.52	4.55	4.61	4.66	4.72	4.77	4.82
8.50	4.60	4.63	4.66	4.69	4.75	4.81	4.87	4.92	4.98
8.75	4.74	4.77	4.80	4.83	4.89	4.95	5.02	5.08	5.14
9.00	4.87	4.91	4.94	4.97	5.04	5.10	5.17	5.23	5.29
9.25	5.01	5.04	5.08	5.11	5.18	5.25	5.32	5.38	5.45
9.50	5.14	5.18	5.22	5.25	5.32	5.40	5.47	5.54	5.61
9.75	5.28	5.32	5.35	5.39	5.47	5.54	5.62	5.69	5.76
10.00	5.41	5.45	5.49	5.53	5.61	5.69	5.77	5.84	5.92
10.50	5.68	5.73	5.77	5.81	5.90	5.99	6.07	6.15	6.24
11.00	5.95	6.00	6.05	6.09	6.19	6.28	6.37	6.47	6.56
11.50	6.22	6.27	6.32	6.38	6.48	6.58	6.68	6.78	6.87
12.00	6.49	6.55	6.60	6.66	6.77	6.88	6.98	7.09	7.20
12.50	6.76	6.82	6.88	6.94	7.06	7.17	7.29	7.40	7.52
13.00	7.03	7.09	7.16	7.22	7.35	7.47	7.60	7.72	7.84
13.50	7.30	7.36	7.43	7.50	7.64	7.77	7.90	8.04	8.16
14.00	7.56	7.64	7.71	7.78	7.93	8.07	8.21	8.35	8.49
14.50	7.83	7.91	7.99	8.07	8.22	8.37	8.52	8.67	8.81
15.00	8.10	8.18	8.27	8.35	8.51	8.67	8.83	8.99	9.14
15.50	8.36	8.45	8.54	8.63	8.80	8.97	9.14	9.30	9.46
16.00	8.63	8.73	8.82	8.91	9.09	9.27	9.45	9.62	9.79
16.50	8.90	9.00	9.10	9.19	9.39	9.58	9.76	9.94	10.12
17.00	9.16	9.27	9.37	9.48	9.68	9.88	10.07	10.26	10.44
17.50	9.43	9.54	9.65	9.76	9.97	10.18	10.38	10.58	10.77
18.00	9.69	9.81	9.93	10.04	10.26	10.48	10.65	10.90	11.10
18.50	9.96	10.08	10.20	10.32	10.55	10.78	11.00	11.22	11.43
19.00	10.22	10.35	10.48	10.60	10.85	11.08	11.32	11.54	11.76
19.50	10.49	10.62	10.75	10.88	11.14	11.39	11.63	11.86	12.08
20.00	10.75	10.89	11.03	11.16	11.43	11.69	11.94	12.18	12.41
20.50	11.02	11.16	11.30	11.44	11.72	11.99	12.25	12.50	12.74
21.00	11.28	11.43	11.58	11.72	12.01	12.29	12.56	12.82	13.07
21.50	11.54	11.70	11.85	12.00	12.30	12.59	12.87	13.14	13.40
22.00	11.80	11.97	12.13	12.28	12.59	12.89	13.18	13.46	13.72
23.00	12.33	12.50	12.67	12.84	13.17	13.50	13.80	14.09	14.37
24.00	12.85	13.03	13.22	13.40	13.75	14.09	14.42	14.73	15.03
25.00	13.36	13.57	13.76	13.96	14.33	14.69	15.04	15.36	15.67

WHAT is an ACTUARIAL INTEREST RATE?

The actuarial interest rate is the rate, usually applied monthly, which could be charged on outstanding declining balances, and still permit the loan to be paid off in the same term and with the same monthly payment.

Here is an actual example of a $1000 loan at 6% "add-on" for 2 years where the charge is $120, with monthly payments of $46.67. All of the calculation of interest in this amortization schedule are made at the actuarial interest rate of 11.13% shown in this booklet.

RATE %	PAYMENT $	LOAN $
11.130	46.67	1,000.00

Prepared by Financial Publishing Company, Boston

PAYMENT NUMBER	PAYMENT ON INTEREST	PAYMENT ON PRINCIPAL	BALANCE OF LOAN
1	9.28	37.39	962.61
2	8.93	37.74	924.87
3	8.58	38.09	886.78
4	8.22	38.45	848.33
5	7.87	38.80	809.53
6	7.51	39.16	770.37
7	7.15	39.52	730.85
8	6.78	39.89	690.96
9	6.41	40.26	650.70
10	6.04	40.63	610.07
11	5.66	41.01	569.06
12	5.28	41.39	527.67
13	4.89	41.78	485.89
14	4.51	42.16	443.73
15	4.12	42.55	401.18
16	3.72	42.95	358.23
17	3.32	43.35	314.88
18	2.92	43.75	271.13
19	2.51	44.16	226.97
20	2.11	44.56	182.41
21	1.69	44.98	137.43
22	1.27	45.40	92.03
23	.85	45.82	46.21
24	.43	46.21	46.54*

* *final payment*

The interest rate of 11.13% is thus shown to be an accurate statement of the cost of this loan. The use of an "average" term or balance will produce an approximation frequently satisfactory for short terms and small amounts, but 11.13% is the correct figure.

Incidentally, Financial Publishing Company is prepared to supply a complete amortization schedule like this one, but computed for the loan figures you specify, and the cost is just $1 for the schedule. Send for a supply of imprinted order cards. There is of course no charge to you until you need and order a schedule.

CALCULATION of MONTHLY EARNINGS

This booklet tells you the actuarial interest rate on a loan, but in most consumer finance the charge is stated in dollars and the interest rate is not actually used in accounting for the loan. The prevailing method is the so-called 78's or sum of the digits method. Specifically, this method is prescribed by law in many states for rebate of unearned charge at prepayment.

Here is the earnings and amortization schedule for the same loan illustrated on the opposite page, $1000, 24 months, charge $120.

Term	Payment	Loan	Discount	Note
24	46.67	1,000.00	120.00	1,120.00

Prepared by Financial Publishing Company, Boston

Payment Number	Interest	Principal	Balance of Loan	Unearned Discount	Balance of Note
1	9.60	37.07	962.93	110.40	1,073.33
2	9.20	37.47	925.46	101.20	1,026.66
3	8.80	37.87	887.59	92.40	979.99
4	8.40	38.27	849.32	84.00	933.32
5	8.00	38.67	810.65	76.00	886.65
6	7.60	39.07	771.58	68.40	839.98
7	7.20	39.47	732.11	61.20	793.31
8	6.80	39.87	692.24	54.40	746.64
9	6.40	40.27	651.97	48.00	699.97
10	6.00	40.67	611.30	42.00	653.30
11	5.60	41.07	570.23	36.40	606.63
12	5.20	41.47	528.76	31.20	559.96
13	4.80	41.87	486.89	26.40	513.29
14	4.40	42.27	444.62	22.00	466.62
15	4.00	42.67	401.95	18.00	419.95
16	3.60	43.07	358.88	14.40	373.28
17	3.20	43.47	315.41	11.20	326.61
18	2.80	43.87	271.54	8.40	279.94
19	2.40	44.27	227.27	6.00	233.27
20	2.00	44.67	182.60	4.00	186.60
21	1.60	45.07	137.53	2.40	139.93
22	1.20	45.47	92.06	1.20	93.26
23	.80	45.87	46.19	.40	46.59
24	.40	46.19			

There is no interest rate used in the preparation of this schedule. The distribution is in proportion to the number of *units* of loan outstanding each month.

Schedules like this will be prepared by Financial Publishing Company for $1. When such a schedule is prepared no further calculations are necessary and each schedule should save you more than the $1 it costs. Send for a supply of order cards for 78's type schedules, imprinted with your name and address, ready for use when you need such a schedule.

ABOUT RATE CHARTS

There is almost endless variety in finance rate charts, and we can compute and supply any of them. More constructive at this point is to describe charts which are standard, and on our shelves ready for prompt shipment.

The size is the same size as this book. The standard terms are 12-18-24-30-36 months. The standard amounts are $100 to $3000 by $20 intervals, and adjusting entries. There are 3 styles depending on whether credit Life Insurance, or Accident and Health Insurance is included.

"UNIFORM CHARTS" show only the total note and monthly payment. Cost is $5 for 100 copies.

"ITEMIZED CHARTS" are designed for use where credit life insurance is included, and shows both the life premium and charge itemized. Cost is $12 for 100 copies.

"INSURED CHARTS" include both credit Life and A&H insurance. Cost is $30 for 100 copies.

THESE CHARTS ARE CARRIED IN STOCK FOR A LARGE NUMBER OF RATES. THEY ARE OFFERED FOR ANY CHARGE RATE, ANY CREDIT LIFE RATE AND ANY A&H RATE. IF WE DO NOT HAVE THEM WE WILL MAKE THEM FAST ON AN ORDER FOR 100 OR MORE COPIES AT THE QUOTED PRICE.

NOTE: where longer terms are needed a second unit from 42 to 60 months, amounts $500 to $3500 can be supplied at the same prices.

UNIFORM MONTHLY PAYMENT CHARTS

4-page unit, punched for looseleaf.

FINANCIAL UNIFORM MONTHLY PAYMENTS

	12 MONTHS		18 MONTHS		24 MONTHS		30 MONTHS	
Bal.	Note	Pay't.	Note	Pay't.	Note	Pay't.	Note	Pay't.
800	857.04	71.42	886.32	49.24	916.32	38.18	947.10	31.57
820	878.40	73.20	908.64	50.48	939.36	39.14	970.80	32.36
840	899.88	74.99	930.78	51.71	962.16	40.09	994.50	33.15
860	921.36	76.78	952.92	52.94	985.20	41.05	1018.20	33.94
880	942.72	78.56	975.06	54.17	1008.00	42.00	1041.90	34.73

ITEMIZED MONTHLY PAYMENT CHARTS

with credit life insurance and charge itemized 8-page unit, stapled and punched for looseleaf.

FINANCIAL ITEMIZED MONTHLY PAYMENTS

	12 MONTHS				18 MONTHS			
Bal.	Life Ins.	Charge	Note	Pay't.	Life Ins.	Charge	Note	Pay't.
1900	20.36	115.20	2035.56	169.63	31.58	173.70	2105.28	116.96
1920	20.57	116.35	2056.92	171.41	31.91	175.51	2127.42	118.19
1940	20.78	117.62	2078.40	173.20	32.25	177.49	2149.74	119.43
1960	21.00	118.76	2099.76	174.98	32.68	179.30	2171.88	120.66
1980	21.21	120.03	2121.24	176.77	32.91	181.11	2194.02	121.89

INSURED MONTHLY PAYMENT CHARTS

with both credit life insurance and A&H insurance.

FINANCIAL INSURED MONTHLY PAYMENTS

12 MONTHS

UNP BAL	LIFE PREM	A&H PREM	TOTAL PREM	AMOUNT FINANCED	FINANCE CHARGE	NOTE	PAYT
700	7.68	16.90	24.58	724.58	43.42	768.00	64.00
720	7.90	17.38	25.28	745.28	44.68	789.96	65.83
740	8.12	17.86	25.98	765.98	45.94	811.92	67.66
760	8.34	18.35	26.69	786.69	47.19	833.88	69.49
780	8.56	18.83	27.39	807.39	48.33	855.72	71.31

SUMMARY *of* AUTO FINANCE *and* OTHER GOODS LAWS

(all rates are add-on unless otherwise designated)

(continued from page 2)

MISS.:	Autos, Class I, 7%; Class II, 10%; Class III, 13%; Class IV, 15%. Minimum $25.
MO.:	All goods: 12% on first $300, 10% on excess to $1000, 8% on excess over $1000. Minimum $12.
MONT.:	Autos, Class I, 7%; Class II, 9%; Class III, 11%. Other Goods: 11% on first $300, 9% on excess to $1000, 7% on excess over $1000. Minimum $20.
NEB.:	Autos, Class I, 8%; Class II, 10%; Class III, 13%; Class IV, 15%. Other Goods: 12% on first $300, 10% on excess to $1000, 8% on excess.
NEVADA:	Autos, 12%. Minimum $25.
N. H.:	Autos, Class I, 7%; Class II, 9%; Class III, 12%. Minimum $25.
N. M.:	Autos, Class I, 8%; Class II, 10%; Class III, 12%; Class IV, 14%. Minimum $25. Other Goods, requires disclosure.
N. J.:	Autos, Class I, 7%; Class II, 10%; Class III, 13%. Other Goods, 10%. Minimum 8 months or less, $10; over 8 months, $12.
N. Y.:	Autos, Class I, 7%; Class II. 10%; Class III, 13%. (Finance Charge on any insurance 7%, regardless of Class.) Other Goods: 10% on first $500, 8% on excess. Minimum 8 months or less $10; over, $12.
N. D.:	Autos, Class I, 7%; Class II, 10%; Class III, 13%. Other Goods, 10%.
OHIO:	All Goods: 8% plus 50¢ per month on first $50 of loan, plus 25¢ per month each on next 5 units of $50. Minimum $15.
OREGON:	Autos, Class I, 8%; Class II, 10%; Class III, 12%. Minimum $25.
PENNA.:	Autos, Class I, 6%; Class II, 9%; Class III, 12%. Minimum $10.
S. D.:	Autos, Class I, 15% actuarial: Class II, 18% actuarial; Class III, 27% actuarial. All computed for 1 year, converted to add-on, and applied pro rata. Minimum $20.
TENN.:	All Goods: 10% on first $500, 8% on excess to $5000, 6% on excess. Minimum $12.50.
UTAH:	All Goods, 12%. Minimum $5 except Autos $15.
VERMONT:	Autos, Class I, 7%; Class II, 9%; Class III, 11%. Minimum $25.
WIS.:	Autos, Class I, 7%; Class II, 9%; Class III, 12%; Class IV, 15%. Minimum $15.

STATEMENT BY WALLACE F. BENNETT, U.S. SENATOR FROM THE STATE OF UTAH

When we were here on November 22 Senator Douglas offered Governor Peabody the financial rate translater, prepared by Financial Publishing Co., 82 Brookline Avenue, Boston, Mass. Since that time I have had an opportunity to analyze this pamphlet and I think I should make the record clear that this booklet by no means solves all the problems connected with variations in consumer credit transactions. Actually, it would require a myriad of rate charts to fit the many different situations faced in consumer credit. This book only fits a particular limited situation and cannot serve the purposes of retailers. The way retailers do business they rarely know what the rate is anyway. Rather, they have a bracketed charge on a schedule of balances. The financial rate translater is of no use whatsoever in meeting normal business practice of retailers.

Pages 4 and 5 are tables converting add-on rates to the actuarial equivalent rate. The first column, "Add-on rate per year," has amounts of $1, $2, $3, $3.50, $4, $4.25, $4.50, etc. Actuarial equivalent rates are shown for periods of 3, 6, 9, 12, 18, 24, and 36 months, etc.

These tables are applicable on an installment sale transaction only if it is known that a specified add-on rate is used (for example, $6), if the contract is for 3, 6, or 9 months, etc., and if all payments are equal monthly payments beginning 1 month after the transaction takes place. If any of these elements are not present in the transaction, then the tables do not provide a simple annual rate for the transaction.

Other tables in the book are not helpful in a typical retail installment sale transaction. While it would be possible to expand the table to cover from 2 to 60 months and expand the "Add-on-rate" column to cover amounts other than those shown, it would still be necessary for the person handling the transaction to know the actual add-on rate, which is often not the case in a retail transaction.

Also, monthly payments in typical retail transactions may not be of equal amount and they may not begin exactly 1 month following the date of the transaction. For example, a man wants to make payments on his payday, which likely will not fall exactly 30 days from date of purchase.

It is a common practice in retailing to add an amount—for example, $10—to any transaction from $95 to $100, and allow monthly payments of a specified amount such as $9 monthly, beginning from 10 to 50 days from the date of the sale. The retailer doesn't know exactly what add-on rate he is charging in a given situation, and therefore would need a great number of tables to cover all possible situations.

Also when you add second or third purchases the book is useless.

The CHAIRMAN. Incidentally, I would ask the Secretary to prepare a biography of the president of the company and a statement about his technical competence and the competence of the company. This is one of the two largest financial reporting companies in the country, and has built up a big business. (See p. 1658.)

Senator BENNETT. The book is good for what it does, but it isn't extensive enough to handle all the problems.

Mr. Du Brul's report apparently was filed on April 29, 1963, and his opening statement is:

This report is submitted to report my disagreement with the majority statement of March 21, 1963, supporting S. 750

(I offer them for the record.)

The CHAIRMAN. And I think copies should be sent to the Council of Economic Advisers so that their files may be completed.

Senator BENNETT. I suppose that should be from Dr. Heller rather than from us or Mr. Du Brul.

The CHAIRMAN. Well, if there is absence of this in the files, I am sure Dr. Heller's Consumer Council will want to have this material.

Mrs. O'NEIL. Of course.

The CHAIRMAN. This suggestion was simply to fill out the records.

Senator BENNETT. That is right; well, I am sure Mr. Du Brul can supply it.

The CHAIRMAN. I see nothing wrong with doing this ourselves.

(The report follows:)

MINORITY STATEMENT ON S. 750, BY STEPHEN M. DU BRUL, JR., PARTNER, LEHMAN BROS., NEW YORK, N.Y., MEMBER, CONSUMER ADVISORY COUNCIL

This report is submitted to record my disagreement with the majority statement of March 21, 1963, supporting S. 750.

As a starting point in my investigation, I asked myself: "Does a problem exist which significantly affects the public interest and requires new legislation?" In reviewing the 1960–62 hearings, Dr. Morse's position report of January 29, and our January discussion with selected consumer organization representatives, I found it difficult to define accurately what aspect of credit is being primarily investigated as a problem to be solved. Our January discussion with consumer representatives, as well as continued references in the hearings, seemed to focus on the high cost of credit. The position report of January 29 contained, as one aspect, an attempt to evaluate consumer credit terms as they facilitate or inhibit efficient and intelligent use of credit. Finally, Senator Douglas, the initiator of the inquiry, suggests that the topic under review is whether or not national economic instability is generated by current credit disclosure practices (see p. 1, 1961 hearings). Unfortunately, there appeared to be such a dearth of admissible evidence on this topic that it was somewhat pushed to the side.

Rather than attempt to define what I think the proponents have in mind, I propose to address myself to the CAC majority statement as written. The essence of that statement as it relates to S. 750 is contained in point 2, page 1, with point 3, pages 2 and 3, serving as more detailed reference to the bill.

In point 2.a., the majority alleges that S. 750 will "promote the right of consumers to have the facts they need to make rational, informed choices regarding credit usage." I would change this to read: "require the statement of a simple annual interest rate which may or may not be accurate. This one addition to existing disclosure practice, therefore, may inhibit rather than promote a consumer's access to better knowledge about credit cost, credit cost being only one factor in determining credit usage." I recall in our committee that Dr. Morse acknowledged that simple annual interest statements as proposed in the bill are not necessarily accurate and are certainly not comparable to effective interest rates. In addition, the bill completely disregards the whole area of consumer time payments (e.g., regular charge accounts, "no credit charge" furniture, jewelry, and clothing sales) where the charge for credit has been included in the markup. Thus, even if a way can be eventually found to state rate charges accurately, the bill would not create comparability as long as it continued to ignore the whole segment of "no credit charge" time payments. In fact, the bill would tend to deceive those few (?) or many (?) people who would blindly rely upon rate quotations because they are calculated in accordance with Federal regulations and, therefore, are presumably accurate.

In point 2.b., the majority asserts that the bill will protect those vendors of credit who try in every way to be honest with consumers. I believe this assertion is wrong. The bill affords no such protection in the important area of consumer goods which are sold on time payment plans. The advertising and display of goods, with plainly marked true cash prices, is basic to good consumer purchasing. A Government-sponsored method of rate calculation, however, will encourage some vendors to exploit such Government sponsorship by focusing consumer attention on rates of charge (calculated in conformity with U.S. Government regulations) rather than cash prices. Under such circumstances, the cash prices advertised in connection with low rates of charge or no rate of charge would in fact include part or all of the cost of credit extension. This is particularly true with variations in rates of charge. For example, a vendor could sell merchandise on time in several ways and achieve the same dollar result. He could sell an item for $100 or $109, no money down, 12 months to pay—a possible rate of charge, calculated under S. 750, of 18 percent. He could also have a cash price of $105.83, or no money down, 12 months to pay at an S. 750 approved calculated rate of 6 percent for a total payment of $109. Additionally, he might have a price of $109, no money down, 12 months' payments and no credit charge—all as approved under S. 750. Such minor variations could not readily be detected by consumers because of the great number of degrees of quality, composition, and features which are found in numerous lines of consumer goods.

Point 2.c. says that price competition does not exist in the consumer market today. I believe this statement reveals either a lack of understanding of credit on the part of the CAC majority, or confusion with point 2.e. There is no such thing as a single money market, either domestic or international. There are many markets, with varying degrees of overlapping. Some of the more obvious examples in the consumer sector are insured and conventional mortgages, auto installment loans, retail installment and revolving accounts, and small personal loans. (It should be noted that in the nonconsumer sector this same phenomenon of market plurality also prevails.) Within any one consumer credit market, there tends to be a similarity in rates of charge; as between markets, there is a disparity—because the markets are different. If any member of the CAC majority has documented evidence of anticompetitive or collusive practices in any of the consumer credit markets, I would urge him to turn it over to the appropriate government authority for prosecution. The fact of similarity of rates within a market, however, is not proof of lack of competition. CAC members may want to read pages 19 and 20 of Occasional Paper 83, National Bureau of Economic Research, which suggest that consumer credit vendors do not show a pattern of unusual profit return on investment, a normal yardstick in determining monopoly or collusive conditions.

Point 2.d. concerning economic stability is totally without supporting evidence. The CAC majority is referred to Mr. W. McC. Martin's letter of July 6, 1961 (p. 31 of 1961 hearings), in which Mr. Martin suggests that standards and terms of availability rather than rate are the critical factors in use of credit. To suggest that interest rate change is the determining element of credit extension reflects a somewhat primitive grasp of our economic system. It is a neat theory, but not based on reality. On page 6 of his position report, Dr. Morse appears to see the problems of point 2.d. ("The responsiveness of credit usage to changes in rates of charge is an open question.") Yet, he still drafted point 2.d. as a statement of fact. I fail to see the logic.

Point 2.e. certainly reflects the hope and feelings of many CAC members and those professional consumer representatives who were present at our January conference. As I recall, at one of our Committee No. 4 meetings, Dr. Angevine expressed the hope that a result of this bill should be the increased use of credit union services by the American consumer because the charges may be seen to be lower than those of many other sources. I strongly share in the hopes of the CAC majority that the consumer will attempt to approach credit on a sound, rational, economic basis, consistent with all of his other criteria for a productive, balanced life. Unfortunately, I cannot accept point 2.e., however, because it is made in the context of and as a conclusion from points 2.a., 2.b., and 2.c., to which I have already evidenced my objections.

APRIL 29, 1963.

Senator SIMPSON. Mrs. O'Neil, I notice on page 5 of your statement, "the case was a clear instance of usury, but we have no usury law in Massachusetts." Don't you agree that this is a case of very rank fraud perpetrated on this lady?

Mrs. O'NEIL. I don't know how rank it is, all I know——

Senator SIMPSON. Leave out the word "rank," don't you think it is a case of fraud perpetrated on this lady?

Mrs. O'NEIL. There is no doubt. I thoroughly agree with you.

Senator SIMPSON. That is all.

(The prepared statement of Mrs. O'Neil follows:)

STATEMENT OF MARTHA E. O'NEIL

Senator Douglas, members of the committee, my name is Martha E. O'Neil. I am treasurer of the BTICU, made up of 1,200 Boston public school employees.

President Kennedy sent to Congress, on March 15, 1962, a special message on protecting the consumer interest. In this historic message, the President listed the four rights of consumers. These were as follows: the right to safey, the right to be informed, the right to choose, and the right to be heard. Truth in lending is concerned with the last three of these rights. The right to be informed includes the right of the consumer to be given the facts necessary for him to make an informed choice; the right to choose presupposes that he has been given the knowledge for him to choose wisely; the right to be heard suggests greater participation by the consumer in the governmental process. The President thus made a part of history the convictions which have been growing on those who are familiar with the plight of the consumer in this very complex industrial society.

The President directed the Council of Economic Advisers to create a Consumer Advisory Council which would be commissioned to reach these goals for consumers. I have here the first annual report of this Council. One of its recommendations urges legislation in favor of full disclosure or truth in lending, S. 750, the Douglas bill which is our concern today.

When S. 750 becomes law, regulations will be set up, and present methods of stating the cost of loans, revolving credit and such activities will be standardized and the consumer will have the information to make an intelligent choice.

At present, only the rare consumer knows what he is paying for credit. I have here a conditional sales contract for a vacuum cleaner. The cash price was $85. The consumer paid $25 down, leaving a balance to be financed of $60. A finance charge of $6 was added to the $60, making a total of $66. This was to be paid in installments of $11 per month for 6 months. The charge for this $60 balance over a period of 6 months would have been $2 at 12 percent simple interest. It could be fairly stated that the cost to the consumer was actually over 20 percent. The buyer believed that she was paying 6 percent, her husband believed it was 10 percent. On the back of this contract is the following statement: "If your account is paid in full on or before the date your second payment is due, the finance charge will be $2 only." My comment. If the balance were paid the next day after the first payment had been made, the interest then would have been over 36 percent on the second balance which then would have been $55. Thus a penalty was exacted for paying ahead, but the consumer was of the belief that there was a saving if paid ahead of time.

This book is a budget payment book for a set of encyclopedias. The entries on the cover were very confusing to the recipient of this book. They are as follows: Price: $288.45 plus the price of a stand, $22: total $310.45. Then follow: Tax, 0.00; trans., $5.37; total price, $315.82; pay per month, $15. There are 21 coupons in the book, but there is no mention of the number of months on the cover. The last coupon is for $15.82. On the back cover is a statement as follows: If you account is paid in full before November 30, 1962, deduct a discount of $14 from the balance due.

This was the due date of the first payment. Nowhere is the cash price mentioned, so that it is impossible to figure the amount of interest the consumer was paying. The word "price" on the front cover referred to the "time price," the consumer was told.

Here is a time payment book from a furniture store. All we have here is a figure under a column entitled "Charge" of $859.80. Below is a figure $53.45, presumably the discounted carrying charge. A downpayment of $175 was made on the same date. Four days later, one article was returned and $39.95 was credited for the item and $3.12 for interest. On the same date another piece of furniture was purchased for $49.95 with a carrying charge of $3.90 added. We estimate the carrying charge to be about 16 percent true rate. However, the only information given on the book is a statement after the word "terms"—$70 per month. In addition, the due date is stated as the 28th. Number of months is not stated. Massachusetts law does not have any regulation of such payments; therefore, only the minimum amount of information is stated, and it is very difficult to estimate true rate of interest.

In one instance a consumer decided to borrow his money at a cost of 9 percent discounted, believing that price to be cheaper than a true rate of 12 percent. He was completely in the dark as to how to figure true rate and could not be convinced that 12 percent true rate was cheaper. However, he was convinced later when he realized the difference between the monthly payments he was making and the payments he might have been making at 12 percent true rate. In other words he understood arithmetic, but not interest rates.

I have here a typical payment book for a loan. Information given at the top is as follows: Credit life insurance, $21.38; principal amount of loan, $1,281.38 (this includes the insurance charge, and the cash received was $1,260): precomputed interest, $428.62; face amount, $1,710; total monthly payments, 30; interest unit for computing refunds and interest charges, $0.9218; rec. and rel. fees paid by borrower, $3. The total of all charges is $453. There is a chart, required by Massachusetts law, printed below these figures, and stating the statutory amounts permitted on small loans. There is no way of figuring the interest to see whether it is correct, unless one has certain charts to use. The consumer must have faith in the one who computes.

OPTION CHARGE ACCOUNT

This is one of the many names given to the carrying charge now commonly added to store bills which are over 30 days due. The clerks in the store use a chart which gives the cost in blocks of $10. A consumer owing a balance of $31.50 was charged 60 cents, because the amount of the bill fell between $30 and $40. The charge of 60 cents on $31 was nearly 2 percent per month, a true annual interest rate of at least 20 percent. This charge is not always stated on the bill, but is referred to as "a small option charge." Twenty percent would not be considered small by most consumers.

I like the requirement in section 5(B) of regulations, "the size of type or lettering which shall be used in setting forth information required by such section." You will please note the size of print in my exhibits in those sections which refer to the legal rates. It is very small, and in this one, exhibit No. 5, almost too small to read without a strong glass. However, this statement below is quite easy to read: "You can get more money before paying this loan in full." You can draw your own conclusions from the discrepancy in the size of print.

Thirty years ago, in Boston, a woman went to a private money lender to borrow $100. She signed "some papers," and was given a check for $200, told to go downstairs and cash it and bring back the money. The lender kept $100 "as security" and gave her $100. She was about 23 years old. Each year thereafter the lender gave her $100 for Christmas expenses and $100 for vacation in the summer, each time requiring new signatures. Each year for 10 months the woman paid $60 per month on the loans. About 7 years ago she was advised to go into bankruptcy, which she did. The lender was named in the case as a creditor for $1,400. However, he required her to sign new papers shortly afterward and she continued her payments of $60 per month. Two years ago she failed to make a payment and was threatened. The lender said that he would expose her if she did not pay. Unable to do so, she sought advice. The case was referred to the attorney general's advisory consumer council. After investigation, the lender agreed to settle his note of $2,500 in the amount of $400. The case was a clear instance of usury, but we have no usury law in Massachusetts, and the amount of $2,500 was above our regulated limit of $1,500. What was the true rate of interest here? I can't tell you. The woman had received $6,000 over a period of 30 years, and had paid back three times as much to the lender.

When truth in lending becomes law borrowers will immediately know the cost of money, and will be able to choose the lending agency which can serve them best for the security they can offer. This will restore true competition to the marketplace and will help business. Many persons will not borrow money for any reason because they have a vague mistrust of all lending agencies, developed from listening to their more experienced friends. I believe that these persons would join the ranks of those who "buy now and pay later" if they were sure of the cost of borrowing. Surely, American business would be glad to have their trade.

CONCLUSIONS

1. The Consumer Advisory Council, established at the request of President Kennedy, has pointed out the right of the consumer to be informed.
2. Present methods of stating the cost of borrowing money are greatly varied and difficult to understand. Few people can translate these costs into true annual interest rate.
3. The Douglas bill would serve as an educational program for consumers, and increased understanding of its provisions could provide a safeguard to businessmen who choose to take a stand against deceptive credit practices.
4. The consumer's purchasing power could be increased were he enabled to shop intelligently for credit. This would be good for the economy.

I wish now to congratulate the subcommittee on implementing one of the consumer's rights—the right to be heard. It is my hope that you will use your influence to secure for consumers that other right—the right to be informed—by securing passage of S. 750, the Douglas truth in lending bill.

The CHAIRMAN. Thank you very much, Mrs. O'Neil. The next witness is Sidney Bronstein of the International Ladies' Garment Workers Union. Mr. Bronstein here? Very glad to have you here, Mr. Bronstein.

STATEMENT OF SIDNEY BRONSTEIN, INTERNATIONAL LADIES' GARMENT WORKERS UNION

Mr. BRONSTEIN. Thank you, Senator Douglas, and distinguished members of the committee. My name is Sidney Bronstein, and I represent the northeast department of the International Ladies' Garment Workers Union, and in particular I have been asked today to speak on behalf of the ILGW locals in Massachusetts, Maine, New Hampshire, Rhode Island.

The bill before you honorable gentlemen, S. 750, the truth in lending bill is urgently necessary. Our laws and practices now give very little protection for the consumer and give the creditors most of the advantages. The buyers' employer, can often become the collector, and the creditor can virtually starve the borrower till payment is made.

The CHAIRMAN. You mean by attachment?

Mr. BRONSTEIN. Right, since most employers will not tolerate unlimited garnishments, the system has become a very powerful weapon used by lenders against borrowers. In the course of finding witnesses for this hearing many of our locals found that although members had paid exorbitant rates of interest, either on installment purchases or the actual loaning of money, they were reluctant to come out and testify, perhaps fearing that the creditors or their employers would find out, or rather in many cases simply being afraid to appear before the subcommittee.

The CHAIRMAN. You will notice that we are not sitting up on the high dias.

Mr. BRONSTEIN. Right.

The CHAIRMAN. We are here on their level.

Mr. BRONSTEIN. I am talking to you about some cases, studies of some witnesses, and I was hoping to bring them here today. Anything seems to go in the field of retail credit. It seems incredible that there could be any opposition to this bill. All that this law does is to merely require businessmen and lenders to state in plain English what they charge for merchandise and what are the costs of credit. It seems that the opposition is saying that the public should be kept in ignorance. They are saying business should be privileged to hide what the actual rate of interest is. We do not believe this is democracy in action. We do not believe this is a fair way to take care of the consumer interests.

I might also note that it is this permissiveness which permits the so-called highway robbers to rob the poorest of the poor of their meager earnings which very often means the bread that their children need.

Gentlemen, I wish you could be in my office for one day to see and hear about these pitiful instances of shame which blot out all good which the business community does. For the average member in any union, this is no small matter. The consumer today owes more than $235 billion in their personal debt.

The CHAIRMAN. That is including home mortgages?

Mr. BRONSTEIN. Yes. Last year alone they paid out approximately $15 to $17 billion in interest and financing charges. It is true that the preponderance of these bills were paid to institutions which have reasonable interest rates. Regrettably, though, those people that I come in contact with get swindled because of our failure to get appropriate laws and they are invariably paying rates that are astronomical I want to show you some examples of cases that have come to my attention.

Incidentally, I had two or three people that were coming today to bring their own case studies to you, but unfortunately one is ill and the other had personal business that was very important and that she had to attend to. I was able to bring to the hearing Mrs. Maggie Ray, one of our finest members who got into one of those so-called swindles, as I call them. Maggie, with your permission, I would like to bring her here to sit by me.

The CHAIRMAN. Yes. Very happy to have you, Mrs. Ray.

Mr. BRONSTEIN. I will talk to you about the other two cases, because the people involved gave me permission to.

The CHAIRMAN. And you are ready to swear that these statements are accurate and correct?

Mr. BRONSTEIN. I certainly will.

Mr. CHAIRMAN. All right.

Mr. BRONSTEIN. They have allowed me to use their names if necessary. This is a loan made by Helen Young, who is one of our members. Her objections here are that if she had a chance to shop around for these loans, offered by these various financial companies, she told me that she would have gone to the finance company where she could have received the lowest rate of interest.

Now, she indicates to me that now she has no idea at all what these interest rates were, but that she had thought that they were 6 percent. She said that these are 6-percent loans, and I know they are not. I tried to calculate them.

The CHAIRMAN. Can you give us the facts?

Mr. BRONSTEIN. Yes. The first loan was $318.17; interest total was $77.83.

The CHAIRMAN. $77.83.

Mr. BRONSTEIN. For a total of $396. She was to pay $22 a month for 17 months. She also paid a life insurance charge on this loan of $2.97.

The CHAIRMAN. I wonder if Mr. Bradford and Mr. Lindley will compute the rate of interest.

Mr. BRONSTEIN. I will give you the other one if you like.

The CHAIRMAN. Let's take this one.

Mr. BRADFORD. $22 a month?

Mr. BRONSTEIN. $22 a month for 17 months.

Mr. BRADFORD. I was estimating it on the wheel, it would be something around the thirties.

The CHAIRMAN. Mr. Bradford and Mr. Lindley said the real rate of interest on the outstanding unpaid balance was approximately 32.6 percent.

Mr. BRONSTEIN. 32.6 percent and the other loan was $314.30. Her interest on it was $85.70 for a total of $400. She was to pay back $20 a month. I will have to figure out the months, because they began June 4, 1962, and end February 4, 1964.

The CHAIRMAN. I think that is 20 months, $20 a month for 20 months.

Mr. BRONSTEIN. Life insurance.

The CHAIRMAN. $314. The experts agree on approximately 31.2 percent.

Mr. BRONSTEIN. I might reiterate that this woman told me she thought she was paying 6 percent. These are 6-percent loans, that is what she told me. This is a case of Esther Lowry, one of our members. She bought some furniture from one of the furniture stores in upper Washington Street in Boston. We call that area Murderer's Row. They stand out in front of the stores and call you in if you are interested in any furniture, and they have a good buy for you.

Well, she went in and she bought some furniture, and the cash price was $795. She gave them a downpayment of $80 for a balance of $715. Total finance charges were $251.72. Net balance due $966.72. She was to pay $40.28 a month for 24 months.

Now, she said to me, the man that made up this contract in the furniture store said that you are going to pay a very small interest charge. I said, "Esther, do you know what the interest was," and she said, "No, I imagine if he told me it was a small rate of interest it must be." I said, "Well, we will have our office figure it out," and we don't have any experts in our office, the best we could do is one of our men in the office came to 33 percent, and one came to 36. How close did they come?

The CHAIRMAN. Well, we will ask these gentlemen, who are using a circular slide rule.

Mr. BRADFORD. Can I check the figures? The balance was $715 after the downpayment of $80, at $40.24 per month?

Mr. BRONSTEIN. For 24 months.

Mr. BRADFORD. About 31 percent.

Mr. LINDLEY. I get about 30.6 or 30.7 percent.

The CHAIRMAN. Between 30 and 31 percent.

Mr. BRONSTEIN. Now, on the next one, frankly, I really couldn't figure this out. This involves a purchase of a sewing machine and a typewriter. I had better let Maggie try to get it. I was getting a little closer on the purchase of her oil burner.

Senator BENNETT. These are all from the same seller?

Mr. BRONSTEIN. No. The oil burner she pays $30 a month on a balance of $350, but the amount of the note is $462.60.

Senator BENNETT. Did that include installation?

Mrs. RAY. Well, the whole price was supposed to be $380, and paid a downpayment of $30, and so we asked him what the interest was, and he said he didn't know, he would have to figure it out at the place; and that it wouldn't be very much just a small amount, and he figured out what he told me, we wanted to know, and what the interest was, because we didn't want to do it if it was going to cost too much. So he figured it out, and the figure that he gave us and when we got the note, the book, the things back, well, it was much higher than what he quoted. It was $462 while we had counted on $300-and-some.

The CHAIRMAN. May I ask, the payments were $30 a month?

Mrs. RAY. No; the payments were $12.85 a month.

The CHAIRMAN. For how many months?

Mrs. RAY. For 36 payments.

The CHAIRMAN. Thirty-six. All right, we can find this out. The original purchase at $350 and $12.85, almost $13 a month for 36 months. Mr. Lindley and Mr. Bradford agree on an interest rate of 19.3 percent.

Mrs. RAY. The point he didn't tell us when we were there it was going to be one thing, but when we got it, it was something else different.

The CHAIRMAN. You mean the actual terms differed from these?

Mrs. RAY. Yes; but from what he quoted.

The CHAIRMAN. So, the actual amount you paid was greater than the figures you gave us?

Mrs. RAY. No; the man, the one, he was an oil man, came and he figured out what it would cost us, but when the figured payments came in, it was different.

Mr. BROMSTEIN. This involves a sewing machine she bought, and if I remember correctly you said after you started to pay for the sewing machine, you decided you would buy a typewriter?

Mrs. RAY. No; I bought the typewriter and then the sewing machine.

Mr. BROMSTEIN. How did that work out on your payments?

Mrs. RAY. The original price on the typewriter was about $75.

Senator SIMPSON. Speak a little louder, please.

Mrs. RAY. The typewriter was $70—something and the interest was—with the interest it was $76, and I bought a sewing machine for $344. And when I got the papers back, when they sent the book, it was $505.51, everything included, and the payments were $16.85 a month.

The CHAIRMAN. For how many months, for 30 months, would that be?

Mr. BROMSTEIN. Thirty months, I guess.

The CHAIRMAN. Thirty months, all right, the original indebtedness was $344 and you gave $16.85 for 30 months or a total of $505 with a total finance charges of $161.

Mrs. RAY. And the typewriter was added in.

Mr. BRADFORD. Is the loan $344, or do we add $75 for the typewriter?

Mrs. RAY. $75 for the typewriter.

Mr. BRADFORD. So, it is $419, is that right, for the cost of the products?

Senator BENNETT. You bought them both from the same place?

Mrs. RAY. Yes.

Senator BENNETT. And they put the two together?

Mr. BRADFORD. $419.

The CHAIRMAN. Our figures come, assuming the original indebtedness was $344——

Senator BENNETT. The typewriter has to be added.

The CHAIRMAN. Well, it is a question to whether——

Mr. BRADFORD. If it is in, it is 15 percent.

The CHAIRMAN. If the typewriter is in, it is approximately between 15 and 16 percent. Now, if the typewriter is not in——

Senator BENNETT. She has said the typewriter is in.

The CHAIRMAN. Let's examine the documents.

(The documents follow:)

[illegible]

Account No. 20-19227-01

Dear Customer:

Enclosed herewith is a copy of the Agreement you signed in connection with your recent purchase and a duplicate coupon book which covers your new balance.

May we take this opportunity to express our appreciation for your continued patronage.

STATEMENT OF ACCOUNTS

Old Balance	$ 86.01
Balance on new purchase	$ 344.00
Credit Service Charge on new purchase	$ 75.50
Total Time Balance	$ 505.51
Your Monthly payment will be	$ 16.85

Please accompany each payment with a coupon out of your new book and destroy the coupon book you originally received.

If there are any [illegible] we would appreciate [illegible] us.

Very truly yours,

SINGER SEWING MACHINE COMPANY

F. G. Eichler
Manager

CONDITIONAL SALES CONTRACT

This Certifies

FOR OFFICE USE ONLY	
[illegible]	[illegible]

THAT I [illegible] NOW RESIDING AT [illegible]

have this day received on conditional sale from SINGER SEWING MACHINE COMPANY [illegible] and place of business at [illegible] 20 [illegible] SCHRAFT PLACE, BOSTON 11, MASS. through its shop at______ the following merchandise, all in good order, which I am to use with care and keep in good order while this agreement is in force.

SINGER Sewing Machine, Style______ Cabinet Work, Style______ Finish______

Serial No.______ $______ and I have paid on account of the purchase thereof a Cash First

Sewing Stool, Style______ $______ Payment of $[illegible] for which Receipt No. [illegible]

Combination Table, Style______ $______ has been given and [illegible] has been allowed me on

Sewing Cabinet, Style [illegible] $[illegible] account of merchandise described as follows:

SINGER Vacuum Cleaner, Floor Type___ No.___ $___ making a total Down Payment of $[illegible]

SINGER Vacuum Cleaner, Cabinet Type___ No.___ $___ leaving an unpaid balance of the Cash Price of $[illegible]

SINGER Vacuum Cleaner, Hand Type___ No.___ $___ which together with a Finance Charge of $[illegible]

The Total Cash Sale Price of said merchandise is $[illegible] makes a Time Balance owing of $[illegible]

______ Sales Tax______ $______

The Total Cash Sale Price of said merchandise including Sales Tax is $[illegible] (The Total Time Price is the sum of the Cash Price [illegible] Sales Tax and the Finance Charge or $______)

which Time Balance I agree to pay to the Company at the ACCEPTANCE DEPARTMENT, POST OFFICE BOX 555, SYOSSET, NEW YORK, in [illegible] installments of $[illegible] on the [illegible] day of each successive month hereafter commencing on the [illegible] day of [illegible] 19[illegible].

Payment of the Finance Charge [illegible] is waived [illegible] I pay [illegible] the Cash Price not later than thirty days from the date hereof [illegible] not later than sixty days from the date hereof [illegible] not later than ninety days from the date hereof. In the event of prepayment in full after the [illegible] ninety (90) day period [illegible] of the Finance Charge will be deducted from the balance then [illegible].

The Finance Charges provided herein are NOT regulated by law. They are a matter of Agreement between the Parties.

Until all amounts due hereunder have been paid in full, the said merchandise shall remain [illegible] of the Company and I shall not remove said merchandise from my aforesaid residence without the prior written consent of the Company [illegible] while this contract is in force to apply exclusively to a SINGER Shop or SINGER Representative for [illegible] to said merchandise [illegible] completed the above payments at the times and in the manner provided, I am to become the owner of said merchandise.

If there shall be any default on my part in payment of any installment hereunder [illegible] for a period of more than five days, there there shall become immediately due and payable [illegible] to the Company [illegible] payable hereunder) a delinquency charge of five cents [illegible] on each dollar ($1) or [illegible] thereof [illegible].

Upon default by me in the making of any of the aforesaid payments at the time and [illegible] or in the performance of any other term or condition of this contract, the Company or its Agents [illegible] have the right [illegible] to the immediate possession of said merchandise, and I hereby authorize and empower the Company [illegible] agents to enter the premises [illegible] merchandise may be and carry the same away, disclaiming any right of [illegible] thereto, but this provision does not authorize [illegible] of peace; and, to the extent I may lawfully do so, I also waive all right of homestead and other exemptions [illegible] of any State as to this obligation, and I do agree that when this contract is terminated, either by reason of such default and [illegible] by the Company, or by voluntary return by me, with Company's consent, of the said merchandise, I shall not [illegible] be entitled to any allowance, credit, return or set off for payments previously made, but all such payments shall be retained by the Company as liquidated damages, hire of same and compensation for the use of said merchandise by me.

The merchandise covered by this contract is to be used and is bought for use primarily for personal, family, or household purposes.

CONDITIONAL SALES CONTRACT

WITNESS my hand, this [illegible] day of [illegible] 19[illegible]

Witness [illegible] [illegible] [illegible]

Accepted for SINGER SEWING MACHINE COMPANY By [illegible]

NOTICE TO PERSONS SIGNING THIS AGREEMENT. Read the terms of this agreement before signing it, as no statement, settlement, agreement or understanding, verbal or written, not contained herein, will be [illegible].

IMPORTANT—This agreement is not a receipt. Insist upon being given the [illegible] for first cash payment. Use warranted SINGER parts, oil and needles, obtainable from SINGER Shops and authorized SINGER Representatives.

FOR OFFICE USE ONLY

MO.	DAY	YR.	MDSE.	[illegible]	F

SINGER CREDIT ACCOUNT
TRADE-IN INCREASE AGREEMENT

Miss
Mr.
Mrs.

This Certifies that I Maggie Ray
(please print name)

now residing at 81 Dewey St
(street address)

Dorchester Mass
(city) (county) (state)

have received from the SINGER SEWING MACHINE COMPANY, through its Shop at 55 Temple Pl Boston 528 W

Machine No. 1/2 ... 55 Temple Pl. Boston, Mass. 65 ... 0 ...

Accessories 1 ... Cash Price $ 463.W

In exchange for the merchandise sold me under

Account No. ...

Machine No. ... Style T ...

Accessories ... Cash Price $ 84.41

It is understood by me that as a result of this exchange, the balance of my

Account No. Bal of acct 1 ...

Will be increased as outlined below:

Difference in Cash Price	379	—
Plus Depreciation on Original Machine		
Plus Sales Tax, if any		
Total Cash Increase	379	—
Less Down Payment on Increase	35	—
Net Increase amount	344	—
Credit Service Charge at $ 2.68 per month on the Increase amount of $ 344.– for 30 months	75	50
Total Increase to be added to my present Account	419	50
Balance remaining under the Original Agreement (Subject to verification by Acceptance Department)	86	01
New Balance of my present Account No.	505	51

To be paid in 29 monthly installments of $ 16.84

and a final installment of $ 16.8 ...

It is further agreed and understood that, except as otherwise herein provided, all terms and conditions of the original agreement under Account No. Bal of acct ... are applicable to this amendment.

WITNESS my hand, this 21 day of Aug. 196...

Witness J. ... Hezlund

Buyer's Signature Maggie Ray

Accepted for
SINGER SEWING MACHINE COMPANY

By J. ... Hezlund

NOTICE TO PERSONS SIGNING THIS AGREEMENT. Read the terms of this agreement before signing it, as no statement, settlement, agreement or understanding, verbal or written, not contained herein, will be recognized.

Mr. BRONSTEIN. Senator, what I would like to bring out is in speaking to Maggie on these things she indicates the helplessness she feels on signing these papers, and what is involved, and she tells me had she known what the interest rate was on the payments, what she was actually paying, she could have been a little clearer on what she wanted to do or where she wanted to go to buy these things. This is what we are trying to bring out in the hearings.

The CHAIRMAN. Let me say this, if the typwriter is not included, the interest rate would have been 33 percent, and I think both Mr. Bradford and Mr. Lindley ought to examine the contract, and talk with the witness, and see whether the typewriter was included, and then see that the record shows this, whichever it is.

Mr. BRONSTEIN. Did you have any idea you were paying 33 percent?

Mrs. RAY. I don't know what I was paying.

The CHAIRMAN. Well, she may not have paid 33 percent, it may have been between 15 and 16 percent.

Mr. BRONSTEIN. Gentlemen, that completes what I want to say other than with your permission may I introduce some resolutions passed by our locals in Massachusetts, Maine, and New Hampshire, which express their solidarity in obtaining the small measure of consumer protection.

The CHAIRMAN. For the record, thank you very much, and I want to thank you, Mrs. Ray for coming.

(The resolutions follow:)

RESOLUTION OF NORTHERN NEW ENGLAND DISTRICT COUNCIL, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, BOSTON, MASS.

Resolved, That the Northern New England District Council, International Ladies' Garment Workers' Union, representing 10,000 workers in Maine, New Hampshire, and Massachusetts transmit to the Senate Production and Stabilization Subcommittee holding hearings on S. 750, truth in lending bill, in Boston, Mass., the following resolution:

Whereas members of these locals are paying interest rates both on the actual loaning of money and installment purchases which are beyond the realm of reason; and

Whereas it is impossible for the ordinary layman to determine the rate of interest charged by many concerns because of their devious and misleading language; and

Whereas the ordinary consumer more and more is dependent on obtaining credit in this manner: Be it

Resolved, That we urge the Senate of the United States to pass S. 750 without delay, so that the ordinary person may start to have some modicum of protection until such time as more adequate laws are passed to protect the unsuspecting consumer against those deceiving businessmen whose unscrupulous tactics make such laws imperative.

A RESOLUTION

Whereas on many occasions hardships have been and are suffered by our union members and fellow workers and their families by the exaction of exorbitant interest rates on personal loans and excessive carrying charges on time payments for purchases; and

Whereas in many instances these hardships are made doubly painful by the fact that they are unexpected, being neither explained nor consented to, or are misrepresented at the time of making the loans or purchases; and

Whereas we believe that borrowers and buyers are, by all and any of the accepted rules of fair play and decent competition, entitled to know in advance what it will cost them to make a loan or a purchase; and

Whereas if such knowledge were made legally mandatory it would prove beneficial to good business by eliminating the subterfuges and imposition of hidden charges practiced by unscrupulous money lenders and dealers in goods and services: Now, therefore, be it

Resolved, That, on behalf of our 9,000 members in the Fall River-Taunton area, the executive board of Local 178, International Ladies' Garment Workers' Union, endorses, supports and urges passage of S. 750, the truth in lending bill now under consideration in Congress; and be it further

Resolved, That a copy of this resolution be submitted to the Senate Production and Stabilization Subcommittee holding public hearings on S. 750 in Boston on November 22 and 23, 1963.

LOCAL 75, INTERNATIONAL LADIES' GARMENT WORKERS' UNION

International Ladies' Garment Workers' Union, Local 75, of Worcester, Mass., feels it is imperative that the Senate Production and Stabilization Subcommittee, now holding hearings in Boston, Mass., on S. 750, be informed that the International Ladies' Garment Workers' Union urges the Senate to pass this legislation to protect the working people of this country against the unscrupulous tactics of the bloodsuckers in the loaning business. Our members are now paying outrageous sums of money on loans and installment payments. These loans are written up in such a manner that the ordinary consumer cannot understand what they are signing. Whereas the consumer must depend on loans and installment payments to purchase certain items which are beyond his reach on a cash basis, it becomes incumbent upon you to protect the public until such time as more adequate laws can be passed.

We are informing the Senate Production and Stabilization Subcommittee that the International Ladies' Garment Workers' Union Local No. 226 of Springfield, Mass., feels that S. 750, known as the truth in lending bill, be passed without delay. Be it known that members of this local are now being subjected to payments of interest on loans and installments beyond the realm of reason. These loans are written in language which is not at all understandable to the layman. The Senate of the United States must protect the consumers of the country who must use these loans and installments to purchase items which they need but cannot buy outright. With nowhere else to turn, we strongly urge the Senate to protect the consumer public until such time as this situation can be adequately dealt with.

The CHAIRMAN. It is generally very hard to get people to come forward and testify about their own credit experiences because people think it reflects upon them, although it doesn't. I want to express my appreciation for your bravery and your clarity.

Mrs. RAY. Thank you.

Senator SIMPSON. Mrs. Ray, just one question; were these things misrepresented to you as to what you thought you were getting and what you actually got?

Mrs. RAY. Yes; the other guy, he didn't tell me at all what the interest rates were.

Senator SIMPSON. That is all.

The CHAIRMAN. May I clarify this point. Of course, this bill, 750, does not deal with the question of misrepresentation of the commodity. It doesn't go into the matter of fraud. This is left up to the State and local action. What it does do is to require an accurate statement of the credit costs, that is all. Thank you very much.

How much time more do we have?

Senator SIMPSON. Mr. Chairman, is Mrs. Ray still here. Mrs. Ray, would you come back, please?

The CHAIRMAN. Yes; Mrs. Ray, Senator Simpson?

Senator SIMPSON. Mr. Chairman, I wanted to keep the record straight. You were misrepresented both as to the product and as to the price, were you not?

Mrs. RAY. I was misrepresented on the price of the oil burner or oil furnace, and the sewing machine. I didn'tk now what the interest was going to be on that at all.

Senator SIMPSON. That is all. Thank you very much.

The CHAIRMAN. Thank you, Mrs. Ray.

The next witness is Col. T. P. Coates, of the New England Cooperatives, Inc. Colonel, we are very happy to have you with us.

Senator BENNETT. You have about 22 minutes left, Senator.

The CHAIRMAN. Very happy to have you, Colonel Coates, won't you testify in your own manner?

STATEMENT OF COL. T. P. COATES, VICE PRESIDENT AND DIRECTOR OF THE NEW ENGLAND COOPERATIVES, INC.

Colonel COATES. I am the vice president and director of the New England Cooperatives, Inc., and director of several other cooperative organizations. New England Cooperatives, Inc., consists of 16 consumer cooperatives, 2 electric and 1 farm cooperative in the New England States.

We have about 40,000 members, and our affiliated societies and our central organization which is New England Cooperatives in total do about $20 million worth of business a year. We have at New England Cooperatives—the board has taken official action after having read and discussed the proposed bill, S. 750, and our official action is to the effect that we support the provisions of the bill, and we hope that it will be passed by the Congress of the United States.

I have no examples of interest rates that I wish to present here. I do have, and have had over the years, knowledge of certain cases where the people did not know the interest rates they were paying. They were confused and wished that they did know so that they could plan their budgets a little bit better and plan their financial situation.

The CHAIRMAN. Were you ever able to figure out for yourself what the real interest rates were in these cases?

Colonel COATES. Well, I tried it on—now that you have asked me, I will mention one little incident of my own. Our family does not, except for a big fat mortgage, normally purchase things on credit. However, somehow or other we were talked into taking a Sears, Roebuck revolving credit here about 6 or 7 months ago, and somehow or other we incurred a bill of about $55.

I don't know who was delinquent, whether it was myself or my wife, who didn't pay the bill at the end of the particular period, but we didn't so they sent us a nice little chart, a statement, you owe so much this month, and here is the service charge, and they added on the service charge, and to shorten it, I computed this one, and the way I figured it, it was 18 percent. That wasn't so bad, but somehow or other it slipped that month and the next month they added another 18 percent upon interest and interest and so I paid them and said, "Please cancel the revolving account."

Senator BENNETT. Actually they added 1½ percent of their total. If you owed them $55, they added about 75 cents.

The CHAIRMAN. For 1 month.

Colonel COATES. 84, I think.

Senator BENNETT. Okay, 84 cents for 1 month.

The CHAIRMAN. Which is an annual rate of approximately 18 percent.

Senator BENNETT. This is the argument that has been going on between me and Senator Douglas for the—this is the fifth year.

The CHAIRMAN. My dear friend from Utah refuses to admit there are 12 months in the year. [Laughter.]

Senator BENNETT. I reserve my answer to that one.

The CHAIRMAN. There is no answer.

Senator BENNETT. Oh, there is an answer. [Laughter].

The CHAIRMAN. I have no questions.

Senator BENNETT. No questions.

Senator SIMPSON. No questions.

The CHAIRMAN. Thank you very much.

The next witness is Miss Anna Manion, of the Massachusetts Federation of Business and Professional Women. I have it right this time. Thank you very much, Miss Manion, for coming.

Miss MANION. May I present Miss Jean Manns, legislative representative of the Boston Federation of Business and Professional Women.

The CHAIRMAN. Very happy to have you.

STATEMENT OF MISS ANNA MANION, MASSACHUSETTS FEDERATION OF BUSINESS AND PROFESSIONAL WOMEN

Miss MANION. I am a member at large of the Massachusetts Federation of Business and Professional Women, and we have 35 clubs in the State, and about 3,500 members in the State.

The Legislative Recommendations Committee of the Massachusetts Federation of Business & Professional Women's Club at a meeting held on Tuesday, October 29, 1963, at the Parker House, Boston, endorsed the truth-in-lending bill, S. 750, and instructed me to appear at this hearing to register approval on support of the bill. The committee feels that credit buyers are entitled to fair and honest treatment and that the cost of credit should not be hidden. It is the opinion of this person that inasmuch as manufacturers of patent medicines and packaged foodstuffs are required to list the contents of packaged commodities, the lenders of credit should be required to furnish a true statement outlining the provisions of the sale. The passage of this bill will be a definite aid in helping the buying public in shopping intelligently.

You are all familiar with the phrase, "You wouldn't buy a pig in a bag." That is exactly what many people are doing when they are buying "on time" or borrowing money not knowing the true cost of the money or the item they are purchasing. I have a statement here from the president of the Leominster Business & Professional Women's Club:

> The members of our club last night—

and this was dated November 20, 1963—

> at our regular business meeting expressed a desire to support the truth in lending bill, S. 750. At their request I am forwarding this resolution for consideration—

and then it goes on to state a personal experience.

I personally would like to see more rigid restrictions and more clearly defined terms on loans from finance companies. I had a very unpleasant experience early in my married life when I was unfamiliar with all facts about borrowing money. I needed money to pay property taxes, and I borrowed from a finance company supposedly at a rate of 6 percent annually. Much to my surprise and dismay I soon realized that I was paying nearer 36-percent interest. Fortunately, I was able to get money to repay the loan immediately. However, it was a frightening and embarrassing situation which many people today also go through without fully realizing the seriousness of the outcome. I sincerely hope this bill will become effective for the protection of the entire public.

That is signed by Clarissa Barnett.

The CHAIRMAN. Thank you very much. Do you have any statement Miss Manns?

Miss MANNS. No.

The CHAIRMAN. Thank you very much.

Senator BENNETT. No questions.

Senator SIMPSON. No questions.

The CHAIRMAN. How much more time do the proponents have?

Senator BENNETT. You have 13 minutes.

The CHAIRMAN. I wonder if Mr. Albert Clifton, representing the Massachusetts State AFL-CIO, would you come forward to testify? Very happy to have you here.

STATEMENT OF ALBERT G. CLIFTON, MASSACHUSETTS STATE LABOR COUNCIL, AFL-CIO

Mr. CLIFTON. My name is Albert G. Clifton. I am the legislative agent of the Massachusetts State Labor Council, AFL-CIO, with offices at room 1224, 11 Beacon Street, Boston, Mass.

I have a statement here and you will note that the date of it is the last date of the hearing which was rather a sad occasion.

The CHAIRMAN. November 22; yes.

Mr. CLIFTON. I only was aware of the hearing here on Thursday of this week, and I didn't have the time to make any changes or additions. As a State organization of labor we do not come into contact, as you gentlemen probably will know, with the local unions, and the membership, who frequently have problems of various types, and many have problems relating to the legislation S. 750.

I have no personal examples to give to the committee. I have, however, some knowledge of the problem based upon quite a number of years, and aside from the statement, I have a few comments that I would like to make personally on my own.

The CHAIRMAN. Well, we will accept your statement as submitted, and then you speak off the cuff on any matter.

Mr. CLIFTON. You want me to read the statement?

The CHAIRMAN. I don't think that is necessary.

Senator BENNETT. Not as far as I am concerned for us.

The CHAIRMAN. As far as I am concerned, we will have the statement printed as submitted, and then you make any official remarks that you care to make.

(Mr. Clifton's prepared statement follows:)

STATEMENT OF THE MASSACHUSETTS STATE LABOR COUNCIL, AFL-CIO, BY ALBERT G. CLIFTON, LEGISLATIVE AGENT OF THE COUNCIL

We believe it is most important that a measure such as S. 750 should become law. There has long been a need for such legislation, so that the person who pays interest or other charges on a loan, installment contract, and other forms of consumer credit, would know what their obligation was and the costs to him in terms of the simple annual rate.

What does S. 750 do? It requires the following:

LOANS AND INSTALLMENT CONTRACTS

In the case of all loans and installment contracts, the lender or seller must furnish to the customer to whom credit is extended prior to the consummation of the credit transaction a clear statement in writing setting forth (to the extent applicable)—

(1) The cash price or delivered price of the property or service to be acquired;

(2) The amounts, if any, to be credited as downpayment and/or trade-in;

(3) The difference between the amounts set forth under clauses (1) and (2);

(4) The charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;

(5) The total amount to be financed;

(6) The finance charge expressed in terms of dollars and cents; and

(7) The simple annual interest or finance rate on the unpaid balance of the obligation.

RETAIL REVOLVING CREDIT

In the case of department store revolving credit or similar plans, the seller shall—

(1) Furnish to each person, prior to agreeing to extend credit, a clear statement in writing setting forth the simple annual percentage rate or rates at which a finance charge will be imposed under that credit plan; and

(2) Furnish to each person at the end of each monthly period after entering into a credit agreement, a clear statement in writing setting forth—

(*a*) The outstanding credit balance at the beginning of the monthly period;

(*b*) The amount of each extension of credit and the date thereof, and a brief identification and the cash or delivered price of any property or services acquired on the credit plan;

(*c*) The amount received from or credited to the credit account during the monthly period;

(*d*) The finance charge in dollars and cents for the monthly period;

(*e*) The outstanding balance in the credit account at the end of the monthly period; and

(*f*) The simple annual percentage rate or rates at which the finance charge is imposed. (This requires the retailer to disclose that his 1- or 1½-percent-per-month credit charge on the monthly unpaid balance is really 12 or 18 percent per year.)

These requirements are reasonable and, if followed, would insure protection against onerous exactions.

As to the need for truth-in-lending legislation such as S. 750 there can be no question.

Persons who most commonly use consumer credit through buying on installment plan, getting a personal loan are those for the most part unfamiliar with business practices. They should not be expected or required to indulge in abstruse mathematics, to learn the true cost of a consumer credit transaction. Further they should not be victimized by extortionate charges.

Abuses are more prevalent than is apparent. People are reluctant to let it be known "they were taken." We hear of these cases in a more or less general way.

Some of the worse abuses are perpetrated on those least able to bear it; namely, those in the low income group. Naïve, less knowledgeable, they are the prey of those unscrupulous elements that have invaded the consumer credit field.

To a considerable degree, the low income group will, quite likely, be the one most benefited by enactment of S. 750.

Consumer credit has rapidly expanded over recent years. This growth is comparatively new in the economic life of our country, when we consider that only a few decades ago the amount involved in such credit was negligible, and that the number of people using such credit was a much lesser percentage of our population than those who have such obligations today.

As a vehicle to move goods to the consumer, this credit assumes a major importance to our economy. This constitutes a genuine reason why transactions concerned with consumer credit must be conducted in a manner to insure the customer receives and feels he is receiving fair treatment. Such consumer confidence, in a general degree, is lacking today. This is due to practices that have developed in the business methods of some consumer credit operations.

In conclusion, the Massachusetts State Labor Council, AFL-CIO, representing some 500,000 Massachusetts wage earners, wishes to advise your committee that we support S. 750 and urge that it be enacted into law.

Mr. CLIFTON. Well, I have over a number of years come in contact with the problem of excessive interest rates and so forth. I believe from what I have knowledge of that this legislation will do something that probably you didn't even consider, and that is that it will correct the practices that are indulged in by some of these lenders who are guilty of extortionate interest rates. They are pretty rough on people. I had myself an experience with one of the higher type lending companies back in the depression days.

I don't hesitate to tell the story here. I owed a small amount of money, and I had paid faithfully up to that time to one of the better type loan agencies. I had been in business working for an individual where I had to go out and collect bills, and so forth, and meet the public, and one thing we used to ask the people that we extend credit to was if they couldn't pay that week, just come down and let us know, so when I was faced with the same situation, I went down to see these people.

I was told very brutally by the individual that I had talked to that I had to pay up, which was utterly impossible. I might add that this was a loan on furniture, and that I had in my house a number of items that were worth three or four times the amount of money that I owed, and that I had a record of a number of years of borrowing from this concern, a number of times, and where I had always paid.

I wanted to talk to the manager, and I was told that that was impossible. Well, probably a little bit different than some people, I grabbed that individual over the rail and shook him and told him what was going to happen if I didn't see the manager, and I saw the manager, and he was very courteous, and I was given a continuation.

The point is the average individual knows little about this. They don't know what they are signing, and certainly if you have this bill, you have got some measure of being able to catch up with these people.

I am, Senator, very much surprised at some people that I am certain will be here to oppose this. In fact, one group, they represent the higher type of lending institutions, and they should be in here supporting something on this line because, if they don't, sooner or later this situation is going to get out of hand unless we get some protective legislation, because I find that, since this hearing has been going on, we are beginning to hear about some of these cases around, and one of our friends in the room tried to get an individual with an example, and I believe he came from New Hampshire, whether he got him down here or not, I don't know, but certainly we know there is enough of this, and I think if we can encourage some of the people to come forward there would be no opposition on the part of the opposition to agree that this is legislation that is greatly needed. It is long overdue, and probably in reference to my statement where it says "loans and installment contracts," it is my experience that we should have something else in there, and when we say that a clear statement in writing setting forth, I think you should give the size of type, because we know the methods that are used in insurance policies, and so forth, of putting it in such small type that the people just don't read it. I think that is a necessary precaution.

The CHAIRMAN. Thank you very much. Any questions?

Senator BENNETT. No questions.

Senator SIMPSON. No questions.

The CHAIRMAN. Thank you very much. I think I have only about——

Senator BENNETT. You still have 5 minutes.

The CHAIRMAN. There is a Mr. Douglas Tito who came this morning and kindly volunteered to testify. You can have up to 4 minutes and 30 seconds.

STATEMENT OF DOUGLAS TITO, SAUGUS, MASS.

Mr. TITO. My wife come to one of the reliable stores, department stores here in Boston, and she purchased a TV set, on a special sale, and they said it was for credit purposes, establishing credit. So my wife agreed to buy it, and I went in with her and we signed the papers, $99. We put $10 down and $7 a month. When we got home we were pretty happy about our TV set. About 4 days later we received the bill, and a book form, $7 a month, so we paid it for a few days. I said to my wife, "Why don't we pay this thing off cash? This $7 a month." And to our amazement we got $19 interest on a $99 TV set. So I refused to pay it, and I received a letter from the credit bureau and they are going to ruin my credit, and I went in and asked them if they knew the other part of the story. They ignored me, and wouldn't listen to me, and wouldn't listen to reason. I went up to the attorney general's office and spoke to Mr. Truly, and he was kind and considerate a man, and he called them and they hung up on him, and he called them a second time and he said this is the attorney general's office, and they wouldn't listen to him. I went down to the store and told them to sue me. I wanted to make a case of it. They didn't sue, and I never heard nothing more. I haven't paid it yet, and I don't intend to. That is all I have to say. I think it is important for this bill to be passed.

The CHAIRMAN. In other words, there is a penalty of $19 if you pay cash?

Mr. TITO. Yes; but they don't put the $19 interest on it first, after you sign it they put the $19, Mr. Senator. I have papers to prove that. That is outright thievery, and it is about time something is done to protect the public. The public may be ignorant, because we don't get the cooperation from our newspapers nor the Representatives. I went to my Representative about this thing. It is about high time something is done to protect the public, and more so whether they advertise it in the papers, in the debt column, get the Daily Record and read it.

The CHAIRMAN. I understand you work all night?

Mr. TITO. Yes; I work the third shift for General Electric.

The CHAIRMAN. You came here to testify?

Mr. TITO. Yes.

The CHAIRMAN. I congratulate you.

Senator Bennett?

Senator Simpson?

Senator BENNETT. No questions.

The CHAIRMAN. Well, that completes our witnesses for the morning.

Senator BENNETT. Mr. Chairman, we should like to bring a panel of three gentlemen who represent the Massachusetts commissioners of the National Conference of Commissioners on Uniform State Laws. Mr. Walter D. Malcolm is president of the National Conference of Commissioners on Uniform State Laws and Prof. Arthur E. Sutherland and Prof. Robert Braucher. If these gentlemen will meet us as a group.

Mr. Malcolm, have you decided in which order you will speak?

Mr. MALCOLM. Professor Sutherland, Professor Braucher, and myself.

Senator BENNETT. It isn't necessary to stand.

STATEMENT OF PROF. ARTHUR E. SUTHERLAND, ON BEHALF OF THE NATIONAL CONFERENCE OF COMMISSIONERS ON UNIFORM STATE LAWS, BOSTON, MASS.

Professor SUTHERLAND. I do not wish to sail under false colors. I once was a commissioner on uniform State laws for the State of New York, and I am now an ordinary working professor here in Massachusetts. I have handed you a written statement and I do not wish to take your time, and I am sure you gentlemen don't wish to have me take time to read the statement.

May I summarize it in my own words?

The CHAIRMAN. Yes, indeed.

Professor SUTHERLAND. I should like to say first, Senator Douglas, that I am not opposed to regulation of retail credit. In my years of practicing law I used to sometimes represent creditors. I also did a good deal of work for the Legal Aid Bureau in Rochester, N.Y., for the better business bureau, and I take some pride in having drafted what is now the New York legislation restricting the use of future wages as security for credit.

I have listened this morning with sorrowful familiarity to the stories that we have heard about distressing practices of gouging extenders of credit. I do not come here either opposing Federal regulation of charges for credit where it is appropriate; nor opposing regulation of such charges generally by State legislatures. I would be foolish to do so, because almost all States have regulations in one form or another.

My late State of New York has a rather elaborate system of retail credit regulation, and Massachusetts likewise has such a system. My purpose in taking the time of you gentlemen this morning is principally to point out that I think the legislation which is proposed here would be better for business generally and better for the consumer in the long run if it were meshed a little better with existing State legislation such as that in New York, Massachusetts, and many other States and possibly meshed with future State legislation which is underway by the Conference of Commissioners on Uniform State Laws. Those commissioners propose to take up the comprehensive scheme of regulation of credit, particularly in the retail credit installment field.

The New York legislation to which I refer is in two packets; the "Motor Vehicle Retail Instalment Sales Act," article 9 of the personal property law, which covers, I suppose, the largest single block of retail credit in the State and the "Retail Instalment Sales Act," article 10 of the personal property law, which covers secured credit sales of other sorts of property, stoves, refrigerators, and that sort of thing. The legislation sets up a detailed scheme of purchaser protection, with disclosure provisions, credit service charge limitations, and both civil and criminal penalties. A study of the effect of S. 750 on the law in New York requires an analysis of each relevant Federal provision, and an estimate as to whether it alters any New York provision.

I should find that analysis somewhat difficult if I were a Judge. If I were still a practicing lawyer, as I was for 15 years, over in New York, I should have a hard time trying to advise creditors which part of the New York law would stand after the Federal legislation went in. I should find this somewhat uncertain because of the rather elaborate prescriptions concerning forms of contract and penalties in the New York regulation. I suppose the idea underlying the proposed Federal legislation was that S. 750 would be cumulative, would be additional to the New York provisions.

The CHAIRMAN. Mr. Sutherland, we would be very glad to have your cooperation in drafting this act. We are seeking the best act possible. We would welcome your cooperation. I am not a lawyer, but just as a garden commentator, I would say the New York law qualifies in virtually every respect, except the New York law doesn't provide for a statement of the annual rate of interest on the outstanding unpaid balance. I think that is the only change that would have to be made in the New York law. I may be in error, but as of course you know, there is another provision where a State law comes up to the standards laid down in the Federal Act, that the administration is then in the hands of the State.

Professor SUTHERLAND. Yes, sir; I understand that, and the representative of the Federal Reserve Board issues in effect a statement or dispensation of some kind saying that the State law adequately takes care of the situation, and the Federal enactment then would not apply. Therefore, I gather, if I were advising a creditor from New York, I would first look into New York law, and then S. 750, and then look at the regulations of the Federal Reserve, to see whether New York had a dispensation from the requirements of S. 750.

I am somewhat puzzled, sir, as to the effect of the penalty provisions of S. 750; whether this would displace the penalty provisions in New York, whether they would be cumulative. I am also in some doubt whether the proposed Federal legislation, which would limit the total recovery of an aggrieved debtor to $2,000 for overcharge, would also limit a recovery in New York, which is now unlimited by its State terms. In a large retail credit transaction the recovery under the New York statute might well exceed $2,000.

The CHAIRMAN. Well, may I say there is certainly no intention to make criminal penalties cumulative. Second, so far as the limit is concerned, I think we can work out language which says any State law which provides a greater penalty supersedes the civil penalty provided.

Professor SUTHERLAND. The Federal provision would not establish a ceiling?

The CHAIRMAN. That is right.

Professor SUTHERLAND. Sir, I will tell you why I was troubled a little bit by these difficult estimates of the law. I am sure that you are tired of being told about the Nebraska situation, which everybody who testifies must bring up. It involves *Elder* v. *Doerr*, 175 Nebraska 483, decided in June 1963, and *Stanton* v. *Mattson*, 175 Nebraska 767, decided October 18, 1963, which invalidated as usurious a great number of secured retail sales agreements, despite a retail installment sales act. To me the Nebraska cases demonstrate again how easily possible it is to guess wrong on the law. I am 60-odd years old, and I have been guessing wrong on the law all my life. In Nebraska a guess that retail credit was not usury has turned out to have been a rather expensive wrong guess for the merchants concerned. Therefore I feel rather deeply that Congress should be as certain and clear as possible concerning the effect of its enactment before changes are made in the extensive structure of retail installment credit. I am appalled to learn there are now some $51 billion of such credit outstanding; $22 billion on motor cars, as of last August.

The CHAIRMAN. That is $51 billion of installments?

Professor SUTHERLAND. Yes, sir, $66 billion total retail consumer credit according to last October's Federal Reserve Bulletin.

The CHAIRMAN. Your figures are very accurate.

Professor SUTHERLAND. To alter this structure is a difficult and delicate business. I am sure that all of us—and this committee is just as concerned as I am—want to see that no springes and pitfalls come into the law. The national economic situation can be affected as it has been in Nebraska.

The CHAIRMAN. We hope to have your cooperation.

Professor SUTHERLAND. Sir, you will have it gladly.

The CHAIRMAN. May I ask this question: Do you think this bill is constitutional?

Professor SUTHERLAND. Yes, sir, I am confident—I have no doubt of it at all.

(Mr. Sutherland's prepared statement follows:)

STATEMENT OF ARTHUR E. SUTHERLAND

My name is Arthur Sutherland. I am, and have been since 1950, a member of the faculty of law at Harvard University. Immediately before that time, for about four and a half years, I was a member of the faculty of law at Cornell University. Between 1926 and 1941 for about 15 years (except for a year spent in Washington), I engaged in the practice of law in Rochester, N.Y., ending in 1941 on my entrance on active military duty. In the practice of law, and in my teaching at Cornell and at Harvard I have given particular attention to American constitutional law and to the law of commercial transactions, including the law dealing with retail installment sales. At one time I was a commissioner on uniform State laws of the State of New York, and as part of my professional concern, I have had from time to time to do with the drafting of pieces of legislation concerning commercial transactions.

I have been asked by Mr. Walter D. Malcolm, president of the National Conference of Commissioners on Uniform State Laws, to give my opinion to this subcommittee as to S. 750. I do so on my own time; the opinions I express are my own; I have not been asked to change them by any person or any organization.

The questions which occur to me concerning S. 750 concern, first, its constitutionality, and, secondly, its advisability as a piece of Federal legislation. I have little doubt that the Supreme Court of the United States would uphold this measure as constitutional if the Congress were to pass it. Since 1936, the commerce power of the Congress has been used to control many local matters which have an effect upon interstate matters, and the commerce power is fortified by the somewhat nebulous power to control the value of money under article 1, section 8, clause 5. In August 1963, there were more than $66 billion of consumer credit outstanding in the United States. More than $51 billion of this consisted of installment credit, of which $20,600-odd-million were held by commercial banks, nearly $13 billion were held by sales finance companies, and $11 billion were held by other financial institutions. These figures are taken from the October 1963 Federal Reserve Bulletin. Congress seems clearly to have power to regulate this immense volume of credit, which affects every State in the Union, which has much to do with the prosperity of the entire economy, and which makes practicable the marketing of automobiles, household equipment, and every other sort of consumer commodity throughout the United States.

The advisability of enacting S. 750 in its present form, and at the present time, is a different question raising much more doubt in my mind. The very magnitude and importance of this mass of credit, consisting of millions of individual transactions in every State, many and probably most of these involving transactions in more States than one, convinces me that regulation of the entire process is a difficult and delicate business. Up to the present time, we have largely left this regulation to State legislation. Retail installment sales acts have become common in many States, and they vary greatly in their form. Some of these acts, like S. 750, are predicated on the theory that if the public is adequately warned of the cost of credit, buyers and debtors may then properly be left to protect themselves by their own vigilance against unwise and extravagant contractual undertakings. In other instances, the State legislation goes further and prescribes maximum limits for the cost of credit extended for time sales as contrasted to sales for cash. Still other types of such legislation go still further and restrict, for his own protection, the ability of the buyer-debtor to enter into contracts of various sorts which provide that, in the hands of a later purchaser of the contract, it will be exempt from defenses which might have been asserted as between the original seller and buyer.

I am fully aware of the practical difficulties for businessmen arising out of this great mass of diverse legislation. I am well aware of the advantages, at least theoretical, that conceivably could accrue from a single uniform Federal enactment governing the whole consumer credit field. I use the word "theoretical," because it seems to me that the same practical considerations which have inhibited the Congress from occupying the entire field of banking in the United States will inhibit the Congress from undertaking to displace all State regulation of consumer credit. And Federal regulation which attempts to displace different parts of local regulation, which is different in each State, introduces complexities and uncertainties.

Section 6 of S. 750 contains two provisions relevant to the mass of State regulation. Subsection A of section 6 provides as follows:

"This Act shall not be construed to annul, or to exempt any creditor from complying with, the laws of any State relating to the disclosure of information in connection with credit transactions, except to the extent that such laws are directly inconsistent with the provisions of this Act."

The difficulty with this subsection lies in the words "directly inconsistent." I should find it somewhat difficult to state, for example, as to section 302 of the New York personal property law which requires detailed disclosures in installment contracts for the sale of motor vehicles, and section 402 of the New York personal property law which requires similarly detailed disclosures in other retail installment contracts, the extent to which section 6(a) would permit these two sections to stand if S. 750 were enacted. I should find similar difficulty under comparable legislation in various forms now in force in many other States. A quick glance at the retail installment sales chart in the "Commerce Clearing House Installment Credit Guide," page 1501 and following, suggests the wide adoption of such legislation and its diversity among the several States.

As one example of difficult Federal-State problems of construction, I refer again to the law of New York. By section 414 of the New York personal property law governing retail installment sales, willful violation carries a fine of $500, and the same section provides for a civil recovery by the buyer of the "credit service charge or service charge imposed," and also the amount of "any delinquency, collection, extension, deferral, or refinance charge." Willful violation under S. 750 would carry a penalty of $5,000 and imprisonment of a year or both, which thus differs from the penal sanctions imposed by the law of New York. Is this $5,000 fine and the imprisonment "inconsistent with" the New York provision? And would the proposed Federal enactment undertake to displace it? If so, I am not clear what criminal sanctions, if any, would then remain in a prosecution under the New York act. That Congress intended to cumulate two crimes, though possible, seems doubtful.

Furthermore, the Federal civil liability for failure to abide by any provision of S. 750 is twice the finance charge, but not over $2,000; I suppose the Federal rule, including its limit, would displace New York's. The penal provisions of S. 750 are unconditionaly effective once the contract is signed; New York allows the creditor an opportunity to reform a noncomplying contract, and then to enforce it as if it had originally been consistent with the installment sales law. Under the New York personal property law section 414(4) after the creditor has notice from the buyer, he has 10 days to correct the contract to comply with the retail installment sales law; correction by the creditor eliminates the New York penalty. This provision seems probably inconsistent with the Federal act; similar uncertainties would arise as to the effect of S. 750 on penalty clauses in many other States.

Under section 6(b) of S. 750, the Federal Reserve Board may, if it so decides, except from requirements of the act any class of transactions which it determines to be effectively regulated under the laws of any State so as to require disclosure of the same information required under section 4 of the Federal enactment. A finance company undertaking to do business in a number of different States seems obliged today in common prudence to familiarize itself in detail with the laws of the several States, a difficult enough process which I have merely outlined with respect to the laws of New York; if S. 750 is enacted, it must then guess the self-executing effect of S. 750 on the provisions of each State's laws. It would then have to investigate as to each State the presence or absence of a Federal administrative dispensation under section 6(b) of S. 750.

The effect of S. 750 would not consist solely in making the law of financing more difficult for businessmen to follow in planning future transactions than it now is by thus superimposing an inconsistent layer of Federal law on the present State regulations. A more disturbing effect can be the sudden emergence of unexpected judicial constructions which may penalize millions of dollars of contracts already in force. This has recently been illustrated in Nebraska, when the supreme court of that State held that the State's General Usury Act applied also to retail installment sales, thus invalidating a vast quantity of existing retail installment credit. Retail credit and credit sales in Nebraska are reported as somewhat chilled, and the Governor called an extraordinary session of the legislature, among other purposes to attempt to devise some corrective measure. If I were asked today by a finance company to advise on the impact of S. 750 on the retail installment sales law of each State, I could not do so without a long study of the legislation and decisions in effect in each; a guess which a court later held to be wrong could have unpleasant results for lenders or sellers. Most businessmen and financers are respectable people who do not seek to overreach their customers. Sudden penalties, like those in Nebraska, fall on the just and the unjust alike; under S. 750 the criminal penalty is extremely heavy. I am uncertain what state of mind renders a man a "willful" violator of the act or of an administrative regulation under section 7(c). If he guesses wrongly as to the application of the Federal regulation to his act, is he liable to a fine of $5,000 and a year in prison? I offer these observations without overlooking the interests of buyers and other consumer debtors. Every extension of credit has two parties; the harder and more costly and doubtful we make lending, the harder we make buying and borrowing.

The National Conference of Commissioners on Uniform State Laws now have in hand a proposal to prepare a uniform or model act, comprehensive in its terms, concerning all aspects of consumer credit, including retail installment sales, small loans, and usury. I have great confidence in the conscientious care and the technical proficiency of this body in the drafting of legislation. Like most teachers concerned with commercial transactions, I have been much struck by the work of that conference in the preparation, with the American Law Institute, of the uniform commercial code, which has now been adopted by the legislatures of 28 States. I hope that a comparable uniform act will emerge from the work of the commissioners, and that it will be widely adopted, thus eliminating a great deal of the disparity which now obtains between the legislation on this subject in the several States. However, pending that outcome, because of the difficulty of determining the interrelation of the proposed Federal statute with the diverse statutes now in effect in a large number of the several States, and because of the complex state of the law which would result from a Federal statute displacing part of the legislation of each State, I should prefer to see the enactment of any Federal legislation await the study given to the whole situation by the commissioners on uniform State laws. The presence of State regulation in most large commercial States suggests that hardship to the public is for the present not widespread.

I suggest this deferment and further study without any failure to recognize the necessity that this field be regulated and without any underlying objection to Federal regulation in general. My suggestion arises out of the fact that this field has already been very largely occupied by complicated State legislation, which varies a good deal from State to State and to which the businessmen of the several States are now accustoming themselves. I suggest to this committee the wisdom of deferring for the present the enactment of S. 750 and the cooperation, by counsel for the Senate committee with the conference of commissioners to the end that there may be determined the necessity or nonnecessity of Federal legislation in the presence of the uniform act to be drafted by the conference of commissioners; and in any event that any Federal legislation be coordinated with the proposed uniform act.

STATEMENT OF PROF. ROBERT BRAUCHER, ON BEHALF OF THE NATIONAL CONFERENCE OF COMMISSIONERS ON UNIFORM STATE LAWS, BOSTON, MASS.

Professor BRAUCHER. Mr. Chairman, and Senators, I submitted a statement at the time of the earlier hearing when you were in Boston, and I stand by what is said in that statement. As I understand it, it is not necessary for me to repeat what is said there, but I would like to supplement it on a few minor points.

Senator BENNETT. It is understood that your statement will be put in the record in full. (See p. 1043.)

Professor BRAUCHER. I would like to expand a little bit upon my qualifications with respect to this subject. I refer to in my statement to a proposed uniform retail installment sales act which was in preparation, or we were trying to prepare back 2 or 3 years ago. The National Conference of Commissioners on Uniform State Laws is divided into sections, and committees on various projects are assigned to particular sections. At that time, and now, I am the chairman of what is called section A. The committee charged with the Uniform Retail Installment Sales Act was assigned to section A, and I participated actively in the meetings of that committee and in their attempts to draft a knowledgeable and workable Uniform Retail Installment Sales Act in 1961.

We thought that we had a pretty good act so far as it dealt with the hard core of standard installment sales, and most of the examples that were given this morning, I think, dealt with this standard installment sales type of transaction.

The automobile cases obviously we are all familiar with. We came a cropper and postponed the project because of the fringe cases: We got into trouble when we got into the department store revolving account situation, and I gather that the people that prepared this bill, S. 750, eventually had to put in special provisions for such plans. We thought we could take care of that, but as we got further into it we found there were other things that we had to take care of. These different types of credit are in fact competitive with each other, and in one view they are all part, really, of a single industry: the small loan business, the sales finance company that does installment selling, the department store revolving credit, bank loans, credit unions, and so forth. There has been a good deal of talk that what you need is a consumer credit code that will comprehensively deal with the whole thing. We have hopes that we will be able to achieve that, but we weren't ready to achieve it in 1961. We needed help on the economics and on the details of how it would be worked out.

Mr. Malcolm will speak further on what has happened since then, but I was in the picture at that time and had some slight familiarity with the subject. I should say that I have not made any special study of this subject since then, except as it comes up regularly in teaching the students at Harvard Law School about commercial transactions, and I have not tried to work out all the effects of S. 750. I don't think you have to do much in the way of studying it to see that it is extremely partial in the handling of the subject. It is comprehensive as to the type of lending, but it leaves out what we thought of as the heart of effective legislation. It doesn't prohibit anything; it is all in terms of disclosure; and the disclosure is rather limited.

You don't have the kind of detailed disclosure provisions that we have in our Massachusetts Installment Sales Act, or that you have in almost every small loan act. What you have is the simple idea that you ought to have a simple percentage figure. Everybody has the superstition that 6 percent is the natural figure and that if you pay more you must be feebleminded. This bill, it seems to me, caters to that kind of a notion.

At the same time, as my brother Sutherland has suggested, this kind of legislation may turn out to supersede effective legislation, because the Federal law prevails in the event of conflict. You may end up with the Massachusetts law ceasing to be operative, because you have this inadequate substitute in the Federal statute. That is a basic proposition.

The other point I really want to make has to do with the criminal features of this act. This gets us into the relation between the illegal lender, the fly-by-night, the fraudulent operator—some of the people, I think, that were talking this morning were talking about pretty clear cases of lenders who were not respectable at all—the relation between those people and your banks and your respectable department stores, finance companies, and the like. Here I go back again to the studies that were made by the Russell Sage Foundation, now 40 or 50 years ago, and which resulted in the uniform small loan law which has been enacted in a great many of the States. The basic thing that they discovered after a lot of study was that you have got to give breathing room to the legitimate lender; he is the one that will drive out the illegal lender, and trying to drive out the illegal lender by writing laws on the books without providing some breathing room for the legitimate lender to drive him out by competition is just a hopeless task.

The way this works out in practice, as I understand it, is something a number of people have testified to. When you come in with an effective small loan law, for example, in a State which hasn't got one, who opposes it? Everybody is very pious about opposing it, but then you see who they are, and they turn out to be the illegal lenders. Just, I suppose, as a bootlegger would oppose the repeal of prohibition. It tends to put him out of business.

That is what you get into. Just to give you an illustration of the problem and the upside-down quality of the whole thing, here in Massachusetts we have administrative regulation in the field of small loans, and Mrs. O'Neil testified about it this morning. Under the rules of the board, 2½ percent per month can be charged on loans under $200. If you talk to the people that do that kind of business, they will tell you that is just on the ragged edge. There isn't much room for competition, 2½ percent a month on a loan under $200. Maybe it pays expenses, and maybe it makes a little profit, or a little loss. It is close, and I don't want to try to say which way it comes out. Nevertheless, you have people that come in and say, "This is outrageous, and the legislature ought to take it away from the small loan board, because the rate is too high. What we ought to do is to cut it down to 2 percent or less." If you did do that, you simply would put all the respectable people out of business in making that kind of a loan. So far, happily, the Massachusetts Legislature has rejected those efforts, and left the small loan board charged with the job of trying to set rates that will actually make it possible for them to do business.

The CHAIRMAN. Are you opposed to State usury laws?

Professor BRAUCHER. Well, I don't have any very strong feeling about it, Senator. I think they are not significant today. All the problems we are talking about here, and everybody has been worried about, almost all of them are with some exception to the State usury laws. They are a hollow shell eaten up by exceptions today.

The CHAIRMAN. Would you be opposed to maximum interest rate on small loans?

Professor BRAUCHER. No. I think that is what it is called for. I think we ought to integrate the law. Small loans and installment sales, revolving credit, credit unions, and all the rest ought to be subjected to some kind of consistent regulation. One of the problems in Nebraska is that when the law regulated installment sales without regulating competing types of lenders, the court said it was special legislation and discriminatory.

The CHAIRMAN. Would you make this uniform rules across the board?

Professor BRAUCHER. Well, I wouldn't like to sit here right now and try to draw up the law.

The CHAIRMAN. Because, you see, what you are getting yourself in for is not for 1½ or 18 percent but 2½ percent a month, 30 percent a year, on less than $200.

Professor BRAUCHER. Let me suggest this to you, Senator: someplace there is a breaking point. The uniform small loan law has caught on around the country, and the rate runs from roughly 2½ to 3½ percent per month. At those rates, loans under $50 are not possible and people simply don't make legal loans of less than $50. So the result is that a man who wants to have $50 until next Thursday has to borrow more. That is all he can do. This is a fact of life, and there isn't anything you can do about the law to change it. I don't want to beat this thing too hard. I want to point out that you must leave room for the legal lender, and the legal credit man.

I did want to speak for a minute about the suggestion that the truth-in-lending bill, or the Douglas bill, as it is called, would somehow put the illegal lenders out of business. I just don't believe that can be sustained. It was said in connection with the recent Valachi testimony in Washington on organized crime, that somehow this Douglas bill would bring those activities out in the open and put these men where they belong. If you start thinking about who these people are and how they operate, I really think that notion doesn't stand up: suppose one of these thugs has some kind of firearms in his hands and a "customer" who doesn't want to take any loan at all, but is required to take it or get shot; if the thug handed him a little slip saying, "This loan will cost you 730 percent per year," somehow that would take all the evil out of the situation. That isn't what I call a sound way of going at a solution to those problems.

What I think you need there is the enforcement of existing law, and you need even more, and I come back to the thing I said before, you need competition. You need the respectable lenders making the money available at something a little closer to its cost, and I should say here, because this is a Federal bill that is proposed, that one of the places that used to be just a shame and disgrace on this whole problem was the District of Columbia. I have tried to check to see whether that has been fixed in the last few years, but I haven't been able to find anything out, and I haven't been down in the District of Columbia to see what you do if you want to make an illegal loan. The trouble there is that the District of Columbia loan rate is something on the order of 1 percent a month on loans under $200. Nobody can operate on that basis, and the only loans made are illegal loans. They are made by people who are not nice people, who don't pay any attention to the law, and the way they collect the money is by breaking somebody's arm.

The CHAIRMAN. May I say if you have instances of abuses in Washington, we will be very glad to consider them.

Professor BRAUCHER. Well, I said, Senator, I have not been back there. I was relying on what has been said by J. Albert Woll, the general counsel of the American Federation of Labor, and he was writing in 1954. I have tried to find out. He said that there was in the District of Columbia "a festering small loan problem," and I suspect it is probably still true.

Senator BENNETT. Mr. Braucher, you can cross the Memorial Bridge, or the Key Bridge in Virginia where they do have a reasonable law, and there you find legitimate finance companies operating, but they can't cross the bridge the other way because of our District's usury law, which is so low the companies can't exist on it.

Professor BRAUCHER. This is the point I was trying to make. In 1954, Mr. Woll of the AFL said there were 11 States and the District of Columbia that were an outrage.

One last thing: I put in my statement a reference to the Harvard Cooperative Society charging 730 percent interest. I want it understood that I am a satisfied customer of the Harvard Cooperative Society.

The CHAIRMAN. I haven't had a chance to read your statement. Did you say the Harvard Cooperative charges 730 percent?

Professor BRAUCHER. Roughly.

The CHAIRMAN. Well, I think a professor of law is entitled to think what percent he is paying, and even though it involves Harvard, I think they should be prepared to tell the truth.

Professor BRAUCHER. Senator, I couldn't care less.

The CHAIRMAN. But I care.

Professor BRAUCHER. It is my money.

The CHAIRMAN. If a man wants to make a fool of himself, he can, but I think he is entitled to make a——

Professor BRAUCHER. Senator, I bought $85 worth of stuff at the Harvard Cooperative Society. If I paid for it in cash, it would have cost me $1.70 less last year. Now, whether that 170 cents was 10 or 48 or 730 percent depends on whether I bought my goods at the end of the month or the beginning of the month, and I don't remember when I bought them, but I don't care, and $1.70 is worth it for not having to figure it out. [Laughter.]

The CHAIRMAN. Here you are a professor of law at what is supposedly the finest law school in the country, and I imagine if you went out in private practice you could make $200,000 a year; do you think the average American has your ability and legal training and specialized in this?

Professor BRAUCHER. No, sir.

The CHAIRMAN. Well, we are trying to protect the average man.

Professor BRAUCHER. I am for you, Senator. I think the notion of having some legislation to protect the average man is a fine thing and I hope we can work out legislation to do this, but I am not sure this simple-interest thing is going to do it. I go down to the bank when I buy a new car, and my credit is fairly good. I go down and I say, "Can you finance this for me?" They say, "Yes, we will give you a 6-percent plan," and I say, "You mean 12 percent," and they say, "It is really 11.38," and I say, "No, 11.44," and they say, "Well, of course, there are two different formulas." As to all of that I couldn't care less. I explained it to my wife and she said, "Stop that." We know how much money we are going to pay, and we are not being cheated on it at 12 or 11.38 percent or what you have to pay on it, if you want to do it.

Now, I could pay cash, and that would be all right, but this is a convenient way, and you do it every month, and it is sort of self-discipline, but what the simple-interest rate is on it or is on the unpaid balance in my case is not what I get excited about.

The CHAIRMAN. I think you have a comfortable income. This doesn't matter to you. But for the poor hard-pressed clerk who doesn't have the prestige or salary from the No. 1 university in the country, that is more different.

Professor BRAUCHER. Senator, I have four children, and one of them in college, and I do not have a large surplus. [Laughter.]

Well, I think that is all that I really need to say in order to supplement what has already been put in my statement. It is inconsistent here. It is very difficult.

Senator SIMPSON. I take it from your statement that is true. I find it that way myself. The proponents of the bill seem to adopt the theory that since every State legislature, including Massachusetts, has rejected the simple-rate gimmick, the Federal Government should adopt it. I draw the opposite conclusion from that. What is your conclusion?

Professor BRAUCHER. I think when you get a standard pattern of State legislation along a particular line, it tends to reflect the composite judgment of a lot of pretty intelligent people, and I think you ought to go slow before you say all the States that have done it have done it wrong. That is my general reaction.

Senator SIMPSON. That is all.

(Professor Braucher's prepared statement follows:)

STATEMENT OF PROF. ROBERT BRAUCHER

I am Robert Braucher, professor of law, Harvard Law School, and have been teaching and writing in the field of contracts and commercial transactions for more than 17 years. I have done legislative work for the Department of the Air Force, for the New York Law Revision Commission, and on the Uniform Commercial Code, which has now been enacted in 28 States.

Since 1954 I have been one of the three Massachusetts commissioners on uniform State laws, appointed by both Republican and Democratic Governors. Since 1957 I have been chairman of section A of the National Conference of Commissioners on Uniform State Laws, and from 1958 to 1961 one of the committees assigned to section A was the special committee on a uniform retail installment sales act.

I appear today at the suggestion of Walter D. Malcolm, Esq., of the Boston bar, my colleague as a Massachusetts commissioner for 9 years and now the president of the national conference. I have not been retained and am not being compensated for my appearance here; my statements are my own and not necessarily those of any institution or organization.

I shall try to avoid repeating with others have said, and in particular will not discuss the question whether legislation in the field of consumer credit should be Federal or State. Rather I shall speak of the substance of such legislation as S. 750 and of the objectives which can and should be served. Although I am speaking in opposition to this particular bill, there is no doubt in my mind that new legislation in the field of consumer credit is needed and indeed is probably inevitable. Moreover, I am in sympathy with two of the purposes which S. 750 seems to be trying to achieve; radical simplification of the pattern of regulation, and greater public understanding of the use and cost of consumer credit.

Our effort to produce a uniform retail installment sales act was postponed in 1961 to await the results of a study by the American Bar Foundation. The reason for the postponement was not any doubt as to the need for legislation. It was rather a realization that we were dealing with only a part of a subject which needed to be dealt with as a whole. And we needed more study to define the scope of the broader subject and to fit the legislation to the complex variety of credit practices in the different branches of the finance industry.

S. 750 deals with the whole subject of consumer credit, and perhaps with more besides. But its treatment is limited to one aspect, disclosure of terms, and it omits many requirements usually found in disclosure statutes. If it had been proposed as a uniform law, I am sure we would have rejected it as totally inadequate. It has none of the usual provisions forbidding a variety of unfair contract clauses and enforcement practices, no ceiling on rates, no licensing features. Yet section 6 raises the prospect that it might supersede State laws which provide effective regulation. At the same time S. 750 unnecessarily interferes with existing practices which are fair and are well understood by most consumers, and it severely limits the flexibility of credit arrangements.

Sense in the field of consumer credit legislation begins with the work of the Russell Sage Foundation in the field of small loans. The first draft of a modern small-loan law was recommended in 1916, and during the 1920's moneylenders in many States came out of the alley and onto the street. In 1938 William Green, president of the American Federation of Labor, said "we have found that it is only through the enactment of small-loan legislation similar in character to that proposed and supported by the Russell Sage Foundation that we can even in a small degree help the victims of the small-loan sharks and make provisions for harassed laboring people to secure loans at a more reasonable cost."[1]

The basic principle of modern small-loan legislation is to recognize the distinction between the respectable lender and the loan shark, and to provide breathing room for the respectable lender. That principle has worked in the small-loan field, and since the 1930's there have been successful efforts to extend the principle into other aspects of consumer credit, particularly retail installment sales and revolving credit plans. The leading companies in the various branches of the

[1] Quoted by J. Albert Woll, general counsel of the AFL, in "Organized Labor Views, the Loan Shark Problem," 19 Law and Contemporary Problems 96, 98 (1954). The entire subject is discussed in two symposia, "Combating the Loan Shark," 8 Law and Contemporary Problems 1 (1941), and "The Loan Shark Problem Today," 19 Law and Contemporary Problems 1 (1954).

financing industry have cooperated in the legislative effort, and the Commissioners on Uniform State Laws hope to make progress in the same spirit. But we will get nowhere if we forget the essential principle: We must rely on the competition of responsible financial institutions as our first line of defense, and must think of law enforcement as reinforcement rather than as sufficient in itself.

The problem is illustrated by the situation in some 11 States and the District of Columbia. According to J. Albert Woll, general counsel of the AFL, writing in 1954, no progress had been made in those jurisdictions. So far as I can discover, several of them still have what Mr. Woll called "a festering small-loan problem. It is not that there is no legislation; each jurisdiction is fully equipped with a usury law and most of them have small-loan laws carrying criminal penalties. The trouble is that they fix a legal rate such as 1 percent per month on loans under $200, and that rate is simply too low to permit respectable lenders to operate. Illegal lenders fill the gap, and law enforcement is worse than useless. Increased enforcement just drives up the illegal rates to cover the risk of trouble with the law.

It is said that $1,000 loans are often made on a basis which works out to 150 percent interest per year, that in some cases the rate has been 300 percent, in one case 340 percent. On the basis of the recent Valachi testimony on organized crime, there has been some suggestion that the enactment of S. 750 would somehow bring these activities out in the open and give the Justice Department an added handle by which they could put these men where they belong.[3] But the men in question are not respectable people; they are murderers, thieves, and the like. Everybody concerned knows that the loan is illegal, and legal methods of collection are not used. In many cases the so-called borrower is forced to take a "loan" he does not want, and the whole transaction is a thin disguise for simple extortion by threat of physical violence. In other cases the so-called lender is really a partner in a criminal venture. In any event, collection methods include the breaking borrower's arm if he does not pay.

It is hard to take seriously the suggestion that these transactions would somehow be cleansed if the thug gave the victim a clear statement in writing that the simple annual rate on the average outstanding unpaid balance is 300 percent. Such lenders would ignore any such requirement. They are not likely to be more frightened of a fine and a year in jail under S. 750 than they are of the existing heavier penalties for murder and robbery. I simply cannot bring myself to the view that the way to wipe out organized crime in the United States is to enact S. 750.

It is doubtful that S. 750 would be at all helpful with the loan-shark problem. There has long been a superstitution that when laws are not obeyed and not enforced the appropriate remedy is a new law and a drastic increase in penalties. That superstition was exploded graphically a long time ago by the famous drawing of pickpockets at work at the hanging of a pickpocket. But the superstition persists, and from time to time it comes out in political debate.

There is a similar superstition that lower ceilings on loan rates will wipe out illegal lenders. Here in Massachusetts ceilings on small-loan rates are set by an administrative board. The board has a tendency to set low ceilings, such as 2½ percent a month on loans under $200, and there has been a real question whether the ceilings fixed were high enough to allow competitive forces to work. Nevertheless there was recently a move to abolish the board so that the legislature could set still lower maximum rates. Happily, the bill was unsuccessful; but we were treated to the usual parade of horrible examples and to arguments that lower ceilings would somehow put an end to practices that were already illegal. I was reminded of the efforts to control inflation in the early days of World War II by talking prices down. We used to call it "jawbone price control." Perhaps today we should speak of "jawbone control of loan sharks."

If we turn to more respectable credit agencies, the trouble is that S. 750 puts them in a straitjacket. Others have testified better than I can to the conflict between S. 750 and established practices, and to anticipated difficulties in compliance. I will give just one example. I buy merchandise at the Harvard Cooperative Society, Inc., and I get a patronage refund of 10 percent if I pay cash or 8 percent if I charge the merchandise. Ordinarily I charge things and pay at the end of the month. As I understand S. 750, that means that I pay 2-percent finance charge on every purchase. The simple annual rate on the average

[3] See Congressional Record, Oct. 9, 1963, U.S. Senate, p. 18152; id., Oct. 28, 1963, U.S. Senate, p. 19305.

outstanding unpaid balance depends on whether I buy early or late in the month. If I buy in the middle of the month, I figure the annual rate is 24 times 2 percent, or 48 percent; if I buy at the end of the month it may be 365 times 2 percent, or 730 percent.

Two weeks ago I received my patronage refund for the last academic year, and it was $6.79, on about $85 of purchases. If I had paid cash, I would have received $1.70 more. Under the bill, if the Harvard Co-op did not give me a high enough percentage figure on any transaction, they would be liable to me for $100 on each transaction. I do not know how many transactions there were, but it might have been 20. That would make $2,000 for not telling me what a tremendous percentage $1.70 was.

The penalty seems high to me. Under most usury laws, the penalty is forfeiture of part or all of the interest. In Nebraska and some other States the principal balance is not collectible, and there may possibly even be a right to recover money already paid. If the small loan law is violated, there may also be suspension or revocation of a license and the licensee may be prosecuted criminally. But I do not know of any law that would forfeit $100 for each $2.99 purchase and would threaten each salesgirl with a $5,000 fine and a year in jail. Such punishments do not fit the crime.

The penalties in S. 750 are inconsequential to Mr. Valachi's friends; most of them are going to jail sooner or later anyway, and many of them are well adjusted to prison life. But the same penalties can be quite awesome to a salesgirl in the Harvard Co-op. To be sure, the salesgirl is entitled to a court ruling that her conduct violates the law, and to a jury trial as to whether the violation was willful. For a first offense, she would not usually receive a maximum sentence. But none of us would want to compute interest rates in reliance on those safeguards. Do we really want to terrify the salesgirl?

One answer is that the salesgirl will not be frightened at all. She will know that no prosecutor in his right mind would prosecute her. This may be true, but it hardly lends support to the proposal to enact the law. Unenforced and unenforcible laws are a discredit to our Government.

My conclusion is that S. 750 does not supply the social engineering needed, and that it may hamper sounder efforts. If the Federal Government is to get into this field, it should do so with care. If it is to supersede State laws under section 6, it should provide a substitute and not introduce the festering loan-shark problems of a few backward States into States which now have effective regulation. If S. 750 is enacted, it may well become absolutely essential to go further and cover the field adequately.

We are in the process of trying to work out sensible and effective improvements in our credit laws through State legislation. Why not give us a chance to reach a comprehensive solution? Meanwhile, although I realize it is not the province of this committee, would it not be well to suggest to the District of Columbia Committee that Congress should put its own house in order by raising the small-loan rate in the Nation's Capital to a workable level before it tries to prescribe for the whole Nation? But that committee should be warned that any effort to raise the small-loan rate will be vigorously opposed by the loan sharks, including Mr. Valachi's friends, and that they will be surprisingly effective in recruiting allies.

Senator BENNETT. Mr. Malcolm.

STATEMENT OF WALTER D. MALCOLM, PRESIDENT OF THE NATIONAL CONFERENCE OF COMMISSIONERS ON UNIFORM STATE LAWS, BOSTON, MASS.

Mr. MALCOLM. Mr. Chairman and members of the committee, Professor Sutherland, Professor Braucher, and I filed with you statements at the earlier hearing. You have had them with you from that time to the present time. In view of the limited time, I am not going to attempt to repeat all that was in my statement.

I think in view of one bit of testimony and one question that came from the floor this morning, I will say in response to the witness, Mrs. O'Neil, that the National Conference of Commissioners on Uniform State Laws, for which I am speaking this morning, has been working on this problem of sound consumer credit legislation for a number of years.

The CHAIRMAN. How many years?

Mr. MALCOLM. I should say directly for about 6 or 7 years, and indirectly in working in the general area, for 15 years. We consider it to be an extremely difficult and complex subject. We are fearful about what we may get into, but we are going to try.

The CHAIRMAN. Have you made in this 15 years of effort, have you made any recommendations for either State or Federal legislation?

Mr. MALCOLM. No, we have not; we are about to.

The CHAIRMAN. About to?

Mr. MALCOLM. Yes.

The CHAIRMAN. How pregnant are you with the decision?

Mr. MALCOLM. About 8½ months. [Laughter.]

The CHAIRMAN. Can you guarantee this? [Laughter.]

Mr. MALCOLM. Therefore, with humility and great concern as to the future, we are going to try, and we are going to try promptly. We have a target date for results. Consequently in a sense I am here on behalf of an organization that desires to compete with you, sir, and the Congress as to the method of going about this, and as to the solution to be achieved.

Therefore, there is a possible alternative to the S. 750. It is on the drawing boards, it is not completed, but efforts are being made and

Mr. MALCOLM. Finally, what should be the scope of consumer

What I would like to do this morning is to continue from the testimony of Professor Sutherland and Professor Braucher and start analyzing a few very deep fundamentals that are involved in this legislation; to see whether or not you are proceeding on the right track, whether you will benefit the country or whether you will injure the country; because in the study that we have given and in the experience that we have had with respect to the general subject, there are some fundamentals that give us great concern and need to be answered soundly and correctly if you produce good legislation or in the alternative very unsound legislation.

At the outset, sir, and of major importance, is the question whether this legislation should be in the Federal area or in the State area. Professor Braucher considers that if S. 750 were enacted, it would be held constitutional by the Supreme Court.

Senator BENNETT. Professor Sutherland.

Mr. MALCOLM. I mean Professor Sutherland. I would not think of questioning Professor Sutherland's conclusions on that; however, there are certain facts, and the facts are that to date this legislation has been dealt with exclusively at the State level. There is no question about it, that preponderantly the transactions that are involved in this type of question are local transactions, at least between the initial buyer and the initial seller or between the borrower and the initial lender. There is no question in my mind that if the Federal Government moves into this field, either in toto, by preemption of the field, or in part, as S. 750 is presently set up, you will move a very large segment of American life under the control of the Federal Government, and you are making a very important shift in jurisdiction from what it is at the present time. Let us be aware of that and I can now state that it is the best judgment of the organization for which I speak that this is unsound and undesirable, and that the control of this field, regardless of constitutionality, should be left in the State area.

The second fundamental I would like to discuss is how good a job the States are doing at the present time? There is a difference of opinion on this question. There are many people that say the States are doing an excellent job. There is no question they work diligently at it. Every State of the 50 has at least 4 statutes on the books with respect to consumer credit and some undoubtedly reach up to 8 or 10. So they have been working at it and they have been aware of it.

Perhaps, if there is any overall criticism that can be leveled at the action of the States, it is that it is too complex. It is too diffuse and there is too much of it. In my judgment, I subscribe to that view. Every State has a whole series of statutes on the books, and I submit that one of the problems that face the people that have testified this morning, and the many others that are with them, is the great disparity in the types of legislation that exist. What are they? Motor vehicle acts, all goods acts, separate acts dealing with store, revolving accounts, small loans, check credit, industrial banks, credit life insurance, second mortgage loans, pawn brokers, and general usury statutes. It would seem to me that the sound method of approaching this great task and this difficult problem is to simplify the problem. Build on fundamental lines rules that will realistically help the consumer, but at the same time permit legitimate business to operate and provide meaningful and effective penalties for deliberate violations. Make rules simple. Preserve the protection to the consumer, but decrease the quantity of legislation, 50, 60, 70 percent, perhaps more. This is what the conference hopes to do. This is what, as a State organization, we are organized to do.

And how does S. 750 fit into this problem? It leaves every State statute on the books, and it imposes on top of this mass of State legislation, this confusion, another layer of legislation at the Federal level, some of which will be consistent with the State legislation, but some of which will be inconsistent.

The CHAIRMAN. If I may, I would not agree with the statement, it imposes this on top; the bill doesn't set a ceiling, it creates a floor above which States can build; it lays a minimum below which no State can fall.

Mr. MALCOLM. I am talking about legislation; I am not talking about ceilings.

The CHAIRMAN. I thought you talked about the term on top.

Mr. MALCOLM. Perhaps you misunderstand me. Perhaps the gestures of my arms were poor.

The CHAIRMAN. I think your use of terms in spite of the great legal skills was somewhat inexact.

Mr. MALCOLM. In any event what S. 750 does is provide for Federal legislation in addition to State legislation. Professor Sutherland has dealt with the conflicts between the two. Section 6, subparagraph (a), actually produces the seeds of interminable litigation; and let's face it, subparagraph (b) of section 6 delegates to an administrative arm of the Federal Government whether it is the Federal Reserve Board or Trade Commission may yet be undecided, but S. 750 delegates to one or the other all the difficult questions that are involved. What you are doing is just sweeping under the rug the problems that exist in this situation, and passing it down to an administrative agency.

What are the fundamental objectives of laws of the kind we are discussing? What are the general methods that have been worked out to meet these problems?

There is a nice preamble in S. 750 that this legislation is to stabilize the economy. Senator, you are realistic enough to know that the real purpose of S. 750 is to aid people from overreaching by suppliers of credit. The testimony that has been produced from 1960 to the present time points to that objective. That is what you are shooting for, and let's recognize that.

Let's assume that decreasing overreaching is the real objective of this legislation, and that this is a sound objective. I don't quarrel with it, but let's talk facts. What are the methods that have been used to try and deal with this problem in the court of experience, which experience has been in the State legislatures and State practice.

One method—natural laws of supply and demand and free competition in the marketplace. Two, legislation that draws lines between practices of the legitimate lender and the practices of the illegitimate lender or supplier of credit, and aids the former and penalizes the latter. Disclosure statutes, statutes that impose rate ceilings, statutes which fix rates, as public utility rates are being fixed. I am not saying that this bill does that.

The CHAIRMAN. It only deals with disclosure.

Mr. MALCOLM. I am saying what methods of meeting this problem have been tested by experience. Then there are licensing statutes. I submit, in spite of all the legislation on the books, the method that meets the problem of overreaching better than anything else is free competition in the marketplace and the play of natural economic forces. But assuming that we do have legislation, it is of great importance what fundamental method is to be used to try and solve the problems we face.

What is S. 750? It picks one of these methods, disclosure, and it adds to it a new feature; namely, requirement of a single simple annual rate, plus a disclosure of dollars and cents, except in your revolving accounts you do permit the disclosure of dollars and cents cost afterward. In general, S. 750 is a disclosure statute requiring these things to be disclosed at the inception of each transaction. Consequently, what you do is to select one of the techniques that has been developed from experience—namely, disclosure—and say, this is it. And then you pick out of the wind, out of the wide blue yonder, a feature, a new aspect; namely, you add to this disclosure, the requirement of the simple annual rate to be disclosed in each transaction at the inception of the transaction.

The CHAIRMAN. Well, I am not trying to interject an obligato to your symphony, I simply say we are not picking this true annual rate out of the deep blue yonder, it comes out of the structure of business life you use everywhere except in the field of retail credit.

Mr. MALCOLM. You are adding to potential legislation an untried theory, sir, and you intend to legislate with respect to and control a $60 billion or $200 billion segment of the economy by an untried theory.

Now, let's proceed. We know how important this legislation is, $60 billion, $200 billion, that is what you are regulating. From the experience of the marketplace, the suppliers of credit and the users of credit have worked out a great many techniques as to how to move this credit; 15, 20, 30, a great many variations in the techniques of supplying credit in one way or another.

I have not had the legislative experience that you have had, but I have had some, and one thing that I have learned is that when a draftsman of legislation or a law produces legislation that interferes seriously with established business routines, that draftsman is in serious trouble, and the legislation is in serious trouble.

I am moved by one experience which I saw operate; namely, in 1938 there was a problem in a certain section of the Bankruptcy Act. Some of the wisest experts in that field drafted an amendment of section 60(a) of the Bankruptcy Act, but just accidentally so phrased the language of one sentence that they rendered vulnerable assignments of accounts receivable, which were just beginning to acquire a volume status at that time. Consequently, that one sentence (the danger to accounts receivable financing was confirmed by a decision of the Supreme Court in 1943) required for its correction, legislation in 38 States and an amendment to the Bankruptcy Act in 1952.

Gentlemen, that experience will be insignificant compared to the results of S. 750 on the techniques and routines that now handle the supplying of credit. At a minimum, a majority of the firms and organizations that are functioning in this area will have to revise their forms and adopt completely new routines and forms to comply with S. 750. At a maximum, the results of S. 750 could even reach the stage of producing a depression or something in the nature of a panic.

A fundamental problem that any sound legislation would have to face is the relationship between usury legislation and the time-price doctrine. That problem came to light very recently in Nebraska. It pervades this whole general field. The fact is that the time-price doctrine is something that evolved in the evolution of society, in the evolution of law, to avoid the rigid ceilings of usury laws. I am glad we agree, and yet the time-price doctrine is in large measure responsible for the growth of installment selling.

The CHAIRMAN. I see we agree that legal subtlety was used under the time-price doctrine to evade usury laws.

Mr. MALCOLM. I recognize that, and yet the time-price doctrine has been sustained by the courts of approximately 48 States, and it is a bulwark of the existing economic system.

My point is there is great merit in recognizing that fact and attempting to do something about it realistically; but if you are going to take away the time-price doctrine, then unless you are going to do something very serious with the economy, you have to provide some substitute for that doctrine.

S. 750 doesn't touch that problem.

The CHAIRMAN. We are neutral on that.

Mr. MALCOLM. Completely neutral. We agree you made no effort to solve that fundamental problem.

Another difficulty, another basic problem that is involved, is what do you include in finance charges? This is an old chestnut in the trade, in the State legislatures, and you are beginning to dabble in it in S. 750. Do you cover this expense or that expense or do you leave them out?

Back in the twenties when the Russell Sage Foundation met this problem, they reached a particular solution, namely, the only way to solve the problem and to avoid the unscrupulous lender padding his return by charging *x* dollars for some expense which is away out of line, is to include everything in the term "interest" or in the "finance charge." That is one of the basic principles of the Russell Sage Small Loans Statute enacted in the twenties.

However, if you apply that principle in other areas, you run into a completely intolerable situation.

S. 750, on its face, is not limited to consumer transactions; it covers the waterfront, business transactions of all types, and if you attempt to apply that type of solution to business transactions, it is completely intolerable. It is absurd to say that you have to include in the cost of money or in the interest charge such things as the cost of moving collateral or storing collateral, the factoring charge for assuming credit risk or auctioneers or brokerage charges is selling collateral. In consumer cases it is equally unrealistic to ask that insurance charges be included in the total finance charge, but your legislation is doubtful about that. You have one section that looks one way and another section that looks another way on whether insurance charges are included in the finance charges.

The CHAIRMAN. What kind of insurance charges?

Mr. MALCOLM. All types, credit life, automobile insurance, theft, liability insurance. Your language is in section 3(3) namely, that the term, "finance charge" includes almost every type of charge incurred in connection with and as incidental to the extension of credit."

The CHAIRMAN. I would say credit life insurance would be included, but not liability, because liability is protection because of accident in the car or the person, but credit life is designed to protect the lender or seller against the possible death of borrower and buyer.

Mr. MALCOLM. I am glad that you are beginning to throw light on that, Senator, because——

The CHAIRMAN. We made this in the very beginning, I am surprised you did not know it.

Mr. MALCOLN. I can certainly visualize that in the future the courts will wrestle with this problem if S. 750 is——

The CHAIRMAN. We have made it perfectly clear in the hearing, and made it clear in the record, in debate, when it comes to it, and in the reports of the committee.

Mr. MALCOLM. Then I suggest S. 750 requires a substantial amount of additional work in that respect.

The CHAIRMAN. Well, we will make that clear in the report.

Mr. MALCOLM. Finallly, what should be the scope of consumer credit legislation? In the States they have legislation that deals with a wide variety of subjects based upon different functional types of operation. It is our hope, and our desire and our expectation, that this mass of State legislation can be greatly simplified, and we think the situation cries out for simplification, and if you begin to look as to how you may simplify, we think there are ways to do it.

There is one major classification, business loans on the one hand, and consumer loans on the other. Direct your legislation to the consumer field, and free the business field from this type of legislation. If that doesn't work, there is another standard (and this is economically and practically sound) namely, the size of the loan or credit.

There are standards on which you can classify at the State level rather than a law for motor vehicle financing, another for all goods financing, another for check credit, and so forth and so forth. The national conference intends to approach this problem along these lines and attempt to produce simplification rather than to complicate the area more.

I regret that with what experience I have, which is limited, I can only draw one conclusion with respect to S. 750. Assuming there are problems that need correction——

The CHAIRMAN. You grant that?

Mr. MALCOLM. Yes; In my judgment, the treatment of existing problems by S. 750 is theoretical, uninformed and superficial. Instead of reducing the existing confusion and uncertainty, S. 750 will increase it. Instead of stabilizing the economy, in my humble judgment, almost certainly S. 750 will seriously injure the economy; and the national conference believes and recommends that Congress do not touch this legislation.

The CHAIRMAN. Have you formally taken action in this respect?

Mr. MALCOLM. We have been working on the problem and the matter of my appearing before you has been submitted to our executive committee.

The CHAIRMAN. And they authorized you to say that you are opposed to Federal legislation?

Mr. MALCOLM. They have authorized me to say that Federal legislation is undesirable at least until the conference has had a reasonable opportunity to develop uniform legislation on the State level.

The CHAIRMAN. This is in accordance with the authority you asked in the October 28, 1963, letter in which you stated that this disclosure of finance charges in terms of simple interest rates are simply unworkable?

Mr. MALCOLM. I don't know where; what year?

The CHAIRMAN. I have a letter which is apparently signed by you on October 28 asking authorization to oppose the enactment of Federal statute, and stating that a simple requirement of a simple annual interest rate is unworkable.

(The letter follows:)

NATIONAL CONFERENCE OF COMMISSIONERS ON UNIFORM STATE LAWS,
Boston, Mass., October 28, 1963.

To the Members of the Executive Committee:

At the annual meeting in Chicago the executive committee voted to appoint a special committee to draft legislation in the consumer credit field and to authorize and direct the executive director to start the preparation of a prospectus and, subject to the approval of the president or the executive committee, to take preliminary steps necessary to obtain financing and to organize such staff as may be required to draft an act or acts in the field of retail installment sales, consumer credit, small loans and usury.

The conference was originally requested by the Council of State Governments in 1957 to draft legislation in the above area. With the rulings of the Internal Revenue Service that contributions to the conference are deductible for income, estate and gift tax purposes, the research that has been performed by the American Bar Foundation and other groups, the decision of the conference to employ an executive director and the above votes of the executive committee—the conference is now in a position to move forward aggressively on this major project and in my judgment should do so.

On January 7, 1960, Senator Paul Douglas, of Illinois, introduced in Congress a bill to require by Federal legislation the disclosure of finance charges in terms of simple interest in connection with extensions of credit and similar bills have been filed in subsequent sessions of Congress. The current bill is S. 750 of the 88th Congress. These bills have been generally referred to as the "Douglas bill" and have been designated by Senator Douglas himself as the Truth in Lending Act. These bills have been consistently opposed by substantially the entire lending and financing industry and other industries affected by this financing on various grounds, the more important of which are that this entire field of legislation should be left with the States rather than the Federal Government and Senator Douglas' proposals for disclosure of finance charges in terms of simple interest are simply unworkable.

In 1963, as in prior years, the Douglas bill was referred to the Committee on Banking and Currency and in 1963 by a very close vote that committee voted to hold four hearings on the bill in locations outside of Washington. Pursuant to this decision, hearings have been held recently in New York City, Pittsburgh, Pa., and Louisville, Ky. Recently it was announced that the fourth hearing will be held in Boston, Mass., on November 22 and 23, 1963.

Assuming that regulatory legislation in the consumer credit area is necessary and, in any event, exists in every one of the 50 States and in one form or another will certainly continue, it seems to me it is a proper function of the conference to oppose the enactment of Federal legislation in this field, at least until we have pressed our pending project to a conclusion. Certainly the task of drafting sound uniform State legislation would be made very much more difficult, if not completely impossible, if Congress enacted the Douglas bill. The Douglas bill is now at a crucial stage in its status before the Banking and Currency Committee and if the conference project of drafting uniform State legislation is to be preserved, it is certainly appropriate, and perhaps even necessary, that our position be stated in the Boston hearing.

Because of the importance of this matter both to the country and to the conference, this letter is written to ask the approval of the executive committee to my appearing on behalf of the conference at the hearing in Boston on November 22–23 to describe the present activity of the conference in this field and to oppose the enactment of the Douglas bill or other Federal legislation in the same general area, at least until the conference has had a reasonable opportunity to complete the project on which it has embarked. In view of the limited time before the scheduled Boston hearing, I would appreciate receiving replies from each member of the executive committee as rapidly as possible after receipt of this letter.

I have discussed the advisability of my proposed appearance on behalf of the conference at the Boston hearing with Commissioner Buerger of New York, the chairman of the special committee; and with Commissioner Braucher of Massachusetts, the chairman of section A. Both favor such appearance.

Sincerely yours,

WALTER D. MALCOLM, *President.*

Mr. MALCOLM. I sent out that letter, and I received replies from 15 of the 16, I think it is approximately that number of members, of the executive committee, approving my appearance and acting within the scope of that letter, and I think I am so doing.

The CHAIRMAN. Well, that is what I want to make clear, so the Conference on Uniform State Laws opposes the enactment of Federal legislation?

Mr. MALCOLM. Yes, sir.

The CHAIRMAN. Joining, therefore, with the American Bar Association?

Mr. MALCOLM. No.

The CHAIRMAN. I mean, this is the attitude of the American Bar Association, too.

Mr. MALCOLM. Oh, no.

The CHAIRMAN. Yes, it is.

Mr. MALCOLM. I am not speaking for the American Bar.

The CHAIRMAN. I know, but this is also the attitude of the American Bar Association.

Mr. MALCOLM. Thank you.

The CHAIRMAN. Yes, I tried to strengthen your case; it is also the position of the U.S. Chamber of Commerce, and it is the position of the National Association of Manufacturers, of which my dear colleague was once president.

Senator BENNETT. He never lets a chance go by for that to get in the record. [Laughter.]

The CHAIRMAN. No, no. Also the position of the National Retail Merchants Association, the National Financers Cos., and the American Bankers Association.

Mr. MALCOLM. That concludes my remarks, gentlemen.

Senator BENNETT. Senator?

Senator SIMPSON. Mr. Chairman, Mr. Malcolm, I read your statements, and I read that of Professors Sutherland and Braucher, and I was quite impressed, because up to this hearing as far as my experience in the U.S. Senate goes, and on this committee, we really lacked a thoroughgoing legal analysis of S. 750, and that deficiency certainly has been corrected by you gentlemen today, and I want to compliment you on your statements. You haven't scoffed at anyone else's statement today. I am sure you listened to these horror stories and these are stories that were performed by cheats and swindlers who should be taken care of by the State laws if they used the proper approach to do it.

I made other observations in connection with your testimony, and the other two gentlemen, and I want to again reiterate that you have done a masterful and helpful job to the committee, and I am sure the members appreciate it, and the members of the full committee appreciate it.

Mr. Chairman, I am not going to go into the statements that I have here, some of which are repetitious, as to that contained in the statements of these three distinguished gentlemen, except to ask the chairman, may I put these comments in the record?

The CHAIRMAN. Certainly.

Senator SIMPSON. Mr. Chairman, I wonder if you would wait a moment until Senator Bennett comes back. Would it be agreeable to the chairman if he wanted to pose additional questions to these gentlemen, to insert those in the record within a reasonable period of time?

The CHAIRMAN. Certainly.

Senator SIMPSON. Thank you very much. (See p. 1298 ff.)

Senator SIMPSON. Mr. Malcolm, you were waving something there?

Mr. MALCOLM. Our conference has recently completed a publication about the nature of our organization, and since they are available, I would like to offer them to the committee.

The CHAIRMAN. For insertion in the record?

Mr. MALCOLM. Yes.

The CHAIRMAN. That will be done.

Mr. MALCOLM. They are relatively short.

(The publication follows:)

THE NATIONAL CONFERENCE OF COMMISSIONERS ON UNIFORM STATE LAWS, 1963-64

OFFICERS OF THE CONFERENCE, 1963-64

President: Walter D. Malcolm, 1 Federal Street, Boston, Mass.
Vice president: Maurice H. Merrill, University of Oklahoma Law School, Norman, Okla.
Treasurer: Talbot Rain, Republic National Bank Building, Dallas, Tex.
Secretary: Joseph McKeown, American Building, Coos Bay, Oreg.
Chairman, executive committee: William A. McKenzie, 1616 Fifth Third Bank Building, Cincinnati, Ohio.

PURPOSE

The National Conference of Commissioners on Uniform State Laws is the national organization of the State commissioners appointed by the Governor of each State, the District of Columbia, and Puerto Rico to promote uniformity in State law on all subjects where uniformity is desirable and practicable. Through the conference, the commissioners participate in drafting specific acts, and from the conference the commissioners on uniform State laws of each State obtain help in their endeavor to secure the enactment by ordinary legislative procedures of identical acts in each State so that uniformity can be achieved.

HISTORY

With the development of rapid transportation and communication the States have become increasingly interdependent socially and economically so that a single transaction may cross many State lines and involve citizens in many States. A confusion of laws among the several States may present in some fields a deterrent to the free flow of goods, credit, services, and persons between the States; restrain full economic and social development; and generate pressures for Federal intervention to compel uniformity. The conference, one of the oldest of State organizations designed to encourage interstate cooperation, was organized in 1892 to promote uniformity by voluntary action of each State government. The first act drafted and approved by the conference before the turn of the century, the uniform negotiable instruments law, concerned checks and other negotiable instruments and was adopted in all jurisdictions. Other older uniform acts drafted and approved by the conference with the date of promulgation and number of jurisdictions enacting were

Date promulgated	Act	Number of enactments
1906	Warehouse receipts	52
1906	Sales	37
1909	Bills of lading	33
1909	Stock transfers	51
1914	Partnership	40

In almost 75 years of existence the conference has drafted over 200 uniform laws, many of which have been widely enacted. Among the subjects on which it has drafted acts are the attendance of witnesses from without the State; criminal extradition proceedings; the establishment of common trust funds; reciprocal enforcement of support; simultaneous death; photographic copies as evidence; gifts to minors; simplification of fiduciary security transfers; and commercial transactions generally. The last major commercial act promulgated, the Uniform Commercial Code, is probably the greatest single achievement of the conference since it consolidates and modernizes a number of earlier uniform acts and simplifies and expedites interstate commerce generally without the intervention of any Federal act.

While the work of the conference has grown over the years its staff in its office in the American Bar Center in Chicago is small. The primary basis of its effectiveness has been the active and dedicated participation of the State commissioners appointed by the chief executive of each of the States. The conference is a working organization. Commissioner themselves draft many acts; they discuss, consider, and amend drafts of others; they decide whether to recommend an act as a uniform act and they endeavor to procure the enactmetn of a uniform act, once it has been promulgated by the conference, in their own State legislatures.

ORGANIZATION

The national conference is composed of commissioners on uniform State laws from each State, usually three in number. In addition, the principal officer of the State agency, such as a legislative reference bureau, charged with responsibility of drafting legislation for the legislature and executive is an associate member of the conference. The Governors of the States have appointed lawyers, judges, and law school professors as commissioners. While the usual term is 3 years, it is common practice for Governors to reappoint, without regard to their political affiliation, commissioners who have actively participated in the work of the conference. If a commissioner has served by official appointment for 20 or more years he may become a life member.

FINANCIAL SUPPORT

The conference actually is a State organization. In addition to the appointment of commissioners by Governors, the major part of the financial support of the conference comes from State appropriations. The expenses of the conference are apportioned among the States upon the basis of their relative size and financial abilities. No State appropriates more than $10,000 for the support of the conference. Individual commissioners receive no salary or compensation and in many cases they pay their own expenses to attend the annual conference. The American Bar Association also makes a yearly contribution to the conduct of conference business. Where a proposed uniform act requires extensive research, expert draftsmen working on a sustained basis, and numerous meetings of advisers, the conference has sought financial help from foundations and other public-spirited persons and groups. Because the conference is composed of commissioners designated by the States, prepares uniform acts for States and is supported by States, contributions to the conference are tax exempt as contributions to State government or organizations of State government.

PROCEDURE ON DRAFTING LEGISLATION

The conference meets annually to consider drafts of proposed uniform legislation. Proposals that uniform acts be drafted received from many sources are referred to a committee on scope and program which makes an investigation, sometimes hears interested parties, and reports to the conference whether the subject is one upon which it is desirable and feasible to draft a uniform law. If the conference decides to take up a subject, a special committee of State commissioners is appointed to prepare a draft of an act. Frequently the draft considered by the committee is prepared by a commissioner but for some of the longer and more complicated acts it has been customary to secure the help of an expert draftsman. Tentative drafts are not submitted to the conference until they have received extensive committee consideration. A draft act submitted to the whole conference must be discussed and considered section by section by at least two annual meetings before the conference may decide by a vote of States whether to promulgate the draft as a uniform act. Each State is entitled to one vote and an act is not promulgated until a majority of the States represented at an annual meeting and at least 20 of the 50 have approved the draft. In addition, each uniform act is submitted for approval to the house of delegates of the American Bar Association. But long before this final action of the American Bar Association, the drafting committees of the commissioners have established liaison with the American Bar Association through the appropriate committees and sections of that organization. In a real sense the commissioners on uniform State laws are not only the expert draftsmen of the State governments but also of the American Bar Association.

NONPARTISAN ORGANIZATION FOR LAW BETTERMENT

The organizational and operational plan of the conference makes its nonpartisan nature self-evident. While the State commissioners are obligated to endeavor to obtain passage of uniform acts they have no special interest to represent. The conference provides each State commissioner with reprints of the uniform acts and information which the commissioner may need in explaining the proposed act to the legislature and public of his State.

The commissioners also work for betterment of State law in other ways. The conference sometimes drafts model acts on subjects which do not directly affect relationship among the States but which involve problems common to many if not all of the States. In cooperation with the Council of State Governments the conference sometimes uses its expert drafting abilities to draft model legislation for this agency of State governments. Sometimes it drafts model legislation on subjects where State legislation could help implement international treaties of the United States or where world uniformity would be desirable.

PUBLICATIONS

In addition to publishing the drafts of proposed uniform and model acts and explanations of these acts, the conference issues annually a Handbook of the National Conference of Commissioners on Uniform State Laws which contains the proceedings of the annual conference and basic statistical data about the various uniform and model acts promulgated by the commissioners including a list of the States which have adopted them.

The conference is thus a State law agency working for betterment of State law through voluntary action.

Some uniform acts currently offered by national conference[1]

Year promulgated	Act	Number of enactments
1931	To secure attendance of out-of-State witnesses	48
1932	Narcotic drug	49
1936	Criminal extradition	45
1936	Business records as evidence	26
1936	Judicial notice of foreign law	29
1938	Common trust fund	33
1940	Simultaneous death	47
1949	Photographic copies as evidence	36
1950	Reciprocal enforcement of support	51
1956	Securities (State blue sky)	17
1956	Gifts to minors	47
1957	Uniform Commercial Code	28
1958	Simplification of fiduciary securities transfers	38

[1] A complete list of the acts and their status can be found in the annual Handbook of the National Conference of Commissioners on Uniform State Laws. Reprints of particular acts may be obtained from the conference office.

The conference's staff (headquarters office, 1155 East 60th Street): Executive director; Allison Dunham; executive secretary, Frances D. Jones.

The CHAIRMAN. If you wait just a minute. This will not be taken out of the time of the opponents. [Laughter.]

Senator BENNETT. Excuse me, Mr. Chairman.

The CHAIRMAN. Senator?

Senator BENNETT. I would just like to thank these three gentlemen for coming here today. I think they have filled a void in the record, because we have been discussing this problem entirely as though it were a financial one or a mathematical one. Today you have pointed out the legal problems, and as I understand your final request, Mr. Malcolm, it is that action be delayed on this bill until you have—you, I mean the Commission on Uniform State Laws—have an opportunity to suggest a comprehensive solution for the problem which will conceivably use means other than the declaration of a simple annual rate as the basis for legislation in the area?

Mr. MALCOLM. That is correct. It is conceivable we will fail, and not produce anything, because we consider the problem to be of great magnitude. However, give us an opportunity. If we do fail, then Congress can always move at any time, but within a matter in our estimate of 3 years, we think we can answer this problem one way or the other.

Senator BENNETT. Is it also true the American Bar Foundation is studying the same problem? What is your relationship to that study?

Mr. MALCOLM. We asked for the study. We are cooperating closely with them. They are supplying some material to us, but in the active stages that we anticipate will now take place, it will be the conference that will be drafting the legislation.

(The prospectus and progress of the American Bar Foundation study begin on p. 1543 ff.)

Senator BENNETT. I have no other comment at this moment.

The CHAIRMAN. Thank you. Since in a sense these matters are being tried before the court of public opinion in the immediate present and not in the ultimate future, I have two sets of comments I would like to make, and if I take more time this morning, it will be understood it will be deducted in time this afternoon.

I want to say these three gentlemen are very able, and we appreciate their coming, but as I listen to their objections they seem to me to be the same objections which have been advanced many times before in connection with other legislation. That the legislation is not needed or that this is a matter for State action. It might be that Dr. Harvey Willis' fight for the pure food and drug law which Theodore Roosevelt put over in 1906 in opposition to the producers of food and processors of drugs; and it is the same argument I have heard in 1934 when the SEC was brought up by Mr. Richard Whitney, and then president of the New York Stock Exchange testified this was not needed and should be left in State hands if at all, and that if it were included, that it would ruin the securities business. I happen to have proposed in 1934 labeling for textile products and for furs in connection with National Industrial Recovery Administration codes, and the same objections then; but these were finally put into effect a few years ago, and it seems to work well.

The same objections were advanced for the disclosure for the proponents of the price of automobiles, and this went into effect too, and it has gone quite well. In other words, these hobgoblins have been raised many times in the past, and on close examination they turn out to be pumpkins rather than hand grenades.

The final comment I want to make is that I think my good friend and Mr. Braucher have minimized the period of gestation through which the National Conference on Uniform Codes goes through. He said 8½ months. I hold here in my hand an article from the Notre Dame Lawyer for August 1963, and I read the passage from page 578 which says when the Uniform Commercial Code was first proposed the drafters considered incorporating credit disclosure requirements within this provision, section 90256. The act contains extensive disclosure requirements not unlike those found in most State's statutes, but on January 14, 1951, the council voted to delete this section and the executive secretary of the editorial board agreed. So this is 13 years ago, January 14. Let's see, today is the 11th, isn't it, and we are 3 days away from 13 years where they first considered this matter and then dismissed it.

Now, our good friend comes before us and first he says 8½ months, and now he says 3 years. I want to say I think the period of gestation of development is something like 13 years, and it has already exceeded the gestation period of an elephant. [Laughter.] And I want to say that I think this is the slowest moving body on record. [Laughter.]

Senator BENNETT. Do you want to make a comment, Mr. Malcolm? [Laughter.]

Mr. MALCOLM. I take it, Senator, that obviously there is a slight degree of confusion between you and myself as to what period of gestation we are talking about. The inquiry that I thought you made to me was how rapidly were we about to make a decision as to whether this problem should be handled on the State level rather than the Federal level. Having in mind what I expected to say, in 10 minutes, I thought that I might safely estimate 8½ months. However, as to working on the problem of consumer credit legislation, you are entirely right. In the drafting of the uniform commercial code, I should say 4 years were spent in trying to include a section on consumer credit legislation and disclosure. We did move slowly and we wisely moved slowly at that time, and we have moved slowly since, and I regret doing so, but at least we recognize how difficult the problem is, and frankly, I don't think all the members of this committee do.

Senator BENNETT. Mr. Chairman, we have been in a number of hearings. It occurred again this morning. When a serious question is raised, you have an interesting technique, you turn to the man who raised the question and say, won't you help me, won't you come in and help me draft this legislation; but you have never suggested a single word of change in your legislation except for the revolving credit, and that was the result of the pounding of the facts that were developed in these hearings. So, when these people are taking a long time, you are leaving us this morning with the idea that you are going to ask Professor Sutherland to help you improve your legislation, and that may take a little while.

The CHAIRMAN. Well, I not only say that I am going to ask his cooperation, but I do hereby ask it.

Professor SUTHERLAND. I would be glad to give any cooperation any time.

The CHAIRMAN. And we will pay your expenses down to Washington to consult.

Senator SIMPSON. May I observe, Mr. Chairman, this committee is on its fifth year in this.

The CHAIRMAN. We could have done it much more quickly if it hadn't been for the opposition from my brother. [Laughter.]

Senator SIMPSON. That points up the differences of the philosophy of the liberal who believes in strong Federal control, and the conservative like myself, believing in local control and responsibility.

(Mr. Malcolm's prepared statement follows:)

STATEMENT OF WALTER D. MALCOLM

Mr. Chairman and members of the committee, my name is Walter D. Malcolm. I am a practicing attorney in Boston, Mass., but I appear before you today as one of the Massachusetts Commissioners on Uniform State Laws and also as president of the National Conference of Commissioners on Uniform State Laws.

Before I address myself to the subject matter of this hearing, S. 750 of the 88th Congress, I think you are entitled to know the background from which I approach the legislation you are considering. The law firm of which I am a member has been general counsel to the First National Bank of Boston for 50 or more years. In the more than 34 years in which I have been practicing I have spent most of my time on bank matters. During this period I have drafted the original, basic legal papers for the direct automobile financing program our bank client has used for close to 20 years. I also drafted the basic legal papers for the first check-credit program, which program was originated by our bank client and which legal papers, I believe, provided a model for substantially identical check-credit programs that have now been installed by more than 200 banks throughout the United States. I have set up a half dozen programs for the purchase of department store installment and revolving accounts by one or more banks involving up to $50 million of accounts outstanding at any one time. I have followed, on behalf of our bank client, proposed small loans, sales finance and usury legislation in Massachusetts for 25 or more years. In these roles I functioned as an attorney on behalf of the clients for whom I was acting and received compensation for services rendered.

However, since 1946 I have spent a very substantial amount of time in various pro bono publico capacities involving no compensation of any kind other than reimbursement for out-of-pocket expenses. Since 1946, I have played an active part in the drafting and promulgation of the uniform commercial code, which legislation may well be the longest and most important single piece of legislation enacted either by any State legislature or by the Congress. That code has now been enacted by the legislatures of 28 States and is currently pending before the Congress for enactment for the District of Columbia. Since 1954 I have been a Massachusetts commissioner on uniform State laws and a member of the National Conference of Commissioners on Uniform State Laws. I have served on the executive committee of that body since 1957; I served on the executive committee of that body since 1957; I served as chairman of the executive committee from 1961 to 1963; and I am currently the president of the national conference. I am appearing before you today in the latter capacity with the knowledge and approval of the executive committee.

In the possible event that you are not familiar with the National Conference of Commissioners on Uniform State Laws, may I briefly describe it to you. By statutes in each of the 50 States provision is made for appointment by the Governor of the State of commissioners on uniform State laws. There are an average of three commissioners for each State. The commissioners of the several States are organized on a national basis in a national conference. The functions of the individual commissioners and the national conference is to draft and promulgate uniform legislation for adoption at the State level where legislation of this type is necessary or desirable. The national conference has been in existence since 1892 and has a very considerable record of accomplishment. During this period it has drafted and promulgated in excess of 200 uniform or model acts, a few of which acts have been enacted by all or substantially all of the States. In Massachusetts approximately 40 uniform acts promulgated by the national conference have been enacted and I think that this record is reasonably typical of the legislatures of the other States. The most important act drafted and promulgated by the national conference (in this case in collaboration with the American Law Institute) is the uniform commercial code.

The subject of legislation in the consumer credit area is not a novel one to the national conference. Article 9 of the uniform commercial code deals with secured transactions in personal property and during the period from 1946 to 1951 there were included in several drafts of article 9 a single section providing for disclosure of finance and related charges in secured transactions. However, this section was ultimately eliminated from the code because of the conclusion of the draftsmen and the sponsoring organizations that the subject matter was too complex, difficult, and controversial to be included in a massive statute codifying the entire commercial law.

Again, in 1957, the Council of State Governments submitted a request to the national conference to draft comprehensive legislation in the field of retail installment sales. In response to this request, a special committee of the conference was appointed and in 1959 prepared and gave limited circulation to a proposed Uniform Retail Installment Sales Act. However, in the study given to this particular act the decision was ultimately made by the executive committee of the conference that this entire subject was so extremely complex and difficult, had assumed such a major position in the total economic and social life of the country and had such an important bearing on the future of the country that it should not be undertaken except on a basis of considering all aspects of retail installment sales, consumer credit, small loans and usury and only after research and study in great depth and the organization of a special staff with adequate financing to conduct the research and do the drafting. To implement this decision in 1961 the American Bar Foundation of the American Bar Association was requested to organize and arrange for a research project with respect to the economic, sociological, legal, and other aspects of consumer credit, small loans and usury and some (although a limited amount) of progress has been made on that study.

More recently the national conference itself has strengthened its position to deal with major projects such as consumer credit legislation. During the past year it has obtained rulings from the Internal Revenue Service to the effect that it is, in fact, an organization of the State governments so that contributions to it are deductible for income, estate, and gift tax purposes. These rulings open the door to the possibility of the national conference obtaining substantial and adequate financing from foundations, industries, and private persons for projects it might undertake. Contemplating major projects of this kind the national conference at its meeting in Chicago in August 1963 voted for the first time to employ an executive director, one of whose functions would be to obtain financing for major projects, organize special staffs and assist in the development and completion of the drafting of major uniform acts. Prof. Allison Dunham, of the University of Chicago Law School, has been engaged as our first executive director and under the direction of a committee appointed for the purpose is presently engaged in preparing a prospectus, conferring with foundations and representatives of industry with respect to possible financing and conferring with possible members of a special staff to actually start the drafting of legislation. Under the present plans the leaders and key members of this staff would be a two-man team consisting of a topflight economist and a similarly qualified reporter and draftsman almost certainly drawn from some law school faculty. In addition to the committee of the conference to whom the staff would report and, following procedures used in drafting the uniform commercial code, an advisory committee would be invited to serve, which committee would be composed of qualified persons who might be expected to represent consumers and the public in general and also different segments of the consumer credit industry. If and when drafts of legislation are ultimately prepared, they will be considered and reviewed and finally acted upon by the national conference itself under its usual procedures.

Since the national conference is at the threshold of drafting uniform legislation in the consumer credit area, of course, I cannot say now what form this legislation will take. However, I think it is proper to state some of the very difficult problems we see in this area, which problems we feel must be openly faced and dealt with in any sound legislation on the subject, and then measure the quality and wisdom of S. 750 against these same problems. I think you will appreciate as I proceed that the problems I discuss are of a very fundamental nature, the solution of which will not only affect the entire field of consumer credit but also, I submit, the future of the country as a whole.

1. At the outset and of major importance is the question whether legislation in this field should be at the Federal or State level. Regardless of what the Supreme Court may ultimately say as to whether there is a proper constitutional base for S. 750, the fact is that heretofore legislation in this area has been at the State level; the great mass of transactions that would be affected are preponderantly local in nature, at least so far as the original seller and buyer and the original lender and borrower are concerned; the subject matter of the bill materially affects a tremendously important part of American life, which part heretofore has been controlled by State law; and if S. 750 is enacted in any form there can only result a very substantial shift in the balance of power between Federal and State jurisdiction. Federal power and control, by this one bill would receive, in terms of the life of the country, several years immediate growth.

There is no doubt that at least until all reasonable opportunities to solve consumer credit problems at the State level have been tried and failed, the national conference considers S. 750 completely unsound on this fundamental issue. We do not think Congress should enter this field at this time in any form or manner whatsoever.

2. If we next consider how effectively the several States have dealt with the problems S. 750 seeks to correct, there are many who believe the States have dealt adequately with these problems. Certainly the States are fully aware of them and have legislated extensively in the field. Every State in the Union has 3 or 4 statutes on the subject and some have as many as 10 or 12.

If any overall criticism can be leveled at State legislation in this general area, perhaps the most sound is that it is too diverse and complex and there is too much of it. I personally think this is the case.

Take, for example, New York. New York has a Motor Vehicle Retail Installment Sales Act with discount ceilings of $7, $10 and $13 per $100 on new, slightly used, and older cars; an All Goods Retail Installment Sales Act with discount ceilings of $10 and $8 per $100 on smaller and larger transactions; a Small Loans Act with ceilings of 2½ and 2, and three-fourths of 1 percent per month based on the size of the transaction; special statutes for banks of at least three different varieties; special statutes for private bankers, industrial banks and securities dealers; a general usury statute with a ceiling of 6 percent but with numerous exemptions from its provisions. In fact, there are so many exemptions from the General Usury Act and so much special legislation, the usury statute has become largely a paper tiger but still one that in odd or freakish situations can produce very startling results. In greater or less degree other States similarly have their potpourri of legislation but in no two States are the subjects covered or the rates prescribed the same.

Social engineering would seem to indicate that the sound thing to do is to simplify vastly this proliferation of State legislation. Build on fundamental lines rules that will realistically help the consumer but at the same time permit legitimate business to operate and provide meaningful and effective penalties for deliberate violations. Make rules as simple as possible. Preserve the protection to the consumer but decrease the quantity of legislation by 50, 60, 70 percent, or even more. This is what the national conference hopes to do. This is what it was organized to do.

And how does S. 750 fit into this massive problem? It leaves every State statute exactly as it is; it leaves intact this heterogeneous mass of State legislation; and it imposes on top of it a completely new layer of Federal legislation that will increase the existing confusion materially, if not make it unbearable. Section 6 of S. 750 attempts to deal with the potential overlapping of Federal and State jurisdictions but as Professor Sutherland has pointed out, subparagraph (a) contains the seeds of interminable litigation and subparagraph (b) delegates to an administrative arm of the Federal Government (as does also sec. 5) powers and problems so vast as to overwhelm. This is nothing more than sweeping under the rug problems the draftsmen of S. 750 recognize they cannot solve.

3. Let us look for a moment at the fundamental objectives of laws of the kind we are discussing and various basic methods of meeting these objectives. The declared purpose of S. 750 is to stabilize the national economy but it seems obvious that this purpose is only an incidental one pointed more toward providing a constitutional base for the legislation than the real underlying purpose.

The great weight of testimony in support of S. 750 has been to the effect that there has been overreaching in extensions of credit and the conclusion seems clearly justified that S. 750 is offered and supported to correct this overreaching. Assuming this is the true objective, analysis, and experience indicate several methods of control have been recognized or tried as means to eliminate or control overreaching; namely:

Method 1. Natural laws of supply and demand and free competition in the marketplace.

Method 2. Legislation which draws lines between the practices of legitimate and illegitimate suppliers of credit and aids the former and penalizes the latter.

Method 3. Disclosure statutes.

Method 4. Statutes imposing rate ceilings.

Method 5. Statutes fixing rates in the same manner that public utility rates are fixed.

Method 6. Licensing statutes.

In spite of all the legislation that has been produced, it is probably the fact that in a free society method 1 above does more to meet the desired objectives than all the legislation on the books. However, the total area is so complex and there are sufficient abuses that the national conference is proceeding on the basis some legislation is necessary.

Considering the best possible type of legislation to meet the desired objectives, there is certainly enough competition in supplying money and credit that straight rate-fixing statutes (method 5 above) would seem to be both unnecessary and undesirable. Unfortunately, however, due to the repeated pressures on legislatures to lower rates and the tendency of legislatures to react to these pressures, statutes which started out as statutes imposing rate ceilings (method 4 above) in some cases have evolved to straight rate-fixing statutes (method 5 above) simply because rates are pushed so low businesses operating under them charge the maximum because this is necessary to obtain a reasonable return on capital invested. This evolution appears to have taken place in the case of the small loan statutes of Massachusetts and probably other States, at least so far as personal finance companies are concerned.

Most State statutes existing today involve a combination of disclosure requirements and the imposition of rate ceilings. A smaller number are licensing statutes. Not very many statutes consciously seek to aid legitimate operators or practices and penalize improper operators or practices but it well could be that legislation of this type could be singularly effective. If basically sound new legislation is to be drafted, careful consideration should be given to which of these methods of control (or which combination of them) is best calculated to meet the desired objectives.

S. 750 is simply a disclosure statute with the special feature that the cost of money or credit must be disclosed at the inception of each transaction always in terms of a simple annual rate and also in dollars and cents except that in revolving accounts the dollars-and-cents cost may be reported later. The selection of the disclosure technique to the exclusion of all other techniques developed in State law, the failure to attempt to coordinate S. 750 with existing State law and the apparent lack of economic and sociological studies in depth to try to ascertain the best methods to achieve the basic objectives (or to verify that the special features of S. 750, particularly the simple annual rate would work) justify the inference that in S. 750 an isolated theory has been grabbed out of the air and used as a basis for vitally important Federal legislation.

4. Statistics indicate that in excess of $60 billion of consumer credit is extended annually in the United States and if real estate mortgage credit is included the amount exceeds $200 billion annually. This is a tremendously important phase of American life that is basic to our entire economy. In handling this immense volume of credit, suppliers of credit and their customers have worked out and evolved almost an indefinite number of different techniques and procedures which techniques and procedures in turn are vital to the total economy of the country.

I do not purport to have had the experience in legislation that the members of this committee have had. However, over a period of more than 15 years I have played an active part in the drafting of the Uniform Commercial Code and I have had to consider other Federal and State legislation for a considerably longer period. One of the lessons learned from this experience is that whenever a draftsman evolves a theory from some source and includes it in legislation and that theory and legislation happens to run counter to and interferes with established commercial practices, that draftsman and the legislation is in trouble regardless of what his good intentions and motivations may have been. In 1938 a highly competent group of lawyers drafted an amendment to section 60 of the Bankruptcy Act. A new solution to the old problem of preferences was sought but the language selected just happened to render vulnerable assignments of accounts receivable, which business was just beginning to acquire volume status. This unintended result was not observed by anyone until about 3 months after the Chandler Act became effective but I remember very well the feeling of panic that ran through financing circles when this possibility was recognized. Five years later in the case of *Klauder* v. *Corn Exchange Bank*, 318 U.S. 434 (1943), the fears as to the new language were confirmed by a decision of the U.S. Supreme Court. To correct this situation ultimately no less than 36 States had to pass special legislation and in 1952 the Bankruptcy Act was itself amended. Thus, a single misconceived sentence in a Federal statute in 1938 had repercussions of a most serious nature for at least 14 years and special legislation in no less than 36 States and the Congress was required to correct it.

In the case of S. 750, this committee has heard repeatedly from substantially every segment of the credit industry that S. 750 and its predecessor bills simply will not work. If these representatives of industry are right (and personally think they are), the difficulties caused by one sentence in the Chandler Act of

1938 will pale into insignificance compared to the effect S. 750 will have on a $200 billion segment of the economy.

Gentlemen, you have power to sow. Let us hope the country will not reap a whirlwind.

5. A fundamental problem that any sound legislation will have to face is the relationship between usury legislation and the time-price doctrine. Usury legislation with maximum ceilings of 6 percent, or 8 percent per annum simple interest was drafted anywhere from 200 to 100 years ago at a time when most of the problems we have to face today did not even exist. During the last 50 to 100 years in which the practice of installment buying has almost become the American way of life, the time-price doctrine has been seized upon to permit returns on installment selling which were far above ceilings permitted by usury legislation. But much of this installment selling would never have taken place if these returns were not possible. Decisions in many States have sustained the time-price doctrine.

Recently the task of sustaining the time-price doctrine has grown more and more difficult. Arkansas has rejected it and on October 18, 1963, the Supreme Court of Nebraska reversed a number of prior decisions and, in effect, completely discarded it. It is now estimated that the Nebraska decision has rendered void $1 billion worth of installment paper and the situation is so serious in that State that a special session of the legislature has been called to deal with it.

Personally, I can see no justifiable distinction for a 16- or 20-percent per annum simple interest rate for financing an installment transaction if it happens to arise in a sales transaction but allowing only a 6- or 8-percent per annum simple interest rate if basically the same transaction originates in a loan. However, if the time-price doctrine has served a very useful purpose in the development of time sales and the economy of our country and if the time has now come to break away from this doctrine, then a new approach to legislation should be found to take its place.

The national conference will meet squarely this whole issue of the time-price doctrine and attempt to provide a solution that fits with the conditions of 1965, not those of 1865. S. 750 bypasses this subject entirely and fails completely to provide any solution whatsoever for the somewhat absurd but extremely important and difficult subject of the time-price doctrine.

6. One of the difficult problems involved in sound consumer credit legislation is what charges are to be included in finance charges to which ceilings are applied. From the point of view of the consumer this is important because a favorite device of the overreaching supplier of credit is to make substantial charges for this or that purported service simply to build up his total return. To meet this unholy practice, the Russell Sage small loan statutes of the 1920's started the principle of including every type of charge in the finance charge and many statutes today adopt this same principle.

However, this type of statutory provision becomes almost an intolerable burden and completely unreasonable as applied to certain types of situations. Suppose a statute is drawn so that it applies to all types of transactions; namely, credits extended for business purposes as well as credits extended for consumer purposes. It is completely unrealistic to say that in a business loan there must be included in the finance charge such charges as freight or warehouse charges in moving or storing collateral, charges of a factor for assuming credit risk or auctioneer's or broker's charges in selling collateral. And even in consumer cases it is unrealistic to say that there must be included in the finance charges, charges for automobile liability insurance, credit life insurance, attorney's fees for bringing suit against a defaulting debtor and other charges not truly a part of the cost of money or credit.

How does S. 750 deal with this highly troublesome and complex subject? Section 3(2) in all-inclusive dragnet language makes S. 750 apply to every conceivable type of credit transaction, business and consumer, secured and unsecured, personal property and real property, leases, everything. Then against this all-inclusive background, section 3(3) states:

"(3) 'Finance charge' means the sum of all the charges (including but not limited to interest, fees, service charges, and discounts) which any person to whom credit is extended incurs in connection with, and as an incident to, the extension of such credit."

Under the extremely broad language of these two definitions, suppliers of credit would be faced with the risk that all of the above types of charges, in business financing as well as consumer financing, had to be included in finance charges which, in turn, would have to be disclosed in advance in dollars and cents and in terms of a simple annual rate. The mere statement of this factual situation makes obvious the impossibility of compliance. In proposed legislation of such major importance as S. 750, a maximum of skill, wisdom, and deep knowledge of the subject matter dealt with is demanded. In these provisions regarding charges, S. 750 evidences neither wisdom nor knowledge of the subject matter and skill only in making substantially every credit transaction subject to its provisions.

7. The preceding discussion as to what charges should be included in finance charges leads naturally to the important subject of the proper scope of consumer credit legislation.

As previously indicated, existing State statutes have evolved in a way to produce a long series of special statutes covering special subjects: motor vehicle installment sales, all goods installment sales, store revolving accounts, small loans, check credit, industrial banks, credit insurance, second-mortgage loans, pawnbrokers, and finally, general usury laws applying to an ever-narrowing residue of situations not covered by special legislation and not exempted from the usury statutes themselves. All of these statutes have a multitude of words, a multitude of rates, a multitude of varying provisions, but fundamentally all of them are designed to prevent overreaching by suppliers of credit.

This situation cries out for a simplification of this mass of legislation and when one stops to think how this simplification might be achieved, some surprisingly simple solutions and classifications begin to emerge. The way is already pointed by article 9 of the Uniform Commercial Code. Classify transactions as "consumer transactions" and "business transactions." Provide a single set of protective rules for all consumer transactions. Free business transactions from all rules of this kind. If by any chance this classification should not work out, consider classifying between small transactions and large transactions.

In its proposed drafting of uniform legislation, the national conference will explore approaches of this kind very thoroughly and we are very hopeful of producing legislation that will provide more effective protection to the consumer, permit legitimate business to operate effectively, and at the same time be much simpler and more scientific.

How does S. 750 deal with scope? Under section 3(2) substantially every credit transaction is made subject to the act. And then by sections 5 and 6 power is given to the Federal Reserve Board to except broad groups of transactions. Once again Congress sweeps under the rug this very vital problem of scope but it does so by conferring the broadest of powers to a Government agency, powers which in certain situations would be the power of business life or death. Congress will take a long step toward authoritarian government if and when it takes this combination of steps.

SUMMARY

The foregoing analysis indicates that instead of S. 750 providing sound solutions to the evils it seeks to correct, its treatment of existing problems is theoretical, uninformed, and superficial; instead of reducing the existing confusion and uncertainty it will increase it; instead of stabilizing the economy, almost certainly it will seriously injure the economy.

The national conference has been considering this same problem for some time. Admittedly, it has not yet produced sound uniform legislation itself. However, we are at least aware of the great complexity and magnitude of the problem. We are also reasonably informed of the factual situation on which it is based. At long last we are finally in a position to start moving forward toward uniform legislation which we hope will be sound and a substantial improvement over the existing situation. The national conference recommends that this committee and the Congress reject S. 750 and make no effort to enact any legislation in this general area at least until the conference has had a reasonable opportunity to develop its own uniform legislation.

(Comments by Senator Simpson follow:)

COMMENTS UPON THE STATEMENT OF WALTER D. MALCOLM

(Statement by Senator Milward L. Simpson, Jan. 11, 1964)

Up to this hearing, we have lacked a throughgoing legal analysis of S. 750.

That deficiency was corrected today by Walter D. Malcolm, who is president of the National Conference of Commissioners on Uniform State Laws. Without question, Mr. Malcolm is one of the most highly qualified men in the United

States in commercial law and in the drafting of statutes regulating financial transactions.

He has appeared before this subcommittee in opposition to the bill in his capacity as president of the national conference, and with the approval of the executive committee of the conference.

In his statement Mr. Malcolm pointed out what are, to my mind, compelling and decisive practical considerations against S. 750.

These are taken directly from his statement, as follows:

1. "S. 750 is simply a disclosure statute * * *. The selection of the disclosure technique to the exclusion of all other techniques developed in State law, the failure to attempt to coordinate S. 750 with existing State law and the apparent lack of economic and sociological studies in depth to try to ascertain the best methods to achieve the basic objectives (or to verify that the special features of S. 750, particularly the 'simple annual rate' would work) justify the inference that in S. 750 an isolated theory has been grabbed out of the air and used as a basis for vitally important Federal legislation.

2. "A special committee of the national conference, which considered a draft of retail installment sales statute decided that 'this entire subject was so extremely complex and difficult, had assumed such a major position in the total economic and social life of our country and had such an important hearing on the future of the country, that the drafting of such a statute should not be undertaken except on a basis of considering all aspects of retail installment sales, consumer credit, small loans, and usury and only after research and study, in great depth and the organization of a special staff with adequate financing to conduct the research and do the drafting.'"

(It is my understanding that such a project has been approved by the national conference and is now being organized.)

3. Further, Mr. Malcolm stated that Prof. Allison Dunham, of the University of Chicago Law School, has been engaged as executive director of the conference and under present plans a special staff would be assembled to draft a comprehensive consumer credit statute, with key members of the staff consisting of a topflight economist and a similarly qualified reporter and draftsman.

(Let me point out that S. 750 is not based upon any such study and, although it concerns a complicated and important subject, it deals with it only in a superficial way.)

4. The next point is so important that I shall quote Mr. Malcolm's exact statement: "The subject matter of S. 750 materially affects a tremendously important part of American life, heretofore controlled by State law; and if S. 750 is enacted there can only result a very substantial shift in the balance of power between Federal and State jurisdiction." He also said that Federal power and control would receive, by this one bill, several years immediate growth.

(This aspect of the matter, the enhancement of Federal power, has not received sufficient attention. It is dangerous and we are indebted to Mr. Malcolm for pointing it out so clearly.)

5. He also said: "The National Conference on Uniform State Laws consider S. 750 completely unsound on this fundamental issue at least until all reasonable opportunities to solve consumer credit problems at the State level have been tried and failed."

6. He said: "We do not think that Congress should enter this field at this time in any form or manner whatsoever."

7. He said: "It (S.750) leaves every State statute exactly as it is; it leaves intact this heterogeneous mass of State legislation and it imposes on top of it a completely new layer of Federal legislation that will increase the existing confusion materially, if not make it unbearable."

8. Mr. Malcolm said: "Instead of S. 750 providing sound solutions to the evils it seeks to correct, its treatment of existing problems is theoretical, uninformed, and superficial; instead of reducing the existing confusion and uncertainty it will increase it; instead of stabilizing the economy it will seriously injure the economy."

(I wish to say that these forcible observations, coming as they do from a man of the stature of Mr. Malcolm and on behalf of a disinterested and eminently qualified group, such as the National Conference of Commissioners on Uniform State Laws, are, I firmly believe, decisive on the question of this bill. It is evident that it is a superficial and crude effort to deal with a matter of tremendous scope and importance to the American people.)

9. Mr. Malcolm also said, "In proposed legislation of such major importance as S. 750, a maximum of skill, wisdom, and deep knowledge of the subject matter

is demanded. In the provisions regarding charges, S. 750 evidences neither wisdom nor knowledge of the subject matter and skill only in making substantially every transaction subject to its provisions."

10. He said: "Under section 3(2) substantially every credit transaction is made subject to the act. And then by sections 5 and 6 power is given to the Federal Reserve Board to except broad groups of transactions. Once again Congress sweeps under the rug this very vital problem of scope, but it does so by conferring the broadest of powers to a Government agency, powers which in certain situations would be the power of business life or death. Congress would take a long step toward authoritarian government if and when it takes this combination of steps."

11. He also said; "Under the extremely broad language (of the bill) suppliers of credit would be faced with the risk that all types of charges, in business financing as well as consumer financing, would have to be disclosed in advance in dollars and cents and in terms of simple annual rate. The mere statement of this factual situation makes obvious the impossibility of compliance."

12. Mr. Malcolm concludes by saying, "The national conference recommends that this committee and the Congress reject S. 750 and make no effort to enact any legislation in this general area at least until the conference has had a reasonable opportunity to develop its own uniform legislation."

(It is evident that this bill, which attempts to deal with an important subject, is ill-considered, poorly drafted, and dangerous. The entire subject of consumer credit legislation is receiving careful attention by the State legislatures as well as by the National Commissioners on Uniform State Laws. There is no need for the Congress to enter this field of legislation; and, as I see it, this would be positively harmful to consumers and to the economy.)

Senator BENNETT. Well, we have come out about even on time, Mr. Chairman, and I think we have 5 minutes we are entitled to.

The CHAIRMAN. Well, we will add that to this afternoon.

Senator BENNETT. But my suggestion, if there are no more questions for these gentlemen, we go through our recess until 2:30.

The CHAIRMAN. That will be done.

(Whereupon, at 12:45 p.m. of the same day, the hearing was recessed to reconvene at 2:30 p.m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. If Lieutenant Governor Belloti were here now, we would make him the first witness, but I don't think we should delay the proceedings. I am going to ask Mr. Lawton, registrar of motor vehicles if he will open the testimony this afternoon. We are very happy to welcome you here.

STATEMENT OF JAMES R. LAWTON, REGISTRAR OF MOTOR VEHICLES, BOSTON, MASS.

Mr. LAWTON. Thank you very much, Senator Douglas, Senator Bennett, and Senator Simpson. It is a pleasure and a privilege for me to have the opportunity to testify here today. I am the registrar of motor vehicles for the Commonwealth, and I am not here in my official capacity, although I would like to commend John——

The CHAIRMAN. You had a very distinguished predecessor, Mr. Goodwin, who made a reputation as registrar of motor vehicles.

Mr. LAWTON. Yes, we did, sir.

Your assistant and I would have been both delayed a considerable deal of time if it were not for his ability to break the traffic jam in the North End section of the city.

I come here, Senator, to support and add my word as a private citizen of the Commonwealth to this legislation. For many years I represented the city of Brockton. In 1947 I started the first of three terms in the city council, and in 1953 I started the first of five terms in the Massachusetts House of Representatives; 1 year of which I was a member of the committee of banks and banking.

My purpose for coming here today, Senator, is to clear the record, if I may, concerning the reference to me which was made at an earlier hearing hereby my former colleague and the Democratic whip of the house of representatives, Robert Quinn, of Boston. Having had the opportunity of checking the record, I felt that I should clarify any confusion about my role in the usury fight. I felt that I would like to have the privilege and opportunity of at least clearing the record.

The CHAIRMAN. Vey glad to have you do so.

Mr. LAWTON. Thank you. Back in the session of the legislature in 1962, I was very much concerned about the usury legislation that was pending at that time. Representative Quinn had indicated in his previous testimony here that the bill was supported by the committee on banks and banking, the commissioner of banking and myself, and he felt it was, to use the word as I recall it in the record, an "effective" usury law.

I, and many other persons, disagreed with Representative Quinn that it was not an effective usury law, and I made a statement which was the basis of a speech which I gave on the floor of the house of representatives which amended the bill which came to the committee on banks and banking. I would like to refer to that if I may in just making this statement.

I said:

Senate 802, the so-called usury law, has been amply described by the Reverend Robert McEwen, S.J., head of the department of economics at Boston College in the following words: "The usury law which is presently before you could legitimize rather than prohibit usury."

A review of the bill clearly indicates the accuracy of the statement—the maximum interest rate is 15 percent. This is the highest interest rate permitted in the United States, under a State usury law, with one exception. Allegations from the States where the usury rates are low that the law has no practical effect, are not true. In New York the usury law is 6 percent and applies to every loan made in the State by nonbanking institutions. A bank is permitted an add-on or discount rate equivalent to a simple interest rate of 10 to 11 percent.

In addition there were many exceptions to this usury bill, such as a loan to a corporation. In New York, which certainly is a comparable State, only loans of over $5,000 are excluded from State usury law. This exclusion denies protection to the small businessmen such as the gas station and garage, the grocery store, and so forth. Another exclusion is, "any obligation for the unpaid purchase price of goods, services, and insurance," which is the language in section 3A, paragraph F of that bill.

The CHAIRMAN. Do I understand that installment sales were excluded under this Massachusetts usury bill?

Mr. LAWTON. Under the bill, which Representative Quinn referred to as an effective bill, corporations were excluded, all loans to corporations, and also any obligation for the unpaid purchase price of goods, services, or insurance.

The CHAIRMAN. That sounds like installment selling was excluded.

Mr. LAWTON. In other words, partically nothing falls within the scope of that particular act. Not to prolong the discussion, but I wish it understood, Senator, that after a debate on the floor of the house of representatives an amendment which I had offered reducing the interest rate from 15 to 12 percent and striking out the exclusion of corporations and the exclusions as it related to obligations for unpaid purchase prices of goods, services, or insurance—the amendment offered by me was adopted by the house.

Representative Quinn was on the other side of the issue on the floor of the house, as being opposed on my amendments. As a result of the adoption of these amendments a conference committee of the house and senate was appointed of which I was a member. It was my feeling and the feeling of many that if we could not have an effective usury bill, there was no point in having any usury act at all. The result of many lengthy meetings resulted in no agreement which I felt was reasonable and in the public interest. As a result, the legislature adjourned and no action was taken on that legislation.

But I merely come to state for the record which contains my name as part of the previous testimony that in my opinion and the opinion of many others this was not an effective act without the amendments which I had proposed and which were adopted by the house.

And to further expedite the few things that I am going to say, I would like to say to you, Senator, and to the members of your committee that I know as an official, public official, in elected public service, there are many of us who even after our brief tenure in public office like to point to some one thing we have done as being worthy of the time we have spent fulfilling our trust and our duty of fidelity to the people. I feel that probably one of the most important acts ever passed by the general court hits upon the basic theme of your legislation and the very principle which is in the hearts of those of us who are concerned about the consumer generally.

When I went in the legislature I was very troubled with the repeated experiences of the so-called second-mortgage interests in the Commonwealth which I had repeatedly referred to as those in the foreclosure business. The people who were in the foreclosure business are not in the foreclosure business in the Commonwealth any more. I found many instances as a member of the general court and as a lawyer where persons were charged at the rate of 100 and 200 percent on a loan, and were subjected to very severe default charges or delayed foreclosure charges.

In other words, a person would enter into a second-mortgage agreement, default in their payment, and on the day that their payment was to arrive, the operation would be in the works to have the foreclosure notice published the following day in the local newspaper. The borrower on the second mortgage, of course, would run to the loan company, seeking to forestall the foreclosure in order to right the wrong and it would usually result in very severe penalties in order to keep the payments going, the original obligation in existence, and to stop the foreclosure itself.

I found in at least half a dozen instances in my own community that the "friendly millionaire" or some other such outfit had in fact been very careful about the kinds of loans they made in the second-mortgage field. It usually went, they usually were only granted to persons who had a substantial equity in their real estate. I can think of one case, as I sit here now, of a woman who had an equity of about $10,000 and her husband had been ill, and she had been running the business. They were a little bit embarrassed financially because socially they were considered to be people who were doing well in their business, and in their personal affairs, and things were difficult. In desperation, rather than go back to the bank and extend the first mortgage, they went to the "friendly millionaire" or one of those outfits and secured $1,500 right away, "no questions asked," "keep the home fires burning," and what have you, and signed a note for about $3,500. The default payments that this woman experienced, it is a little bit hazy now, but the default payments for stopping the foreclosure proceedings were well in excess of $100 for the two or three instances in which she found herself in default.

Finally, in desperation, after consulting me, they attempted to resolve the issue with the loan company and without success decided to increase their first mortgage and settle the obligation. And the interest in that particular situation, I know, was well in excess of 100 percent for a matter of just a 6- or 7-month period.

The only point I make, Senator, is that for the first time in the history of the Commonwealth protection against this kind of abuse was adopted. It is chapter 505 of the acts of 1950. It covered all loans in excess of $1,500, set a maximum interest of 1½ percent per month on the unpaid principal balance. This legislation passed the House on many occasions previously, and successfully passed the House in 1950, and was signed by Gov. Foster Furcolo, and when I read your earlier transcript, I couldn't help but think of a man I feel I should mention at this hearing who served one term in the senate. I know you made a reference in the testimony relative to Lexington and Concord. A young man named William Madden, a senator from Lexington and a dear friend, was serving his first term in the senate, and I went to him and talked to him at length about making a real fight in the senate over this second-mortgage act. I think perhaps more than anyone else he deserved the credit for the act. I believe it is of tremendous value to the citizens of the Commonwealth of Massachusetts. It was with Senator Madden's assistance that it was passed, and the Senator, as I understand, until very recently was an assistant U.S. attorney serving the U.S. Government in these courts.

We have increased the coverage of that act on these properties as a result of the amendment to that legislation which I filed in 1962 signed by Governor Volpe, and that was chapter 286, and it increased the assessed valuation covered from $10,000 to $25,000, and increased the number of dwelling units from three to six. In 1963, I filed further legislation to increase the assessed valuation to $50,000 from $25,000, and the number of dwelling units from 6 to 12, and nipping away a little bit at a time, all the way along.

I don't want to take too much more of your time, Mr. Chairman, and gentlemen, except to assure you that I feel so strongly about my own personal record during the time I served in the Massachusetts Legislature and I take pride in fights I have made on consumer legislation and the consumer council bill which Governor Peabody signed only a few weeks ago, and I have a very avid interest in the problem of the effect of usury legislation, and the second-mortgage legislation, which I have referred to at length.

I appreciate your courtesy in permitting me to appear here to at least clarify my own position, because I feel very strongly, Senator, representing a small industrial city where I understand Senator Simpson played a little basketball down at Brockton while he was a student at Harvard, that I have a keen understanding of the problems of the little people. I am a practitioner of law in Plymouth County, and I don't believe the Massachusetts Bar Association or the American Bar Association or anybody else can speak for the lawyers of the Commonwealth of Massachusetts or the Nation.

Any lawyer who knows what it is to handle a practice and to deal with the problems of people, all kinds of problems, there are debt problems, domestic problems, all of their problems, knows that there is a crying need in our Commonwealth and in the Nation for what is being proposed here. I cannot express my conviction too strongly that if one arm of the government cannot carry out what I believe is a moral obligation, a true moral obligation to the citizens of our community throughout the Nation, then, of course, if it can be done effectively and within constitutional grounds, then we have a duty to do it on another level of government.

I am a firm advocate of the separation of powers. As a registrar of motor vehicles I am well aware of the separation of borders between the States of our Nation and the desirability of having a degree of uniformity without Federal intervention, but I believe when it comes to the economic problems that people experience, that we have an obligation, all of us, a deep moral obligation, to prevent any form of larceny wherever it may exist, and to prevent the usurious act whether it happens in the department stores or second mortgages. It must be stopped, and as a citizen of the Commonwealth, as I said at the outset, Senator, I feel this duty and responsibility that we public officials have must certainly be our primary motviation.

The CHAIRMAN. Thank you very much, Mr. Lawton. There is one question I would like to ask. This so-called usury bill—what were the provisions in the so-called usury law as regards loans by banks and small loans organizations? Were there any provisions?

Mr. LAWTON. I do not have the bill in front of me, Senator, at the present time, and I couldn't answer that particular question. I do know that we do have and did have an extension of the small loans regulatory board up to the $3,000 limit.

The CHAIRMAN. You quoted a phrase dealing with exclusions?

Mr. LAWTON. Yes.

The CHAIRMAN. And I wonder if you would repeat that phrase in the bill.

Mr. LAWTON. The phrase of exclusions?

The CHAIRMAN. Clearly it did not cover installment loans?

Mr. LAWTON. No, it didn't.

The CHAIRMAN. Next question, Did it cover loans of money?

Mr. LAWTON. The exact words, Senator, in the bill, were "any obligation for the unpaid purchase price of goods, services, or insurance." Those were the words in the bill which were the excluding words as it related to consumer purchases of any types of goods, services, or insurance.

The CHAIRMAN. Well, I am not a lawyer, but it looks to me as though exclusions were possibly exclusions of small loans, too, but I wondered if you would submit a copy of the bill?

Mr. LAWTON. Yes, I will get a copy. I did not bring a copy. I didn't come in as well prepared as I would have liked, because I didn't hear of the testimony that had been contained in the previous record until yesterday morning. Since then I have been searching around to put the pieces together, and I only have the reference to my personal remarks on that matter, and I went to some trouble to review a copy of the House of Representatives Journal in order to get the amendments. I wasn't able to secure a copy of the House Journal, and wasn't able to have that with me either, but I will see that a copy of that particular act will be here. (See p. 1125.)

The CHAIRMAN. Thank you very much.

The CHAIRMAN. Any questions?

Senator BENNETT. No questions.

Senator SIMPSON. No questions.

The CHAIRMAN. The second witness is the Honorable Charles Shea, representative of the Great and General Court of Massachusetts.

STATEMENT OF CHARLES L. SHEA, HOUSE OF REPRESENTATIVES, MASSACHUSETTS

Mr. SHEA. Mr. Chairman and honorable members of the committee, my name is Charles Shea, and I represent the second Norfolk district in the General Court of Massachusetts.

Prior to getting involved, shall we say, in politics, I was employed by two small loan companies; one of them as both assistant manager and as relief manager, so that I did do some traveling with them. Since I have been in the legislature I have been very interested in the protection of the public from certain lenders, and I think it is only fair to say that we cannot condemn all lending organizations and all retail stores, because many of them operate in a most honorable manner, and we are well aware of that.

However, there are some whose prime purpose for being in existence seems to be to milk an ignorant public. Not ignorant in that they are uneducated, but ignorant in the ways of finance and installment buying, who many times are unwittingly "sucked" into contracts which prove most expensive to them.

Now, I have heard witnesses both for and against this bill, and I have heard them argue about a word on page 3 or a paragraph on page 8, but I think the basic reason that we are here is, do we believe in the principle of truth in lending, or don't we, and I think that all of us are aware that any bill is amendable, if there is a glaring defect down in the bill. I know that you have capable gentlemen, when you go into the executive session, that can iron that out. I think one of the reasons you are conducting these hearings is to make sure you come out with the best bill for both the consumer and industry.

Some of these gentlemen that opposed the bill—I know one of them said he studied the problem for 15 years, and expects a solution in 3 years. I don't blame him for saying that, but I heard the same thing on Beacon Hill, and everyone who says that on Beacon Hill is for some reason or other in opposition to the bill, but doesn't want to put himself on the line as opposing it. It is a delaying tactic.

There are others who have said they favor the bill, and then pick out one or two words or sentences and give a 10-minute dissertation on the pitfalls, if that particular word is left in the bill. What always amazes me, evidently they have had to have studied this particular piece of legislation very, very closely in order to be able to pick out one or two words, but I haven't heard them offer any solution or any different wording that would favor the consumer and protect the industry.

Now, I heard another gentleman talk about the small loan board in Massachusetts, and that it is doing a good job, and I respect that gentleman, but I differ with him, because I tried to do away with the small loans regulatory board in Massachusetts last year. Actually I got legislation passed in the house of representatives and failed in the senate, and we will try again to do away with it.

What happened on the small loan regulatory board? In theory, it was excellent; however, we found that the industry it controlled had a right to appeal to the courts any of their rulings, and the first time they set interest rates, I believe it wound up as a 3-year hassle before the supreme court, and while it was before the supreme court, legal lenders were charging 2½ percent per month on unpaid balances up to and including loans of $2,500. They can talk about 2½ percent to $200, they were getting 2½ percent up to $2,500. On second mortgages you have heard my former colleague explain what the State has tried to do with them. Just the other day I found that there are ways to get around that, and I am having legislation drafted to stop these abuses. It seems as though many of our retail credit outfits, not all of them, and probably not the majority of them, are in business now, get a dollar down and a dollar a week, and the chase is on.

Up in Maine, you are probably well aware of it if you have held hearings up there, several years ago because of the looseness of their lending laws, and the methods by which loans were made, they had an extremely high bankruptcy rate. In fact many, many lawyers deal exclusively in bankruptcy proceedings. I read, too, a report from the Russell Sage Foundation that the divorce rate was largely due to exploitation of people by lending and installment buying methods.

It has always occurred to me that in the State and also here that all the opponents of this bill seem to have either a direct or indirect interest in retail credit, small loans, or the banking industry.

Now, I know back in 1952 when I worked with what I considered to be one of the most honorable lending institutions in the United States, and at that particular time when a person signed a contract with him for a loan of money, they actually spelled out the amount of cash the individual would receive, and the amount of interest that individual would pay over a 2-year period or whatever the length of the loan was for, and if there were a recording fee for collateral, they would also record that, and the borrower received a statement, not required by law, as to just what it cost him; and there were many other institutions at that same time that did exactly the same thing, and the principle behind your bill, Senator, as I understand it, is to let the borrower know in dollars and cents what it is he is paying for credit, and I certainly feel that any legitimate business operation or any legitimate banking institution or any legitimate retail outfit or any legitimate small loan licensee in this State or any State in the Nation should have no qualms about telling an individual how much it is costing him for the use of either goods or money.

Now, there is one other thing I have noticed that some of these people who may oppose it are very quick to point out to the consumer, if he buys a piece of jewelry, on which there happens to be a 10-percent tax, if the piece of jewelry costs $100, they are careful to point out to him that the 10-percent tax amounts to $10, and that is money the Government is clipping from him, because he is fortunate enough to be able to purchase a $100 piece of jewelry; but if that same individual wants to put it on a time basis payment, it is like pulling teeth to find out how much it is going to cost him in order to finance this purchase for 6 months or a year.

I think if the same method by which the outfits will specify how much of a tax is paid in an effort to belittle the Government, and its method of raising money, by the same token I think that in many instances that tax would seem minute if that particular corporation or individual were required to also point out to the customer or the consumer how much it was going to cost him to finance that purchase over the period of time which he selects.

I think any argument about the words in the bill is not strictly apropos at this time. I think the basic point is, do we agree in principle with this fine thing that I believe you are trying to do? It is not a question as to whether or not every word is exactly right. Generally all legislation is amended before it is finally passed. That is what they have legislative counsels for; that is what they have committee hearings for, in order to come out with a proper bill.

So, I am 10-percent in favor and will do all I can to see to it that this truth-in-lending measure is passed, because I certainly feel that on a national level it could not interfere with a State's rights or any State regulations. All it merely wants to do, and I think its prime concern is to let the consumer know how much is it going to cost him for $100. Just the same as he wants to know how much is an automobile going to cost; how much is a fur coat going to cost; or how much is a watch going to cost. There certainly should be no reason to hide the fact as to how much the money he wants to borrow is going to cost him or how much it is going to cost to defer payment, and I want to thank you all for allowing me the few moments to appear before your committee.

The CHAIRMAN. Would you favor requiring that the true rate of interest be given to the borrower as well as the total amount of the finance charge in dollars?

Mr. SHEA. Well, I think that when you say most people in Massachusetts have a rate, that 6 percent isn't a bad rate for borrowing, and they go for 6 percent. If you put down 6 percent as a true rate of interest, it all depends on what they put in the fine print underneath. I think they understood more clearly the dollars, and cents. [Laughter.]

The CHAIRMAN. Apparently it is a question, I shouldn't have asked.

Mr. SHEA. Did you mean to put it instead of the dollars and cents?

The CHAIRMAN. No, no, in addition to the dollars.

Mr. SHEA. Oh, I have no objection to it in addition, but not instead of.

The CHAIRMAN. No, I simply proposed in addition.

Mr. SHEA. And there is just one other point I would like to leave on the truth-in-lending law that many times the actual cost to the borrower, when it is stated, does not give a clear explanation. If he pays it in advance, will he get anything back, or if he is late, how much more will it cost him, and I think that, too, is important.

The CHAIRMAN. Thank you very much, Mr. Shea.

Senator BENNETT. I would just like to ask one question. When you worked for that reputable small loan company, did they loan say $50 at 6-percent simple annual rate?

Mr. SHEA. The rate when I first went to work for them was 2 percent per month on the unpaid balance. Since then they have effectively increased it to 2½ percent and their smallest loan was $28.35. There were three payments of $10 a month. The name of the concern was the Household Finance Corp., and until the small loan regulatory board went into effect, and—I am glad you asked this question—the small loan regulatory board set a rate of 2½ percent on the first 2 months, and unless the small loan regulatory board interfered with them, the rate set by the legislature, the rate was lower 1½ percent under the act, 2 percent to $300, and this is one of the prime reasons the regulatory board is not too effective.

The CHAIRMAN. The appointed board raised the rates above what the company was charging?

Mr. SHEA. Above those that the State legislature had set.

Senator BENNETT. No further comment.

The CHAIRMAN. Thank you very, very much, Mr. Shea.

Mr. SHEA. Thank you, Senator.

The CHAIRMAN. I would like to ask Mr. Maurice A. Rudman, an attorney at law, to come forward.

STATEMENT OF MAURICE A. RUDMAN, ATTORNEY AT LAW, BOSTON, MASS.

Mr. RUDMAN. I am a graduate of Harvard College and Law School. I have been a member of the bar since 1921. The reason I came here, I happened to hear the Senator on the radio last night, and I came here simply as a spectator today. I am a little ashamed to tell the story I tell because of my background, that I should borrow money in the sum of $3,000 and then find out a week later that the interest rate was somewhere between 24 to 33 percent, and that is from not some fly by night loan outfit, this is the First National Bank of Boston. That is all I have to say.

The CHAIRMAN. Now, you are a graduate of Harvard College?

Mr. RUDMAN. That is right.

The CHAIRMAN. And the Harvard Law School?

Mr. RUDMAN. That is right. And I feel that if they can take a person like myself who is neither illiterate nor inarticulate, to that rate, certainly they must be doing an awful job on the people who can barely read and write.

The CHAIRMAN. Thank you very much.

Now, we are very happy to welcome another panel. This seems to be the day of panels. I would ask Mr. John J. Graham, of the Massachusetts Consumer Association, and Mr. Nathan Paven, attorney at law, a member of the Consumers' Council of Massachusetts and Prof.

William F. Willier, School of Law, Boston College, if he is in the room to come forward. Mr. Willier is not here, but he submitted a statement which I will give to one of you, and then you can summarize it, if you wish. Which of you gentlemen will start.

STATEMENT OF JOHN J. GRAHAM, PRESIDENT OF THE MASSACHUSETTS CONSUMERS ASSOCIATION

Mr. GRAHAM. My name is John J. Graham, and I appear here as the president of the Massachusetts Consumers Association. None of the officers or the members of this association are compensated for their work in fostering equitable conditions for consumer transactions.

For the past 25 years I have been interested in the effects of institutional economic forces on the American consumer. I have pursued this interest by taking and giving graduate courses in government regulations of business. I have been in active law practice since 1946. I have been a lecturer at the Graduate School of Business at Northeastern University for the past 11 years. I have been vice president for legislative affairs of the Massachusetts Consumers Association for the past year.

I have read the entire text of S. 750.

I am here to be recorded personally and to record the Massachusetts Consumers Association in favor of the truth-in-lending bill. Herewith I transmit the resolution passed by the annual conference of the members of the Massachusetts Consumers Association held at Boston College on November 16, 1963. By vote of the conference this resolution will be sent to the Massachusetts congressional delegation and to U.S. Senator Edmund Muskie, of Maine. The resolution reads as follows:

> Whereas the volume of consumer credit outstanding in the United States was over $63 billion at the end of 1962 and is steadily rising and,
>
> Whereas various organizations for financing this debt are existent; and
>
> Whereas each of these organizations is free to choose from a number of methods of stating cost; and
>
> Whereas many of these methods fail to separate the cost of goods from the cost of credit; and
>
> Whereas the true rate of interest for financing is seldom stated in terms of simple annual interest; and
>
> Whereas economic justice to the consumer requires that he be provided with the tools to make the best choices in the free marketplace; and
>
> Whereas the Douglas truth-in-lending bill, 7. 750, would have the effect of providing these tools; and
>
> Whereas the Consumer Advisory Council established at the request of President John F. Kennedy in his special message to the Congress of March 15, 1962, supports the principles and the purposes of the Douglas bill, S. 750; and
>
> Whereas Senator Douglas has acceded to the request of the Massachusetts Consumers Assoication and others that his subcommittee hold hearings in Boston: Therefore be it
>
> *Resolved*, That the members of the Massachusetts Consumers Association at this annual meeting assembled on the 16th day of November in the year 1963, urge public support of the Douglas hearings to be held in Boston, November 22 and 23, 1963; and be it further
>
> *Resolved*, That the Massachusetts Consumers Association reiterate it support of the Douglas bill and urge Congress to expedite its passage.

That was the resolution that the Consumers Association passed at its annual conference.

The probable effects of this proposed truth-in-lending legislation are no doubt multiple, and I believe it is necessary to attempt some predictions so we shall know what we are trying to achieve, the goals we are trying to attain.

The probable effects, as I see them, are these: First, to create an atmosphere of complete honesty and replace an atmosphere of wonder, or resignation to the grasp of indeterminable forces that are too great for the ordinary consumer borrower to deal with. A constant irritant to me has been the statements of the banking interests who allege that in this age of the computer, the arithmetic of interest would prevent compliance with the truth telling demands of this bill. The same type of reasoning would compel those towns that cannot afford a first-class fire department or 24-hour alert to abandon their volunteer departments and even sell their fire engines. Whatever in this bill may be incapable of making heaven on earth cannot be used as an argument for refusing to improve our present system.

The main thing that we are trying to do now is to improve the present system. I think further that one effect of this bill would be to offer people alternative uses for their consumer spending. If they were on notice of the amount of money that they were paying for interest charges, they could well make different decisions in their spending habits. They may well, for instance, elect to buy articles in sequence rather than simultaneously, and by doing this they would be able to pay cash for consumer items when they would buy them, and this would free the amount of money that they are now using in interest charges for consumption of consumer goods, and I think that this would be a spur to the national economy very much akin to the spur that we expect to receive from the presently debated amendments in the Internal Revenue Code.

So that in effect this truth-in-lending bill, if it had any effect on business at all, would be an effect to increase the amount of consumer spending.

I think this is a very important collateral effect of this measure. The most desirable effect that those who have debated in the consumer association feel, of course, is that it would bring complete truth to the marketplace, so that both sides of the table know the terms of a loan. The element of the business community now giving full disclosure would have nothing to fear from this, nor would they have to change their practices if this bill were enacted. The only ones that would have to change their practices are those who are now trading at a disadvantage. They are trading on the ignorance of those who are incapable of foreseeing the exact amount of interest they are going to pay.

I would thank the subcommittee for the great benefits of its presence in Boston, because by the willingness of this subcommittee to come to Boston, the local consumers have by these hearings been able to meet and conclusively identify the local opponents of this most desirable legislation.

That was the statement that I had as the representative of the consumers association.

(Mr. Graham's prepared statement follows:)

TESTIMONY OF JOHN J. GRAHAM, PRESIDENT OF THE MASSACHUSETTS CONSUMERS ASSOCIATION

My name is John J. Graham. I appear here as president of the Massachusetts Consumers Association. None of the officers or members of this association are compensated for their work in fostering equitable conditions for consumer transactions.

For the past 25 years I have been interested in the effects of institutional economic forces on the American consumer. I have pursued this interest by taking and giving graduate courses in Government regulation of business. I have been in active law practice since 1946. For the past 11 years I have been a lecturer at the Graduate School of Business Administration at Northeastern University. For the past year I have been vice president for legislative affairs of the Massachusetts Consumers Association.

I have read the entire text of S. 750.

I am here to be recorded personally and to record the Massachusetts Consumers Association in favor of the truth in lending bill, S. 750.

Herewith I transmit the resolution passed at the annual conference of the members of the Massachusetts Consumers Association held at Boston College on November 16, 1963. By vote of the conference this resolution will be sent to the Massachusetts congressional delegation and to U.S. Senator Edmund Muskie of Maine.

"Resolution for submission to the annual meeting of the Massachusetts Consumer Association on November 16, 1963:

"TRUTH IN LENDING

"Whereas the volume of consumer credit outstanding in the United States was over $63 billion at the end of 1962 and is steadily rising; and

"Whereas various organizations for financing this debt are existent; and

"Whereas each of these organizations is free to choose from a number of methods of stating cost; and

"Whereas many of these methods fail to separate the cost of goods from the cost of credit; and

"Whereas the true rate of interest for financing is seldom stated in terms of simple annual interest; and

"Whereas economic justice to the consumer requires that he be provided with the tools to make the best choices in a free marketplace; and

"Whereas the Douglas truth in lending bill, S. 750, would have the effect of providing these tools; and

"Whereas the Consumer Advisory Council, established at the request of President John F. Kennedy in his special message to Congress on March 15, 1962, supports the principles and purposes of the Douglas bill (S. 750); and

"Whereas Senator Douglas has acceded to the request of the Massachusetts Consumer Association and others that his subcommittee hold hearings in Boston: therefore be it

"*Resolved*, That the members of the Massachusetts Consumer Association at this annual meeting assembled, on the 16th day of November in the year 1963, urge public support of the Douglas hearings to be held in Boston, on November 22 and 23, 1963; and be it further

"*Resolved*, That the Massachusetts Consumer Association reiterate its support of the Douglas bill and urge Congress to expedite its passage."

The probable effects of this proposed truth-in-lending legislation are, no doubt, multiple. And I believe it is necessary to attempt some predictions so we shall know what we are trying to achieve, the goals we are trying to attain.

The probable effects that I see are these:

First: To create an atmosphere of complete honesty to replace an atmosphere of wonderment or resignation to the grasp of indeterminable forces that are too great for the ordinary consumer-borrower to deal with.

A constant irritant to the stability of my stomach are the banking interests who allege that in this age of the computer the arithmetic of interest would prevent compliance with the truth-telling demands of this bill. This same type of reasoning would compel those towns that cannot afford a first-rate fire department on 24-hour alert to abandon their volunteer departments and even sell their fire engines. Whatever in the bill may be incapable of making heaven on earth cannot be used as argument for refusing to improve our present system.

Note, please, that those who appear to oppose this legislation are invariably on the payroll of some business which has been gaining much from the less than truthful, nondisclosure of interest charges.

Second: To invite the consumer-borrower to participate with an active mentality in the financial negotiations necessary to accommodate his desires and needs.

Much has been made over the difficulties that may arise from the so-called skipped payment during the tenure of a time-payment loan. No such trouble need prevent the passage of this legislation. For the representatives of the Massachusetts Bankers Association have shown us charts of how the interest increases as and when payments are skipped. This penalty or increase in interest need only be outlined to the borrower. When a payment is skipped, the subsequent transaction on the books of the bank is actually treated as the extension of another loan, a refinancing loan, at higher rates. There's no great mystery to this.

Third: To reduce interest charges which are now too high to stand up under the full light of day in some areas of lending activity.

There would be a reduction of interest charges in only those instances where the truth about the full amount of interest charges would deter the borrower from participating in a transaction unless the interest charges were within reason. This legislation would be a deterrent to both the irresponsible lender who can afford to do business only with those irresponsible borrowers who now have no way of clearly seeing the full financial consequences of their borrowing activities.

Fourth: To inaugurate more and better purchasing activity for the mutual benefit of both the consumer and the national economy.

This probable effect of S. 750 is one which I believe demonstrates an additional necessity for the passage of this legislation. This concerns greater purchasing power for the consumer.

The reasoning behind the prediction of greater purchasing power for the consumer is as follows: The main reason, maybe the only reason, there is opposition to trouble in lending is that the truth would reduce borrowing activity. That is, if the lender had to candidly state the total amount charged for credit there would be some reduction in the amount of business consumers would do with those lenders whose rates the consumer would judge as too high.

However, this reluctance or consumer resistance would be immediately transferred into a lowering of the interest demanded. This reduction of interest charges would release, for alternative purchasing use in the free market, a very substantial amount of money. While I can only make a rough estimate, I'd invite the committee's staff to engage in its own educated estimates. I believe we are dealing with a minimum of $7 to $11 billion annually that is spent in excess interest charges by the consumer. This $7 to $11 billion would be inserted into the national economy at the same place where we believe the proposed tax cut would be inserted; namely, in purchasing power for those with the greatest propensity to spend. Hence, in addition to bringing an equity that is long overdue in the money marketplace, this legislation would also bring an added desirable effect on the economy of a substantial spur of effective demand.

In conclusion, may I thank this subcommittee for the great benefit of its presence in Boston. Local consumers have, by these hearings, been able to meet and conclusively identify the local opponents to this most desirable legislation.

Mr. GRAHAM. Now I would like to participate with Mr. Paven on some legal aspects of this.

STATEMENT OF NATHAN PAVEN, ATTORNEY AT LAW, BOSTON, MASS.

Mr. PAVEN. Mr. Chairman, members of the committee, I am a practicing attorney in Boston and formerly the State assistant attorney general in charge of the consumer council division, and presently a member of the newly created Massachusetts Consumer Council, and director of and vice president for legislation of the Massachusetts Consumers Association.

In the course of practice I have had experience on both sides of the fence, both representing lenders and borrowers, and for that reason I believe this legislation serves a salutary effect. As previous speakers have mentioned before this committee there are various means by which credit has been regulated in the past from the point of view of setting maximum interest rates and the point of view of disclosure. This legislation falls into the field of disclosure and information.

I have been interested this morning in listening to the members of the National Conference of Uniform Laws Commissioners who are pleading for more time in order to draft uniform State legislation. I understood prior to the hearing this morning that they had been romancing credit legislation for a number of years without making up their minds whether they would marry it, but I discovered this morning that conception has at last taken place. How much longer this period of gestation will take, as the Senator phrased it this morning, is a problem, because while these speakers are troubled by what will happen to the financial institutions, they offer no moratorium for the borrower during the period of time for which gestation will take place.

The CHAIRMAN. Mr. Paven, I tried to read into the record this morning the statement from the Notre Dame Lawyer, as of last August, that the committee on uniform laws considered back around 1950 a code dealing with credit disclosure, and according to the article in question, this was deleted on January 14, 1951, or 13 years ago. Do you believe the statement of the Notre Dame Lawyer is accurate?

Mr. PAVEN. Yes, Senator; in fact the section under consideration had been under consideration by the uniform commissioners for 10 or 12 years prior to that date.

The CHAIRMAN. So it is 25 years?

Mr. PAVEN. Yes.

The CHAIRMAN. And during this time they have not included it in their uniform code?

Mr. PAVEN. They included it in the original draft.

The CHAIRMAN. Then eliminated it?

Mr. PAVEN. In the 900 pages which the uniform code covers, a highly complex piece of legislation, which purports to cover cost, credit, and commercial transactions in the daily life of the community, they found no room for credit regulation. And I might further add, Senator, that in the time since the uniform commercial code was proposed, only some 29 States have adopted it. This is far from uniformity. And in the States which have adopted it, there have been variations in the various State enactments. When we reach the argument of questionable sections of statutes which Professor Sutherland raised this morning, the questions arising from the uniform commercial code still await to be interpreted by the courts, and whether the degree of uniformity which was intended by the commissions will continue after the interpretations by the court remains to be seen.

It is hoped the courts will follow a uniform method of interpretation, but this not always true, as we can see from the Federal practice where the several district courts and the circuit courts tend to differ on identical sections of the Federal laws.

The CHAIRMAN. But ultimately in the decisions of the Supreme Court, there is a relative degree of uniformity so far as Federal law is concerned; this doesn't exist so far as State law is concerned with 50 separate entities.

Mr. PAVEN. Not unless there is a question of constitutionality.

The CHAIRMAN. Yes.

Mr. PAVEN. So I find the statements of the panel this morning somewhat awry with the facts, that while they admit problems in credit legislation exist, they failed to state this morning what those problems are. They failed to state how these problems should be resolved. They failed to suggest alternative provisions which could be included in the present legislation.

If the language is questionable, the proper place to correct it is in the legislation itself. The question is raised as to whether or not the field would be preempted by section 6, S. 750. I might point out that in Massachusetts we have two statutes, one regulating security interest, and one consumer goods, which is chapter 255, section 12, of the General Laws.

The latter section requires that a seller include some 19 statements including the purchase price, a description of the property, the downpayment, a description of a trade-in allowance, credit allowances, difference between the cash purchase price and the aggregate of downpayment allowances, the amount of money loaned to or for the account for the debtor, if the transaction is a loan rather than a time sale, a description of each policy, the insurance, if any, for which the charge is made to the debtor, the total amount of the finance charges, insurance premiums, if any, the total time price, if any, the rate of interest, if any is to be paid—without any specification as to how the interest is to be determined—the amount of all service charges and the like, if any, the net balance due, the number and amounts of weekly or monthly installment payments, the delinquency of payments, prepayment allowances, whether attorney's fees or expenses are to be charged to the debtor, and a statement if a promissory note is being executed in connection with the sale.

The CHAIRMAN. Now, do I understand this is in the uniform code?

Mr. PAVEN. No; this is a Massachusetts statute on security interest and consumer goods.

The CHAIRMAN. Is it influenced by the members of the uniform commissioners on uniform laws?

Mr. PAVEN. It is not part of the uniform commercial code. If Massachusetts wished to exclude the applicability of S. 750, it would be very simple for Massachusetts to enact like legislation which would merely require 1 more item in this list of 19 items, setting forth the true annual rate of interest. So that the consumer, the purchaser, would have a standard of comparison of how much he was paying for the credit, whether he were borrowing it from a store or not, without having to figure out what the finance charges were, how many monthly payments there were, if he were paying 25 months, there, or 36 here, whether or not he is paying more in the 36 months or in the 25 months store. The problem is that when you have reached a point where you know the amount of the finance charge, the monetary amount, if you borrow on $1,000, and you pay $50 for that $1,000, it makes a difference as far as the interest rate is concerned whether or not you have the use of that $1,000 for the full term of 1 year or whether you have the use of that $1,000 for the term of 5 or 6 months. If you are making monthly repayments and your total repayment is $1,050, you are paying more interest obviously than if you are borrowing $1,000 and paying $50 interest and not repaying the $1,000 until the end of that year, because you have the use of $1,000 for the full term of 1 year.

Now, when we get into the monthly payment, you only have the use of that monuey for 6 months, half of that amount, $500; so you are paying $50 for the use of $500. I believe it is a misstatement, when the advertising says when you borrow $1,000 from us, you are paying $50 for the $1,000." It is not correct, because what you are actually borrowing is the use of $500, and when you tell the customer the true annual rate of interest he is paying, he may then have a standard of comparison on the basis of which he chooses the cost of the money he is borrowing. I don't believe this legislation will resolve all of the abuses in the field of credit. This is one step. Giving the customer the true rate of interest merely affords him a standard of comparison, much as the labeling act for the content of goods is a standard of comparison. If the consumer wishes to use that standard he may do so. Whether he does or not is his own decision.

I further believe that this legislation serves the free enterprise concept much better than the present standards which are used, because it does allow the competition of the marketplace to take effect. It does provide for competition between finance companies, for if the customer becomes intelligent and informed enough to know how to judge the actual cost of borrowing, he may then shop for the best rate of interest. He cannot do it under the present circumstances. Under the several methods which are currently used in the plans of credit and which are available in the market place the borrower has no ready way of comparing costs. For these reasons I support the enactment of S. 750.

Mr. CHAIRMAN. Thank you very much. Now the statement of Professor Willier will be made part of the record, but if either one of you wishes briefly to summarize it, we will be glad to have you do so.

(Mr. Willier's prepared statement follows.) (The attachments to his statement may be found on pp. 1358 and 1659.)

STATEMENT OF PROF. WILLIAM F. WILLIER OF BOSTON COLLEGE LAW SCHOOL

GENESIS

Apparently it is essential to indicate my qualifications for making this statement as well as to persuade the committee that my views are wholly professional and objective. As a teacher of commercial law over the past 7 years, encompassing four universities in four different States, I have encountered hundreds of abuses in credit transactions both directly and indirectly; of course, reported cases treating the subject are legion. While my views are from a professional point of view, the direct encounters through friends and relatives with the abuses prevent a wholly ivy tower perspective.

I. INTRODUCTION

The need for legislation regulating credit practices toward those who most need and use that credit and who do not have the information or enjoy the commercial bargaining power necessary to exact favorable terms is no longer subject to question. Over two-thirds of the State legislatures have thoroughly considered the question and have, in enacting hundreds of regulatory statutes, already given a firm affirmative answer. The questions which remain are whether existing legislation is adequate for its purpose and whether additional legislation regulating new or other practices is needed.

II. BACKGROUND

The author of this statement pursued these questions with reference to one kind of regulatory statute, the Retail Installment Sales Act, which exists in one form or another in some 40 States. The statutes were found to be so replete with inconsistency, compromise and pitfalls that the conclusion of inadequacy was inevitable. The shortcomings in State legislation are the inevitable result of conflicting pressures from the affected groups. Finance companies, threatened with ceilings on charges for credit which they had evaded under traditional usury statutes by time-cash price devices and the like, lobbied effectively but without substantial evidence for higher rates than provided in the usury statutes. In a number of States, the maximum finance charge was substantially higher than that established competitively before the legislation. The limitation of most such statutes to sales transactions has caused many lenders to deal directly with the borrower in the guise of an innocent third party to the sale, thereby avoiding entirely the provisions of the acts dealing with disclosure, finance charges and retention of defenses against assignees of the chattel paper.

Some of the author's criticisms were stated in an article which appeared in 2 Boston College Industrial and Commercial Law Review 287 (1961) entitled "Protection Installment Buyers Didn't Get." The statutes of New York and California, more complete than some others, were chosen as typical for the purpose of that article. California has recently amended its statute in a way which almost prohibits repossession of purchase money collateral except at a loss to the lender. This is almost extreme legislation, but abuses in that State must have been so great that the legislature had no choice even in the face of well-organized and financed counterforces.

The following year two students of Boston College Law School, under the direction of the author of this statement, drafted a Model Retail Instalment Sales Act when it was learned that the commissioners on uniform State laws had not planned to take such action. The model act was printed in 3 Boston College Industrial and Commercial Law Review 437 (1952) and copies were sent to officials of the State and Federal Governments who might be interested. The act in modified form was introduced into at least one State legislature. Now Mr. Malcolm reports that the conference has had second thoughts about a uniform statute. Of course, 25 years after the fact, motion in that direction is safe.

III. STATE STATUTES, THE MODEL ACT AND THE TRUTH IN LENDING BILL

The following summarizes major criticisms of existing acts, certain provisions of the model act which were designed to meet them and their relationship to the truth in lending bill.

A. *Uniformity.*—Existing acts are not uniform throughout the States and are often inconsistent with other existing statutes, such as the Uniform Commercial Code, within a given State.

The model act, if adopted by all States, would achieve uniformity; its provisions are consistent with the Uniform Commercial Code, now the law of 28 States. Wide adoption of the model act, however, is unlikely.

The model act or even more sweeping legislation is needed. The truth in lending bill, within its scope, creates highly desirable uniformity.

Messrs. Malcolm, Braucher, and Sutherland seem to argue that the entire matter should be left to the commissioners on uniform State laws. They, as I, have repeatedly referred to the masterful achievement of the commissioners in the Uniform Commercial Code. But they fail to report that, once funds were obtained, 12 years were required for the drafting of the statute and in the 10 years since its promulgation, only 29 jurisdictions have adopted it. True, eventually all 50 will act. Meanwhile, lack of uniformity persists. Only two prior uniform acts were adopted by all of the States. Are borrowers to suffer further abuses for one, two, or three decades before they get the effective relief they need and deserve?

B. *Transactions included.*—Present statutes regulate only credit sales of goods for personal, family, and household purposes. Collateral and noncollateral loans of purchase money or otherwise; transactions involving small business buyers or borrowers; services rendered on instalment credit; minor home improvements on credit, and so-called revolving accounts are usually not included even though they involve similar practices and potential abuses. One New York court has already excluded the sale of a tractor to a farmer from the protection of its act because farming is a business.

The model act includes all of these transactions except outright loans which are usually regulated by Small Loan Acts and the like. Certainly other transactions should be studied, from a Federal or State point of view. This, in fact, is a current project of the Boston College Law Review staff.

The truth-in-lending bill, with its limited purpose of disclosure, properly includes all credit transaction involving finance charges with exceptions, where justifiable, left to the regulatory agency. The limited scope and purpose of the bill do not create obstacles to broader regulation in individual States or, in time, on a Federal level.

C. *Terms.*—Most acts prescribe, prohibit, or limit certain terms of the agreement. The following are some of those unique to the model act. Incident to these provisions is the disclosure of the terms to the buyer.

1. Revelation of many facets of the transaction: Existing acts require itemization, without blank spaces, of price, downpayment, insurance, finance charges, and the like in dollars. If a statement of interest is required it is in terms of annual percentages on the total debt also fixed by the statutes. The model act requires a statement of true annual interest computed by a statutory formula. Thus, a prospective buyer has a meaningful and uniform measure to go by which is not necessarily revealed by the dollar amount since the bargain with one seller may differ from that with another—e.g., trade-in allowance may vary.

The truth-in-lending bill uniformly achieves the same result.

The model act fixes the maximum interest chargeable in terms of a single true interest rate. No convincing evidence supported a need for a graduated scale according to the amount of credit or the age of the goods, a device which appears in some present acts.

The truth-in-lending bill properly leaves maximum rates to the individual State legislature.

All legislation is imperfect and unworkable to the picayune lawyer and to those who may be affected by it. Even the Uniform Commercial Code, so praised by Messrs. Malcolm, Braucher, and Sutherland, has been the subject of substantial opposition throughout the country as well as to amendment to meet particular interests and to cure statutory weaknesses. The commissioners have so far recognized this that a permament editorial board exists to clean up defects and ambiguities. Still, the writers, who have included the gentlemen just mentioned, pour out thousands of words analyzing and even criticizing almost every word of the Commercial Code. And yet, no one would suggest that the code should be repealed or replaced. Confidence is expressed in the courts to reach proper results where the statute is not clear. Why is the same confidence not placed in the courts and in the regulatory agency which must deal with the truth-in-lending bill to work out proper solutions in particular and troublesome cases? Unfortunately, there is no simple legislative solution to the complex commercial problems with which a legislature simply must deal. This is no excuse for failure to legislate.

2. Disclosure: The buyer must be told in legible type of certain of his rights. One of these is the right to cancel within 48 hours for any reason with only a small forfeiture to the seller if cancellation is for other than the seller's breach of agreement. This is a modification of a proposed amendment to the British Hire-Purchase Act. It allows the buyer time to reflect upon his own possible lack of wisdom and encourages him to delay delivery of the goods, which terminates the right to cancel, for 48 hours.

Disclosure of the money facets of the transaction, including rate of finance charge, prior to consummation of the transaction is a highly commendable feature of the truth-in-lending bill. When the bill becomes law, State statutes should require disclosure on the credit agreement of this additional right of the debtor and of the fact that penalties are imposed for noncompliance.

There is no valid reason why lending institutions cannot comply with both the Federal and any local statute. Courts have long had to deal with the problem of inconsistency and have established some fairly workable rules. Certainly no court would penalize a lender who complied fully with both statutes, even though there was some overlap or redundancy. Compliance could only mean more information to the borrower, which is one aim of both statutes.

D. *Prohibited practices.*—Rather than merely regulate, as do existing statutes, the model act would prohibit "add on" agreements, "balloon" payment schemes, and all provisions for after acquired collateral.

Also, the model act prohibits false and misleading advertising of the finance charge; an expression in other than terms of true annual interest is presumed to be misleading. This extends the kind of disclosure required by the truth-in-lending bill from the immediate transaction to the creditor's efforts to induce such transactions and thereby complements the bill and other existing Federal statutes.

E. *Buyer's rights and remedies.*—

1. Receipts and statements: Buyer is entitled to a receipt for all payments and to two summary statements of his account each year. This keeps him reminded of his outstanding obligations for his own appraisal of his financial condition. Present statutes have no such requirements nor require the debtor to demand the receipts or statements which you will seldom be inclined to do.

The monthly statement for revolving accounts provided by the truth-in-lending bill more adequately serves the purpose.

2. Repossession and redemption: The manner of repossession is strictly prescribed and is available for defaults other than nonpayment only by a court order. This is a modification of a provision of the present British Hire-Purchase Act. Conduct of the party making repossession is also strictly limited. The buyer may redeem at any time prior to disposition of repossessed collateral by paying only delinquent amounts due. Acceleration of the total indebtedness is prohibited in this context.

This, of course, would be out of place in the truth-in-lending bill.

3. Rebate: The buyer may prepay at any time and receive a rebate of finance charges. The model act rejects the "rule of 78" which is prevalent in most existing statutes. The buyer is entitled to a simple pro rata computation of his rebate.

Since the truth-in-lending bill does not regulate rates, rebates are not within its scope.

4. Penalties: Most statutes provide both civil and criminal penalties for their violation. Certainly in the criminal area, there can be no Federal-State inconsistency, since both are separate jurisdictions with their own enforcement agencies. The statutes are obviously not directed to the professional criminal who probably would not be deterred by fear of punishment in any event. Nor would courts suddenly abandon their traditional concepts of justice toward the innocent, the unwary, or the honest. The penalties will serve to deter those easily tempted toward the Machiavellian dollar. In the case of civil penalties, the aggrieved party is obviously entitled to the higher of the two. Courts are quite competent to prevent abuses in this respect.

IV. CONCLUSION

1. The only possible criticism this author has of the model act, apart from possible lingual weaknesses, is that it does not go far enough. Yet one Colorado bank official has called it the most radical legislation he has seen. To this author, the ideal would be a comprehensive code of trade regulations cutting across all facets of commerce where injurious effects upon the individual and hence upon the national economy are possible. Two or more decades of study would be required to bring this about. Mr. Malcolm, in behalf of the commissioners, concedes that the hodgepodge of State legislation is in a sorry state. Hopefully, the commissioners will succeed in their project for comprehensive and uniform legislation. They are to be encouraged. But State legislatures have not been able to wait. There is no reason why Congress should wait. In Great Britain, after the extensive Molony Committee report, extensive revision of hire-purchase legislation is almost certain.

2. Federal legislation has the advantage of uniformity. The truth-in-lending bill is a modest proposal to deal with but one of many problems. Hopefully, the Federal agency given the task of promulgating the appropriate regulations could also, without further authority, undertake a campaign of informing the public of how the new statutes help them. The Federal Government has been generally lax in effectively educating the people in trade practices. Truth in any form is desirable. A truth-in-lending bill fills an obvious need in regulating credit practices.

(Attachments, "Protection Installment Buyers Didn't Get" (see p. 1358), "Model Acts—Model Retail Installment Sales Act" (see p. 1659).)

STATEMENT BY JOHN J. GRAHAM, IN BEHALF OF PROF. F. WILLIER, SCHOOL OF LAW, BOSTON COLLEGE, AND THE MASSACHUSETTS CONSUMERS ASSOCIATION

Mr. GRAHAM. Thank you, Senator. I have been looking it over while Mr. Paven has been speaking, and there are a few comments I should like to make. May I request at this time also that the article in the Notre Dame Lawyer, volume 38, No. 5, entitled——

The CHAIRMAN. "Consumer in the Market Place"?

Mr. GRAHAM. Here it is, "The Economic Institution and Value Survey, the Consumer in the Market Place." A survey of the law on informed buying, appearing at page 555 and subsequently, be included in the record.

The CHAIRMAN. If that has not already been done, it will be. (See p. 1378.)

Mr. GRAHAM. Now, the Senator has made reference this morning to the time it took for the Commission on Uniform State Laws to get around to offering the Uniform Commercial Code. I think that another sentence in that same section is very significant. May I pick up that paragraph? It reads as follows:

> When the Uniform Commercial Code was first proposed the drafters considered incorporating credit disclosure requirements within its provision. Section 9-205 of the proposed final draft contained extensive disclosure requirements not unlike those now found in most State statutes, but on January 14, 1951, the council voted to delete this section, and the executive secretary of the editorial board agreed. However, this is not to say that the problem is unworthy of study, and attention, since the policy of the commissioners on uniform State laws is not to draft statutes of highly regulatory nature at least when regulation is in the experimental stages. This part does not attempt to meet abuses which may exist. Today neither the Uniform Commercial Code nor the Uniform Sales Act contains disclosure provisions.

So that I think the impact of this and, as Professor Willier also brings out, is to say that the aim of this legislation has nothing in conflict whatsoever with the Uniform Commercial Code or the aims of those who studied and prepared the Uniform Commercial Code and are now studying and preparing other uniform State statutes.

The area that we are concerned with here today is an area that these people have been thinking about and have thought about and may in the future do something about, but they have continually resisted any temptation to make any suggestions on the matter, and they are continually continuing to resist the temptation to come to any conclusion; so that we are not in conflict with these people at all. We are merely attempting to get some legislation in an area where they haven't considered it of sufficient primary importance to make some conclusions available to us.

Professor Willier very carefully points out that if we went along with the thinking of the commissioners on uniform State laws and the professors from Harvard who were here this morning, we would wind up with this, that they would take more time and then in the event that they did come to some conclusions that were somewhere near our proposals here, that thereupon you would start off the attempt to get an enactment in the various State legislatures, and the Lord knows when we would get uniformity in conformance with their particular aim, which is uniformity among State statutes. The very quickest way we can obtain even their aim is a Federal statute which would bring about uniformity in all 50 States quickly.

The CHAIRMAN. Of course, Mr. Malcolm in the letter of October 28 declared himself in opposition to the requirement of a true annual rate of interest, even for the States, and this was done before he studied it.

Senator BENNETT. I am not sure. He says he has been studying it since 1957; when was the letter written?

Mr. BRADFORD. Last October.

Senator BENNETT. Last October.

The CHAIRMAN. For the committee, I think he said.

Mr. GRAHAM. Another point that is made by both Professor Willier and the article in the Notre Dame Lawyer is in a majority of the States the consumer is unprotected by the disclosure statutes unless the seller retains a security interest in the goods sold, and this may be taken as illustrative of the thinking in State statutes. They give a high priority of consideration to those sections, or I should say that section, of the consumer markets where some security interest is retained by the seller, and in that particular area there have been some attempts at disclosure, but, of course, the aim of this legislation would be to make disclosure uniform and give consumers full protection, whether or not the seller retained a security interest in the item. And that doesn't by any means give all of the significance in the article or in Professor Willier's statement, but I think it offers us some information on the exact point that was raised this morning, and it seems to me that we should make it clear that there is no conflict between our aim and the aim of these people who have been seeking uniformity in State laws; in fact, I think there is a great consistency between what we are attempting to achieve in this statute and what they are attempting to achieve on a very, very longrun proposition. Thank you, Senator.

The CHAIRMAN. Thank you very much. Senator Bennett?

Senator BENNETT. Mr. Chairman, Mr. Paven near the end of his statement made a comment which has been repeated in these hearings many times that one of the motivations for this legislation grows out of the assumption that it is possible to make comparisons between different kinds of credit and that you ought to be able to find a single standard.

Now, I should like to offer for the record at this point, and I won't take the time to read it, a very carefully drawn comparison between credit as you get it from a credit union, and credit as you get it from a revolving charge account at a department store, which shows that in 13 essential parts of the credit there is no comparison. There is no crossover.

For instance, you get money only from the credit union; you get goods only from the department store. They won't give you any money. I would like to offer this for inclusion in the record as discussion of this question of the comparability of different types of consumer credit.

Mr. PAVEN. Where did the article come from, Senator?

Senator BENNETT. It came out of my head. [Laughter.] I have been studying this problem as a member of this committee for 5 years now. I live with the question, I wake up in the middle of the night worrying about it, and I started this study 60 days ago, and I think it will be very interesting when it appears in the record.

(The study follows:)

MEMORANDUM BY WALLACE F. BENNETT ON DIFFERENCES IN TYPES OF CREDIT

Through all of the hearings on this bill, there has been one assumption that has gone relatively unchallenged, and upon which much of the support for the bill is based. I refer to the unspoken assumption that all credit is alike; that is, that a meaningful comparison can be made between loans that are given for very different purposes and in different situations.

It is easy to slip into the error of thinking that transactions involving credit are in some way comparable, and that if one produces a simple annual rate of around 6 percent, the other should also. Actually, however, this concept is completely wrong. Many credit transactions have very little in common and should not be compared even though all involve delayed payment. Let us illustrate with an analogy.

Credit charges are the cost of using someone else's money for some specific purpose. Think for a minute about the costs of using someone else's car, to demonstrate how such uses can be very different.

If you own a taxicab and I want to use it, you will charge me at a certain metered rate in most cities—a rate based both on the miles the cab goes while I am using it and the time involved. This rate is very high, so high that I cannot afford to pay it for more than a few blocks or a few minutes. Very seldom will I pay you for the use of your cab for more than an hour. But because of the special service you perform for me, I am willing to pay your rate for short trips because the actual dollar cost is not high.

If I want to use a car for longer periods of time, I will rent one, from Hertz, Avis, National Car Rental, or a similar firm. Again, I will pay for the use of the car at a rate determined by both the miles driven and the time involved. But this rate will be much lower than the cab rate because the service is entirely different. Because of the difference in service, no one complains that the lower rental car rate is "fair" while the higher cab rate is "usurous."

Let's take this another step. Suppose I want to have the use of your car for a year or more. Again the rate will be different and lower than the daily rental rate. It will be based on an annual lease charge, with no stipulation about the number of miles driven.

Finally, of course, I can gain the use of your car by buying it outright, which, on a per mile basis, will result in a still different rate. This is probably the lowest rate, but the highest dollar cost.

For the cabdriver to have to state his rate in terms equivalent to those used by the leasing firm would be impossible and burdensome. Even though both the cab ride and the hiring of the rental car involve the use of someone else's automobile, the services involved are so different that it is improper to force a comparison of them into the straightjacket of "similar terms."

Take another example—the use of someone else's house. One can stay for a single night and pay hotel or motel rates. Or, he can stay for a week and pay convention rates, as a member of a group.

He can rent an unfurnished apartment, on a month to month basis, or sign an annual lease. He can live in a rooming house, or subscribe to a dormatory-type relationship. He can lease a home, for a period of years, with or without furniture. And in every case, he will pay different rates. As in the case of the cab ride versus the leased truck, it is foolish to say that the 1-night hotel stay should be quoted in the same terms as the 5-year lease. Can you imagine the difficulty involved in quoting a single night's lodging in annual lease terms? For the tired traveler, nothing would be more startling than to be told that this room rents, in simple annual terms, for $4,562.50. What he wants to know is that the room will cost him $12.50 for the night.

Obvious as this principle is when we talk of using someone else's cars or accommodations, we somehow think we can ignore it when we talk of using someone else's money on credit. We think that a credit purchase made in a revolving charge account, where the rate is figured on a monthly basis and the dollar amount is small, can be compared to the purchase of a house, where the rate is figured on an annual basis and the dollar amount is very high. This is like comparing the cab fare with an annual leasing contract, or a motel room with a rented home.

To illustrate the differences between two types of credit we have laid out the aspects of revolving charge account and put them side by side with the aspects of a credit union loan. These two are chosen because they both involve consumer credit and usually small dollar amounts. The comparison is attached.

Comparison—Revolving credit versus credit union credit

Department store revolving credit	Credit union credit
DIFFERENCES	
1. Not available for money, merchandise only.	1. Money only.
2. May be obtained at any time, repeatedly through the month, for varying amounts—no minimum.	2. May only be obtained with prior notice, at certain times. Certain minimums apply.
3. Monthly percent charge levied against a fluctuating daily principle.	3. Monthly percent charged against a declining relatively predictable (once loan is made) balance.
4. No security held by store.	4. Cosigners or collateral required.
5. No automatic collection device.	5. Collection through payroll deduction.
6. Accounting costs high, because of daily transactions.	6. Accounting costs low, because of predictable pattern of agreed payment.
7. No similar provision for.	7. Loans and costs offset by other members' deposits.
8. No similar provision for.	8. Members must maintain minimum balance in credit union.
9. Credit extended to promote sale of merchandise. Portion of cost can be absorbed by profits on sale.	9. No similar provision for.
10. No predictable pattern of purchase, payment—dollar cost cannot be quoted in advance.	10. Predictable pattern of repayment—dollar cost can be quoted in advance.
11. No termination date, no fixed date on which maximum credit will be used.	11. Termination date set in contract. Maximum credit used at beginning of transaction.
12. Available at point of sale.	12. Available only at place of employment.
13. Free period usually 30 days, when no credit charges are made. (See No. 9).	13. No free period.
SIMILARITIES	
1. Charges have never been quoted in annual rate. Widespread confusion would result from change.	1. Charges have never been quoted in annual rate. Widespread confusion would result from change.

Mr. PAVEN. If I can make one comment, I think the problem of comparing credit is one that when it reaches the point of comparing two similar types of credit, revolving credit accounts are essentially financing arrangements. They are credits, and you are borrowing money in effect, because you are borrowing credit from a department store for a period of time instead of making your regular monthly payment. You have an alternative proposal. You can go down to borrow money from the credit union or a bank, at one rate of interest, which may be less than you are paying the department store for the monthly service charge, for delayed payment. So that when you look at the amount of credit which is extended, the similarity is there. Unfortunately, the department store by their own billing practices have created something which is very difficult and unworkable in the sense of trying to determine an interest rate.

Senator BENNETT. I am glad you admitted that; this is one of the most important admissions we have had from a witness for this bill.

Mr. PAVEN. If you bear with me, for one moment, Senator, I don't admit quite as much. I merely wish to submit that if it is difficult for the department store to compute what the interest rates are, as they say it is, how much more difficult is it for the ordinary consumer who goes in and attempts to get credit under that system to determine how much he is paying for that same service? The problem has arisen not from the point of view of the consumer, but the problem has arisen because it is created by the lender. And if he has created the problem, he must then submit what that interest rate is to the customer.

He is the one charged with the burden, not the customer, of finding out what that interest rate is, and I think this is where we differ. We differ on the principle of who is charging the money. The customer is not obligated to get a computer to determine whether or not store B or A is charging more for that credit. I submit the burden should be on the store extending the credit to make that computation, and this matter, of course, under the terms of this bill, will be submitted to the Federal Reserve Board for determination of a workable regulation which I imagine would take a considerable length of time of hearings, almost as lengthy as the hearings before this committee.

Senator BENNETT. Almost as long as the Commission on Uniform State Laws says it will require to develop their program.

Mr. PAVEN. Well, if we can only go by the experience of the past, Senator, I am sure the same persons opposed to the passage of this bill will be just as assiduous in their opposition to the creation of a workable regulation before any board set up to work on it.

Senator BENNETT. Well, of course, you must realize that the people who sell the merchandise and lend the money are the ones going to jail if they fail to live up to the regulations. So, I think you should understand they will be very careful to do everything they could to make sure the regulation is "workable."

Mr. PAVEN. I believe, Senator, there are a great many laws and statutes on the books which I, as a lawyer, find difficult to comprehend. I was glad to hear my former professor, Professor Sutherland, say he has problems guessing as to the correctness of the law. This is a problem under our system. We must live with it, and we must make guesses. The law is not a certain thing, the law is something which must be created, and evolved over a long period of time, because it is created by people, and this legislation is merely the creation of people. It will work if the people who work with it are willing to work.

Senator SIMPSON. Do you agree with, "any contract to sell, or sale, or contract of sale of property or services, either for present or future delivery, under which part or all of the prices payable subsequent to the making of such sale or contract," that is the definition?

Mr. PAVEN. Yes.

The CHAIRMAN. Well, that is part of the definition.

Senator SIMPSON. That language covers a contract to purchase goods for cash on delivery if the goods aren't delivered until subsequent to the making of the contract?

Mr. PAVEN. No, I would assume this is a contract for the manufacturer, for example, for a piece of equipment which has not been——

Senator SIMPSON. Don't assume something which isn't in the law.

Mr. PAVEN. I am looking at the law.

Senator SIMPSON. All right, doesn't it say, "any contract or sale either for present or future delivery," doesn't the language cover a contract then, doesn't it, to purchase goods for cash on delivery if the goods aren't delivered until subsequent to the making of the contract?

Mr. PAVEN. That is what it says. That under which part or all the prices payable subsequent to the making of such sale or contract.

Senator SIMPSON. It says delivery before the payment is made or after it.

Mr. PAVEN. No, it says the contract is made under which a contract to sell——

Senator SIMPSON. Either for present or future delivery.

Mr. PAVEN. Right.

Senator SIMPSON. Under which part or all of the price is payable subsequent to making of such sale or contract; doesn't that mean a contract or purchased goods for cash on delivery and if the goods aren't delivered until subsequent of the making of the contract? Let me give you a simpler one, this bill also provides for services; what if I make an agreement with my next door neighbor's son whereby he would mow the lawn each Saturday afternoon and I would pay him 50 cents each time he completes the job. Now, do you think that comes in a credit transaction?

Mr. PAVEN. No, I don't, Senator.

Senator SIMPSON. Do you think this other one on the pickup of the car comes in a credit transaction?

Mr. PAVEN. Yes, I do.

Senator SIMPSON. Isn't it a cash transaction, Mr. Paven?

Mr. PAVEN. No, it says under which part or all of the price is payable subsequent to the making of such sale or contract.

Senator SIMPSON. You are quibbling.

Mr. PAVEN. No; if I may explain, Senator, you are making an arrangement with the boy to mow your lawn, and you are going to pay him each time he mows the lawn at the time he does the work, and you have contracted to pay him 50 cents to do the work——

Senator SIMPSON. This covers the credit and services, doesn't it?

Mr. PAVEN. Let me carry it one step further.

Senator SIMPSON. Go ahead.

Mr. PAVEN. If you make an arrangement at that time where you are going to pay $1.50 for mowing the lawn instead of paying him on the day he mows the lawn you are going to pay him, on three subsequent occasions, equal amounts.

Senator BENNETT. It says part or all, it doesn't say part.

The CHAIRMAN. If I may interrupt, I would like to call attention to the fourth paragraph on page 3 of S. 750 defining creditor.

(The paragraph follows:)

(4) "Creditor" means any person engaged in the business of extending credit (including any person who as a regular business practice makes loans or sells or rents property or services on a time, credit, or installment basis, either as principal or as agent) who requires, as an incident to the extension of credit, the payment of a finance charge.

The CHAIRMAN. It means any person engaged in the business of extending credit.

Senator BENNETT. Well, now——

The CHAIRMAN. Wait a minute, "any person who as a regular business practice makes loans or sells or rents property or services on a time, credit, or installment basis, either as principal or as agent, who requires, as an incident to the extension of credit the payment of a finance charge."

Now, my good friend, who hires this boy for a half a buck to mow his lawn——

Senator SIMPSON. Get the minimum wage in there.

The CHAIRMAN (continuing). Is not extending credit, he is hiring domestic service, so he would be completely out of the ball park.

Senator SIMPSON. Not under the bill.

The CHAIRMAN. Oh, yes, indeed.

Senator SIMPSON. One portion I come under, one portion I get kicked out.

The CHAIRMAN. You are not a moneylender.

Senator BENNETT. It might be interesting to get in the record a letter from the lawyers of the New York Stock Exchange in which they decided this bill covers the 4-day period after a man buys stock before he has to put down the cash.

The CHAIRMAN. May I throw a little light on the definition of credit here in paragraph 2—this is taken, I believe—almost word for word from the definition of credit given by the Federal Reserve Board in its regulation W. It is tried and true. It has been tested under fire. It has been proved over a time, and the constitutionality of that has been upheld. There was no real difficulties in the administration of this phrase, so very frankly I think my friends are being very captious.

Senator SIMPSON. Mr. Chairman, that is a strange statement to be made for the record, and I want to point out regulation W was a wartime emergency measure, and had nothing to do with peacetime activities at all.

The CHAIRMAN. Well, it was continued. I came to the Senate in 1949 and we had the problem of reinstituting regulation W, and I think it was written into the Defense Production Act.

(The paragraph follows:)

Section 602(d)(2) of title VI of Public Law 774, 81st Congress (Defense Production Act of 1950):

"(2) 'Credit' means any loan, mortgage, deed of trust, advance, or discount; any conditional sale contract; any contract to sell or sale or contract of sale, of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract, or any contract for the bailment, leasing, or other use of property under which the bailee, lessee, or user has the option of becoming the owner thereof, obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof, or has the right to have all or part of the payments required by such contract applied to the purchase price of such property or similar property; any option, demand, lien, pledge, or similar claim against, or for the delivery of property or money; any purchase, discount, or other acquisition of, or any credit under the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect."

Senator SIMPSON. It came on in 1941, an Executive order.

The CHAIRMAN. I think in the Korean war.

Senator SIMPSON. In an Executive order.

The CHAIRMAN. Not merely World War II, but the Korean war.

Senator BENNETT. I have the impression that the Federal Reserve has since amended that definition. I don't know to what extent. I would like to have the opportunity to put into the record the amended language, if such exists.

The CHAIRMAN. Very glad to have have you do so if there is an inaccuracy of the language, and we would be glad to revise it, but what we are running up against is this continuous—well, I want to be guarded and strained, this continuous carping at nonessentials.

Senator BENNETT. Anybody who doesn't agree with the chairman is carping at nonessentials.

The CHAIRMAN. Not at all.

Senator BENNETT. I have been carping at him for 4 years, so I think I recognize the problem.

Senator SIMPSON. Mr. Chairman, may I ask, I am sure Mr. Paven and Mr. Graham would be willing to answer some written questions. It is a question of time here today, and if I propounded some of those questions, would you answer them for the record? (See p. 1298.)

Mr. PAVEN. I would be glad to.

Senator SIMPSON. Would it be permissible?

The CHAIRMAN. Yes, however, I would like the privilege of submitting questions to your panel.

Mr. PAVEN. Are we going to be paid for depositions here? [Laughter.]

Senator SIMPSON. I would like to say to Mr. Graham, let's not leave the record with the presumption that Mr. Willier thinks this is an easy matter, because Mr. Willier in his statement says, and I quote:

> To this author [Mr. Willier], the ideal would be a comprehensive code of trade regulations cutting across all facets of commerce where injurious effects upon the individual and hence upon the national economy are possible. *Two or more decades of study would be required to bring this about.* [Emphasis supplied.]

So I want the record to disclose he recognizes the prolixity of this very important subject, and that it would take a long, long time to settle.

Mr. GRAHAM. Yes, that is why, Senator, I mentioned the point I had brought out in no way covered all of the points mentioned in either the Notre Dame article or Professor Willier's article, but I did want to try to meet what they said about a particular thing mentioned this morning.

Senator SIMPSON. I wanted to clarify a particular point.

Mr. GRAHAM. Yes, if I may, regarding one of Senator Bennett's questions.

Senator SIMPSON. Senator Bennett? Mr. Graham.

Senator BENNETT. Excuse me.

Mr. GRAHAM. Regarding one of Senator Bennett's questions, I remember it, because it seemed to coincide with a particular point of the testimony of the Massachusetts Bankers Association where some reference was made to the impossibility of stating in advance the exact interest charges because as they pointed out everyone doesn't pay installments on exact time schedule. Sometimes there are what they called missed payments and they point to this as indicative of the difficulties of foretelling in advance the interest charges, but I would like the Senator to look at one of the exhibits that the bankers offered. They offered an exhibit that actually did show the way interest changes as payments are missed, and every time a payment is missed interest goes up. And the interest goes up simply because they are computing another loan. So that if we look at the problem of this payment in its right and correct perspective, which is as the banks look at it, they actually compute the interest for another loan.

Now, this is something that they can disclose, because they actually compute it themselves, and their chart shows they compute it and I can't remember the fractions, but it goes up something like 1.4 percent per missed payment. So the only point I want to make is that their charge, which is on an exhibit in this proceeding, I believe, demonstrates that this is a determinable amount, and at the time the payment is missed——

Senator BENNETT. But not at the time the original loan is made, and that is what the bill requires.

Mr. GRAHAM. No, at the time the payment is misssed it necessitates another loan.

Senator BENNETT. It doesn't require another note, and it doesn't require any other evidence of a different loan.

Mr. GRAHAM. This is only because of a mutual convenience of the people involved, but they could disclose in advance, they have this information, and a one page disclosure could tell you in advance the actual penalties you are going to be subjected to in an esculated interest charge in the event you missed the seventh or eighth or ninth payment, and this is determinable in advance, and can be disclosed as a series of conditions, accompanying such a note.

Senator BENNETT. Then, you would amend the bill to require that whatever action by the borrower changes the pattern of payment from the original disclosure, then the lender must supply the borrower with additional information?

Mr. GRAHAM. No, it doesn't change the pattern at all, it just looks to the possible conditions under which payments could be made.

Senator BENNETT. It just changes the simple annual rate, that is all it changes.

Mr. GRAHAM. No, their exhibit discloses that the annual rate can actually be determined because they determine it.

Senator BENNETT. But they don't determine it in advance, they determine it when you come to the event in which the payment is missed; they have no way of knowing at what point a given borrower is going to miss the payment.

Mr. GRAHAM. No, but they do know the exact procedure and the exact percentage that is going to be charged in the event that you do miss any particular payment. This is something that they know already in their policy, and they know it at the time the original note is signed, and they know it today.

Senator BENNETT. Suppose a man doesn't miss a payment, but he pays short by $15. When he should have paid $25, he only paid $10.

Mr. GRAHAM. They know today the exact procedure and cost they are going to charge for that.

Senator BENNETT. But as I understand the bill, it requires the disclosure of the total net simple annual rate in advance. Now, this affects that net simple annual rate as a result of a decision by the borrower, and it seems to me that you have got to amend the bill. Otherwise the banks say your payment is so much and the borrower changed it, and it goes up.

Mr. GRAHAM. No, because the simple annual interest that is disclosed in the bill is predicated on the assumption as is the note and the interest, the payments will be made as of particular dates, but my point to you, Senator, is this, and as the bankers' exhibit discloses, they do have their policy already conceived as exactly the procedure they are going to charge in the event a missed payment is experienced, and this is the type of thing that they can also disclose, if they do want to take into consideration the possibility that payments will be missed.

Senator BENNETT. Well, in addition to that, the bill requires a statement in dollars of the total finance charges for the life of the contract. Now, they can't know in advance exactly how many dollars of additional interest the borrower is going to have to pay because he pays short under a particular situation; they can't know that in advance and tell him.

Mr. PAVEN. If I may add, the present law regulating credit in Massachusetts, and most other States, require a statement of the finance charges in advance; they also require a statement of what the delinquency charges will be, and those are computed on a monthly or quarterly basis depending on the terms of the note. So, if your delinquency charge is $2.25 for each payment missed, for example, there is a perfectly simple way of computing it.

Senator BENNETT. Is Mr. Graham talking about delinquency charges?

Mr. GRAHAM. I think they are related, probably different in the things they do. I was trying to use the same terminology that the witness used when he presented the exhibit I referred to.

Senator BENNETT. I am thinking of a simple interest rate with no delinquency charge which occurs when you make a 6 months' note out of a 7 months' note.

Mr. PAVEN. This is a charge provided for in the note that they can disclose. It is another note.

Senator BENNETT. It isn't another note, it is the same note, and now, are you saying we should amend the bill to require whenever a person is delinquent, a new credit instrument must be created, and at that point the lender must supply the information required in the original case?

Mr. GRAHAM. Not if the original note anticipates the possibility of extending the credit; if it anticipates this possibility, it can also disclose the penalty, the interest you are going to pay.

The CHAIRMAN. Now, may I try to clarify this situation? The bill only requires that the original set of terms be disclosed in writing, the original set of terms.

Mr. GRAHAM. That is right.

Senator BENNETT. But it also requires the total dollar cost which is a part of the original contract.

The CHAIRMAN. Now, my good friend has been arguing for years that it is all right to disclose the total dollar amount of interest, but not the rate of interest; now he is going back on the dollar amount.

Senator BENNETT. Wait a minute; my friend from Illinois is doing the same thing he tries to do at all these hearings, he tries to put words into my mouth, and choke me.

The CHAIRMAN. You have been the advocate of disclosing the dollar amount; and you have been arguing for the total number of dollars, and you are going to wind up opposed to everything.

Senator BENNETT. I am saying, here is a set of circumstances in which it is impossible to disclose the dollar amount in advance, and it is a set of circumstances caused by the borrower, not the lender. It is beyond the control of the borrower, of the lender, at the time he makes the original statement required of the law. This to me is another of the difficulties that grows out of the way the proposed law is written.

The CHAIRMAN. No, sir. How is the time?

Senator SIMPSON. May I ask one question?

The CHAIRMAN. Surely.

Senator SIMPSON. I am glad Mr. Graham appears, because the man who appears here and the man who wrote the statement are two different persons. The one who appears is a person I like.

Mr. GRAHAM. Thank you.

Senator SIMPSON. You made one statement in your written testimony that disturbs me, and I wonder if you want it left in the record. You say:

Note, please, that those who appear to oppose this legislation are invariably on the payroll of some business which has been gaining much from the less-than-truthful disclosure of interest charges.

Do you actually believe that?

Mr. GRAHAM. Yes, I do believe that. This is the one thing that has characterized the opponents of this measure, and when I say that I am not only referring to those that have been here in Boston, but those who have opposed similar measures as well.

Senator BENNETT. Well, are you referring to Senator Simpson, and Senator Bennett, and Senator Robertson?

Mr. GRAHAM. No, of course not; I am referring to the witnesses, Senator. I am saying that the witnesses and obviously the people who are in the legislative aspect of this are performing their functions as legislators when they are debating these things. I am talking about the people appearing as witnesses. The reason I brought out that is the officers of this association are not compensated. I think it is important. I think it would be a very good idea if everybody who appeared before any Senate group would disclose exactly why they are before them, and I was first impressed with this the first time I was requested to give testimony.

It was before the Transportation Committee of the House when Congressman Lee, of California, was chairman, the so-called transportation inquiry, it goes all the way back to the early 1940's. I went over the list of witnesses, and as you may know that inquiry took a long time, about 400 witnesses, and they were all officers of railroads and airlines and what not; in other words, they were being paid to testify, and the uniformity of their testimony was amazing. I think it makes a difference whether a person is appearing on behalf of an interest group that has something to gain by either the passage of an act or something to lose by the passage of an act, that they identify that. I think the motivation is a significant disclosure.

Senator SIMPSON. You knew they had a very significant stake in any of these things that interfered with private enterprise, didn't you, and they would naturally appear to testify. Do you think the fact that someone is paid by, or holds a position of trust, in an organization or industry mitigates his testimony?

Mr. GRAHAM. I say this, Senator, that their statement amounts to the argument of an advocate.

Senator BENNETT. Aren't you here as an advocate?

Senator SIMPSON. You are an advocate of this bill, aren't you?

Mr. GRAHAM. Yes, that is correct, but they are advocating on behalf of a particular interest group.

Senator BENNETT. Aren't you?

Mr. GRAHAM. Well, this is my personal opinion, Senator.

Senator BENNETT. You appeared here as an officer of the consumers association?

Mr. GRAHAM. That is right.

The CHAIRMAN. I might point out Mr. Graham furthermore pointed out any interests he had were not pecuniary, that it was a public interest, and if this be a sin, I think then we need more of that type of a sin.

Senator BENNETT. I didn't say it was a sin. The attempt is being made to show that any person before this committee that is a paid representative testifying against this bill is a sinner.

The CHAIRMAN. No, no.

Mr. GRAHAM. The distinction between whether a person who appears as a paid representative of an affected interest group is giving personal testimony or testimony that serves the benefit of his client.

Senator SIMPSON. Take Mr. Sutherland, for instance, he came on his own with no payment or anything else.

Mr. GRAHAM. I have no objection to Professor Sutherland's testimony at all. I think it is an affirmation for this ideal. Professor Sutherland complied actually with the suggestion I made, because he made full disclosure of al connections he had, and he specifically stated he was not being compensated to appear, so he evidently agrees with me.

Senator SIMPSON. If his statement gives you any comfort, it gives me more.

The CHAIRMAN. It gave me comfort in terms of the ringing statement that the proposal was completely constitutional.

Senator SIMPSON. And gives you an assurance if it needed help, he would give it.

The CHAIRMAN. Yes.

Senator BENNETT. You started to find out what the time pattern is.

The CHAIRMAN. Yes; how is the time?

Senator BENNETT. We are about to run out of time. There are 7 minutes left.

The CHAIRMAN. We will waive those 7 minutes temporarily and turn them over to the opponents, and request after the conclusion of testimony Father McEwen be permitted to appear subsequent to witnesses for the opposition.

I take it, Lt. Gov. Frank Belloti telephoned he is unavoidably detained, but he wished to say for the record he wanted to be recorded in favor of this bill.

Thank you very much, gentlemen.

Senator BENNETT. I would prefer you put Father McEwen on for the 7 minutes, because the pattern of dividing the time between all of the proponents and all of the opponents is broken.

The CHAIRMAN. Well, I think he will take more than 7 minutes, and I didn't want to shut you off. I don't want to presume on your time until you have the full opportunity to utilize it.

Senator BENNETT. We have an hour and a quarter. As a matter of fact, I don't think we will use an hour and a quarter.

The CHAIRMAN. Well, go ahead.

Senator BENNETT. We have our second panel of the day, Mr. Dean Cushing, executive vice president of the Retail Trade Board, Boston; Mr. Richard F. Vancil, assistant professor of business administration, Harvard University; Ralph E. D. Lavalle, attorney at law, law firm of Lavalle & Lavalle.

Will you introduce the gentlemen so we can know who is who.

STATEMENT OF DEAN C. CUSHING, ON BEHALF OF THE RETAIL TRADE BOARD, BOSTON, MASS.

Mr. CUSHING. This is Mr. Ralph Lavalle, attorney, 40 Court Street, and Prof. Richard Vancil, Harvard Business School. My name is Dean C. Cushing, executive vice president of the Retail Trade Board of Boston, and I appear in opposition to this bill, because in our opinion we will be required to do something which we think is mathematically impossible in some cases, and in other cases misleading to our customers, and we don't think it is in the consumer's interests.

Senator BENNETT. May I ask if you are being paid a special fee for appearing today?

Mr. CUSHING. No; I planned to spend the day skating with my family in Gloucester. I am glad though to have all the facts get in, in this short time, of this belated session. I wish that we had been able to grapple the whole thing all the way through the last time, Senator, and that we had not had the tragedy that happened.

Since 1909 the Retail Trade Board of Boston had in its bylaws certain obligations that include that we believe "the fullest protection against sharp practices of unscrupulous retailers and therefore support legislation aimed to cure abuse."

After 3 years of continuous study it is our firm conclusions that S. 750 neither cures abuses nor gives full protection to the public. We therefore oppose it. The retail trade board has been in the forefront of drafting and supporting legislation; in the forefront of protecting of consumers interests. Incidentally, many of the bills talked about here, I and my predecessors—and on some occasions with Father McEwen—helped put on the books, and the criteria has been for the protection of the honest merchant, and the public. But we feel any piece of legislation must be meaningful, realistic, and workable, and this is why we have had these two witnesses to come here and tell you of our two major points of opposition. We could have quite readily brought in more merchants, but I don't think it would be helpful, but we asked Ralph Lavalle to come to represent us because he has had 30 years work, not with the department stores but with human beings, young married couples, and elderly people who have run into the problems with their overextension of credit, and we think his experience would put the framework around any piece of legislation that would be helpful to people that came into these credit difficulties.

The second person we have here is Professor Vancil, and he is here because it has been my contention with whatever education I may have had, two colleges in Maine, that we could not do the job that was set out for us in some cases by this bill. I believed it, and I so said in the little Douglas bills before the legislature, and I firmly believe it. However, we felt when this group were coming here that we should get, if this bill is mathematically untrue to us and that is a mathematical truism, let's get a mathematician. If we can get an objective and knowledgeable person, let's see what he says. Are we right or wrong? We have as you all know a very good business school across the river. We have a large section that deals with the retailing, and we have the top professors not only in the country, but in the world, but we didn't go to them because of their connection with retailers. We felt it would be much more important to have objective studies of the mathematical problems of this bill. We wanted to get the best we could, and we went through the list of professors, and I called a fellow named Vancil, and asked if I could talk to him. I understood he was qualified in the field. He said, "No; my field of interest is only compound interest." And I said, "You are the man both sides want. Would you come to us and discuss our problem?"

He has done it. He has discussed the problem. He has prepared his testimony most carefully, and he has had in his testimony these two charts over here, and I took the liberty of blowing them up, because each time we have discussed this, there is nothing more difficult to follow than a series of mathematical computations, when one is reading over a paper. I was very sorry for the young lady this morning. I think it would have been most helpful to her and to us to get these kinds of facts down so each one of us can make an honest opinion not as a paid representative of any organization, not as a man from Washington representing the whole country, but only as a problem on which we have got to do some additional work—in consumer protection.

When we find we can agree with people we run at loggerheads within other fields, and can set the record straight; it is a beneficial interpretation. I think we can do it with this type of mathematical computation today.

I want to thank you for giving us the time. There was delivered to my office by William Shreve, of Shreve, Crump & Low, a statement and I have only one copy.

The CHAIRMAN. We are very glad, we will file it for the record.

(The statement follows:)

STATEMENT OF WILLIAM H. SHREVE ON BEHALF OF THE MASSACHUSETTS & RHODE ISLAND RETAIL JEWELERS ASSOCIATION

My name is William H. Shreve, of Shreve, Crump & Low of Boston, and I'm appearing on behalf of the Massachusetts & Rhode Island Retail Jewelers Association representing approximately 500 members of our industry in Massachusetts and Rhode Island.

We feel that with 80 percent of our group consisting of smaller jewelers with only one or two employees that Senate bill 750 would require not only the calc lation of simple annual percentage rates along with monthly billings, but would impose an additional cost of doing business by the additional paperwork required.

In many cases the owner is not only a watchmaker spending his time on the bench but he is required to act as a collector for numerous Federal and State taxes requiring innumerable periodic Government reporting forms. He also performs as his own salesman as well as a watch repairer and to take care of existing paperwork. These proposed calculations would require additional bookkeeping expense, which he neither has the time nor the money to afford.

In fact, our smaller jeweler is in such a price-cost squeeze today that this additional cost could well be the final straw to force him out of the installment credit business and return him to the days of trying to hide the cost of credit in his markup and we question his ability to compete on this basis.

The thought has been presented in previous testimony that the customer forewarned would then be able to borrow money at a lesser rate elsewhere and pay cash for the item.

We think that the average customer wants to know the dollar-and-cent amounts of the finance charges and it is on that figure that the purchase decision is made. Of course, major department stores and large facilities using electronic bookkeeping and data processing centers might well be able to effectively cope with the requirements of this bill. Unfortunately, we feel that the smaller jewelers cannot afford to increase their overhead by the additional bookkeeping expense required.

We can only forecast irreparable harm to the smaller and medium sized jeweler if S. 750 is adopted in its present form.

STATEMENT OF RALPH E. D. LAVALLE, ESQ., LAW FIRM OF LAVALLE & LAVALLE, BOSTON, MASS., ON BEHALF OF THE RETAIL TRADE BOARD OF BOSTON

Mr. LAVALLE. I am Ralph E. D. Lavalle, an attorney at law and a partner in the firm of Lavalle & Lavalle with offices at 40 Court Street, Boston, Mass., where I conduct a general law practice. I am a member of the Boston Bar Association, the Lawyers Reference Service, a former public administrator for Suffolk County, and at present, president of the Credit Union League of Massachusetts, Inc. I appear here today for the Retail Trade Board of Boston.

The CHAIRMAN. I want to congratulate you on this statement. This conforms to what Mr. Graham said about people stating their professional affiliations. This is the harmony that we are asking for.

Mr. LAVALLE. Thank you. I have a prepared statement. However, I will make a short oral statement in order to save time. We oppose the enactment of S. 750 because we believe it will only cause confusion in the field of consumer credit, so far as our credit unions and other lenders are concerned, and it will not contribute to the solution of the problems of consumer credit in any material way.

The credit unions in Massachusetts do not use a simple annual rate in computing their charges to borrowers; they make their charges from the basis of an add-on dollar amount or on the basis of a discount dollar amount which is subtracted from the loan proceeds.

I believe that S. 750 would tend to confuse rather than to enlighten the individual. In my view people who have been mistreated or who have been taken advantage of will not receive any greater protection under the law if S. 750 is enacted. The Credit Union League of Massachusetts, Inc., which I represent as president, has taken formal action at a meeting of their board to oppose the enactment of S. 750. The credit unions of the State of Massachusetts are engaged in providing credit to the lower income groups of the State, many of whom do not have other credit facilities available, and we take this stand in opposition to S. 750, because we believe that no additional protection, if any protection, will be given to these people under this proposed legislation; and furthermore, we believe that many of the people with whom we deal will be lulled into a false sense of security by the passage of a bill which purports to protect them, but does not actually do so.

The CHAIRMAN. The Credit Union National Association endorses the bill.

Mr. LAVALLE. I am sorry, I didn't know that.

The CHAIRMAN. Yes, CUNA as it is called.

Mr. CUSHING. Now, to save time, sir.

Senator BENNETT. Mr. Vancil?

STATEMENT OF RICHARD F. VANCIL, ON BEHALF OF THE BOSTON RETAIL TRADE BOARD

Mr. VANCIL. My name is Richard F. Vancil. I am testifying as a technical witness on behalf of the Boston Retail Trade Board. Briefly, my background is as follows: I was born and raised in Alton, Ill. I received my undergraduate education at Northwestern University at Evanston, Ill., and I am qualified as a cerified public accountant in that State. I earned a master's and a doctor's degree from Harvard Business School, and have served on the faculty of that institution since 1958. My current rank is assistant professor of business administration. During the last several years I have collaborated with various of my colleagues in the coauthorship of textbooks on the subjects of accounting policy, managerial economics, and capital budgeting. My most recent book, "Leasing of Industrial Equipment," was published by McGraw-Hill this year. This book was the outgrowth of the research for my doctoral dissertation, and it was during the course of this research that I became interested in the computation and determination of annual interest rates. I have studied the problems of interest rate determination in sufficient detail to believe that I am qualified to testify on this subject.

The CHAIRMAN. I want to thank you also for stating your professional capacity.

Mr. VANCIL. Thank you.

I should like to restrict my testimony to the single question of the accuracy of the calculation of a "simple annual rate" as provided under the terms of the proposed truth in lending bill. I have limited my investigation to the problems of determining this rate on revolving charge accounts that are offered to consumers by many large department stores.

I have prepared these exhibits, and if I may lapse into a familiar role of a schoolteacher, I would like to explain the exhibits for you. [Pointing to exhibit 1.] What I have done is to take a hypothetical account running for 4 months, in which I have assumed that the customer made a purchase on January 10, another purchase on February 2, and then made payments on the account, $10 in February, another $10 in March, and then paid off the balance in April. In order to figure the simple annual rate on such a series of transactions, it is necessary to determine the average daily unpaid balance of the account. This has been done by multiplying each balance in the account times the number of days that balance was outstanding; for example, during the first 10 days of January there was no balance; then beginning on January 10, the balance was $60 for 21 days, or 1,260 dollar-days during January. I think the concept is an easy one to grasp. In order to compute the average daily unpaid balance, we divide the total number of dollar days (the 1,260) by 31 days, yielding an average daily balance of $40.65. This is approximately what you would expect, because it was zero for roughly one-third of the month, and $60 for two-thirds. The simple annual rate for January is zero because the store makes no service charge in the month in which the purchase is made.

In February, the account had a $60 balance for 1 day, and this balance was increased to $85 by a purchase on February 2. The $85 balance for 25 days represents 2,125 dollar-days. A $10 payment on February 27 reduced the balance to $75 for the final 2 days of the month. A total of 2,335 dollar-days were thus accumulated during February, and dividing this by 28 days we find the average daily balance of $83.59 for the month. The 90-cent service charge, which is 1½ percent of the beginning balance, is only 1.08 percent of the average balance. Multiplying 1.08 percent by 12 we find the simple annual rate of 13 percent.

In March the account had only two balances, and by a similar calculation we see that the $1.14 service charge, which is 1½ percent of the beginning balance of $75.90, is actually a little higher than 1½ percent of the actual average balance. The average daily balance was $72.03, and the simple annual rate in March was 19 percent.

In April there was a balance in the account for 24 days until it was paid off, but there was no service charge that month under the terms of that revolving credit account, and therefore, no simple annual rate.

At the bottom of this exhibit I have also calculated what the simple annual rate was over the entire timespan of this transaction. If we use the entire 4 months as a timespan there would be 120 days. The total number of dollar-days was 7,436 and the average daily balance during the 120 days was $61. The service charge, a total of 2.04 divided by the 4 months, was 51 cents a month, indicating a simple annual rate of 9.9 percent.

In my opinion this is not the best way to calculate the interest over the entire timespan, because there were 16 days in the 120 for which there was no balance in the account. I think the most accurate calculation of the interest rate on the entire transaction is one that excludes the first 10 days of January and the last 6 days of April. Over the remaining 104 days, the same amount of credit was outstanding, so the average balance is $71.50, and the service charge of $2.04 should be spread over the 104 days, working out to just under 2 cents a day. The simple annual rate using a 365-day year is 10 percent over the timespan of this transaction.

I have been informed that, in previous hearings on this bill, one of the proposals was to eliminate the amount of credit extended during the month in which the purchase was made. If we do that in the series of transactions, it means we eliminate January when there was no service charge, and when 1,260 dollar-days of credit were incurred, and also eliminate the $25 purchase in February for the 27 days that it was outstanding. That reduces the total number of dollar-days for the entire transaction down to 5,501, and we have only 83 days in which credit was outstanding after the month in which the purchase was made. This raises the effective simple annual rate to 13½ percent, but it is still less than the 18 percent that this bill would require the department stores to disclose. The reason why it is less than the 18 percent is because in April the consumer was given 1,609 dollar-days of credit, with no service charge billed in the month in which the account is paid off.

I think the important thing to note from this exhibit is that the simple annual rate is not a constant percentage, it is not 18 percent in every month. It fluctuates depending upon the date on which the consumer makes her payments, and the amount, the percentage relationship really, by which the payment reduces the balance in the account. In this case we assumed the account was paid off in April. Actually, if you carried it out, each subsequent payment would reduce the account by a larger percentage, and would cause more fluctuations in the indicated rate each month.

Now, I would like to turn to exhibit 2 which I think is a more general kind of a statement and more illustrative of what is at work here. This is a situation in which I have assumed the customer has a beginning balance of $50 and makes a $10 payment and a $10 purchase during the month, so that at the end of the month the balance is again $50 and the service charge during the month is 75 cents. Given this set of assumptions, only three patterns can occur. One, the purchase and payment may occur on the same day; two, the payment may be made before the purchase is made; or three, the purchase may be made before the payment is made.

What happens to the simple annual rate in each of these three cases?

In the event that the purchase and payment are made on the same day, the average daily unpaid balance in the account remains constant at $50 during the month, and the 75-cent service charge, related to the $50 average daily unpaid balance is 1½ percent, indicating a simple annual rate of 18 percent.

Example two, illustrates an extreme case of "pay early, buy late." I assumed that the payment was made on the second day of the month and the purchase was not made until the last day of the month. The average daily unpaid balance in the account is only $40.67, and with the same 75-cent service charge, the indicated simple annual rate here is 22.1 percent, considerably higher than the indicated 18 percent.

The third example is an extreme case in the other direction, an extreme case of the "buy early, pay late." Here I assumed that the consumer bought a $10 item on the second day of the month and made her payment on the last day of the month. Again, the balance was $50 at the beginning and end of the month, but the average daily unpaid balance amounts to $59.33, nearly $60. The service charge is the same as before, and the indicated annual rate in this circumstance is only 15.2 percent.

I think the lesson to be learned from exhibit 2 is self-evident. Each of these three patterns of transactions would probably be viewed by the consumer as roughly equivalent, yet under the proposed truth in lending bill she would be told that the simple annual rate on her account varied from 15.2 to 22.1 percent.

In summarizing the results of my analysis, I would like to make the following four observations. First, the illustrative calculations shown in exhibits 1 and 2 have been simplified by permitting only one or two transactions per month; the typical customer might have several different account balances during any one month. While no complex mathematical formulas need be employed in order to compute the simple annual rate as required by the proposed bill, the calculations of the daily average unpaid balance is time consuming, and would be more complex if there were more transactions.

Second, the simple annual rate cannot be determined merely by multiplying the monthly service charge rate by 12. The simple annual rate in any actual account will be higher or lower than 18 percent per year depending upon the timing of the transactions that have occurred during the month. The reason why the simple annual rate will be different than 18 percent is due to a fundamental difference in the philosophy behind the service charge. I think that most people conceive of an interest charge as a payment for the use of money over time. When a charge is made for the use of money over a time, the charge is greater for 2 days than for one. The monthly service charge levied by department stores is not compatible with this concept of interest; it is a charge made at the beginning of the month based upon the unpaid balance in the account at that date. Because of this fundamental conceptual difference, there is no simple way to convert the monthly service charge into an annual rate without going through calculations similar to those I have illustrated.

The CHAIRMAN. Would you permit an interruption?

Mr. VANCIL. Yes, sir.

The CHAIRMAN. In the first draft of this bill, we used the phrase "interest charge," but in the revised draft we do not use the term "interest charge," we use the term "finance charge" just to meet this very point.

Mr. VANCIL. Well, this may be an important legal distinction, but the significance of it escapes me.

Senator BENNETT. Does the use of the word "finance," instead of "interest charge" change the facts you have given us or the rates according to the buying or repayment pattern during the month?

Mr. VANCIL. Well, I think the statement that you are picking me up on is the statement that most people think of an interest rate for being a charge for the use of money over time.

I don't know whether it would be clear to consumers or not. If you talked about a finance charge as being so much on the unpaid balance, the people might think you meant an interest rate or implied it.

The CHAIRMAN. We are seeking to identify the finance charge with the service charge.

Senator BENNETT. Mr. Vancil, were you in the room this morning?

Mr. VANCIL. No, sir; I was not.

Senator BENNETT. We had a lot of witnesses who this morning brought problems to us, and their problems were calculated on calculators by our staff members, and Senator Douglas announced every time this was an *interest* charge of 30 percent, or 70 percent, so even though he uses the words "finance charge," he thinks of it as an interest charge and so does everybody else. [Laughter.]

Mr. VANCIL. Well, quite frankly, Senator, I am more familiar and at home with figures than words, so the semantics of your discussion are difficult for me to comment on.

Senator BENNETT. I think you have made the point clear. Let me see if I can clarify it further. In this kind of a situation, it is the customer, not the store, that controls the pattern which will produce the rate?

Mr. VANCIL. Yes, sir; I would like to make one other point which I think this illustrates. I am afraid that the computation and disclosure of a simple annual rate might be confusing and perhaps misleading to the consumer. If you put yourself in the position of someone getting the statements you would get from exhibit 2, as I interpret this—anyhow, I draw the conclusion that the department store charges me a lower rate of interest if I buy early in the month and pay late than it does if I pay early and buy late. Well, actually, the amount of money I pay is 75 cents in either event, but the consumer might think she was lowering her interests rate by delaying payment. I think this conclusion might have just the reverse effect of the declared intent of this bill of discouraging the consumer from using high-cost credit.

Actually I am in favor of truth in lending, and in the full disclosure of facts about department store service charges, but I think the important thing to be disclosed to the consumer here is that the department store bases its charges on the balance in the account at the beginning of the month, it does not base its charge on the average daily unpaid balance.

The thing that the consumer ought to concentrate on and worry about is how much in the balance in her account she should pay off before the beginning of the next month. It is only by making the payment before the next month that she can influence the amount of the service charge. Whether she pays it on the second day of the month or the 27th, doesn't make any difference, and I think disclosure ought to emphasize that the charge is made at a point in time rather than on the average unpaid daily balance.

Senator BENNETT. In other words, ordinary interest is a charge for money over a period of time, but a revolving charge account is a charge made at a point of time?

Mr. VANCIL. That is precisely the point; yes.

The CHAIRMAN. Well, may I say that is precisely what we thought we were doing in the redraft, which we put through on pages 5 and 6, and if the language is not clear on this point, we would be very glad to make it clear; that is precisely what we thought we were doing.

Mr. VANCIL. Well, my understanding, and I am not able to interpret a legal document very well, was that, in complying with point F on page 6, to state "the simple annual percentage rates providing a yield equal to the finance charge imposed," in complying with that the department stores would tell the consumer that the rate was 18 percent on a plan such as this, but in fact the rate is not 18 percent, it varies depending on the timing of the transactions during the month.

The CHAIRMAN. The purpose was simply to make the annual percentage rate or the percentage rate on an annual basis equal to the finance charge stated by the store.

Senator BENNETT. Just calling it equal doesn't make it equal, is that right?

Mr. VANCIL. Well, I don't want to get into an argument about the legal language.

Senator BENNETT. Isn't that the thrust of your testimony, that since the customer varies the time of the month in which he pays, that the cost of that credit would rarely equal 18 percent?

Mr. VANCIL. The thrust of my testimony is that if, after the fact, you wanted to determine what the interest rate had been, you can do it by calculations such as these, and that these calculations will yield a fluctuating rate depending on the timing of the transactions during the month. But even more importantly, such a computation is not operationally useful to the consumer, because the only thing that determines the service charge is the balance in the account at the particular point in time at which the monthly service charge is figured.

The CHAIRMAN. If I may interject, it is not merely when the finance charge starts, but the amount of the finance charge, or the rate of the finance charge. Now, the present rate of the finance charge is stated in monthly terms. Why couldn't this be stated in yearly terms? That is all; and are you saying that the finance charges are incorrectly stated now under revolving credit?

Mr. VANCIL. I have a revolving credit account and to me it is quite clearly stated that anything I don't pay as of the beginning of the month will be subject to a charge of 1½ percent.

The CHAIRMAN. Well, this is at the rate of 18 percent a year.

Senator BENNETT. It isn't at the rate of 18 percent a year.

The CHAIRMAN. Of course it is.

Mr. VANCIL. Well, you can state the monthly service charge as an annual rate, but that doesn't mean that the actual rate will work out to be 18 percent.

Senator SIMPSON. But is it 18 percent per year, it is at the rate of, but would it be?

Mr. VANCIL. The actual rate you end up paying on such an account depends on when the transactions are incurred, both the debits and the credits.

The CHAIRMAN. What happens is under revolving credit you get free credit up until the first of the next billing month, and from then on, no matter what your transactions may be in the second month, you pay a finance charge on what you owed at the beginning of that month, and then repeat the process in the third month and so on.

Mr. VANCIL. That is right.

Senator BENNETT. Well, is it true if you take out the free period in the first month that every month thereafter the rate will be 18 percent.

Mr. VANCIL. No; we saw that here. There was no purchase in the month of March in this example on exhibit 1. The beginning balance was $75.90, and the customer made a partial payment during the month and the effective rate in that month, recognizing the date on which the payment was actually made, worked out to 19 percent, not 18 percent.

The CHAIRMAN. I hope my colleagues are not bringing in the question of February as the month of 28 days, and not 29.

Senator BENNETT. You are the one that is bringing it in.

The CHAIRMAN. Well, this is in the background, because some of the months chosen here, one was 28 to 29 month, and another one 31.

Mr. VANCIL. This doesn't influence the calculations here, Senator, because in each case I have divided the number of dollar-days in a particular month, by the number of calendar days in that month.

The CHAIRMAN. Are you going to change time into hours and minutes and seconds?

Senator SIMPSON. I think it is very logical presentation as it stands.

The CHAIRMAN. I am not accusing you of doing this; I am directing the barrage at my colleagues.

Senator BENNETT. Well, this is the usual smokescreen the Senator throws up when he finds the figures are so clear that he can't impose his rigid 18 percent on the facts of the situation.

The CHAIRMAN. I thank my colleague for his most courteous and gentlemanly comments about the way I conduct myself.

Senator BENNETT. Well, he is a master; I will confess that. [Laughter.] Do you have any questions?

Senator SIMPSON. No.

Senator BENNETT. I have nothing further.

The CHAIRMAN. No questions.

Senator BENNETT. Thank you, gentlemen.

(Mr. Vancil's prepared statement follows:)

PREPARED TESTIMONY OF RICHARD F. VANCIL

My name is Richard F. Vancil. I am testifying as a technical witness on behalf of the Boston Retail Trade Board. Briefly, my background is as follows: I was born and raised in Alton, Ill. I received my undergraduate education at Northwestern University in Evanston, Ill., and I am qualified as a certified public accountant in that State. I earned a master's and a doctor's degree from Harvard Business School, and have served on the faculty of that institution since 1958. My current rank is assistant professor of business administration. During the last several years I have collaborated with various of my colleagues in the coauthorship of textbooks on the subjects of accounting policy, managerial economics, and capital budgeting. My most recent book, "Leasing of Industrial Equipment," was published by McGraw-Hill this year. This book was the outgrowth of the research for my doctoral dissertation, and it was during the course of this research that I became interested in the computation and determination of annual interest rates. I have studied the problems of interest rate determination in sufficient detail to believe that I am qualified to testify on this subject.

I should like to restrict my testimony to the single question of the accuracy of the calculation of a "simple annual rate" as provided under the terms of the proposed "truth in lending" bill. I have limited my investigation to the problems of determining this rate on revolving charge accounts that are offered to consumers by many large department stores, but it may be that similar types of problems occur with other forms of consumer credit.

In this prepared part of my testimony I would like to concentrate on explaining the calculations that appear in exhibits 1 and 2. After I have explained these calculations, I would be pleased to try to answer any questions that members of the subcommittee might care to ask.

Exhibit 1 is an illustrative calculation of the simple annual rate that would have been determined each month during a hypothetical 4-month period. I hav assumed that the customer purchased an item for $60 on January 10, made another purchase in February, made partial payments in February and March, and paid the remaining balance in April. The service charge by the department store was 1½ percent of the unpaid balance at the beginning of each month, except that no charge was made for April when the account was fully paid. I would like to direct your attention now to exhibit 1 and ask you to follow along as I explain how I have computed the simple annual rate each month.

In order to calculate the true simple annual rate, it is necessary to first determine the average daily unpaid balance for the account. During January the account had no balance for the first 10 days and a balance of $60 for the remaining 21 days. I have computed the number of dollar-days outstanding during each month by multiplying each balance in the account by the number of days that the account had that balance outstanding. The total number of dollar-days in January was $1,260, obtained by multiplying $60 times 21 days. Dividing $1,260 by the number of days in the month yields the average daily balance (col. 6) of $40.65. No service charge was levied in the month of January.

In February, the account had a $60 balance for 1 day, and this balance was increased to $85 by a purchase on February 2. The $85 balance for 25 days represents 2,125 dollar-days. A $10 payment on February 27 reduces the balance to $75 for the final 2 days of the month. A total of 2,335 dollar-days were thus accumulated during February, and dividing this by 28 days we find the average daily balance of $83.39 for the month. The 90-cent service charge, which is 1½ percent of the beginning balance, is only 1.08 percent of the average balance. Multiplying 1.08 percent by 12 we find the simple annual rate of 13 percent.

Similar computational procedures indicate a simple annual rate in March of 19 percent based on an average unpaid balance of $72.03. In April, even though the average unpaid balance is $53.63, there is no service charge, and therefore, no simple annual rate.

The final calculations on exhibit 1 are summary figures to compute the indicated simple annual rate over the entire timespan of the transaction. If we use the entire 4-month period as our base, the daily average unpaid balance over the 120 days was $61.97. The total service charge of $2.04 works out to an average charge of 51 cents per month, or an indicated simple annual rate of 9.9 percent.

In my opinion, the most accurate calculation of an annual interest rate on this transaction would be a calculation based on the actual number of days over which the customer received credit. The next line on exhibit 1 illustrates this calculation based on 104 days; that is, eliminating the first 10 days of January and the last 6 days of April, during which there was no balance in the customer's account. Over these 104 days, the average daily unpaid balance amounted to $71.51. The total service charge of $2.04 may similarly be spread over the 104 days and works out to a charge of just under 2 cents per day. Converting the daily service charge on the daily balance to an annual rate based on 365 days yields an indicated simple annual rate of 10 percent.

From the testimony given in previous hearings on this bill, I have learned that one alternative proposal that has been suggested is to eliminate the credit extended during the month the purchase is made from the computation of the simple annual rate. If that were done in this example, the indicated rate for February would be based on 1,660 dollar-days (eliminating the $25 purchase for 27 days or 675 dollar-days). February's average balance would then be only $59.29, and the simple annual rate would be 18.2 percent. For the entire timespan of 83 days (28 days in February, 31 in March, and 24 in April), the number of allowed dollar-days would be $5,501.80 ($1,660 in February, plus the amounts shown in exhibit 1 for March and April). The average balance is thus $66.29. The service charge, spread over 83 days, amounts to about 2½ cents per day which, converted to an annual rate based on 365 days, yields an indicated simple annual rate of 13.5 percent.

I think that the important thing to note from exhibit 1 is that the simple annual rate as calculated for each month is not a constant percentage. It flucuates depending upon (*a*) the date on which the customer makes her payment, and (*b*) the percentage reduction in the balance of the account as a result of the customer's payment.

I would like to turn now to exhibit 2 which, I believe, illustrates a more typical revolving credit situation, a situation in which the customer has both purchases and payments within a given month. In order to simplify the illustration I have assumed that the customer's account balance at the beginning of the month is $50 and that she makes a payment of $10 and a purchase of $10 during the month. The ending balance in the account is therefore $50, and the service charge during the month is 75 cents.

Given this set of assumptions, the customer's transactions during the month may take one of three general forms: (1) the purchase and payment may occur on the same day, (2) the payment may be made before the purchase is made, or (3) the purchase may be made before the payment is made. Exhibit 2 illustrates these three general patterns of transactions.

In the happy event that the purchase and payment occur on the same day, the average daily unpaid payment in the account remains constant at $50, and in this event, the indicated simple annual rate is indeed 18 percent.

Example 2 illustrates an extreme case of "pay early, buy late." If the payment is made on the second day of the month and the purchase is not made until the last day of the month, the average daily unpaid balance in the account is only $40.67, and the indicated simple annual rate is 22.1 percent.

Example 3 illustrates the calculation at the other extreme. Here the purchase is made on April 2 and the payment is made on April 30. The average daily unpaid balance amounts to $59.33, and the indicated annual rate is 15.2 percent.

The lesson to be learned from exhibit 2 is self-evident, I believe. Each of the three patterns of transactions would probably be viewed by the consumer as roughly equivalent, yet under the proposed truth in lending bill, she would be told that the simple annual rate on her account varied from 15.2 percent to 22.1 percent.

In summarizing the results of my analysis, I would like to make the following four observations.

1. The illustrative calculations shown in exhibits 1 and 2 have been simplified by permitting only one or two transactions per month; the typical customer might have several different account balances during any one month. While no complex mathematical formulas need be employed in order to compute the simple annual rate as required by the proposed bill, the calculation of the daily average unpaid balance is time consuming.

2. The simple annual rate cannot be determined merely by multiplying the monthly service charge rate by 12. The simple annual rate in any actual account will be higher or lower than 18 percent per year depending upon the timing of the transactions that have occurred during the month. The reason why the simple annual rate will be different than 18 percent is due to a fundamental difference in the philosophy behind the service charge. I think that most people conceive of an interest charge as a payment for the use of money over time. When a charge is made for the use of money over time, the charge is greater for 2 days than for 1 day. The monthly service charge levied by department stores is not compatible with this concept of interest: it is a charge made at the beginning of the month based upon the unpaid balance in the account at that date. Because of this fundamental conceptual difference, there is no simple way to convert the monthly service charge into an annual rate without going through calculations similar to those I have illustrated.

3. Because of this incompatability between interest rates and service charges, I am afraid that the computation and disclosure of simple annual rates to the consumer might be confusing and misleading. I have tried to put myself into the position of a consumer receiving the information disclosed in exhibit 2. The conclusion I draw is that a department store charges me a lower rate of interest if I buy early and pay late than if I pay early and buy late. This conclusion is specious, in my opinion, because the actual charge to the consumer is unaffected by the timing of transactions within the month. Interest rates are meaningful for decisionmaking purposes only when the actual charge for the use of money

is a function of the amount of time over which the money is used. In fact, if one of the purposes of the truth in lending bill is to reduce the consumer's use of high cost sources of credit, I see a potential danger that the disclosure of a simple annual rate might increase the consumer's use of revolving credit accounts by encouraging the consumer to buy early during the month and to make her payments late in the month.

4. I think it is very important that the truth about the service charges on department store revolving charge accounts be disclosed to the consumer. But the truth is that these merchants add charges based on the balance at the beginning of the month. They do not render a charge based on the daily unpaid balance of the account. In my opinion, adequate disclosure would permit the consumer to deal rationally with the question, "How much of the balance of my revolving charge account should I pay off before the beginning of next month?" By making a larger payment than that required by the store, it is possible for the consumer to reduce the service charge that will be levied based on the account balance at the beginning of the next month. Thus, I think it is very important that the consumer realize that the monthly service charge is based on the beginning of the month balance and not on the average daily unpaid balance. In my opinion, converting the monthly service charge to a simple annual rate will not permit the consumer to deal more rationally with this important decision.

EXHIBIT 1.—*Illustrative calculations of "simple annual rate" on a revolving charge account*

Transaction date (1)	Amount of purchase (+) or payment (−) (2)	Balance (3)	Number of days (4)	Dollar-days (5)	Average daily balance (6)	Monthly service charge (7)	Simple annual rate (percent) (9)
Jan. 1	0	0	10	0			
10	+$60.00	$60.00	21	$1,260.00			
Total			31	1,260.00	$40.65	0	0
Feb. 1		60.00	1	60.00			
2	+25.00	85.00	25	2,125.00			
27	−10.00	75.00	2	150.00			
Total			28	2,335.00	83.39	$0.90	13.0
Mar. 1		75.90	19	1,442.10			
20	−10.00	65.90	12	790.80			
Total			31	2,232.90	72.03	1.14	19.0
Apr. 1		67.04	24	1,608.96			
25	−67.04	0	6	0			
Total			30	1,608.96	53.63	0	0
Total service charge						2.04	
4-month average			120	7,436.86	61.97	[1] .51	9.9
Average based on actual days of credit received			104	7,436.86	71.51	[2] .019615	10.0
Average, eliminating credit received in the month purchase is made			83	5,501.86	66.29	[2] .024578	13.5

[1] Per month.
[2] Per day.

EXHIBIT 2.—*Illustrative calculations of "simple annual rate" on a revolving charge account*

Assumptions: Customer owes $50 (including prior month's service charges) on April 1. During the month the customer makes a $10 payment, and purchases an item for $10.

Example 1: Purchase and payment on the same day: In this case the daily balance is constant at $50 and the service charge at the end of the month converts accurately to an 18 percent "simple annual rate." Note, however, that if purchases always equal payments the service charges keep accumulating at a nominal annual rate of 18 percent, compounded monthly. Extra payments to pay off the accumulated service charges must be made at the end of some month if the 18-percent rate is to remain accurate.

Example 2: Pay early, buy late:

Transaction date (1)	Amount of purchase (+) or payment (−) (2)	Balance (3)	Number of days (4)	Dollar-days (5)	Average daily balance (6)	Monthly service charge (7)	Simple annual rate (percent) (8)
Apr. 1		$50	1	$50			
Apr. 2	−$10	40	28	1,120			
Apr. 30	+10	50	1	50			
Total			30	1,220	$40.67	$0.75	22.1

Example 3: Buy early, pay late:

Transaction date (1)	Amount of purchase (+) or payment (−) (2)	Balance (3)	Number of days (4)	Dollar-days (5)	Average daily balance (6)	Monthly service charge (7)	Simple annual rate (percent) (8)
Apr. 1	+$10	$50	1	$50			
Apr. 2	−10	60	28	1,680			
Apr. 30		50	1	50			
Total			30	1,780	$59.33	$0.75	$15.2

The CHAIRMAN. Now, Father McEwen, you have waited all day long. I must say we are happy to have Father McEwen, chairman of the Department of Economics at Boston College.

STATEMENT OF REV. ROBERT J. McEWEN, S.J., CHAIRMAN, DEPARTMENT OF ECONOMICS, BOSTON COLLEGE, BOSTON, MASS.

Father MCEWEN. Senator Douglas, Senator Bennett, and Senator Simpson, I am really happy to have had the opportunity to spend this day and the previous day watching the operation of your subcommittee. I do believe you have performed a true and notable service, bringing the subcommittee to Boston, because I think with the possible exception of the AFL representative who may or may not have been able to travel to Washington, there was practically nobody I knew on the proponents side of this measure who could have attended a hearing in Washington. So you have in my estimation proved the value of journeying out of the Capital City, and giving these people a chance to testify.

The CHAIRMAN. May I say this was not obtained without blood, sweat, and tears.

Senator BENNETT. I am happy to confess that it was finally obtained with a limit of four cities, or we probably would be spending a year traveling from city to city like a circus, holding hearings in every State.

The CHAIRMAN. I think my colleague makes too derogatory a reference to himself by referring to himself as a circus and our meeting as a circus.

Senator SIMPSON. I want to reiterate that I am the moderator here.

Father MCEWEN. I must admit the Senator objected to some remarks about the character of some opposition witnesses, and I think I should object to the remark that puts us in the category of circus performers.

Senator BENNETT. We don't include you, you are part of the local show; we are the circus.

Father MCEWEN. Well, Senator, seriously, I am disturbed by the attitude of business and banking in regard to this bill. It is a little puzzling to me, because I believe that where there is a will, there is a way, and if there is a will to overcome these mathematical problems and difficulties, I am sure that the ways can be found without great difficulty.

What disturbs me just a little bit is that many will admit that there are cases where they could spell out exactly what the percentage rate of charge is. We had testimony last time where the bankers admitted—the lenders admitted that they could in this case and that case. In fact, I think they said the majority of cases they could spell out the actual percentage, true rate of the finance charge. I won't use the word "interest."

Now, I would be much more disposed to regard their opposition as merely attempting to get the best legislation possible if there had been some move to either legislate or voluntarily impose and practice disclosure in these cases where, by their own testimony, it is easy to do. However, I don't see any indication that that is being done.

Senator BENNETT. You are hanging on to the theory disclosure must be made in one pattern only in accordance with the Douglas bill. The credit unions disclose their costs and the department stores disclose their cost, but they don't all do it in the same way.

Father MCEWEN. Well, Senator, you mentioned a memo that you had prepared on the comparability of credit, and I am going to be most anxious to read that, because I spent 10 years teaching money and banking and one of the things commonly taught to our sophomores and freshmen in college is that there is an intricate pattern of interest rates and finance charges that links the whole financial world together, so that there is an acute distinction of cost and services of the commodity "credit" reflected in the small, minute differences in finance charges. Now, you are trying to tell me that the financial world is so and has so imitated the quasi-monopolistic industries. Each credit type is so different that there is no comparability between them.

Senator BENNETT. I didn't say there was no comparability, but I make the point in my statement for which I alone am responsible that there are so many differences in the type of services furnished by each and the conditions under which it is furnished, that to attempt to force them all into the same mold is not necessarily the wisest way of handling this situation.

This is part of what bothers me, if the law were passed and everybody had to state his credit terms on exactly the same basis, then the customer is justified in believing that there is no fundamental difference in the elements that make up the cost of that credit, because they are forced to state it in the same way, and he is put in the position where he says if company A charges 7 percent and company B charges 9 percent, then company B is gouging, because it should be able to sell at 7 percent because company A sells at 7 percent. I am sure that it is obvious to you that the retail store that sells on revolving credit supplies services and is under costs that the credit union is not called upon to face, is under risks, and a lot of other things, and yet you force them into the same mold so that Mrs. Jones says, "I pay 18 percent if I go to the department store, but I only pay 9 percent if I go to the credit union." These so and so's in the department stores are charging me twice as much for "interest." Now, you can say all you please about simple annual rate-and-finance charges, and to the proponents of this bill, in all their thinking in the back of their minds, is the word "interest" and the people who come befoer us to talk about the problems they face with the high interest charge they are paying.

Now, patterns have grown up and most credit unions calculate on a monthly basis but in Massachusetts they use an add-on. I didn't know that until today. The department stores use a percentage on the beginning or ending balance, and some banks use the discount, some use add-ons. There are all kinds of these devices, but the bill would force them all into a single pattern.

Father McEwen. Well, Senator, isn't that the whole thrust of all weights and measures bills to standardize, to force a common expression in a single pattern of things that are similar? And are not all the sellers of revolving credits selling a similar thing?

Senator Bennett. And they are in the same patterns.

Father McEwen. Are you expressing it in a single manner understandable to the consumers? No. The whole thrust of a weight and measures bill of this type is to create the single standard, and you are defeating this by this position.

Senator Bennett. Let's take the food situation. I can buy food by the dozen, by the pound, by the gallon, or by the liquid ounce.

Father McEwen. But they all use those terms.

Senator Bennett. Well, I go to Safeway, and they sell me oranges by the pound, and I go to another supermarket and they will sell me oranges by the dozen. They don't all use the same term.

Father McEwen. The dozen and the pound mean the same thing to everyone, and the customer knows what she is getting, and the final element of that deal is expressed in the common unit of a dollar. If we had five different currency units, it would be equivalent to what is going on now.

Senator Bennett. Senator Douglas and I are not quarreling so much about the dollar phase of this, but that there are situations where the dollar amount cannot be stated in advance, and this bill requires the dollar amount to be stated in advance as well as the rate. Now I can't believe that a credit union borrower doesn't know what the rate per month is. I don't think the standard credit union pattern, which has been that way from the beginning, I don't think it confuses.

The CHAIRMAN. I may say that the Credit Union National Association enthusiastically supports the annual rate and I am informed that there are two credit union movements in Massachusetts and that Mr. Lavalle represents one, but not the other, and I believe not the one affiliated with the Credit Union National Association.

Senator BENNETT. I would think that that would be true, but referring to the credit union, we have been talking about this bill for 5 years now, the credit unions support it; why haven't they changed their pattern voluntarily if they think it is an ideal pattern? Why didn't they force us toward adoption of the bill by saying we are going to operate on the basis of the bill?

The CHAIRMAN. Because they say this would put us at an unfair competitive disadvantage in comparison to those who do not do so, but we favor a bill which would require us all to state it in annual terms, so we may all be on equal terms; whereas, a great many of the other institutions will neither state it themselves nor will they permit a law to go into effect making it universal.

Senator BENNETT. The thing that intrigues me is that no element of the consumer industry uses the simple annual rate except banks in some cases, and the mortgage industry.

Father MCEWEN. I can understand, as the Senator said, if the smallest weakest element of the industry attempted to use annual rates in their quotations, while the others didn't, they would be at a competitive disadvantage.

Now, I would expect that if the most powerful element of the industry were to take the lead and do it, then the others would follow.

Senator BENNETT. Well, it seems to me that it would be more logical for those credit unions who support this bill to try to persuade everybody to adopt their pattern of a monthly rate which they have found in their experience over 30 or 40 years to be a pattern their members understand, and more or less approve of it, than to join a movement to force everybody to destroy the traditional pattern that has grown up differently in the various segments of the industry into an arbitrary mold which is new but different from anything else.

Father MCEWEN. The annual rate is not new; that is the traditional way of disclosing rates. Look at the front page of yesterday's paper which I happened to glance at before yesterday's hearing, and there were four different ads on the front page of yesterday's paper saying a 4½ percent, 5½ annual interest.

Senator BENNETT. On what?

Father MCEWEN. Savings.

Senator BENNETT. Yes, this is traditional for savings accounts, just as the monthly rate is traditional for the credit union.

The CHAIRMAN. Why shouldn't the annual rate be made the standard for the borrower?

Father MCEWEN. The true annual interest rate was traditional for all of the finance industry until these various schemes for hiding the cost of credit arose. I viewed this with disaster; this is a practice that in the commercial world we would call manipulation of the product so that the consumer doesn't know what is inside it.

Senator BENNETT. This, of course, goes to the motivation and is a very serious charge on the motivation of the entire consumer industry that uses credit, and this bothers me to have people like yourself say that this is manipulation; that your fine department stores downtown are trying to deceive the public.

The CHAIRMAN. May I——

Senator BENNETT. Let me finish my sentence. I am not disturbed; I think Father McEwen and I are having an interesting discussion.

Father McEWEN. I didn't mean to reflect on the motives when I said manipulation. I meant manipulating its products in the sense of product differentiation.

Senator SIMPSON. May I interrupt just a moment. I do have to go. I want no disrespect for you. I would love to listen to your colloquy and listen to your testimony. May I be excused?

The CHAIRMAN. We appreciate your coming.

Senator SIMPSON. I appreciate your usual graciousness.

The CHAIRMAN. Thank you for coming.

Senator SIMPSON. I left a closing statement I would like inserted in the record. (See p. 1143.)

The CHAIRMAN. Thank you very much for coming, Senator.

Senator BENNETT. Excuse me, you were about to make a statement, and I didn't mean to interrupt and spoil your opportunity to say what you wanted to say.

Father McEWEN. No, Senator; you are not spoiling it at all. I appreciate your position and I respect all the opinions and the shades of opinion and the sincere effort to get a bill that will be for the public good, and I trust that everybody involved is attempting to get the public good out of this, and I would be less than candid if I didn't reflect dismay at the intellectual positions taken by certain parties. For instance, I think the intellectual position of fear and timidity manifested by most of the business groups in the face of legislation such as this bill, the food and drug acts, the SEC truth-in-securities legislation, and all these things, the initial manifestation of fear, I think, is completely unfounded, and unfortunate, and I wish it could be eradicated.

As a matter of fact, I have watched these laws carefully for years, and when the SEC's report came out in March of this year, I think it was, there was some consternation in the financial pages. About 3 months later I read in the Times financial section, that the industry is now coming around to the position that it is not so bad after all. That is the way I think businessmen will react to this bill once it is enacted.

And another thing that bothers me, Senator Bennett, there has been a proposal mentioned here earlier by lenders for a study commission of lending in Massachusetts, just a study commission to study all these practices.

Senator BENNETT. Isn't that the law, didn't they pass the law?

Father McEWEN. Yes; they finally got that enacted this year. However, the study commission has not been appointed yet, and if it isn't appointed by the 29th of January, the resolve expires. But my point is that the study commission has met violent opposition from most of the same groups that are now opposing this Douglas bill.

The CHAIRMAN. The merchant's association.

Father McEWEN. In other words, in the Commonwealth of Massachusetts, the mere attempt to get a study resolved met violent opposition from most of the same groups opposing this bill and that I can't understand.

I also could suggest the problem such as you raised here could be solved if we were just to say in a difficult case like that, it is not over 18 percent, if it is slightly under all right.

Senator BENNETT. This is easy to say, but if you look at the examples, in 1 month it went to 19, the other month it went to 22, in the same transaction.

Father McEWEN. Then make it the highest one, and say it is not over the highest.

Senator BENNETT. You can't be sure in advance, but suppose you required the department store to say under no circumstances will my charge be higher than 30 percent, then the first thing everybody will say is, "Oh, they always charge maximum, so don't pay any attention to what they say. If you go to the department store, you are going to pay 30 percent interest." This approximation is an attempt to leave a margin above the possible highest figure, in a competitive situation where other people are not stating approximations, but can advertise with assurance they charge 12 percent. It leaves one big area of supply of credit to consumers in very much of a weakened competitive position. These are the problems that bother me.

Father McEWEN. They are all going to be in the same boat. That is the first thing, they are all going to be facing the same type of problem, and a similar solution to them all could easily be worked out with good will. I got in the mail yesterday, Senator Douglas, you may not have had a chance to see the January issue of Banking, but the first thing I caught in the latest issue of Banking magazine is an ad which says:

> Now includes 5½ percent and 6½ percent interest rates—New Delbrige, precision interest tables, precalculated interest answers in seconds—now more comprehensive than ever. Precalculated answers provide the easiest, the fastest, and most accurate way to figure loan interests. New, revised edition features interest rates from 1 to 7 percent in ½-percent steps; then 7 to 10 percent in 1-percent intervals; interest answers to three decimal places for principal amounts from $1 to $1,000; time periods from 1 to 180 days, then 6 to 12 months; ordinary interest factors 360-day basis and exact interest factors 365-day basis; conversion chart changes ordinary interest to exact interest.

And if they advertise this, can it really be so difficult for them?

Senator BENNETT. Well, it isn't difficult for a bank, but it is almost impossible for a department store that is forced into the same pattern. The bank knows in advance or should know in advance, the conditions of the loan which it makes, and it controls those conditions at the point of execution of the note, but the department store doesn't know when the customer is going to use his credit, how much, how often, and in what pattern. By the way, the representatives of the Retail Trade Board insist that they favored the study. They don't want to be included among those who opposed it.

Father McEWEN. Is that my good friend Dean Cushing? I am glad to find he is in favor of that.

Senator BENNETT. May I ask, Dean, do you know whether the banks approve the study?

Mr. CUSHING. I believe John Roddy for the bank association also favored it. There were several bills in there calling for disclosure, one of which was sponsored by the organization, and it didn't have the simple annual interest rate, but it had dollars.

Senator BENNETT. We were talking about the appointment of the study commission. Mr. Cushing absolutely favored it and gave us the names of a great many people, none of whom opposed it.

Did the banks favor it?

Mr. CUSHING. I understand they did, Senator.

Senator BENNETT. Small loan companies?

Mr. CUSHING. Can't answer, I don't think they appeared, I don't know.

Senator BENNETT. But can you supply for the record the names of the business associations in Boston that favored it?

Mr. CUSHING. I will.

(The list follows:)

RETAIL TRADE BOARD,
Boston, Mass., February 6, 1964.

Dr. CHARLES BRADFORD,
Minority Clerk, Senate Committee on Banking and Currency,
Senate Office Building,
Washington, D.C.

DEAR DR. BRADFORD: At the end of the testimony of the rejuvenated Douglas "confusion in credit hearings" here in Boston I agreed to supply a list of those persons who appeared in favor of Governor Peabody's study of consumer credit and relating matters.

Having checked with Banks and Banking Committee Chairman D'Avolio and the clerk (Representative Paul Murphy) I can give no official list since no notes were retained from last year's hearings. However we agreed that the following appeared in favor:

Hon. Lawrence Feloney, then legislative counsel to Governor Peadoby, now district court judge.

Dean C. Cushing, executive vice president of the Retail Trade Board of Boston.

The following recorded in favor:

John J. Roddy, legislative counsel, Massachusetts Bankers Association.

William Malloy, legislative counsel, Greater Boston Chamber of Commerce.

Mrs. Rose Morris.

Lawrence Miller, attorney for the Massachusetts Mortgage Association.

Mathew Brown, C.I.T.

None of us recall anyone in opposition at the hearing.

Sincerely yours,

DEAN C. CUSHING, *Executive Vice President.*

The CHAIRMAN. Can I ask for Father McEwen to supply the names of the associations and organizations and individuals that opposed the study.

Father MCEWEN. All I can say is if they were all in favor of it, it took an awful long time to get it through the legislature, because it didn't go through until the last week of the session.

Mr. CUSHING. May I make a comment, Senator; it was stuck in the joint rules, and it took the lobbyist of the women's clubs and myself and Bill Maloney of the chamber of commerce practically day and night, saying it is not going to die, because we have to solve this problem.

The CHAIRMAN. I may remark, advocating a study is a means of delaying any legislation.

Mr. CUSHING. That is true, but I think this time they gave us $20,000, and this study is going to come up with an answer.

Father MCEWEN. But they haven't appointed anybody, it is going to expire.

Mr. CUSHING. There is a bill to approve the filing and extending of the study to December 31, 1964.

Father McEwen. It has not been approved, it is filed. This touches on the issue of bringing about greater competition in the lending of money. Both of your witnesses, Mr. Malcolm and Professor Braucher, expressed the importance of lender competition.

In my view they are exactly right that the true cost of credit will be achieved and revealed by real competition among the lenders, but you can't in a free enterprise economy have real price competition among sellers unless you have a single method of identifying what they are selling. That is all we are trying to do in this bill to get a single method of pricing the product which is sold.

Senator Bennett. Let me stop you at that point. Let's assume, I agree that is what you want, but do you agree that the credit service furnished by a department store have to make a statement, it doesn't contain the same elements, it contains a lot more elements than the credit service from a credit union, so when you say you are getting a singe basis, you have got situations that are not comparable.

Father McEwen. No, I disagree; all the bill says is that all the financing charges incident to that type of credit extension are to be lumped together and expressed as a single unit.

Senator Bennett. But the effect of the bill on the testimony in its favor through many hours of hearings is that it will then make it possible for a customer to decide whether he wants to go to the credit union and pay 9 percent or go to the department store and pay 18 percent, but the 18 percent and 9 percent are not comparable.

Father McEwen. Well, he knows that, just as Buick and Pontiac are not comparable.

Senator Bennett. Does he?

Father McEwen. I assume he does.

Senator Bennett. You force them to state it all the same way, and the effect of the department store is to say to him, "I am going to charge you twice as much."

The Chairman. It is true that the content of it differs, but it is helpful to have the qualities expressed in the terms of pounds and not to have the whole thing thrown into chaos by saying there is no common unit by which you can measure peas and corn.

Senator Bennett. But the theory is that department store credit and credit union credit, in the mind of the customer, are not corn and peas, they are corn and corn.

Father McEwen. I don't think anybody says they are exactly the same thing; they are a different package of goods, and all we want is that the same uniform language is used to express this package.

The Chairman. Well, Father, isn't it true this monthly rate business came in as a result of Russel Sage's recommendation around 1912? They found unlicensed moneylenders charging 100 percent, 200 percent, and they wanted to introduce something which would reform the situation, and yet give a good lucrative return to moneylenders, so they decided the lenders could get as much as 42 percent a year. But to say they believed in philanthropy at 42 percent would be a bit of bad psychology. So in the State legislatures they fixed the maximum rate of 3½ percent a month, so the monthly rate disguised the yearly rate. Many of those who made the Russel Sage recommendations, a good many of them went into the personal loan business and practiced philanthropy at 42 percent, and they did well, but this monthly rate was put in to disguise the fact that the yearly rates were high; and this has been, therefore, a very handy gimmick, and the disguise which had been created first for the small loan industry has now been extended to revolving credit.

Father McEwen. Senator, I have an example which I don't want the record to omit, because it is a very interesting example of the youth of our country taking something such as the truth in lending principle and testing it out.

It was brought to my attention that a student who had heard and read about the Douglas bill, and was writing about it, held a position of credit manager in a big branch of a store and he decided to keep an accurate record of his experiences with the clients, customers. So when they came in to him for installment credit, he would say, "Well, this 1½ percent, do you know that means 18 percent a year?" And he reported to me their face dropped to the floor and they gasped a little bit, and in some cases said, "Well, I don't want it then," and he went on to explain to them, "Well, you can search around and consider all other stores, and you will find they are all charging approximately the same thing. If you don't believe me, take a day or two and go and find out." He kept an account, and only 2 out of 49 people failed to come back and purchase that particular product from him. In other words, 2 out of 49 either didn't buy or got financing somewhere else, or paid cash.

Now, that is a small little example of what I consider to be the reasonable result that would follow the truthful stating of interest cost.

Senator Bennett. But it isn't statement to say it is 18 percent a year.

Father McEwen. It is much truer than to say it is 1½ percent a month.

Senator Bennett. We have been over this.

The Chairman. It is just as true as saying 1½ percent a month and the difficulty frequently is it is the 1½ percent that is emphasized.

Father McEwen. That is right.

Senator Bennett. Well, the 1½ percent is applied in a single point of time, and we have gone through it today and when you talk about 18 percent a year people will think you are talking about the use of money over a period of time.

Father McEwen. Furthermore, this man knows he earns money and lends out money, and when he puts it in the savings bank and gets an annual rate return, I think it is perfectly desirable to say to him, "You should be able to compare what you earn by putting your money in a bank with what you can sacrifice by taking your money out of the bank, and what you will pay by buying on the installment plan." That seems perfectly logical and desirable to me.

I have one other item which I think, given your automobile background, would interest you, and when you get back to Washington you can check into this. I will give you the name and address of the individual in Washington who reported the story to me last week.

I don't know where the blame lies in this story. It is an interesting one, and the essence of the story is that on the purchase of a brand new automobile for which he had to sign a note just over the weekend, until he could get to his credit union to borrow the $2,000, the dealer slipped the note through the bank and the bank attempted on Monday morning to make him pay $85 for the weekend.

Senator BENNETT. Well, this is a matter of personal ethics, that I can neither defend——

Father McEWEN. No.

Senator BENNETT. Well, explain.

Father McEWEN. Well, $85 for the weekend for a note that the dealer had promised not to send through anyway.

Senator BENNETT. Well, the dealer—you can't defend a man who breaks his word.

Father McEWEN. No, but still technically and legally that bank was attempting to charge that man $85 for a weekend loan of $1750. Now, that is apparently legal in the contract. If this man, who works in a Government office in Washington, hadn't sense enough to say, "Let me talk to the president of the bank"—he had to pay them $18 to get them off his neck after he threatened to go all the way up. He had borrowed $1,750 on a 3-year note of $550 added on to the face of the note, and as I say a promise that the note wouldn't be sent through until Monday morning when he could get the $2,000 from his credit union.

Senator BENNETT. Well, if the Douglas bill had been in effect——

Father McEWEN. I admit that would not have cured it.

Senator BENNETT. This particular situation.

Father McEWEN. Except where he was told by the dealer it was a 5-percent loan in this case, and that it was bank financing that could not have been done under the Douglas bill.

The CHAIRMAN. That was really a 10-percent loan, wasn't it approximately?

Father McEWEN. Well, he figured it out to 20½ percent.

Senator BENNETT. Well, he paid a penalty. This is what gets involved in here. The bank tried to assess a penalty for making and unmaking the contract in 48 or 72 hours.

Father McEWEN. Well, would I be wrong in thinking that $85 was the dealer's commission for financing?

Senator BENNETT. I don't know what arrangement the dealer had with his bank. It could be involved, no question about it.

Father McEWEN. Well, at any rate——

Senator BENNETT. That doesn't happen very often.

Father McEWEN. Well, I hope it doesn't.

Senator BENNETT. Well, of course it doesn't.

Father McEWEN. But, the experience of the people—I have one letter which I want to submit for the record which we received as connected with the Consumer Council. I will briefly summarize the facts for you. It concerns a freezer food plan.

The letter states:

In June we received a telephone call from a woman asking us if the salesman from a so-and-so company freezer plan could call and explain how we could save 15 to 20 percent of our food costs through their plan. We made an appointment, and next we called the Better Business Bureau and we were told by them that this company had been in business for over 39 years and the Better Business Bureau had never had any serious complaint against them

The salesman called and explained the plan—that to join the plan you had to get the freezer through them and the contract price was $749.25 plus interest for a total of $918.72 to be paid over a 30-month period. Included in the cost of the freezer and the cost of services meant home ordering, cutting, wrapping, delivery to the home, and putting the food in the freezer, and it is a 5-year guarantee and insurance on the frozen food; and the frozen food and other household needs would be purchased at discount prices according to what we were told by Mr. So-and-so. She relates all the prices that he gave her. We knew and told her we could have bought a freezer for less than $350, and we could have bought our meats at any grocery store, but we represented that these prices of food to them would be much less than if they did buy the freezer separately, and buy the food separately.

I won't delay the committee by reading the whole letter, but it does have all the compilations of food that they had bought and the food they did buy, and so forth.

The CHAIRMAN. She signed up with this plan?

Father MCEWEN. Yes; she signed the contract.

Senator BENNETT. Well, there are many of those freezer plans.

Father MCEWEN. And then she claims failure to deliver services and so forth.

The CHAIRMAN. Would you like to have the letter put in the record?

Father MCEWEN. I would have the letter put in the record, and request the return of the original.

The CHAIRMAN. Oh, yes.

(The letter follows:)

SPENCER, MASS.

Rev. ROBERT J. MCEWEN, S.J.,
Department of Economics, Boston College,
Chestnut Hill, Mass.

DEAR FATHER MCEWEN: Thank you very much for your reply to our letter. We have tried to write down for you the facts on our experience with H. Hill & Sons Co., of Milford, Mass., regarding their freezer food plan, but if there was any way of talking to someone from your commission we could probably explain it more fully.

1. In June we received a telephone call from a woman asking us if a salesman from the H. Hill & Sons Co., of Milford, Mass., freezer food plan, could call and explain how we could save 15 to 20 percent of our food costs through their plan. We made an appointment for him to come to our home.

2. We called the Better Business Bureau and were told by them that H. Hill & Sons had been in business for over 39 years and the BBB had never had a serious complaint.

3. The Hill Co. salesman, Mr. Eric Fielding, called at our home and explained the plan to us. To join the plan you had to purchase the freezer through them. The freezer contract price was $749.95 plus interest, for a total of $918.12, to be paid over a 36-month period, and included the cost of the freezer and the cost of H. Hill & Sons services (services meaning home ordering, cutting, wrapping, delivery to home, and putting food in freezer, 5-year guarantee on freezer, and insurance on frozen food), and frozen foods and other household needs would be purchased at discount prices, according to what we were told by Mr. Fielding. The discount price was the difference between wholesale and retail prices at time of delivery, halved, we were told by him.

He proved to us with figures such as 55 cents a pound for pork loin roast, 59 cents a pound for lamb legs, 32 cents a pound for chicken, 69 cents a pound for rump and round bone-in section, 39 cents a pound for smoked shoulder; that over a 3-year period, while paying for the freezer and services and foods, our costs would not be more than we would pay if we purchased a freezer ourselves (we knew and told him we could buy a freezer for less than $350) and bought our meats at any grocery store; and that after the freezer and services were paid for a savings in food costs would be realized by their discount prices on food. We questioned Mr. Fielding why the contract for $749.95 plus interests only had the freezer written on it, and he told us that was because the bank would only allow "hard goods" on it and the services were guaranteed by Hill & Sons Co. on their "gold bond certificate," a copy of which we would receive.

He convinced us that we would not be spending more money than we were now, and would save our shopping time, so we signed the contract. When he made up the food order, Mr. Fielding told us he could not write down the actual prices on the order because the day the order was filled the price that day would be the one we would be charged, but that prices never fluctuated more than a few pennies, and an invoice would be furnished on delivery of the food as the guarantee stated.

4. The freezer was delivered on July 1 and it was an Amana, model D–16. An Amana D–18 can be purchased from O'Coin Bros., of Mill Street, Worcester, for $325.

5. On July 11 the food we orderd was delivered. There was no invoice showing weights of meats and prices, only a listing of the different kinds of meats and a total price of $181.37. I immediately wrote to Mr. Fielding asking for an invoice. He called on the 12th and said that on first orders they never gave invoices. He suggested I weigh the food myself and figure out the bill. I did that and could not come even close to their charge using the prices Mr. Fielding had quoted the night he sold us the plan.

I again wrote to Mr. Fielding. He called me and gave me weights and prices over the phone. The meat actually came to $171.37 and $10 was a service charge for the privilege of paying for it in 4 monthly payments. (We had not known of this charge and said we would pay for the meat in cash. We were refused this because the contract had gone to the State Street Bank in Boston. I immediately wrote to the bank for permission to pay the food bill in cash to save the $10 service charge. When the bank agreed, we sent them a 'tellers' check.) The rump and round section—we were charged for a 135-pound section at $0.74 a pound and received 89 pounds 11 ounce of meat—25 pounds of this was hamburger. The pork loin roast, untrimmed, was $0.69 a pound. The lamb leg (not oven ready) was $0.75 a pound. Chicken was $0.43 a pound. Smoked shoulder was $0.45 a pound.

6. On July 7 in the Boston Sunday Advertiser, the H. Hill & Sons Co. had an ad in the magazine section—they offer free services in their ad.

7. We complained to the Better Business Bureau of Worcester, showed them our bills, the advertisement, the prices we were charged, and also a comparison of meat prices from Snider Beef Co., a wholesaler, and Geigers North Worcester Market, a retail market that specializes in choice meats, as follows:

	Sniders, wholesale (per pound)	Geigers, retail (per pound)	H. Hill & Sons Co. (per pound)
Choice rump and round, bone in	$0.55	(1)	$0.74
Choice chicken fryers	.33	$0.39	.43
Choice pork loin	.55	[2] .63	[3] .69
Choice spring lamb	.60	[4] .79	[5] .75
Smoked shoulder	(1)	.39	.45

[1] Unavailable.
[2] Trimmed.
[3] Untrimmed.
[4] Oven ready.
[5] Bone in.

Their reply showed a statement from Mr. Hill that his meat prices had to include processing and delivery costs. Neither answered our question on our contract for these service costs when we signed that $749.95 freezer contract.

8. In August, a friend of ours checked with the Better Business Bureau and was told just what we had been told in June—the BBB never had a serious complaint of the H. Hill & Sons freezer food plan.

9. We know of other people that paid off their freezer contract and just did away with the plan because they, too, found that it was a very expensive proposition, not any savings.

10. We are now in the process of being sued by H. Hill & Sons for $1,200 for what they claim is the balance due on our contract, and all we have is a freezer worth less than $350.

This is their "savings" plan they are selling to approximately 1,200 families a year, according to Mr. Hill.

It is a good feeling to know that there is someone concerned with the consumer.

Very truly yours,

MRS. LEONARD THIBEAULT.

Father McEwen. Also a letter for the record from the commissioner of public welfare, and the essence of the letter is that people of low economic standards are a concern of the public welfare, the department of public welfare, and it goes on to say that it has been our experience that a great many, a great majority of these people are involved in installment buying, and it is obvious to the public welfare administrators in most instances they are quite unaware of the actual cost of such a plan. A bill such as S. 750 would give these people a clear and precise understanding of what are the involvements of installment buying, and we believe that such a bill is a step in the right direction for clarification, and it is signed by the commissioner, Robert Ott, commissioner of public welfare.

The Chairman. Thank you, that will be put in the record.

(The letter follows:)

THE COMMONWEALTH OF MASSACHUSETTS,
DEPARTMENT OF PUBLIC WELFARE,
Boston, November 4, 1963.

Rev. R. J. McEwen, S.J., Ph. D.,
Boston College,
Chestnut Hill, Mass.

Dear Father McEwen: Mr. James R. McPherson, management bureau director, administration and finance, has written to me regarding the public hearings in Boston on November 22 and 23 on S. 750. Due to previous commitments it will be impossible for me to attend these hearings but I would like to comment about this bill.

People of low economic status are the concern of public welfare departments either as actual or potential recipients of public welfare. It has been our experience that a great majority of these people are involved in installment buying. It is obvious to public welfare administrators that in most instances they are quite unaware of the actual cost of such a plan which becomes an impossible task for them to liquidate.

A bill such as S. 750 would give these people a clearer and more precise understanding of what are the involvements in such installment loans. We therefore believe that such a bill is a step in the right direction in clarifying the situation.

Respectfully yours,

ROBERT F. OTT, *Commissioner.*

Father McEwen. I also have a statement from the Maine Credit Union League. It is an official statement of the Maine Credit Union League with 150 credit unions as members and individual membership of 100,000. They have a strong continued interest in the passage of S. 750, the truth in lending bill. The question has had attention from the Maine Credit Union League because of the activities of the referee in bankruptcy, Mr. Richard Poulos, where a number of cases have come to his attention about the cost of these loans in which interest was charged over interest and interest on the previous total, and some lending institutions may be guilty of these practices, and violations, and are unaware of the fact. And therefore, these facts covered by Mr. Poulos are of concern to the Maine Credit Union League for consumer protection.

(The statement follows:)

STATEMENT OF THE MAINE CREDIT UNION LEAGUE

The Maine Credit Union League, with 150 credit unions as members, and individual membership of 100,000 has a strong and continued interest in the passage of S. 750, the truth in lending bill. At present the question has had attention in Maine because of the activities of the referee in bankruptcy, Richard Poulos, who has been involved with a number of wage earner plan cases under chapter III of the bankruptcy law. Many cases have come to his attention in the course of these proceedings involving loans on which interest was charged on interest and interest on the previous total. Some lending institutions in Maine have been guilty of flagrant violations of law. In these cases the victim was unaware of the fact until it was uncovered by Mr. Poulos.

The Maine Credit Union League therefore urges speedy passage of the truth in lending bill for consumer protection.

The CHAIRMAN. Thank you.

Father McEWEN. I will leave it to the discretion of the committee to omit or include individual names of the companies.

Senator BENNETT. I think we have a policy that we don't use the names unless specifically authorized. Leave them out.

Father McEWEN. And finally, Senator Bennett, something escaped me in the last hearings in Boston, till I read the transcript, and it appears that while I was out of the room and there was attempted in some way, I may be presumptuous, but I think you referred to testimony of mine at a previous hearing in Washington without mention of the author of that testimony, and I just want to—you may recall the incident, you asked a State representative or some other local representative whether he agreed with my proposition there should be Federal legislation, because the State legislators were under undue pressure?

Senator BENNETT. I remember.

Father McEWEN. As I say, you didn't identify the author, but I know I said that in Washington.

Senator BENNETT. I didn't want to embarrass you, that was the reason, not because I was afraid or ashamed, but just to protect you.

Father McEWEN. I understand that, but I am on the public record in Washington, and I believe that, and I believe it is true, and I don't believe it is particularly a reflection, I think it is a fact of life that local pressures are stronger on local individuals, and there is not much you can do about it. As a matter of fact, if you looked at the absence of any information about the truth in lending hearing in Boston newspapers this morning, it might draw a conclusion there is a pretty effective local pressure. That is one conclusion I draw.

At any rate I repeat that position, and I think it would be confirmed by many local politicians, and public servants, that it is extremely hard to resist pressures at the local level, and it would be very easy to have legislation on a national level on a national problem passed such as this bill.

Senator BENNETT. Well, I just want to make one comment. I certainly made no attempt, nor did I know of an attempt, so made to keep notice of these hearings out of the Boston papers. We have trouble in Panama, and I think they just flooded all of what the papers might have considered to be less important news, just washed them out.

Father McEWEN. I don't quarrel with your explanation, I didn't attempt to find an explanation other than this. Why were all the incidental trivial news mentioned in the morning papers, and no mention of the Senate hearing about it beginning this morning could be found?

Senator BENNETT. I was told there was a story in yesterday's paper, saying if you want to testify get in touch with Father McEwen.

Father McEWEN. I saw that, Senator, in yesterday's Record. But I carefully said this morning.

Senator BENNETT. So you weren't washed out entirely.

Father McEWEN. No, I carefully said this morning's paper.

Senator BENNETT. Also I wonder if this isn't a little bit anticlimactic, the second set of hearings, I think we were much more in the newspapers when we came up the first time.

Father McEWEN. That may be true, but I think the testimony and witnesses that you developed this morning are practically on no notice, an extraordinary indication of the sentiment and of the interest and the vital concern of these people for this particular matter.

Senator BENNETT. Weren't most of these people scheduled to testify last November? We had the names.

Father McEWEN. You had the names, it is the question of getting them to a date so quickly.

Senator BENNETT. Well, we have had since the 22d of November to notify them of the date.

Father McEWEN. The date wasn't set at the 22d.

Senator BENNETT. In other words, I don't think they came in here without notice; Colonel Coates is there on the front row. How long have you known these hearings were going to be held today?

Colonel COATES. Oh, let's see, about a week.

Senator BENNETT. So those names appeared in the previous list, I am sure Mr. Lindley gave them notice we were coming back.

Father McEWEN. Well, I am just saying today's hearings in my estimation have developed and shown a tremendous interest in this subject, and I don't think I agree with you that it was anticlimactic or a waste of time or anything else.

Senator BENNETT. I didn't say it was a waste of time, I said anticlimactic. Certainly I have had less interest expressed to me about the fact I was coming up today than I had when I came up originally.

Father McEWEN. Well, that may be. I have just to show you why I am interested in this, and why I think many churches and church people are. I would like to quote you one paragraph from a speech of His Eminence, Cardinal Cushing, which he gave to the Catholic Economic Association Convention last December 27 in Boston. He said:

> Well, Jack Kennedy, Lord rest him, conceived the idea of an Alliance for Progress, and there are those in Congress who want it continued, and others who want to reduce the amount of money that it required. It is true that most of the countries in Latin America do not cooperate with this Alliance. The reason is simple. In accordance with the program of the Alliance of Progress they could be profiting by the $10 billion the United States is ready to put into Latin America over a period of about a decade. The ruling class of these countries will not cooperate for the simple reason that one of the conditions for getting the money in is that they have to show evidence of a new economic system, a new social order. They have refused to do so because they know that if they do, they are depriving themselves of the vast sums of money. You cannot borrow money today in Boliva without paying about 21 percent interest, and you cannot borrow money in Peru without paying at least 18 percent interest.
>
> About 3 years ago when the national convention assembled here in Boston I asked the Knights of Columbus for $1 million, and they almost dropped dead. I wasn't going to get a penny of it. I said if they could give me $1 million and it only meant an annual contribution of 50 cents per member in the organiza-

tion for 2 years, I would increase it to $5 million within 3 years and we would use that money to make loans of not over $20,000 to any bishop, any religious superior, any pastor in Latin America who had a project beneficial to the people, and we would charge them only 2½ percent.

Those are the two paragraphs from the otherwise excellent address which will be printed later in the Review of Social Economics magazine, of which our esteemed chairman is one of the long valued members, to show you why we pay so much attention to this problem of interest charges on loans, and if you go back to the Psalms and find one Psalm in which usury and interest charges are there, and so there is a long history of our involvement with the lending of money and protection of the poor who are required to patronize the services of lenders. I give for the record for anyone that is interested in it, the latest copy of the usury bill that is filed last year in this State, that you are talking about this morning. I happen to have been in on this discussion of the usury bill that was talked about this morning, and I recall now that Mr. Malcolm, who represented the commissioners this morning, I also think his statement says he represented the First National Bank of Boston. If so, it was my information at that time that he had a leading part in drafting this usury bill which Mr. Lawton opposed, which he opposed which we opposed in the Consumer Association as weak and inadequate.

The CHAIRMAN. Because of its——

Father MCEWEN. Because of its exclusions and because of its 15-percent rate, I believe if you examine this document which is filed by the majority, Republican majority leader of the senate last year, you will find a list of exclusions here that are probably the same list that was referred to this morning.

The CHAIRMAN. You would like to have that in the record?

Father MCEWEN. You may have that to put in the record, if you wish.

The CHAIRMAN. Thank you.

(The usury law of Massachusetts follows:)

[Senate, No. 111]

By Mr. Graham, petition of Philip A. Graham for legislation to establish a usury law. Banks and Banking.

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Sixty-Three.

AN ACT ESTABLISHING A USURY LAW.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

SECTION 1. Chapter 107 of the General Laws is hereby amended by striking out section 3 and inserting in place thereof the following six sections:

Section 3. If there is no agreement or provision of law for a different rate, the interest of money shall be at the rate of six dollars on each hundred for a year, simple interest and no greater rate shall be recovered in a suit unless the agreement to pay it is in writing.

Where an agreement in writing exists to pay interest at a rate greater than that referred to above, which does not contain a stated period of time for which such rate is to be calculated, interest shall be calculated, at the rate mentioned, by the year.

For the purpose of calculating interest, a month shall be considered the twelfth part of a year and as consisting of thirty days, and interest for any number of days less than a month shall be estimated by the proportion which such number of days shall bear to thirty. The amount of money or value actually received or held at the time of the loan, forbearance or other transaction shall determine the amount of the obligation excepting that, in the case of a renewal of an obligation, the previous principal balance shall be added to the amount of value or money received to determine the amount of the new obligation.

The maximum interest permitted by section three B shall include all sums paid by or on behalf of the borrower for interest, brokerage, commissions, services, extension of loan, forbearance to enforce payment, and all other sums charged against or paid or to be paid by the borrower for making or securing, directly or indirectly, the loan, and shall include all such sums when paid by or on behalf of or charged against the borrower for or on account of making or securing the loan, directly or indirectly, to or by any person, other than the lender, if such payment or charge was known to the lender at the time of making the loan or might have been ascertained by reasonable inquiry. Notwithstanding the foregoing, the maximum interest permitted by section three B shall not include (a) an acquisition charge of twelve dollars and fifty cents if a loan is repaid in full on or within thirty days from the date it is made; (b) filing, recording or court costs, (c) reasonable attorney's fees for examinin title, passing upon security, drawing loan or security papers, collecting debts or realizing on security, when services of an attorney are utilized by the lender; (d) delinquency or collection charges on any instalment in default for a period of ten days or more which do not exceed five percent of the instalment; (e) reasonable charges or expenses for services applicable to a revolving check credit account in a bank; or (f) the cost of insurance either on collateral or the life of the borrower incurred by the lender in connection with the loan.

Section 3A. The provisions of sections three A to three E, inclusive, shal not apply to

(*a*) Any loan which is governed by sections seventy-two, ninety A to ninety inclusive, or ninety-six to one hundred and fourteen A, inclusive, of chapter on hundred and forty, by section nine of chapter one hundred and seventy-two or by sections one hundred and thirty-two, one hundred and forty-two or on hundred and sixty-two B of chapter one hundred and seventy-five;

(*b*) Any loan to a corporation, business trust or partnership;

(*c*) Any loan wholly or partially secured by certificates of stock, bonds, corpo ration or government debentures, certificates of deposit, warehouse receipts, bill of lading, bills of exchange or by notes receivable, accounts receivable, chatte paper, inventory or equipment of borrower's business;

(*d*) Any loan made for the purpose of engaging in a transaction supervis by the Securities and Exchange Commission or subject to the Securities Exchan Act of 1934;

(*e*) Any loan made to a receiver or trustee or other official appointed und the provisions of any section of the Bankruptcy Act of the United States;

(*f*) Any obligation for the unpaid purchase price of goods, services or insu ance or for charges in connection therewith, whether payable on an installme or revolving basis in one or more payments or otherwise;

(*g*) Any rent or other sum due under a lease agreement;

(*h*) Any loan made by a bank as defined in section one of chapter one hundre and sixty-seven, or by a national banking association, an insurance company, credit union or a federal savings and loan association, which is secured by a fir mortgage of real estate;

(*i*) Any loan as to which the principal sum, whether received at one time or two or more advances, exceeds five thousand dollars.

Section 3B. Regardless of whether interest is taken or calculated by way simple interest, discount, add-on or otherwise, no person shall, directly or in rectly, take or receive any money, goods or chose in action for a loan or forbearance to enforce payment of any money, goods, or chose in action whic if calculated on a simple interest basis, would exceed one and one quarter cent per month of the unpaid principal balances. Subject to the provisions section three A, the provisions of sections three to three E, inclusive, shall app to every loan or forbearance to enforce payment of any money, goods or cho in action in the commonwealth.

In the event of prepayment in full before maturity of the balance of any discounted or added-on loan a credit shall be given to the borrower for such prepayment which shall be substantially in the same proportion to the total amount of the interest charges as the sum of the scheduled periodical unpaid balances after the date of prepayment, as the date of prepayment is fixed below, is to the sum of all scheduled periodical unpaid balances under the schedule of payments in the original contract. Such computation of rebate shall be made on the principle of the so-called "Sum of the Digits Method" or the "Rule of 78". If the prepayment is made other than on an instalment due date, it shall be deemed to have been made on the first instalment due date if the prepayment is before that date and in any other case it shall be deemed to have been made on the next preceding or next succeeding instalment due date, whichever is nearer to the date of prepayment. Where the amount of the credit for prepayment is less than one dollar, no refund need be given.

Section 3C. Upon request of any borrower made within two years of any payment of principal or interest, a lender shall give to the borrower a written receipt for the payment showing the date of the payment, the amount paid and the names of the borrower and lender. If the request or a confirmation of an oral request is in writing, any lender who refuses to give a receipt under this section shall forfeit all interest on the loan remaining unpaid.

Section 3D. The borrower and his heirs, executors, or administrators may plead the benefit of the provisions of sections three to three B, inclusive, as plaintiff or defendant.

Section 3E. If a lender knowingly takes or receives interest at a rate or in an amount greater than permitted by section three B, he shall be punished by a fine of not less than one hundred nor more than one thousand dollars or by imprisonment for not less than one month or more than six months, or both, and shall forfeit all interest on the loan or forbearance remaining unpaid.

If a borrower pays to a lender interest at a rate or in an amount greater than permitted by section three B, he may recover from the lender in an action of contract or a suit in equity, if brought within two years of the payment, double the amount of all interest paid on the loan or forbearance, his costs, and, if the services of an attorney are utilized, reasonable attorney's fees.

Nothing contained in section three to three E, inclusive, shall entitle the borrower or any other person to assert affirmatively, by way of defense or otherwise, that any loan, debt or security is void, voidable or unenforceable except to the extent provided in this section.

SECTION 2. If any section or clause of sections three to three E, inclusive, of chapter one hundred and seven of the General Laws, inserted by section one of this act, is held invalid or unconstitutional by a court of competent jurisdiction, the remainder shall not be affected thereby.

SECTION 3. The provisions of section three to three E, inclusive, inserted by section one of this act, shall not apply to or affect any contract or agreement in existence prior to the effective date of this act.

Father McEWEN. That is a sample of the bills that were filed to allegedly regulate usury last year.

The CHAIRMAN. Father, I want to thank you for the interest you have taken in this problem over the years and your devoted services which in my mind is beyond comparison.

Senator BENNETT. And I would like to add my expression of appreciation to Father McEwen. We don't agree on everything, but I appreciate his attitude and his forthrightness, and I am sure this is an honest approach to the problem from his point of view.

Father McEWEN. Thank you, Senator, I appreciate it.

The CHAIRMAN. Well, if there are no further witnesses, the hearings are concluded.

Senator BENNETT. Well, I have a final closing summarizing statement that I would like to offer for the record.

The CHAIRMAN. That will be included. Thank you.

(The closing statements of Senators Bennett and Simpson follow:)

STATEMENT OF SENATOR WALLACE F. BENNETT, OF UTAH

Another year of hearings on the so-called truth-in-lending bill is drawing to a close with today's session in Boston.

We thank the citizens of this great Commonwealth for their hospitality, and we appreciate the time and effort contributed by those who have appeared as witnesses on both sides of this question.

In the past 4 years, the hearings on this bill have resulted in more than 3,000 pages of testimony. I have attended every one of those hearings, and have heard every word of testimony.

To one who studies this record without preconceived notions, it is apparent that this bill is unwise, unsound, unworkable, and—if this is to continue to be the land of the free—it is unthinkable.

In the last 4 years, the subcommittee has considered many phases of the legislation before us.

We have considered its economic pretentions as a contracyclical force in the economy and found no evidence at all that it would have such an effect. The best evidence is to the contrary. The Chairman of the Federal Reserve Board said in 1961 that:

"Cyclical expansion and contraction of consumer installment credit reflects in large part changes in the availability to consumer lenders. Such changes in availability are responsive to general monetary policy and are reflected primarily in the application of more or less restrictive standards or terms rather than in higher or lower finance charges."

Later in the hearings, Mr. Martin said:

"If consumer finance charges actually did fluctuate with economic cycles, knowledge of the total cost of consumer credit itself would tend to have contracyclical effects. However, finance charges on consumer installment credit, a major area that would be covered by the bill, have not shown much fluctuation in response to cyclical changes in the availability of credit during the postwar period. Also, it is hard to find evidence as to consumer responsiveness to the changes in charges that have occurred. Consumer installment credit has been more responsive to changes in terms, such as maturities and down payments, and in credit standards of lenders, than to changes in finance charges."

One economist commenting on the economic theory on which this bill is founded characterized it as a "phantom mountain made out of a nonexistent molehill."

We considered also a great many consumer experiences arising out of a variety of credit transactions, and we saw over and over again that the abuses complained of would be untouched by this bill. The complex regulatory provisions of S. 750 would provide no benefit at all to an unfortunate but gullible buyer or borrower who signs a blank contract or does not read the agreement. It would leave untouched the oppressive collector, the loan shark who even now operates outside the law, the high-pressure salesman, the vendor of overpriced or shoddy merchandise, the fly-by-night, door-to-door peddler, the pack in a sales finance transaction, the misleading advertiser, the bait-and-switch operator, the man who sold a vacuum cleaner as an air purifier, the shell-house abuses, the debt consolidator and a host of other "villains" recorded in our 3,000 pages of record.

We considered whether regulatory action of this kind was best handled by the State government or the Federal Government, and observed that the great majority of consumer credit transactions in the United States are now controlled by comprehensive State legislation, and that each session of the State legislatures brings new statutes and modifications of old ones.

We considered whether Federal legislation—if any—should be administered by the Federal Reserve Board or the Federal Trade Commission, and we observe that the author of the bill has persisted in his proposal to assign this responsibility to the Federal Reserve Board, notwithstanding recommendations of the Chairman of that Board and the then President of the United States to the contrary.

But, most important of all, we have considered whether or not this bill does, in fact, reach the truth.

In labeling it the "truth in lending bill," its proponents devised a catchy title which implies that anyone who opposes it is against truth.

Certainly no honorable person opposes truth, but it is something else again to condemn the improper use of the word when it is mixed with invalid assumptions and taken out of context.

The greatest enemy of truth is not the lie, the direct contradiction of the truth—deliberate, contrived, and dishonest—but it is an undisclosed purpose lurking behind a high-sounding title or banner.

The author of this bill contends that its aim is to provide more information about the cost of credit, in order to help consumers use credit more wisely.

In truth, this bill was conceived in confusion and delivered in distortion. Instead of throwing light and increasing information, it would, in fact, mislead the consumer and reduce the information now available.

The central assumption in this bill is that every charge of any kind in connection with a consumer credit is, or can easily be translated into, both a simple annual rate and into dollars at the inception of the transaction.

Let us go back over some of the things we have learned in these hearings, and test whether or not that assumption is valid.

Let us begin with the credit unions, because among all credit grantors, most of these have supported this bill. The credit union movement makes an important contribution to our society, and its leaders, many of whom are volunteers, deserve commendation for what they have accomplished. Earlier in the hearings, the chairman and I both indicated that we were members of credit unions. As one witness said:

"The credit union is a cooperative. It encourages thrift and makes the group's savings available to its own members in need of loans. Credit unions have lower costs than commercial lenders because of donated services, intimate knowledge of loan applicants, and free office space. Their exemption from Federal income tax and excess profits taxes on corporations has also been important in recent years of high tax rates. Although credit unions have enjoyed steady growth since 1909, they account for but a small fraction of total consumer loans."

There is no question but that credit unions are honestly and ethically run, but despite this, they are not complying with the proposals of the Douglas bill, and they could not comply without a substantial change in their present procedures. It is true that it would not be difficult for them to state their credit charges in terms of a true annual interest rate, and the reason it would be simple is because they now use that system. One of their brochures describes their terms this way:

"Interest is computed at the rate of four-fifths of 1 percent per month on the unpaid balance and is charged from the date your note is issued. You pay for the exact number of days you actually use the money you borrow. If you hold $50 for 23 days, you pay 23 days' interest; no more."

In this case of a pure rate computed on the exact number of days, it is accurate to multiply the stated monthly interest rate by 12 to arrive at the annual rate. There are two elements to the credit union transaction that may, however, make that stated rate somewhat inaccurate, and we discussed them both last year. One is that the nonmember who applies for a loan must purchase at least one share in the credit union at a cost of $5.25. It might be useful, Mr. Chairman, to include in the record a consumer credit union loan application form indicating this fact.

(The loan application form is reproduced as follows:)

NAVY FEDERAL CREDIT UNION

LOAN APPLICATION

NFCU Form 9163 7566

☐ ENTER "X" if applying for membership.

ACCOUNT NO | SUFFIX

IDENTIFICATION

Last | First | Middle | AGE | DATE OF BIRTH

NAME OF SPOUSE | First | Middle | NO. OF CHILDREN | HOME PHONE

CURRENT ADDRESS | Street | City | State

PERMANENT ADDRESS

LOAN REQUEST

A loan from your credit union is actually a loan from the military and civilian personnel of the Navy Department. They must bear any losses resulting from delinquency. The approval of this application is therefore predicated upon your assurance to them that this obligation will be met promptly.

☐ I AM A MEMBER | ☐ IF NOT A MEMBER: I enclose $5.25 (check or money order) to purchase one share and pay membership fee

I request a Loan (in addition to any existing balance) and agree to repay in the number of months indicated | AMOUNT OF FUNDS NEEDED $ | NO. OF MO.

PURPOSE OF LOAN

I prefer my payments to be due each month on | DAY OF MONTH | COLLATERAL OFFERED

I will repay this loan by ☐ EXISTING ALLOTMENT ☐ NEW ALLOTMENT ☐ DIRECT REMITTANCE | AMOUNT OF ALLOTMENT $

CREDIT CAPACITY

ANNUAL SALARY $ | RANK OR GRADE | SERIAL NO. (IF MILITARY) | TRANSFER DATE | ☐ REGULAR ☐ RESERVE | RELEASE DATE

SPOUSE'S SALARY $ | HER EMPLOYER'S NAME | ADDRESS

OTHER INCOME $ | SOURCE OF OTHER INCOME | APPLICANT'S YRS. OF GOVT SERVICE

DUTY ACTIVITY | OFFICE PHONE

ADDRESS OF ACTIVITY | SUPERVISOR/REPORTING OFFICER

List all indebtedness for loans, merchandise, or services and outstanding balance on notes which you have cosigned. Attach additional sheet if necessary.

	CREDITOR	ADDRESS	MO. PAYMENT	UNPAID BAL.
1			$	$
2			$	$
3			$	$

RENT MONTHLY $ | MORTGAGE PAYMENTS MONTHLY $ | EQUITY IN REAL ESTATE $ | LOCATION

PRESENT AUTO | MAKE | MODEL | YEAR | AUTO FINANCED BY

NAME OF NEAREST RELATIVE NOT LIVING WITH YOU | ADDRESS | RELATIONSHIP

I hereby certify that all statements submitted for the purpose of obtaining credit are true and complete, and expressly authorize any person, association, firm, corporation, or personnel office requested by this Credit Union to furnish information concerning me or my affairs. | SIGNATURE | DATE

FOR OFFICE USE ONLY

LOAN BALANCE | SHARE BALANCE | MO. PAYMENT | INTEREST RATE

DUE DATE | PERIOD DUE | COMPUTE FROM DATE | DAYS | PURPOSE CODE | OLD LOAN BALANCE $

COLLATERAL CODE | [illegible] | INITIALS | INTEREST DUE ON OLD BALANCE $

CREDIT COMMITTEE ACTION | [illegible] | LOAN BALANCE REFINANCED $

At a meeting held on the above date, we approved a loan in the amount and on the conditions requested by the applicant, except as to the following (list any changes in amount, terms, or conditions): | CASH TO MEMBER $

TOTAL OF NEW NOTE $

NO. OF PAYTS. | [illegible] DUE

LOAN PAYMENT $

CREDIT COM. [illegible] | CREDIT COM. [illegible] | AMOUNT TO SAVINGS $

1. | 2. | 3. | 4. | 5. | TOTAL MO. PAYMENT $

OVER

This $5.25, of course, will have an insignificant effect on the rate if the loan is substantial, but if the loan is in the vicinity of $50, the lender will only receive a net of $45 and the distortion of his rate will be somewhat larger.

Now, in pointing this out, I wish to be clear that I do not object to it in any way. It is a very fair and reasonable requirement. But, it is unique to credit union loans, and it would make no more sense to ignore it in arriving at a true

LOAN APPLICATION (REVERSE) (Complete if Applicable)

CO-MAKER'S STATEMENT

CO-MAKER'S NAME Last First Middle				NFCU ACCOUNT NO	SUFFIX
CO-MAKER'S ADDRESS				DATE OF BIRTH	PHONE
EMPLOYER		EMPLOYER'S ADDRESS			PHONE
POSITION	RANK OR GRADE	ANNUAL INCOME	YRS OF SERVICE	IF MILITARY, SERIAL NO	RELEASE DATE
CO-MAKER'S SPOUSE					
CREDIT REFERENCES					

List of indebtedness for loans, merchandise, or services and outstanding balance on notes which you have co-signed. Attach additional sheet if necessary

NAME OF CREDITOR	ADDRESS	MONTHLY PAYMENT	UNPAID BALANCE

I understand that as a co-signor I make myself equally liable with other signers of the note. I certify that all statements made for the purpose of obtaining credit are true and complete and authorize any person or organization to furnish information concerning my affairs	SIGNATURE OF CO-MAKER	DATE

Fold Completed Portion Inside

FROM ____________

____

____

ACCOUNT NO. ____________

PLACE STAMP HERE

NAVY FEDERAL CREDIT UNION
Main Navy Building
Washington, D.C., 20360

(COMPLETE IF BUYING A NEW OR USED AUTO OR PLEDGING YOUR PRESENT AUTO AS COLLATERAL)

AUTOMOBILE LOAN SUPPLEMENT

DESCRIPTION

☐ NEW CAR	☐ USED CAR	☐ PRESENT CAR REFINANCED	MAKE OF CAR	BODY TYPE	MODEL NO.	NO. OF CYL.	COLOR
DEALER OR FINANCE CO				AUTO SERIAL NO.		
ADDRESS				DELIVERED PRICE INCLUDING ALL EXTRAS $		

INSURANCE

I agree to conform to the following insurance requirements

(a) To list Navy Federal Credit Union as loss payee for the full term of the loan paying the premium in advance for at least one year

(b) To supply at least minimum coverage for Collision and upset—$100 deductible. Comprehensive—No deductible (full cash value of car)

LESS DOWN PAYMENT $

BALANCE DUE SELLER $

IF REFINANCING NET PAY OFF $

NAME OF INSURANCE CO	PREMIUM HAS BEEN PAID THRU ☐	DATE
ADDRESS	PREMIUM WILL BE PAID THRU ☐	

TITLE

I agree to forward title to above described auto to the Navy Federal Credit Union immediately upon receipt of the proceeds of this loan or as soon thereafter as title is received from the motor vehicle authority of	Enter State
Exact Names in which Registered	Exact Address on Registration

simple annual rate than it would to ignore a $5.25 charge for credit investigation by some other type of lender.

A second feature of credit union loans is that they commonly contain a provision that in case of nonpayment "all costs of collection, including cost of suit and attorney feees in an amount equal to 20 percent of the principal and interest due on this note" shall be paid by the debtor. (We might put such a note in the record too, Mr. Chairman. Both sides please.)

(The note mentioned is reproduced as follows:)

PROMISSORY NOTE

Account No.________

$________

MADE this________day of________19____, by________
(NAME)

____
(ADDRESS)

FOR VALUE RECEIVED, the undersigned, jointly and severally, promise to pay to the Order of the NAVY FEDERAL CREDIT UNION at the Main Navy Building, Washington 25, D. C., the principal sum of ________ dollars with interest on the unpaid balances at the rate of 4/5 of 1 per cent per month payable in ________ installments of $________ each including interest. The first payment to be made on ________ and a like amount on the ________ day of every month thereafter until the full amount has been paid, hereby pledging as collateral security for payment all paid shares and payments on shares which the undersigned now have or hereafter may have in the NAVY FEDERAL CREDIT UNION and I/we hereby authorize the NAVY FEDERAL CREDIT UNION to apply any or all such paid shares and payments on shares to the payment of this note and interest, costs, or expenses that may accrue thereon.

The terms and conditions stated on the reverse side hereof constitute a part of this promissory note.

In testimony whereof the undersigned have hereto set their hands and seals.

________ ________(SEAL)
Witness Member

________(SEAL)

________ ________(SEAL)
Witness

NFCU-23-PN 8/62/10M

TERMS AND CONDITIONS

It is understood and agreed by each party hereto that upon leaving the field of membership any balance then owing on this note shall become immediately due and payable, at the option of the holder.

In case of any default in payments as herein agreed, the entire principal balance of this note plus interest at the rate of one per cent per month on unpaid balances shall become immediately due and payable, at the option of the holder.

It is further agreed by each party hereto, that in case payment shall not be made at maturity, he shall pay all costs of collection including costs of suit and attorney's fees in an amount equal to twenty percent of the principal and interest due on this note.

This again is a fair and reasonable requirement, and I do not criticize it, but it is still a charge which may have to be paid by the person to whom the credit is extended "in connection with, and as an incident to, the extension of such credit," and unless Senator Douglas amends his definition of "finance charge," the credit unions will have to figure out some way to reduce this contingent charge to a fixed dollar amount and to a simple annual rate before consumation of the loan.

But, there is a more serious problem that the credit unions have not dealt with, and that is the statement of the finance charge expressed in dollars and cents. You see, because the rate is fixed, the dollars and cents will vary depending upon the payment pattern of the borrower.

For example, on page 501 of the 1961 hearings, a credit union set out the repayment schedule of a typical credit union borrower who received a loan of $1,200 repayable in 1 year. The borrower made his final payment exactly 365 days after his original loan, and he paid a total interest charge of $74.22.

If the Douglas bill had been law, the credit union would have been required to commit in writing to its borrower that the interest charge would have amounted to $79.42 but it would have actually collected the lesser sum $74.22. Is this a falsehood, a fraud, or an untruth? Certainly not. The credit union accurately and truthfully told its borrower exactly what the rate charge would be, and his irregular payment pattern caused the dollar charge in this case to be lower than predicted.

But, despite these problems, credit union loans are easy, compared to some and his actual interest cost had been about $5 more than he had been told? How is he to know whether the interest rate is the "true" part of his agreement or the dollar amount is "true." They both cannot be.

But, despite these problems, credit union loans are easy, compared to some other types of transactions to adapt to the Douglas bill because:

(1) The charges on money loaned are computed now as true interest.

(2) They are based on a single initial loan, probably of an even amount such as $50 or $100.

(3) Interest charges accrue from the first day of the loan.

(4) Since only one rate is involved, one set of tables—a single table for each number of days—is readily usable.

(5) While there can well be variations in payment patterns, credit union offices are generally located at places of work and repayments are apt to be as regular as paydays.

(6) Payments are roughly equal in amounts.

REVOLVING CHARGE AGREEMENT

On the other hand, compare the revolving charge agreement which many witnesses have done:

(1) Merchandise is sold with many resulting problems; for example, money is seldom returned to a lender because "it doesn't fit."

(2) The purchases are not in one initial sum but in several irregular amounts on different days during the month.

(3) No charge is assessed until 30 to 60 days after the purchases, during which time a customer may have paid for them without any charge.

(4) Then the charge is a straight 1½ or 1 percent of the outstanding balance at the beginning of the month. It is not based on the "average outstanding unpaid balance" during the month because that figure—which could be calculated only by balancing the account daily, adding the daily balances and dividing by the number of days in the month—cannot readily be calculated, even on a machine, nor can it be determined from a table.

(5) Because a customer must come to the store or mail in a check or money order, payment patterns are somewhat irregular compared to credit unions.

(6) Payment amounts are irregular, too, thus further complicating the use of charts.

To their credit, Senator Douglas and Senator Proxmire have recognized this problem and made some effort to meet it.

Senator Douglas amended his bill to provide a special section for revolving charge but still has not suggested any way of making the calculations except to multiply the monthly charge by 12 and call it an annual rate, whether it is or not.

Professor Vancil ably demonstrated, as have other witnesses in these hearings, why this is not truth.

On this point, Mr. Chairman, I would suggest we include in the record a very-well-reasoned article in the magazine State Government by Prof. Barry Richardson, Bethany College, West Virginia, on revolving charge. Professor Richardson illustrates how 1½ percent a month on a revolving charge account might in some transactions be more economical than a 1 percent a month credit union loan. He neither supports nor opposes the bill before us, but he does urge State legislation. (See p. 1138.)

So, we see that the Douglas bill would not arrive at the truth in revolving charge account transactions.

More than 2 years ago, Senator Proxmire, one of the sponsors of the bill, called this "a difficult and perplexing problem" and said "we have to solve it." But, it has not been solved yet, and it will not be because it cannot be, within the proscriptions of the chairman's simple annual rate concept.

The author of this bill in these hearings and recently on television, I am told, has said that it doesn't matter at all if the statements of "simple annual rate" are not accurate and precise.

"Everything is approximate," the chairman said. "We are approximating the truth."

Approximating, indeed. Since when can truth be approximated?

RETAIL INSTALLMENT SALES

While we are dealing with retailing, let us look at the retail installment sale of big ticket merchandise:

(1) This is a sale of merchandise, so the price of the same object can vary from store to store.

(2) The sale is made for a single initial amount but additions of new purchses during the life of the contract are common.

(3) Tables are commonly used to determine dollar amounts to be added to the cash price to determine the credit price. At first blush this would suggest that an annual rate could be determined, but look what happened in our hearings:

In 1961, a witness on behalf of a large nationwide retailer, whose credit charge tables are fully set out in a mail order catalog, testified against the bill. The chairman made some calculations and told the witness:

"Whether you know it or not, in practice your company's rate of finance charge is somewhere between 13 and 14 percent."

The witness dissented but the chairman was very firm in his opinion.

Then this summer, is our Louisville hearing, a witness in favor of the bill announced that he had reviewed exactly the same tables and found rates ranging from 48 to 63 percent.

Well now, who was telling the truth? The chairman or his witness?

Suppose the retailer had followed the chairman's suggestion and published the rates the chairman found to be "true"—wouldn't he have had a hard time explaining himself to the teacher in Louisville.

No, the truth is not to be found in the vagaries of "simple annual rates" which can be calculated in such a variety of ways even by those who agree on the bill.

The truth is that merchandise is sold for dollars. The true comparison lies in dollars. A washing machine which costs $140 cash plus $24 for credit can readily be compared with one which costs $160 cash plus $18 for credit, without simple annual rates.

The truth is that one machine costs $164 on time and the other costs $178 on time. The committee has yet to hear of or from a consumer who was unable to distinguish between those two.

REAL ESTATE MORTGAGE LOANS

We have considered real estate mortgage loans made by banks, saving and loan associations, and others.

Here, we find, is the kind of transaction in which it is meaningful to work with the simple annual rate concept.

These are large single transaction loans; the payments are made in a fairly regular time pattern and in even amounts.

Tables are useful because the lender and borrower generally agree on a rate and then look at a table to determine the payments.

Understandably, institutions which deal entirely in real estate loans, such as mutual savings banks, have agreed that the bill will not be seriously offensive to them.

Two interesting points came out of the testimony of the National Association of Savings Banks in 1960.

First, the chairman asked the witness if it would be proper to require the real estate lender to state the total dollar amount of the interest charges payable over the full period of the loan and, the witness said that such a statement would assume that the loan would be carried to full maturity by the borrower when in fact this would not be typical, as the normal loan was paid off well before maturity.

In other words, in the case of real estate loans, it would be true to state the annual rate at which interest would be charged, but it would be untrue in the normal case to give importance to the total dollar amount of the finance charge because it would be founded on a demonstrably improbable assumption.

There is one other point in the testimony of the mutual savings banks that I commend to those of my colleagues and any others following this matter who genuinely contend that a big real estate loan and small retail transaction should be handled with the same kind of paperwork.

The witness stated that his average loan was in the $12,000 to $15,000 range but that he made them as low as $1,500 and handled the small ones "exactly the same."

But, in response to a question from the chairman, he said if he had all $1,500 loans he would not merely have to change his program, he would be out of business.

The annual revenue to a mortgage lender from this $1,500 minimal loan would be around $75.

The proponents of this bill would impose the same kind of paperwork on a retailer or small lender whose annual revenue from his normal transaction is a good deal less than $75—probably less than a tenth of that.

Clearly, the witnesses from the mutual savings banks were fully aware of the great difference between mortgage loans and other credit transactions when they urged strongly that the author deal with the mortgage loans in a separate section of his bill.

And, so we see again that even with large real estate loans, a type of transaction most easily adapted to this bill, that "the truth, the whole truth and nothing but the truth," as the chairman is fond of saying, is to say the least imperfectly derived from the bill before.

Consumer Finance or Small Loan Companies

Consumer finance or small loan companies operate in something over 40 States having workable small loan laws.

These laws were developed in the early part of this century after several years of experimentation and a long and careful study under the auspices of the Russell Sage Foundation.

These institutions have been a valuable source of small loans for wage earners for many years. They have been licensed and strictly regulated by States. They were practicing full disclosure in every sense of the word long before this committee had any awareness of what the term meant.

Typical charges are 3 percent per month computed on the unpaid balance for loans under $300.

Now this is pure interest and is computed as such. It could be stated as an annual rate of 36 percent. The question is should it?

And, this is exactly the same question that faced the people who studied this problem as an original matter when no loans of this type were available. There was no reason at all why the Russell Sage Foundation draft could not have provided for an annual rate if its findings had been that it would be meaningful. The chairman, himself, told us during the 1960 hearings that he was an old friend of one of the original investigators for the foundation, and stated that he was a man of good principles and high motives.

Clearly, this is strong evidence that, even where an annual rate can be stated in a transaction of this kind, a monthly rate means more to the borrower. If such a conclusion was valid 50 years ago when there were no ethical small loan institutions, how much more valid it is now after we have many years of experience, a long history of State regulation and certainly many, many thousands of borrowers educated in the present system.

We have not, as far as I can recall, been offered any evidence that small loan borrowers do not understand what they are paying for their loan or that they have been deceived in any way.

OTHER TRANSACTIONS

This by no means exhausts the many problems we have seen in connection with this bill. The record is full of them.

We have seen a check credit plan in which rates are 1 percent a month plus 25 cents a check. The simple annual rate cannot be calculated accurately without knowing how many checks will be written. The dollar charge cannot be computed until the amounts of the checks are known.

We considered construction loans in which the rate is known but the dollar charge cannot be predicted because it is not known when the various progress payments will be made.

We were reminded in Louisville, of the premium loans many of us have on our insurance policies and which may go into effect automatically to protect us against a lapse of our policy if we overlook a premium.

The rate may be given but the amount of the loan is uncertain until it is actually in effect and the dollar amount of interest is unknown until actual repayment.

We are reminded of the simple demand note used by many banks and borrowers. The rate is specified but the time is undetermined, so the dollar amount cannot be determined.

We learned here in Boston of the letter-of-credit form of automobile financing in which the bank commits itself in a letter to a prospective car buyer to loan him what he needs to finance a car up to a certain maximum amount. With this letter in his hand, the car buyer shops for his car and when he makes his deal and buys it he uses part of the letter as a draft by filling in the actual amount himself. Until the draft is presented for collection, the lending institution does not know how much actually has been borrowed and until then certainly cannot compute the amount of the interest.

In summary, we see a multitude of credit transactions in which the time period and the total amount of the credit, or both, are uncertain or undetermined at the outset of the transaction. We see others, such as the credit union loan or revolving charge agreement, in which the time pattern is scheduled but may not be followed.

And, in every such transaction, if the rate is fixed, the dollar charge will vary and if the dollar charge is fixed, the rate will vary. Either way one of them is uncertain and therefore cannot be set forth in writing *before* consummation of the transaction. The proponents of this bill have yet to deal with this problem.

TRUTH

And, so we come back to truth.

We have examined the so-called truth-in-lending bill in the context of some of the transactions it seeks to regulate.

And, we found that the bill will not operate to search out the truth. It does not even use the word "truth" subsequent to its title. It does not require that lenders and credit granters tell the truth in all respects. It does not even prohibit falsehoods, deceptions, or misleading statements as such.

What the bill does is try to define the truth—and I quote from the bill: "* * * to the extent applicable and subject to rules and regulations prescribed by the Board."

Now, a bill that really has something to do with truth should contain a reference to truth somewhere else besides the title. More than that it should not have to provide that following its approval, a series of regulations by the Federal Reserve Board or the Federal Trade Commission must be devised and promulgated before we can find out what will be considered as true and what will not.

I yield nothing to the proponents of this bill in espousing the cause of truth and in condemning falsehoods, deceit, or misleading practices of any kind.

If this bill really dealt with truth, I would support it in an instant. It does not do so.

No necessity for this legislation has been shown. Such credit abuses as have been described by this committee would not be reached by this bill. On the contrary, incalculable mischief would be worked on the consumer and on the consumer credit segment of our economy. Clearly the proponents have not proved their case and the bill should not be approved.

CONCLUSION

I would like to close on a positive note. Despite my disagreement with the chairman on his bill, I think he and I would agree that an educated consumer is a better bulwark against the unwise use of credit than any legislation we could possibly devise.

I have been impressed several times during these hearings with the amount of education now in process.

The AFL–CIO told us something about their programs in this area and in the 1961 record we have a copy of their pamphlet. It's a healthy thing that they have addressed themselves to this subject and sent literature on it to their members and I think they should be commended for it and should do more of it.

In 1960, we saw a copy of a publication by the National Foundation for Consumer Credit which had been prepared with the help of an advisory group of 50 educators and which had been distributed to some 1,500 secondary school systems. This, too, is a commendable effort in consumer education.

In 1962, Mr. Weaver showed us a very informative pamphlet prepared by the Housing and Home Finance Agency relative to FHA-insured loans, and he told us that some 350 banks had distributed a quarter million copies of this pamphlet. This is an excellent illustration of what a Federal agency can do in its field of special competence.

State government, too, showed that it can act vigorously in this field. In New York the attorney general's office and the banking department have teamed up to distribute millions of consumer education pamphlets in English and in Spanish. And Mr. Walsh, the assistant attorney general of New York, told of how his office went to the public through the press, radio, TV, and other means to head off a developing racket in shell houses before it started and he said this effort was successful.

I know, too, the credit unions have excellent publications through which they reach their 11 million members.

These things are to be greatly commended, and I think this is something which all of us, proponents and opponents of S. 750 alike, can use our best efforts to encourage.

I would hope that we can find a consensus on many things of this nature which will contribute to consumer education and thereby strengthen our society and our economy.

(The article previously mentioned follows:)

[From State Government, summer 1963]

> Revolving credit—often known as a budget account or budget charge account—has come into widespread use in American merchandising, as the author of this article points out, and in the last few years 12 States have adopted legislation to regulate it. To date, however, laws concerning it are by no means so common as legislation on installment selling of the traditional kind, which, in contrast to revolving credit, usually involves an initial downpayment and usually pertains to single purchases of relatively costly durables. The author, who is assistant professor of economics at Bethany College in West Virginia, here presents a number of the factors involved. He concludes that to protect both consumers and honest merchants against a small number of "sharp sellers," States lacking legislation in this area should consider regulatory measures.

STATE REGULATION OF RETAIL REVOLVING CREDIT

(By Barrie Richardson)

The emergence of revolving-credit selling is an especially dramatic postwar achievement. In 1946, revolving credit amounted to only a few million dollars. Today it is estimated at more than $3 billion. It is flourishing because merchants find it profitable, and consumers find it desirable to make use of this convenient purchasing plan. Because of its capacity to please both buyer and seller, revolving credit should continue to grow in absolute volume in at least the next 5 years. As it continues to play a greater and greater role in consumers' budgets, its inequities or potential abuses will be magnified. However, any attempts by the courts or the legislatures to intercede in this area could have profound repercussions on both the merchants and the users of this popular type of credit.

A discussion of a few of the pertinent questions that have arisen on the subject follows.

THE ORIGIN AND NATURE OF REVOLVING CREDIT

Wanamaker's, a department store in Philadelphia, first publicized a revolving-credit plan in 1938, and it reputedly was the first to do so. Unlike contemporary plans, this embryonic program required no explicit finance charge, and its use was limited to established charge-account customers, who were given the prerogative of repaying their "charge" obligation in three or four monthly installments. Prior to World War II, several other department stores, including Filene's of Boston, Bamberger's of Newark, and Bloomingdale's in New York City, initiated their own revolving-credit plans, requiring an explicit service or finance charge. The major growth of revolving-credit plans, however, has occurred in the last decade, in which almost all department stores, mail-order houses, hardware, variety goods and soft goods sellers have offered, and vigorously promoted, varieties of revolving credit.

American consumers daily utilize revolving credit to purchase a large number of diverse items from the whole spectrum of retail institutions. For example, consumers can and do purchase vacuum cleaners, chic formal frocks, permanent waves, watch-repairing services, zippers, 10-pound bags of nails, outboard motors, dog food, and playing cards on revolving accounts.

Revolving-credit agreements are called by a number of names, such as budget account, revolving charge account, budget charge account, and special charge account. They all represent a "marriage" of conventional charge-account plans with conventional installment credit plans. Users of revolving credit are given a right formerly reserved for established charge customers—to purchase any item without an immediate cash payment. Customers are similarly given the option of partial payment of the total obligation, heretofore associated with installment selling of high-priced durables.

Revolving-credit plans today are in a fluid state. Two years ago the most typical plan was an inflexible one which limited the customer to a predetermined, agreed-upon credit limit and monthly payments. Today the flexible plan, or one in which the customer is given a degree of latitude in establishing his own credit limit and monthly payment, appears to be the most common. The following exhibit is representative of revolving-credit patterns in effect across the country.

Representative flexible revolving-credit plan

If the unpaid balance is:	The monthly installment will be:[1]
\$0.01–\$10.00	\$10.00
10.01–100.00	15.00
100.01–150.00	20.00
150.01–200.00	20.00
200.01–250.00	25.00
250.01–300.00	30.00

[1] Plus a 1.5 percent finance charge on the unpaid monthly balance.

Although revolving-credit plans vary greatly, they all have one thing in common—a contractual agreement between the buyer and the seller which governs the customer's subsequent purchases. These agreements, in turn, exhibit a great deal of variance, but normally the following provisions are specified:

1. The customer is given an agreed-upon credit limit.
2. All purchases made during a monthly interval are lumped together in one total bill.
3. No service or finance fee is charged if the account is paid in full before the first billing period.
4. When the customer elects to pay the obligations in installments over a period of time, the finance charge is usually based on the amount of credit outstanding at the billing date.
5. The minimum payment, the finance charge and the credit limit are prearranged. As long as the account is not delinquent or overdrawn, the customer is free to make additional purchases without additional visits to the credit department.
6. No security lien is normally kept by the seller. The legal relationship is usually that of the seller on open charge.

7. Termination of the credit agreement is permitted at any time by prior notice, but the termination will not alter past agreements.
8. Total payment of the outstanding balance may be made at any time without penalty.
9. The customer is furnished with a monthly statement of charges.

LEGAL STATUS

The two basic types of consumer credit are cash credit and merchandise credit. They are regulated by different common law precedents and differing patterns of statutory law.

Cash lenders are limited to maximum interest charges established by State laws. For example, State usury ceilings in Arizona are 6 percent legal interest and 8 percent contract interest. Cash lenders cannot operate profitably within the State usury ceilings. Therefore, Arizona, like most other States, allows licensed lenders to charge finance fees in excess of the above usury ceilings, but within the confines of statutory small-loan provisions. By allowing private enterprise to serve borrowers at a maximum of 3 percent a month, Arizona, like many other States, has greatly diminished the number of "loan sharks."

In all States except Arkansas installment sellers of automobiles, home appliances, boats, furniture, jewelry, and a multitude of other goods, charge service or finance fees which, if they were converted to an annual interest rate, would exceed rates set in State usury laws. Yet in no State except Hawaii are merchants licensed under small-loan laws or subject to small-loan finance charge limitations. This is because sellers of merchandise on time are not considered by the court to be making a cash loan, and therefore there can be no forbearance or illegal interest. This ruling, called the time sale doctrine, which goes back to English common law, states that sellers may offer their wares for a time price which is greater than the cash price. The difference between the cash price and the time price—the time price differential or finance charge—in a bona fide time sale, is a matter for individual bargaining and not subject to usury restrictions.

Early proponents of the time sale doctrine believed market forces would prevent sellers from exploiting unwary buyers. Numerous cases of "sharp practices," including hidden and exorbitant finance charges, were brought to the attention of better business bureaus, consumer groups and legislators in the early 1930's. Unhappy with the public image of installment selling, merchants' associations actively supported and helped initiate and draft special legislation which provided for clear and uncluttered written contracts disclosing the cost of credit and the size and number of payments. In addition, these special laws established working rules for prepayments, default, tie-in insurance sales, and other related aspects.

Indiana, in 1935, became the first State to pass special legislation on installment selling, and five other States enacted similar legislation by 1945. Today, 36 States have laws covering contract terms in the sale of automobiles, and 26 States have laws covering the sale of general merchandise.

With the growth of revolving-credit plans, interest developed in the regulation of this popular type of selling. The interest was generated by merchant and consumer groups for at least two reasons. First, revolving credit, unlike conventional installment credit contracts, does not disclose the time price (in dollars and cents) to the prospective customer. Therefore it is debatable whether all courts would acknowledge revolving credit as a bona fide time sale. If revolving credit is not a bona fide time sale, then merchants selling under these contracts could be subject to State usury laws. Secondly, the various abuses of the past which were associated with installment contracts could be utilized by the revolving-credit seller.

Potential abuses which conceivably can arise under revolving accounts are as follows: Unwary buyers can be deceived or exploited in several ways. Prior to signing the initial credit contract, consumers may be subjected to misleading advertising as to credit terms, or the seller may not notify the buyer of each party's rights or obligations. The actual contract may be complicated and unclear or incomplete. The finance charge may be hidden in insurance costs, or disclosed in a manner which is difficult for the average buyer to understand, or the explicit finance charge may never be disclosed at all. Buyers may be overcharged on the monthly statement, if one is sent, and not discover the overcharge because of the technical or incomplete monthly statement. Early payment of the customer's total obligation may result in large prepayment penalties. The delinquent creditor may be charged high delinquency costs or find that his total obligation has been accelerated due to delinquency. This may lead to inflated court costs and attorney's fees.

An anomalous situation was present in many States during the 1950's. Sharp practices, which were limited under conventional installment plans because of special installment sales legislation, were left unregulated in the area of revolving credit. This situation would be similar to the somewhat perverse policy of a hypothetical city manager who attempted to eliminate traffic accidents by establishing and enforcing speed limits for every other street. Alert speedsters, like unethical sellers, would carry on their pursuits on the unregulated roads.

For the above reasons, consumer groups and the large majority of established merchants believed it was necessary to pass special legislation to regulate revolving-credit transactions. New York was the first State to pass such a law, in 1957. Since then there has been much legislative activity in this area. Eleven other States have passed similar laws, and others are currently studying the problem.

On the whole, States with special revolving-credit legislation have established good general rules and limitations which should promote, not hinder, revolving-credit sales. The individual State laws vary in scope, provision, and language. However, 10 of the 12 States with such legislation have one important common characteristic—each has established finance-charge ceilings. This ceiling is usually 1.5 percent per month on the unpaid balance.

REGULATION OF THE CHARGES

Problems related to finance charges in revolving credit can be classified in two categories: (1) Problems involved in determination of finance-charge ceiling, and (2) problems related to finance-charge disclosure.

State legislatures do not establish ceilings on installment credit finance charges in order to control prices, employment, or income. The primary purpose is protection of the buying public from unethical dealers who can, and often do, exploit the unsophisticated. Finance-rate ceilings, unlike public utility rates, are not legislated prices; they are legal limits which create a wide band for bargaining between buyers and sellers. Typically, State finance-charge ceilings are greater than the average market price of credit.

State-established finance-charge ceilings are specialized usury laws. They reflect, as do usury laws, definite ethical convictions about excessive or exorbitant charges to customers. They differ from usury laws in that charge limits on installment finance are exclusively applicable to a special area of trade.

If revolving-credit finance ceilings are too high, they will not provide the protection for which they were intended. On the other hand, if the legal credit ceilings are too restrictive, they will, like restrictive usury laws, force capital to flow out of the consumer credit area to more rewarding ventures. Overrestrictive rates conceivably could mean higher cash prices for all customers as a result of retail credit cost absorption, and/or a restriction in the volume of revolving-credit sales.

Whether existing rate ceilings are too low or too high is a question for which there is no categorical answer. Many students have produced accounting studies which purport to prove that revolving credit per se is a losing proposition under existing finance charges. Others disagree, and submit accounting data as evidence of the large profits earned from the financing of revolving accounts. There is, unfortunately, no simple answer. Arguments on both sides rely on cost-accounting data to add credence to their respective positions. The accounting studies are very useful for developing production efficiency data, but in order to prove that finance ceilings are too restrictive (or loose), it would have to be discovered what would happen to the store's profit (as a return on investment) if revolving credit were not offered, or offered at a different price. This information is largely speculative, and the answer would vary from community to community and from store to store within a given community. The solution for revolving-credit rate ceilings lies, like many socioeconomic problems, in gradual policy changes that will not drastically upset a state of affairs which appears to be functioning in the public interest. Legislators, in this case, like high-wire performers, must walk a very narrow path.

The regulation of finance-charge disclosures for installment credit and revolving credit has been confined to State legislation. The 12 States that have special revolving-credit legislation require that finance charges be disclosed to the customer in writing prior to signing the initial contract and in every monthly statement. Some retailers voluntarily provide additional information by disclosing the monthly service or finance-charge rate on the receipt for every purchase. The service charge is usually stated as a percentage per month on the unpaid monthly balance. Since the seller does not know what the customer's monthly balance will be, no dollar and cents disclosure can be given as it can be in most conventional installment contracts.

A PENDING FEDERAL BILL

Economists, lawyers, and social critics have, for at least the last 35 years, pointed to the diverse number of ways in which consumers are quoted finance charges. These critics argue that consumers cannot make wise saving, consumption, and borrowing decisions because lenders and sellers quote finance charges in a bewildering variety of ways. For example, add-ons, discounts, flat charges, nominal annual percentages and monthly percentages are only some of the common disclosures found in the marketplace. A common denominator for all credit (both cash and merchandise) transactions is usually proposed.

The most recent proposal for such a common denominator is being considered by the Federal Government. The Douglas bill, or truth-in-lending bill, proposes to require all cash lenders and credit sellers to state the total finance charge as a dollar amount and as a simple annual rate of interest prior to the consummation of the sale or the loan.

Detailed analysis of the Douglas bill goes beyond the scope of this discussion. The simple annual-rate disclosure for credit transactions may be a very attractive plan where applicable. Closer scrutiny of the bill, however, indicates several difficult problems that should be worked out in connection with revolving credit.

Revolving-credit customers decide for themselves what their monthly payments will be. Retail clerks cannot possible tell revolving-credit customers what the dollar cost of the credit purchase they are currently contemplating will be, since the dollar cost is contingent upon future purchases and repayments. Thus, sellers using revolving-credit plans cannot abide by the first requirement of the bill—a dollar statement of the total finance charge in dollars and cents prior to the consummation of the credit transaction.

Revolving-credit finance charges can be converted to an annual rate by multiplying the monthly charge by 12 months. Most commonly this would mean a simple annual rate disclosure of 18 percent. This appears to be quite enlightening so far as it goes. Yet consumers would not necessarily be armed with all of the information which would enable them to make wiser decisions. The following example illustrates this point:

On April 1, 1961, Mrs. Brown, shopping at a well-established store, found a nationally advertised electric blender which she thought would make a worthwhile gift for her daughter's first wedding anniversary. The cash price was $60. She wanted to budget this purchase over 5 months, paying $20 on May 1 and $10 on the 1st of June, July, August, and September. She wished to select the most economical method of financing this purchase, so she reviewed in her own mind the alternative credit sources available to her. They were (1) a consumer credit union which disclosed its finance charge as 12-percent simple interest per year; (2) a revolving check credit plan which charged 12 percent a year plus 25 cents a check; and (3) a revolving charge-account plan with the store, with a disclosed annual rate of 18 percent.

In the above example, Mrs. Brown could conclude that an installment loan from the credit union would be the least expensive source of credit with the revolving check credit running a close second. However, in this example, the annual rate disclosure is not sufficient information for Mrs. Brown. Assuming she has no unpaid balances with any lender or merchant, the comparative dollar costs of the available credit sources will be as shown.

	Revolving charge credit	Consumer credit union	Revolving check credit
May 1	$0.00	$0.60	[1] $0.85
June 1	.60	.40	.40
July 1	.45	.30	.30
Aug. 1	.30	.20	.20
Sept. 1	.15	.10	.10
Total finance cost	[2] 1.50	1.60	1.85

[1] The 85 cents includes 25 cents for the check plus 1 percent interest on $60.

[2] Retail credit service charges may not be computed in the manner cited above, but the example is typical of the operation of most retail stores offering the credit plan.

Retail revolving credit, especially for obligations under $100, is probably the least expensive form of short-term consumer credit available to most of the American public. The actual effective annual rate is usually considerably less than 18 percent. This is the case because of the common retail practice of giving consumers up to 30 days of open-book credit before billing the account and allowing 20 to 30 days to pass after the billing date before payments are due. In contrast, consumer credit unions and revolving check credit plans (commercial banks) usually charge daily interest on the obligation outstanding. Once again, what the effective rate will be for the retail revolving-credit customer will depend on the balance outstanding and the size of the monthly payments. An arbitrary 18 percent annual interest rate disclosure for revolving accounts will not necessarily lead to better shopping decisions. In fact, the opposite may be the rule.

Revolving credit is, of course, just one problem area out of many which needs analysis before an adequate national bill or State legislation in the broad field of credit is enacted. Moreover, one could argue that States are doing an ever-improving job of protecting their own citizenry, and a national bill may not be in order.

CONCLUSION

Revolving credit is another innovation of imaginative, profit-oriented retailers who are constantly seeking new ways to serve their customers. The remarkable growth of this form of credit selling is testimony to the fact that revolving-credit plans have the capacity to satisfy both consumers and merchants. A small number of "sharp sellers" can utilize such plans to exploit unwary consumers and to taint the credit sales of all honest merchants. Therefore, it is important for States which do not have special legislation in this area to move quickly in this direction. If consumers deserve special legislation from potential abuses in conventional installment contracts, they deserve and should demand the same protection under revolving-cerdit contracts.

FEDERAL CREDIT CONTROL

Statement by Milward L. Simpson, U.S. Senator from the State of Wyoming

You know, I have enjoyed so much being back in Boston, where I spent 3 years while attending the Harvard Law School. During those years it was inspiring to me to visit many of the historic sites which made this area the cradle of liberty.

I have thought back about the tremendous history of the New England traders and merchants, and how they developed commerce in this country. It is easy to see why people who are so expert in commercial transactions consider this bill confusing and deceptive because it is so vague and so poorly drafted. It is easy to see why so many experts consider it unconstitutional. I share this belief.

At the very outset we find a serious problem in defining a credit transaction. Senator Douglas apparently used the wartime credit control regulation W as his starting point—but has added a number of ambiguous new items without giving us an explanation of the reasons. For example, he has added "services either for present or future delivery." If he really means this, he obviously includes the taxi cab, the hotel room, and the young man who cuts your lawn, in the scope of his bill. If he doesn't include these transactions, then for heaven's sake, what does the language mean?

It is worth noting that regulation W, the source of Senator Douglas' concepts of credit transactions, was a wartime, war-power measure which had as its sole purpose the restriction of consumer buying. In other words, it was designed to stop the consumer from spending his money the way he wanted to—and nothing in all of these hearings has suggested a single reason why the Government should extend its emergency powers in a time of peace.

In a wartime economy, we wanted to temporarily eliminate jobs in the production of consumer goods in order to free men for wartime production and military service. If this bill interferes with the production and sale of consumer goods in our present economy, it can only lead to greater unemployment and operate as a serious deterrent to our rate of economic growth.

The bill claims that "economic stabilization is threatened by the untimely use of credit for the acquisition of property and services * * *." It claims that this "utimely" use of credit "results frequently from a lack of awareness of the cost" of credit.

Now what I would like to know is, who is going to decide when is timely and when is "untimely"? For example, how about right now—today? I had hoped Senator Douglas or his witnesses might tell us whether they think that it is now timely or untimely for people to use credit. Where are we in the Douglas contracyclical scheme of things?

Then there is the problem of whether the Federal Government or the State government can best handle the regulation of these localized credit transactions. The Douglas bill begins bv recognizing the right of the States to legislate in this field. Its proponents, however, seem to rely on the specious theory that since many State legislatures, including Massachusetts, have rejected the "simple annual rate" gimmick, the Federal Government should therefore adopt it. I draw the opposite conclusion.

This is just a sample of the more than 100 unanswered legal and definitional questions and problems.

In my judgment, this so-called truth in lending bill is in fact concerned not in the least with the truth. In truth it is not a truth in lending bill. It is a Federal credit control bill. It is clearly an attempt to override State laws which now regulate credit. It would superimpose this cleverly disguised proposal—which represents a long step toward socialistic Federal control—over every credit transaction in our Nation.

I would like to make one additional point. Just a few days ago, in disapproving legislation on another subject, President Johnson gave the following among the reasons for his veto:

"This bill would impose new costs upon our merchants and consumers at a time when we are trying to keep all costs and prices down. This bill would saddle new and unworkable burdens * * * at a time when we are trying to reduce Government expenditures."

These observations of the President would be just as applicable to the so-called truth in lending bill, which, if enacted, would increase the costs of doing business, cost to consumers, and the already staggering overhead of Government.

The more I study the bill and the testimony, the more incredible it seems that such a poorly drafted bill could ever be introduced, let alone be considered for 4 years—at the taxpayers' expense.

(The following statement was submitted for the record:)

STATEMENT OF HAROLD BROOMFIELD, PRESIDENT, R. H. WHITE CO.

My name is Harold Broomfield. I am president of the R. H. White Department Store located at Lincoln Plaza, Worcester, Mass. We are a medium-sized, conventional department store in the $2 to $5 million class, selling for cash and credit. I have been in the retail business some 30-odd years. I am president of the Worcester County Better Business Bureau, and have been involved in better business bureau work for better than 10 years. I am also a director of the Massachusetts Merchants Association, Inc.

I am appearing here today in my retail capacity in opposition to Senate bill 750, and particularly to section 4B of that bill, referring to revolving credit accounts.

No doubt, by this time, practically every argument for and against this bill has been voiced in hearings, either in Washington or elsewhere in the country. However, I am sure it is the desire of this committee to get as many opinions as possible expressed so that the very best judgments of all concerned in considering this bill can be exercised.

Some of the things I have to say will be repetitious, but I ask that the committee bear with me in this repetition. I am opposed to this particular section of S. 750 for the following reasons:

A. From all my experience in the retail field, I honestly and sincerely do not feel that there is any need for this provision. To the very best of my knowledge there is not now, nor has there been, any attempt on the part of department stores as a whole to conceal the fact that there is a monthly service charge for unpaid balances on revolving credit accounts, and that this amount, in most cases, is 1½ percent per month on the unpaid balance.

B. This has been the truest and most honest way of stating what it is likely to cost the customer. In the case of revolving credit accounts, to the best of my knowledge, it is the only way that it can honestly be stated, since it is not possible to determine until the actual billing date the amount of money involved. Any other formula, or figures stated in advance, would be either theoretical or hypothetical.

C. It is my experience that the average customer is interested in what it is going to cost him monthly, since he is in the habit of paying monthly. He thinks in terms of "monthly," or even "weekly"—but certainly not in longer terms than "monthly" where payments are concerned.

D. The average customer is more interested in dollars than percentages. On revolving credit accounts, since it is impossible to determine the dollar figure in advance, the nearest true projection one can give is 1½ percent per month on the unpaid balance. To use a hypothetical figure of 18 percent per year would be, in my opinion, misleading and destructive to customer confidence in credit and reputable establishments.

In all of my years in connection with better business bureau, I do not recall a single complaint having come to us on the basis of this type of revolving credit account and the charges involved. A recent survey of our better business bureau in Worcester indicated that, in the recollection of the staff people working there, no such complaints have been received by the Worcester bureau. As a matter of fact, the number of complaints received by better business bureau is with reference to charges of various types involves very few business firms.

It is my honest opinion, based on my retail experience plus my experience in better business bureau work, that the customers who are, shall we say "taken," unfortunately might find themselves in this same position regardless of the laws that might be created in the hope of truly protecting them. While the punitive factors of the bill are, perhaps designed to discourage the unscrupulous merchant, there are means of disguising the costs of credit, such as including it in the selling price of the goods, to the extent that it would defeat the true purposes of this bill. In addition, the better business bureau is available to the public in general for guidance before they commit themselves. One of the national slogans of the better business bureau is "Investigate before you invest."

And then, finally, we have competition which is so much a part of our economic system and exercises control over those who attempt, by various means, to gouge the public. In general, those who are "taken" are primarily in the lower income groups, most of whose purchases are for necessities rather than luxuries, and these people, in many cases, purchase from those who are prepared to take the great credit risks and, in return, charge what they consider commensurate with the risk. If these customers would, before signing, do nothing more than use the services of their better business bureau, if only to advise them as to whether or not the terms they are about to accept are commensurate with terms generally charged for the same arrangement, they could certainly protect themselves far more than law could do for them, and will avoid the heartache and emotional upset in finding themselves involved in an unsavory setup which, despite any possibilities of legal redress, can ever be as desirable as not having gotten into the situation in the first place.

I firmly believe that if you were to take real and positive steps to educate the public, both through the schools and other means, as to the services now available for their protection that we would, once again, do far more for the public than any additional laws could accomplish.

(The Massachusetts statute on retail installment sales follows:)

MASSACHUSETTS

[¶1071]

[Assignment of Landlord's or Owner's Interest—Prior Lien—Recording]

Chap. 255, Sec. 7D.—No assignment of, or agreement affecting, the rights or interest of a landlord or owner of real property, occupied by a tenant or person planting on shares, in crops growing or to be grown on such real property, or agreement for the subordination of a prior lien or encumbrance on real or personal property, shall be valid except as between the parties thereto unless and until recorded or registered as hereinafter provided. Each such instrument affecting real property shall be recorded or registered in the registry of deeds for each district in which any portion of such real property is situated, and each such instrument relative to the subordination of a prior lien or encumbrance upon personal property shall be recorded in each office where the instrument subordinated is recorded. A reference to the record of any deed or other instrument affected or subordinated contained in any instrument recorded or registered under authority of this section shall be noted upon the margin of each record of such deed or other instrument. [Comp. at ¶ 340, 430, 510.] [*As added by Laws* 1935, *Ch.* 86.]

[¶ 1072] [Security Interest—Consumer Goods—Contract Items]

Chap. 255, Sec. 12.—In any case of a security interest in consumer goods, the debtor shall be entitled to receive written disclosure of such of the following information as is involved in the transaction giving rise to the security interest:—a description of the property subject to the security interest; the cash purchase price thereof, if any; the down payment, if any; a description of property to be traded in, if any, and the trade-in allowance therefor; other credit allowances, if any; the difference between the cash purchase price and the aggregate of down payment and allowances, if any; the amount of money loaned to or for the account of the debtor, if the transaction is a loan rather than a time sale; a description of each policy of insurance, if any, for which a charge is made to the debtor; the total amount of finance charges; the insurance premiums, if any; the "total time price", if any; the rate of interest to be paid, if any; the amount of all minimum, service and like charges, if any; the net balance due from the debtor; the number and amount of weekly, monthly or other installment payments, if any; delinquency charges, if any; prepayment allowances, if any; whether attorneys' fees or expenses are to be charged to the debtor, if such is the case; and a statement that a promissory note or notes, as the case may be, are being executed in connection with the security agreement if such is the case. To the extent that information required to be disclosed hereunder is known by the secured party at the time of execution of the security agreement, it shall be incorporated in the security agreement. A copy of the security agreement and a written statement of the information required to be disclosed hereunder and which is not disclosed in the security agreement shall be furnished to the debtor prior to the date for the payment of the first installment. In any case where the debtor is charged for an insurance premium he shall be furnished prior to the date of the first installment with the policy or policies for which the charge is made, or a certificate of insurance clearly setting forth the exact nature of the insurance coverage. This section and sections twelve A [¶ 1073], twelve B [¶ 1074], thirteen [¶ 1076] and thirteen B [¶ 1077] shall not apply to retail installment contracts as defined in section one of chapter two hundred and fifty-five B [¶ 1001]. The provisions of this section do not apply to a real estate mortgage, whether or not such mortgage covers a security interest in fixtures or consumer goods. [Comp. at ¶ 101, 130, 150, 350, 360, 370.] [*As amended by Laws* 1943, *Ch.* 410; *Laws* 1956, *Ch.* 158; *Laws* 1957, *Ch.* 765; *Laws* 1958, *Ch.* 674; *Laws* 1959, *Ch.* 580.]

[¶ 1073] [Consumer Goods—Finance Charge Notice]

Chap. 255, Sec. 12A.—Every contract of sale on credit and every security agreement relating to consumer goods, in which finance charges are included which are not regulated by law, shall be in writing and shall state in a conspicuous manner a legend reading substantially as follows:—"The Finance Charges Provided Herein Are Not Regulated by Law. They Are a Matter for Agreement between the Parties." The provisions of this section do not apply to a real estate mortgage, whether or not such mortgage covers a security interest in fixtures or consumer goods. [Comp. at ¶ 101, 130, 360.] [*As added by Laws* 1950, *Ch.* 81; *and amended by Laws* 1957, *Ch.* 765; *Laws* 1959, *Ch.* 580.]

[¶ 1074] [Purchase Money Security Interest—Consumer Goods—Prepayment]

Chap. 255, Sec. 12B.—Notwithstanding any provision to the contrary in any sale of consumer goods on credit, secured or unsecured, wherein a finance charge is made, the debtor may satisfy in full, at any time before maturity, the debt involved in such sale and in satisfying such debt shall receive a credit thereon for such anticipation of payments. Upon any satisfaction of such debt by the debtor prior to maturity, then the amount of such credit shall represent at least as great a proportion of the total amount of the finance charge, after first deducting from such finance charge the cost of any insurance included therein and an acquisition cost in the case of motor vehicles, other than motor vehicles as defined in section one of chapter two hundred and fifty-five B [¶ 1001], of twelve dollars and fifty cents and in other cases five dollars, as the sum of the periodical time balances after the month in which the debt secured by such security interest is paid in full, bears to the sum of all the periodical time balances under the schedule of payments in the original contract. This computation of rebate is to be made under the so-called sum of digits method. Where the amount of the credit for anticipation of payments is less than one dollar, no refund need be made. [Comp. at ¶ 101, 130, 140, 330, 360.] [*As added by Laws* 1955, *Ch.* 455; *and as last amended by Laws* 1959, *Ch.* 593.]

[¶ 1075] [NEGOTIABILITY OF NOTES—CONSUMER GOODS ON CREDIT]

Chap. 255, Sec. 12C.—If any contract for sale of consumer goods on credit entered into in the commonwealth between a retail seller and a retail buyer requires or involves the execution of a promissory note, such note shall have printed on the face thereof the words "consumer note" and such a note with the words "consumer note" printed thereon shall not be a negotiable instrument within the meaning of the Uniform Commercial Code—Commercial Paper. For the purposes of this section "consumer goods" means tangible personal property used or bought for use primarily for personal, family or household purposes.

Whoever obtains a note in violation of this section shall be punished by a fine of not less than one hundred nor more than five hundred dollars.

If a note is obtained in violation of this section, no finance, delinquency, collection, repossession or refinancing charges may be recovered in any action or proceeding based on such contract for sale.

The provisions of this section shall not apply to any notes executed in connection with any financing which is insured under Federal Housing Administration regulations. [Comp. at ¶ 500.]

[*As added by Laws* 1961, *S. B. No.* 644.]

[¶ 1075-1] [Refund Credit upon Anticipation of Payment]

Chap. 255, Sec. 12D.—In any transaction for services rendered or to be rendered to a retail consumer for personal, family or household purposes, wherein a finance charge is made, the debtor may pay in full, at any time before maturity, the debt involved in such transaction, and in so paying such debt shall receive a credit thereon. The amount of such credit shall represent at least as great a proportion of the finance charge, after first deducting from such finance charge the cost of any insurance included therein and an acquisition cost of five dollars, as the sum of the periodical time balances after the month in which the debt is paid in full, bears to the sum of all periodical time balances under the schedule of payments in the transaction. When the amount of the credit for anticipation of payment is less than one dollar no refund need be made.

The provisions of this section shall not apply to any transaction which is insured under Federal Housing Administration regulations. [Comp. at ¶ 101, 130, 330.]

[*As added by Laws* 1962, *Ch.* 309, *approved April* 2, 1962, *effective July* 1, 1962.]

[¶ 1076] [Entry of Payment—Purchase Money Security Interest—Consumer Goods]

Chap. 255, Sec. 13.—When a payment is made by the debtor under a security agreement providing for a purchase money security interest in consumer goods, on request of the debtor, such payment shall be endorsed on the agreement and on the copy furnished to the debtor and on any promissory note which is evidence of the obligation of the debtor or set forth in a receipt given to the debtor. Any such receipt shall include the amount of the payment made and the balance due on the agreement, with a specific identification of the agreement to which the payment is applied. Failure of the secured party through negligence to comply with any provision of this section shall suspend his rights under the agreement while such failure continues. [*As amended by Laws* 1939, *Ch.* 509; *Laws* 1941, *Ch.* 285; *Laws* 1957, *Ch.* 765.]

[¶ 1077] [Security Interest—Household and Personal Effects of Less than $1,000]

Chap. 255, Sec. 13B.—Any provision of a security agreement providing for a purchase money security interest in household furniture, jewelry or other household or personal effects at a price of less than one thousand dollars which purports to provide for the inclusion of any personal property, other than that sold for said purchase price, as security for payment of such price or any part thereof shall be null and void; but the other provisions of such agreement shall not be affected thereby. [Comp. at ¶ 570.] [*As added by Laws* 1935, *Ch.* 396; *and amended by Laws* 1957, *Ch.* 765.]

[¶ 1078] [Repossession of Household Furniture or Effects]

Chap. 255, Sec. 13C.—In any case of a security interest in household furniture or other household effects, the secured party shall demand in writing of the debtor or other person in charge of said furniture or effects, the balance then due, and shall furnish to said debtor or other person an itemized statement of the account showing the amount due thereon, at least thirty days before taking possession of said furniture or effects under section nine—five hundred and three of chapter one hundred and six, and shall notify the debtor of the time and place of any sale under section nine—five hundred and four of said chapter, at least seven days before such sale. [Comp. at ¶ 360, 570.] [*As amended by Laws* 1939, *Ch.* 509; *Laws* 1957, *Ch.* 765.]

[¶ 1079] [Penal Provisions]

Chap. 255, Sec. 13G.—Violation of any provision of sections twelve [¶ 1072], twelve A [¶ 1073], twelve B [¶ 1074], or thirteen C [¶ 1078] shall be punished by a fine of not less than one hundred dollars or more than five hundred dollars. Further, in any case of a substantial failure to comply with the requirements of one or more of said sections, the debtor shall have a valid defence against the recovery of all finance charges, interest charges and fees, exclusive of insurance premiums in any action of proceeding to enforce the security agreement. [Comp. at ¶ 360, 570.] [*As amended by Laws* 1957, *Chs.* 160 *and* 765.]

[¶ 1080] [Watercraft Lien]

Chap. 255, Sec. 14.—If by virtue of a contract, express or implied, with the owners of a vessel or with the agents, contractors or sub-contractors of such owners, or with any of them, or with a person who has been employed to construct, repair or launch a vessel or to assist therein, money is due for labor performed, materials used or labor and materials furnished in the construction launching or repairs of, or in the construction of the launching ways for, or for provisions, stores or other articles furnished for or on account of such vessel in the commonwealth, the person to whom such money is due shall a lien upon the vessel, her tackle, apparel and furniture to secure the payment of such debt, and such lien shall be preferred to all other others on such vessel, except that for mariners' wages, and shall continue until the debt is satisfied. [Comp. at ¶ 630

[¶ 1081] [Agister's Lien]

Chap. 255, Sec. 24.—Persons having proper charges due them for pasturing boarding or keeping horses or other domestic animals which are brought their premises or placed in their care by or with the consent of the owner thereof shall have a lien on such animals for such charges. [Comp. at ¶ 450

[¶ 1082] [Garageman's Lien]

Chap. 255, Sec. 25.—Persons maintaining public garages for the storage and care of motor vehicles brought to their premises or placed in their care by or with the consent of the owners thereof shall have a lien upon such motor vehicles for proper charges due them for the storage and care of the same. [Comp. at ¶ 420.]

[¶ 1083] [Bailee's Lien]

Chap. 255, Sec. 35.—As against a conditional vendor or lessor, or person claiming under him, the lien of a bailee of the vendee or lessee or person claiming under him on property exceeding twenty dollars in value, for consideration furnished, without actual notice of the conditional sale or lease, shall prevail; except that a lien on property delivered to the bailee subsequent to the breach of a condition of the sale or lease shall not prevail if the conditional vendor or lessor or person claiming under him makes demand in writing on the bailee for the property within ninety days from the date of the bailment. [Comp. at ¶ 440.] [*As amended by Laws* 1938, *Ch.* 83.]

[¶ 1088] [Removal or Concealment of Mortgaged Property]

Chap. 266, Sec. 82.—Whoever, with a fraudulent intent to place personal property which is subject to a mortgage beyond the control of the mortgagee removes or conceals, or aids or abets in removing or concealing the same, and a mortgagor of such property who assents to such removal or concealment, or whoever shall use rented, leased or mortgaged personal property as a container or implement of sale of intoxicating liquor contrary to law, shall be punished by a fine of not more than one thousand dollars or by imprisonment for not more than one year. [Comp. at ¶ 360.]

(The following letters and data were received for inclusion in the record:)

THE DEFENSE CREDIT UNION COUNCIL,
November 19, 1963.

MR. JOHN RIPPEY,
Legislative Representative for CUNA,
Boston, Mass.

DEAR MR. RIPPEY: It may be of value to the Boston hearings on "Truth-in-Lending" to know of a resolution at the annual meeting of this council concerning this bill. The resolution as adopted, is as follows:

"Whereas members of the armed services face special credit problems, resulting frequently from their relative youth, modest salaries frequent transfers, and other factors they cannot control; and

"Whereas such problems often lead reputable commercial lenders to refuse them credit, making them a special target for less reputable lenders and credit merchants whose establishments ring the Nation's military bases; and

"Whereas many of these creditors thrive on excessive finance charges because servicemen have no standard for comparison of these charges and, not knowing the cost of their credit, frequently become involved in the untimely use of credit; and

"Whereas the Production and Stabilization Subcommittee of the Senate Banking and Currency Committee has under consideration legislation which would create such a standard through the uniform disclosure of finance charges both in terms of true annual interest and in dollars and cents: Now, therefore, be it

"*Resolved*, That the Defense Credit Union Council favor enactment of these provisions, which are so essential to the wise and timely use of credit."

A number of representatives of credit unions from Defense installations in New England were present as well as other parts of the country.

Very truly yours,

R. H. GRANT, *Chairman.*

NEW HAMPSHIRE CREDIT UNION LEAGUE,
Concord, N.H., November 20, 1963.

Senator PAUL DOUGLAS,
Senate Banking Committee,
Boston, Mass.

DEAR SENATOR DOUGLAS: The following resolution on truth in lending was adopted at the annual meeting of the New Hampshire Credit Union League held in Portsmouth, N.H., on October 5, 1963:

"TRUTH-IN-LENDING RESOLUTION

"Whereas the typical consumer today usually does not know what credit will cost, whether in dollars ~~and cents or in~~ real or true interest rates; and

"Whereas interest rates are quoted by different lenders in a bewildering variety of ways; and

"Whereas this lack of uniformity tends to confuse borrowers and often misleads them to believe that interest costs are less than they actually are; and

"Whereas credit unions have always insisted that borrowers are entitled to know the cost of credit, just as any buyer is entitled to know the price of merchandise he purchases; and

"Whereas legislation has been introduced in the U.S. Senate and in the House of Representatives to require lenders to furnish borrowers full knowledge of how much they pay for credit and what interst rate it bears, quoted on a simple annual basis; and

"Whereas passage of this legislation would enable the consumer to make a wiser and more intelligent choice of credit: Therefore be it

"*Resolved by the assembled delegates of the New Hampshire Credit Union League at their ninth annual meeting in Portsmouth, N.H., this 5th day of October 1963,* That the New Hampshire league does reaffirm its active faith in the principle of truth-in-lending and strongly urges the early enactment of the proposed legislation before the Congress of the United States to make the practice of this cherished principle a requirement of the law of the land."

Sincerely,

PERNE B. HUTCHINSON, *Secretary.*

HANOVER CONSUMER COOPERATIVE SOCIETY,
Hanover, N.H., November 22, 1963.

DEAR SENATOR DOUGLAS: We are very happy to support your Senate bill S. 750 and we are very grateful to you for all the work you are doing to aid the consumer.

We collected signatures of approval for the bill and thought that you might want this evidence of our concern.

Sincerely yours,

MRS. W. H. (SYLVIA) STOCKMAYEO,
Education Committee.

I approve of the truth-in-lending bill, S. 750.
Total signatures, 137.

MAINE MERCHANTS ASSOCIATION, INC.,
Portland, Maine, November 26, 1963.

Senator PAUL DOUGLAS,
Senate Banking and Currency Committee,
Washington, D.C.
(Attention: Jonathon Lindley).

DEAR SENATOR DOUGLAS: As our witness was one of those scheduled to appear on Saturday afternoon, November 23, before your subcommittee Boston hearing on S. 750 and naturally could not, because of the adjournment of this committee on Friday afternoon, due to the untimely death of President Kennedy, we were advised to mail you as per enclosed, a half-dozen copies of our presentation with samples of contracts attached.

We respectfully request that the enclosed statement to have been given by Paul H. Hanly on behalf of the Maine Merchants Association and the Portland Credit Mens association be filed in the records of this Boston hearing.

Thank you very much.

Sincerely yours,

STANWOOD L. BAILEY,
Executive Secretary.

STATEMENT OF PAUL H. HANLY ON BEHALF OF MAINE MERCHANTS ASSOCIATION, INC., AND THE PORTLAND CREDIT MEN'S ASSOCIATION

My name is Paul H. Hanly, I am a citizen of Cape Elizabeth, Maine. My occupation has been treasurer of A. H. Benoit & Co., of Portland, Maine, for the past 35 years. I also represent the Maine Merchants Association and the Portland Credit Men's Association.

I am not here to deliver a blanket denunciation of S. 750, even though in my opinion such legislation, especially on the national level is not needed or useful.

Most credit grantors of revolving credit comply with most of the requirements of this law as common practice. This is done not due to the requirements of the law but because they feel such business procedures appropriate, and necessary to be successful in a highly competitive field.

The only objection, which I emphasize, is the provision under this bill requiring a statement of a simple annual rate.

1. My objection is based first on the fact that I just do not know how this can be done, and believe better mathematicians than I, have and will testify to this fact.
2. Even if it were proven that it could be calculated, how could a relatively small business such as I represent calculate the monthly computations on several thousand accounts and issue their statements monthly, and at what cost?
3. Even it it were proven that the service charge could be computed in terms of a simple annual rate, most consumers would misunderstand a simple annual rate of service charge and confuse it with a rate of interest. We are referring to a service charge. This service includes not only interest on money but at least part of the cost of servicing these accounts, a cost which is unnecessary in a cash transaction. Most retailers extending revolving credit will not exceed an average balance of $50, requiring 6, 10, or 12 monthly billings, reviews, postings, postage, etc.

I invite the attention of the committee to a survey just completed by the accounting firm of Touche, Ross, Bailey & Smart for the National Retail Merchants Association, based on the analysis of 80 department stores with credit sales of $375 million. This survey shows that the average cost of handling these accounts was 2.55 percent of credit sales, after considering service charges collected. In other words instead of a cash discount, these stores are in effect giving a 2.55 percent discount on credit sales based on total cost. Unfortunately, this study in its entirety will not be available for publication until the latter part of December.

I understand that several banks consider that an installment loan of less than $200 at a service charge of from 1 to 1½ percent per month is unprofitable to them.

Merely to emphasize the point I have made above, that the retailers I have recently contacted in our area are now voluntarily practicing all the requirements of this bill, except the simple annual rate calculation, I attach hereto the forms used by these revolving credit grantors in our State.

Thank you.

Benoit's

A. H. BENOIT and COMPANY

MENS, BOYS, WOMENS AND GIRLS APPAREL

MONUMENT SQUARE
PORTLAND, MAINE
TEL. 773-6421

Show Amount Paid
$

PLEASE DETACH AND RETURN UPPER PORTION OF THIS STATEMENT WITH YOUR REMITTANCE.

This statement covers transactions on your account for the 30 days period ending on the Billing Date shown below.

PREVIOUS BALANCE	SERVICE CHARGE	PAYMENTS	PURCHASES	RETURNS	BILLING DATE	BALANCE DUE

Payments Made or
Merchandise Returned
After Your Billing Date
will be shown on
Next Month's Statement

MONTHLY PAYMENT
Due Within 15 Days
of Billing Date

Your "credit limit", the total amount you may owe A. H. Benoit & Co. is shown on the top part of your bill.
Your agreed monthly payment is one tenth of the credit limit.

A. H. BENOIT & COMPANY, Portland, Maine

BENOIT BUDGET ACCOUNT

Agreement

In making application to the A. H. Benoit & Co. for a Benoit Budget Account I agree, if the account is opened:

1. To limit purchases on such account to an amount not to exceed $.................... at any one time.
2. To make regular monthly payments of $.................. within 15 days of the billing date shown on any statement.
3. To pay, in addition to my regular monthly payment, the full amount of any charges in excess of my credit limit.

I agree to pay a service charge of 1½% per month on monthly balances on this account.

I understand that additional purchases will not be made if my account becomes delinquent.

In the event of my failure to make payments when due, I understand that the entire remaining balance becomes due and payable at once.

Name ....

Address ....

....
Date

....
A. H. Benoit & Co.

Sears Revolving CHARGE ACCOUNT AGREEMENT

Sears, Roebuck and Co.
In consideration of your selling merchandise to me on Sears Revolving CHARGE ACCOUNT, I agree to the following regarding all purchases made by me or on my Sears Revolving CHARGE ACCOUNT identification:

1. I have the privilege of a 30-day charge account, in which case I will pay the full amount of all merchandise purchased within 30 days from the date of each billing statement.
2. If I do not pay the full amount for all merchandise purchased within 30 days from the date of each billing statement, the following terms shall be in effect:

(A) I will pay the time sale price for each item purchased consisting of:
(1) The cash sale price, and
(2) An amount of time price differential, computed at 1½% of the balance at the beginning of each monthly billing period, until the full amount of all purchases and time price differentials thereon are paid in full.

(B) I will pay for the merchandise purchased in monthly installments which will be computed according to the following schedule:

If the unpaid balance is:	The scheduled monthly payment will be:
$ .01–$ 10.00	BALANCE
10.01– 100.00	$10.00
100.01– 150.00	15.00
150.01– 200.00	20.00
200.01– 250.00	25.00
250.01– 300.00	30.00
300.01– 350.00	35.00
Over $350.00	1/10 of account balance

I will pay each monthly installment computed according to the schedule as stated above upon the receipt of each statement. If I fail to pay any installment in full when due, at your option the full balance shall become immediately due.

(C) You are to send me a statement each month which will show the unpaid balance for merchandise purchased, your time price differential computed on the balance at the beginning of each monthly billing period, and the amount of the monthly installment coming due.

(D) I have the right to pay in advance.

(Customer's Signature)

ACCEPTED: SEARS, ROEBUCK AND CO.

By ______________ Date ________

use SEARS Revolving CHARGE ACCOUNT

the world's most convenient way to shop

so much easier to shop Sears stores
Sears wonderful world is yours anywhere, anytime. Just present your credit card.

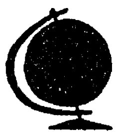
so much easier to shop Sears catalog
Select from over 140,000 items at home. Just show on your order the store carrying your account.

so much easier to shop Sears by phone
Rushed for time; baby-sitter problems? Just call Sears to place your order, and say "Charge it."

just say Charge it

SEARS CREDIT CARD
SEARS, ROEBUCK AND CO.

MARY LEWIS
123 MAIN STREET
SEARSTOWN 10, U.S.A.



at any SEARS store in the 50 States

SEARS

shop the world's most convenient way

open a Sears Revolving

CHARGE ACCOUNT

today

23-902 2189

By ______________________ Date ______________

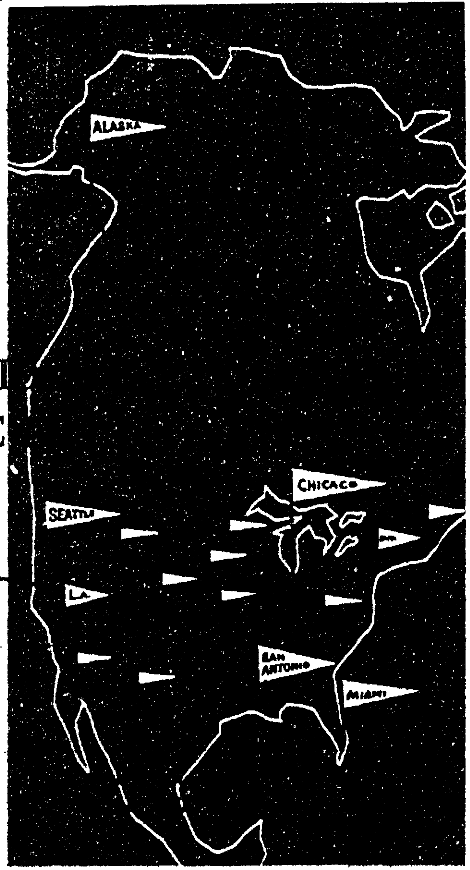
wherever you go, *whatever* you want, *whenever* you want it . . .

just say "CHARGE IT" at Sears

At home, on vacation, or on business trips, you can "charge it" as you go, with your Sears credit card. Buy what you need quickly at any Sears Retail Store or Catalog Sales Office in any of the 50 States!

Moving to another city? Your Sears credit card opens the door to the world's most convenient way of shopping . . . the Sears Revolving CHARGE ACCOUNT way!

USE SEARS NATIONWI
AT ANY SEARS STORE



select the way you want to pay

When you receive your monthly statement, you can pay the entire amount with no service charge. Or you can make monthly payments and spread the balance over many months with a small service charge. Real convenience! So remember, you can save on Sears values anytime. Just say "Charge it" . . . and enjoy whatever you want, whenever you want it, wherever you go!

(PLEASE SIGN AGREEMENT ON REVERSE SIDE)

MR. / MRS. / MISS ______ (PLEASE PRINT) ______ (WIFE'S NAME) ______ AUTHORIZED PURCHASERS 1. ______ 2. ______ 3. ______

ADDRESS ______

CITY ______ ZONE ______ STATE ______

PREVIOUS SEARS ACCOUNT ______ (DATE) ______ (APPROX. AMOUNT) ______ (WHAT STORE?)

HOW LONG AT PRESENT ADDRESS? ______ OWN ☐ RENT ☐ BOARD ☐ AGE ______ MARRIED ☐ SINGLE ☐ WIDOWED ☐ DEPENDENTS ______ PHONE NO. ______

FORMER ADDRESS (IF LESS THAN 5 YRS. AT PRESENT ADDRESS) ______ HOW LONG? ______

EMPLOYER ______ ADDRESS ______

HOW LONG? ______ OCCUPATION ______ WEEKLY EARNINGS? ______

FORMER EMPLOYER (IF LESS THAN 1 YR. WITH PRESENT EMPLOYER) ______ HOW LONG? ______

NAME AND ADDRESS OF BANK ______ CHECKING ☐ SAVINGS ☐ LOAN ☐

EXPLAIN OTHER INCOME, IF ANY ______ NAME AND ADDRESS ______

CREDIT REFERENCES

110 FREE STREET, PORTLAND 3, MAINE PHONE SPruce 5-2311

SEARS

SEARS REVOLVING CHARGE ACCOUNT

$______

AMOUNT PAID

When paying by mail, please detach and return this stub. Your cancelled check is your receipt.
When paying in person, present entire statement. You may pay your total balance, at any time, in any Sears Store.

PREVIOUS BALANCE	PAYMENTS	PURCHASES	CREDITS	SERVICE CHARGE	BILLING DATE	ACCOUNT BALANCE	PAYMENT NOW DUE
						IF YOU PREFER A CHARGE ACCOUNT pay this amount	IF YOU PREFER TO PAY MONTHLY pay above amount upon receipt of this statement

JUST SAY CHARGE IT AT ANY SEARS STORE!

Please mail or bring saleschecks and credits when making an inquiry on this statement.
Payments, returns, and purchases reaching our charge office after billing date will be shown on your next statement.

F-4618 REV. 2-63 *See reverse side for payment schedule and information on other credit plans.*

You pay no money down on any credit purchases at Sears

SEARS REVOLVING CHARGE ACCOUNT PAYMENTS ADJUST TO UNPAID BALANCE OF YOUR ACCOUNT

As your balance increases or decreases, your monthly payment is adjusted according to your balance. Please see schedule of flexible monthly payments below . . .

ACCOUNT BALANCE:	PAYMENT:
$ .01 to $ 10.00	Balance
10.01 to 100.00	$10.00
100.01 to 150.00	15.00
150.01 to 200.00	20.00
200.01 to 250.00	25.00
250.01 to 300.00	30.00
300.01 to 350.00	35.00
Over 350.00	1/10 of Balance

FOR YOUR CONVENIENCE, TWO OTHER CREDIT PLANS

1. Easy Payment Plan for purchases of major home appliances

Up to 36 months to pay, no money down on purchases of major home appliances.

2. Modernizing Credit Plan for home improvements

Homeowners can take up to 5 years to pay, plus no money down on home improvement merchandise and installation.

PRINTED IN U.S.A.

New at WARD'S

For Your Budgeting Convenience

10 MONTHS TO PAY

REVOLVING CREDIT ACCOUNT

GIVES YOU A CREDIT OF 40 TIMES YOUR AGREED WEEKLY PAYMENTS (OR 10 TIMES YOUR MONTHLY PAYMENTS)

This plan offers all the benefits of a regular charge, yet gives the added convenience of D-I-V-I-D-E-D PAYMENTS

NO DOWN PAYMENT REQUIRED

WEEKLY PAYMENT	$ 2.00	$ 3.00	$ 5.00
PURCHASES UP TO	$80.00	$ 120.00	$200.00
SPECIAL REVOLVING CREDIT ACCOUNT	$5.00 per month	Purchases up to $60.	

1% IS ADDED TO YOUR MONTHLY BALANCE

We are continuing our 30 day charge Accounts, but this NEW REVOLVING ACCOUNT offers additional convenience to our customers wishing to extend their payments over a longer period (40 weeks or 10 months) with no down payment

"FOR YOUR BUDGETING CONVENIENCE"

LEWISTON AUBURN CREDIT ASSN.

WARD'S
Ward Bros.

TELEPHONE 4-7371
72 LISBON STREET LEWISTON, MAINE

AMOUNT REMITTED

SALES AND CREDIT SLIPS ARE ENCLOSED FOR YOUR REFERENCE
PLEASE DETACH AND MAIL THIS PART OF BILL WITH YOUR REMITTANCE

BILLING DATE	PREVIOUS BALANCE	PURCHASES	PAYMENTS	RETURNS	SERVICE CHARGE	ACCOUNT BALANCE	PAY THIS AMOUNT
Payments and Charges Made AFTER Billing Date Will Appear On Your Next Statement							This Amount Due 30 Days From Your Billing Date

ALWAYS USE YOUR CREDIT PLATE — IT'S FAST, EASY AND ACCURATE
WARD BROS. LEWISTON, MAINE

WARD'S
Ward Bros.

charge account application

Mrs.
Mr.
Miss

Name of Wife or Husband

First Name	Initial	Last Name		
			Married	☐
			Widow	☐
Address	City	How Long	Single	☐
Previous Residence	City	How Long	Divorced	☐
			Separated	☐

Mr. Employed by	Business Address	Position Held	How Long
Employed Formerly	Business Address		
Miss or Mrs. Employed	Business Address	Position Held	How Long
Employed Formerly	Business Address		

Banks				
	Savings	☐	Own Home	☐
	Mortgage	☐		
	Loan	☐	Rent	☐

I have Credit with	Name and address of nearest relative other than spouse.
1	
2	
3	

Terms — 30 day account ☐

Terms — Revolving Credit Account ☐

I/we agree to pay for all purchases in accordance with the terms of this account (see reverse side). A service charge may be added on any delinquent balance.

Signed

(Over)

Ward Bros. Easy Credit Plans

"REVOLVING CREDIT ACCOUNT"

You decide how much you can pay weekly or monthly and receive 40 times your weekly payments or 10 times your monthly payments.

A Service Charge of 1% of the Unpaid Balance is Added Monthly.

"THIRTY DAYS"

Payment Due in full within 40 days from the billing date.

PLEASE CHECK YOUR BILLING DATE

Names that begin with	*Your bill will be mailed about*
A through E	4th to 7th
F through L	11th to 14th
M through R	18th to 21st
S through Z	25th to 28th

PECK'S

DISTINCTIVE FURNITURE

PERMISSION IN WRITING MUST BE OBTAINED FROM THE OFFICE BEFORE REMOVAL OF GOODS.

It is agreed that B. PECK COMPANY may cancel this contract at any time before the delivery of goods.

Lease Nº 755 **Dept.** .... **S. P.** ....

Lewiston, Maine, ...

M .... **hired and received of B. PECK COMPANY the following articles:**

To be used at ...., for the rent and use of which, I promise to pay to the Company, or order, the full amount of $ .... in monthly installments of $ .... each, payable monthly on or before my cycle billing date together with carrying charges at the rate of 1½% per month on unpaid monthly balances of said full amount, until said full amount and all carrying charges thereon are paid in full.

In case of default in any payment, the full balance due shall become due and payable at the time of such default at the option of said B. PECK COMPANY, and I agree to forfeit and deliver up said articles on my failure to pay any of said installments of rent and carrying charges thereon when due or to comply with the provisions of this lease; and I agree to return said articles on demand, and in good order, and not to sell, or otherwise convey said articles without the consent of the said Company. I promise not to remove the said goods from the above place without the consent of said B. PECK COMPANY in writing; and I agree that by any removal, sale or transfer without the consent of said Company thus obtained, I hereby forfeit all right to the said goods, or the further use of the same, and to all moneys paid. And I further agree and consent that the said B. PECK COMPANY or its agents or servants may at any and all times enter into and upon any premises occupied by me to view and examine said articles and furniture, and in case of forfeiture, to remove the same without being deemed guilty of any trespass or wrong. And that the title to the above goods, or to any goods leased to me, is not to pass from the said B. PECK COMPANY until all leases are cancelled and a receipt in full given, and that upon full payment as required by this lease, the Company will release its claim to the leased goods. And I further say that there is no contract, agreement or understanding, verbal or otherwise, between me and the said Company or its agents or salesmen in reference to the aforementioned goods, except that which is expressed in this lease, and I hereby acknowledge the receipt of a copy of this lease.

Witness my hand and seal this .... day of .... 19 ......

Witness: ....

....
Signature here

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC

Fill out this application for a Peck Account and sign CCA agreement on reverse side.

NAME Mr. Mrs. Miss

Application Date

Taken By

Occupation

Where Employed

Present Address

Husband's Occupation

Where Employed

Previous Address

Income:

Relative

Own Home

Rent

Rooms

Who May Buy

Lives With Parents

Single

Married

Widowed

Divorced

Bank

Branch

Address

Check

Savings

Loan

Credit Report

Reference

Reference

Reference

Remarks

On the basis of the foregoing information, which I certify to be correct, I should like Peck's to make sales to me under the CCA Plan, or if I have checked the box at the left, the Regular Charge Plan.

Check here if you wish the Peck Regular Charge
Due in Full in 30 Days

Signature

This is your Peck Continuous Charge Account Agreement

In consideration of Peck's extending credit to me on the Continuous Charge Account plan, I agree to the following regarding all purchases made by me or members of my family:

A. I will pay the time sale price for all purchases, consisting of the cash sale price tax and transportation charges (if any) plus a service charge of 1½% on the monthly balances of my account.

B. You will send me a monthly statement as of a specified billing date to be determined by you, which will show the unpaid balance as of my regular billing date, the service charge based upon my unpaid balance, and the amount of the monthly installment payable by me under this agreement.

C. The amount of my monthly installment will be determined by the highest balance of my account, and I will pay such monthly installment until my account is paid in full in accordance with the payment schedule. Payments hereafter made by me should be applied to the oldest portion of my remaining balance first.

D. I will pay each monthly installment computed as per the payment schedule within 15 days after the billing date of each statement. If I fail to make payment when due, at your option you may declare the full remaining unpaid balance immediately due and payable.

E. If within 30 days from the date of any billing statement, I pay the full amount shown on the statement, no time price differential or service charge applicable to this amount will be charged on any subsequent billing statement.

F. You have the right to limit my account balance and future purchases made hereunder.

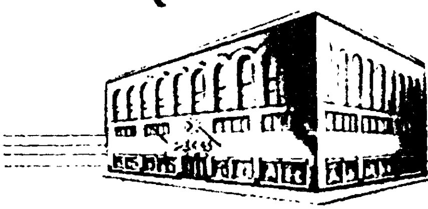
Signature ....

B. PECK COMPANY Date ....

Peck's

YES, WE'VE DONE IT AGAIN!

Changed the name on our budget type account formerly FCA – now CCA Continuous Charge Account



- we have increased your purchasing power with a new payment schedule

  NOW

  your same monthly payment buys TWICE as much

- You can pay as little as $3.00 monthly on $35.00

- 30 day charge customers can take advantage of these benefits too – just change to CCA

- This new payment schedule also applies to installment purchases on furniture and appliances

CONTINUOUS CHARGE ACCOUNT

Enjoy the things you want NOW on a C C A

Up to 24 months to pay

Peck's

Lewiston, Maine

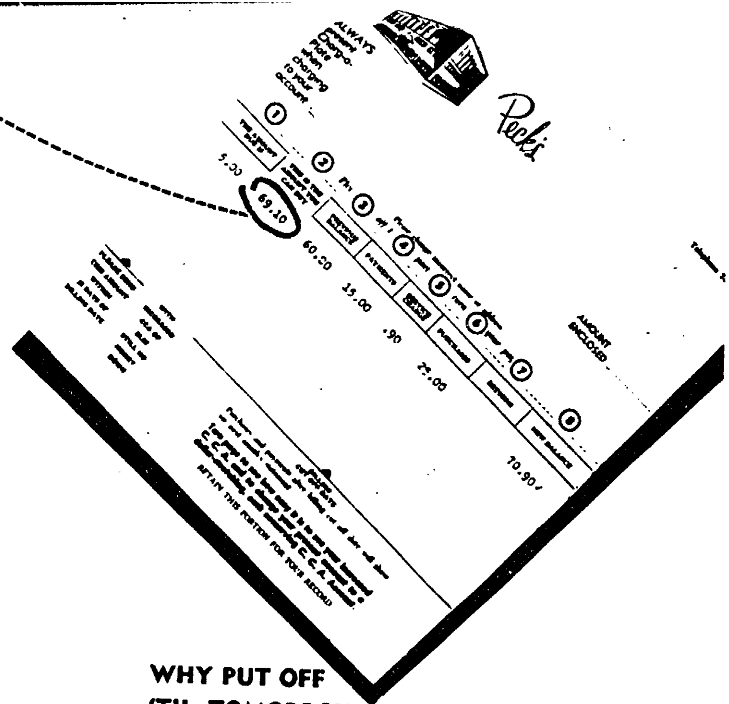
See column two on our new statement

This figure shows how much you can buy on the new terms.

THE FIGURES IN THE COLUMNS ON THE CYCLE BILLING STATEMENT REPRESENT:

1. Amount due.
2. How much more you can buy on your C. C. A.
3. Previous unpaid balance, if any.
4. Payments made during the current month.
5. Service charge of 1½ % on unpaid balance of C.C.A. No charge is assessed if there is no unpaid balance: or if the account has been paid in full prior to your billing date.
6. Purchases made during the current month.
7. Returns, or any other credits.
8. Amount you now owe, (not necessarily due, see column 1)

Schedule on page 4 shows low monthly payments and amount of merchandise that can be purchased.



WHY PUT OFF 'TIL TOMORROW WHAT YOU CAN ENJOY TODAY . . .

If you have an FCA — you can double your purchasing power with our NEW

Peck's

CONTINUOUS CHARGE ACCOUNT

NEW!

PAYMENT SCHEDULE

For a Monthly Payment of . . .	Your Account Balance May be
$ 3	$ 1.00 to $ 35.00
4	35.01 to 60.00
5	60.01 to 100.00
6	100.01 to 120.00
7	120.01 to 140.00
8	140.01 to 160.00
9	160.01 to 180.00
10	180.01 to 200.00
11	200.01 to 220.00
12	220.01 to 240.00
13	240.01 to 260.00
14	260.01 to 280.00
15	280.01 to 300.00
16	300.01 to 320.00
17	320.01 to 360.00
18	360.01 to 400.00
19	400.01 to 440.00
20	440.01 to 480.00
21	480.01 to 500.00

Telephone 784-4511

Peck's

ALWAYS present Charg-a-Plate when charging to your account

AMOUNT ENCLOSED ....

Please change incorrect name or address

Please tear off this top part and return with your payment

THE AMOUNT DUE IS	THIS IS THE AMOUNT YOU CAN BUY	PREVIOUS BALANCE	PAYMENTS	SERVICE CHARGE	PURCHASES	RETURNS	NEW BALANCE

PLEASE SEND THIS AMOUNT WITHIN 15 DAYS OF BILLING DATE

WITH INCREASED CCA OF $2.00 STILL NO MONEY DOWN

BILLING CUT OFF DATE

Purchases and payments after billing cut off date will show on next month's statement.

Turn page to see how easy it is to use your increased C. C. A. and to change your present account to a dollar-stretching, cash conserving C. C. A. Account.

RETAIN THIS PORTION FOR YOUR RECORD

TO SERVE YOU BETTER — TO ASSURE PROPER CREDIT FOR YOUR PAYMENT ALWAYS SEND US THIS TOP PART WITH YOUR PAYMENT

CHARGE CUSTOMERS

Statement shows how little, buys so much. Take advantage of the C. C. A.'s small and easy up to 24 months payment plan. A small service charge of 1½% of unpaid balance will be charged each month. *Just sign below and mail with your payment.*

MANAGER OF CREDIT SALES

Please make this change in your records. Transfer my present charge account to a Continuous Charge Account which allows me to pay for my purchases in up to 24 easy payments.

SIGNED

PECK'S cycle billing system for all types of credit accounts works as follows:

You will receive your monthly statement within a few days of your billing cut off date.

You will receive a copy of the sales checks for all transactions made during the 30 days prior to billing cut off date.

A	1st of month	IJK	14th of month
B	2nd of month	L	16th of month
C	4th of month	M	18th of month
D	6th of month	NOPQ	20th of month
EF	8th of month	R	22nd of month
G	10th of month	S	24th of month
H	12th of month	TUV	26th of month
		WXYZ	28th of month

YOUR PAYMENT IS DUE 15 DAYS AFTER THE BILLING CUT-OFF DATE

CCA CUSTOMERS

You can Increase your Purchases . . . whenever you are ready to buy more of the things you want and need. See Buying Schedule, below for how much more a given monthly payment buys.

C.C.A. BUYING SCHEDULE

Your Monthly Payment of	$3	$4	$5	$6	$7	$8	$9	$10	$11	$12	$13	$14	$15	$16	$17	$18	$19	$20	$21
Will Buy Merchandise Totaling	35	60	100	120	140	160	180	200	220	240	260	280	300	320	360	400	440	480	500

DATE OF APPLICATION	APPROVED BY	PLATE SENT	LIMIT	TAKEN BY

LOST PLATE DATE	SPECIAL INSTRUCTIONS

PORTEOUS MITCHELL AND BRAUN CO.
PORTLAND, MAINE

APPLICATION FOR FLEXIBLE BUDGET ACCOUNT

IN CONSIDERATION OF CREDIT TO BE EXTENDED TO ME OR MEMBERS OF MY FAMILY, I AGREE TO PAY ACCOUNTS, ACCORDING TO YOUR TERMS. PLUS A SERVICE CHARGE AT THE RATE OF 1½% ON THE OUTSTANDING MONTHLY BALANCE.
THE UNDERSIGNED ALSO AGREES TO RETURN THE CREDIT PLATE UPON REQUEST.

SIGNATURE ____________________

MR. MRS. MISS	LAST NAME	FIRST NAME	INITIAL	WIFE'S/HUSBAND'S NAME	OWNS ☐ RENTS ☐

PRESENT RESIDENCE—STREET	CITY	STATE	HOW LONG	RESIDENCE PHONE
FORMER RESIDENCE—STREET	CITY	STATE	HOW LONG	

EMPLOYER—MR.	HOW LONG	BUS. PHONE	POSITION
EMPLOYER—MRS.	HOW LONG	BUS. PHONE	POSITION

BUSINESS REFERENCE

BUSINESS REFERENCE

BUSINESS REFERENCE					NEAREST RELATIVE
BANK	BRANCH	SAV.	CK.	LOAN	ADDRESS
BANK	BRANCH	SAV.	CK.	LOAN	

FLEXIBLE PAYMENT CHART

PRESENT BALANCE	MONTHLY PAYMENT
UP TO $ 50	$ 5
$ 51 TO $100	$10
$101 TO $150	$15
$151 TO $200	$20

ABOVE $200: ARRANGEMENTS MUST BE MADE WITH OUR CREDIT OFFICE.

PORTEOUS MITCHELL AND BRAUN CO.

522-534 CONGRESS STREET
PORTLAND, MAINE

WHEN PAYING at our Office please bring this statement. **WHEN MAILING** remittance detach and return this stub.

(DETACH HERE) Monthly Payment Due Within 15 Days of Billing Date

PAY THIS AMOUNT	PREVIOUS BALANCE	SERVICE CHARGE	PAYMENTS	PURCHASES	RETURNS	BILLING DATE AND BALANCE

Payments made or Merchandise credited after your Billing date will be shown on Next Month's Statement.

This statement covers transactions on your P. M. B. Account for 30 day period Ending on Billing Date Shown Above.

FORM 250 A

PORTEOUS MITCHELL AND BRAUN CO.

STATEMENT

LEBLANC'S

VINCENT & LEBLANC, INC.

"Central Maine's Largest Store for Men and Boys"

128 - 130 LISBON STREET, LEWISTON, MAINE

SOLD TO

(DETACH HERE) WHEN PAYING BY CHECK THROUGH THE MAIL PLEASE DETACH THIS VOUCHER AND ENCLOSE WITH CHECK. NO ACKNOWLEDGEMENT WILL BE MADE UNLESS REQUESTED. YOUR CANCELLED CHECK IS A RECEIPT. AMOUNT $________

PREVIOUS BALANCE	SERVICE CHARGE	PURCHASES	PAYMENTS	RETURNS	BILLING DATE	NO. OF ITEMS	PRESENT BALANCE (SEE TERMS BELOW)
YOU CAN SAVE ON CARRYING CHARGE, IF YOU PAY MORE THAN YOUR REQUIRED MONTHLY PAYMENT.							

SC - SERVICE CHARGE

MONTHLY PAYMENTS DUE WITHIN 10 DAYS AFTER RECEIPT OF STATEMENT

PAY AMOUNT INDICATED IN CHART BELOW PLUS ANY PAST DUE AMOUNTS

IF YOUR PRESENT BALANCE IS FROM →	$10 TO $75	$75 TO $100	$100 TO $150	$150 TO $200
YOUR REQUIRED MONTHLY PAYMENT IS →	$12	$15	$25	$45

LEBLANC'S

LEWISTON, MAINE

ECHO PUBLISHING CO.

STATEMENT

Freese's

Maine's Great Store

74-96 MAIN STREET BANGOR, MAINE

SOLD TO

(DETACH HERE)

GOLD BOND STAMPS given if payment is made within ten days of mailing date — if desired check here ☐

AMOUNT $__________

PREVIOUS BALANCE	PURCHASES	PAYMENTS	RETURNS	SER. CHG	BILLING DATE	NO. OF ITEMS	BALANCE	PAY THIS AMOUNT DUE WITHIN 15 DAYS

PAYMENT SCHEDULE
REVOLVING CHARGE ACCOUNTS

Limit	Payment
$ 50 or less	$ 5.00
$ 50 to $100	$10.00
$100 to $150	$15.00
$150 to $200	$20.00
Over $200	$30.00

Your original sales checks, payments, and credit receipts are enclosed. SAVE them for your record, as they cannot be duplicated. In case of error, please return your bill to us. Payments made or credits received after billing date will appear on your next statement . Tel 7341

P. B. C.

Application and Agreement

I hereby apply for a Personalized Budget Charge Account (sometimes called "P.B.C. Account") with Owen Moore Co. and if this application is accepted and the account opened, I agree:

1. That all charge purchases made by me from Owen Moore Co. shall be on such account.
2. To limit my purchases on such account to an amount not exceeding $.................................... owing at any one time.
3. To pay thereon $................ a month regularly within 15 days of the date of my monthly statement.
4. It is agreed that should I fail to make my monthly payments, Owen Moore Co. may, at its discretion, declare the entire balance due and payable in full.
5. I understand there will be and I agree to pay a carrying charge on this account of 1.5% per month on monthly balances.
6. Owen Moore Co. may at any time cancel the account as to future purchases.

Signed:

Name..

Address...

....

Accepted:..., 195........

OWEN MOORE CO.

By..

CHOATE, HALL & STEWART,
Boston, Mass., December 4, 1963.

Re Senate bill No. 750.

Hon. PAUL H. DOUGLAS,
Hon. WALLACE F. BENNETT,
Senate Office Building, Washington, D.C.

MY DEAR SENATORS: As attorney for the Boston Stock Exchange, who also represents a number of stock brokerage firms who finance the purchase of securities and accounts of customers, I had intended to make a short presentation to you in Boston on Friday afternoon, November 22. Since I understand the hearings on the above bill have now been closed, I would like to submit herewith in writing for the consideration of your committee the substance of what I had planned to say.

It is my information that until late in the week of November 18 it had not been thought the brokerage business, which deals in financing intangibles, might be included within the purview of the above-mentioned Senate bill No. 750. However, the words of section 3(2) and the last paragraph of section 4(b) are probably broad enough to include brokers who carry margin accounts for customers and charge interest on late payment for securities bought for cash, even though the bill would appear to be described as "truth in lending" for tangible property purchases. The section 2 declaring the statute purposes refers to "acquisition of property and services" and reads as if it were referring to real estate mortgages or time sales of equipment, where indeed, except as clearly affected by State regulations, there may be among certain classes of our population "a lack of awareness of the cost." The words of the items listed in section 4(a), particularly 4(a)(2), are in terms commonly used in tangible property financing business and not at all in the securities business of financing intangibles.

The financing of the purchase of intangibles on margin accounts or otherwise presents a very different situation from that of financing the purchase of tangibles on time. The securities markets are now very effectively regulated by State and Federal laws, including the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Company and Advisers Act of 1939, the Trust Indenture Act of 1940, and the so-called blue-sky laws in almost every State, and also by the rules and regulations of the Federal Reserve Board, including the presently effective regulation T which was promulgated for the specific purpose of regulating credit extended by securities brokers and dealers, and those of National Securities Exchanges. It hardly seems that more regulation is necessary in this particular field.

It is therefore earnestly requested that it be made clearer the bill does not apply to the securities business by inserting the words "real estate, tangible" in line 7 on page 1 before the word "property" and inserting in section 4 an exception for "credit extended for financing transactions in intangible marketable securities."

At the present time brokers extending credit on margin accounts regularly supply statements in writing to customers borrowing money, which gives all the information listed in section 4(b)(2), subdivisions A–E inclusive. The information so given shows the financing, i.e., interest charged each period separately set forth and described. It is impossible for brokers to set forth in advance "the simple annual percentage rate" as required by section 4(b)(1), because the rate charged fluctuates with the published prevailing call money rates on loans to brokers.

If securities financing is included in the bill, it must be under section 4(b) as a "revolving or open-end credit plan," but the last paragraph of this section 4(b), lines 4–9, page 6 of the bill, sets up a definition which may or may not include margin accounts unless the word "and" quoted in line 7 means "or." The total amount of credit available in a margin account for security transactions is fixed by Federal statute and regulations thereunder; so it can hardly be said it is "not specified," but this fluctuates from day to day as the market price of the securities held or carried on the account changes, or by reason of the deposit of more collateral on the account in the form of sales of securities held thereby reducing the debt, or cash, or new securities brought on to the account.

The bill as now drafted may very well not be intended to include brokers or National Securities Exchange members carrying margin accounts or making purchases for customers. If this is so, it should be made clearer.

It is difficult to conceive of what reason there can now be to include this type of business in a Truth in Lending Act when you realize the extensive regulation the business is subjected to. If this sort of regulation or reporting is required to a greater extent than now exists, is not the Securities and Exchange Commision or the Federal Reserve Board itself under sections 7 and 8 of the Securities Exchange Act the body to deal with that problem?

We therefore urge that the bill make it clear the financing of the purchase of intangibles is not within the purview of the bill.

Respectfully yours,

MARCIEN JENCKES.

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS,
LOCAL 1505, AFL-CIO,
Waltham, Mass., January 14, 1964.

Senator PAUL H. DOUGLAS,
Chairman, Production and Stabilization Subcommittee,
Senate Office Building, Washington, D.C.

DEAR SENATOR: At the last monthly meeting, January 12, 1964, of our local union which is comprised of over 10,000 members, a resolution was unanimously passed stating that Local 1505, International Brotherhood of Electrical Workers, be recorded as heartily endorsing passage of the truth in lending bill, S. 750, and urging its speedy enactment.

Our union membership believes that legislation of this nature is most beneficial to the working men and women of this Nation. Our local union wishes to have endorsement recorded by the Production and Stabilization Subcommittee which has conducted hearings on this bill.

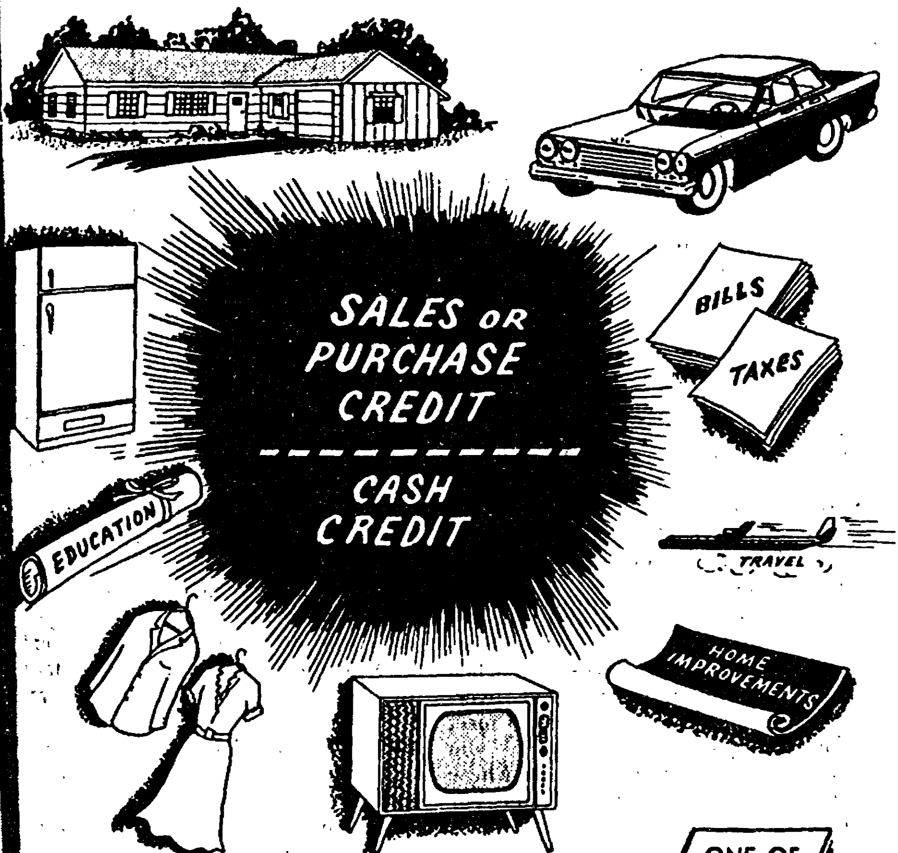
Very truly yours,

JAMES F. MULLONEY, *President.*

Whereupon at 5:30 p.m. of the same day, the hearing in the above entitled matter was closed.

(The pamphlet referred to on p. 912 follows:)

Facts YOU SHOULD KNOW ABOUT YOUR CREDIT



TTER BUSINESS BUREAU · EDUCATIONAL DIVISION

ONE OF THE "FACT" BOOKLET SERIES

1170

FACTS YOU SHOULD KNOW ABOUT YOUR CREDIT

Mass production and the American standard of living would not have been presently attained without consumer credit

BUT

From the viewpoint of the individual, credit should be used only with a definite plan and intention, by discharging the debt satisfactorily, of not being a debtor.

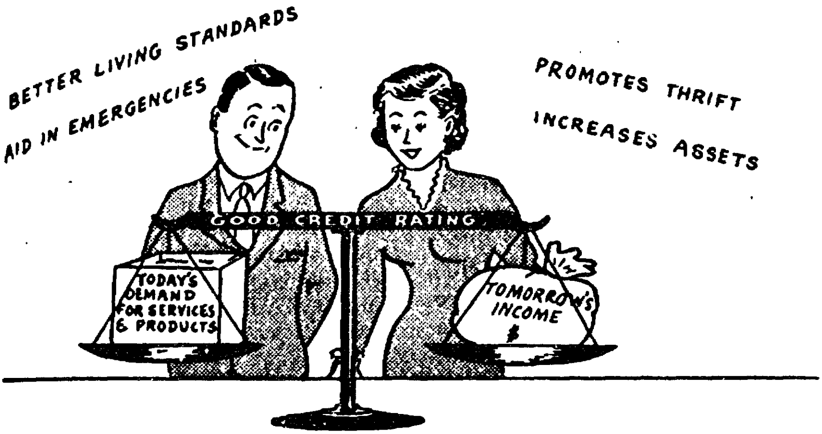
This booklet is designed to help you in knowledge and satisfactory use of consumer credit. It does not detail the laws and regulations applying to credit. Actually, when you deal with reliable concerns, you don't have to be a lawyer nor carry a law book.

Use "credit" wisely and when it is advantageous. It is not advantageous when used unwisely or when its convenience induces you to "overload" so that you are unable to meet your obligations, nor when you deal with unreliable concerns whose charges and practices are unfair or illegal.

Good "credit" is a personal asset. It is created and maintained by you. It can be improved by your record of trustworthiness and character, by your performance of payment, and by your total capacity to pay.

Generally, you may choose your method of financing, whether by conditional sales contract, or similar contract, by cash loan from bank, small loan company, finance agency, credit union, by mortgage loan, borrowing on collateral, on insurance, etc. Satisfactory credit terms can be obtained by any person who has a good credit rating. It is those persons who do not have a good record or who do not know and understand the basic facts, terms, and obligations, who usually are trapped in unfair or illegal credit transactions.

Doing business on a cash basis has advantages also. It saves credit costs, for example. Most people, however, cannot do all their business on a cash basis. In fact, wise use of credit helps you to build and protect a savings account. In turn, a savings account enables you to buy for cash or to obtain most favorable credit terms.



LEGAL REGULATION

Laws and regulations regarding credit generally apply to those offering the credit service. Therefore, it is best to deal with those concerns or agencies known to be reliable and whose reputation depends on good practice and compliance with the law. If you want to know what legal regulations apply in your state, you can readily learn by inquiry to a reliable source. In any case, it is important to have the exact facts of any credit transaction expressed adequately in any papers necessary to the transaction. Compliance or non-compliance with any applicable regulation can be shown by such papers.

In addition to specific legislation on credit, loans, and financing, most of the agencies dealing in credit operate under government charter, license, or supervision, — for example, banks under state or federal charter and supervision; co-operative banks, state charter and supervision; savings and loan associations, under federal charter and supervision or, in some areas, under state charter and supervision; small loan companies, state license and supervision; insurance companies, state license and supervision. Also, in some states, companies providing purchase credit on automobiles and other consumer goods must meet special regulations.

Where adequate small loan legislation does *not* exist, the loan shark usually operates. Where laws set the small loan rate too low, legitimate companies cannot operate profitably, and similarly, the loan shark takes over. The purpose of such legislation is to set a rate fair to the lender and borrower. It is designed also to see that lending agencies are responsible and operate responsibly.

Wherever there is legal regulation applying to rates or charges, it generally places a "ceiling" on the rate or charge. In other words, the rate may be less, but no more than specified. Where legal regulations apply to rates on small loans, those regulations do not apply to loans above the amount legally specified as a small loan.

Where rates or charges on loans or credit are not regulated by law, they are a matter of agreement between the parties. In some states, however, in reference to certain types of loans by unlicensed agencies or not under small loan regulation, there are statutes providing relief against usurious rates.

In reference to instalment buying, one of the most common legal requirements is that a conditional sales contract (title does not pass until purchase is paid for) or similar contract, must contain basic facts such as: cash price, down payment, trade-in allowance if any, finance charge, charge for and description of insurance if any, total time price, payments per month and number of payments, — and that a copy be given to the buyer. Do not sign unless such information is filled-in completely. Whether required by law or not, a purchaser could reasonably require such information for an acceptable contract.

GET THE FACTS

Once you have the facts and understand your credit terms and obligations, you can wisely decide or choose. In making ordinary purchases of clothing, appliances, furnishings, etc., you ask questions to get information you want. Similarly, you should understand your credit transactions. *Understand* what you sign. Any reputable credit source is willing to explain a credit contract and terms, and any legal regulations applying. If such information is not given satisfactorily, you don't need to sign. Once you establish an instalment purchase account, you can generally add to your account at the same establishment without difficulty.

In making application for credit, state the truth and facts as required. Failure to do this has spoiled many a credit record; and obtaining credit by false information or by concealing important information, could be serious. *The purpose of a credit interview, or investigation, or requirement to answer certain questions, is to determine that the applicant plans to use credit wisely, that he is not "over-loading;" that his capacity and prospects will be good for the period of the credit, and that he is reliable and trustworthy.*

You make your own credit record. Credit agencies record it, — they do not make it. You can change your credit record for better or worse, but you can't evade it.

SOURCES AND TYPES OF CREDIT

Credit is available from many sources in various plans to meet particular needs. Basically, the types are (1) sales or purchase credit, and (2) cash loans.

Under the type of sales or purchase credit are, —

— regular open or charge accounts, on basis of payment on receipt of bill or within 30 days of date of bill. Some sellers add service charges if you don't pay accordingly.

— "budget" accounts, wherein total of purchase and finance or carrying charges is divided into equal monthly payments.

— "revolving" purchase accounts, wherein you may make purchases each month up to a certain amount, paying a certain amount or percentage of the balance each month, plus carrying charges, to keep the account "revolving;" but no carrying charge if paid in full each month.

— instalment purchase contracts, such as conditional sales contracts, wherein you ordinarily make a down payment, and agree to pay off balance plus finance charges, usually in equal amounts, per month over a period of time, or chattel mortgages, bailment leases, rental contracts.

For cash borrowing, there are various types, —

— instalment loans, single payment loans, revolving credit plans of several types. Cash loans are granted on basis of signature and character, or by co-makers, or by lien on household furniture or automobiles or other personal or chattel property; or by collateral such as stocks and bonds, life insurance policy, savings deposit book.

Cash loans are obtainable from some sources by giving mortgage on real estate. (In some areas the process of "trust deed" is used instead of mortgage). There are also so-called "open-end" mortgages wherein the holder of the mortgage will grant a loan generally up to the original amount of the mortgage and usually for improvement of the mortgaged property. It is added to your existing mortgage debt. It is possible, also, to get cash by second mortgage, but this is costly and should be undertaken only upon careful consideration and advice. In giving any form of lien on your home for cash it is very important to deal only with reliable persons or concerns.

The various sources and types of credit, —

— *retail sellers;* — charge accounts, budget accounts, revolving purchase accounts; conditional sales contracts, chattel mortgages, bailment leases or rental contracts, (the last three may by transferred by the seller to banks or sales finance companies to whom you must make payments).

— *banks, (in some areas "industrial banks");* — instalment personal loans, single payment loans, automobile loans, home improvement loans, revolving credit or similar plans; loans on security; mortgages; financing of various types of purchase contracts; loans on basis of deposit book.

Banks, savings and loan associations, co-operative banks grant loans to persons whose mortgages they hold, generally when the loan is to improve the mortgaged property.

— *savings and loan associations, building and loan associations, (co-operative banks in Mass., and Rhode Island);* — financing of certain types of consumer contracts; home improvement loans; mortgages; trust deeds; loans to depositors or shareholders.

— *small loan companies, (in some areas "industrial loan companies") consumer finance companies;* — instalment loans, automobile loans, loans on security; financing of certain types of consumer contracts.

— *credit unions;* — loans on basis of security, signature or co-signers, and limited to members.

— *insurance companies;* — cash loans to holders of certain types of insurance policies; generally based on part or total of cash or loan value of insurance, as explained in the policy. Borrowing against an insurance policy, until repaid, reduces the insurance protection unless, for example, term insurance is taken to maintain the insurance program. Life insurance policies having cash or loan value also may be used as security for cash loan by various agencies.

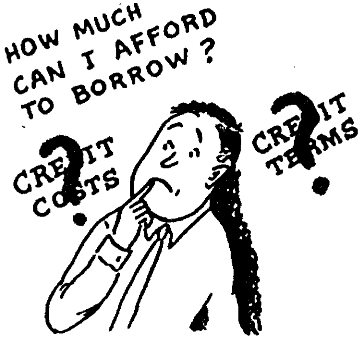
In relation to contracts for home repairs or modernization, many banks and other financial institutions offer their own property improvement credit plans. Also available are loans or financing through lending agencies approved by Federal Housing Administration. Such transactions must be conducted according to FHA regulations and the FHA insures the lending agency up to 90% against default. Information as to rates and other costs may be obtained from FHA or any lending agency approved by FHA. In this type of transaction, the reputation of the lending agency is most important.

Don't include your other debts in an application or contract for financing repairs on your home, unless such purpose is disclosed in the contract and to the bank or finance agency. Concealing other debts as part of the cost of home repairs is a form of misrepresentation or deceit.

The various types and sources of credit provide differing advantages and costs. In some cases, borrowing may be less costly than purchase credit.

COST

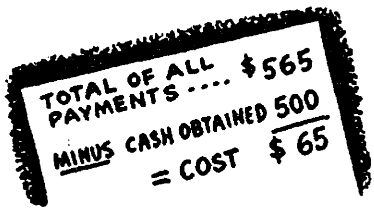
Salesmanship persuasively presents favorable points to influence a purchase. This is true in relation to credit. Terms of payment are presented attractively. In fact, some purchasers or borrowers "buy" terms, seemingly not caring much about credit costs or percentages. They want to know only "how much can I buy?" or "how much can I borrow?" and "how much do I have to pay each week or month?" Perhaps they give little attention to the total amount or to what they sign. Usually, this works out satisfactorily when a person deals with a reliable concern which by its investigation as to whether credit should be extended, does some of the thinking which should be done by the customer. It screens out those who are not good risks. Generally, if a creditor is reasonably assured of payment, you can get credit one way or another, but the wisdom of it is your decision. There is no hard and fast rule as to how much total credit each person should undertake, but everyone should consider total dollar payments in relation to his budget, his income and his total obligations present and future.



SHOP FOR CREDIT

You should shop for credit the same as you do for goods or other services. It need not be made difficult by trying to figure percentages or annual rates. (Even experts disagree as to the best formula for figuring true interest rates on instalment credit, and it takes a good mathematician to figure it out.) Upon determining the total cost of financing, you can readily determine the total dollar cost and dollar cost per hundred per year. Any reliable creditor or lender will give you the total dollar cost of your credit transaction.

TO FIND COST



To find the financing cost, — in case of loans, get the total of all payments and subtract the amount of cash obtained from the lender. In case of purchase credit — as in conditional sales or similar contracts, the financing cost is listed separately. Otherwise, in purchase credit, get total of all payments including down payment and subtract the cash price. Financing cost may also include special fees, filing or record fees and, in progress of the account, delinquency charges. Insurance costs, separately stated, although part of the financing, are not considered part of the financing cost.

Thus, you can determine dollar cost of financing and total dollar cost of your credit transaction per month or per year. Dollars are what you pay and that is the important point in relation to your budget. However, if you must know cost of credit on the basis of percentages — or on basis of interest rate per year — banks and loan companies and finance agencies can give you an approximate figure.

The lowest dollar cost of credit, however, should not be the only consideration. All the elements of a transaction should be considered, such as terms, convenience, fairness, dependability, leniency, helpful guidance, etc.

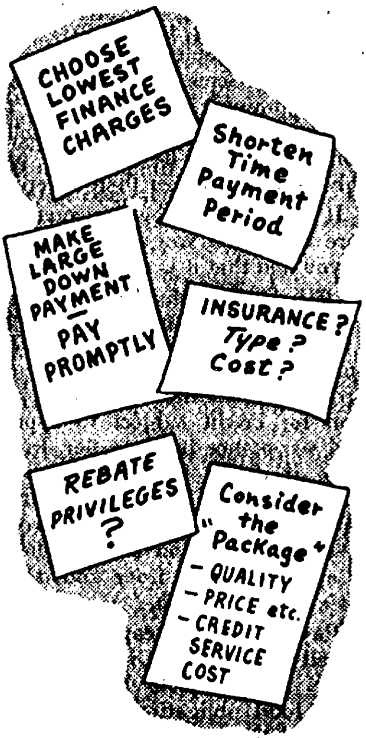
TOTAL COST IMPORTANT

Regardless of what the percentage cost may be, the important point is whether you want to pay and can make the total payments, by month or by year. If you choose and plan your credit transactions on the basis of total cost according to your ability to pay, you will avoid over-lapping and over-extension, the cause of a large part of credit difficulties.

The carrying charges on credit purchases or on cash loans are not strictly "interest" or pure rent for the use of money. These charges are made up of various costs to the company giving the credit, including operating and administrative expenses, cost of investigation, billing, collecting, clerical costs and for other services in addition to any cost for the use or rental of money.

No person who shops and compares credit services and intelligently gets and understands the facts would be caught by unfair loan or credit schemes. Financing of consumer contracts and purchases and loaning money is a competitive business, even within legal regulations, and therefore, credit terms, conditions, services and charges may differ among the various credit sources.

SIX WAYS TO SAVE



Six ways to save on credit costs, —

1. Finance charges on instalment purchases may vary, and you may choose the less costly.
2. Shorten the time payment period as much as possible.
3. Make a large down payment and pay promptly so as to avoid extra charges.
4. If insurance is required, it should be described and listed separately with its cost.
5. Take advantage of rebate privileges if provided or required. Substantial savings might be made if a credit obligation were paid off materially in advance. (Check rules and regulations about deducting financing costs and interest charges in federal income tax returns.)
6. Consider the entire transaction — the entire "package," — quality and price of goods or service, and other elements previously mentioned, as well as the credit service cost.

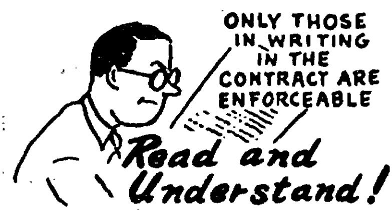
CREDIT LIFE INSURANCE

Credit life insurance, applicable to the purchase of major properties such as homes, automobiles, and major appliances, and cash loans, has risen in recent years to more than $25 billion per year. By credit life insurance, the life of the time purchaser or borrower is insured for the unpaid balance in the event of death.

In any contract, credit life insurance, if included, should be described and listed separately with its cost. Many states require this. In some cases lenders or creditors provide such insurance without extra charge.

The person insured by credit life insurance should be the one whose money is paying for the purchase or loan. For example, credit life insurance applied to a wife who is dependent upon her husband's income, would not provide the protection desired if her husband should die. In some cases, insurance against accident or sickness is offered in connection with credit transactions.

TERMS



The terms and payments expressed in the written credit contract are the ones enforceable regardless of any others that may have been promised by a salesman. Any promise of "no finance charge" if the amount should be paid off within a certain shorter time, should be clearly stated in your contract.

Don't be enticed by foolish terms or promises to incur obligations which are not easy or which may become more difficult for you as time goes on.

Beware of the scheme which entices by misleading low terms, but winds up with a "balloon." This means that the last payment is a *big* one — a "balloon" — so big you probably can't pay it. Pay it, or else! Or refinance at a higher rate. That makes credit costly and unwise.

Beware of advertising of new or used furniture, automobiles or other articles, supposedly on very low terms by your "taking over" payments not completed by a previous purchaser. Generally, this is just a selling gimmick and you're not "taking over" anything except an obligation to pay for what you buy, probably on terms higher than advertised.

If you want to buy on credit, be sure that what you sign will give it to you and that it is not an agreement to pay cash. For example, in one scheme, the contract is made up as a purchase order, or agreement to purchase and to pay for the goods ordered, including also an application for credit subject to approval and acceptance by the seller. In such case, if credit is not approved or accepted, you are obligated, as agreed, to pay for the goods ordered. A deposit paid on such a contract is applied to the order and the balance is due in cash.

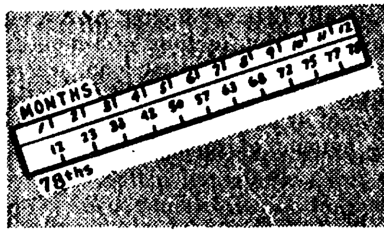
Payment terms can be made to sound very easy, but it is best to consider the complete transaction — your total obligation — total costs — total time — and other terms of the contract. You will be expected to fulfill all the terms of the contract, and the best policy is to know that you will be able to do so.

REBATES

If a time payment purchase is paid off in advance, whether a rebate is given or the amount of rebate, may depend on provision in the contract or willingness of the creditor, except where it is required by law. Generally, when required by law or given voluntarily, the rebate is figured by a formula known as the "Rule of 78."

In applying this rule, it is necessary first to subtract any allowable deduction from the total finance charge. This could be a minimum charge in the case of a loan; or in the case of a contract a minimum or basic charge the amount of which is specified by law in some states; and any charge not strictly a part of the finance charge, as for example, insurance. The rebate is figured on the finance charge remaining after such deductions.

THE "RULE OF 78"



Where the instalment payments are equal each month, the rebate is commonly figured by the Rule of 78, also known as "sum of the digits" method. The "78" is derived from the total number of instalment units outstanding month to month in a 12 month contract. For example, in a 12 month contract, 12 plus 11 plus 10-9-8-7-6-5-4-3-2-1 equals 78.

In the first month, you use 12/78ths of the total finance charge. In the second month an additional 11/78ths or a total of 23/78ths. In the sixth month 7/78ths or a total of 57/78ths. In the eleventh month you have used 77/78ths of the total finance charge. In any month when you pay off, the amount of the rebate would be the number of 78ths you had *not* used.

The following chart indicates more clearly how it is figured:

Length of Contract by Month	Portion of Finance Charge Used Each Month	Total portions of finance charge used month by month and due to the finance company
1	12/78ths	12/78ths
2	11/78ths	23/78ths
3	10/78ths	33/78ths
4	9/78ths	42/78ths
5	8/78ths	50/78ths
6	7/78ths	57/78ths
7	6/78ths	63/78ths
8	5/78ths	68/78ths
9	4/78ths	72/78ths
10	3/78ths	75/78ths
11	2/78ths	77/78ths
12	1/78th	78/78ths
78		

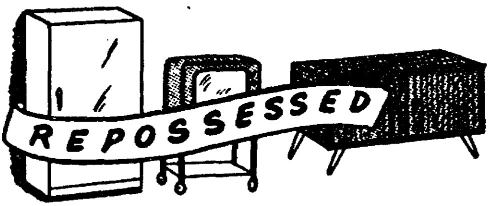
For example, if the finance charge, after allowable deductions, is $82.50 and the account is paid off in six months, 57/78ths of the finance charge (57/78 x $82.50 = $60.28) would be due to the finance company. The difference (21/78ths) $82.50 – $60.28 = $22.22 would be payable as rebate.

Similarly, it is figured on contracts of different length, by sum of the digits, — six months contract 6+5+4+3+2+1 = 21, and if paid off in fourth month you owe the finance company 18/21sts of the finance charge and the rebate is the remainder or 3/21sts. For nine months, the method is similar in 45ths; for 15 months in 120ths; for 18 months in 171sts, etc. Tables similar to the above can be set up for any such period.

Banks, finance companies, and loan companies have these proportionate rebates tabulated in charts. Generally they are figured by the full month, not by fractions of a month.

On a single payment loan, wherein the customer has use of the entire amount of the loan until it is repaid, the amount of rebate is figured entirely on a time basis, — the length of time the loan has been used, proportionately in relation to the total loan time period. On loans where the charge is a certain per cent per month on the reducing unpaid balance, there is no rebate because the charge is made each month for the money used.

DEFAULT, REPOSSESSION

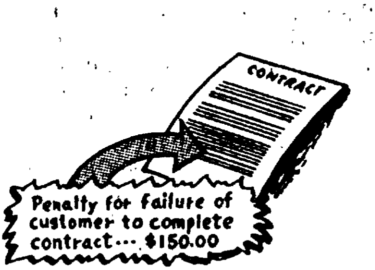


In any credit contract or contract for the purchase of personal property on a time payment basis, you are responsible for payment of the total specified in the contract. You cannot avoid or evade that obligation by refusing to pay or by offering to return the goods nor by the seller's repossession of the goods. If the goods are repossessed, you may have the right of redemption within a certain time, but your liability for the total is not eliminated.

If you default in your obligation, the seller may take action to collect the balance due; or he might repossess and charge you with any loss and with legal fees and collection or other costs. For example, an automobile repossessed for non-payment, might be sold at a ridiculously low price — and then you have to pay the difference between that price and the amount due, — plus costs. On the other hand, the laws generally provide protection to the customer in default or repossession proceedings.

However, no reputable dealer or lender wants to go through the procedure of legal action or repossession. He would prefer to work out a difficulty with his customer, if possible.

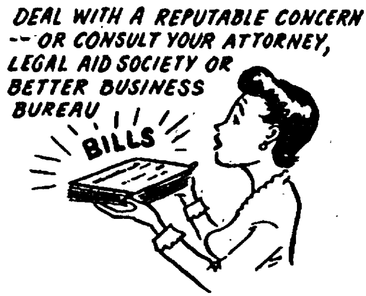
The contract should show any provision for extra charges in event of delay in payment or delinquency. Ordinarily, late charges are designed as a penalty to encourage fulfillment of terms, and they can be strictly enforced. Delinquency may be due to poor management, changes in circumstances, emergencies. A reputable creditor will aid in analyzing the situation, recommend changes in a program, adjust payment requirements or re-write a contract if necessary, — or otherwise try to help a trustworthy debtor in honest difficulties.



Certain types of contracts, as for example on home repairs, might contain provision for penalty or liquidated damages of a certain amount or percentage, if you fail or refuse to go through with your contract. This may seem harsh, and sometimes it is, and sometimes it is part of a high pressure selling scheme. Under certain circumstances, enforcement of such a penalty might be prevented by legal action, but the best way to avoid such trouble is not to make a contract you do not intend to keep, or not to make a contract containing such a provision.

DEBT ADJUSTERS

"Debt adjusters," "debt poolers," or "pro-raters" are outlawed in some states. In a few states concerns in the business of credit counseling and helping consumers to solve debt problems, are licensed and regulated. In considering such arrangements, you should deal with a reputable concern, licensed or otherwise known to be reputable, — or consult your attorney, Legal Aid Society, or Better Business Bureau. Some credit bureaus assist customers in arranging terms on their accounts.



YOUR OBLIGATION

Promptly meeting credit obligations establishes a good credit rating.

First determine that you *can* meet the credit obligations you are considering. Then, *determine* to comply with your agreement. Otherwise you shouldn't make such an agreement. Don't sign a credit contract and then decide you cannot afford it.

A note or contract for time payments may be transferred by the seller to a finance agency, whether specifically mentioned or not, and thereafter, you are obligated to that agency for payments specified in your contract. There is a difference between your contract with a contractor or other seller and your obligation to a bank or finance agency regarding the same transaction. Failure of the contractor or seller to fulfill *his* obligation to you does not release you from your obligation to the bank or finance agency. (The only exception would be in a case when the finance agency had been directly involved in and responsible for the original transaction, or where special statute provides that a finance agency takes a consumer contract subject to defenses of the consumer against the original contractor.)

Similarly, for fulfillment of a guarantee or warranty, you must look to the manufacturer, or seller, or contractor or whoever gives it, not to the bank or finance agency. Your responsibility for payment to it continues.

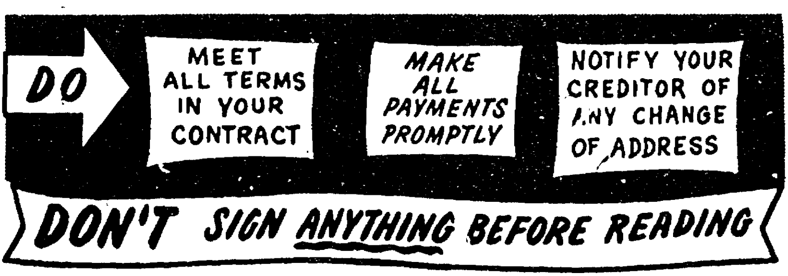
Failure to make payments or failure otherwise to meet the obligation of your contract or agreement makes you liable to lawful collection procedure. The law provides effective methods to enforce credit contracts. Accordingly, one whose record is not good, may expect close follow-up in the event of delinquency. Those who loan money or finance consumer contracts depend upon prompt payments to operate successfully.

If you make a valid contract for credit and then fail or refuse to go through with it, it is for the creditor to decide whether to release you, or attempt to enforce the contract or collect damages. Whether or not a deposit is refunded is dependent on the policy or willingness of the creditor. The reason for a deposit or down payment is to validate a contract and as assurance that you really mean to go through with it. You may feel justified in refusing to go through with a contract, but if you do so without adequate legal cause, or without agreement by the other party, you are liable.

Goods in your possession under a time payment contract should not be moved from one address to another without permission of or notice to your creditor. (In some states it is a serious offense to do so.) Notify your creditor of any change of address.

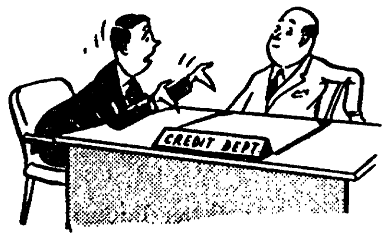
In any transaction, as in home repairs and remodeling, wherein a completion certificate is required, do not sign such certificate unless, in fact, the work is completed. *Do not sign for any other reason.*

Don't sign as a co-maker or as a co-signer, in any transaction, nor buy in your name for somebody else not eligible for credit, unless you are ready, willing, and able to assume the obligation of the contract. A friendly gesture in signing as a co-maker or co-signer may become a serious obligation if the principal maker or signer becomes disabled or dies, loses his job or moves away, or for other reasons, is unable to pay.



CONSULT YOUR CREDITOR

If any difficulty or emergency interferes with your credit obligation, the best policy is to notify your creditor immediately. Give him the facts. Generally, reputable loan, finance and other credit concerns are willing to co-operate in reasonable emergency arrangements — and can provide sound advice and guidance.



Some people think that if they spread their credit obligations among several different sources, their obligations are lessened, or that by juggling one against the other they can take on more obligations than they should. It doesn't work that way; it is not a wise use of credit, and it can be more costly.

ADVERTISING OF CREDIT ON CONSUMER GOODS

The following are recommendations to advertisers by Better Business Bureaus but they will help you in understanding the advertising of credit on consumer goods.

When advertised credit terms are dependent on customer obtaining a "side loan" in order to pay cash to the advertiser, such fact should be disclosed in advertising. Such expressions as "*Easy terms arranged*" should not be used if a "side loan" is required.

"*No charge for credit,*" "*No carrying charge,*" or similar expressions, should mean same price on credit as for cash, no charge whatsoever for credit and no discount for cash. "*Pay As you Please,*" "*Your Own Terms,*" — such expressions are usually inaccurate.

No figure or percentage should be advertised as a rate unless it accurately states the time period to which it refers.

If terms per week or month are advertised, the fact of down payment, if required, should also be mentioned.

"*No Down Payment*" should mean no charge of any nature before delivery of the goods (and, in case of automobiles, should also mean no trade-in required and no advance payment except license and transfer fees).

Advertising of terms per week or month without disclosure of "balloon" note at end of time period, is misleading.

- Reputable sellers or dealers will not ask you to sign a blank contract.
- They will have the contract filled-in completely before you sign it.
- They will let you read and *understand* each paper before you sign.
- They will give you a copy of what you sign.

- Better Business Bureaus cannot give legal advice or assistance, but there are various ways they can help by factual information, or otherwise, in reference to credit problems.

Ask Your Better Business Bureau for list of other FACT Booklets available

FINANCING CHARGES AND FEES

A compilation of material on consumer and housing credit made in conjunction with S. 1740, 87th Congress (S. 750, 88th Cong.)

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

Eighty-eighth Congress

First Session

FOREWORD

In December 1961 the Housing and Home Finance Agency was requested to prepare some materials on financing charges and fees assessed against the borrower in connection with consumer and mortgage credit transactions for the use of the Production and Stabilization Subcommittee in connection with hearings on S. 1740, the truth-in-lending bill. (See correspondence which follows.)

During the spring of 1962 the Housing and Home Finance Agency prepared for the use of the subcommitee (1) a compilation of provisions of State laws which pertain to the requirements of State laws similar to the requirements of S. 1740, and (2) materials on charges and fees permitted to be charged to the borrower under various FHA mortgage insurance programs.

However, since the compilation of the provisions of State laws which HHFA prepared was so extensive and would have been costly to print, the Banking and Currency Committee decided that it would serve the purposes of the subcommittee to publish summaries for committee use of these provisions of State laws in lieu of a detailed compilation of the actual provisions of these laws.

Part I of the following materials on consumer and housing credit contains summaries and tabulations of a number of characteristics of State laws which are concerned with credit transactions.

Part II of the following materials contains summaries of laws, regulations, and data on housing credit and housing credit costs.

A complete table of contents for this special section of financing charges and fees follows.

These materials were prepared in the winter of 1961–62 and the spring of 1962 and were accurate as of April 1962. The committee has not made any attempt to update these materials since that time.

CONTENTS

LETTERS CONCERNING THE COMPILATION

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
December 21, 1961.

Hon. ROBERT C. WEAVER,
Administrator, Housing and Home Finance Agency,
Washington, D.C.

DEAR DR. WEAVER: I anticipate that early next year the Production and Stabilization Subcommittee of the Senate Banking and Currency Committee will be holding further hearings on S. 1740, the truth-in-lending bill. As you may recall, the central purpose of this bill is to require all lenders and sellers on credit to fully disclose costs of credit to all borrowers by requiring the disclosure in writing prior to the consummation of a credit transaction of the total dollar costs of the credit extended and a translation of those costs into a simple annual percentage rate on the outstanding or unpaid balance of the obligation.

The Housing and Home Finance Agency, in a letter to the committee dated July 13, 1961, strongly supported the principles of this bill. Also, you may recall we discussed the possible application of these disclosure principles to FHA-insured loans and mortgages during your appearance before the committee on the 1961 housing bill in April of this year.

After reviewing the printed record of the hearings last summer on S. 1740, it has become evident that the committee has received very little detailed information concerning the possible application of the requirements of this bill to mortgage and other "housing" credit.

It would be very helpful to the Production and Stabilization Subcommittee if the Housing and Home Finance Agency could provide detailed information to the committee on the following aspects of "housing" credit:

1. S. 1740 requires the disclosure by all lenders of the total finance charge expressed in terms of dollars and cents. The term finance charge is defined to include interest, fees, service charges, discounts, and other charges incident to the extension of credit.

It would be very helpful if your staff would prepare for the committee a digest of State laws as they apply to housing credit, including—

(*a*) A compilation of all fees or charges in addition to the interest charge permitted to be assessed against the borrower on "housing" credit transactions;

(*b*) An explanation of the purpose of these fees or charges;

(*c*) An explanation of to whom these fees or charges assessed against the borrower are paid (i.e., are they retained by the lender or paid to a third party?);

(*d*) An identification of which fees and charges are required to be assessed against the borrowers by State laws and which fees or charges are merely permitted to be charged to the borrower by State laws;

(*e*) An identification of such fees or charges FHA permits lenders to charge on FHA-insured loans and mortgages and any restrictions on the amount of such fees or charges;

(*f*) An explanation of any affirmative disclosure requirements which exist in State laws comparable to the information required by section 4 of S. 1740, in regard to mortgage and housing credit; and

(*g*) A compilation of any provisions included in State law to prevent "misleading and deceptive" statements of the cost of "housing" credit, particularly prohibitions against the use of add-on or discount percentage rates which the Federal Trade Commission regards as "misleading and deceptive."

2. An analysis of the scales of fees and/or other charges levied by lenders against borrowers which are involved in a housing credit transaction, including, if information is available, information concerning differences in the cost of fees in different parts of the country and over different time periods. (For instance, do such fees or charges other than the stated interest rate increase or decrease with swings or changes in general credit conditions throughout the Nation or in general credit conditions in the mortgage industry?)

3. Are there significant differences in the types and costs of fees and charges levied by different types of institutions extending housing credit—for instance, by insurance companies, savings and loan associations, commercial banks, and credit unions? If so, what are the differences?

4. In terms of the broad definition of the finance charge included in S. 1740, which fees or charges paid by the borrower on a "housing" credit transaction should be regarded as incident to the credit transaction and which fees or charges should not be regarded as incident to the credit transaction? (On p. 1309 of the recent hearings on S. 1740, there is a memorandum outlining some tentative guidelines on this question.)

5. What steps has the Housing and Home Finance Agency taken, or does it intend to take, to implement the policy declared in regard to full disclosure of mortgage credit costs as described by Commissioner Hardy during his testimony before the committee on the 1961 housing bill?

I certainly realize that this is both an unusual and difficult series of requests to fulfill. However, I would hope the information developed would be as beneficial to HHFA internal operations as it would be to the committee in the consideration of S. 1740, the truth-in-lending bill.

Faithfully,

PAUL H. DOUGLAS,
Chairman, Subcommittee on Production and Stabilization.

HOUSING AND HOME FINANCE AGENCY,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., June 20, 1962.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Production and Stabilization,
Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: This is further reply to your letter of December 21 asking us to furnish information on mortgage credit and State credit laws to assist in answering certain questions relating to your truth-in-lending bill (S. 1740).

The compilation of State loan law provisions referred to in question 1 of your letter was placed in the record at the hearings on the bill on May 15. Also placed in the record were tables summarizing the disclosure requirements in the State laws as compared to the requirements in the April 21, 1962, committee print of S. 1740. Another table summarized the provisions in State laws with respect to charges permitted under those laws to be imposed upon borrowers in addition to finance charges.

Enclosed is the following additional material requested by your letter:

1. "Charges and Fees Which Lenders are Permitted To Collect Under the Regulations Governing FHA Home Mortgage and Home Improvement Programs."
2. "Charges and Fees Which Lenders are Permitted To Collect Under the Regulations Governing FHA-Insured Multifamily Projects."
3. "Summary of the Tabulation on False or Misleading Advertisements or Statements."
4. "Tabulation of the Provisions in State Laws that Prohibit False or Misleading Advertisements or Statements."
5. "FHA Loan Closing Cost Information."

We hope this material will be helpful to your committee in its consideration of this legislation.

Sincerely yours,

ROBERT C. WEAVER, *Administrator.*

PART I

CHARGES (IN ADDITION TO FINANCE CHARGES) PERMITTED BY STATE LOAN LAWS TO BE IMPOSED ON BORROWER AS OF MAY 1962

	Expenses of making loans																Insurance							Tax		Servicing					
	Acknowledgment	Appraisal	Attorney	Abstract	Brokerage	Cr. Rept.	Discount	Stamp Tax	Papers	Rec. Fil. Reg. 18/	Mort. Rec. Tax	Title Exam.	Title Trans.	Survey	Closing 1/	Other	Title	Life	Health & Acc.	Property	Loan	General	Prem. for loan	Assessment	Taxes	Mortgage	Loans	Stat.Max.Fin.Chg. 5/	Fin.Chg. No stat.max.	Maint. & Repair	Dues
ALABAMA																															
Banks and trust companies																										x					
Savings and loan associations		x	x	x		x			x	x	x	x				x		x		x	x			x	x						
Small loans										x								x										3			
ALASKA																															
Installment loans										x												x						3			
Retail installment Sales 6/			x							x			x									x							x		
Small loans										x								x		x								3			
ARIZONA																															
Bank installment loans										x																		3			
Bank check loans																											x	3			
Building and loan associations		x				x			x			x		x	x	x	x	x		x	x		x	x	x					x	
Industrial banks																												4			
Small loans	x		x							x								x										3			
ARKANSAS	No provision found																														
CALIFORNIA																															
Credit union	x									x											x							3			
Industrial loan companies	x									x								x		x								3			
Real property loans--applies to first trust loans of less than $10,000 and loans of less than $5,000 secured by junior liens.																												4			
Retail installment sales 6/			x							x											x				x			3			
Small loans	x									x										x								3			
COLORADO																															
Retail installment sales 6/	x									x											x							3			
Savings and loan associations																					x			x	x					x	
Small loans																		x										3			
Small loans $1500 or less	x			x						x								x		x								3			
CONNECTICUT																															
Lenders, except banks and real property mortgage loans of $5,000 or more	No lender shall charge a borrower with any expenses of inquiry as to his financial responsibility or expense of negotiating loans unless interest agreed upon is 12% of the loan or less.																														
Building and loan associations and savings banks	May collect such fees, dués, fines, interest and premiums on loans as may be provided in by laws. Insurance, taxes, and assessments may be charged to borrower.																														
Building and loan associations home repair loans	May collect such financing charges as authorized by FHA.																														
Credit unions																												4			
Industrial banks										x		x						x									x	3			
Retail installment sales										x												x							x		
Small loans																												4			
DELAWARE																															
Building and loan associations																							x								
Retail installment sales 6/			x							x												x						3			
Small loans																												3			

	Expenses of making loans																Insurance							Tax		Serv-icing					
	Acknowledgment	Appraisal	Attorney	Abstract	Brokerage	Cr. Rept.	Discount	Stamp Tax	Papers	Rec. Fil. Reg.	Mort. Rec. Tax	Title Exam.	Title Trans.	Survey	Closing 1/	Other	Title	Life	Health & Acc.	Property	Loan	General	Prem. for loan	Assessment	Taxes	Mortgage	Loans	Stat. Max. Fin.Chg. 5/	Fin.Chg. No stat.max.	Maint. & Repair	Dues
FLORIDA																															
Banks, loans not in excess of $5,000		x				x												x										3			
Building and loan associations																							x								
Discount consumer financing										x										x							x	3			
Industrial savings banks			x	x		x		x		x						7					x							3			
Retail installment Sales6/			x							x		x					x	x										3			
Small loans								x		x										x								3			
GEORGIA																															
Building and loan associations																							x								
Small loans	Fee of not more than prescribed limit for making loan. Recording in addition.																	x		x								3			
HAWAII																															
Building and loan associations		x	x	x		x		x	x	x		x	x			8				x				x	x						
Industrial loan companies		x	x	x				x		x										x								3			
Retail installment sales6/			x							x	x										x							3			
Small loans										x								x		x								3			
IDAHO																															
All lenders	On all loans where interest charged is less than $2.50 a minimum service charge of $2.50 may be made in lieu of interest.																														
All lenders																				x											
Small loans										x										x								3			
ILLINOIS																															
Retail installment sales6/										x											x								x		
Savings and loan associations																		x		x			x	x	x					x	
Small loans										x								x										3			
INDIANA																															
Building and loan associations		x	x	x				x		x	x												x								
Industrial loan and investment companies	Department of Financial Institutions may prescribe maximum interest, discount, fees, or other consideration which may be contracted for or received on any loan.																														
Installment loans - banks and trust companies			x							x								x	x			x						3			
Retail installment sales			x							x												x			x			9			
Small loans										x																		3			
IOWA																															
Banks - installment loans										x						1						x						3			
Building and loan associations	"All reasonable expenses" of making and closing loans.																	x				x		x	x						
Small loans										x																		3			
Savings banks		x						x		x		x								x											
KANSAS																															
Installment loans, except small loan licensees	On loans where interest charged is less than $1.50, a fee of $1.50 may be charged for costs of handling.									x												x						3			
Small loans										x								x	x	x								3			
Retail installment sales6/										x									x	x		x						3			
Savings and loan associations	"All reasonable expenses" of making and closing loan or a reasonable flat charge.																	x				x		x	x						

	Expenses of making loans																Insurance							Tax		Servicing					
	Acknowledgment	Appraisal	Attorney	Abstract	Brokerage	Cr. Rept.	Discount	Stamp Tax	Papers	Rec. Fil. Reg.	Mort. Rec. Tax	Title Exam.	Title Trans.	Survey	Closing 1/	Other	Title	Life	Health & Acc.	Property	Loan	General	Prem. for loan	Assessment	Taxes	Mortgage	Loans	Stat. Max. Fin. Chg. 5/	Fin.Chg. No stat.max.	Maint. & Repair	Dues
KENTUCKY																															
Banks and trust companies - Installment loans										x																		3			
Building and loan associations																							x								x
Credit unions										x												x						3			
Insurers																						x									
Loan and investment companies	x					x			x	(maximum charge prescribed for expenses of "making the loan" including items checked.)																		3	x		
Retail installment sales 6/			x							x												x									
Small loans										x								x		x								3			
LOUISIANA																															
Small loans										x								x		x								3			
Building and loan associations																						x	x		x						
MAINE																															
Industrial or Morris Plan Banks						x			x							x												3			
Banks																				x											
Building and loans	All expenses "in 'connection' with the consummation of a loan."																			x			x								
Small loans										x																		3			
MARYLAND																															
Industrial Finance Companies ($1,500 or less)			x							x		x					x	x		x								3			
Retail installment sales										x												x							x		
Small loans ($300 or less)																		x		x								3			
MASSACHUSETTS																															
Cooperative and savings banks		x							x	x		x				x													x		
Credit unions (mortgage loans)																								x	x						
Savings banks (personal loans)										x																		10			
Small loans($1,000 or less)	$5 for expenses of making and securing loan.																											3			
Junior home mortgage ($1,500 or less)									x	x		x																3			
Small loans										x																		10			
MICHIGAN																															
Building and loan associations																							x			x					
Banks - industrial loans						x			x	Maximum charge of $15 for expenses in connection with loans.																					
Banks - loans	May make investigation fee or handling charge up to $3.																											3			
Small loans										x																		3			
MINNESOTA																															
Banks - installment loans	x			x						x								x	x	x		x						3			
Industrial loan companies						x			x	(Maximum charges prescribed)																		3			
Savings and loans association		x	x	x		x		x		x	x	x		x	x	8															
Small loans																												4			
MISSISSIPPI																															
Banks and trust companies - small loans		x				x																						3			
Small loans			x							x		x	x					x	x	x								3			

	Expenses of making loans																Insurance							Tax		Serv-icing					
	Acknowledgment	Appraisal	Attorney	Abstract	Brokerage	Cr. Rept.	Discount	Stamp Tax	Papers	Rec. Fil. Reg.	Mort. Rec. Tax	Title Exam.	Title Trans.	Survey	Closing	Other1/	Title	Life	Health & Acc.	Property	Loan	General	Prem. for Loan	Assessment	Taxes	Mortgage	Loans	Stat. Max. Fin. Chg.5/	Fin.Chg. No stat. max.	Maint. & Repair	Dues
MISSOURI																															
Loan and investment companies	x					x			x (Maximum charge prescribed)																						
Retail installment sales6/										x								x				x						3			
Small loans										x												x						3			
MONTANA																															
Building and loan associations	Total amount paid by borrower for interest, commission, bonus, discount, and other similar charges, less deduction for dividends, refunds and credit shall not exceed maximum lawful contract rate of interest.																														
Morris Plan companies	May charge $1 for each $50 or fraction thereof loaned for expenses in making loan.																														
Retail installment sales6/										x												x						3			
Small loans										x										x								3			
NEBRASKA																															
Bank and trust companies - personal loans										x										x								3			
Building and loan association	Fees, dues, interest, premiums and other payments made by borrower may not aggregate a greater amount than is allowed by State law on contracts for payment of money.																														
Industrial loan and investment companies																				x								3			
Installment loans 6/																		x	x	x								3			
Retail installment sales6/																					x								x		
NEVADA																															
Building and loan associations	Initial loan fees shall not exceed amount which, together with the first year's interest, will exceed 12% of loan.																														
Installment loans		x								x								x		x								3			
NEW HAMPSHIRE																															
Building and loan associations																							x								
Home loans		x							x	x		x																			
Small loans										x								x	x	x								3			
NEW JERSEY																															
Banks - installment and home repair loans										x										x								3			
Banks - check loans																											x	3			
Credit unions										x																		3			11
Home repair loans			x							x								x	x									3			
Retail installment sales										x								x	x	x								3			
Savings and loan associations																							x								11
Federal savings and loan associations							x																x								
Small loans																												4			
NEW MEXICO																															
Banks - installment loans										x												x						3			
Credit unions																												4			
Small loans										x										x								3			
NEW YORK																															
Assignment of wages																												4			
Banks and trust companies - installment loans										x								x	x								x	3			
Credit unions										x								x										3			
Foreign and National banks - personal loans										x								x	x	x	x							3			
Banks - check loans																		x	x								x	3			
Industrial banks	Maximum charge of $5 ($10 for $200 loan or over) for investigation of borrower and other expenses.																	x	x								x	3			

	Expenses of making loans																Insurance							Tax		Serv-icing					
	Acknowledgment	Appraisal	Attorney	Abstract	Brokerage	Cr. Rept.	Discount	Stamp Tax	Papers	Rec. Fil. Reg.	Mort. Rec. Tax	Title Exam.	Title Trans.	Survey	Closing	Other 1/	Title	Life	Health & Acc.	Property	Loan	General	Prem. for loan	Assessment	Taxes	Mortgage	Loans	Stat. Max. Fin.Chg. 5/	Fin.Chg. No stat.max.	Maint. & Repair	Dues
NEW YORK (cont.)																															
Private bankers																		x		x								3			
Retail installment sales 6/										x	x							x										3			
Savings and loan associations - repair loans																		x	x									3			
Small loans										x								x		x								3			
Conditional sales																						x									
NORTH CAROLINA																															
Credit unions																												3			11
Industrial banks	Maximum fees prescribed for different size loans to cover expenses of making loan, including investigation of borrower.																														
Land and loan associations		x										x																			
Real estate Mortgage loans 12/	May charge fee agreed upon for making or negotiating loan.																														
Small loans										x							13		x									3			
NORTH DAKOTA																															
Building and loan associations																															x
Retail installment sales 6/										x												x						3			
Small loans										x								x	x	x								3			
OHIO																															
Building and loan associations		x																					x			x					x
Credit unions																												3			11
Retail installment sales										x												x					x	3			
Small loans										x												x						3			
Societies for savings	Require borrower as security to make periodic deposits with society with or without interest on deposits.																														
OKLAHOMA																															
Building and loan associations																							x								
Credit union																															11
Small loans																				x								3			
Trust companies																											x				
OREGON																															
Interest and usury		x		x		x		x	x	x	x	x					x											3			
Banks and trust companies, installment loans	Authorized to make fin. charge up to specified maximum notwithstanding usury law.																														
Credit unions										x							13			x								3			11
Industrial loan companies						x May charge for "service actually rendered the borrower."																						3			
Small loans										x												x									
Mutual savings banks 14/ - real estate mortgage			x	x					x								x			x											
PENNSYLVANIA																															
Banks and trust companies, installment loans										x											x	x						3			
Real estate mortgage		x							x			x	x							x											
Building and loan associations		x							x			x				x				x			x	x	x						x
Credit unions			x							x								x										3			11
Small loans ($600 or less)																		x		x								3			
Small loans ($2,000 or less)										x											x							3			
RHODE ISLAND																															
Loan and investment companies	x					x			x			x				x										x					
Small loans										x																		3			
SOUTH CAROLINA																															
Installment loans, except real estate	Lenders may charge fee up to maximum prescribed in lieu of interest or add-on charges. No accident, health or property insurance may be required on loans of $100 or less.																														
Building and loan associations																				x					x						
Insurers																		x		x											
Small loans						x				x		x			x			x	x	x								3			

	Expenses of making loans																Insurance								Tax		Servicing				
	Acknowledgement	Appraisal	Attorney	Abstract	Brokerage	Cr. Rept.	Discount	Stamp Tax	Papers	Rec. Fil. Reg.	Mort. Rec. Tax	Title Exam.	Title Trans	Survey	Closing	Other 1/	Title	Life	Health & Acc.	Property	Loan	General	Dues	Prem. for loan	Assessment	Taxes	Mortgage	Loans	Stat. Max. Fin. Chg. 5/	Fin. Chg. No stat. max.	Maint. & Repair
SOUTH DAKOTA																															
Interest loans						x				x										x		x							3		
Small loans																				x									3		
TENNESSEE																															
Credit unions	Charges for a loan other than interest may not exceed 1% per month on unpaid balance.																														
Industrial loan and thrift companies						x				x		x			x			x		x											
Retail Installment Sales 6/										x					x							x							3		
Savings and loan associations						x			x	x		x			x					x				x	x	x	15				x
Small loans						x				x		x			x														3		
TEXAS																															
Interest and usury	Any actual and necessary expense, permitted and authorized by law, shall not be considered interest.																														
Banks	x	x	x	x		x			x	x							x														
Building and loan associations		x				x										x				x				x	x	x					
Credit unions																				x									3		
All lenders																		x	x												
UTAH																															
Interest and usury	A loan, except a small loan, made by licensee, may provide for a service charge up to 4% of principal of loan.																														
Building and loan associations																					x				x	x					x
Conditional sales of personal property										x											x								3		
Small loans																				x									3		
VERMONT																															
Interest and usury	Except as provided for banks and trust companies a lender shall make no charges incidental to making a loan, other investigation other than interest authorized.																														
Banks and trust companies	x	x	x	x		x			x	x						x					x										
Building and loan associations																				x					x	x					x
Credit unions										x		x								x									3		
Small loans																					x								3		
VIRGINIA																															
Banks, brokers, industrial loan association	May charge investigation fee not exceeding 2% of amount of loan (min. charge $1).																											x	3		
Real estate loans	Lenders engaged principally in making real estate mortgage loans for resale may make an initial service, investigation or processing charge not exceeding 1% of amount of loan on loans with 10-year or more terms.																														
Savings and loan associations	May charge fee to cover costs of investigating and processing loan and items checked below:																														
		x				x			x	x		x		x	x		x				x					x					
Small loans																													4		
WASHINGTON																															
Conditional sales																					x										
Industrial loan companies 16/						x				x																		x	3		x
Small loans										x			x							x									3		
Mutual savings bank 17/				x													x			x											
Savings and loan associations 17/				x													x			x											

	Expenses of making loans																Insurance								Tax		Servicing				
	Acknowledgment	Appraisal	Attorney	Abstract	Brokerage	Cr. Rept.	Discount	Stamp Tax	Papers	Rec. Fil. Reg.	Mort. Rec. Tax	Title Exam.	Title Trans.	Survey	Closing	Other 1/	Title	Life	Health & Acc.	Property	Loans	General	Dues	Prem. for loan	Assessment	Taxes	Mortgage	Loans	Stat. Max. Fin. Chg. 5/	Fin. Chg. No. stat. max.	Maint. & Repair
WEST VIRGINIA																															
Banks - installment loans	May charge reasonable amount to cover expenses in procuring reports respecting loans and value of and title to property offered as security.																														
Industrial loan companies	x					x			x							x															
Small loans																													4		
WISCONSIN																															
Secured loans	Service fee equal to 4% per annum of loan for time of loan, disregarding part payments, but not to be computed for a period exceeding one year, may be taken in lieu of all charges for examinations, views fees, appraisals, commissions and charges of any kind for procurring and making and transacting business connected with loan.																														
Savings and loan associations																			x	x											
Small loans																		x	x	x									3		
WYOMING																															
Building and loan associations																								x							
Dominion building and loan associations		x		x													x														
Permanent plan building and loan associations																								x							
Small loans										x												x						x	3		

FOOTNOTES FOR TABULATION OF CHARGES (IN ADDITION TO FINANCE CHARGES) PERMITTED BY STATE LOAN LAWS TO BE IMPOSED ON BORROWER

1/ Includes such items as costs of inspectors, engineers, architects and other services provided by lender, fees paid to a public officer, statutory taxes.
2/ Charge for collecting from borrower monthly.
3/ Other charges prohibited except those indicated.
4/ No other charge permitted.
5/ Finance charge by statutes is designated as "service charge", "time price differential", "charge" and other terms. Some laws specify the charge includes interest and other items.
6/ The "cash price" or "cash sales price" may include taxes and costs for accessories and for installation, delivery, servicing, or repair of the goods. These charges are not listed as a charge on this tabulation.
7/ Investigation fee or service charge may be made of not more than 2% of amount of loan and not on a per annum basis.
8/ Other charges in connection with loan, including costs of inspectors, engineers and architects. In lieu of initial charges a reasonable service charge may be imposed.
9/ Department of Financial Institutions fixes maximum finance charge.
10/ State small loans Regulatory Board determines maximum rate of charge.
11/ Admission fee or membership fee.
12/ Applies to 11 named counties.
13/ Nonrecording or nonfiling insurance.
14/ Statute requires borrower furnish items checked, except abstract of title may be in lieu of title insurance and attorney fees are to cover checking of such abstract.
15/ Service charge (within prescribed maximum) may be imposed only on borrowers of "direct reduction loans" and may be in addition to actual expenses of making, securing and closing the loan.
16/ Company may require borrower to purchase and pledge as security for loan, an investment certificate in an amount not exceeding 1/5 more than the amount of the loan.
17/ Statute requires borrower furnish either of first 2 items checked, or a duplicate certificate of ownership issued by a registrar of titles.
18/ This column includes provisions in laws authorizing "official fees" to be charged to borrower and generally defined as including fees required to be paid to a public officer to perfect a lien or security.

SUMMARY OF
PROVISIONS IN STATE LOAN LAWS 2/ FOR DISCLOSURES
SIMILAR TO DISCLOSURE REQUIREMENTS IN
"TRUTH IN LENDING BILL"
(S. 1740, April 21, 1962, Committee Print)

I. No State law contains all the disclosure requirements of S. 1740.

II. STATES WITH DISCLOSURE REQUIREMENTS FOR ALL LOANS AND LENDERS

New Hampshire	(statement to borrower expressed in dollars, rate of interest, or monthly rate of charges, or a combination thereof)
Vermont	(statement in dollars on loan instrument of total amount of interest and of each other charge)

III. STATES WITH DISCLOSURE REQUIREMENTS FOR REAL PROPERTY MORTGAGE LOANS

	Applicable to:
Alabama	building and loan associations
California	1st trust - $10,000 or less - junior lien of $5,000 or less
Hawaii	building and loan associations
Maryland	purchase price of dwellings $15,000 or less
Massachusetts	owner-occupied dwellings valued not over $25,000
New Hampshire	all loans
Ohio	building and loan associations
Pennsylvania	building and loan associations
Vermont	all loans

IV. STATES THAT REQUIRE DISCLOSURE OF BOTH "AMOUNT" AND "RATE" 1/ OF FINANCE CHARGE

	Conditional Sales	Industrial Loan Companies	Retail Installment	Small Loans
Colorado				X
Kansas			X	
Maryland		X		
Massachusetts	X			
Tennessee				X
Vermont				X
Wisconsin				X
Wyoming				X

None of the foregoing State laws requires the rate to be disclosed as required in S. 1740.

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1. For purposes of this table rate considered required to be disclosed if statute requires that section of law prescribing maximum charge be printed on the statement furnished to borrower. None of the laws requires the rate to be disclosed in the manner required in S. 1740. Massachusetts, Wisconsin and Wyoming require the "rate of interest" to be disclosed and Vermont requires the "agreed rate" to be shown.
2. Laws surveyed are principal loan laws and do not include laws regulating loans made by pawnbrokers and fiduciaries.

23-902 O - 64 - pt. 2--34

V. STATES THAT REQUIRE DISCLOSURE OF "AMOUNT" OF FINANCE CHARGE

	Bank Installment Loans	Retail Installment	Small Loans	Other
Alaska		X		
California		X		Real property
Colorado		X	X	
Connecticut		X		Savings banks
Delaware		X		
Florida		X		
Georgia			X	
Hawaii		X (or rate)		
Idaho				Cond. sales
Illinois		X (or rate)		
Indiana		X		
Kansas		X	X	
Kentucky	X	X	X	
Maryland		X		Real prop. and indust. loan companies
Massachusetts				Cond. sales
Missouri		X	X (or rate)	
Montana		X	X (or rate)	
Nebraska		X		
Nevada			X (or rate)	
New Hampshire	X (or rate)	X (or rate)	X (or rate)	All other
New Jersey		X		Home repair
New York				
North Dakota		X		
Ohio		X		Bldg. and loan
South Dakota			X (or rate)	
Tennessee		X	X	
Utah				Cond. sales
Vermont	X	X	X	All other
Wisconsin			X	
Wyoming			X	

VI. STATES THAT REQUIRE DISCLOSURE OF CHARGES 1/ OTHER THAN FINANCE CHARGES 2/ TO BE PAID BY BORROWER IN CONNECTION WITH LOANS

	Bank & Tr. Co.	Bank Instal.	Bldg. or Sav. & Loan	Cond. Sales	Home Repair	Indust. Loan Cos.	Inst. Loans	Real Prop. Loans	Ret. Inst.	Small Loans	Other
Ala.			X							X	
Alaska									X		
Calif.								X 3/	X	X	
Colo.			X						X		
Conn.									X		
Del.									X		
Fla.									X		
Ga.										X	
Hawaii			X			X			X		
Ill.									X		
Kan.									X	X	
Ky.									X		
Md.						X		X 5/	X		
Mass.	X			X			X 4/				
Minn.		X	X								
Mo.									X		
Mont.									X	X	
Nebr.									X		
N.J.					X				X		
N.Y.				X					X		
N.C.										X	
N.D.									X		
Ohio			X						X		
Okla.										X	
Pa.			X								
S.C.										X	
S.D.							X				
Tenn.									X		
Utah				X							
Vt.											All loans
Wyo.										X	

1. Includes charges for insurance; official fees, such as recording and filing; attorney's fees, credit investigations, title charges, and appraisal fees, and other charges not incident to the extension of credit.

2. S. 1740 defines "finance charge" to include interest, fees, service charges, discounts, and charges "incident" to the extension of credit.

3. Limited to first trust loans of $5,000 or less, and loans of $5,000 or less if secured by junior liens.

4. Mortgages of less than $1,000 on household furniture.

5. "Land installment contracts" for purchase of dwellings with $15,000 or less purchase price.

VII.

TABULATION OF STATE LOAN LAW DISCLOSURE REQUIREMENTS (OTHER THAN REVOLVING CREDIT LAWS) SIMILAR TO DISCLOSURE PROVISIONS IN "TRUTH IN LENDING BILL" (S. 1740, April 21, 1962, Committee Print)

State	Cash Price	Down Payment	Item 1 Less Item 2	Noncredit Charges Itemized	Total Financed	Finance Charge $ & ¢	Finance Charge Annl.% on average outst. bal.
ALABAMA							
Sav. & Loan				X	X		1*& indicate in detail charges & fees
Small Loans				X	2		
ALASKA							
Inst. Sales	Any advertising which contains amount or rate of charge shall contain % rate either per month or per year on declining balances, or equivalent annual %.						
Ret. Inst. Sales 3/	X	X	X	X	X	X	or 6
Small Loans					4		10
ARIZONA							
Check Loans	Written check loan agreement signed by borrower required, containing provisions agreed upon.						
Small Loans					4		10 and agreed rate
ARKANSAS	No provision found						
CALIFORNIA							
Industrial Loan Companies	Com'r of Corps. may require rates of charges or discounts, if stated, to be stated fully and clearly "in manner he deems necessary."						
Real Prop. Loans 2/ $10,000 or less if first trust $5,000 or less if junior lien	X		X	X	X		5
Ret. Inst. Sales	X	X	X	X	X	X	
Small Loans				X	4		7 and agreed rate
COLORADO							
Inst. Sales	X	X	X	X	X	X	
Sav. & Loan				X			
Small Loans					4	9	9
Small Loans ($1,500 or less)					X	X	8 and or agreed rate

* See footnotes at end of Tabulation for explanation of numbers.

State	Cash Price	Down Payment	Item 1 Less Item 2	Noncredit Charges Itemized	Total Financed	Finance Charge $ & ¢	Finance Charge Anl.% on average outst. bal.
CONNECTICUT							
Ret. Inst.	X	X	X	X	X	X	
Savings Banks						11	
Small Loans					4		10
DELAWARE							
Ret. Inst. Sales	X	X	X	X	X	X	
Small Loans	Copy of obligation to be given borrower if he so requests.						
FLORIDA							
Chattel Mortgage (less than $100)	Mortgage shall state separately and distinctly the several amounts secured as principal, interest and fees.						
Discount Financing					4		
Ret. Inst. Sales	X	X	X	X	X	X	or 12
Small Loans					4		1 and 13
GEORGIA							
Small Loans				X	4	X	
HAWAII							
Bldg. & Loans				X	4		indicate in detail charges & fees
Industrial Loan Act				X	4		14
Retail Inst. Sales	X	X	X	X	X	X	or 15
Small Loans					4		10 and agreed rate of charge
IDAHO							
Conditional Sales	X	X	X	X	X	X	
Installment Loans	"May agree in writing" to add or deduct in advance from principal of loan discount interest charge in lieu of interest charge.						
Small Loans					4		1 and 10
ILLINOIS							
Retail Inst. Sales	X	X	X	X	X	X	or 15
Savings and Loans	Each loan, and any agreement for securing same, shall be evidenced by one or more written instruments.						
Small Loans					4		13 and agreed rate
INDIANA							
Industrial Loan & Investment Cos.	All instruments taken evidencing any loan of money shall clearly state the rate of interest, discount, fee, charge or other consideration therefore.						X
Retail Inst. Sales	X	X	X	16	X	X	
Small Loans				17	4		1 and 17

State	Cash Price	Down Payment	Item 1 less Item 2	Noncredit Charges Itemized	Total Financed	Finance Charge $ & ¢	Finance Charge Annl.% on average outst. bal.
IOWA							
Bldg. & Loans	Note evidencing loan shall specify amount, rate of interest, terms of repayment, and may contain all other terms of loan contract.						
Inst. Loans by Banks	An installment loan shall be a loan made by a bank upon a written instrument, the terms of which contain an agreement or a promise of repayment in installments at regular intervals. Any statement indicating total charge in dollars required for any loan shall also state the percentage rate per year computed on declining balances of original principal amount.						
Small Loans				13	4		13 and agreed rate
KANSAS							
Retail Inst. Sales	X	X	X	X	X	X	"rate of maximum" charge
Small Loans				X	28	X	or agreed rate
KENTUCKY							
Inst. Loans (banks and trust companies)					18	X	
Ret. Inst. Sales 19/	X	X	X	X	X	X	
Small Loans					4	X	or 20 & rate of charge
LOUISIANA							
Loans with Collateral security (banks and trust companies)	Where banks make loans secured by collateral securities the securities shall be listed and described on the face or back of the notes evidencing the loan or in a separate instrument filed with the lender and signed by the borrower.						
Small Loans					4		1 and 13
MAINE							
Chattel Mortgages	A statement signed by the party to be bound, describing the parties, and the personal property mortgaged and stating the date of the mortgage, the amount remaining unpaid, the terms of payment, whether it is to secure future advances, whether it is to cover after-acquired property and that it is a memorandum of mortgage of personal property shall constitute a memorandum that can be recorded in lieu of a mortgage.						
MARYLAND							
Industrial Finance Co.'s (Loans $1,500 or less)				X	4	X	10
Land Inst. Contract (dwellings - $15,000 or less purchase price)	Must be evidenced by instrument signed by all parties and containing all terms. Vendee shall give vendor a receipt showing he has received copy of instrument, otherwise instrument voidable at option of vendee. Contract shall disclose -						
	X	X	X	X	X	X	

State	Cash Price	Down Payment	Item 1 Less Item 2	Noncredit Charges Itemized	Total Financed	Finance Charge $ & ¢	Finance Charge Annl.% on average outst. bal.
MARYLAND (cont.)							
Ret. Inst. Sales	X	X	X	X	X	X	
Small Loans					4		1 and 21
MASSACHUSETTS							
Conditional Sales (inapplicable to real estate mortgages)	X	X	X	X	X	X	1
Cooperative Banks, and Savings Banks	1. For every real estate loan there shall be a note and mortgage which together shall contain the terms and provisions of the loan. Any change in terms of loan shall be evidenced by instrument setting forth the change. 2. Corporation shall keep posted in a conspicuous place in its banking rooms a notice containing the substance of section of law which authorizes loans to depositors in anticipation of dividends, and provides maximum charges for interest or discount on the loans. 3. No fee, brokerage, commission, gift or other consideration for or on account of loan, other than appears on face of note or contract, shall be taken by bank, or officer or employee.						
Trust Companies	Same as cooperative and savings banks (above) except no provision found relating to real estate loans (1 above).						
Real estate mortgages of $15,000 or more secured wholly or partially by owner-occupied dwelling having assessed value of not over $25,000 and accomodations for six or less households.	If any note secured by such mortgage and any such mortgage does not among its provisions, specify as separate items the principal sum, the rate of interest or its equivalent in money, the period of the loan and the periodic due dates, if any, of principal and interest, the lender shall have no right to collect interest.					X	or 1
Mortgages of less than $1,000 on household furniture.	Such mortgage on which interest is charged at the rate of 18% or more per annum shall not be valid unless it states with substantial accuracy amount of loan, time for which loan is made, the rate of interest to be paid, and the actual expenses of making and securing the loan. NOTE: TWO ABOVE PROVISIONS ARE NOT APPLICABLE TO LICENSED SMALL LOAN LENDERS OR TO BANKS, TRUST COMPANIES, CREDIT UNIONS, AND FEDERAL SAVINGS AND LOAN ASSOCIATIONS.			X			1
MICHIGAN							
Small Loans					4		22 and agreed rate

State	Cash Price	Down Payment	Item 1 less Item 2	Noncredit Charges Itemized	Total Financed	Finance Charge $ & ¢	Finance Charge Annual % on average out-standing ba
MINNESOTA							
Installment loans (banks)	At the time of making installment loan, borrower shall be furnished a copy of the note that he signed and also a copy or statement of all charges made by bank on loan.						
Savings, and bldg. & loan associations	Association shall, on request of borrower, furnish loan settlement statement upon closing of loan, indicating in detail the charges and fees the borrower has paid, or obligated himself to pay, to the association or any other person in connection with the loan.						
Small loans					4		23 and agre annual rat
MISSISSIPPI							
Small loans					4		24 and agre rat
MISSOURI							
Retail time transactions	X	X	X	X	X	X	
Small loans					29	"rate or amount of interest" as contract may provide	
MONTANA							
Bldg. & loan ass'ns.	Where note or other written evidence of loan requires payment in installments, the note or other written evidence of debt shall specifically state the actual interest rate charge upon unpaid balance of principal at each periodic payment and when note or other evidence of debt does not require installment payments the note or other evidence shall specifically state the actual rate of interest to be charged.						
Retail inst. sales	X	X	X	X	X	X	
Small loans				X	28	amount or rate as contract may provide	

State	Cash Price	Down Payment	Item 1 less Item 2	Noncredit Charges Itemized	Total Financed	Finance Charge $ & ¢	Finance Charge Annual % on ave. outstanding balance
NEBRASKA							
Personal loans - banks & trust companies	At time loan is made, bank shall give borrower a copy of note or contract evidencing loan which shall state principal amount of loan and rate of charge "plainly expressed as a percentage per month computed on unpaid principal balances".						
Industrial loan & investment company installment loans	At time loan is made, statement in writing shall be delivered to borrower showing amount of loan, schedule of payments agreed to, nature of security, if any, and the rate of charge computed strictly as simple interest on the unpaid principal balance for the time actually outstanding.						X
Installment loans (small loans)					4		23 and agreed rate
Installment sales	X	X	X	X	X	X	
NEVADA							
Installment loans (small loans)	Note must disclose date and amount of obligation, description of payments, and the rate or aggregate amount of agreed charges. In lieu of copy of loan obligation, licensee may give borrower at time of making loan a statement showing date and amount of loan, date of maturity, nature of security, if any, and description of schedule of payments.						
NEW HAMPSHIRE							
All lenders and all loans (including residential mortgages)	Any person engaged in business of extending credit shall furnish to each person to whom credit is extended, concurrently with consummation of agreement to extend credit, a clear statement in writing setting forth the finance charges (defined to include interest, fees, service charges, discounts, and other charges associated with the extension of credit), expressed in dollars, rate of interest, or monthly rate of charge, or a combination thereof, to be borne by such person in connection with the extension of credit as originally scheduled.						

State	Cash Price	Down Payment	Item 1 less Item 2	Noncredit Charges Itemized	Total Fi-nanced	Finance Charge $ & ¢	Finance Charge Annual % on average out-standing bal
NEW HAMPSHIRE (cont.)							
Home loans (over $1,500 secured by mortgage of real estate valued at not over $15,000 with accommodations for 3 or less house-holds). Does not apply to first mort-gages, nor to lenders under supervision of bank commissioner, national banks, or Federal savings and loans.		If any note secured by such mortgage and any such mortgage does not specify as separate items the principal sums, the rate of interest or its equivalent in money, the period of the loan and the periodic due dates, if any, of principal and interest, the lender shall have no right to collect interest.				X or	1
Small loans					4	"charges contracted for"	
NEW JERSEY							
Check loans		No check loan shall be made except pursuant to a written contract which may contain such provisions not prohibited by law as the bank and the borrower may agree upon. Contract shall state rate of interest not exceeding 1% per month on unpaid balances of check-loans.					
Home repair loans	X	X	X	X	X	X	
Retail inst. sales	X	X	X	X	X	X	
Small loans					4		21 and agreed rate
NEW MEXICO							
Bank inst. loans		Any advertising which contains a statement of an amount, or rate of charge, shall also contain the percentage rate, either per month or per year, computed on declining balances of the face-amount of the loan instrument and					

State	Cash Price	Down Payment	Item 1 less Item 2	Noncredit Charges Itemized	Total Financed	Finance Charge: $ & ¢	Finance Charge: Annual % on ave. outstanding bal.
NEW MEXICO (cont.)							
Bank inst. loans (cont.)	such stated rate may be closely approximate, rather than exact, if statement so indicates. Foregoing not required if table of examples is used in advertising.						
Small loans					4		22 and agreed rate on % per month and % per annum basis
NEW YORK							
Assignment of earnings	Assignment, either in its text or in writing permanently attached thereto, shall identify and describe fully the transaction to which it relates, and section of law prescribing maximum charges shall be printed on back. Copy to be furnished assignor.						
Banks & trust companies Personal loans	Applications and evidence of debt shall state rate of charge as a rate in dollars per annum discount.					X	
Retail inst. sales	X	X	X	X	X	X or	X
Small loans					4		1 and 22 and agreed rate
Uniform conditional sales	X	X		X	X	X or	Simple interest on unpaid balance, payable in installments.
NORTH CAROLINA							
Credit Unions	Rate of interest and terms of repayment shall appear on each note.						
Small loans				X	4		Licensee shall "make

State	Cash Price	Down Payment	Item 1 less Item 2	Noncredit Charges Itemized	Total Financed	Finance Charge $ & ¢	Finance Charge Annual % on ave. outstanding bal.
NORTH CAROLINA (cont.)							
Small loans (cont.)							readily availabl to borrower schedule of charg
NORTH DAKOTA							
Retail instal. sales	X	X	X	X		X	or simple interes on unpaid bal. from time to time.
Small loans					4		Annual simple interest % equiva lent total charge
OHIO							
Bldg. & loans				X			Show in detail charges or fees
Retail instal. sales	X	X	X	X		X or	Rate if it does not exceed 8% per annum simple interest
Small loans					4		22 and agreed ra
OKLAHOMA							
Small loans				X	4		10 and agreed interest and charges
OREGON							
Small loans					4		Rate of interest agreed upon or consideration charged
PENNSYLVANIA							
Bank inst. loans	Same as New Mexico, *supra*.						
Bldg. & loan (mortgage loans)				X			Show in detail charges or fees

State	Cash Price	Down Payment	Item 1 less Item 2	Noncredit Charges Itemized	Total Financed	Finance Charge $ & ¢	Finance Charge Annual % on ave. outstand. bal.
PENNSYLVANIA (cont.)							
Small loans ($600 or less)					4		25 and 1
Small loans ($2000 or less)					4 and such addition[illegible] information as Secretary of Banking may require.		
RHODE ISLAND							
Small loans					4		26 and 1
SOUTH CAROLINA							
Small loans	At time of making any loan, licensee shall deliver to customer a copy of the legal instrument evidencing the obligation, which shall disclose the full details of the transaction$						
SOUTH DAKOTA							
Installment loans (not exceeding $3,000)	At time of making loan, borrower shall be furnished a copy of any and all instruments evidencing said loan and also a copy or statement of all charges made by lender for the loan.						
Small loans					4	X or	Agreed charge expressed either as aggregate annual percentage or as an unaggregated combination of annual percentage rates.
TENNESSEE							
Retail inst. sales	X	X	X	X	X	X	
Small loans					4	X	27
TEXAS	No provision found.						

State	Cash Price	Down Payment	Item 1 less Item 2	Noncredit Charges Itemized	Total Financed	Finance Charge $ & ¢	Finance Charge Annual % on average outstanding bal.
UTAH							
Conditional Sales (Personal Prop.)	X	X	X	X	X	X	
Small loans					4		23 and agreed rate
VERMONT							
ALL LOANS AND LENDERS	When a loan is made there shall appear on the face of the instrument evidencing the loan a statement in type not smaller than ten-point type setting forth separately in dollars the total amount of interest on the loan and of each other charge payable by the borrower if the principal amount of the loan is duly paid in accordance with its terms.						
Small loans	Lender required to advise borrower in terms of dollars and cents rather than in percentages the exact cost to him for interest.				4	X	21 and agreed rate
VIRGINIA							
Small loans					4		21 and agreed rate
WASHINGTON							
Conditional sales (personal property)	Contract must state terms and conditions, including rate of interest and purchase price (exclusive of interest, insurance and all other charges).						1
Small loans					28		22 and agreed rate
WEST VIRGINIA							
Small loans					4		21 and agreed rate
WISCONSIN							
Loans of $5,000 or less and bearing interest above $10 upon $100 for one year on declining balance,	Statement to borrower must set forth all of the terms of the transaction including interest stated either in terms of simple interest rate computed on declining principal balance or actual cost in money.					X or	1

State	Cash Price	Down Payment	Item 1 less Item 2	Noncredit Charges Itemized	Total Financed	Finance Charge	
						$ & ¢	Annual $ on ave. outstanding bal.
WISCONSIN (cont.) except loans to corporations if not made by permittees under small loan law.							
Small loans	Statement must show amount and date of note, its maturity, nature of security, if any, amounts of discounts and service fee, stated separately, proceeds of loan after deducting discount and service fee, payment schedule, default charge, and percentage per annum of interest charged.					X	1
WYOMING							
Bldg. & loan	Note or bond must specify amount loaned, rate of interest, and premium.						
Small loans				X	4	X	1

FOOTNOTES FOR TABLE VII

1. Rate of interest.

2. Disclosure must show cash advance and amount of note.

3. Act approved April 18, 1962 and is effective January 1, 1963 (SB 233).

4. Amount of loan.

5. The requirement is not applicable to a loan secured by first trust deed where princi[pal] of loan is $10,000 or more, or to loan of $5,000 or more secured by junior lien.

   Disclosure must show -

   (1) expenses of making loan, including
       a. appraisal fees
       b. escrow fees
       c. title charges
       d. notary fees
       e. recording fees
       f. credit investigation fees

   (2) commission of person negotiating loan

   (3) liens against real property

   (4) amounts to be paid by borrower, including
       a. fire insurance premiums
       b. amounts due on prior liens, including interest or other charges arising in connection with removal of prior liens
       c. amounts due other creditors
       d. assumption, transfer, forwarding and beneficiary statement fees

   (5) estimated balance of loan funds to be paid to borrower after deducting the total of 1, 2, and 4;

   (6) principal amount of loan

   (7) interest rate

   (8) term of loan, number of installments, amount of each installment, and approximate balance due at maturity;

   (9) name of real estate licensee negotiating the loan

   (10) statement that licensee is not the lender

   (11) terms of prepayment privileges and penalties, if any.

FOOTNOTES FOR TABLE VII (Continued)

6. "Rate" means percentage which, when multiplied times outstanding monthly (or periodic) balance, yields amount of charge for such month or period.

7. Charges and interest on loans shall be computed and paid as a percentage per month of the unpaid principal balance or portions thereof, and shall be so expressed in every obligation signed by the borrower.

8. Statement to borrower must have printed on it section of law prescribing maximum charges permitted.

9. Statement must show rate and amount of interest. No greater rate of interest upon any loan or unpaid balance may be charged than 2% per month on actual amount of loan, "and this charge shall cover all expenses, demands, and services of every character, including notarial and recording fees and charges".

10. Statement to borrower must have printed on it section of law which prescribes maximum interest rate and charges permitted.

11. Banks must furnish to borrower a "repayment schedule setting forth the costs of such loans" and the Commissioner of Banking may regulate the form of the schedule.

12. Statement must show "amount or rate of time price differential", which does not include amounts charged for insurance premiums, attorney's fees, or official fees. Maximum rate of time price differential provided by statute in terms of dollars per one hundred dollars per year computed on the principal balance of each transaction. Principal balance equals cash price, less down payment, plus, if any, official fees and insurance.

13. Statement to borrower must have printed on it section of law which provides maximum interest rate and prohibits additional charges for making loans except filing or recording fees for security.

14. Statement shall give "the agreed rate of all charges and the actual effective rate of interest per annum".

15. Finance charge may be stated as a percent of the monthly unpaid balance to accrue, if such charge is not capitalized or stated as a dollar amount in any of the documents connected with the transaction.

16. Fees and other charges not required to be disclosed but instrument evidencing sale "may evidence, in addition, any agreements of the parties including agreements for the payment of delinquent charges, taxes and fees, including attorney's fees.

17. Statement to borrower must show so much as is required by Department of Financial Institutions of section of law that provides that maximum rate of interest or charges shall be fixed by Department.

23-902 O - 64 - pt. 2--35

FOOTNOTES FOR TABLE VII (Continued)

18. Original principal amount of loan stated excluding any charge. No fees or charges permitted over maximum prescribed in statute, except filing, recording or releases of security.

19. Act effective January 1, 1963.

20. Statute contains formula for maximum charge and provides that no further charges are permitted for examination, service, brokerage, commission, expense, fee, or bonus, except lawful fees paid out by lender for filing, recording, or releasing security, the charge or premium for insurance, or fees for noting or releasing a lien on or transferring a certificate of title to security.

21. Statement to borrower must have printed on it section of law which prescribes maximum interest rate and prohibits "further or other charge, or amount whatsoever for any examination, service, brokerage, commission or other thing, or otherwise" to be contracted for or received.

22. Statement to borrower must have printed on it section of law which prescribes maximum charges and prohibits any further or other amount whatsoever to be charged except the lawful fees, if any, paid out by licensee to any public officer for filing or recording or releasing security.

23. Statement to borrower must have printed on it section of law which prescribes maximum charges and prohibits any further or other amount to be charged.

24. Statement to borrower must have printed on it section of law which prescribes maximum interest rate and service charge, or charge in lieu of interest, and prohibits any further interest or discount or service charge or other charge by way of compensation for the use of the money.

25. Statement to borrower must have printed on it section of law which prescribes maximum interest rate and provides that "no fees, fines, or other charges either in addition to or a part of the" specified interest shall be charged.

26. Statement to borrower must have printed on it section of law which prescribes maximum interest rate.

27. Statement to borrower must have printed on it sections of law which prescribe maximum interest rate and other charges permitted, method of computation of charges, and the limit on amount of obligation to licensee.

28. Amount of loan, excluding charges.

29. Principal amount of loan, excluding interest.

VIII

STATE REVOLVING CREDIT LAWS

SUMMARY OF PROVISIONS FOR DISCLOSURES SIMILAR TO DISCLOSURE REQUIREMENTS IN "TRUTH IN LENDING BILL" (S. 1740, April 21, 1962 Committee Print)

The following 16 States have revolving credit laws:

Alaska	Florida	Maryland	New York
California	Hawaii	Missouri	North Dakota
Colorado	Illinois	Nebraska	Ohio
Delaware	Kentucky	New Jersey	Tennessee

None of the laws contains all the disclosure requirements of S. 1740.

None of the laws requires disclosure of the finance charge in terms of "simple annual percentage rate" as required in the bill either initially or in the monthly or periodical statement to the borrower, except North Dakota. That State requires the monthly statement to show the amount of charges for the month and the percentage annual simple interest equivalent of the amount of the charge. New York requires the amount of the charge <u>or</u> the annual percentage on outstanding balances to be disclosed initially under its add-on provisions in the Retail Installment Sales Act but does not so require in the provisions for retail installment credit agreements.

The following 10 States require the monthly finance charge to be stated in dollars and cents in the monthly statement:

Alaska	Missouri
California	New York
Delaware	North Dakota
Florida	Ohio
Kentucky	Tennessee

IX

REVOLVING CREDIT LAWS
TABULATION OF DISCLOSURE REQUIREMENTS
SIMILAR TO PROVISIONS IN
"TRUTH IN LENDING BILL"
(S. 1740, April 21, 1962 Committee Print)

State	Simple Annual %age rate to be Charged	MONTHLY STATEMENT					
		Outstand. balance beg. of Month	Add'l Credit & Des-crip.	Am't Paid During Month	Finance Charge in $ & ¢ for Month	Outstand. balance end of Month	Simple Annual %age rate Equal to Charge Imposed
ALASKA							
Ret. Inst.[2]	3				X	X	
CALIFORNIA							
Ret. Inst.	4	X	X	X	X	X	
COLORADO							
Inst. sales (add'l purchases)		Requires same statement as for initial installment agreement giving balance due upon prior contract and consolidated finance charge.					
DELAWARE							
Inst. sales (add'l purchases)	5	Memo shall set forth cash price of add'l purhcase, downpayment, difference between cash price and downpayment, amount for insurance, amount of official fees, unpaid balance, unpaid time balance, amount of service charge, and consolidated time balance which is sum of unpaid time balance and amount of service charge.					
Ret.inst.acct.	6	X	X	X	X	X	
FLORIDA							
Revolving acct.	1	X	X	X	X		
HAWAII							
Ret.inst.sales (add'l purchases)		Memo to buyer shall (a) describe additional goods, (b) sho consolidated total indebtedness, (c) state finance charge either as (1) the additional amount on the subsequent purchase, (2) the total amount on the consolidated contract, or (3) a per cent of the monthly outstanding balance, and (d) state revised installment payments.					

REVOLVING CREDIT LAWS

State	Simple Annual %age rate to be Charged	MONTHLY STATEMENT: Outstand. Balance beg. of Month	Add'l Credit & Descrip.	Am't Paid During Month	Finance Charge in $ & ¢ for Month	Outstand. balance end of Month	Simple Annual %age rate Equal to Charge Imposed
ILLINOIS							
Ret.inst.sales (add'l purchases)	7	Memo to buyer shall (a) describe additional goods, (b) show consolidated total indebtedness, (c) state finance charge either as (1) the additional amount on the subsequent purchase, or as (2) the total amount on the consolidated contract, and (d) state revised installment payments.					
KENTUCKY[2]							
Ret.inst.sales (add'l purchases)	Am't	Memo to buyer containing all information required in initial installment sales contract.					
Ret. charge agreement		X	X	X	X	X	
MARYLAND							
Ret.inst.sales (add'l purchases)		Statement at time of add'l purchase must show balance due on original agreement, amount due after new purchase, payments agreed to be made thereafter, and number of additional months to pay. This statement in addition to information with respect to additional purchase which is required for initial installment purchase agreement.					
MISSOURI							
Ret. charges agreement	Am't or Rate	X	X	X	X		
NEBRASKA							
Inst.Sales Act (add'l purchases)		Memo of additional purchases shall be delivered to the buyer which describes additional goods sold and gives same information required for initial installment sales agreement; the consolidated tire price balance; and revised payments.					
Revolving charge agreements	Am't or Rate	Every agreement shall be in writing, signed by the buyer, and a copy delivered to buyer. Agreements shall state amount or rate of service charge. Rate can be not more than 2½% per month computed on not more than unpaid balance at the beginning of period for which statement is rendered.					
NEW JERSEY							
Ret.instal.sales (add'l purchases)		Statement shall contain all information with respect to additional purchase required in initial contract and an additional statement showing amount due on initial agreement prior to new purchase, amount due after new purchase, payments agreed to be made thereafter, and number of additional months required to complete payments.					

REVOLVING CREDIT LAWS

State	Simple Annual %age rate to be Charged	MONTHLY STATEMENT					
		Outstand. balance beg. of Month	Add'l Credit & Des-crip.	Am't Paid During Month	Finance Charges in $ & ¢ for Month	Outstand. balance end of Month	Simple Annual %age rate Equal to Charge Imposed
NEW YORK							
Ret.inst.sales "add-on"	Am't or X	At time of each succeeding purchase seller shall give buyer statement containing same information re subsequent purchase as is required for initial purchase. Original contract shall state amount or rate of the maximum credit service charge applicable to purchases under the contract.					
Ret.inst.credit agreement	8	X	X	X	X		
NORTH DAKOTA							
Revolving charge Accts.	Am't & rate of mo. %age on bal. from time to time	X	X	X			Am't of charg and annual sim- ple interest equivalent of am't of charg
OHIO							
Ret.inst.sales Revolving budget agreement		X	X	X	X		
TENNESSEE							
Ret. Charge aggreements	Am't or method of cal-culating	X	X	X	X		

Footnotes for Tabulation IX

1. Shall state amount of, or method of calculating, time price differential, or that a time price differential not in excess of that permitted by law will be charged.

2. Act is effective January 1, 1963.

3. Seller shall advise schedule or rate of charge on outstanding balance for each month.

   "Rate" means the percentage which, when multiplied times the outstanding monthly (or other periodic) balance yields the amount of the service charge for such month or period.

   In the event of subsequent purchases being consolidated into initial retail installment contract seller must furnish to buyer all items of information furnished at time of entering initial contract and a memorandum setting forth outstanding balance of initial contract, amount of indebtedness for new purchase, total amount of indebtedness to seller, and revised installments.

4. Amount shall be inserted into consolidated installment contract computed as provided in law.

5. At rate specified in initial contract which is stated within maximum amount prescribed by formula in law based on 5/6 of 1% of first $1,000 and 2/3 of 1% over $1,000.

6. Application form for revolving account shall state "Service charges not in excess of those permitted by law will be charged on the outstanding balance from month to month."

7. May be stated as a percent of the monthly unpaid balance to accrue thereafter, if not capitalized or stated as a dollar amount.

8. Seller may in agreement contract for and receive service charge within maximum amount provided by law. If agreement so provides service charge may be computed on a schedule of fixed amounts.

X

SUMMARY OF
STATE CONSTITUTIONAL RESTRICTIONS
ON INTEREST RATES

Maximum Prescribed:

Arkansas - Contracts 10%, legal rate 6% per annum.

California - Contracts 10%, legal rate 7%. Prohibits additional charges or fees that would permit lender to receive more than 10% from from borrower upon loan. Excepts building and loan associations, industrial loan companies, credit unions, pawnbrokers, State or national banks, and nonprofit agricultural cooperatives from maxima and authorizes Legislature to prescribe maxima for them.

Tennessee - Conventional rate cannot exceed 10% per annum. Legislature shall fix the rate of interest, and the rate shall be equal and uniform.

Texas - In the absence of legislation fixing maximum rate of interest the maximum is 10% per annum, and in contracts where no rate of interest is agreed upon, the rate shall not exceed 6% per annum.

Equal and Uniform Requirement

Missouri - No law is valid that fixes rates of interest or return for any particular group or class of lenders. Rates of interest fixed by law shall be applicable generally to all lenders.

Tennessee - Interest rate established by Legislature shall be equal and uniform.

Legal Rate Fixed But Legislature Can Change

Maryland - Legal rate shall be 6% per annum unless otherwise provided by the General Assembly.

STATE CONSTITUTIONAL RESTRICTIONS ON INTEREST RATE

Arkansas

Article 19, Sec. 12. All contracts for a greater rate of interest than 10 per centum per annum shall be void, as to principal and interest, and the General Assembly shall prohibit the same by law: but where no rate of interest is agreed upon, the rate shall be 6 per centum per annum.

California

Article XX, Sec. 22. The rate of interest upon the loan or forbearance of any money, goods or things in action, or on accounts after demand or judgment rendered in any court of the State, shall be 7 per cent per annum but it shall be competent for the parties to any loan or forbearance of any money, goods or things in action to contract in writing for a rate of interest not exceeding 10 per cent per annum.

No person, association, copartnership or corporation shall by charging any fee, bonus, commission, discount or other compensation receive from a borrower more than 10 per cent per annum upon any loan or forbearance of any money, goods or things in action.

Exceptions:

- Building and loan associations
- Industrial loan companies
- Credit unions
- Pawnbrokers
- State or national banks
- Nonprofit agricultural cooperatives

The Legislature may from time to time prescribe the maximum rate per annum of, or provide for the supervision, or the filing of a schedule of, or in any manner fix, regulate or limit, the fees, bonus, commissions, discounts or other compensation which all or any of the said exempted classes of persons may charge or receive from a borrower in connection with any loan or forbearance of any money, goods or things in action.

Maryland

Article III, Sec. 57. The legal rate of interest shall be six per centum per annum unless otherwise provided by the General Assembly.

Missouri

Article 3, Sec. 44 provides that no law shall be valid fixing rates of interest or return for the loan or use of money, or the service or other charges made or imposed in connection therewith, for any particular group or class engaged in lending money. The rates of interest fixed by law shall be applicable generally and to all lenders without regard to the type or classification of their business.

Oklahoma

Article 14, Sec. 2 provides that the legal rate of interest shall not exceed six per centum per annum, in the absence of any contract as to the rate of interest, and, by contract, parties may agree upon any rate not to exceed ten per centum per annum, and, until reduced by the Legislature, said rates of six and ten per centum shall be, respectively, the legal and the maximum contract rates of interest.

Tennessee

Article 11, Sec. 7. The Legislature shall fix the rate of interest, and the rate so established shall be equal and uniform throughout the State; but the Legislature may provide for a conventional rate of interest, not to exceed ten per centum per annum.

Texas

Article 16, Sec. 11. The Legislature shall have authority to classify loans and lenders, license and regulate lenders, define interest and fix maximum rates of interest; provided, however, in the absence of legislation fixing maximum rates of interest all contracts for a greater rate of interest than ten per centum (10%) per annum shall be deemed usurious; provided, further, that in contracts where no rate of interest is agreed upon, the rate shall not exceed six per centum (6%) per annum. Should any regulatory agency, acting under the provisions of this Section, cancel or refuse to grant any permit under any law passed by the Legislature; then such applicant or holder shall have the right of appeal to the courts and granted a trial de novo as that term is used in appealing from the justice of peace court to the county court. As amended Nov. 8, 1960.

XI

SUMMARY OF TABULATION OF STATE LAWS THAT PROHIBIT FALSE OR MISLEADING ADVERTISING OR STATEMENTS IN CONNECTION WITH LOANS

7 STATES PROHIBIT FALSE ADVERTISING IN CONNECTION WITH REAL PROPERTY LOANS

	Loans for purchase	Building and loans
California	x	
Connecticut	x	
New York	x	
Oregon	x	
South Dakota		x (also prohibits false statements)
Washington	x	
Wisconsin	x	

28 STATES PROHIBIT BOTH FALSE ADVERTISING AND STATEMENTS

	Small Loans	Industrial Loan Company	Real Property	Banks	Retail Installment	Installment Loans	Building & Loan	Loans for Purchases or Services
Alaska	x							
Arizona	x							
California		x	x					
Colorado	x							
Delaware	x							
Florida				x ($5,000 or less)				
Hawaii	x							
Iowa	x							
Kansas					x			
Louisiana	x							
Maryland		x			x			
Michigan	x							
Minnesota	x							
Missouri	x							
Nebraska		x		x (pers.)		x		
New Jersey	x							
New Mexico	x							

	Small Loans	Industrial Loan Company	Real Property	Banks	Retail Installment	Installment Loans	Building & Loans	Loans for Purchases or Services
North Carolina	x							
Ohio	x							
Oklahoma	x							
Oregon	x							
Rhode Island	x							
South Dakota	x					x	x	
Utah	x							
Vermont	x							
Virginia	x							
Washington	x							
West Virginia	x							

14 STATES PROHIBIT FALSE ADVERTISING

	Small Loans	Industrial Loan Company	Real Property	Banks	Retail Installment	Installment Loans	Building & Loans	Loans for Purchases or Services
Connecticut	x							x
Indiana		x						
Iowa				x (inst.)				
Kansas	x							
Kentucky	x							
Maine	x							
Mississippi	x							
Montana	x							
Nevada	x							
New York	x							x
Oregon								x
Tennessee	x							
Washington		x						x
Wisconsin	x							x

TABULATION OF STATE LAWS THAT PROHIBIT
FALSE OR MISLEADING ADVERTISING OR STATEMENTS IN CONNECTION WITH LOANS

State	Loans for 1/ Purchases or Services		Banks		Bldg. & Loan		Chattel Mortgage		Credit Ins.		Indust. Loan Co.		Real Prop.		Small Loans 6/		Ret. Inst. Sales		Inst. Loans	
	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.
Alabama	No provision found.																			
Alaska															x	x				
Arizona															x	x				
Arkansas	No provision found.																			
California											x	x	x	x						
Colorado															x	x				
Connecticut	x														x					
Delaware															x	x				
Florida			1	1				x							x					
Georgia	No provision found.																			
Hawaii															x	x				
Idaho															x					
Illinois															x					
Indiana					2	2					x									
Iowa			x[3]												x	x				
Kansas															x		x	x		
Kentucky															x					
Louisiana															x	x				
Maine															x					
Maryland											x	x			x		x	x		
Massachusetts	No provision found.																			
Michigan										x					x	x				
Minnesota															x	x				
Mississippi															x					
Missouri															x	x				
Montana															x					
Nebraska			4	4							x	x							x	x
Nevada															x					
New Hampshire	No provision found.																			

	Loans for Purchases or Services		Banks		Bldg. & Loan		Chattel Mortgage		Credit Ins.		Indust. Loan Co.		Real Prop.		Small Loans 6		Ret. Inst. Sales		Inst. Loans	
	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.	Adv.	Stm.
New Jersey															x	x				
New Mexico															x	x				
New York	x														x					
North Carolina															x	x				
North Dakota	None.																			
Ohio															x	x				
Oklahoma															x	x				
Oregon	x														x	x				
Pennsylvania															5	5				
Rhode Island															x	x		x		
South Carolina								8												
South Dakota					x	x									x	x			x	x
Tennessee															x					
Texas	No provision found.																			
Utah															x	x				
Vermont															x	x				
Virginia											2				x	x				
Washington	x										x				x	x				
West Virginia															x	x				
Wisconsin	x														x					
Wyoming	No provision found.																			

1. Loans of $5,000 or less.
2. Prohibited from advertising or holding themselves out to be a bank or trust company.
3. Installment loans.
4. Personal loans.
5. State Secretary of Banking may make rules and regulations governing advertising and conduct of licensees.
6. If law contains no specific prohibition of false statements but does prohibit the taking of any note or promise to pay that does not accurately state the amount and terms of the loan, the law is checked as containing a prohibition of false statements.
7. Obligations related to the sale or disposal of merchandise, real estate, securities or service.
8. Chattel mortgages may not contain statements representing indebtedness in excess of the actual amount of money received by borrower except as provided in Small Loan Law and except for amount of recording fees.

PART II

1. Charges and Fees Which Lenders Are Permitted To Collect Under the Regulations Governing (I) FHA Home Mortgage and Home Improvement Programs

The FHA regulations limit the charges and fees which lenders may collect from mortgagors and borrowers. They do not control the charges, fees, or discounts which may be collected by a mortgagee or lender from sellers of property, from builders, or from other parties connected with the mortgage transaction.

A. Closing charges under sections 203, 220, 221, 222, 233, and 809

The permissible charges and fees which may be collected at the time of the closing of the loan from mortgagors by mortgagees are the following:

(a) The FHA application fee, which is $20 in cases processed by the FHA in the regular manner. The application fee is $10 where the case is processed under the certified agency program. A processing fee of $10 is also charged in connection with an application for insurance of an open end advance.

(b) A charge to compensate the mortgagee for expenses incurred for originating and closing the loan. This charge is limited to $20 or 1 percent of the original principal amount of the mortgage, whichever is the greater. However, a charge of $50 or 2½ percent of the original principal amount of the mortgage, whichever is the greater, can be collected where the mortgage is on property under construction or to be constructed where the mortgagee makes partial disbursements and inspections of the property during the progress of the construction.

(c) Reasonable and customary amounts which vary according to the practice in the particular community for any of the following items:

(1) recording fees, recording taxes, or other charges incident to recordation;

(2) credit report;

(3) survey;

(4) title examination or title insurance; or

(5) such other reasonable and customary charges or fees as are authorized by the FHA field office director acting on behalf of the Commissioner.

(d) Reasonable and customary charges in the nature of discounts may be collected from the mortgagor in cases where:

(1) the mortgagor is a builder constructing houses for sale and he executes the mortgage in his own name;

(2) the mortgagor is constructing a dwelling for his own occupancy;

(3) the mortgagor is refinancing a prior mortgage on his property; or

(4) the mortgagor is purchasing the property from a governmental agency or municipal corporation which is precluded by statute from paying the discount.

B. Closing charges under section 213

The mortgagee is not required to pay an application fee and, therefore, may not collect one from the mortgagor. The mortgagee may however collect:

(a) A charge to compensate for the expenses incurred in originating and closing the loan. This charge is limited to $20 or 1 percent of the original principal amount of the mortgage, whichever is the greater.

(b) The charges listed in (c) of paragraph A may also be collected from the mortgagor.

C. Charges during the life of the mortgage—all home mortgage programs except section 222

The amounts the mortgagee may collect from the mortgagor are governed by the following:

(a) The current maximum permissible interest rate is 5¼ percent. The mortgagee is required to collect this interest in monthly installments on the principal then outstanding.

(b) The mortgagee is required to collect amounts to be held in escrow for the payment of ground rents, if any, taxes, special assessments and fire and other hazard insurance premiums.

(c) The mortgagee is permitted to obtain reimbursement from the mortgagor for certain FHA insurance premiums and charges. These premiums and charges are as follows:

(1) The annual mortgage insurance premium of one-half percent of the outstanding principal obligation for the 12-month period preceding the date on which the premium becomes payable without taking into account delinquent payments or prepayments.

(2) In the case of an open-end advance, an open-end insurance charge which is collected annually by the FHA in addition to the regular mortgage insurance premium. This charge is in an amount equal to one-half percent per annum of the original principal obligation of the open-end advance.

(3) If prior to the due date of the 120th scheduled monthly payment the mortgage is prepaid in full or the mortgage insurance contract is voluntarily terminated, the FHA charges an adjusted premium charge or termination charge, as appropriate, which is computed on the basis of 1 percent of the original principal amount of the mortgage. There are a number of exceptions to these requirements which are clearly set forth in the following provisions in the regulations.

§ 203.287 Prepayments excepted from adjusted premium charge.

No adjusted premium charge shall be due or payable to the Commissioner in the following instances:

(a) New insured mortgage. Where the insured loan is paid in full with or from the proceeds of a new loan on the same property which is insured by the Commissioner; or

(b) Acceleration by partial prepayments. Where the final maturity specified in the mortgage is accelerated solely by reason of partial prepayments made by the mortgagor which do not exceed in any one calendar year 15 percent of the original face amount of the mortgage, plus 15 percent of the original face amount of any open-end advances; or

(c) Acceleration by payments for damages. Where the final maturity specified in the mortgage is accelerated solely by reason of payments to principal to compensate for damage to the mortgaged property; or

(d) Acceleration by partial release. Where the final maturity specified in the mortgage is accelerated solely by reason of payment to principal to compensate for release of a part of the insured property approved by the Commissioner; or

(e) Acceleration by application of escrow funds. Where the final maturity specified in the mortgage is accelerated solely by reason of application of funds applied on the indebtedness as required by the Commissioner pursuant to an approved escrow; or

(f) Payment involving condemnation proceedings. Where the final maturity specified in the mortgage is accelerated solely by reason of payments to principal to compensate for the conveyance of the mortgaged property pursuant to condemnation proceedings or in lieu of condemnation proceedings; or

(g) Payment involving foreclosure. Where payment in full is made of a delinquent mortgage:

(1) On which foreclosure proceedings have been commenced; or

(2) For the purpose of avoiding foreclosure, if the transaction is approved by the Commissioner; or

(h) Payment under court order. Where payment in full is made pursuant to a court order; or

(i) Sale of property to veterans. Where payment in full is made within 60 days after the date the mortgage is endorsed for insurance, provided the mortgagee submits to the Commissioner a certificate signed by the mortgagor certifying that such payment was made in connection with the sale of the property to a veteran for his occupancy as a home; or

(j) Where payment in full is made after the due date of the 120th scheduled monthly payment, without taking into account delinquent payments or prepayments.

§ 203.298 Exception from voluntary termination charge.

The insurance contract may be voluntarily terminated without payment of a termination charge if:

(a) The mortgage is delinquent and termination of insurance is for the purpose of avoiding foreclosure provided the transaction is approved by the Commissioner; or

(b) Foreclosure proceedings have been instituted; or

(c) The request for voluntary termination of the contract of insurance is received by the Commissioner after the due date of the 120th scheduled monthly payment, without taking into account delinquent payments or prepayments.

(d) A late charge may be collected not to exceed 2 cents for each dollar of each payment more than 15 days in arrears to cover the extra expense involved in handling delinquent payments. These charges are required to be separately charged to and collected from the mortgagor and cannot be deducted from any aggregate monthly payment.

(e) Although not specifically provided in the regulations, mortgagees are permitted to make charges for miscellaneous services rendered to the mortgagor during the life of the mortgage. In these cases, the FHA takes the position that various charges, if any, for performing services in connection with events not considered as a part of the mortgage transaction shall be determined by the parties involved in accordance with local practice and applicable local statutes. It is expected that any fee so charged will be reasonable in amount, distinctly identified, and collected from the mortgagor and will not be charged against or deducted from the escrow account. In determining the reasonableness of charges, consideration should be given to the work involved, the nature of the services performed, and the charge customarily made in the area.

D. Special provisions under section 222

With respect to home mortgages insured under section 222, the items listed in subparagraphs (a), (b), (d), and (e) of paragraph C are applicable. During the period of ownership of the property by a person in the active military service, the FHA mortgage insurance premiums and adjusted premium charges are paid by the Department of

23-902 O—64—pt. 2——36

Defense and the mortgagor is not held responsible for reimbursing either the Department of Defense or the mortgagee for such premium payment. If the mortgage insurance is voluntarily terminated, the mortgagee is required to pay a termination charge which can be collected from the mortgagor.

E. Closing charges under sections 203(k) and 220(h)

With respect to home improvement loans insured under section 203(k) or 220(h), the lender is permitted to collect from the borrower the following charges and fees:

(a) An application fee of $20;

(b) A charge to compensate the lender for expenses incurred in originating and closing the loan not exceeding $20 or 1 percent of the original principal amount of the loan, whichever is the greater; and

(c) Reasonable and customary amounts for any of the following items:

(1) recording fees or recording taxes or other charges incident to recording the security instruments;

(2) credit report;

(3) title examination or title insurance; or

(4) such other reasonable and customary charges or fees as may be authorized by the Director of the field office acting on behalf of the Commissioner.

F. Charges during life of loan under sections 203(k) and 220(h)

The lender may collect from the borrower the following:

(a) The current maximum permissible interest rate is 6 percent. The lender is required to collect this interest in monthly installments on the principal then outstanding. The lender is charged an annual insurance premium of one-half percent of the outstanding principal obligation for the 12-month period preceding the date on which the premium becomes payable without taking into account delinquent payments or prepayments. There is no adjusted premium charge or termination charge in the event the loan is prepaid or the insurance is terminated.

(b) A late charge may be collected in an amount not to exceed 2 cents for each dollar of each payment more than 15 days in arrears to cover the extra expense involved in handling delinquent payments. These charges are required to be separately charged to and collected from the borrower and cannot be deducted from any aggregate monthly payment.

(c) Although we do not have a specific provision in the regulations and specific instructions have not been issued, it is presumed that a lender will be permitted to make charges to the borrower for miscellaneous services similar to the type of charges which we permit in the home mortgage programs. If permitted such charges will be limited to those made in accordance with local practices and applicable local statutes, which are reasonable in amount, distinctly identified and collected from the borrower by a payment which is distinct from the loan payment.

G. Charges and fees under title I

In transactions involving home improvement loans insured under title I, a lender is limited by the regulations to charge amounts that can be collected for interest, discount, and fees of all kinds in connection with the transaction. These regulations define the permissible amount of charges and fees on the basis of the class of loan involved. For this reason, it is first necessary to identify the classes of loans insured under title I. They are as follows:

(a) *Class 1(a)*—a loan for the purpose of financing the repair, alteration, or improvement of an existing structure or of the real property in connection therewith, exclusive of the building of new structures.

(b) *Class 1(b)*—a loan made for the purpose of financing the alteration, repair, improvement, or conversion of an existing structure used or to be used as an apartment house or a dwelling for two or more families.

(c) *Class 2(a)*—a loan which is for the purpose of financing the construction of a new structure which is to be used exclusively for other than residential or agricultural purposes.

(d) *Class 2(b)*—a loan which is for the purpose of financing the construction of a new structure for use in whole or in part for agricultural purposes, exclusive of residential purposes.

The permissible financing charges are clearly defined in the regulations. For this reason, we are not attempting to paraphrase the provisions in the regulations. The applicable provision is section 201.4, which is quoted as follows:

§ 201.4 Financing charges.

(a) Maximum charge. The maximum permissible financing charges, exclusive of fees and charges as provided by paragraph (b) of this section which may be paid or collected for interest, discount, and fees of all kinds in connection with the transaction, shall be computed as follows:

(1) Class 1 and class 2 loans, having a principal amount, exclusive of financing charges, not in excess of $2,500 and having a maturity not in excess of 7 years and 32 days, may have a financing charge not in excess of an amount equivalent to $5 discount per $100 original face amount of a 1-year note, to be paid in equal monthly installments, calculated from the date of the note.

(2) Class 1 and class 2 loans, having a principal amount, exclusive of financing charges, in excess of $2,500 and a maturity not in excess of 7 years and 32 days, may have a financing charge equivalent to the total of (i) an amount, with respect to so much of the net loan proceeds as does not exceed $2,500, equivalent to $5 discount per $100 original face amount of a 1-year note payable in equal monthly installments, plus (ii) an amount, with respect to any portion of the net loan proceeds in excess of $2,500, equivalent to $4 discount per $100 original face amount of a 1-year note to be paid in equal monthly installments, calculated from the date of the note.

(3) Class 2(b) loans, having a maturity in excess of 7 years and 32 days, shall not have a financing charge in excess of an amount equivalent to $3.50 discount per $100 original face amount of a 1-year note, to be paid in equal monthly installments, calculated from the date of the note.

(4) Such charges correctly based on tables of calculations issued by the Federal Housing Commissioner are deemed to comply with this section. An increase in the ratio of the charge to the average amount outstanding on the debt over the maximum provided in this section, which increase results from the first payment falling due less than 30 days after the date of the note, shall not be deemed to be in conflict with this section.

(b) Permissible additional charges. If the insured takes security in the nature of a real estate mortgage, deed of trust, conditional sales contract, chattel mortgage, mechanic's lien, or other security device for the purpose of securing the payment of eligible loans, the insured may collect from the borrower, in addition to the maximum permissible financing charge as provided in paragraph (a) of this section, the following expenses actually incurred by the insured in connection with the transaction: Recording or filing fees, documentary stamp taxes, title examination charges, and hazard insurance premiums, provided that such costs or expenses are not paid from the proceeds of the loan or included in the face amount of the note. Such costs or expenses shall not be included by the insured as a portion of a claim under the contract of insurance and if such costs or expenses are assessed against the borrower, proper evidence thereof shall be in the file.

(c) Dealer reserve accounts and guarantees. Reserve accounts to assure against losses on loans reported to the Commissioner for insurance are prohibited. A dealer or other person may be required to endorse or guarantee payment of notes so long as no reserve account is involved, but any such guarantee must cover the full amount due on the note. The provisions of this paragraph shall not be interpreted to apply to agreements between insureds as to the transfer of loans already reported for insurance.

(d) Repayment rebate. If a note is paid in full prior to maturity, the insured shall make a rebate at a rate not less than 6 percent per annum of the amounts so paid in advance of their due dates, if the maximum permissible financing charge in connection with the transaction is in an amount equivalent to $5 discount as provided in paragraph (a) of this section. If a lesser charge has been taken, the rebate shall be at not less than a proportional rate.

The title I note may provide for a late charge not to exceed 5 cents for each $100 of each installment more than 10 days in arrears. No late charge on a past due installment may be accrued in excess of $5. In lieu of late charges, notes may provide for interest on past due installments at a rate not in excess of the contract rate in the jurisdiction in which the note is drawn.

II. Charges and Fees Which Lenders Are Permitted To Collect Under the Regulations Governing FHA-Insured Multifamily Projects

The FHA regulations contain limitations on the charges and fees which lenders may collect from mortgagors on loans insured under the multifamily programs. The following requirements are contained in the regulations governing all of the multifamily programs:

A. Closing charges a mortgagee may collect from the mortgagor

(1) The application fee computed at the rate of $1.50 per thousand of the face amount of the mortgage loan applied for;

(2) The commitment fee computed of an amount which when added to the application fee will aggregate $3 per thousand of the face amount of the mortgage loan as set forth in the commitment;

(3) An initial service charge for the cost of closing the transaction in an amount not to exceed 1½ percent of the original principal amount of the mortgage;

(4) Any additional charges shall be subject to prior approval of the Commissioner.

If the FHA rejects the insurance application before it is assigned for processing, or in such other instances as the Commissioner may determine, the entire application fee or any portion thereof may be returned by the FHA to the mortgagee. If, of course, the mortgagee has obtained reimbursement for this fee from the mortgagor, it will be expected that the refund will be turned over by the mortgagee to the mortgagor.

Because of the supervision exercised by the FHA over rental housing projects during the life of the mortgage, any fees or charges imposed by the mortgagee will be directly scrutinized and approved by the FHA.

B. Inspection fee

The FHA may require the payment of an inspection fee in an amount not to exceed $5 per thousand dollars of the mortgage amount stated in the commitment. Where such fee is paid by the mortgagee, reimbursement can be obtained from the mortgagor.

C. Charges during the life of the mortgage—all multifamily programs except sections 221(d)(3) and 220(h)

The amounts the mortgagee may collect from the mortgagor are governed by the following:

(1) The current maximum permissible interest rate is 5¼ percent. The mortgagee is required to collect this interest in monthly installments on the principal then outstanding.

(2) The mortgagee is required to collect amounts to be held in escrow for the payment of ground rents, if any, taxes, special assessments and fire and other hazard insurance premiums.

(3) The mortgagee may include in a mortgage a provision for a prepayment charge as may be agreed upon between the mortgagor and the mortgagee except that no such charge shall be made for a prepayment which does not exceed 15 percent of the original principal amount of the mortgage in any one calendar year.

(4) The mortgagee may also collect a late charge not exceeding 2 cents for each dollar of each payment to interest or principal more than 15 days in arrears.

(5) The mortgagee is permitted to obtain from the mortgagor an amount which would compensate for mortgage insurance premiums paid to the Federal Housing Commissioner. These premiums amount to one-half of 1 percent of the outstanding principal obligation of the mortgage without taking into account delinquent payments or prepayments.

(6) A mortgagee is permitted to obtain reimbursement from the mortgagor for certain prepayment and premium charges. These charges and the exceptions to their payments are clearly set forth in section 207.253 of the FHA regulations which states as follows:

§ 207.253 *Adjusted premium and termination charges.*

(a) All rights under the insurance contract and all obligations to pay future insurance premiums shall terminate on the following conditions:

(1) Payment to the Commissioner of an adjusted premium or termination charge computed as follows:

(i) Two percent of the original face amount of the mortgage when the mortgage is prepaid in full or the contract of insurance is voluntarily terminated within 5 years from the date of the initial endorsement for insurance; or

(ii) One percent of the original face amount of the mortgage when the mortgage is prepaid in full or the contract of insurance is voluntarily terminated after 5 years from the date of initial endorsement for insurance; or

(iii) The relevant percentage as set forth in subdivision (i) or (ii) of this paragraph applied to the difference between the original face amount of the mortgage and the aggregate face amount of a new mortgage or mortgages, if at the time of prepayment:

(a) The insured mortgage is paid in full with or from the proceeds of a new insured mortgage, or mortgages having an aggregate amount less than the original principal amount of the mortgage on the same property.

(b) The Commissioner has accepted an adjusted premium charge under an agreement providing that if new insured mortgages are placed on part or all of the property, within a period of time not to exceed 1 year from the date of prepayment, the adjusted premium charge previously collected will be refunded in whole or in part. In the event of the acceptance of such agreement the refund, if any, shall be computed only after the termination of the agreement or after the sale of all property or properties, whichever occurs first, and no refund shall be made prior to such computation.

(2) Notice within 30 days after prepayment in full or of a written agreement consented to by the Commissioner between the mortgagor and mortgagee voluntarily terminating the contract of insurance and

(3) Such further evidence of prepayment in full or voluntary termination and cancellation of insurance as the Commissioner may require.

(b) In no event shall the adjusted premium charge or termination charge exceed the aggregate amount of premium charges which would have been payable if the mortgage had continued to be insured until maturity.

(c) No adjusted premium charge shall be due the Commissioner in the following cases:

(1) Where, at the time of such prepayment, there is placed on the mortgaged property a new insured mortgage or mortgages for an amount equal to or greater than the original principal amount of the prepaid mortgage; or

(2) Where the final maturity specified in the mortgage is accelerated solely by reason of partial prepayments made by the mortgagor which do not exceed in any 1 calendar year 15 percent of the original face amount of the mortgage; or

(3) Where the final maturity specified in the mortgage is accelerated solely by reason of payments to principal to compensate for damage to the mortgaged property, including loss by condemnation or conveyance in lieu of condemnation, or a release of a part of such property, if approved by the Commissioner; or

(4) Where payment in full is made of a delinquent mortgage:

(i) On which foreclosure proceedings have been commenced; or

(ii) For the purpose of avoiding foreclosure, if the transaction is approved by the Commissioner; or

(5) Where, at the time of such prepayment, there is placed on the property a new insured mortgage or mortages less than the original principal amount of the prepaid mortgage: *Provided*, That the Commissioner finds that the collection of such charge would be inequitable under the particular circumstances of the transaction.

(d) No termination charge shall be due the Commissioner where the termination of insurance is:

(1) In connection with a delinquent mortgage on which foreclosure proceedings have been commenced; or

(2) For the purpose of avoiding foreclosure, if the transaction is approved by the Commissioner.

(e) At the time of prepayment or voluntary termination of the mortgage insurance contract, the Commissioner shall refund to the mortgagee for the account of the mortgagor an amount equal to the pro rata portion of the current annual mortgage insurance premium theretofore paid, which is applicable to the portion of the year subsequent to the date of (1) the prepayment, or (2) receipt by the Commissioner of a request for voluntary termination.

(f) At the time of prepayment, the Commissioner will refund to the mortgagee for the account of the mortgagor an amount equal to the pro rata portion of the current annual mortgage insurance premium theretofore paid, which is applicable to the portion of the year subsequent to such prepayment.

In addition to the exceptions to the payment for the adjusted and termination charge as set forth above, there is also no adjusted or termination charge under the cooperative housing programs except the investor-project cooperatives where the mortgage is paid in full prior to maturity or the mortgage insurance is terminated after the 10th anniversary from the date the mortage was first endorsed for insurance.

D. Special provisions under section 221(d)(3)

Mortgages endorsed for insurance under section 221(d)(3) may bear interest at the rate of 3⅛ percent. Also no mortgage insurance premiums or adjusted premium or termination charges are collected.

In addition to the initial charges, the mortgagee may collect 1½ percent of the original principal amount of the loan.

2. An Analysis of the Scales of Fees and/or Other Charges Levied by Lenders Against Borrowers Which Are Involved in a Housing Credit Transaction, Including, if Information Is Available, Information Concerning Differences in the Cost of Fees in Different Parts of the Country and Over Different Time Periods. (For Instance, Do Such Fees or Charges Other Than the Stated Interest Rate Increase or Decrease With Swings or Changes in General Credit Conditions Throughout the Nation or in General Credit Conditions in the Mortgage Industry?)

Data on FHA-Insured Loans

Loan closing costs (or incidental costs), as defined by FHA, exclude prepaid items such as real estate taxes, special assessments, ground rents, and hazard insurance premiums, which are clearly not incident to the credit transaction. The prepayment of the FHA mortgage insurance premium from the date of the closing of the loan to the date of the first monthly payment is also excluded, since this represents a prepayment of the continuing mortgage insurance premium. The exclusion of these charges does not mean, however, that the remaining charges, as indicated by the FHA figures discussed below, are all incident to the extension of credit as that term is used in the definition of "finance charge" in S. 1740, the "truth in lending bill." For a discussion on this point, reference should be made to the information presented in answer to question 4.

Table 1 (p. 1247) presents average estimated loan closing costs, as defined above, on mortgages insured by FHA under section 203 in each of the years indicated. The loan-closing cost data are limited to loans made to finance the purchase of one-family homes. Annual averages are shown for new and existing homes for the period 1953–61. Similar figures are not available for years prior to 1953. However, data available for a sample number of mortgages on new one-family homes insured during the period September to December 1939, show average closing costs of $124.57, equal to 2.31 percent of the average property value. (See "American Housing," The Twenteith Century Fund, 1944, App. G, table 42, p. 422.)

Table 2 (p. 1248) shows how loan-closing costs (or incidental costs) vary by property value classes, for mortgages on one-family homes insured by FHA under section 203 in 1961. The percentage distributions of loan-closing costs, also presented in this table, indicate the variation in closing costs within each property value class.

The loan-closing cost data presented in tables 1 and 2 above are aggregates of the estimated closing costs on individual loans as estimated by local FHA personnel in processing these individual loans for insurance. The estimates are made to determine whether the particular borrower involved has adequate resources to close the home purchase transaction. However, the data presented in tables 3, 4, 5, and 6, discussed below, are based upon special surveys made by FHA of the actual closing costs obtained from the settlement statements prepared at the time the loans were closed.

Table 3 (p. 1249) provides data on loan closing costs on mortgages on one-family homes insured by FHA under section 203 in each of 12 selected FHA insuring office areas. Two insuring office areas were selected from each of FHA's six zones which cover the United States. In each such FHA zone, the two insuring office areas selected represented roughly the insuring office areas with the highest and the lowest average loan-closing costs. The data were obtained from a special survey made by FHA which provided for listing the actual loan closing costs on all section 203 mortgages on one-family homes, insured during the period, October 1-20, 1961.

The table also presents data, for these same insuring office areas, which were taken from another special survey of actual loan-closing costs covering similar mortgages insured during the period December 12-30, 1955. Average loan-closing costs, as well as the range of loan-closing costs for the individual cases involved, are presented separately for proposed construction (that is, new homes), for existing construction (existing homes), and for proposed and existing construction combined (new and existing homes).

Table 4 (faces p. 1250) shows the average for and the range of each of the individual items of loan-closing costs on mortgages insured by FHA during the period October 1-20, 1961, for the aforementioned 12 FHA insuring offices. The figures in this table are for proposed and existing construction combined, cover the same cases as those in table 3 above, and represent actual closing costs. The averages and ranges presented in table 4 for each of the individual items of closing costs are based upon those cases which reported a charge for the particular item. In interpreting these figures, it should be noted that practices vary among communities in the way that particular items of closing costs are itemized. Apparently, several items often may be combined under one charge or fee. For example, a single charge may be reported in some cases for attorney's fees, which may include title search, if conducted by the attorney, and possibly the preparation of documents. Since these charges appear on the settlement statements in this form, they cannot be subdivided readily.

Tables 5 and 6 (faces p. 1250) present the detailed figures from which the data in tables 3 and 4 were derived.

Comparative Data on FHA-Insured, VA-Guaranteed and Conventional Loans

The above data relate to FHA-insured home mortgages. Similar comprehensive data are not available, to the best of our knowledge for conventional home mortgages. However, comprehensive data are available for conventional, as well as FHA-insured and VA-guaranteed mortgages, for one area—Jacksonville, Fla. This is a one-time study made in 1950. Enclosed is a copy of this study, entitled "Closing Costs and Settlement Payments in the Jacksonville, Fla., Mortgage Market, February 15-August 15, 1950." The study presents statistical data for, as well as an explanation of, each of the individual fees and charges.

Data on construction loans

Table 7 (p. 1250) summarizes information on service charges or fees on construction loans as reported by members of the National Associ ation of Home Builders. The survey was made late in January 1960, at the request of the Subcommittee on Hous ng of the Committee on Banking and Currency, House of Representatives. The data for the cities reporting have been tabulated by geographic divisions as defined by the Bureau of the Census.

Data on savings and loan associations

Table 8 (p. 1251) shows data on initial fees, commissions, and charges on conventional loans as a percentage of conventional loan vol me, for larger insured savings and loan associations. The series was recently inaugurated by the Federal Home Loan Bank Board. Separate figures are presented, on a national basis, for the construction of homes, and for the purchase of newly built and existing homes. It is our understanding that no geographic breakdown of these figures is available.

Differences in loan-closing costs over different time periods

Data are not available to measure adequately how fees and charges vary over different time periods. The FHA data presented in table 1 show that while average estimated loan-closing costs have increased substantially from 1953 to 1961, these average loan-closing costs as a percent of average property value have not increased materially, and have not varied appreciably for the years for which data are available.

It is to be expected that in periods of easy mortgage market conditions, when mortgage lenders have ample mortgage funds available and are eager to make loans, competition for loans may force them to absorb some or part of the charges they would ordinarily receive from the borrower, such as for example, the mortgagee's initial service charge. However, it is unlikely that variations influenced by mortgage or money market conditions occur with respect to charges that are not under the control of the lender and are not collected by or for him, such as for title search, revenue stamps, recording fees, etc.

Converse y, when mortgage market conditions are tight, mortgage lenders have insufficient funds to make all the loans offered to them. Consequently, they become more selective in their credit terms and may seek to obtain the maximum charges possible.

Initial fees, commissions, and charges on construction loans, to the extent they inure to the benefit of the lender, also are apt to vary with mortgage market conditions.

Geographic differences in loan-closing costs

Average loan-closing costs and the range of loan-closing costs for individual cases presented in table 3 show that there are substantial differences among the six selected FHA insuring office areas with the high-average-closing costs and the six with low-average-closing costs. An explanation for much of these differences is provided by the data in table 4, which shows the charges reported for individual items of closing costs for those cases where such charges were reported, and in table 5, which shows the number of cases where charges for particular individual items were reported.

As indicated previously, practices vary considerably among these areas as to the particular items of loan-closing costs which appear on the settlement statements. Evidently, charges for several items often may be combined under one item. However, in some areas, particularly those with low-average-closing costs, charges for certain individual items were reported rather infrequently or not at all. Individual items in this category were mortgagee's appraisal fee, title search, title abstract, Torrens certificate, preparation of deeds and documents, attorney fees, escrow fee, mortgage tax, revenue stamps, title transfer tax, closing fee, notary fees, and broker commissions. Individual items of closing costs for which charges were generally reported in most of these areas were FHA examination fee, mortgagee's initial service charge, credit report, survey, photos, title, insurance, recording fees, and the interest adjustment.

Mortgage discounts

The information and statistics discussed above do not include any data on mortgage discounts. The reason for this is that the FHA regulations prohibit the mortgage lender from collecting from the borrower any fees and discounts, except certain application fees and other charges intended to compensate for expenses incurred in originating and closing the loan. However, charges in the nature of discounts may be collected from the mortgagor in certain cases, such as where the mortgagor is constructing his own home, or where the builder is also the mortgagor. (For greater detail on this point, reference should be made to the information presented in answer to question 1(C).)

Discounts, which vary with mortgage market conditions, may not be collected from the mortgagor (except as indicated above), but may be collected from the builder, real estate dealer, or other seller of the property. It is recognized that these discounts, which tend to reduce the builder's or other seller's profit, or the dealer's commission, also tend to increase the prices of homes generally. However, the discount charge itself is not passed on to the home buyer except indirectly to the extent that a builder or other seller can obtain a higher price for the house under the competitive local market conditions prevailing at a given time. In the case of VA-guaranteed home loans, the VA appraised value constitutes the maximum purchase price. In the case of FHA-insured mortgages, the FHA does not control the sales price, but the FHA appraised value must be made available to the home buyer for his information prior to the time that he is committed to buy the house. The FHA appraised value also determines the maximum amount of the loan which the FHA will insure.

Shell houses

Little information is available on the financing charges for shell houses. Some firms charge a discount rate of 6 or 7 percent, or an effective interest rate of about 14 or 15 percent, for generally 5- or 7-year periods. The notes taken on sales of shell houses usually are sold to consumer finance companies, although a few of the larger shell house producers have been selling stock publicly to obtain funds to help finance sales of their shell houses.

Question 2, table 1—Average estimated loan closing costs[1] *on mortgages on 1-family homes insured by FHA under sec. 203 in the years indicated, 1953–61*

Mortages insured during	New homes[2]			Existing homes		
	FHA appraisal value (average)	Loan closing costs[3]		FHA appraisal value (average)	Loan closing costs[3]	
		Average	Percent of value		Average	Percent of value
1961	$15, 167	$301. 48	2. 0	$13, 705	$282. 81	2. 1
1960	14, 899	289. 12	1. 9	13, 304	276. 81	2. 1
1959	14, 650	281. 29	1. 9	13, 236	261. 02	2. 0
1958	14, 394	313. 00	2. 2	13, 069	313. 00	2. 4
1957	14, 464	301. 00	2. 1	13, 028	306. 00	2. 3
1956	13, 399	284. 00	2. 1	12, 756	283. 00	2. 2
1955	12, 118	254. 00	2. 1	12, 047	277. 00	2. 3
1954	11, 120	200. 00	1. 8	11, 934	234. 00	2. 0
1953[4]	10, 357	174. 00	1. 7	11, 419	210. 00	1. 8

[1] Includes estimated costs to the morgagor for items incidental to financing the purchase of property, but excludes prepayable expenses such as taxes and hazard insurance premiums. The averages are based upon loan-closing costs as estimated by local FHA personnel in the processing of individual loans for insurance.
[2] Does not include loan closing costs on construction loans.
[3] For home purchase transactions only.
[4] Similar data not available prior to 1953.

Source: HHFA annual reports.

Question 2, table 2—Incidental costs by property value, 1-family homes,[1] sec. 203, 1961

FHA estimate of property value	Percentage distribution	Median incidental costs	Incidental costs—Percentage distribution: Less than $100	$100 to $199	$200 to $299	$300 to $399	$400 to $499	$500 to $599	$600 to $699	$700 to $799	$800 or more
NEW HOMES											
Less than $8,000	0.1	$252.08	11.8	13.7	47.1	17.6	7.8	2.0	----------	----------	----------
$8,000 to $8,999	.6	228.29	11.3	22.9	55.9	9.5	.4	----------	----------	----------	----------
$9,000 to $9,999	3.2	266.94	1.2	20.5	42.2	34.2	1.3	.5	0.1	----------	----------
$10,000 to $10,999	4.5	264.53	1.3	18.2	47.2	24.5	5.3	3.3	.2	----------	----------
$11,000 to $11,999	7.8	277.44	2.0	13.7	44.3	28.1	9.5	1.6	.5	----------	----------
$12,000 to $12,999	10.1	280.16	2.8	11.4	44.6	27.5	9.4	3.3	.9	(²)	0.1
$13,000 to $13,999	11.7	279.01	3.4	8.9	47.7	26.7	10.8	1.9	.4	0.2	(²)
$14,000 to $14,999	13.1	289.59	2.8	9.0	42.6	27.8	14.7	1.9	.7	.4	.1
$15,000 to $15,999	12.4	299.47	3.3	6.6	40.3	30.1	15.7	3.1	.5	.3	.1
$16,000 to $16,999	10.9	309.28	2.4	9.0	35.9	28.4	18.9	3.6	.9	.2	.7
$17,000 to $17,999	8.2	320.96	1.5	6.1	36.6	27.6	22.1	4.5	1.0	.1	.5
$18,000 to $18,999	5.9	340.42	.9	5.2	32.2	29.0	21.5	8.5	1.8	.2	.7
$19,000 to $19,999	3.4	352.94	.9	4.3	29.7	28.4	21.3	13.0	1.9	.3	.2
$20,000 to $21,999	4.1	373.84	.5	3.0	25.4	28.4	27.9	11.3	2.4	.6	.5
$22,000 to $24,999	2.7	418.13	.4	2.8	16.8	25.3	26.3	24.1	2.9	1.0	.4
$25,000 and over	1.3	478.32	.2	1.0	6.0	27.3	19.8	38.0	4.6	1.9	1.2
Total	100.0	298.34	2.3	8.9	39.2	28.0	15.3	4.9	.9	.2	.3
EXISTING HOMES											
Less than $8,000	4.0	222.35	2.4	39.3	37.1	18.6	2.5	.1	----------	----------	----------
$8,000 to $8,999	4.9	223.26	1.3	39.0	41.8	13.8	3.9	.2	----------	----------	----------
$9,000 to $9,999	6.8	237.29	1.1	32.3	44.6	16.9	4.8	.3	----------	----------	(²)
$10,000 to $10,999	8.8	254.22	1.0	24.2	45.7	21.6	6.2	1.2	.1	----------	(²)
$11,000 to $11,999	9.5	265.59	.7	18.0	47.7	25.5	5.9	2.0	.2	(²)	(²)
$12,000 to $12,999	10.8	271.39	.8	15.7	46.8	27.6	6.7	2.1	.3	(²)	(²)
$13,000 to $13,999	11.0	276.25	.8	12.1	48.6	25.9	9.6	2.3	.6	.1	(²)
$14,000 to $14,999	9.7	286.08	.8	9.4	46.2	24.5	14.9	3.4	.7	.1	(²)
$15,000 to $15,999	8.6	297.73	.6	8.5	41.8	25.7	16.0	5.5	1.6	.2	.1
$16,000 to $16,999	7.2	309.15	.5	7.0	40.2	24.8	18.9	6.4	2.0	.1	.1
$17,000 to $17,999	5.7	331.82	.4	5.0	35.9	27.3	20.1	8.3	2.3	.5	.2
$18,000 to $18,999	4.1	346.90	.4	4.1	33.4	25.9	21.0	10.7	3.7	.6	.2
$19,000 to $19,999	2.5	359.69	.5	3.9	29.7	26.6	20.1	14.3	3.7	.8	.4
$20,000 to $21,999	3.2	370.04	.5	2.4	26.1	30.0	21.0	14.6	3.8	1.1	.5
$22,000 to $24,999	2.3	388.82	.5	2.1	20.7	30.0	16.3	22.3	5.1	1.8	1.2
$25,000 and over	.9	394.19	.3	2.0	18.2	31.3	16.1	22.6	6.1	1.2	2.2
Total	100.0	279.96	.8	15.4	42.2	24.3	11.4	4.5	1.1	.2	.1

[1] In this table data are based on purchase transactions only.
[2] Less than 0.05 percent.

Question 2, table 3—Average and range of loan closing costs on mortgages on 1-family homes insured by FHA under sec. 203 in selected areas, Oct. 1–20, 1961, and Dec. 12–30, 1955 [1]

Locality	Average						Range of total closing costs					
	Proposed construction [1]		Existing construction		Total		Proposed construction [1]		Existing construction		Total	
	1955	1961	1955	1961	1955	1961	1955	1961	1955	1961	1955	1961
FHA Zone I:												
High—Jamaica, N.Y.	$228	$432	$263	$451	$241	$447	$54–52[illegible]	$65–569	$60–430	$20–748	$54–523	$20–748
Low—Burlington, Vt.	([2])	([2])	([2])	72	([2])	73	([2])	([2])	([2])	28–88	([2])	28–98
FHA Zone II:												
High—Newark, N.J.	414	([3])	395	500	396	500	362–462	([3])	20–1, 334	117–819	20–1, 334	117–819
Low—Wilmington, Del.	215	343	280	350	228	349	37–732	330–350	224–307	68–501	37–732	68–501
FHA Zone III:												
High—Knoxville, Tenn.	219	462	216	272	217	316	149–287	65–900	142–295	140–594	142–295	65–900
Low—Columbia, S.C.	([2])	167	280	161	272	164	([2])	1–409	234–320	9–386	234–320	1–409
FHA Zone IV:												
High—Grand Rapids, Mich.	210	657	210	705	210	692	69–303	21–1, 621	113–303	164–1, 725	69–303	21–1, 725
Low—Indianapolis, Ind.	218	146	158	219	179	198	107–317	10–355	56–463	10–403	56–463	10–403
FHA Zone V:												
High—St. Louis, Mo.	239	350	197	318	211	330	121–427	10[illegible]–568	33–422	9–668	33–427	9–668
Low—Houston, Tex.	197	102	165	155	181	137	39–360	3–389	59–268	5–365	39–360	3–389
FHA Zone VI:												
High—Reno, Nev.	246	378	([2])	343	235	356	35–438	220–673	([3])	244–572	35–438	220–673
Low—Boise, Idaho	213	164	131	136	161	141	95–450	29–230	33–276	24–285	33–450	24–285

[1] Does not include loan closing costs on construction costs.
[2] Number of cases reported too small to compute a meaningful average or range.
[3] No cases reported.

NOTE.—This table provides data on loan closing costs for FHA sec. 203 insured home mortgages in each of 12 selected FHA insuring office areas. 2 insuring office areas were selected from each of FHA's 6 zones which cover the United States. In each such zone, the 2 insuring office areas selected represented roughly the insuring offices with the highest and lowest average loan closing costs. The data were obtained by listing every sec. 203 case insured during the period Oct. 1–20, 1961. Data for th same areas were taken from a survey made covering mortgages insured during Dec. 12–30, 1955.

Question 2, Table 7.—Distribution of local areas by geographic division and prevailing service charges or fees on construction loans, January 1960 [1]

Geographic division	Number of areas reporting service charges or fees as a percentage of the construction loan amount								
	Total	0	0 to 1 [2]	1	1 to 2 [2]	2	2+	Other [2]	Not indicated
New England	11	4		2				[3] 1	4
Middle Atlantic	26	1	1	6	3	3		[4] 5	7
East North Central	34	2	2	9	12	5	2	[5] 2	
West North Central	18			2	5	5	1	[6] 3	2
South Atlantic	37		1	4	6	7	6	[7] 4	9
East South Central	17		2	3	2	1	4	[8] 2	3
West South Central	35			11	6	5	3	[9] 1	9
Mountain	18	2		1	5	1	6		3
Pacific	15			1	2		6	[10] 6	
Total areas	211	9	6	39	41	27	28	24	37

[1] As reported by local office of NAHB in reply to a wire by the president of NAHB, Washington, D.C.

[2] Includes individual rates as well as smaller ranges within the indicated larger range.

[3] 1 case with 1 to 6 percent.

[4] 1 case with ½ percent of unpaid balance; 1 case with $50 construction finance charge; 1 case with $100; and 1 case with 1 to 3 points.

[5] 1 case 2-percent construction fee and 2-percent closing fee; and 1 case with 1 percent or ½ percent per month.

[6] 1 case with 1½ to 2½ percent plus additional charge of about $50 to $100; 1 case with 1 to 3 percent and 1 case with 1 to 5 percent.

[7] 1 case with 1 to 2½ percent; 1 case with 1 to 4 percent plus ½ percent if exceeds 120 days; 1 case with 1 to 3½ percent; and 1 case with 0 to 2 percent.

[8] 2 cases with 1 to 2½ percent.

[9] 1 case with 1 to 2½ percent.

[10] 1 case with 3½ percent plus $25 appraisal fee; 1 case with 0 to 4 percent; 1 case with 1 to 2½ percent; 1 case with 1½ to 2½ percent; 2 cases with 1½ to 3 percent.

Source: "Current Discounts on FHA and VA Home Loans," staff report to Subcommittee on Housing of the Committee on Banking and Currency, House of Representatives, 86th Cong., 2d sess., Feb. 5, 1960.

Question 2, Table 4. Average and Range of Individual Items of Loan Closing Costs on Mortgages on 1-Family New and Existing Homes Insured by FHA Under Section 203 in Selected Areas, October 1-20, 1961

Locality and Items	FHA Examination Fee (d)	Mortgagee's Initial Service Charge (e)	Mortgagee's Appraisal Fee (f)	Credit Reports (g)	Survey (h)	Photographs (i)	Title Search (j)	Title Insurance (k)	Title Abstract (l)	Torrens Certificate (m)	Preparation of Deed and Documents (n)	Attorney's Fees (o)	Escrow Fee (p)	Mortgage Tax (q)	Revenue Stamps (r)	Title Transfer Tax (s)	Closing Fee (t)	Notary Fees (u)	Recording Fees (v)	Broker's Commission (w)	Adjusted Interest (x)	Other (y)
	INCIDENTAL COSTS																					
FHA Zone I																						
High - Jamaica, N.Y. Average	27	147	19	5	52	3/	64	87	2/	3/	33	106	2/	73	2/	3/	3/	3/	13	3/	3/	9
Range	10-105	45-225	10-40	3-15	10-85	3/	8-170	18-158	2/	3/	20-35	20-206	2/	23-113	2/	3/	3/	3/	4-26	3/	3/	3-65
Low - Burlington, Vt. Average	21	2/	3/	3/	3/	3/	3/	3/	3/	3/	3/	48	3/	3/	3/	3/	3/	3/	9	3/	3/	3/
Range	20-45	2/	3/	3/	3/	3/	3/	3/	3/	3/	3/	35-60	3/	3/	3/	3/	3/	3/	8-11	3/	3/	3/
FHA Zone II																						
High - Newark, N.J. Average	21	152	22	5	45	2/	191	79	28	3/	38	205	167	3/	3/	3/	100	3/	15	3/	26	3/
Range	20-40	76-225	20-45	5-6	5-65	2/	10-360	45-130	15-42	3/	20-40	25-486	100-300	3/	3/	3/	25-225	3/	10-33	3/	2-72	3/
Low - Wilmington, Del. Average	20	100	5	7	30	4	125	28	3/	3/	20	3/	3/	3/	3/	3/	20	3	13	3/	15	8
Range	20-20	68-153	5-5	4-15	25-35	2-5	95-159	21-45	3/	3/	10-70	3/	3/	3/	3/	3/	15-20	1-4	10-20	3/	3-34	5-10
FHA Zone III																						
High - Knoxville, Tenn. Average	28	107	3/	5	26	3	3/	62	3/	3/	3	25	112	3/	10	3/	21	3/	36	3/	4	161
Range	20-85	57-196	3/	3-13	15-40	2-3	3/	10-97	3/	3/	10-10	10-60	29-307	3/	4-15	3/	20-25	3/	23-74	3/	2-7	113-225
Low - Columbia, S. C. Average	20	103	3/	6	34	3/	3/	28	3/	3/	3/	103	3/	3/	4	3/	3/	3/	5	3/	18	3/
Range	20-20	64-147	3/	5-10	26-35	3/	3/	19-39	3/	3/	3/	64-147	3/	3/	3-6	3/	3/	3/	2-5	3/	1-55	3/
FHA Zone IV																						
High - Grand Rapids, Mich. Average	26	130	18	5	31	4	6	73	2/	3/	3/	3/	77	2/	3/	20	2/	3/	8	691	3/	33
Range	20-65	85-185	8-20	3-14	20-70	1-6	2-15	33-116	2/	3/	3/	3/	17-205	2/	3/	12-41	2/	3/	3-11	130-1335	3/	3-122
Low - Indianapolis, Ind. Average	20	124	20	5	13	4	11	47	10	3/	18	19	33	16	2/	3/	30	3/	12	124	26	17
Range	20-25	40-222	4-31	3-10	10-25	3-10	9-15	25-67	3-26	3/	15-20	10-35	25-40	11-30	2/	3/	25-35	3/	11-15	59-182	3-66	5-37
FHA Zone V																						
High - St. Louis, Mo. Average	20	134	3/	4	33	4	3/	53	71	3/	3/	3/	3/	3/	3/	3/	30	2	15	145	18	5
Range	20-20	73-225	3/	2-11	5-50	1-7	3/	15-153	30-110	3/	3/	3/	3/	3/	3/	3/	25-35	1-4	1-32	95-320	1-73	1-28
Low - Houston, Texas Average	18	106	2/	6	20	5	3/	23	6	3/	18	3/	5	3/	3/	3	3/	3/	13	3/	6	3/
Range	11-20	5-225	2/	3-11	5-30	3-8	3/	3-133	6-6	3/	3-35	3/	2-15	3/	3/	3-4	3/	3/	2-31	3/	3-16	3/
FHA Zone VI																						
High - Reno, Nevada Average	22	193	2/	7	2/	3/	18	81	3/	3/	3/	3/	39	3/	2/	3/	3/	2	13	3/	54	3/
Range	20-40	105-500	2/	5-10	2/	3/	8-40	18-178	3/	3/	3/	3/	21-70	3/	2/	3/	3/	2-2	3-32	3/	5-224	3/
Low - Boise, Idaho Average	2/	122	3/	4	3/	3	3/	27	3/	3/	3/	3/	3/	3/	3/	3/	3/	3/	10	3/	16	3/
Range	2/	60-197	3/	3-13	3/	3-3	3/	10-106	3/	3/	3/	3/	3/	3/	3/	3/	3/	3/	9-15	3/	10-31	3/

Note: The averages and ranges presented in this table for each of the individual items of closing costs are based upon those cases which reported a charge for the particular individual item. The figures shown are the combined figures for new homes (proposed construction) and existing homes (existing construction). The 12 areas for which data are presented are selected FHA insuring office areas. Two insuring office areas were selected from each of FHA's 6 zones which cover the United States. In each such zone, the 2 insuring office areas selected represented roughly the insuring offices with the highest and lowest average of total loan closing costs. The data were obtained by listing every section 203 case insured during the period October 1-21, 1961.

1/ Other costs are for such items as certificate of occupancy, miscellaneous service fees, sewer charges, conveyance fee, entry bond, brokers' expenses, utility charges.

2/ Number of cases reported too small to compute a meaningful average or range.

3/ No cases reported.

SURVEY OF CLOSING COST PAID BY MORTGAGORS IN JAMAICA, N.Y., HOUSING AREA,* SEC. 203 MORTGAGES

Question 2, table 6, Oct. 1–20, 1961, zone I, high

Items	Incidental costs																						
	FHA examination fee (d)	Mortgagee's initial service charge (e)	Mortgagee's appraisal fee (f)	Credit reports (g)	Survey (h)	Photos (i)	Title search (j)	Title insurance (k)	Title abstract (l)	Torrens certificate (m)	Preparation of deed and documents (n)	Attorney fees (o)	Escrow fee (p)	Mortgage tax (q)	Revenue stamps (r)	Title transfer tax (s)	Closing fee (t)	Notary fees (u)	Recording fees (v)	Broker's commission (w)	Adjusted interest (x)	Other (y)	Total (z)
Proposed construction:																							
(a) Average for all cases	$55	$140	....	$4	$45	....	$5	$59	....	....	$4	$40	....	$66	....	....	....	....	$13	....	....	....	$432
(b) Number of cases reporting	125	124	....	110	112	....	19	100	....	....	15	98	....	115	....	....	....	....	112	....	....	....	125
(c) Average for cases reporting	$55	$142	....	$5	$50	....	$31	$74	....	....	$35	$51	....	$72	....	....	....	....	$14	....	....	....	$432
(d) Range of charges reported	$45-105	$90-220	....	$4-8	$34-75	....	$20-60	$35-95	....	....	$35-35	$50.75	....	$45-110	....	....	....	....	$8-20	....	....	....	$65-569
Existing construction:																							
(a) Average for all cases	$20	$147	$1	$3	$28	....	$6	$70	(1)	....	(1)	$102	(1)	$63	(1)	....	....	....	$10	....	....	$1	$451
(b) Number of cases reporting	491	485	27	293	257	....	33	378	2	....	2	423	1	417	1	....	....	....	410	....	....	39	491
(c) Average for cases reporting	$20	$149	$19	$5	$53	....	$83	$91	$26	....	$20	$118	$125	$74	$70	....	....	....	$13	....	....	$9	$451
(d) Range of charges reported	$10-60	$45-225	$10-40	$3-15	$10-85	....	$8-170	$18-158	$18-33	....	$20-20	$20-206	$125-125	$23-113	$70-70	....	....	....	$4-26	....	....	$3-65	$20-748
Proposed and existing:																							
(a) Average for all cases	$27	$146	$1	$3	$31	....	$5	$68	(1)	....	$1	$89	(1)	$63	(1)	....	....	....	$11	....	....	$1	$447
(b) Number of cases reporting	616	609	27	403	369	....	52	478	2	....	17	521	1	532	1	....	....	....	522	....	....	39	616
(c) Average for cases reporting	$27	$147	$19	$5	$52	....	$64	$87	$26	....	$33	$106	$125	$73	$70	....	....	....	$13	....	....	$9	$447
(d) Range of charges reported	$10-105	$45-225	$10-40	$3-15	$10-85	....	$8-170	$18-158	$18-33	....	$20-35	$20-206	$125-125	$23-113	$70-70	....	....	....	$4-26	....	....	$3-65	$20-743

[1] Less than $0.50.

* New York City, and Nassau, Suffolk, Orange, Putnam, Rockland, and Westchester Counties.

Question 2, table 5, Dec. 12–30, 1955

Items	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$45	$31	$4	$1	$16	(1)	$7	$7	....	....	$3	$15	....	$22	....	....	....	....	$3	(1)	....	$74	$228
(b) Number of cases reporting	171	69	24	61	65	2	31	31	....	....	20	53	....	76	....	....	....	....	80	4	....	78	171
(c) Average for cases reporting	$45	$78	$28	$4	$41	$4	$39	$39	....	....	$24	$47	....	$50	....	....	....	....	$7	$21	....	$162	$228
(d) Range of charges reported	$45-45	$20-199	$10-66	$2-5	$23-75	$3-5	$30-62	$30-62	....	....	$20-40	$25-100	....	$8-99	....	....	....	....	$4-18	$7-46	....	$50-350	$54-523
Existing construction:																							
(a) Average for all cases	$20	$55	$4	$1	$13	....	$24	$27	....	....	$1	$30	....	$45	....	....	....	....	$10	$6	....	$27	$263
(b) Number of cases reporting	96	55	14	27	26	....	38	335	....	....	5	48	....	80	....	....	....	....	79	2	....	13	96
(c) Average for cases reporting	$20	$97	$27	$4	$46	....	$62	$73	....	....	$30	$60	....	$54	....	....	....	....	$12	$306	....	$199	$263
(d) Range of charges reported	$20-20	$50-209	$7-90	$2-10	$20-75	....	$30-126	$30-167	....	....	$20-50	$30-100	....	$25-100	....	....	....	....	$5-20	$75-537	....	$121-350	$60-430
Total proposed and existing:																							
(a) Average for all cases	$36	$40	$4	$1	$15	(1)	$13	$14	....	....	$2	$20	....	$30	....	....	....	....	$6	$2	....	$57	$241
(b) Number of cases reporting	267	124	38	88	91	2	69	66	....	....	25	101	....	156	....	....	....	....	159	6	....	91	267
(c) Average for cases reporting	$36	$85	$28	$3	$44	$4	$58	$57	....	....	$24	$54	....	$52	....	....	....	....	$9	$110	....	$168	$241
(d) Range of charges reported	$20-45	$20-209	$7-90	$2-10	$20-75	$3-5	$30-126	$30-167	....	....	$20-50	$25-100	....	$8-100	....	....	....	....	$4-20	$7-537	....	$50-350	$54-523

[1] Less than $0.50.

SURVEY OF CLOSING COST PAID BY MORTGAGORS IN BURLINGTÓN, VT., HOUSING AREA,* SEC. 203 MORTGAGES

Question 2, table 6, Oct. 1–20, 1961, zone I, low

Items	Incidental costs																						
	FHA examination fee	Mortgagee's initial service charge	Mortgagee's appraisal fee	Credit reports	Survey	Photos	Title search	Title insurance	Title abstract	Torrens certificate	Preparation of deed and documents	Attorney fees	Escrow fee	Mortgage tax	Revenue stamps	Title transfer tax	Closing fee	Notary fees	Recording fees	Broker's commission	Adjusted interest	Other	Total
	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$45											$45							$8				$98
(b) Number of cases reporting	1											1							1				1
(c) Average for cases reporting	$45											$45							$8				$98
(d) Range of charges reported	$45-45											$45-45							$8-8				$98-98
Existing construction:																							
(a) Average for all cases	$20	([1])										$43							$8				$72
(b) Number of cases reporting	19	1										17							18				19
(c) Average for cases reporting	$20	$8										$48							$9				$72
(d) Range of charges reported	$20-20	$8-8										$35-60							$8-11				$28-88
Proposed and existing:																							
(a) Average for all cases	$21	([1])										$43							$8				$73
(b) Number of cases reporting	20	1										18							19				20
(c) Average for cases reporting	$21	$8										$48							$9				$73
(d) Range of charges reported	$20-45	$8-8										$35-60							$8-11				$28-98

* Crittenden County.

[1] Less than $0.50.

Question 2, table 5, Dec. 12–30, 1955

Items	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$20	$3		$2			$15				$7								$3				$50
(b) Number of cases reporting	1	1		1			1				1								1				1
(c) Average for cases reporting	$20	$3		$2			$15				$7								$3				$50
(d) Range of charges reported	$20-20	$3-3		$2-2			$15-15				$7-7								$3-3				$50-50
Existing construction:																							
(a) Average for all cases	$20			$2			$18												$7	$700			$747
(b) Number of cases reporting	1			1			1												1	1			1
(c) Average for cases reporting	$20			$2			$18												$7	$700			$747
(d) Range of charges reported	$20-20			$2-2			$18-18												$7-7	$700-700			$747-747
Proposed and existing:																							
(a) Average for all cases	$20	$2		$2			$17				$4								$5	$350			$399
(b) Number of cases reporting	2	1		2			2				1								2	1			2
(c) Average for cases reporting	$20	$3		$2			$17				$7								$5	$700			$399
(d) Range of charges reported	$20-20	$3-3		$2-2			$15-18				$7-7								$3-7	$700-700			$50-747

Survey of Closing Cost Paid by Mortgagors in Newark, N.J., Housing Area,* Sec. 203 Mortgages

Question 2, table 6, Oct. 1–20, 1961, zone II, high

Items	Incidental costs																						
	FHA examination fee (d)	Mortgagee's initial service charge (e)	Mortgagee's appraisal fee (f)	Credit reports (g)	Survey (h)	Photos (i)	Title search (j)	Title insurance (k)	Title abstract (l)	Torrens certificate (m)	Preparation of deed and documents (n)	Attorney fees (o)	Escrow fee (p)	Mortgage tax (q)	Revenue stamps (r)	Title transfer tax (s)	Closing fee (t)	Notary fees (u)	Recording fees (v)	Broker's commission (w)	Adjusted interest (x)	Other (y)	Total (z)
Proposed construction:																							
(a) Average for all cases	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
(b) Number of cases reporting	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
(c) Average for cases reporting	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
(d) Range of charges reported	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Existing construction:																							
(a) Average for all cases	$21	$134	$4	$1	$33	(1)	$163	$64	$1	...	$4	$44	$4	...	...	...	$2	...	$12	...	$13	...	$500
(b) Number of cases reporting	121	107	20	19	89	2	103	98	4	...	13	26	3	...	...	...	3	...	101	...	63	...	121
(c) Average for cases reporting	$21	$152	$22	$5	$45	$3	$191	$79	$28	...	$38	$205	$167	...	...	...	$100	...	$15	...	$26	...	$500
(d) Range of charges reported	$20-40	$76-225	$20-45	$5-6	$5-65	$2-3	$10-360	$45-130	$15-42	...	$20-40	$25-486	$100-300	...	...	...	$25-225	...	$10-33	...	$2-72	...	$117-819
Proposed and existing:																							
(a) Average for all cases	$21	$134	$4	$1	$33	(1)	$163	$64	$1	...	$4	$44	$4	...	...	...	$2	...	$12	...	$13	...	$500
(b) Number of cases reporting	121	107	20	19	89	2	103	98	4	...	13	26	3	...	...	...	3	...	101	...	63	...	121
(c) Average for cases reporting	$21	$152	$22	$5	$45	$3	$191	$79	$28	...	$38	$205	$167	...	...	...	$100	...	$15	...	$26	...	$500
(d) Range of charges reported	$20-40	$76-225	$20-45	$5-6	$5-65	$2-3	$10-360	$45-130	$15-42	...	$20-40	$25-486	$100-300	...	...	...	$25-225	...	$10-33	...	$2-72	...	$117-819

*Essex, Morris, and Union Counties.

[1] Less than $0.50.

Question 2, table 5, Dec. 12–30, 1955

Items	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$45	$62	$1	...	$40	...	$81	$71	$4	...	...	$96	...	...	...	...	...	...	$14	...	...	...	$414
(b) Number of cases reporting	4	2	1	...	4	...	2	4	1	...	...	3	...	...	...	...	...	...	4	...	...	...	4
(c) Average for cases reporting	$45	$124	$5	...	$40	...	$163	$71	$17	...	...	$128	...	...	...	...	...	...	$14	...	...	...	$414
(d) Range of charges reported	$45-45	$103-145	$5-5	...	$30-60	...	$150-175	$52-87	$17-17	...	...	$35-175	...	...	...	...	...	...	$10-15	...	...	...	$362-462
Existing construction:																							
(a) Average for all cases	$20	$32	$1	$1	$21	(1)	$70	$45	$1	...	$2	$105	...	$2	...	...	...	...	$11	$79	...	$5	$395
(b) Number of cases reporting	124	39	5	37	80	1	64	90	6	...	9	83	...	15	...	...	...	...	99	15	...	14	124
(c) Average for cases reporting	$20	$102	$19	$4	$33	$5	$136	$61	$14	...	$26	$157	...	$17	...	...	...	...	$14	$655	...	$44	$395
(d) Range of charges reported	$20-20	$3-147	$5-30	$2-5	$1-75	$5-5	$3-250	$26-185	$10-27	...	$20-49	$18-375	...	$9-21	...	...	...	...	$5-39	$100-1,100	...	$1-275	$20-1,334
Proposed and existing:																							
(a) Average for all cases	$21	$33	$1	$1	$23	(1)	$70	$46	$1	...	$2	$105	...	$2	...	...	...	...	$11	$77	...	$5	$396
(b) Number of cases reporting	128	41	6	37	84	1	66	94	7	...	9	86	...	15	...	...	...	...	103	15	...	14	128
(c) Average for cases reporting	$21	$103	$21	$3	$33	(1)	$136	$62	$20	...	$28	$156	...	$17	...	...	...	...	$14	$653	...	$44	$396
(d) Range of charges reported	$20-45	$3-147	$5-30	$2-5	$1-75	$5-5	$3-250	$26-185	$10-27	...	$20-49	$18-375	...	$9-21	...	...	...	...	$5-39	$100-1,100	...	$1-275	$20-1,334

[1] Less than $0.50.

Survey of Closing Cost Paid by Mortgagors in Wilmington, Del., Housing Area,* Sec. 203 Mortgages

Question 2, table 6, Oct. 1–20, 1961, zone II, low

Items	Incidental costs																						
	FHA examination fee (d)	Mortgagee's initial service charge (e)	Mortgagee's appraisal fee (f)	Credit reports (g)	Survey (h)	Photos (i)	Title search (j)	Title insurance (k)	Title abstract (l)	Torrens certificate (m)	Preparation of deed and documents (n)	Attorney fees (o)	Escrow fee (p)	Mortgage tax (q)	Revenue stamps (r)	Title transfer tax (s)	Closing fee (t)	Notary fees (u)	Recording fees (v)	Broker's commission (w)	Adjusted interest (x)	Other (y)	Total (z)
Proposed construction:																							
(a) Average for all cases	....	$103	....	$7	$25	$1	$131	$31	....	....	$10	....	....	....	....	....	$15	$2	$14	....	$4	....	$343
(b) Number of cases reporting	....	4	....	4	4	1	4	4	....	....	4	....	....	....	....	....	3	4	4	....	4	....	4
(c) Average for cases reporting	....	$103	....	$7	$25	$5	$131	31	....	....	$10	....	....	....	....	....	$20	$2	$14	....	$9	....	$343
(d) Range of charges reported	....	$90-107	....	$5-8	$25-25	$5-5	$130-135	$29-35	....	....	$10-10	....	....	....	....	....	$20-20	$2-2	$14-14	....	$3-14	....	$330-350
Existing construction:																							
(a) Average for all cases	$10	$100	$1	$5	$29	$3	$119	$27	....	....	$20	....	....	....	....	....	$16	$2	$13	....	$4	$1	$350
(b) Number of cases reporting	12	24	6	18	23	15	23	23	....	....	22	....	....	....	....	....	20	20	23	....	6	3	24
(c) Average for cases reporting	$20	$100	$5	$7	$35	$7	$124	$28	....	....	$22	....	....	....	....	....	$20	$2	$13	....	$18	$8	$350
(d) Range of charges reported	$20-20	$68-53	$5-5	$4-15	$25-35	$2-5	$95-159	$21-45	....	....	$10-70	....	....	....	....	....	$15-20	$1-4	$10-20	....	$3-34	$5-10	$68-501
Proposed and existing:																							
(a) Average for all cases	$9	$100	$1	$6	$29	$3	$120	$27	....	....	$18	....	....	....	....	....	$16	$2	$13	....	$4	$1	$349
(b) Number of cases reporting	12	28	6	22	27	16	27	27	....	....	26	....	....	....	....	....	23	24	27	....	8	3	28
(c) Average for cases reporting	$20	$100	$5	$7	$30	$4	$125	$28	....	....	$20	....	....	....	....	....	$20	$3	$13	....	$15	$8	$349
(d) Range of charges reported	$20-20	$68-153	$5-5	$4-15	$25-35	$2-5	$95-159	$21-45	....	....	$10-70	....	....	....	....	....	$15-20	$1-4	$10-20	....	$3-34	$5-10	$68-501

*New Castle County.

Question 2, table 5, Dec. 12–30, 1955

Proposed construction:																							
(a) Average for all cases	$5	$63	....	$3	$13	[1]	$69	$14	....	....	$8	$18	....	$2	....	....	....	$2	$12	$6	....	....	$215
(b) Number of cases reporting	4	11	....	14	9	1	10	9	....	....	5	2	....	2	....	....	....	6	16	1	....	....	16
(c) Average for cases reporting	$20	$92	....	$3	$24	$3	$111	$25	....	....	$25	$143	....	$17	....	....	....	$4	$12	$100	....	....	$215
(d) Range of charges reported	$20-20	$42-160	....	$2-5	$20-25	$3-3	$23-219	$22-38	....	....	$15-30	$100-186	....	$15-19	....	....	....	$2-11	$11-15	$100-100	....	....	$37-732
Existing construction:																							
(a) Average for all cases	$5	$50	....	$2	$15	....	$153	$30	....	....	$13	....	....	....	....	....	....	$1	$11	....	....	....	$280
(b) Number of cases reporting	1	2	....	2	3	....	4	3	....	....	2	....	....	....	....	....	....	4	3	....	....	....	4
(c) Average for cases reporting	$20	$100	....	$4	$20	....	$153	$40	....	....	$25	....	....	....	....	....	....	$1	$15	....	....	....	$280
(d) Range of charges reported	$20-20	$99-100	....	$2-6	$20-20	....	$103-197	$23-56	....	....	$25-25	....	....	....	....	....	....	$1-2	$8-19	....	....	....	$224-307
Proposed and existing:																							
(a) Average for all cases	$5	$61	....	$3	$13	[1]	$86	$17	....	....	$9	$14	....	$2	....	....	....	$1	$12	$5	....	....	$228
(b) Number of cases reporting	5	13	....	16	12	1	14	12	....	....	7	2	....	2	....	....	....	10	19	1	....	....	20
(c) Average for cases reporting	$20	$93	....	$4	$22	$3	$123	$29	....	....	$25	$143	....	$17	....	....	....	$3	$12	$100	....	....	$228
(d) Average of charges reported	$20-20	$42-160	....	$2-6	$20-25	$3-3	$23-219	$22-56	....	....	$15-30	$100-186	....	$15-19	....	....	....	$1-11	$8-19	$100-100	....	....	$37-733

[1] Less than $0.50.

Survey of Closing Cost Paid by Mortgagors in Knoxville, Tenn., Housing Area,* Sec. 203 Mortgages

Question 2, table 6, Oct. 1–20, 1961, zone III, high

Items	Incidental costs																						
	FHA examination fee	Mortgagee's initial service charge	Mortgagee's appraisers fee	Credit reports	Survey	Photos	Title search	Title insurance	Title abstract	Torrens certificate	Preparation deed and documents	Attorney fees	Escrow fee	Mortgage tax	Revenue stamps	Title transfer tax	Closing fee	Notary fees	Recording fees	Broker's commission	Adjusted interest	Other	Total
	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$53	$123	...	$4	$23	$1	...	$70	...	...	...	...	$97	...	...	...	$3	...	$39	...	...	$49	$462
(b) Number of cases reporting	13	12	...	12	12	3	...	12	...	...	...	...	11	...	...	...	2	...	12	...	...	4	13
(c) Average for cases reporting	$53	$133	...	$4	$25	$3	...	$75	...	...	...	...	$115	...	...	...	$20	...	$43	...	...	$161	$462
(d) Range of charges reported	$45-85	$89-196	...	$3-5	$15-40	$2-4	...	$63-97	...	...	...	...	$34-307	...	...	...	$20-20	...	$32-74	...	...	$113-225	$65-900
Existing construction.																							
(a) Average for all cases	$21	$97	...	$5	$26	$1	...	$55	...	...	$1	$2	$25	...	$1	...	$1	...	$34	...	$3	...	$272
(b) Number of cases reporting	44	42	...	43	44	9	...	42	...	...	10	4	10	...	3	...	3	...	44	...	33	...	44
(c) Average for cases reporting	$21	$102	...	$6	$26	$3	...	$58	...	...	$3	$25	$110	...	$10	...	$22	...	$34	...	$4	...	$272
(d) Range of charges reported	$20-40	$57-183	...	$3-13	$18-35	$2-3	...	$10-94	...	...	$10-10	$10-60	$29-292	...	$4-15	...	$20-25	...	$23-66	...	$2-7	...	$140-594
Proposed and existing:																							
(a) Average for all cases	$28	$103	...	$5	$25	$1	...	$58	...	...	(1)	$2	$41	...	$1	...	$2	...	$36	...	$3	$13	$316
(b) Number of cases reporting	57	55	...	55	56	12	...	54	...	...	10	4	21	...	3	...	5	...	56	...	33	4	57
(c) Average for cases reporting	$28	$107	...	$5	$26	$3	...	$62	...	...	$3	$25	$112	...	$10	...	$21	...	$36	...	$4	$161	$316
(d) Range of charges reported	$20-85	$57-196	...	$3-13	$15-40	$2-3	...	$10-97	...	...	$10-10	$10-60	$29-307	...	$4-15	...	$20-25	...	$23-74	...	$2-7	$113-225	$65-900

[1] Less than $0.50.

* Anderson, Blount, and Knox Counties.

Question 2, table 5, Dec. 12–30, 1955

Items	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$21	$97	...	$2	$21	...	...	$28	...	...	$23	$18	...	...	...	...	...	...	$9	...	...	...	$219
(b) Number of cases reporting	11	15	...	9	15	...	...	8	...	...	15	6	...	...	...	...	...	...	15	...	...	...	15
(c) Average for cases reporting	$29	$97	...	$3	$21	...	...	$52	...	...	$23	$46	...	...	...	...	...	...	$9	...	...	...	$219
(d) Range of charges reported	$20-45	$66-41	...	$3-3	$20-30	...	...	$35-62	...	...	$4-39	$35-62	...	...	...	...	...	...	$7-10	...	...	...	$149-287
Existing construction:																							
(a) Average for all cases	$19	$96	...	$3	$19	...	$4	$26	...	...	$23	$21	...	...	...	...	...	...	$9	...	...	...	$216
(b) Number of cases reporting	34	36	...	29	35	...	3	18	...	...	35	18	...	...	...	...	...	...	35	...	...	...	36
(c) Average for cases reporting	$20	$96	...	$3	$20	...	$4	$51	...	...	$23	$37	...	...	...	...	...	...	$9	...	...	...	$216
(d) Range of charges reported	$20-20	$49-144	...	$3-5	$15-25	...	$1-5	$22-74	...	...	$5-42	$30-57	...	...	...	...	...	...	$6-17	...	...	...	$142-295
Proposed and existing:																							
(a) Average for all cases	$20	$96	...	$2	$20	...	(1)	$26	...	...	$23	$18	...	...	...	...	...	...	$9	...	...	...	$217
(b) Number of cases reporting	45	51	...	38	50	...	5	26	...	...	50	24	...	...	...	...	...	...	50	...	...	...	51
(c) Average for cases reporting	$22	$96	...	$3	$20	...	$4	$51	...	...	$22	$39	...	...	...	...	...	...	$9	...	...	...	$217
(d) Range of charges reported	$20-45	$49-144	...	$3-5	$15-30	...	$1-5	$22-72	...	...	$4-42	$30-62	...	...	...	...	...	...	$6-17	...	...	...	$142-295

Survey of Closing Cost Paid by Mortgagors in Columbia, S.C., Housing Area,* Sec. 203 Mortgages

Question 2, table 6, Oct. 1–20, 1961, zone III, low

Items	Incidental costs																						
	FHA examination fee	Mortgagee's initial service charge	Mortgagee's appraisal fee	Credit reports	Survey	Photos	Title search	Title insurance	Title abstract	Torrens certificate	Preparation of deed and documents	Attorney fees	Escrow fee	Mortgage tax	Revenue stamps	Title transfer tax	Closing fee	Notary fees	Recording fees	Broker's commission	Adjusted interest	Other	Total
	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$9	$53		$3	$15			$14				$53			$2				$2		$17		$167
(b) Number of cases reporting	5	5		5	5			5				5			5				5		9		11
(c) Average for cases reporting	$20	$116		$6	$33			$31				$116			$5				$4		$21		$167
(d) Range of charges reported	$20-20	$99-139		$5-10	$26-35			$27-37				$99-139			$4-6				$2-5		$1-55		$1-409
Existing construction:																							
(a) Average for all cases	$5	$51		$2	$19			$14				$51			$2				$3		$15		$161
(b) Number of cases reporting	3	7		5	7			7				7			7				7		12		13
(c) Average for cases reporting	$20	$94		$6	$35			$26				$94			$4				$5		$16		$161
(d) Ranges of charges reported	$20-20	$64-147		$5-8	$35-35			$19-39				$64-147			$3-6				$4-5		$3-32		$9-386
Proposed and existing:																							
(a) Average for all cases	$7	$52		$2	$17			$14				$52			$2				$2		$16		$164
(b) Number of cases reporting	8	12		10	12			12				12			12				12		21		24
(c) Average for cases reporting	$20	$103		$6	$34			$28				$103			$4				$5		$18		$164
(d) Range of charges reported	$20-20	$64-147		$5-10	$26-35			$19-39				$64-147			$3-6				$2-5		$1-55		$1-409

*Lexington and Richland Counties.

Question 2, table 5, Dec. 12–30, 1955

Proposed construction:																					
(a) Average for all cases	$96			$25			$24				$96		$4					$3			$248
(b) Number of cases reporting	1			1			1				1		1					1			1
(c) Average for cases reporting	$96			$25			$24				$96		$4					$3			$248
(d) Range of charges reported	$96-96			$25-25			$24-24				$96-96		$4-4					$3-3			$248-248
Existing construction:																					
(a) Average for all cases	$110		$2	$25			$30				$105		$4					$4			$280
(b) Number of cases reporting	3		2	3			3				3		3					3			3
(c) Average for cases reporting	$110		$4	$25			$30				$105		$4					$4			$280
(d) Range of charges reported	$87-126		$3-4	$25-26			$24-34				$87-126		$3-5					$4-4			$234-320
Proposed existing:																					
(a) Average for all cases	$107		$2	$25			$29				$103		$4					$4			$272
(b) Number of cases reporting	4		2	4			4				4		4					4			4
(c) Average for cases reporting	$107		$4	$25			$29				$103		$4					4			$272
(d) Range of charges reported	$87-126		$3-4	$25-26			$24-34				$87-126		$3-5					$3-4			$234-320

SURVEY OF CLOSING COST PAID BY MORTGAGORS IN GRAND RAPIDS, MICH., HOUSING AREA,* SEC. 203 MORTGAGES

Question 2, table 6, Oct. 1–20, 1961, zone IV, high

Items	Incidental costs																						
	FHA examination fee	Mortgagee's initial service charge	Mortgagee's appraisal fee	Credit reports	Survey	Photos	Title search	Title insurance	Title abstract	Torrens certificate	Preparation of deed and documents	Attorney fees	Escrow fee	Mortgage tax	Revenue stamps	Title transfer tax	Closing fee	Notary fees	Recording fees	Broker's commission	Adjusted interest	Other	Total
	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$21	$134	$5	$4	$27	$3	$1	$77					$56				$1		$7	$313		$8	$657
(b) Number of cases reporting	7	10	3	10	10	7	3	10					9				1		9	4		4	11
(c) Average for cases reporting	$34	$148	$20	$5	$30	$4	$3	$84					$60				$6		$8	$860		$23	$657
(d) Range of charges reported	$20-65	$116-185	$20-20	$4-9	$20-35	$2-6	$2-4	$74-102					$21-205				$6-6		$6-10	$395-1,221		$4-56	$21-1,621
Existing construction:																							
(a) Average for all cases	$14	$116	$6	$5	$31	$3	$1	$64	$1				$56	$4		$3	[1]		$8	$369		$25	$705
(b) Number of cases reporting	18	28	10	30	29	26	3	28	2				21	1		4	1		30	17		21	30
(c) Average for cases reporting	$23	$124	$18	$5	$32	$4	$8	$69	$11				$80	$131		$20	$13		$8	$651		$36	$705
(d) Range of charges reported	$20-45	$85-174	$8-20	$3-14	$25-70	$1-6	$4-15	$33-116	$6-16				$17-196	$131-131		$12-41	$13-13		$3-11	$130-1,335		$3-122	$164-1,725
Proposed and existing:																							
(a) Average for all cases	$16	$121	$6	$4	$30	$3	$1	$68	$1				$56	$3		$2	[1]		$8	$354		$20	$692
(b) Number of cases reporting	25	38	13	40	39	33	6	38	2				30	1		4	2		39	21		25	41
(c) Average for cases reporting	$26	$130	$18	$5	$31	$4	$6	$73	$11				$77	$131		$20	$10		$8	$691		$33	$692
(d) Range of charges reported	$20-65	$85-185	$8-20	$3-14	$20-70	$1-6	$2-15	$33-116	$6-16				$17-205	$131-131		$12-41	$6-13		$3-11	$130-1,335		$3-122	$21-1,725

*Kent County.

[1] Less than $0.50.

Question 2, table 5, Dec. 12–30, 1955

Items	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$24	$98		$2	$22	$1	$21	$55	[1]	$7						[1]			$7				$210
(b) Number of cases reporting	8	13		9	12	6	1	13	1	14						1			14				14
(c) Average for cases reporting	$42	$105		$3	$25	$3	$17	$60	$4	$8						$4			$8				$210
(d) Range of charges reported	$20-45	$58-120		$3-5	$20-30	$2-4	$17-17	$35-71	$4-4	$4-17						$4-4			$4-17				$69-129
Existing construction:																							
(a) Average for all cases	$11	$109		$2	$27	$1		$52	$1			$1							$6				$210
(b) Number of cases reporting	7	15		8	14	6		13	2			2							15				15
(c) Average for cases reporting	$24	$109		$3	$29	$4		$59	$10			$10							$6				$210
(d) Range of charges reported	$20-45	$49-166		$2-3	$15-45	$3-5		$28-83	$4-8			$10-10							$5-7				$113-303
Proposed and existing:																							
(a) Average for all cases	$15	$104		$2	$25	$1	[1]	$53	[1]	$3		$1				[1]			$6				$210
(b) Number of cases reporting	15	28		17	26	12	1	26	3	14		2				1			29				29
(c) Average for cases reporting	$34	$107		$3	$27	$3	$17	$60	$8	$8		$10				$4			$8				$210
(d) Range of charges reported	$20-45	$49-166		$2-3	$15-45	$2-5	$17-17	$28-83	$4-8	$4-17		$10-10				$4-4			$4-17				$69-303

[1] Less than $0.50.

SURVEY OF CLOSING COST PAID BY MORTGAGORS IN INDIANAPOLIS, IND., HOUSING AREA,* SEC. 203 MORTGAGES

Question 2, table 6, Oct. 1–20, 1961, zone IV, low

Items	Incidental costs																						
	FHA examination fee	Mortgagee's initial service charge	Mortgagee's appraisers fee	Credit reports	Survey	Photos	Title search	Title insurance	Title abstract	Torrens certificate	Preparation of deed and documents	Attorney fees	Escrow fee	Mortgage tax	Revenue stamps	Title transfer tax	Closing fee	Notary fees	Recording fees	Broker's commission	Adjusted interest	Other	Total
	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$7	$44	......	$2	$7	$1	$1	$35	$2	......	$1	$4	$7	$3	......	......	......	......	$9	$10	$12	$2	$146
(b) Number of cases reporting	13	12	......	15	17	7	2	26	7	......	2	11	8	7	......	......	......	......	28	2	17	3	36
(c) Average for cases reporting	$20	$131	......	$4	$14	$4	$10	$49	$8	......	$20	$13	$34	$18	......	......	......	......	$12	$176	$26	$22	$146
(d) Range of charges reported	$20-20	$40-200	......	$4-6	$10-15	$3-5	$9-10	$35-65	$3-17	......	$20-20	$12-20	$25-38	$12-30	......	......	......	......	$11-13	$169-182	$3-66	$8-37	$10-355
Existing construction:																							
(a) Average for all cases	$9	$73	$1	$3	$11	$2	(1)	$42	$2	......	(1)	$4	$16	$4	(1)	......	$1	......	$11	$29	$9	$1	$219
(b) Number of cases reporting	41	53	5	46	75	39	2	81	16	......	2	16	43	26	1	......	3	......	78	22	31	6	89
(c) Average for cases reporting	$20	$122	$20	$5	$13	$5	$13	$46	$11	......	$15	$23	$33	$15	$14	......	$30	......	$12	$119	$26	$15	$219
(d) Range of charges reported	$20-25	$68-222	$4-31	$3-10	$11-25	$3-10	$10-15	$25-67	$3-26	......	$15-15	$10-35	$30-40	$11-24	$14-14	......	$25-35	......	$11-15	$59-170	$5-58	$5-28	$10-403
Proposed and existing:																							
(a) Average for all cases	$9	$64	$1	$2	$10	$2	(1)	$40	$2	......	$1	$4	$14	$4	(1)	......	$1	......	$10	$24	$10	$1	$198
(b) Number of cases reporting	54	65	5	61	92	46	4	107	23	......	4	27	51	33	1	......	3	......	106	24	48	9	125
(c) Average for cases reporting	$20	$124	$20	$5	$13	$4	$11	$47	$10	......	$18	$19	$33	$16	$14	......	$30	......	$12	$124	$26	$17	$198
(d) Range of charges reported	$20-25	$40-222	$4-31	$3-10	$10-25	$3-10	$9-15	$25-67	$3-26	......	$15-20	$10-35	$25-40	$11-30	$14-14	......	$25-35	......	$11-15	$59-182	$3-66	$5-37	$10-403

*Marion County.

[1] Less than $0.50.

Question 2, table 5, Dec. 12–30, 1955

Proposed construction:																							
(a) Average for all cases	$47	$88	$2	$1	$8	$1	$7	$44	$2	......	......	$2	$2	$1	......	......	......	......	$11	......	......	$2	$218
(b) Number of cases reporting	26	21	4	7	23	5	3	22	4	......	......	4	2	2	......	......	......	......	25	......	......	3	26
(c) Average for cases reporting	$47	$109	$11	$3	$9	$4	$62	$52	$13	......	......	$13	$25	$20	......	......	......	......	$12	......	......	$16	$218
(d) Range of charges reported	$45-65	$25-149	$10-15	$1-5	$3-25	$2-5	$2-97	$25-87	$3-35	......	......	$12-15	$25-25	$19-20	......	......	......	......	$9-16	......	......	$12-20	$107-317
Existing construction:																							
(a) Average for all cases	$20	$63	$2	$2	$6	$2	$3	$35	$3	......	......	$3	$1	$2	......	......	......	......	$10	$5	......	$1	$158
(b) Number of cases reporting	48	35	11	17	33	7	9	38	10	......	......	11	3	4	......	......	......	......	47	1	......	2	48
(c) Average for cases reporting	$20	$87	$10	$4	$8	$12	$18	$45	$16	......	......	$12	$25	$18	......	......	......	......	$10	$245	......	$23	$158
(d) Range of charges reported	$20-20	$25-178	$6-10	$1-5	$7-25	$2-35	$3-70	$10-135	$5-36	......	......	$10-12	$25-25	$4-25	......	......	......	......	$2-13	$245-245	......	$20-26	$56-463
Proposed and existing:																							
(a) Average for all cases	$29	$72	$2	$1	$6	$1	$5	$39	$3	......	......	$2	$2	$2	......	......	......	......	$10	$3	......	$1	$179
(b) Number of cases reporting	74	56	14	24	56	12	12	60	14	......	......	15	5	6	......	......	......	......	72	1	......	5	74
(c) Average for cases reporting	$29	$95	$11	$4	$8	$9	$29	$48	$15	......	......	$12	$25	$19	......	......	......	......	$11	$245	......	$19	$179
(d) Range of charges reported	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......

Survey of Closing Cost Paid by Mortgagors in St. Louis, Mo., Housing Area,* Sec. 203 Mortgages

Question 2, table 6, Oct. 1–20, 1961, zone V, high

Items	Incidental costs																						
	FHA examination fee	Mortgagee's initial service charge	Mortgagee's appraisal fee	Credit reports	Survey	Photos	Title search	Title insurance	Title abstract	Torrens certificate	Preparation of deed and documents	Attorney fees	Escrow fee	Mortgage tax	Revenue stamps	Title transfer tax	Closing fee	Notary fees	Recording fees	Broker's commission	Adjusted interest	Other	Total
	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$18	$145	......	$4	$30	$2	......	$73	$53	......	......	......	......	......	......	......	(1)	$1	$12	......	$12	(1)	$350
(b) Number of cases reporting	82	88	......	87	83	44	......	83	83	......	......	......	......	......	......	......	1	25	85	......	49	13	89
(c) Average for cases reporting	$20	$147	......	$4	$32	$4	......	$81	$57	......	......	......	......	......	......	......	$25	$3	$12	......	$23	$3	$350
(d) Range of charges reported	$20-20	$79-225	......	$3-7	$20-50	$3-5	......	$40-153	$37-85	......	......	......	......	......	......	......	$25-25	$1-4	$12-15	......	$6-67	$2-4	$104-568
Existing construction:																							
(a) Average for all cases	$13	$120	......	$3	$21	$2	......	$28	$74	......	......	......	......	......	......	......	(1)	(1)	$16	$29	$11	$1	$318
(b) Number of cases reporting	90	138	......	103	90	74	......	126	131	......	......	......	......	......	......	......	1	30	141	29	96	21	144
(c) Average for cases reporting	$20	$133	......	$4	$34	$4	......	$33	$81	......	......	......	......	......	......	......	$35	$1	$16	$210	$16	$6	$318
(d) Range of charges reported	$20-20	$73-220	......	$2-11	$5-45	$1-7	......	$15-81	$30-110	......	......	......	......	......	......	......	$35-35	$1-2	$1-32	$95-320	$1-73	$1-28	$9-668
Proposed and existing:																							
(a) Average for all classes	$15	$130	......	$3	$24	$2	......	$45	$66	......	......	......	......	......	......	......	(1)	(1)	$14	$18	$11	$1	$330
(b) Number of cases reporting	172	226	......	190	173	118	......	209	214	......	......	......	......	......	......	......	60	55	226	29	145	34	233
(c) Average for cases reporting	$20	$134	......	$4	$33	$4	......	$53	$71	......	......	......	......	......	......	......	$30	$2	$15	$145	$18	$5	$330
(d) Range of charges reported	$20-20	$73-225	......	$2-11	$5-50	$1-7	......	$15-153	$30-110	......	......	......	......	......	......	......	$25-35	$1-4	$1-32	$95-320	$1-73	$1-28	$9-668

*St. Louis City and St. Louis, Jefferson, and St. Charles Counties.

[1] Less than $0.50.

Question 2, table 5, Dec. 12–30, 1955

Proposed construction:																							
(a) Average for all cases	$20	$115	$2	$2	$17	$1	$39	$31	......	......	......	......	$1	......	......	......	......	(1)	$11	......	......	(1)	$239
(b) Number of cases reporting	54	52	3	42	36	15	34	52	......	......	......	......	3	......	......	......	......	5	52	......	......	2	54
(c) Average for cases reporting	$20	$119	$34	$3	$26	$4	$61	$52	......	......	......	......	$15	......	......	......	......	$1	$12	......	......	$3	$239
(d) Range of charges reported	$20-20	$77-200	$20-42	$2-6	$21-35	$3-5	$42-108	$30-100	......	......	......	......	$9-19	......	......	......	......	$1-1	$3-15	......	......	$2-4	$121-427
Existing construction:																							
(a) Average for all cases	$20	$101	(1)	$1	$10	$1	$29	$20	......	......	$1	......	$2	(1)	......	......	......	(1)	$12	......	......	(1)	$197
(b) Number of cases reporting	104	101	1	42	34	23	55	52	......	......	3	......	6	1	......	......	......	15	97	......	......	6	104
(c) Average for cases reporting	$20	$104	$21	$3	$31	$3	$55	$40	......	......	$19	......	$26	$11	......	......	......	$1	$12	......	......	$5	$197
(d) Range of charges reported	$20-20	$10-170	$21-21	$2-5	$3-100	$1-5	$12-100	$20-117	......	......	$7-25	......	$14-34	$11-11	......	......	......	$1-3	$10-17	......	......	$2-20	$33-422
Proposed and existing:																							
(a) Average for all cases	$20	$106	$1	$2	$13	$1	$32	$24	......	......	(1)	......	$1	(1)	......	......	......	(1)	$11	......	......	(1)	$211
(b) Number of cases reporting	158	153	4	84	70	38	89	84	......	......	3	......	9	1	......	......	......	20	149	......	......	8	158
(c) Average for cases reporting	$20	$109	$31	$3	$28	$3	$57	$45	......	......	$19	......	$22	$11	......	......	......	$1	$12	......	......	$5	$211
(d) Range of charges reported	$20-20	$10-200	$20-42	$2-6	$3-100	$1-5	$12-108	$20-117	......	......	$7-25	......	$9-34	$11-11	......	......	......	$1-3	$3-17	......	......	$2-20	$33-427

[1] Less than $0.50.

SURVEY OF CLOSING COST PAID BY MORTGAGORS IN HOUSTON, TEX., HOUSING AREA,* SEC. 203 MORTGAGES

Question 2, table 6, Oct. 1–20, 1961, zone V, low

Items	Incidental costs																						
	FHA examination fee (d)	Mortgagee's initial service charge (e)	Mortgagee's appraisers fee (f)	Credit reports (g)	Survey (h)	Photos (i)	Title search (j)	Title insurance (k)	Title abstract (l)	Torrens certificate (m)	Preparation of deed and documents (n)	Attorney fees (o)	Escrow fee (p)	Mortgage tax (q)	Revenue stamps (r)	Title transfer tax (s)	Closing fee (t)	Notary fees (u)	Recording fees (v)	Broker's commission (w)	Adjusted interest (x)	Other (y)	Total (z)
Proposed construction:																							
(a) Average for all cases	(1)	$49	(1)	$3	$6	$2	...	$20	(1)	...	$7	...	$1	...	...	(1)	...	...	$9	...	$2	...	$102
(b) Number of cases reporting	1	24	1	30	19	18	...	29	3	...	20	...	13	...	...	3	...	...	37	...	16	...	49
(c) Average for cases reporting	$20	$100	$21	$6	$17	$5	...	$34	$6	...	$18	...	$5	...	...	$3	...	...	$12	...	$7	...	$102
(d) Range of charges reported	$20-20	$13-195	$21-21	$4-11	$5-25	$3-8	...	$3-133	$6-6	...	$3-25	...	$3-10	...	...	$3-3	...	...	$3-15	...	$3-16	...	$3-389
Existing construction:																							
(a) Average for all cases	$1	$86	(1)	$3	$17	$3	...	$15	...	...	$13	...	$3	...	...	(1)	...	...	$12	...	$3	...	$155
(b) Number of cases reporting	3	76	1	48	79	46	...	75	...	...	69	...	56	...	...	1	...	...	84	...	47	...	95
(c) Average for cases reporting	$17	$108	$5	$5	$20	$5	...	$19	...	...	$18	...	$5	...	...	$4	...	...	$13	...	$5	...	$155
(d) Range of charges reported	$11-20	$5-225	$5-5	$3-10	$5-30	$5-8	...	$9-112	...	...	$10-35	...	$2-15	...	...	$4-4	...	...	$2-31	...	$3-15	...	$5-365
Proposed and existing:																							
(a) Average for all cases	(1)	$73	(1)	$3	$13	$2	...	$17	(1)	...	$11	...	$2	...	...	(1)	...	...	$11	...	$2	...	$137
(b) Number of cases reporting	4	100	2	78	98	64	...	104	3	...	89	...	69	...	...	4	...	...	121	...	63	...	144
(c) Average for cases reporting	$18	$106	$13	$6	$20	$5	...	$23	$6	...	$18	...	$5	...	...	$3	...	...	$13	...	$6	...	$137
(d) Range of charges reported	$11-20	$5-225	$5-21	$3-11	$5-30	$3-8	...	$3-133	$6-6	...	$3-35	...	$2-15	...	...	$3-4	...	...	$2-31	...	$3-16	...	$3-389

*Harris County.

[1] Less than $0.50.

Question 2, table 5, Dec. 12–30, 1955

Items	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$2	$98	...	$1	$13	$1	(1)	$66	$1	...	$4	$2	...	(1)	...	...	...	$1	$7	$1	...	(1)	$197
(b) Number of cases reporting	3	61	...	19	56	8	1	52	6	...	20	12	...	3	...	...	...	3	58	3	...	1	66
(c) Average for cases reporting	$45	$106	...	$4	$15	$5	$15	$84	$8	...	$13	$13	...	$3	...	...	...	$12	$8	$19	...	$15	$197
(d) Range of charges reported	$45-45	$58-149	...	$3-10	$10-20	$2-7	$15-15	$15-123	$2-15	...	$10-22	$10-25	...	$3-4	...	...	...	$12-12	$2-15	$17-21	...	$15-15	$39-360
Existing construction:																							
(a) Average for all cases	$2	$83	(1)	$1	$17	$1	$1	$38	$1	...	$6	$7	(1)	(1)	...	...	...	...	$8	...	...	...	$165
(b) Number of cases reporting	5	60	1	16	62	13	6	62	6	...	32	25	1	2	...	...	...	...	61	...	...	...	65
(c) Average for cases reporting	$24	$89	$20	$5	$18	$5	$12	$40	$6	...	$12	$17	$12	$10	...	...	...	...	$9	...	...	...	$165
(d) Range of charges reported	$20-40	$55-131	$20-20	$3-10	$15-25	$2-9	$5-15	$15-113	$3-15	...	$3-20	$10-75	$12-12	$2-18	...	...	...	...	$1-15	...	...	...	$59-268
Proposed and existing:																							
(a) Average for all cases	$2	$90	(1)	$1	$15	$1	$1	$52	$1	...	$5	$4	(1)	(1)	...	...	...	(1)	$8	(1)	...	(1)	$181
(b) Number of cases reporting	8	121	1	35	118	21	7	114	12	...	52	37	1	5	...	...	...	3	119	3	...	1	131
(c) Average for cases reporting	$32	$98	$20	$4	$17	$5	$12	$60	$7	...	$12	$16	$12	$6	...	...	...	$12	$9	$19	...	$15	$181
(d) Range of charges reported	$20-45	$55-149	$20-20	$3-10	$10-25	$2-9	$5-15	$15-123	$2-15	...	$3-22	$10-75	$12-12	$2-18	...	...	...	$12-12	$1-15	$17-21	...	$15-15	$39-360

[1] Less than $050.

Survey of Closing Cost Paid by Mortgagors in Reno, Nev., Housing Area,* Sec. 203 Mortgages

Question 2, table 6, Oct. 1–20, 1961, zone VI, high

Items	Incidental costs																						
	FHA examination fee	Mortgagee's initial service charge	Mortgagee's appraisal fee	Credit reports	Survey	Photos	Title search	Title insurance	Title abstract	Torrens certificate	Preparation of deed and documents	Attorney fees	Escrow fee	Mortgage tax	Revenue stamps	Title transfer tax	Closing fee	Notary fees	Recording fees	Broker's commission	Adjusted interest	Other	Total
	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$25	$211	$3	$4			$1	$61					$17					([1])	$9		$48		$378
(b) Number of cases reporting	13	12	2	7			2	8					5					2	9		9		13
(c) Average for cases reporting	$25	$228	$20	$7			$8	$99					$44					$2	$14		$69		$378
(d) Range of charges reported	$20-40	$131-500	$15-25	$5-10			$8-8	$31-147					$33-70					$2-2	$4-32		$11-224		$220-673
Existing construction:																							
(a) Average for all cases	$21	$164		$6	$2		$3	$59					$32		$1			([1])	$12		$43		$343
(b) Number of cases reporting	21	20		19	2		3	17					18		1			3	20		19		21
(c) Average for cases reporting	$21	$172		$7	$24		$24	$72					$38		$12			$2	$12		$47		$343
(d) Range of charges reported	$20-40	$105-225		$5-10	$12-35		$8-40	$18-178					$21-70		$12-12			$2-2	$3-21		$5-146		$244-572
Proposed and existing:																							
(a) Average for all cases	$22	$182	$1	$5	$1		$3	$59					$27		([1])			([1])	$11		$45		$356
(b) Number of cases reporting	34	32	2	26	2		5	25					23		1			5	29		28		34
(c) Average for cases reporting	$22	$193	$20	$7	$24		$18	$81					$39		$12			$2	$13		$54		$356
(d) Range of charges reported	$20-40	$105-500	$15-25	$5-10	$12-35		$8-40	$18-178					$21-70		$12-12			$2-2	$3-32		$5-224		$220-673

*Washoe County.

[1] Less than $0.50.

Question 2, table 5, Dec. 12–30, 1955

Items	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases		$169	([1])	$3				$63										$1	$10				$246
(b) Number of cases reporting		6	1	5				7										5	7				7
(c) Average for cases reporting		$197	$2	$4				$63										$2	$10				$246
(d) Range of charges reported		$94-300	$2-2	$4-4				$18-122										$2-2	$8-11				$35-438
Existing construction:																							
(a) Average for all cases		$120		$4				$18										$2	$11				$155
(b) Number of cases reporting		1		1				1										1	1				1
(c) Average for cases reporting		$120		$4				$18										$2	$11				$155
(d) Range of charges reported		$120-126		$4-4				$18-18										$2-2	$11-11				$155-165
Proposed and existing:																							
(a) Average for all cases		$163	([1])	$3				$57										$2	$10				$235
(b) Number of cases reporting		7	1	6				8										6	8				8
(c) Average for cases reporting		$186	$1	$4				$57										$2	$10				$235
(d) Range of charges reported		$94-300	$2-2	$4-4				$18-122										$2-2	$8-11				$35-438

[1] Less than $0.50.

Survey of Closing Cost Paid by Mortgagors in Boise, Idaho, Housing Area,* Sec. 203 Mortgages

Question 2, table 6, Oct. 1–20, 1961, zone VI, low

Items	Incidental costs: FHA examination fee	Mortgagee's initial service charge	Mortgagee's appraisal fee	Credit reports	Survey	Photos	Title search	Title insurance	Title abstract	Torrens certificate	Preparation of deed and documents	Attorney fees	Escrow fee	Mortgage tax	Revenue stamps	Title transfer tax	Closing fee	Notary fees	Recording fees	Broker's commission	Adjusted interest	Other	Total
	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
Proposed construction:																							
(a) Average for all cases	$4	$120		$3		$2		$26											$8		$1		$164
(b) Number of cases reporting	2	9		34		5		8											8		1		10
(c) Average for cases reporting	$20	$134		$4		$3		$33											$10		$10		$164
(d) Range of charges reported	$20-20	$100-180		$4-5		$3-3		$10-40											$9-11		$10-10		$29-230
Existing construction:																							
(a) Average for all cases		$94		$4		$2		$25											$9		$2		$136
(b) Number of cases reporting		36		39		24		45											44		4		46
(c) Average for cases reporting		$120		$5		$3		$26											$11		$17		$136
(d) Range of charges reported		$60-197		$3-13		$3-3		$10-106											$9-15		$10-31		$24-285
Proposed and existing:																							
(a) Average for all cases	$4	$98		$4		$2		$26											$9		$1		$141
(b) Number of cases reporting	2	45		47		29		53											52		5		56
(c) Average for cases reporting	$20	$122		$4		$3		$27											$10		$16		$141
(d) Range of charges reported	$20-20	$$60-197		$3-13		$3-3		$10-106											$9-15		$10-31		$24-285

*Ada County.

Question 2, table 5, Dec. 12–30, 1955

Proposed construction:																							
(a) Average for all cases	$45	$112		$2	$1	$1	$1	$27	$17					$2					$5				$213
(b) Number of cases reporting	8	6		6	1	2	1	5	3					1					4				8
(c) Average for cases reporting	$45	$150		$3	$10	$2	$10	$43	$45					$16					$9				$213
(d) Range of charges reported	$45-45	$109-305		$3-4	$10-10	$2-2	$10-10	$14-98	$19-67					$16-16					$8-10				$95-450
Existing construction:																							
(a) Average for all cases	$20	$55		$1	$1		$1	$4	$28			$4	$3	(1)					$4				$131
(b) Number of cases reporting	14	7		6	1		1	5	7			2	2	1					7				14
(c) Average for cases reporting	$20	$109		$3	$10		$15	$40	$57			$28	$18	$2					$8				$131
(d) Range of charges reported	$20-20	$50-176		$2-4	$10-10		$15-15	$5-77	$5-111			$20-36	$18-18	$2-2					$3-13				$33-276
Proposed and existing:																							
(a) Average for all cases	$29	$76		$2	$1	(1)	$1	$19	$24			$2	$2	$1					$4				$161
(b) Number of cases reporting	22	13		12	2	2	2	10	10			2	2	2					11				22
(c) Average for cases reporting	$29	$128		$3	$10	$2	$13	$42	$53			$28	$18	$9					$8				$161
(d) Range of charges reported	$20-45	$50-305		$2-4	$10-10	$2-2	$10-15	$5-98	$5-111			$20-36	$18-18	$2-16					$3-13				$33-450

Question 2, table 8—Fees, commissions and charges on conventional loans as percent of conventional loan volume, for larger insured savings and loan associations [1]

Year and month [2]	Fees, commissions, and charges as percent of conventional loan volume for the—		
	Construction of homes	Purchase of homes	
		Newly built	Existing
1961:			
April	2.11	1.11	1.17
May	2.01	1.22	1.28
June	2.17	1.14	1.21
July	2.36	1.17	1.21
August	1.79	1.18	1.20
September	2.03	.99	1.21
October	2.07	1.23	1.34
November	2.25	1.08	1.28
December	1.84	.97	1.11
1962:			
January	1.85	.93	1.14
February	2.23	.96	1.23

[1] Based on a monthly survey conducted by the Federal Home Loan Bank Board of about 200 largest insured savings and loan associations of loans made in the first 10 days of each month.

[2] Monthly data are not strictly comparable because there is slight variation from month to month of the identical associations reporting. However, the data for April 1961, and January and February 1962, are comparable as they are based on reports submitted by identical associations.

3. Differences in the Types and Costs of Fees and Charges Levied by Different Types of Institutions Extending Housing Credit

No information is available on the types and amounts of fees and charges levied by different types of institutions in making mortgage loans. It should be noted in this connection, however, that many of the charges paid at the time of the loan closing are not under the control of the lender and are not collected by or for him, such as for title insurance, property survey, Federal and State stamps on deeds, recording of mortgage and deed. Some of the other charges made may reflect work performed by employees of the lender or by outsiders, such as, the appraisal of the property. The mortgagee's initial service charge, however, is under the control of the lender.

Credit Unions

Credit unions are limited, under the Federal Credit Union Act, to a maximum interest rate of 1 percent per month on unpaid balances, and this rate must include all charges incident to making the loan. We understand that Federal credit unions make very few mortgage loans, probably because the maximum 5-year maturity permitted on loans they may make limits their operations in this respect.

The following information provided by the Bureau of Federal Credit Unions, Department of Health, Education, and Welfare, explains the specific charges which are included or excluded from the 1 percent per month rate.

None of the following costs incident to making a loan may be charged to the borrower if it results in a total cost of more than 1 percent per month (or 12 percent per annum) on unpaid balances:

1. Inspecting and appraising real or personal property.
2. Recording of chattel mortgages, real estate mortgages, or other lien instruments.
3. Title search.
4. Bringing abstract of title to real estate up to date.
5. Attorney's opinion as to title and validity of credit union's lien.
6. Title insurance.
7. Title certificate.
8. Preparing deeds of trust, mortgages, or other lien instruments
9. Chattel lien nonfiling insurance.
10. Credit investigation and credit reports.
11. Credit life (borrower's protection), disability, health, or accident insurance.
12. Filing assignments of personal property such as life insurance policies, mortgages, etc.

Items of cost related to the following have been held to be outside the limitation of interest charges, and the borrower may be required to pay them:

1. Preparing release of mortgage or other lien instrument.
2. Recording release of lien.
3. Hazard insurance on the property, such as fire, theft, liability, collision, windstorm, or other casualties.
4. Restoring clear title to borrower.

4. Fees or Charges Paid by the Borrower on a "Housing" Credit Transaction Which Should Be Regarded as Incident to the Credit Transaction

While some of these individual items may be considered as incident to the credit transaction, and some may not, there are others which may fall in either category or be divided between the two categories, depending upon the particular circumstances involved.

The listing presented below represents an attempt to classify into the categories desired, the individual items of loan closing costs which appear in table 4 in the information provided in answer to question 2. It should be noted that many of these charges, which are paid at the time of loan closing, are not under the control of the lender and are not collected by the lender.

1. Items which may be considered as incident to the credit transaction:

FHA examination fee	Photos
Mortgagee initial service fee	Mortgage tax (in the nature of a stamp tax, etc.)
Mortgagee appraisal fee	Survey (of property)
Credit report	

2. Items which may not be considered as incident to the credit transaction:

Title search.

Title abstract.

Escrow fee (usually a charge by an attorney to hold moneys involved in the settlement, such as for paying off an existing second mortgage or other liens, and thereby assures clear title).

Revenue stamps (on the deed).

Title transfer tax.

(Prepaid items, such as for real estate taxes, special assessments, ground rents, hazard insurance premiums, and the initial FHA mortgage insurance premium are excluded from these FHA data, as was previously explained in the information presented in answer to question 2.)

Title insurance. Where required solely for the benefit of the lender and in amount equal to the mortgage amount, the charge should be included in category 1 above. Where the insurance is also provided for the protection of the owner and may also be extended to cover his equity in the property, part of the charge should be included in category 2 above.

Preparation of deed and documents. Would include preparation of the deed and mortgage, and therefore should be divided between categories 1 and 2.

Attorney's fees. Practices appear to differ among communities in the way this item appears on the settlement statements at loan closing. In some areas, the attorney's fee may also include title search if conducted by him and possibly preparation of the deed and the mortgage. Thus, part of this fee may be included under category 1 and part under category 2, depending upon what items are covered.

Closing fee. Attorney services for the borrower at closing. Generally, this does not include preparation of deed and mortgage, but in some cases may include this. Probably should be divided in some manner between categories 1 and 2.

Notary fees (for mortgage and deed). Should be divided between categories 1 and 2.

Recording fees (for mortgage and deed). Should be divided between categories 1 and 2.

Broker's commission. Under FHA regulations this is optional with the borrower. He may, if he so desires, negotiate with a broker to arrange financing or to represent his interests at closing. This charge occurs infrequently, but to the extent it does, it belongs in category 1 or 2 depending upon the circumstances involved.

Adjusted interest. This adjustment for interest is made to cover the interest for the period between the time the loan is closed and the date of the first monthly payment on the mortgage. This represents, in effect, a prepayment of interest on the loan and would represent part of the total interest to be paid over the life of the loan.

AGENCY REPORTS

DEPARTMENT OF AGRICULTURE,
Washington, D.C., July 19, 1963.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your letter of February 8, 1963, requesting a report on S. 750, a bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

We strongly endorse the purposes of this bill and we appeared personally before your committee last summer to express our support of S. 1740, an earlier version of this bill. Now, as then, we have the firm conviction that the proposed legislation can provide the kind of education and arouse the kind of public interest that will combat ignorance and exploitation in the field of credit. We believe that it can lower production costs for farmers and raise living standards for all. By promoting a sound and constructive use of credit, it will contribute to economic growth and the general welfare.

The Bureau of the Budget advises that the enactment of legislation along the lines of S. 750 revised to place administrative responsibility in the Federal Trade Commission would be in accord with the President's program.

Sincerely yours,

CHARLES S. MURPHY, *Acting Secretary.*

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., January 14, 1964.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This letter is in reply to your request for the views of this Department concerning S. 750, a bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

S. 750 would require extenders of consumer credit to show total finance charges, including statement of annual percentage rate. Penalties are provided for understatement of the rate, but not for overstatement.

The Department of Commerce supports S. 750 because it is equitable for the consumer and because it will benefit the economy by stimulating efficiency in distribution.

Disclosure to the purchaser of the annual rate for consumer credit charges, as required by the bill, is the best common denominator in practice by which a consumer may know what he is paying for credit, and how it compares with credit terms of other merchants and lenders. Unless he has the annual rate for credit, he lacks valuable knowledge for comparison purposes.

While disclosure of the maximum anual rate can be an economic advantage to the buyer, the matter of making possible effective price competition for credit can be beneficial to the American economy and its growth. The level of consumer debt was about $239 billion at the end of 1962. The increase to this figure, from $31 billion in 1946 and $98 billion in 1953, seems clearly to have been a major factor in the growth of our economy. In view of the size of this type of debt and its potential impact on the economy, it is obviously desirable to have maximum disclosure of information about credit terms.

S. 750 is popularly known as "truth in lending." The Department recommends the name "Full Disclosure in Lending Act" to be more accurate and appropriate and to avoid any implication of widespread, deliberate untruth in consumer lending today. While there undoubtedly exist instances of such deception, which tend to pull down the ethical practice of other businessmen to a lower competitive level than they would choose of their own accord, these are the exceptions. Full disclosure will restore to the consumer the ability to make a free choice in the marketplace. Full disclosure will, in practice, free the majority of businessmen from competition from those making less than full credit-cost disclosures. It will encourage a leaner, healtheir, more efficient system of distribution.

S. 750 is identical to S. 1740 of the last Congress. The Department reiterates the two recommendations given in its testimony on that earlier bill: (1) That it be made clear, preferably in the bill, that unsolicited prepayment of an account by the consumer does not subject the merchant or lender to the danger of being accused of charging a higher rate than he has specified; and (2) that an advisory group of merchants, lenders, and consumers be provided which will consult with the agency administering the legislation to assure that the regulations and interpretations will be workable without being an unnecessary burden on business. It may also be desirable to strengthen the language of section 5(a) by a more clear-cut exclusion of credit to business enterprises from the coverage of the bill.

We are informed that creditors who have customarily used monthly percentage rates may experience difficulty in expressing these rates in exact annual terms. For this reason, we believe it would be desirable to permit the creditor as an alternative to stating the simple annual rate, to express the rate as a certain percent per month on the outstanding, unpaid balance, but only if (1) the rate is clearly so designated, and (2) the statement of monthly rate includes a brief guide (such as a simple formula) which the customer can use to calculate the simple annual rate to the nearest percent. While such a calculation may not be precisely accurate in a mathematical sense, it would provide an approximation which is sufficiently accurate to meet the objective of this legislation. Moreover, such an amendment would, in our opinion, alleviate some burden upon the business community; at the same time it would preserve the principle that the consumer should have readily available the data necessary for him to make an informed decision on credit transactions.

Finally, we believe that the development and use of standardized charts and tables will greatly lessen the burden upon businessmen. We recommend that the bill specifically authorize their use in satisfaction of the disclosure requirement.

We have been advised by the Bureau of the Budget that there would be no objection to the presentation of our report and that enactment of legislation along the lines of S. 750, revised to place administrative responsibility in the Federal Trade Commission, would be in accord with the President's program.

Sincerely,

LAWRENCE JONES, *Acting General Counsel.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, February 15, 1963.

HON. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency, U.S. Senate.

DEAR MR. CHAIRMAN: Your letter of February 8, 1963, requests our comments on S. 750, 88th Congress. The purpose of the bill is stated therein as being to assist in the promotion of economic stabilization. To accomplish that purpose the bill would require vendors and lenders to specify in writing the amount of finance charges involved in credit transactions and the percentage that such amount bears to the outstanding balance expressed in simple annual interest.

Whether enactment of the bill would be in the public interest appears to be a matter for the Congress to determine. Consequently, and since its enactment would not affect the functions of the General Accounting Office we have no comments to offer concerning the bill.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS,
Washington, August 3, 1963.

Hon. WILLIS ROBERTSON,
Chairman, U.S. Senate Committee on Banking and Currency,
Washington, D.C.

DEAR SENATOR ROBERTSON: This letter is in response to your request for the views of the Council of Economic Advisers on S. 750, a bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit. The views of the Consumer Advisory Council on this bill are being submitted in a separate letter.

When I wrote to you on July 14, 1961, concerning the predecessor of the present bill; namely, S. 1740, I suggested two changes. These changes were considered in committee at that time, and I am pleased to note that they are fully reflected in S. 750. These changes were: (1) To insert the word "average" in the phrase "simple annual rate on the average outstanding unpaid balance of the obligation," and (2) to change the bill's declaration of purpose to emphasize the problem of "untimely use of credit." I am also pleased to note that S. 750 differs from the earlier bill in that it includes under section 4(b) requirements for disclosure of finance charges by those extending credit via a revolving or open end credit plan.

I would like to take this occasion to reaffirm our earlier statement in favor of legislation to require the disclosure of finance charges. Passage of this bill will contribute to economic stability by increasing borrowers' awareness of changes in the cost of credit that arise out of changes in economic conditions or changes in monetary or credit policy. Further, passage of the bill will assure the borrower of a yardstick with which he can compare alternative methods and sources of financing. By improving the consumer's awareness of differences in charges, the bill will invigorate competition among lenders. For these reasons the Council of Economic Advisers urges the enactment of S. 750.

We have been advised by the Bureau of the Budget that there is no objection to the submission of this report and that enactment of legislation along the lines of S. 750, revised to place administrative responsibility in the Federal Trade Commission, would be in accord with the President's program.

Sincerely,

WALTER W. HELLER.

THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS,
Washington, August 3, 1963.

Hon. WILLIS ROBERTSON,
Chairman, U.S. Senate Committee on Banking and Currency,
Washington, D.C.

DEAR SENATOR ROBERTSON: In response to your request for the views of the Consumer Advisory Council on S. 750, a bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit, I am transmitting to you their full statement which was submitted to me on March 21, 1963. The views of the Council of Economic Advisers on S. 750 are being submitted in a separate letter.

The Consumer Advisory Council is, of course, an independent advisory group and, as such, may have views on particular issues which differ from those of the administration. The council was appointed in July 1962 pursuant to a request by the President that the Council of Economic Advisers establish such a group. The chairman of the Consumer Advisory Council is Dean Helen G. Canoyer of the New York State College of Home Economics.

Sincerely,

WALTER W. HELLER.

STATEMENT OF THE CONSUMER ADVISORY COUNCIL, MARCH 21, 1963

The Council supports the principles and purposes of the Douglas truth-in-lending bill (S. 750). Such legislation will:

(*a*) promote the right of consumers to have the facts they need to make rational, informed choices regarding credit usage,

(*b*) protect the ethical and efficient businessman who wishes to fully disclose credit charges from those competitors whose charges are deceptively concealed,

(c) reinvigorate price competition in the consumer credit market, and thereby contribute to the free enterprise system,

(d) introduce a stabilizing, countercyclical element into the Nation's economy by making consumers aware of rising credit costs in boom times and declining credit costs during recessions, and

(e) encourage consumers to shop for cheaper credit, thereby releasing funds for purchasing goods and services, thus buttressing the economy and consumer purchasing power.

The committee believes that full disclosure of credit means that:

(a) when credit is extended on the basis of separate contracts, each contract shall include:

(1) an itemization of the cash or delivered price of goods and services purchased, and all additional charges assessed against the debtor in connection with the transaction,

(2) the terms of payment (including downpayment, amount to be financed, amounts and times of payments needed to retire the obligation),

(3) the rate at which the finance charge is to be imposed on the amount financed, such rate to be in standardized terms so as to be directly comparable with rates (a simple annual nominal percentage rate) that banks, savings and loan associations, credit unions, and postal savings use to disclose earnings on money saved,

(4) the cost of such credit services, expressed in dollars and cents, and

(5) the terms of credits or charges imposed in the event of advanced or delayed payments from the contract terms; and

(b) when credit is extended on revolving credit, open end credit, or plans other than credit, it shall include:

(1) a clear statement in writing, prior to any agreement to extend such credit, setting forth the simple annual nominal percentage rate at which the finance charge will be imposed, and

(2) a clear statement in writing, at the end of each month (which need not be a calendar month) following the date of the contract, setting forth:

(a) the outstanding balance in the account as of the beginning of the month;

(b) the amount of each extension of credit (including the cash price or delivered price of any property or service) during such period, together with the data thereof and brief identification of any property or services so acquired;

(c) the total amount credited to the account during the period;

(d) the amount or amounts on which the finance charge will be based and the time period for each amount if other than 1 month;

(e) the simple, nominal annual percentage rate at which the finance charge is imposed, which rate shall be the periodic rate multiplied by the number of periods in 1 year;

(f) the finance charge in dollars and cents required for such period; and

(g) the outstanding balance in the account at the end of the month.

FARM CREDIT ADMINISTRATION,
Washington, D.C., January 30, 1964.

HON. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate.

DEAR CHAIRMAN ROBERTSON: As requested, we are writing to give you the report of the Farm Credit Administration on S. 750, a bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit, which would be known as the Truth in Lending Act. The finance charges to be disclosed would include loan service fees and charges in addition to the interest on the unpaid balance. The disclosure required would include the total finance charges in dollars and cents and the rate which the total finance charges represent expressed as a simple annual rate on the average outstanding unpaid balance of the credit.

The Farm Credit Administration is an independent agency in the executive branch of the Government (12 U.S.C. 636b) and has the supervision of the 37 banks and 1,240 associations which make up the cooperative farm credit system. All of such banks and associations are organized and operate under one or the other of the acts of Congress known as the Federal Farm Loan Act and the Farm Credit Act of 1933 as currently in effect. The 12 Federal land banks, one in each farm credit district, make long-term land mortgage loans to farmers through their 756 local Federal land bank associations. The 484 production credit associations throughout the country make short- and intermediate-term loans to farmers in their respective territories and such loans are rediscounted with the Federal intermediate credit bank for the farm credit district in which the association is located. The 12 Federal intermediate credit banks also discount agricultural paper for other financing institutions. The 13 banks for cooperatives, 1 in each district and a central bank in Washington, D.C., make loans to farmers cooperative associations engaged in marketing, purchasing, or rendering farm business services.

The foregoing banks and associations were established by Congress to make loans to farmers and their cooperatives on a sound basis at the lowest possible interest rates. The boards of directors of the banks and associations, who determine interest rates and fees and charges for loans subject to Farm Credit Administration approval and within the statutory limitations, are chosen by borrowers who use the system. To a large extent, the interest factor of any finance charge is determined by the cost of the loan funds which are obtained by selling bonds and debentures to the investing public.

If the interest collected on loans made by the banks and associations exceeds what is needed for operating expenses, including the cost of loan funds, and to maintain adequate reserves, the excess is returnable to the borrowers as patronage refunds or dividends on stock. In effect, the operation is for the benefit of the users of the system and not for the profit of anyone else.

As concerns the cooperative farm credit system, the information about interest and other finance charges given borrowers before a loan is closed has been deemed adequate even though it did not include all of the information that would be required by legislation such as S. 750. However, it is recognized that there are purposes to be served by requiring creditors generally to make the more detailed disclosure that would be required under the proposed legislation. In any event, too, the bill contains provisions which would permit at least certain credit transactions to be excepted or exempted from its disclosure requirements.

Advice has been received from the Bureau of the Budget that there is no objection to the presentation of this report and that enactment of legislation along the lines of S. 750, revised to place the administrative responsibility in the Federal Trade Commission, would be in accord with the President's program.

Five additional copies of this report are being enclosed as requested.

Very truly yours,

R. B. TOOTELL, *Governor.*

FEDERAL HOME LOAN BANK BOARD,
Washington, D.C., July 17, 1963.

HON. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate.

DEAR MR. CHAIRMAN: We have considered your request for the views of the Federal Home Loan Bank Board on S. 750 of the present Congress, relating to the disclosure of finance charges. The Board is in accord with the principle of the bill. It feels, however, that certain modifications would be desirable.

As you know, the Board supervises the Federal home loan banks, which provide reserve credit facilities for their members, comprising chiefly savings and loan, building and loan, and homestead associations and cooperative banks, all of which are hereinafter referred to as savings and loan associations. At the end of 1962, those savings and loan associations which were members of these banks constituted almost 98 percent in assets and almost 78 percent in number of all savings and loan associations in the country, and their loans during that year approximated 43 percent of the home mortgage loans made by all types of lenders.

In addition, the Board charters and supervises Federal savings and loan associations and administers the Federal Savings and Loan Insurance Corporation, which insures accounts in savings and loan associations up to a statutory limit of $10,000. Such membership and insurance are mandatory for all Federal savings and loan associations and are extended on an optional basis to such eligible State-chartered institutions as apply and are admitted.

The primary concern of the Board as to the present bill is, therefore, its effect on the operations of these savings and loan associations, and we feel some modifications should be made as follows:

(1) The Federal Home Loan Bank Board recommends that with respect to the Federal home loan banks and such savings and loan, building and loan, or homestead associations and cooperative banks as are members thereof, the functions vested by the bill in the Board of Governors of the Federal Reserve System be vested instead in the Federal Home Loan Bank Board.

The Board makes this recommendation because it feels that the importance of this major segment of the home-financing field to the public welfare is such that these functions should be vested, with respect to that segment, in the Federal administrative agency which has supervisory responsibility for and experience in this field. It is recognized that subsection (b) of section 5 provides that the Board of Governors, in the exercise of its powers under that section, shall request the views of other agencies, as set forth therein, but the Federal Home Loan Bank Board feels strongly that this provision would not, in the case of such an important specialized credit field as that of the savings and loan industry, be an adequate substitute for placing the regulatory authority under the bill directly in the supervisory agency involved. Such a modification of the bill could be effected by the insertion, at an appropriate place, of a provision somewhat as follows:

"With respect to such creditors as are Federal home loan banks or savings and loan, building and loan, or homestead associations or cooperative banks which are members of such banks the functions which by this act are otherwise vested in the Board of Governors of the Federal Reserve System shall be vested in the Federal Home Loan Bank Board."

(2) Construction loans, ordinarily for the building of homes, constitute one of the largest elements of the lending activities of these associations, recently accounting for about 29 percent of the amount of all loans made by them. In the case of construction loans the customary practice, followed over the years as a means of protection to the association, is to take a note and mortgage for a definite amount and repayable at a definite time or in definite installments, and thus not conforming to the concept of a revolving or open-end credit plan as set forth in the bill, but to provide that the proceeds of the loan will be paid out in installments as the work reaches specified stages.

The dates at which the work will reach these stages cannot be known at the time the construction loan is entered into, as they depend on a number of unpredictable factors, including weather conditions. It is therefore not possible for the lending institution, at the time the loan is made, to ascertain either the total amount of the finance charges or their percentage relation to the outstanding principal obligation or unpaid balance.

These construction loans are usually made either to business firms engaged in building, on land owned by them, homes for the purpose of sale, or to individuals engaged in that type of business operation, or in some cases to persons who are having homes built for their own occupancy.

Where made to business firms, such loans could be exempted under the last sentence of subsection (a) of section 5 of the bill, and it would seem that they should be so exempted since these firms would presumably have sufficient astuteness not to need the disclosure afforded by the bill. Loans to individuals engaged in this type of business operation would also seem to be appropriate for exemption, although it is to say the least not clear that the bill would permit their exemption. With respect to all three classes, it would appear to be desirable that the bill be made sufficiently flexible to permit the principle of disclosure to be followed without the imposition of requirements with which it would be impossible or impracticable to comply.

(3) There are other loans as to which it would be impracticable if not impossible to achieve strict compliance with terms of the bill. Typical of such loans are those having variable interest rates. One type of these is exemplified by loans providing for a stipulated rate with a further provision for a lower rate when the unpaid principal is reduced to a specified point. Another is il-

lustrated by advances by Federal home loan banks to member institutions with provisions for escalation of the interest rate, and home loans made on a similar basis by such member institutions. In the case of these and similar arrangements, it is not apparent how it would be possible to comply with the terms of the bill requiring a statement of the total amount of the finance charge and the percentage that the finance charge bears to the total amount to be financed, expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

The Federal Home Loan Bank Board therefore recommends that the bill be modified so as to provide the flexibility that appears to be needed. It is hereby suggested that this might be done by adding to the bill, at an appropriate place, a provision along the following line:

"Regulations under this act may provide for such relaxations of or variations from the requirements set forth in section 4 as in the judgment of the Board are consistent with reasonable protection of persons to whom credit is extended and necessary or appropriate in the public interest."

Advice has been received from the Bureau of the Budget that there is no objection to the presentation of this report and that enactment of legislation along the lines of S. 750, revised to place the administrative responsibility in the Federal Trade Commission, would be in accord with the President's program.

Sincerely yours,

JOHN DELAITTRE, *Acting Chairman.*

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, February 20, 1963.

HON. A. WILLIS ROBERTSON,
Chairman, Senate Banking and Currency Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request of February 8, 1963, for a report on S. 750, a bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

The bill would require any person engaged in the extension of credit to furnish to each person to whom credit is extended, prior to the consummation of the transaction, a written statement setting forth, to the extent applicable and in accordance with rules and regulations to be prescribed by the Board of Governors of the Federal Reserve System, among other items, (1) the finance charge in dollars and cents, and (2) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the average outstanding unpaid balance of the obligation.

The Board is in full accord with the purpose of requiring creditors to disclose their finance charges. There is no doubt that the more information borrowers and credit purchasers have about the prices they are paying for credit, the more efficiently they can choose among the alternatives available to them. The Board expressed the same view in its earlier reports on S. 2755 and S. 1740, similar bills introduced in 1960 and 1961, respectively.

As also stated in its earlier reports, the Board believes that administration of such legislation would not constitute an appropriate activity for the Federal Reserve System. The regulation of trade disclosure practices would be foreign to the Board's present responsibilities which are principally in the field of regulating money and credit through the banking system to meet the varying needs of the economy.

In connection with the trade practices aspect of the bill, the following statement made by the President in his consumer protection message to the Congress of March 15, 1962, may be noted: "Inasmuch as the specific credit practices which such a bill would be designed to correct are closely related to and often combined with other types of misleading trade practices which the Federal Trade Commission is already regulating, I recommend that enforcement of the new authority be assigned to the Commission."

Accordingly, as stated in its earlier reports, the Board endorses the objective of requiring creditors to disclose their finance charges, but believes that it would be inappropriate for the Board to administer such a bill.

Sincerely yours,

WM. McC. MARTIN, Jr.

FEDERAL TRADE COMMISSION,
Washington, D.C., July 18, 1963.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request of February 8, 1963, for a report on S. 750, 88th Congress, 1st session, a bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

The bill, commonly known as the truth in lending bill, would require that any creditor, as defined in the bill, furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear written statement apprising the debtor of detailed information concerning the transaction, including the total amount to be financed, the amount of the finance charge, and the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the average outstanding unpaid balance of the obligation.

It further provides, in connection with a revolving or open end credit plan, that a creditor would be required, in lieu of other information, to furnish the person who is to receive credit, a clear written statement setting forth the simple annual percentage rate or rates at which a finance charge will be imposed; and to furnish him at the end of each monthly period (which need not be a calendar month) following the entering into of any such agreement, a clear written statement setting forth:

(*a*) The outstanding balance in the account of such person as of the beginning of such monthly period;

(*b*) The amount of each extension of credit (including the cash price or delivered price of any property or service acquired by such person) during such period, together with the date thereof and a brief identification of any property or service so acquired;

(*c*) The total amount received from, or credited to the account of such person during such period;

(*d*) The finance charge (in dollars and cents) required for such period;

(*e*) The outstanding balance in the account as of the end of such monthly period; and

(*f*) The simple annual percentage rate or rates providing a yield equal to the finance charge imposed.

The bill provides that the failure of a creditor to disclose to a debtor any information required by the act or any regulation issued pursuant thereto shall make him liable to the debtor in the amount of $100 or in the amount equal to twice the finance charge required by the creditor, whichever is the greater, except that such liability shall not exceed $2,000 on any credit transaction. Willful violation subjects a creditor to criminal penalties.

Section 2 of the bill provides that "It is the purpose of this Act to assure a full disclosure of such cost with a view to preventing the uniformed [sic] use of credit to the detriment of the national economy."

S. 750 is in consonance with the purposes of the Federal Trade Commission to prevent deceptive trade practices and foster fair and healthy competition. It would, we believe, by requiring the disclosures specified in the bill, prevent deception and misrepresentation to the borrower which often results from the failure to reveal the true finance charges. Such disclosures enable a party, seeking to have credit advanced to him, to make an intelligent election as to whether or not to embark on a financing project by allowing him to be aware of the true cost to him of the credit. The bill thereby seeks to prevent the untimely use of credit for the acquisition of property or services. The Commission favors the principle of the subject bill.

Under present statutes the Federal Trade Commission's ability to protect a debtor as to misrepresentations of the terms and conditions of a loan is limited to the Commission's authority under section 5 of the Federal Trade Commission Act, which empowers the Commission to restrain deceptive acts and practices in commerce. The only cases which the Commission has brought in this regard are those pertaining to misrepresentations of finance charges in the purchase of automobiles. In *General Motors Corporation* v. *Federal Trade Commission*, 114 F. 2d 33 (2d Cir. 1940), cert. denied, 312 U.S. 682, and *Ford Motor Company* v. *Federal Trade Commission*, 120 F. 2d 175 (6th Cir. 1941), cert. denied, 314 U.S. 668, the Commission successfully enjoined advertisements of "6 percent" credit charges where the plans of the respondents resulted in actual costs to the automobile purchaser considerably in excess of that figure. In other cases involving automobile dealers, the Commission has issued cease and desist orders prohibiting false representations as to financing terms.

In this same area, the Commission, in 1951, issued "Trade Practice Conference Rules Relating to the Retail Installment Sale and Financing of Motor Vehicles." These rules (sometimes referred to as the auto pack rules), among other things, declare that it is an unfair trade practice for the seller to fail, before the consummation of the sale, to furnish the buyer a signed itemization in writing, separately disclosing the finance charges, insurance costs, and all other charges to be paid by the purchaser. These rules, as is true of all the Commission's trade practice rules, are not self-enforcing but are simply advisory in nature, being designed to eliminate and prevent trade practices which are violative of laws administered by the Commission on a voluntary and industrywide basis.

In connection with certain provisions in section 4 of the subject bill, the Commission has two suggestions for the consideration of the committee.

(1) Section 4(a)(7) contains the phrase "average outstanding unpaid balance of the obligation." Some additional wording appears needed in order to delimit or make more certain the meaning of the term "outstanding unpaid balance" and the word "average" appears to be inappropriate for several reasons. First, in the event that mathematical precision is desired, the use of an "average" balance does not impart a sufficient degree of accuracy to such computation; secondly, if, on the other hand, it is desired that a broad area of discretion be left to the administering authority, "average" may be unduly restrictive in that it would limit the choice of methods of computation, which may properly be the subject of regulations. The Commission is of the belief that the word "declining" in lieu of "average" would be more revealing to the debtor. That is, the creditor would be required at the time the loan was consummated to inform the debtor the percentage that the finance charge, expressed as a simple annual rate, bears to the declining unpaid balance of the obligation if future payments are made according to the terms of the loan so that the principal of the loan declines with each payment.

(2) In lieu of section 4(b)(2)(F) which presently reads "the simple annual percentage rate or rates providing a yield equal to the finance charge imposed," we are of the opinion that it would be more desirable to express this in broader language such as "a restatement of the simple annual percentage rate at which the finance charge is imposed."

The President in his special message on protecting the consumer interest stated that "Excessive and untimely use of credit arising out of ignorance of its true cost is harmful both to the stability of the economy and to the welfare of the public. Legislation should therefore be enacted requiring lenders and vendors to disclose to borrowers in advance the actual amounts and rates which they will be paying for credit."

The President in this message noted that the specific credit practices, which would be covered in a bill requiring full disclosure to prospective credit users, are closely related to other types of misleading trade practices which the Federal Trade Commission already is regulating. The President, therefore, recommended that enforcement of the new authority be assigned to the Commission.

Should the committee follow the recommendation of the President, amendments other than those we have suggested herein, in our opinion, would be required.

It should be noted that the Board of Governors of the Federal Reserve System, which is now named in the bill as the administering agency, is not given any authority to enforce, by cease and desist orders or otherwise, any regulations which it may promulgate pursuant to the provisions of the bill. If it is determined by the committee that the Commission is to administer the bill, we would suggest an amendment providing that a violation of the regulations issued by the Commission in the manner prescribed in the bill, shall constitute a violation of section 5 of the Federal Trade Commission Act (15 U.S.C. 45). The Commission, if such violation is proved, in accordance with the requirements of the Federal Trade Commission Act, should be empowered to issue cease and desist orders in the same manner and with the same legal effects as now provided by statute for any other violation of said section 5.

It is our belief that it is rather incongruous for the agency which is to administer legislation of this type and is to issue regulations intended to effectuate the purpose of the legislation, should have no authority to enforce the provisions of the legislation or regulations issued thereunder. Of course, such authority would be in addition to the penalty provisions now provided in the bill for violations thereof.

With reference to other amendments, which undoubtedly will be necessary if the Commission is to be named in the bill as the administering agency, most of them would be of a rather technical nature requiring discussions between members of the committee staff and the staff of the Commission. We assure the committee of the availability of the Commission's staff for such discussions.

In the event the Federal Trade Commission is named to administer a truth in lending law, we request that Congress appropriate sufficient additional funds for the use of the Commission to enable the Commission to administer the program efficiently without impairing present statutory operations of the Commission.

The Bureau of the Budget advises that there is no objection from the standpoint of the administration to the submission of the proposed report and that enactment of legislation along the lines of S. 750, revised to place administrative responsibility in the Federal Trade Commission, would be in accord with the President's program.

Commissioner Anderson is opposed to this bill.

By direction of the Commission.

PAUL RAND DIXON, *Chairman.*

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
Washington, July 22, 1963.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This letter is in response to your request of February 8, 1963, for a report on S. 750, a bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

The bill would provide that all lenders and credit sellers shall furnish to the consumer, prior to the consummation of the credit transaction, a clear statement in writing setting forth the details of the transaction, including the amount to be financed, the finance charge expressed in terms of dollars and cents and the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the average outstanding unpaid balance of the obligation. In the case of revolving or open-end credit the requirements would be adjusted to monthly periods but would require the written statement revealing the finance charge in dollars and cents for such period and the simple annual percentage rate or rates providing a yield equal to the finance charge imposed.

While all consumers, of course, have a need for the facts on how much they are paying for their purchases, such knowledge is especially important for low-income groups. Many of the people to whom credit is extended are not aware that they are contracting to pay interest in amounts that are equivalent to annual rates on the average amount of the unpaid balance of as much as 18 and 24 percent, and thus are sharply reducing the limited amount of money they have available for living expenses. We believe that the proposed disclosure of finance charges would be of distinct value in enabling people to make informed decisions about prospective purchases and would, in particular, constitute an important contribution to income maintenance of the low-income groups such as retired persons and those on the public assistance rolls.

The Federal Credit Union Act which is administered by the Bureau of Federal Credit Unions in this Department has from its beginning specified "rates of interest not exceeding 1 percent per month on unpaid balances, inclusive of all charges incident to making the loan." The conversion of this interest charge to a simple annual rate and a finance charge in dollars and cents would impose no burden upon Federal credit unions or their officials and employees.

As President Kennedy said in his consumer protection message to the Congress of March 15, 1962, "excessive and untimely use of credit arising out of ignorance of its true cost is harmful both to the stability of the economy and to the welfare of the public. Legislation should therefore be enacted requiring lenders and vendors to disclose to borrowers in advance the actual amount and rates which they will be paying for credit."

We therefore endorse the purposes of this bill. (Since we would have no responsibility for administration of the law, we have no comment to offer on the bill's administrative and detailed procedural aspects.)

We are advised by the Bureau of the Budget that there is no objection to the presentation of this report and that enactment of legislation along the lines of S. 750, revised to place administrative responsibility in the Federal Trade Commission, would be in accord with the President's program.

Sincerely,

ANTHONY J. CELEBREZZE,
Secretary.

HOUSING AND HOME FINANCE AGENCY,
Washington, D.C., July 18, 1963.

Subject: S. 750, 88th Congress (Senator Douglas).

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in further reply to your request for the views of this Agency on S. 750, a bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

The bill would require anyone in the business of extending credit, except pursuant to a revolving or open end credit plan, to give each person to whom he extends credit prior to consummation of the transaction, a written statement disclosing (1) the total finance charges in dollars and cents, and (2) the total finance charges expressed as a simple annual rate on the average outstanding unpaid balance of the obligation. The term "finance charges" would include interest, fees, service charges, and discounts incurred in connection with and as an incident to, the extension of credit. In cases of revolving or open credit the disclosure of finance charges in the form of a simple annual interest rate or rates would also be required prior to extending the credit, and in addition, a monthly statement by the creditor to the borrower setting forth certain specified information.

The Housing Agency strongly supports the objective of S. 750 and favors enactment of legislation along the lines of this bill. As stated in my testimony last year before your Subcommittee on Production and Stabilization on the "truth in lending" bill, the application of the bill to housing is desirable because it would help people to make wiser decisions in buying and repairing homes and because it would improve mortgage lending practices.

There is, of course, an essential difference between the typical mortgage loan transaction and other forms of credit. Unlike the practice in the case of installment loans, it is customary in mortgage lending to express the interest rate on a mortgage in terms of the simple annual interest rate based on the outstanding balance of the loan. However, the borrower normally is unaware of the total dollar amount of the finance charge. The proposed legislation would provide this information to the home buyer in that it would require disclosure of the total amount of interest charges over the life of the loan in dollars and cents. This disclosure could deter some home purchases with low downpayments and extended maturities which result in a high total finance charge. It would also tend to make buyers think twice about the high cost of second mortgages, contracts of sale, and other secondary financing devices. It might also encourage larger downpayments on homes in order to reduce the cost of credit. This is generally desirable for the purchaser. Also it would strengthen the mortgage credit structure. It is believed that the net effect of the bill upon the volume of home purchasers would not be significant.

The Federal Housing Administration in 1961 initiated actions to assure that borrowers under FHA-insured loans were informed as to the true cost of the obligations they are undertaking. The title I property improvement loan application now includes a chart which shows the true interest rate on the loans and the total interest charges involved in these loans under varying amortization periods. The chart is on the reverse side of the application form. Copies of this application form have been furnished to your committee previously.

In addition, a guide to home buyers and home owners containing information on mortgage and property improvement financing cost has been distributed in large quantities. The initial publication was revised in September of last year and a copy is enclosed for your information. Charts are provided in the publication which show specific monthly payments and total interest costs in varying amounts for varying amortization periods. The pamphlet is necessarily general in nature but it includes sufficient information to acquaint the home purchaser with the types of costs he will pay in a home mortgage transaction. It has been furnished to FHA mortgagees and notices of its publication have been widely published at frequent intervals. There is a continuing number of requests for copies of the publication.

The bill would have no significant effect upon the operations of the Federal National Mortgage Association. Occasionally the association sells acquired properties obtained through foreclosure of mortgages (or deeds in lieu of foreclosure), under installment repayment arrangements. The volume of such sales is low and the information on finance charges regularly supplied to the purchasers would probably suffice for the purposes of the regulations contemplated under S. 750.

The Bureau of the Budget has advised that there is no objection to the presentation of this report and that enactment of legislation along the lines of S. 750, revised to place administrative responsibility in the Federal Trade Commission, would be in accord with the President's program.

Sincerely yours,

ROBERT C. WEAVER, *Administrator.*

FHA FINANCING FOR HOME PURCHASES AND HOME IMPROVEMENTS

A guide to financing costs and home buying ability—Federal Housing Administration, a constituent of the Housing and Home Finance Agency

INTRODUCTION

Under the FHA program home loans are obtained from private lending institutions and the homes are built by private contractors. FHA insures the private lender against loss in the event of failure on the part of the borrower to repay the loan in full, and requires that new homes be built in conformance with certain minimum property standards.

Through this system of loan insurance and the development of housing standards, FHA has established a pattern of long-term low-interest loans and has helped to elevate the standard of housing in the United States.

Lenders, by being insured against loss, are willing to accept smaller downpayments and to lend their money over a longer period of time and under circumstances where they might not otherwise be willing to invest.

This works to the benefit of the home buyer and has brought millions of people into the home buying market who might not otherwise have been able to obtain the type of loans they need.

FHA also extends these concepts to home improvements and to rental and cooperative housing projects.

To finance its operations, FHA charges an insurance premium of one-half of 1 percent per annum on the average scheduled mortgage loan balance outstanding during the year. This charge is included in the borrower's monthly payment. The FHA insurance charge for title I home improvement loans is paid by the lender.

FHA has prepared the following basic explanation of what some typical interest and other financing costs on a home purchased or improved under the FHA system would be. A guide to home buying ability is included on page 4. It is hoped that this information will be helpful to prospective borrowers seeking to purchase or improve homes.

HOME MORTGAGE LOANS

When you borrow money to buy a home, you pay interest and other charges for using the borrowed money. These charges add to the cost of buying your home. It is important, then, to make your arrangements for a home loan as carefully as you would arrange for any other large purchase.

Shop around and get the facts from various lending institutions, just as you shopped around and got the fact from various sellers before you selected the home you wanted.

Before entering into a contract for the purchase of a home you should have satisfactory answers to these important questions:

(1) How much do I need to borrow to buy the home?
(2) How long should I take to repay the loan?
(3) How much is the loan going to cost me?

If you're able to make a larger down payment, you can manage with a smaller mortgage loan; but if you can afford only a small down payment, you will, of course, require a larger loan. When lenders invest their money over extended periods of time they must get a substantial return; therefore, you will save interest by borrowing as little as you can and repaying the loan in the shortest possible time.

For instance, if you borrow $10,000 at 5¼-percent interest, the monthly payment to principal and interest is $12.10 less if the loan is made for 30 years than if it is made for 20 years; but the total amount of interest you would pay in 30 years would be $3,669.49 more than you would pay in 20 years. In other words, a 30-year loan would cost you about 60 percent more in total interest than a 20-year loan would cost.

Many families are able to own their homes and raise their living standards only by using long-term loans with low monthly payments. But the interest costs on long-term loans can become very high. So you should weigh carefully the relative advantages of a longer or shorter term loan in your particular circumstances.

The tables on the next page show the monthly payments and total cost of interest and mortgage insurance for some typical loans at 5¼ percent.

Monthly payment to principal, interest, and mortgage insurance premium and total monthly payment at 5¼ percent

Term of loan	$10,000			$15,000			$20,000		
	Principal and interest	Mortgage insurance premium[1]	Total monthly payment	Principal and interest	Mortgage insurance premium[1]	Total monthly payment	Principal and interest	Mortgage insurance premium[1]	Total monthly payment
20 years	$67.40	$4.11	$71.51	$101.10	$6.17	$107.27	$134.80	$8.22	$143.02
25 years	60.00	4.13	64.13	90.00	6.19	96.19	120.00	8.26	128.26
30 years	55.30	4.14	59.44	82.95	6.21	89.16	110.60	8.28	118.88
35 years	52.10	4.15	56.25	78.15	6.22	84.37	104.20	8.29	112.49
40 years[2]	49.90	4.15	54.05	74.85	6.23	81.08	99.80	8.30	108.10

[1] Monthly premium during first year of loan at the rate of one-half percent per annum on average outstanding balance during year.

[2] Maximum mortgage term limited to 35 years except that the term may be increased to not more than 40 years when authorized by the Commissioner.

Total cost of interest at 5¼ percent and total mortgage insurance premiums

Term of loan	$10,000 loan			$15,000 loan			$20,000 loan		
	Interest	Insurance premium	Total	Interest	Insurance premium	Total	Interest	Insurance premium	Total
20 years	$6,169	$588	$6,757	$9,254	$882	$10,136	$12,339	$1,175	$13,514
25 years	7,954	757	8,711	11,930	1,136	13,066	15,907	1,515	17,422
30 years	9,839	937	10,776	14,758	1,405	16,163	19,678	1,873	21,551
35 years	11,851	1,129	12,980	17,777	1,693	19,470	23,702	2,258	25,960
40 years[1]	13,931	1,327	15,258	20,893	1,990	22,886	27,862	2,653	30,515

[1] Maximum mortgage term limited to 35 years except that the term may be increased to not more than 40 years when authorized by the Commissioner.

NOTE.—Taxes and hazard insurance are added to the monthly payments, but not shown in these charts.)

Mutuality

Mortgage insurance premiums collected by FHA under section 203 (the regular home mortgage insurance program) are paid into the mutual mortgage insurance fund. Under certain conditions, homeowners may receive dividends from the fund when their mortgages are paid in full.

Discounts

The rate of interest that lenders can charge on mortgages insured by FHA is lower at times than the yield required by lenders in the market. For this reason, lenders sometimes discount FHA mortgages—that is, they charge a certain number of points (a point is a dollar per hundred dollars of mortgage amount) to make up the difference between the FHA interest rate and the yield required on the market. The number of points charged varies in different places at different times, and among different lenders.

Because FHA regulations prohibit the home buyer from paying a discount, the builder of the house or the person selling it may be required to pay the amount. FHA, of course, cannot control the charges that a lender collects from anyone other than the buyer whose mortgage is insured.

FHA regulations do allow the buyer to pay an initial service charge, if the lender requires it. The charge cannot be more than 1 percent of the mortgage amount if the house is already built, or 2½ percent if the house is to be built. The lender can ask the borrower to pay a discount if the borrower is building a home for his own occupancy or refinancing a property on which there is an outstanding mortgage.

Additional costs

Additional costs to the borrower include the FHA application fee, recording fees and taxes, title examination, credit report, and other closing costs that vary from one locality to another.

YOUR HOME BUYING ABILITY

Congress has progressively authorized the Federal Housing Administration to insure lower downpayment, longer term loans for home mortgages as experience has indicated that such financing is successful. FHA, over the years, has built on its experience to develop carefully the basis for its credit analysis of prospective borrowers.

The chart at the bottom of this page indicates the types of considerations involved in calculating a borrower's ability to pay. You can use this chart to determine your own ability to carry a mortgage in a certain amount.

Family income and circumstances

Different families place importance on different things, so that one may be willing to give up a great deal to own a home while another considers homeownership of much less importance. Thus, even if your income is the same as that of another family, the amount you can safely spend on homeownership may be much more or less than the other family can afford.

FHA's review of your transaction

Naturally you don't want to assume a debt you can't handle, nor does the FHA want you to. When you buy with an FHA-insured mortgage, FHA's complete credit review is intended to help avoid such a problem.

The FHA review is made after an approved lending institution, which is willing to make the loan, submits your application to the FHA. It covers not only appraisal of the property and the neighborhood, but also careful analysis of you as a buyer.

In this part of the review, FHA considers why you want to buy the property and how much money you expect to have available to pay for it—the same factors you consider in deciding what you could pay for a home. The analysis FHA makes is intended to serve as a safeguard for you in the transaction.

What FHA estimates

In judging the feasibility of insuring your mortgage, FHA makes three estimates with respect to your ability to meet monthly payments on the mortgage. The three estimates are:

(1) An estimate of your effective income—what you have as dependable, continuing income.

(2) An estimate of your prospective monthly housing expense—what it will cost you to occupy the property.

(3) An estimate of all your debts, living costs, and other financial obligations.

Your dependable income

Since a long period of time is usually involved in paying off the mortgage obligation, the prospect of increasing your income above your regular salary is seldom a safe basis for determining the amount of housing expense you will be able to pay. A realistic estimate of your current dependable income is a sounder basis. In estimating dependable income, FHA screens out all except income of a continuing nature.

Income derived from overtime work, from employment of other members of the family, from return on a capital investment, from the renting of a room, or from the rendering of occasional personal services can rarely be viewed as dependable, continuing income. Salaries of working wives may be considered effective for this purpose when their employment has been established as a part of the family life. Ordinarily it would not be reasonable to conclude that a wife's employment is a definite pattern of the family life if she has been married only a short time or has been employed only recently.

Your housing expense

Thre's more to housing expense than mortgage payments and taxes. Besides these items, housing expense generally includes hazard insurance premiums, maintenance and repairs, and utilities.

FHA compares your prospective housing expense with the housing expense you are used to paying. If the prospective expense is greater and you have been unable to save any money while paying the smaller amount, there will be more risk in your undertaking the additional expense. The only way you could pay the increased amount, without having a corresponding increase in your income, would be to cut down on some of your other living expenses. This usually is a very difficult thing to do.

Your standard of living

In arriving at a conclusion as to what is a safe relationship between your prospective housing expense and your net effective income, FHA gives consideration to the housing expense normal for your income bracket and to your use of installment credit as reflected in the items on your family budget.

Your total financial obligations

The relationship between your total financial obligations and your income is an extremely important consideration.

If the purchase of a certain home would mean you'd have to sacrifice too many other things of importance to you, then you might soon find homeownership becoming more of a burden than a pleasure. Further, your ability to set aside money for emergencies would be impaired, which could result in a forced sale or loss of your home.

On the other hand, if there is a balanced relationship in which your income is sufficient to meet all your obligations without strain, the purchase of a home can bring lasting satisfaction to you and to your family.

Emphasis on good judgment

Experience gained from insuring mortgages on millions of homes in America has convinced the FHA that no quick formula can be indiscriminately applied in relating either housing expense or purchase price to a prospective homeowner's income. FHA will consider your age and income along with other factors as they affect your ability to repay the loan.

The only sure way of evaluating potential risk when you buy a home is to use good judgment—your own best judgment combined with the sound judgment furnished by experienced mortgage lenders and by the FHA.

INCOME (MONTHLY)

Your take-home pay	----------
Wife's take-home pay (if she is steadily employed)	----------
Total income	----------
(*a*) Housing expenses (monthly):	
Estimated payment on mortgage loans:	
Principal	----------
Interest	----------
Mortgage insurance premium (if FHA)	----------
Hazard insurance premium	----------
Taxes and any special assessments	----------
Estimate for for maintenance and repairs	----------
Estimate for utilities:	
Light	----------
Heat	----------
Water	----------
Air Conditioning	----------
Total (*a*)	----------

EXPENSES AND OBLIGATIONS

(b) Living expenses (monthly):

Food	----------
Clothing	----------
Insurance premiums (theft, liability, life, accident, hospital, etc.)	----------
Education	----------
Medical and dental	----------
Automobile (operation, license, repairs)	----------
Transportation	----------
Recreation and entertainment	----------
Emergencies	----------
Miscellaneous (dues, contributions, etc.)	----------
Total (b)	----------

(c) Fixed obligations:

Installment payments (automobile, appliances, furniture, etc.)	----------
Other debt payments (personal loans, etc.)	----------
State income taxes	----------
Retirement fund	----------
Miscellaneous (support of parent, etc.)	----------
Total (c)	----------
Total (a)	----------
Total (b)	----------
Total expenses and obligations (a)+(b)+(c)	----------

If you sell your property

If you sell your home while the insured mortgage is still outstanding, there are several ways in which the buyer can arrange the financing. Be sure you understand how these arrangements will affect you. Discuss them with your mortgage lender.

(1) The buyer can pay cash, and you can pay off your mortgage balance. This, of course, ends your obligation under the mortgage.

(2) If the buyer makes a downpayment representing the difference between the selling price and the unpaid mortgage balance, and if he is acceptable to FHA as a substitute mortgagor, your mortgagee lender can arrange for him to assume the mortgage, FHA will consent to your release from liability, and you will have no further obligation.

(3) The buyer can buy the property subject to the mortgage. FHA approval of this arrangement is not necessary, but you will still be liable on the mortgage; that is, if the buyer fails to make this mortgage payments the lender will look to you for payment. This could impair your credit standing, result in serious claims against you, and have other undesirable results. One of the other two arrangements mentioned above is generally preferable.

Home improvement loans

FHA offers several insurance programs to aid homeowners in the financing of home improvements. This explanatory sheet does not present the terms for financing improvements which involve refinancing a mortgage or the use of an open end device. However, the following tables show the cost to the borrower of financing improvements with a section 203(k) or section 220(h) loan or a title I loan.

Section 203(k) and 220(h) loans have similar terms: 3- to 20-year amortization period, maximum amount of $10,000 per family unit, and a 6-percent maximum interest rate plus the one-half percent FHA insurance premium. A 220(h) loan is for use in urban renewal areas only.

FHA charges an application fee on these loans. The loan is secured by a recorded lien against the property. The lender may require the borrower to pay a 1-percent closing charge, as well as fees and taxes for recording the security, charges for credit report, title examination, and other closing charges that vary from one locality to another.

In general the minimum amount on these loans is $1,000 under section 220(h) and $2,500 under section 203(k).

Below are some typical loan amounts, amortization periods, and payments to principal, interest, and FHA insurance premium under sections 203(k) and 220(h).

Section 203(k) and section 220(h) monthly payment to principal, interest at 6 percent per annum, and insurance premium

Amount of advance	5-year loan			10-year loan			15-year loan			20-year loan		
	Principal and interest	FHA insurance premium [1]	Total monthly payment	Principal and interest	Insurance premium [1]	Total monthly payment	Principal and interest	Insurance premium [1]	Total monthly payment	Principal and interest	Insurance premium [1]	Total monthly payment
$1,000	$19.34	$0.38	$19.72	$11.11	$0.40	$11.51	$8.44	$0.41	$8.85	$7.17	$0.41	$7.58
$2,500	48.35	.96	49.31	27.78	1.01	28.79	21.10	1.02	22.12	17.93	1.03	18.96
$6,000	116.04	2.30	118.34	66.66	2.41	69.07	50.64	2.45	53.09	43.02	2.47	45.49
$10,000	193.40	3.83	197.23	111.10	4.02	115.12	84.40	4.09	88.49	71.70	4.12	75.82

[1] Monthly premium during 1st year of loan of the rate of one-half percent per annum on an average scheduled outstanding balance during the year.

Total cost of interest and insurance premiums

Amount of advance	5-year loan			10-year loan			15-year loan			20-year loan		
	Interest	Insurance premium	Total amount	Interest	Insurance premium	Total amount	Interest	Insurance premium	Total amount	Interest	Insurance premium	Total amount
$1,000	$160	$13	$173	$332	$28	$360	$519	$43	$562	$718	$60	$778
$2,500	400	33	433	830	69	899	1,297	108	1,405	1,795	150	1,945
$6,000	959	80	1,039	1,991	166	2,157	3,113	259	3,372	4,309	359	4,668
$10,000	1,599	133	1,732	3,319	277	3,596	5,188	432	5,620	7,182	598	7,780

Title I of the National Housing Act provides a limited home improvement program with a maximum loan amount of $3,500 and a maximum term of 60 months. The lender is allowed to charge a discount of not more than $5 per $100 per year on the first $2,500 of the loan and $4 per $100 per year on the amount above $2,500. The $5 or $4 discount should not be interpreted as 5 percent or 4 percent interest.

The table below shows some typical loans, payments, and costs under title I and the equivalent interest rate for the amount of discount shown.

TITLE I.—*Property improvement loans with equal monthly payments to principal and interest*

Amount of advance	Maximum discount per year per $100	12-month loan		24-month loan		36-month loan		48-month loan		60-month loan	
		Monthly payment	Equivalent interest rate (percent)	Monthly payment	Equivalent interest rate (percent)	Monthly payment	Equivalent interest rate (percent)	Monthly payment	Equivalent interest rate (percent)	Monthly payment	Equivalent interest rate (percent)
$500	$5	$43.86	9.58	$22.95	9.43	$15.97	9.30	$12.49	9.18	$10.40	9.05
$1,000	5	87.72	9.58	45.89	9.43	31.94	9.30	24.97	9.18	20.79	9.05
$2,500	5	219.30	9.58	114.71	9.43	79.85	9.30	62.42	9.18	51.96	9.05
$3,500	{5 4}	306.11	9.01	159.72	8.89	110.93	8.77	86.53	8.65	71.89	8.54

Total cost of interest

	12-month loan	24-month loan	36-month loan	48-month loan	60-month loan
$500	$26	$51	$75	$99	$123
$1,000	53	101	150	198	247
$2,500	132	253	374	496	617
$3,500	173	333	493	653	813

OTHER FHA CONSUMER PUBLICATIONS

FHA-206 FHA's new home improvement programs.
FHA-208 FHA home mortgage insurance.
FHA-219 FHA mortgage insurance on low-cost homes.
FHA-221 FHA mortgage insurance for rental and cooperative housing for persons of low and moderate income.
FHA-247 FHA mortgage insurance on housing for the elderly.
FHA-467 FHA forbearance provisions.
FHA-491 FHA mortgage insurance on condominiums.
FHA-492 FHA low-cost housing for small towns and outlying areas.
FHA-3239 Summary statement on cooperative housing.

Available upon request from the Office of Public Information, Federal Housing Administration, Washington, D.C.

Information contained in this publication is subject to regulatory and statutory changes.

FHA INSURING OFFICES

Alabama, Birmingham: City Hall, 710 North 20th Street.
Alaska, Anchorage: Room 228, Federal Building, Post Office Box 779.
Arizona, Phoenix: 244 West Osborne Road.
Arkansas, Little Rock: 3433 Federal Office Building, 700 West Capital Avenue.
California:
  Los Angeles: Petroleum Building, 714 West Olympic Boulevard.
  Sacramento: 1800 I Street, Post Office Box 1978.
  San Diego: 1415 Sixth Avenue.
  San Francisco: 100 California Street.
  Santa Ana: 208 North Main Street.
Colorado, Denver: Railway Exchange Building, 909 17th Street.
Connecticut, Hartford: 170 Sigourney Street.
Delaware, Wilmington: 536 Wilmington Trust Building.
District of Columbia, Washington: Railway Labor Building 400 First Street NW.
Florida:
  Coral Gables: 3001 Ponce de Leon Boulevard.
  Jacksonville: 21 West Church Street.
  Tampa: 4224-28 Henderson Boulevard, Post Office Box 10596.
Georgia, Atlanta: 101 Marietta Street Building.
Hawaii, Honolulu: Pacific Insurance Building 1677 Ala Moana Boulevard.
Idaho, Boise: 331 Idaho Street.
Illinois:
  Chicago: 36 South Wabash Avenue.
  Springfield: Adams Building, 624-630 East Adams Street.
Indiana, Indianapolis: Architects and Builders Building, 333 North Pennsylvania Street.
Iowa, Des Moines: 615 Park Street.
Kansas, Topeka: 700 Kansas Avenue.
Kentucky, Louisville: Madrid Building, Third and Guthrie Streets.
Louisiana:
  New Orleans: Federal Building, 701 Loyola Avenue.
  Shreveport: 627 Spring Street.
Maine, Bangor: Exchange Building, 27 State Street.
Maryland, Baltimore: 404 North Bond Street.
Massachusetts, Boston: 100 Boylston Street.
Michigan:
  Detroit: 1249 Washington Boulevard, Book Building.
  Grand Rapids: B & G Terminal Building, 900 Monroe Avenue NW.
Minnesota, Minneapolis: 110 South Fourth Street.
Mississippi, Jackson: 301 North Lamar Street.
Missouri:
  Kansas City: Prudential Insurance Building, 427 West 12th Street.
  St. Louis: 315 North Seventh Street.
Montana, Helena: Steamboat Block, 616 Helena Avenue, Post Office Box 1697.
Nebraska, Omaha: 215 North 17th Street.
Nevada, Reno: 70 Linden Street.
New Hampshire, Manchester: Post Office Building, Hanover and Chestnut Streets.

New Jersey:
Camden: The Parkade Building 510 Federal Street.
Newark: 10 Commerce Court.
New Mexico, Albuquerque: 625 Truman Street, Northeast.
New York:
Albany: City & County Savings Bank Building.
Buffalo: 304 U.S. Court House.
Jamaica: 205–207 Hillside Avenue.
New York: 2 Park Avenue.
North Carolina, Greensboro: 221 South Ashe Street.
North Dakota, Fargo: 203 10th Street North, Post Office Box 407.
Ohio:
Cincinnati: 617 Vine Street.
Cleveland: 1375 Euclid Avenue.
Columbus: Old Post Office Building.
Oklahoma:
Oklahoma City: 1401 North Robinson.
Tulsa: 9 East Fourth Street Building.
Oregon, Portland: Cascade Building, 520 Southwest Sixth Avenue.
Pennsylvania:
Philadelphia: 2 Penn Center Plaza.
Pittsburgh: 200 Grant Building, 330 Grant Street.
Puerto Rico, Santurce: Garraton Building, 1608 Ponce de Leon Avenue, Post Office Box 8065.
Rhode Island, Providence: Post Office Annex.
South Carolina, Columbia: 1515 Lady Street.
South Dakota, Sioux Falls: 225 South Main Avenue.
Tennessee:
Knoxville: 725 Gay Street SW.
Memphis: Cleveland Building, 43 North Cleveland Street.
Texas:
Dallas: Wilson Building, 1621 Main Street.
Fort Worth: 711 West Seventh Street.
Houston: Federal Building, 500 Rusk Avenue.
Lubbock: 1601 Avenue North, Post Office Box 1647.
San Antonio: 535 South Main Avenue.
Utah, Salt Lake City: 315 East Second South.
Vermont, Burlington: Federal Building, Elmwood Avenue.
Virginia, Richmond: 400 North Eighth Street.
Washington:
Seattle: Norton Building, 801 Second Avenue.
Spokane: 501 American Legion Building, 108 North Washington Street.
West Virginia, Charleston: 500 Quarrier Street.
Wisconsin, Milwaukee: Wisconsin Broadway Building, 312 East Wisconsin Avenue.
Wyoming, Casper: 364 South Spruce Street, Post Office Box 1852.

FHA SERVICE OFFICES

Alabama, Mobile: 717-A Holcombe Avenue.
Arizona, Tucson: 202 South Tucson Boulevard.
California, Fresno: 2135 Fresno Street.
California, San Bernardino: 1120 E Street.
Connecticut, Bridgeport: 83 Fairfield Avenue.
Florida, Orlando: 134 East Colonial Drive.
Indiana, Gary: Rooms 205, 209, and 210, Post Office Building.
Michigan, Flint: Room 105, Church and Third Streets.
Nevada, Las Vegas: 207 Ogden Street.
New York, Rochester: Room 1247, 25 North Street.
Tennessee, Nashville: Room 715, 1717 West End Building, 1717 West End Avenue.
Texas, Beaumont: 490 Bowie Street, Room 240 Bowie Building.
Texas, El Paso: 206 San Francisco Street.
Virginia, Norfolk: 403 U.S. post office, 600 Granby Street.
Washington, Tacoma: Security Building, 915½ Pacific Avenue.
Washington, Kennewick: 317 West Kennewick Avenue.
Wyoming, Cheyenne: 1603 Capitol Avenue.

U.S. DEPARTMENT OF JUSTICE,
OFFICE OF THE DEPUTY ATTORNEY GENERAL,
Washington, D.C., September 9, 1963.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate,
Washington, D.C.

DEAR SENATOR: This is in response to your request for the views of the Department of Justice concerning S. 750, a bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

The bill would provide that the cost of credit be fully disclosed to prospective purchasers on a uniform basis. This objective would be achieved by requiring that the two essential measures of the price of credit be presented to the purchasing public (1) the total dollar cost of credit, and (2) the simple annual rate on the average outstanding balance of the loan. The Federal Reserve Board would prescribe rules and regulations to carry out the provisions of the bill. Certain credit transactions would be exempt from coverage of the measure. The bill makes clear that lenders will not be exempted from complying with credit disclosure laws in any State, except to the extent that such laws are directly inconsistent with the provisions of the legislation. Civil and criminal penalties would be provided for violations of the provisions of the measure.

The bill is identical with the committee print of S. 1740 (87th Cong.) on which former Assistant Attorney General Loevinger presented a statement of the Department's views before the Production and Stabilization Subcommittee of the Senate Committee on Banking and Currency on May 10, 1962, copy of which is attached. As set out in that statement and the testimony of Judge Loevinger in the hearings on S. 1740 before the above subcommittee (hearings on S. 1740, 87th Cong., May 8, 10, 11, 15, 16, 17, and 18, 1962), the Department favors this legislation which would protect the consumer by enabling every borrower to make an informed choice of alternative credit prices and promote competition in the field of consumer finance.

At the hearings on S. 1740 in the 87th Congress Senator Douglas asked if the Department would furnish language to strengthen the recitals in the "Declaration of Purpose" section of the bill. He also suggested that there had been constitutional questions raised regarding the legislation and requested that the Department submit a memorandum covering constitutionality. In a letter dated August 22, 1962, responding to Senator Douglas' request the Department submitted suggested language designed to strengthen the "Declaration of Purpose" and to emphasize the constitutional power and responsibility of the Congress concerning the subject matter of the legislation (hearings on S. 1740, pp. 112–115). We believe that it would be desirable to amend S. 750 to include the proposed declaration of purpose as set out in that letter.

S. 1740, 87th Congress, contained civil as well as criminal penalties, and, as orginally introduced, contained a subsection (e) of section 7 which provided that a final judgment rendered in any criminal action brought by the United States under the proposal "shall be prima facie evidence against such defendant in an action or proceeding brought by any other party against such defendant under this Act or by the United States * * *." In our report on S. 1740, dated July 17, 1961, and in the Department's memorandum set out on page 116 of the hearings on the bill, we suggested that the reference to the United States in subsection (e) of section 7 be eliminated, since any conviction for violation of the measure would constitute conclusive evidence that such a violation occurred in a subsequent parallel civil suit brought under the proposal by the Government. However, the Department believes that a provision similar to section 7(e) should be included in S. 750 but that it should be limited to private litigants. If this is done, it is suggested that, for the reasons set out in the memorandum on page 116 of the hearings, the 1-year limitation on the bringing of actions as provided for in section 7(a) be lengthened, and perhaps, in addition, be tolled during the pendency of a criminal action.

Subsection (c) of section 7, which sets forth the penalty provisions of the measure, provides that "any person who willfully violates any provision" shall be punished. This section would include failure or omission to furnish the statement but would not cover statements which contain false and inaccurate information. It is suggested that subsection (c) be so enlarged.

A typographical error is noted in line 3 of page 2 of the bill. The word "uniformed" should be changed to read "uninformed."

The Bureau of the Budget has advised that there is no objection to the submission of this report, and that enactment of legislation along the lines of S. 750, revised to place administrative responsibility in the Federal Trade Commission, would be in accord with the President's program.

Sincerely yours,

NICHOLAS DEB. KATZENBACH,
Deputy Attorney General.

STATEMENT OF LEE LOEVINGER, ASSISTANT ATTORNEY GENERAL, ANTITRUST DIVISION, DEPARTMENT OF JUSTICE, BEFORE THE PRODUCTION AND STABILIZATION SUBCOMMITTEE OF THE SENATE COMMITTEE ON BANKING AND CURRENCY, ON S. 1740, MAY 10, 1962

I appear today in response to the request of your chairman, Senator Douglas, to discuss S. 1740, (committee print) the truth in lending bill. I am grateful for the opportunity to present the Justice Department's views on this bill. We believe that disclosure of the true cost of credit would (1) protect the consumer by enabling every borrower to make an informed choice of alternative credit prices, and (2) promote competition in the field of consumer finance.

The bill would assure that the cost of credit will be fully disclosed to prospective purchasers on a uniform basis. This object is achieved by requiring that the two essential measures of the price of credit be presented to the purchasing public—(1) the total dollar cost of credit; and (2) the simple annual rate on the average outstanding balance of the loan.

As the President expressed it in endorsing the objectives of the truth in lending legislation in his consumer protection message:

"Excessive and untimely use of credit arising out of ignorance of its true cost is harmful both to the stability of the economy and to the welfare of the public. Legislation should, therefore, be enacted requiring lenders and vendors to disclose to borrowers in advance the actual amounts and rates which they will be paying for credit. Such legislation, similar in this sense to the truth-in-securities laws of 1933–34, would not control prices or charges. But it would require full disclosure to installment buyers and other prospective credit users, and thus permit consumers to make informed decisions before signing on the dotted line."

President Roosevelt, in his message to Congress on March 29, 1933, concerning the proposed truth-in-securities law said, "This proposal adds to the ancient rule of caveat emptor, the further doctrine 'let the seller also beware.' It puts the burden of telling the whole truth on the seller."

The preamble to the Securities Act of 1933, stated that the purpose of the law is "to provide full and fair disclosure of the character of securities * * *." The principle underlying that law, like that underlying the instant bill, is that an informed purchaser in a free marketplace will make a decision which is best for him, and therefore, best for the entire economy. Before an issue of securities can be offered to the public for sale, the issuers must furnish the Securities and Exchange Commission with all pertinent data regarding the issue. Furthermore, prospective investors must be furnished with a prospectus which is simply a condensed revision of the larger statement. The Commission does not guarantee the soundness of the securities for investment purposes, but it does assure the investing public disclosure of pertinent information. Certainly, if relatively sophisticated and prosperous investors require legal guarantees of full disclosure, the need for such information by purchasers of common products and the ordinary necessities of life is much more compelling.

The problem of the consumer protection is not new. As long ago as 1941, the Court of Appeals for the Sixth Circuit recognized that:

"The average individual does not make, and often is incapable of making, minute calculations to determine the cost of property purchased on the deferred-payment plan. Mechanization, industrialization, and urbanization have transformed the structure of our society and raised to the proportions of a major social problem, the protection of the installment purchaser against his own ignorance and the pressure of his need." [1]

The pace of mechanization, urbanization, and industrialization has not decreased. Installment credit is an even more important factor in the economy

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[1] *Ford Motor Co. v. Federal Trade Commission*, 120 F. 2d 175, 182 (6th Cir. 1941).

than it was in 1941. Clearly, the need for honest disclosure of credit costs is greater than ever before.

Unfortunately, experience has shown that some degree of Government supervision is necessary to encourage the statement of finance charges in a simple, uniform, and truthful way. In the 1930's, several financing agencies, led by GMAC, adopted and advertised a "6-percent plan," which was, in reality, a $6 per hundred dollars add-on plan with a true interest rate of approximately 11½ percent. The Federal Trade Commission enjoined the advertising of the 6-percent plan as misleading and deceptive, and this injunction was upheld in two Courts of Appeal cases, *General Motors Corp., et al.* v. *Federad Trade Commission*, 114 F. 2d 33 (2d Cir. 1940) and *Ford Motor Co.* v. *Federal Trade Commission*, 120 F. 2d 175 (6th Cir. 1941). But FTC's ability to deal with the problem of disclosure of the true costs of credit is limited. First, the FTC now lacks jurisdiction over banks, which are increasingly important sources of consumer credit. Second, many lenders are subject to State regulation which requires them to state their rates in certain ways, such as a monthly rate, which are confusing to consumers because of nonuniformity, but might not be classed as misleading and deceptive. Third, the FTC, with, perhaps, certain limited exceptions, has no power to promulgate general uniform standards of disclosure but can only prevent actual deceit and misrepresentation. The general uniform disclosure standards of this bill provides a quicker and fairer solution of the problem than reliance on FTC procedure.

The need for increased consumer protection is highlighted by the rapidly increasing number of personal bankruptcies. I am informed by the Administrative Office of the U.S. Courts that personal bankruptcies in the fiscal year ended June 30, 1961, totaled 131,402. This is an increase of over 33,000, or more than 33-percent over the 97,750 cases filed in fiscal 1960, and is the largest increase in history. It is reasonable to believe that the misuse of consumer credit has contributed to this rise in the bankruptcy rate and that the misuse of consumer credit is encouraged by the present practice of keeping the consumer in the dark as to the true cost of credit. The record of the previous hearings contains many examples of individuals who were totally unaware of the rate of finance charges they were paying, and who would probably not have accepted the particular financing if they had been aware.

These people are victims of what Clarance B. Randall, former president of Inland Steel Co., has recently described as the credit racket. As Mr. Randall put it:

"There are still unscrupulous vendors who overpersuade the unwary buyer of modest means by no-payment-down, take-all-the-time-you-need pitch. The true interest charge on the deferred balance is not revealed, and the seller makes his money out of the financing of the debt rather than as legitimate profit on the merchandise." [3]

This bill of course, will not, and does not claim to, solve all the personal problems created by easy credit. This bill will not prevent the consumer, whose desire for a new automobile or boat is so great that he is willing to pay 30 percent finance charges, from making the purchase. It will enable him to determine more accurately how much of his income is going for the goods he wants and needs and how much is devoted to the cost of credit. Hopefully, the informed consumer will then be better able to allocate his disposable income rationally.

I believe that S. 1740 woud encourage and stimulate price competition in the consumer finance field. Indeed it is almost impossible to imagine how true price competition can take place under present conditions in which it is impossible for the consumer to compare the cost of credit from one source with the cost of credit from another. For purposes of competition, it is not important whether the true cost of installment credit is 12, 18 percent, or any other amount. It is important, and indeed essential, that the user of credit have the necessary information with which to compare the cost of credit from alternative sources. Only when the consumer has this information, can the price of credit reach realistic competitive levels through the action of the free market.

Although we have had very little antitrust action in the field of consumer finance we have had one case which is relevant to the prbolem of disclosure. A Texas grand jury returned a Sherman Act indictment in 1944 charging over 60 defendants, corporate and individual, with conspiring to fix interest rates

[3] Clarence B. Randall, "For a New Code of Business Ethics," New York Times magazine Apr. 8, 1962, reprinted in Congressional Record, vol. 108, No. 70, p. 7092.

on small loans made in 20 Southern and Southwestern States. Among the practices charged in the indictment were agreements to withhold information from borrowers about the true cost of credit. This case terminated in 1950, when 61 defendants pleaded nolo contendere, and fines totaling $252,500 were imposed. Thus we recognize that nondisclosure of rates has been employed as an anticompetitive device. We cannot, however, take remedial action under the Sherman Act unless we can prove a conspiracy in violation of that act.

Other witnesses before this committee, notably James Tobin, a member of the President's Council of Economic Advisers, have emphasized the necessity of full disclosure of market information to the proper operation of a free market. Theodore O. Yntema, now a vice president of Ford Motor Co., pointed out as long ago as 1938:

"Price competition may be promoted either by government regulation or by the voluntary action of lenders. This end may be achieved most effectively by statement of the cost of credit in the only possible simple, uniform way as a true interest rate on unpaid balances, and by advertising the rate. Thus, borrowers will be enabled to compare the costs of credit from various sources and will be made price conscious. If borrowers respond to rate reductions, such reductions will be used by lenders to attract business, expenditures on advertising will be curtailed, small high-cost firms will be forced out, and the cost of credit will drop." [3]

Without uniform regulation, however, we can expect lenders, if they quote or advertise rates at all, to quote the rate that looks the lowest. In *Ford Motor Co. v. Federal Trade Commission*, 120 F. 2d 175 (6th Cir. 1941) the FTC found, among other things, that the "6 percent" advertising tended to unfairly divert trade from competitors who correctly represented the cost of their credit charges. This possibility is recognized by lenders themselves. The Household Finance Co. has stated that "if the law does not require the latter [expression of finance charges on a simple interest basis] of all such lenders, unbridled competition will force all to the former method [the discount-plus method].[4] The discount-plus method looks simple. Rates may be quoted at low figures, in terms of dollars instead of percent, for example "$6 per hundred per year." But, in the words of Household Finance Co., this method "conceals the rate" which in the example would be about 11½ percent. One reason the discount-plus method conceals the rate is that consumers are used to thinking of rates in terms of simple annual rates. Another reason is that the method is not universally used, and, indeed, cannot be used by certain types of lenders in some States. What is needed to promote free and fair competition rather than competition in deceptive advertising is a simple, uniform standard, expressed in terms that can be understood by the great majority of consumers. In my opinion, such a standard is provided in this bill.

True price competition in the financing industry which would be encouraged by this bill might well turn the attention of the industry away from methods of competition described by other witnesses.[5] Obviously, so long as customers are kept unaware of the true costs of credit, they are prevented from doing any intelligent shopping for alternative sources. More important, they cannot give informed consideration to the alternative of doing without credit. Thus it is possible for lenders to maximize profits by "pushing credit"—encouraging all customers to remain in debt so long as their monthly payments are being made regularly—and charging high but hidden rates to cover any losses. Under true rate competition, profits could be maximized only by offering the most attractive terms and conditions at the best price. Lenders could be expected to attempt to cut costs and evaluate credit risks more carefully, perhaps adjusting rates more exactly to varying credit risks than is done at present.

I have one suggestion with regard to the bill. No reference to competition is made in the stated purpose of the proposed act. I have stated my firm belief that the disclosure of the true costs of consumer credit will encourage competition in the field of consumer finance and therefore suggest that a reference to this important objective of the bill be included in section 2.

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[3] Theodore O. Yntema, "The Market for Consumer Credit: A Case in 'Imperfect Competition,'" The Annals of the American Academy of Political and Social Science, March 1938.

[4] Excerpts from pamphlet published by Household Finance Corp., inserted in record of hearings on S. 1740 by Senator Douglas, p. 1122.

[5] E.g., E. C. Fritz, Esq., an attorney from Dallas, Tex., with great experience in the consumer credit field. Hearings on S. 1740, p. 851.

In his consumer protection message the President pointed to the increasing economic significance of installment credit stating, "Consumer debt outstanding, including mortgage credit, has almost tripled in the last decade and now totals well over $200 billion." This bill would greatly aid in stimulating fair competition in this important field, and as the President observed, "Fair competition aids both business and consumer." The Department of Justice is strongly in favor of the objectives of the truth in lending bill and urges its enactment.

U.S. DEPARTMENT OF LABOR,
OFFICE OF THE SECRETARY,
Washington, March 21, 1963.

HON. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR SENATOR ROBERTSON: This is in further reply to your request for our comments on S. 750, a bill to assist in the promotion of economic stabilization by requiring disclosure of finance charges in connection with extensions of credit.

The Department endorses the truth in lending bill. The need for such legislation has been firmly established over the past few years in comprehensive hearings held by your committees.

Testimony regarding the loss of wages through garnishment and the numbers of personal bankruptcies resulting from overextended buying in which excess credit charges were involved presents ample evidence of the part which such charges can play in creating serious financial problems for American families.

Current findings substantiate the continuing need of borrowers to be informed of the true cost of credit. Preliminary data from recent surveys of consumer expenditures, by the Department's Bureau of Labor Statistics, indicates that in 1960 financing charges absorbed 6 percent of the total expenditures of large city families. When more complete and detailed information is available for various income groups, it is expected to show that the percentage was much larger for families with low incomes, especially for financing charges other than mortgage interest. It is these low-income families which can least afford exorbitant credit charges and which are most likely to be the victims of unscrupulous lenders who do not disclose the true size of these charges, much less the true rate of interest.

There are a few observations which we would like to make with respect to specific features of S. 750.

The first concerns the agency which is charged with the principal responsibility for this function. Under S. 750 as presently drawn, the Federal Reserve Board would be required to make the necessary rules and regulations to carry out the act, but would have no authority beyond that of rulemaking. As recommended by the President in his consumer protection message in 1962, we suggest that the Federal Trade Commission would be the appropriate agency to administer legislation on disclosure of finance charges which are more closely related to trade practices than to monetary policy.

It is also suggested that it would be desirable to provide for administrative proceedings to determine violations, rather than to provide solely for court action by aggrieved credit users to recover civil penalties when proper disclosures of charges were not made. The courts' dockets are already overcrowded. Moreover, families with limited incomes and little knowledge of legal proceedings who are most likely to be overcharged, would be least likely to be able to take action in the courts on their own motion.

We also question whether the statutory limitation of 1 year from the occurrence of a violation—which might take some time to discover—is sufficiently long to provide either adequate relief or to act as a deterrent.

Section 6(b) of the bill would require the administering agency to except from the requirements of the proposal "any credit transactions or class of transactions" which it determines are effectively regulated under the laws of any State. Administrative problems might be obviated if the exception authority were permissive rather than mandatory.

The Bureau of the Budget advises that there is no objection to the submission of this report and that enactment of legislation along the lines of S. 750, revised to place administrative responsibility in the Federal Trade Commission, would be in accord with the President's program.

Yours sincerely,

W. WILLARD WIRTZ,
Secretary of Labor.

U.S. DEPARTMENT OF LABOR,
OFFICE OF THE SECRETARY,
Washington, D.C., August 6, 1963.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your recent letter regarding our comments to your committee on S. 750, the truth in lending bill.

The letter containing these comments was signed on March 21 and mailed to you on July 15, 1963. Our procedure on legislative reports to congressional committees which we have followed for some years is, as your letter indicates, to date a report when it is signed. However, we do not submit a particular report to the committee to which it is addressed until the Bureau of the Budget has advised us of its relationship to the President's legislative program. As soon as this information is received, it is added to the signed report and mailed to the committee.

Since a coordination of the reports of all agencies is necessary before their relationship to the President's program is finally established, and problems may arise in the course of clearance, different intervals of time elapse between the date we submit a report to the Bureau of the Budget and the date it is cleared.

If we may provide you with further information, please let me know.

Yours sincerely,

W. WILLARD WIRTZ,
Secretary of Labor.

SMALL BUSINESS ADMINISTRATION,
Washington, D.C., July 25, 1963.

Re S. 750, to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in further reply to your letter of February 8, 1963, in which you request our comments on the above-named bill.

The declared purpose of the measure is "the promotion of economic stabilization * * * [through] a full disclosure of [credit] cost with a view to preventing the uninformed use of credit to the detriment of the national economy."

The Small Business Administration favors this legislation which would, in my view, serve to reinforce the competitive position of the majority of retailers constantly threatened by the tactics of an irresponsible few who use the deceptive lure of "easy credit" as a device for domination of the market through exploitation of the consumer.

In commenting on S. 1740, a similar bill introduced during the 87th Congress. I suggested an amendment which would either set forth a fixed formula for the computation of the annual percentage rate under section 4 of that bill, or in the event that this were done by regulation to make clear in the bill that a formula exists. Such an amendment would insure uniformity of procedure.

I am happy to note that section 5 of S. 750 accomplishes this by requiring the Federal Reserve Board, in its promulgation of rules and regulations for the administration of the act, to include a description of the methods which may be used in determining these annual rates.

As I noted in my comments on S. 1740, it is my hope that the regulations promulgated by the enforcing agency be made as simple and concise as possible so that small business concerns, already overloaded with recordkeeping of various sorts, will encounter a minimum of additional burden.

The Bureau of the Budget has advised that there is no objection to the submission of this report, and that enactment of legislation along the lines of S. 750, revised to place administrative responsibility in the Federal Trade Commission, would be in accord with the President's program.

With kind regards, I am,

Sincerely,

JOHN E. HORNE, *Administrator.*

THE GENERAL COUNSEL OF THE TREASURY,
Washington, July 18, 1963.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 750, the so-called Truth in Lending Act.

The Treasury Department fully endorses the principle that the full cost of obtaining consumer credit should be clearly disclosed to the potential user. Only in this way will the consumer have the knowledge necessary to avoid excessive and unwise use of credit and to make an informed choice between alternative sources of credit. The President in his message of March 15, 1962, on consumer protection and interest, listed among the rights of consumers, "the right to be informed—to be protected against fraudulent, deceitful, or grossly misleading information, advertising, labeling, or other practices, and to be given the facts he needs to make an informed choice." Testimony presented to your committee during hearings on S. 1740, 87th Congress, provides ample evidence that even relatively sophisticated consumers frequently cannot determine easily or with reasonable accuracy the true cost of obtaining credit. The testimony also provides evidence of many abuses now existing in the field of consumer credit. It would appear, therefore, that Federal action in this area is necessary and urgent.

There are four points of broadest significance which should be emphasized.

First, consumer credit is an economic fact of great and growing importance. New extensions of consumer credit, exclusive of new extensions of mortgage credit, will undoubtedly total more than $50 billion this year. Installment credit is used to finance a large proportion of all automobile purchases as well as a substantial proportion of purchases of other consumer durable goods. Thus, it has become a matter of substantial public interest that consumers be furnished the information necessary to make wise and effective use of this type of credit.

Not only is this important from the viewpoint of consumer welfare, it is also of great importance to the overall effectiveness of the economy. Better use of consumer credit will help to assure a better allocation of resources and will in this way contribute both to economic stability and growth.

Second, the variety of ways in which finance charges are stated, even where no deception is intended, makes it extremely difficult for the consumer to be certain what he is paying for consumer credit. Thus, one lender may state an interest rate in terms of the annual or monthly rate on a declining balance. Another may state the interest rate as a percentage of the original balance, even though the loan is repaid in regular installments. Still other lenders state no rate of interest but only the amount of the downpayment and the installment payments. Moreover, the borrower may be charged various fees which are not included in the stated interest rate, and there may be other requirements, for example, the purchase of insurance, which serve mainly as a protection for the lender and add to the cost of the credit.

Third, the purpose of the bill is simply to assure full disclosure to borrowers in advance of a transaction of the actual amounts and rates they would be paying for the use of credit. It is difficult to visualize how effective competition can now exist when it is so difficult for the consumer to determine the actual cost of the credit that he is offered.

The bill would not control finance charges. It would be left to the competitive interplay of the market and a fully informed public to establish the level of consumer credit charges at their true economic cost. The cost of providing consumer credit is substantial, and attempts to control interest rates and other charges below the level of costs would inevitably lead to serious abuses. The strict application of usury laws, for example, led to the evils associated with loan sharks, and necessitated the passage of more liberal small loan legislation by most States. The limitations of usury have also necessitated the adoption of a variety of devices by legitimate lenders to make their operations economic.

Fourth, it is clearly the responsibility of Government, within a historical framework which can be traced back to at least 1872, to exert its influence to assure the continued effective operation of our evolving competitive market system. Beginning with legislation enacted to protect the consumer from frauds involving the U.S. mail, there is a long history of Federal legislation directed toward maintaining and perfecting the effectiveness of competition in our economy.

Antitrust legislation, for example, was a response to the development of cartel and monopoly arrangements which threatened the competitive structure of industry. The Securities and Exchange Commission was organized when stock market abuses became a matter of public concern. The growth in importance of consumer credit has now made it a matter of national interest that steps be taken to assure the elimination of abuses and that credit is offered competitively at prices determined by the cost of providing such credit.

The Treasury Department is pleased to note that the proposed legislation contains in section 5(a) a provision calling upon the Federal Reserve Board to exempt credit transactions involving extensions of credit to business firms, governments, or governmental agencies or instrumentalities where the Board determines that adherence to the disclosure requirements would not be necessary to carry out the purposes of the act. We would expect that pursuant to this authority the Board would exempt U.S. Government obligations and the obligations of other public instrumentalities, including those of international institutions, such as the International Bank for Reconstruction and Development and the Inter-American Development Bank. The committee may wish to consider whether the language of this sentence should not be amended slightly in order to make clear that this provision would permit exemption of the obligations of such international institutions from the disclosure requirements.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee and that enactment of legislation along the lines of S. 750, revised to place administrative responsibility in the Federal Trade Commission, would be in accord with the President's program.

Sincerely yours,

G. D'ANDELOT BELIN,
General Counsel.

(The following material was submitted for the record:)

STATEMENT BY WALLACE F. BENNETT, U.S. SENATOR FROM THE STATE OF UTAH RE MISCONCEPTIONS IN PREMISES OF CONSUMER ADVISORY COUNCIL IN RECOMMENDING ENACTMENT OF S. 750 (TRUTH IN LENDING BILL) (See p. 1327.)

The congressional hearings clearly establish the unsoundness of the asserted reasons for the council's support of S. 750. This is demonstrable from the testimony of witnesses called by Senator Douglas in an effort to product evidence supporting the bill. Each of the council's purported justifications for the bill is discussed in turn below.

1. The bill will not promote the right of consumers to obtain facts needed "to make rational, informed choices regarding usage"

(a) Nothing in the bill would prevent merchants from building credit charges into price and thereby denying consumers any information about the cost of credit.—In the case of credit sales of merchandise, S. 750 permits the concealment of credit charge in price. The bill merely requires specification of the required credit cost items, including the simple annual percentage rate, only if a merchant voluntarily elects to make a separate charge for credit. It does not compel any merchant to make such a separate charge. This was recognized by Chairman Martin of the Federal Reserve Board (1961 hearings, p. 289):

"Senator BENNETT. Is there anything in this bill which would prevent a merchant who so elected from covering part of his credit costs in price and quoting low rates for financing to the consumer?

"Mr. MARTIN. Not as I read it, Senator."

In fact, reputable merchants today are already following the practice of absorbing credit charges in price. For example, the following is a quotation from the advertisement of a highly reputable department store in Baton Rouge, La. (1961 hearings, p. 298):

"[From the Sunday Advocate, Baton Rouge, July 9, 1961]

"Goudchaux's is Baton Rouge's only department store where you can buy on any charge plan or layaway and pay no interest or carrying charge.

"At Goudchaux's, there's no charge for charging.

"Don't be deceived by a misleading 1 percent monthly interest. This seemingly small percent is actually at an interest rate in excess of 12 percent per year * * * more than you'd ever pay at any bank. At Goudchaux's you never pay a penny of interest or carrying charges."

The Esso credit card of the Standard Oil Co. of New Jersey (now Humble Oil Co.) carries the following legend (1962 hearings, p. 250):

"You can charge also such major items as tires and batteries, have 6 months to pay, no down payment, no carrying charge."

Obviously, in such cases the cost of credit is included in the price of merchandise, just as advertising, rent, or any other cost must be covered by price.

2. The bill will not protect "ethical" businessmen from competitors whose charges are "deceptively concealed"

(a) The Council falsely assumes that it is unethical to adjust prices to cover credit costs.—A leading proponent of the bill, Senator Proxmire, squarely disavowed the claim that such a practice would be unethical (1961 hearings, p. 381):

"Senator PROXMIRE. Let me go on very quickly to another subject which was raised again by my good friend from Utah when he said:

"'Is it not possible under this kind of statute that the merchant would simply bury his finance charge in the price of his merchandise?'

"And I say: What is the matter with that? There is nothing unethical or improper about it * * *."

The president of the Credit Union National Association attested to the same fact during the same hearings (1961 hearings, p. 563):

"Senator BENNETT. Would you not agree with me that it is possible for the merchant to bury the cost of his credit in the price or part of it if he should decide to do it, Mr. Morgan?

"Mr. MORGAN. Senator, if I may comment on that, I think it is quite possible and, personally, I see nothing wrong with it so long as he is stating a price for his merchandise."

(b) *Enactment of the Douglas bill will force the inclusion of credit costs in price.*—The key provision of the Douglas bill is the requirement that finance charges for installment credit be stated in terms of a "simple" annual percentage rate—i.e., reflecting the unpaid balance of the outstanding credit and the time for which it is used. As Senator Proxmire acknowledged, this provision would force retail merchants to quote rates ranging up to 18 percent (1962 hearings, p. 332).

The hearings prove a mistaken public belief that any credit rate beyond 6 percent is excessive. This is a traditional lending rate for large sums of money repayable in lump amounts. But it is far below the cost of providing consumer installment credit. Senator Douglas admits this (1960 hearings, p. 605). Ex-Congressman Voorhis, executive director, Cooperative League of America, recognized that typical charges for retail credit "may not even cover that cost" (1960 hearings, p. 273).

Yet, consumers will surely resent the statement of rates exceeding 6 percent. To quote Professor Katona, director, economic behavior program, survey research center, University of Michigan (1960 hearings, p. 809):

"It has been shown before that many present-day users of installment credit believe that the finance charges amount to 6 percent or even less. If these people were given a document in which a percentage twice or three or four times as high is shown, they will be surprised, disappointed, and resentful."

Mr. Morse, a member of the Consumer Advisory Council, was in agreement. He testified (1960 hearings, p. 605):

"It would appear quite disastrous to be quoted at 12 percent or 18 percent, et cetera."

The Navy Credit Union got into trouble for informing its members that its annual interest rate was 9 percent. In the words of its president, Captain Terrill (1961 hearings, p. 141):

"As a matter of fact, we went through this experience here some 14 months ago, when we came out flatly in our publication and said, 'Look, this is our simple annual interest rate, 9 percent.' The reaction was nothing but confusion. We had a great deal of trouble."

Such "trouble" cannot be risked by business enterprises, which, unlike credit unions, depend for their existence on profit. Enactment of the bill will therefore exert pressure on retailers to avoid stating separate credit charges by adjusting prices so as to cover the cost of installment selling.

Such pressure will be intensified by the popularity of revolving credit, currently used for more than 1 billion retail merchandise transactions per year (1961 hearings, pp. 11, 633). The typical charge for such credit is a service fee of 1½ percent per billing period on the ending balance (1960 hearings, pp. 533, 561). It is not a "simple" rate because it is applied regardless of the length of time the credit has been outstanding. This is invariably longer than 30 days, so that the "simple rate" is actually less than the 1½ percent per month, or less than 18 percent on an annual basis. Nevertheless, the bill's proponents concede that it requires merchants charging the 1½ percent monthly rate to inform consumers that their simple annual rate is as high as 18 percent (1962 hearings, p. 332).

Consequently, the passage of the Douglas bill will not only confront retail merchants with the necessity of quoting rates which consumers will mistakenly consider excessive, but will also force them to overstate their rates. In such circumstances, their inevitable choice will be to adjust prices to cover credit costs and to make no separate charge for deferred payments.

3. The bill will not "reinvigorate price competition in the consumer credit market," instead it might well undermine free enterprise by foreshadowing supplemental price control legislation

(*a*) *The council's proposition assumes the false premise that retail merchants will in fact state credit charges separately.*—As previously shown, there is nothing in the bill which compels any merchant to state credit charges separately. On the contrary, the inevitable effect of the bill will be to force them, in self-defense, to adjust prices to cover credit charges and to provide installment credit without any ostensible charge. Such merchandising practices are entirely practical. There is no evidence that businesses which already follow this practice are suffering any difficulty in attracting public patronage. Rather, the very use of this practice by reputable and successful business concerns, evidence that there is no such difficulty. Hence the feasibility of the practice cannot be disputed.

The widespread adoption of this practice in the wake of the Douglas bill would manifestly suppress, not stimulate, price competition in the credit market by curtailing the consumer's knowledge of the cost of installment buying.

(*b*) *This self-defeating gap in the bill, permitting the inclusion of credit charges in price, can only be cured by legislation regimenting the entire retail industry under a Government price control agency.*—The Douglas bill could be made to serve its purported purpose only if merchants were compelled to provide consumers with statements separately showing price and credit charges. To achieve this, the Douglas bill would have to be supplemented by price control legislation, establishing a Federal agency authorized to fix cash prices and to require separate statements of any additional charges for installment sales. There is no other way.

There is no precedent for such legislation except in time of war. Its adoption in peacetime would transpose our free enterprise economy into a regimented economy under the price dictation of the Federal Government. This is totally incompatible with the very fabric and philosophy of our society, economy, and system of government.

4. The bill will not function as "a contracyclical element in the Nation's economy" and any resultant diminution of the use of credit would be injurious.

(*a*) *Leading experts who have actually studied the matter agree that users of consumer credit are insensitive to rate changes.*—(i) Chairman Martin of the Federal Reserve Board emphasized that the Board's studies do not support the claim that rate changes will influence the volume of use of consumer credit. He testified (1961 hearings, pp. 276–277, 279):

"The bill will not be administered as a contracyclical instrument, tightened in boom times and eased in times of slack.

* * * * * * *

"If consumer finance charges actually did fluctuate with economic cycles, knowledge of the total cost of consumer credit itself would tend to have contracyclical effects. However, finance charges on consumer installment credit, a major area that would be covered by the bill, have not shown much fluctuation in response to cyclical changes in the availability of credit during the postwar period.

* * * * * * *

"In view of the technical characteristics of the consumer credit business, it seems unlikely that a fuller awareness by consumers of installment finance charges, in and of itself, would make for increased cyclical variation in such charges and thereby result in much contracyclical effect on consumer borrowing * * *.

* * * * * * *

"Our studies do not indicate that consumer credit charges have shown much cyclical variation."

(ii) The Board's findings are confirmed by the economic behavior program of the Survey Research Center of the University of Michigan. Its director, Professor Katona, summed up its findings as follows (1960 hearings, p. 806):

"According to these findings, then, the use of installment credit is fairly insensitive to fluctuations in the interest rate."

(b) Leading cosponsor of the bill, Senator Proxmire, is in accord that the economy requires the use of credit.

Senator Proxmire made the point during the 1961 hearings on the bill, stating (1961 hearings, pp. 391-392):

"I make no assumption that credit is used excessively today. As a matter of fact, I think we had better use it more than we do today if we are going to put something over 5 million people to work."

5. The bill's sole economic effect, if any, will be to depress not "buttress" the economy, by reducing the use of "consumer purchasing power"

(a) According to Professor Katona, there is a serious danger that the forced use of credit rates two or three times higher than the mythical 6-percent rate would have a shock effect on the consuming public which might well depress the economy. As he put it (1960 hearings, p. 810):

"Whether or not the shock would result in would-be purchasers giving up or postponing some of their discretionary purchases, we do not know. Pending further studies, however, the possibility must be take into account that the immediate effect of the introduction of bill S. 2755 would be unstabilizing.

"I believe that recession and unemployment are much greater evils than creeping inflation. Fighting inflation in a manner which might promote recession does not appear justified."

(b) The likelihood of the depressing effect of the passage of the bill was also recognized by Father McEwen, chairman of the Department of Economics at Boston College, who appeared for the advisory consumer council to the attorney general of Massachusetts. He testified (1961 hearings, p. 597):

"I do not think there is going to be an inflationary effect. As a matter of fact, all the testimony that I have seen, some claiming it is a good thing and some claiming it is a bad thing, says it might be a dampening effect on lending, which I think is true."

(c) Professor Fusfeld of the University of Michigan also saw the bill as a potential threat to economic prosperity. He questioned whether enactment was desirable until full employment had been achieved. In his words (1961 hearings, p. 769):

"My suggestion is that the bill be amended to provide that it not be implemented until the national economy has reached full employment prosperity. At the present moment unemployment is still too high and the recovery has not proceeded so far that we can be confident it will cumulate to an adequately high level of employment and output."

(d) The peril to the economy from any significant decline in credit purchasing is dramatically evident from the following testimony of Hillel Black, author of "Buy Now, Pay Later" (1961 hearings, pp. 82-83):

"I would note further that consumer credit and time selling are essential to our economic well-being. I have worked out roughly what would happen, for example, if starting in the fall of 1961, cars were no longer sold on time. There would probably be a 50-percent reduction in the number of cars manufactured. In turn, this would mean America would produce 8 percent less steel, 24 percent less malleable iron, 21 percent less lead, 31 percent less synthetic rubber.

"In terms of jobs, it could mean unemployment for 370,000 wage earners who make motor vehicles and parts. The work force of 2 million engaged in automotive sales and servicing might be cut by a third. Probably 100,000 petroleum workers would no longer have jobs. Finally, the havoc that would result in our economy would make any of the post-World War II recessions appear as years of almost unbounded prosperity."

CONCLUSION

The misguided position of the Consumer Advisory Council on the Douglas bill is actually contrary to the real interests of the consuming public. As demonstrated above, enactment of the bill could only lead to the suppression of public information about the cost of credit, due to the impracticality and unenforceability of its central requirement that credit charges be stated in terms of a simple annual percentage rate. In consequence, the adoption of the bill would be a step backward; not forward.

Witnesses called by Senator Douglas conclusively established that the overwhelming majority of retailers and lenders who provide consumer credit pursue fair practices and make adequate disclosure of their charges.

In its comments on the bill, the Small Business Administration stated (1961 hearings, p. 17): "The vast majority of retailers abide by the rules of fairplay and do not resort to fraud, deception, or overreaching in the conduct of their business * * *."

Mr. James Tobin, a member of the President's Council of Economic Advisers, testified: "The vast majority of consumer credit transactions are handled by reputable and reliable merchants and lending institutions" (1961 hearings, p. 48).

Testimony to the same effect was given at the 1960 hearings by such proponents of the bill as President Buckmaster of the United Rubber Workers (1960 hearings, p. 572); Donald MacKinnon, general manager of the Ford Credit Union (1960 hearings, p. 559); and Mrs. Alice Thorpe, of the American Home Economics Association (1960 hearings, p. 647). As Mr. MacKinnon put it (1960 hearings, p. 559):

"* * * I simply do not agree with those who believe that a large proportion of the people who charge rates of interest in excess of our own, are guilty of usurious practices, or in any way deliberately attempting to defraud the public. It is my experience that the vast majority of those in the personal credit business are honest and upright citizens."

The fairness of the present method of disclosing revolving credit charges—in terms of the applicable monthly rate of charge—was attested at the 1960 hearings by Prof. Richard L. D. Morse, of Kansas State University, a member of the Consumer Advisory Council. With specific reference to revolving accounts he testified (1960 hearings, p. 599): "* * * These are all on a rate basis. There is really no opportunity to deceive one in those situations."

There is no dispute about the fact that in vitually all other types of installment purchase transactions, the consumer is given an advance statement of his credit costs in dollars and cents. The fact that dollar costs are more meaningful to consumers than percentage rates was affirmed during the 1960 hearings by President Nyborg, of the National Association of Better Business Bureaus. He testified (1960 hearings, p. 74):

"I have a great deal of doubt in my own mind from talking to thousands of customers over the years that they are particularly interested in what the so-called interest rate is in the installment contract. They are interested in what the dollar cost is and how much it is going to cost them per month to pay the balance which they have obligated themselves for."

The same thing was stated by the representative of the Americans for Democratic Action who testified (1961 hearings, p. 773): "* * * Those provisions in the bill which require a statement of credit cost over the term of the contract in actual dollars and cents seem to us to have particular merit."

Dollar disclosure was the method endorsed by the Federal Reserve Board in its regulation W (the wartime control of consumer credit). This form of disclosure was endorsed by the Congress itself in 1960 when it passed the Automobile Financing Act for the District of Columbia.

Additionally, dollar and cent disclosure is the formula incorporated in the ever-increasing number of State laws regulating consumer credit. The efficacy of such State laws was emphatically affirmed by knowledgeable witnesses.

President Nyborg, of the National Association of Better Business Bureaus, so testified as follows (1960 hearings, p. 79): "* * * there is no question about the fact that many of the States have moved and others are considering moving in various ways to afford protection at the State level."

U.S. Assistant Attorney General Loevinger also agreed that the States have made great advances in combating abuses in the use of credit (1962 hearings, p. 107):

"Senator BENNETT. Have these not been met in State after State by State laws that have been growing in extent and in number over the years?

"Mr. LOEVINGER. Much has been done in this field, yes, sir. We have made great advances in the last few years."

All of these advances will be nullified by enactment of the simple annual percentage requirement of the Douglas bill and its inevitable byproduct; i.e., the enforced adoption of the practice of covering credit charges in price.

Statement by Senator Wallace F. Bennett, Regarding Illinois Governor's Committee To Study Consumer Credit Laws

In February 1963, the Governor's Committee To Study Consumer Credit Laws made its report and recommendations to Gov. Otto Kerner of Illinois.

This committee of 61 members who represented the Chicago Human Relations Commission, the Legal Aid Bureau of the United Charities of Chicago, the AFL-CIO Executive Council, and various universities as well as trade groups and business enterprises expended more than 4 months in examining into the consumer credit laws of Illinois.

The following subcommittees were formed:

Lending of money.
Protective consumer legislation.
Retail installment sales.
Remedies.

The committee made a series of detailed recommendations to the Governor, with regard to the following subjects:

The interest law.
The Installment Loan Act.
The Retail Installment Sales Act.
Deficiency judgments.
Wage deduction orders.
Collection agencies.
Debt poolers.
Consumer fraud.

The committee considered the question of simple annual rate and did not recommend that this be included in the consumer credit law.

STATE OF ILLINOIS—GOVERNOR'S COMMITTEE TO STUDY CONSUMER CREDIT LAWS

Report and Recommendations to Gov. Otto Kerner, February 1963

CONTENTS

Winston, Strawn, Smith & Patterson,
Chicago, January 30, 1963.

Hon. Otto Kerner,
Governor of the State of Illinois,
Springfield, Ill.

Dear Governor Kerner: On August 8, 1962, I accepted your appointment as chairman of a committee to review the credit laws of the State of Illinois and to make recommendations for the improvement of these laws. The committee has been at work on its assigned task since that date; and I am now able to and do present herewith their final recommendations and report.

The members of the committee are working on the actual drafts of bills to implement their recommendations, and these will be given to you at a date in the near future.

As you are aware, the committee undertook the assignment without the aid of an appropriation with which to employ professional staff or clerical help, or to defray other expenses. Thus, each member was called upon to make an unusually heavy contribution in time and often in personal expense. The committee's work was greatly aided by the help given by individual members who provided materials for study and helped in duplicating other materials for the committee's consideration. Valuable assistance was also provided by members of your staff, by the legislative council, which generously assigned a legislative intern to the committee, and by the legislative reference bureau. Without this aid, the committee would not have been able to complete its task with such thoroughness.

I have been gratified by the deep concern and serious purpose of the members of the committee in helping to find solutions to the problems raised by the widespread use of consumer credit. I am confident that the committee's recommendations will make a real contribution in this area. It has been a pleasure for me to serve as chairman of this committee.

Sincerely yours,

HAROLD A. SMITH,
Chairman, Governor's Committee on Consumer Credit Laws.

II. MEMBERSHIP

Each member of the committee received a letter of appointment from Governor Kerner in the following form:

AUGUST 13, 1962.

DEAR SIR: For some time there has been a growing public concern about our laws relating to consumer credit. Population movement, urbanization, and the rapid growth of credit purchasing have aggravated the dilemma of how to protect the consumer-borrower, consistent with fairness to the business community and stimulation of economic growth within the State.

As Governor, I have also been deeply concerned about this problem which affects so many people in Illinois. During the last session of the general assembly, I made a number of legislative recommendations, many of which were enacted. There were, however, a number of questions which were not answered in that session and which in my opinion require further examination. I might mention just a few of these:

Does the general usury law of Illinois have adequate enforcement provisions?

Should the entire consumer lending business be licensed and regulated as is the small loan business?

Is the existing statutory regulation of the small loan business realistic and adequate?

What are the relative merits of an industrial loan act, which a few States have adopted?

In view of the disparity of viewpoint and interest on these questions, I am forming a broadly based advisory committee which will be asked to review as many of these problems as it deems feasible and to make recommendations to me and to the legislature. I am asking you to serve on that committee. It is my hope that this group will formulate a series of proposals which will be able to receive widespread bipartisan support in the next session. I have attempted to give representation to a broad spectrum of commercial and business interests concerned as well as to the legislature and the public.

Harold A. Smith, a distinguished and fairminded attorney in Chicago, has agreed to serve as chairman. He has requested that the first meeting be held on Wednesday, August 29, at 2 p.m., in the 19th floor Commerce Commission conference room in the State of Illinois Building, 160 North La Salle Street, Chicago. At that time the committee can establish its agenda and set up working subcommittees. I emphasize the word "working" because the agsence of a State appropriation to support a professional staff and to cover other expenses will place a heavier burden than usual on the members.

I know you share my conviction that these problems are important, and I hope that you will agree to serve. May I ask that you advise my office in Chicago (Office of the Governor, 160 North La Salle Street) of your decision and of your availability to attend the August 29 meeting.

Sincerely,

OTTO KERNER, *Governor.*

Members of the committee are listed below:

GOVERNOR'S CREDIT LAWS STUDY COMMITTEE

Harold Smith, chairman, Winston, Strawn, Smith & Patterson, 38 South Dearborn Street, Chicago, Ill.

Ely Aaron, chairman, Chicago Commission on Human Relations, Aaron, Aaron, Schimberg & Hess, 38 South Dearborn, Chicago, Ill.

Charles Beckett, Charles Beckett & Associates, 4655 South Michigan Avenue, Chicago, Ill.
Roland Blaha, executive director, Illinois Bankers Association, 188 West Randolph Street, Chicago, Ill.
George Bynum, vice president, Illinois State AFL-CIO Executive Council, 58 East Roosevelt Road, Chicago, Ill.
Miss Barbara Curran, American Bar Foundation, 1155 East 60th Street, Chicago, Ill.
William B. Davenport, Thompson, Raymond, Mayer, Jenner & Bloomstein, 135 South La Salle Street, Chicago, Ill.
Prof. Sidney Davidson, professor of accounting, Graduate School of Business, University of Chicago, Chicago, Ill.
Clifford C. De Long, bursar of university, assistant professor of accountancy, University of Illinois, 101 Administration East, Champaign, Ill.
Bernard Chaitman, manager, Commercial Claims Department, Chicago-Midwest Credit Management Association, 165 North Canal Street, Chicago, Ill.
Stephen R. Chummers, Federal referee in bankruptcy, U.S. District Court, U.S. Court House, Chicago, Ill.
T. E. Courtney, president, Northern Illinois Corp., 112 East Locust Street, De Kalb, Ill.
John Crawford, Law Department, Chicago & Northwestern Railroad, 400 West Madison Street, Chicago, Ill.
Edward F. Crowe, vice president, Suburban Trust & Savings Bank, 840 South Oak Park Avenue, Oak Park, Ill.
Frank J. Csar, general counsel and vice president, General Finance Corp., 1301 Central Street, Evanston, Ill.
Morton I. Goldman, president, Independent Small Loan Association of Illinois, 162 North State Street, Chicago, Ill.
Senator Arthur R. Gottschalk, 320 Marquette Street, Park Forest, Ill.
Thomas D. Griffin, executive vice president, Local Loan Co., 105 West Madison Street, Chicago, Ill.
George Hansen, chairman, Chicago Bar Association Consumer Credit Commission, Law Department, First National Bank of Chicago, Chicago, Ill.
Fred M. Dumke, manager, Kraft Central Division Credit Union, 505 Sacramento, Chicago, Ill.
Robert O. Emrick, manager, Service Finance Co., 210 East Adams Street, Pittsfield, Ill.
Cobert Ets-Hokin, secretary-treasurer, L. Fish Furniture Co., 2225 West Pershing Road, Chicago, Ill.
Senator Dwight P. Friedrich, 122 South Locust, Centralia, Ill.
Robert Gibson, director of community service, Illinois State Federation of Labor, 666 Lake Shore Drive, Chicago, Ill.
Fred Goerlitz, executive vice president, Illinois Retail Merchants Association, 36 South Wabash Avenue, Chicago, Ill.
LeRoy L. Kohn, president, Mercantile Financial Corp., 7 South Dearborn Street, Chicago, Ill.
Clayton Krug, Consumer Finance Department, First National Bank & Trust Co. of Alton, Alton, Ill.
Charles J. Komaiko, asosciate counsel, Allstate Insurance Co., 7447 Skokie Boulevard, Skokie, Ill.
Mrs. Dorothy A. Lascoe, garnishment and stockholder records coordinator, Inland Steel Co., 30 West Monroe, Chicago, Ill.
Irving B. Harris, Robert I. Levy & Co., 38 South Dearborn, Chicago, Ill.
Harold Haugan, vice president and director of public relations, Household Finance Corp., Prudential Plaza, Chicago, Ill.
Carl Hobbit, executive vice president and general manager, Cook County Credit Bureau, 218 South Wabash Avenue, Chicago, Ill.
Paul Iaccino, assistant to the president, Chicago Federation of Labor & Industrial Union Council, 666 North Lake Shore Drive, Chicago, Ill.
Robert Johnson, managing director, State Street Council, 36 South State Street, Chicago, Ill.

Frank McCallister, director, labor education division, Roosevelt University, 430 South Michigan Avenue, Chicago, Ill.
Rev. Thomas B. McDonough, Calvert House, University of Chicago, 5735 University Avenue, Chicago, Ill.
Senator Thomas A. McGloon, 5963 West Adams Boulevard, Chicago, Ill.
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Joseph V. Mahoney, executive director, Credit Union Forum, 53 West Jackson Boulevard, Chicago, Ill.
Edward Marsalek, chief and assistant attorney general, State of Illinois Building, 160 North La Salle Street, Chicago, Ill.
Lester B. Masor, chairman, Midwest Finance Conference, 105 West Madison Street, Chicago, Ill.
Charles A. Snavely, executive vice president, Illinois Retail Farm Equipment Association, 3500 North Adams Street, Post Office Box 1140, Peoria, Ill.
Thomas Tearney, director of division of conservation and urban renewal, 320 North Clark Street, Chicago, Ill.
Prof. William Trumbull, School of Law, Northwestern University, 357 East Chicago Avenue, Chicago, Ill.
Paul M. Van Arsdell, director, department of finance, College of Commerce University of Illinois, 209 West Michigan, Urbana, Ill.
Marvin W. Mindes, 111 West Washington, Chicago, Ill.
Samuel M. Mitchell, attorney, credit department, Sears, Roebuck & Co., 925 South Homan Avenue, Chicago, Ill.
Philip J. Murphy, assistant to director, Legal Aid Bureau, 123 West Madison Street, Chicago, Ill.
Daryl B. Oldaker, law department, International Harvester Co., 180 North Michigan Avenue, Chicago, Ill.
Representative Cecil A. Partee, 100 North La Salle Street, Chicago, Ill.
George A. Ranney, Jr., Sidley, Austin, Burgess & Smith, 11 South La Salle Street, Chicago, Ill.
Z. R. Rogozinski, supervisor of legal matters, trust department, Illinois Bell Telephone Co., 230 West Washington Street, Chicago, Ill.
Jerome Schur, Katz & Friedman, 7 South Dearborn Street, Chicago, Ill.
Rev. William S. Van Meter, executive secretary, Christian social relations, Episcopal Diocese of Chicago, 65 East Huron, Chicago, Ill.
James J. Walsh, supervisor, division of consumer finance, department of financial institutions, State of Illinois Building, 160 North LaSalle Street, Chicago, Ill.
Representative William D. Walsh, 5122 West Madison Street, Chicago, Ill.
Rabbi Jacob J. Weinstein, KAM Temple, 930 East 50th Street, Chicago, Ill.
Frank Yarnall, vice president, Chicago Convention Bureau, Yarnall Chevrolet, 4859 North Broadway, Chicago, Ill.
Elmer Zumm, treasurer, Acme Steel Credit Union, 135th and Perry, Riverdale, Ill.

III. Introduction

This final report represents 4 months of study by the committee members of the various problems relating to the fields of consumer credit. Most of the work took place during the course of the hearings and meetings held by the subcommittees. A summary of their findings is recorded in their reports to the full committee which have been made a part of this final report. The four subcommittees and the topics assigned to each were as follows:

A. Subcommittee on Lending of Money, William Davenport, chairman:
1. Study of laws relating finance companies.
2. Review of the usury laws.
3. Evaluation of proposals to enact an Industrial Finance Act.
4. Small loan companies (Consumer Finance Act).
5. The licensing and regulation of miscellaneous lenders.

B. Subcommittee on Retail Installment Sales, Thomas Kearney, chairman:
1. Study of cap rates on installment buying.
2. Negotiability of paper arising from installment transactions.
3. Licensing and regulation of retail sellers.
4. Review of Retail Installment Sales Act of 1957.
5. Problems relating to cosigners.
6. Credit cards.

C. Subcommittee on Remedies, John Crawford, chairman:
1. Wage asignment and garnishment.
2. Deficiency judgments.
3. Confession judgments.
4. Evaluation of the Private Debt Adjustment Act.
5. Regulation of collection agencies.

D. Subcommittee on Protective Consumer Legislation, Charles J. Komaiko, chairman:
1. Consumer fraud.
2. The attorney general's injunctive power in consumer fraud cases.
3. Availability of consumer information.
4. Home building and loan regulations.
5. Automobile licensing act.

The final recommendations were agreed upon after review by the full committee of all of the recommendations of the subcommittees and of a series of amendments proposed to the subcommittee reports. This action took place at the final meetings of the committee held on January 3 and 4, 1963. At this meeting no additional testimony from outside parties was heard except a statement by the Honorable William G. Clark, attorney general of the State of Illinois, commenting on proposals for joint enforcement by States' attorneys of the Consumer Fraud Act, and a statement by Mr. Nicholas Ciaccio, representing the Honorable Charles F. Carpentier, secretary of state of the State of Illinois, commenting on proposed changes in the licensing of automobile dealers. Full discussion and debate by the members was allowed on each recommendation.

A summary of the action taken by the full committee appears as part V of this report.

IV. Recommendations

A. Lending of Money

Recommended amendments to Interest Act

1. We recommend that section 6 of the act relating to interest (1961 Ill. Rev. Stat., ch. 74, par. 6) be amended to provide a civil penalty of twice the amount of interest contracted for or charged, whichever is the greater sum, together with reasonable attorneys' fees; to provide that this penalty may be recovered either as an independent claim or defense; and to provide that the borrower must bring an action to recover the penalty within 2 years from the date of last payment under the loan contract.

2. We recommend that section 4 of the act relating to interest (1961 Ill. Rev. Stat., ch. 74, par. 4) be amended to permit parties to agree to any rate of interest for the purpose of a business or commercial loan; that is, a loan made to a corporation, a business association, a partnership, or a sole proprietor of a business, made solely for the purpose of carrying on the business or acquiring the business; and to provide further a statutory presumption that any loan shall be deemed a consumer loan, and not a commercial or business loan, when it is secured by any one or more of the following: (1) an assignment of the borrower's salary, wages, commission, or other compensation for services rendered, (2) by the borrower's household furniture, (3) by personal property which is used or to be used by the borrower for his personal, family, or household purposes, or (4) by real estate occupied by the borrower for residential purposes.

3. We recommend that section 4a of the act relating to interest (1961 Ill. Rev. Stat., ch. 74, par. 4a) be amended to provide that a lender shall, in addition to the legal rate of interest, make no other charge of any kind whatsoever, except for (1) insurance which he may reasonably require as hereinafter stated, (2) official fees paid to any public officer to record, file,

or release a security interest in collateral, and (3) costs and disbursements which may be allowed only after default, including reasonable attorneys' fees which may be incurred by a lender in connection with any suit to collect a loan or to realize on a security, and except that a lender may be allowed a minimum charge of $15, including all interest and other charges; and to provide further that the following limitations be placed upon insurance which a lender may reasonably require of the borrower: (1) it cannot be other than either credit life or credit health and accident insurance, or both, in the case of an unsecured loan; (2) it cannot be other than property hazard insurance in the case of a loan secured by improved real estate or personal property collateral; (3) no property hazard insurance whatever may be required on secured loans in which the collateral is household goods; (4) the amount of insurance must be reasonable in relation both to the amount of the loan and to the value of the collateral; and (5) the insurance can be placed only on a noncoercion basis; that is, the borrower may obtain insurance with a company of his selection (as long as it is a reputable company with respect to financial responsibility and otherwise) and through any agent of his own selection.

4. We recommend that licensees under the new act be permitted to engage in other businesses subject to the approval of the department of financial institutions. We further recommend that banks be excepted from the licensing provisions of this act but be subject to all other regulations set forth therein.

5. We recommend that licensees under the proposed new Installment Loan Act be authorized to lend on real estate collateral with the same restrictions that are contained in section 4a (1961 Ill. Rev. Stat., ch. 74, par. 4a).

6. We recommend that licensees under the new act be prohibited from making more than one loan under the act to a single borrower.

B. RETAIL INSTALLMENT SALES

Section A. Retail Installment Sales Act

1. *Sale of other goods.*—We recommend that a bill regulating the sale of goods, other than motor vehicles, be submitted to the legislature.[1] Basically, the bill would be similar to H.B. 1582, which was introduced in the 72d general assembly. It would repeal and supplant the present Retail Installment Sales Act. Some of the changes provided for in this bill follow:

Maximum finance rates would be imposed. The rates would allow an add-on of $12 per annum per $100 on sales under $750 and $10 per annum per $100 on sales over $750. On revolving charge accounts, 2 percent per month on the outstanding balance would be allowed.

Services as well as sales of goods would be regulated.

The cosigner would be protected by the requirement of special disclosure and prescribed forms.

Balloon notes would be outlawed.

Certain additional protections would be made for "add-on" contracts.

Further protections regarding insurance would be added.

The default provisions of the Uniform Commercial Code would apply to retail installment sales.

Advertising controls would be imposed.

2. *Sale of motor vehicles.*—We recommend the submission of a bill to the legislature similar to H.B. 1583, which was introduced in the 72d general assembly. Certain changes in the bill should be made.[1] The proposed bill does not provide for the preservation of defenses to the holder of notes taken in connection with a retail sale of a motor vehicle. We recommend that no change in this provision be made at this time, both in relation to the sale of motor vehicles and other goods and services. All of the protections available to the consumer under the act relating to other goods will apply to the sale of motor vehicles. The question of placing a limitation on "dealer reserves" in connection with automobile financing was discussed, and it was decided not to make any recommendations as to the imposition of such controls at this time. The maximum

[1] Drafts of the bills recommended by this subcommittee were submitted to the chairman along with the subcommittee report. These draft bills have not been reproduced in this final report but will be submitted, with other proposed legislation, at a later date.

finance charges for motor vehicles would be as follows: $8 per $100 per annum on new cars; $11 on cars up to 2 years old; and $14 on cars over 2 years old.

Section B. Licensing of finance companies

We recommend that a bill similar to H.B. 1584,[1] as introduced in the 72d general assembly, be again submitted to the legislature so that regulation of this field is possible.

C. REMEDIES

Section A. Deficiency judgments

We recommend that the default provisions of the Retail Installment Sales Act of 1957 (1961 Ill. Rev. Stat., ch. 121½, pars. 245 through 249) be repealed so that the provisions of the Uniform Commercial Code will prevail in this area.

Section B. Wage assignments

We recommend that no change be made at this time in the laws governing wage assignments.

Section C. Confession of judgments

We recommend that no change be made at this time in the laws governing the use of confession judgments in consumer credit transactions.

Section D. Wage deduction orders

We recommend that no change be made at this time in the laws governing the wage deduction order process.

Section E. Collection agencies

We recommend that no legislation be enacted to license, bond or regulate collection agencies, since the record before the subcommittee did not indicate than any public interest would be served by such legislation.

Section F. Debt poolers

1. We recommend that section 14 of the Financial Planning and Management Service Act (1961 Ill. Rev. Stat., ch. 16½, par. 264) be amended to provide that funds received by the licensee should be remitted "promptly," instead of "within 45 days after receipt of funds" as now provided in section 14; that a record of the remittances be furnished regularly to the debtor; and that specific time limits should be spelled out in regulations issued thereunder.

2. We further recommend that section 12 of the Financial Planning and Management Service Act (1961 Ill. Rev. Stat., ch. 16½, par. 262) be amended so as to eliminate the provisions which permit the licensee to collect 40 percent of his service charge or fee in case of prepayment or cancellation, and to provide that in such cases the licensee should be entitled to a reasonable service charge or fee, but no more than the prorated monthly charge for the expired term plus an amount, if any, not to exceed $50 for the unexpired term of the contract at the time of such prepayment or cancellation, and that regulations be issued to govern the question of reasonableness of the service charge in such cases.

3. We further recommend that the last sentence in the first paragraph of section 12 of the Financial Planning and Managament Services Act (1961 Ill. Rev. Stat., ch. 16½, par. 262) be amended to provide:

"In no event shall more than the prorated service charge for one month be payable by the individual unless a plan of payment of his obligations shall have been accepted by a majority in number of the creditors listed in the contract, which majority in number shall also represent a majority of the total amount of the obligations listed as owing to such creditors in the contract."

4. We further recommend that section 13 of the Financial Planning and Management Services Act (1961 Ill. Rev. Stat., ch. 16½, par. 263) be amended to add a provision prohibiting a licensee from taking any security for his service charge, including a wage assignment, confession of judgment, or power of attorney to confess judgment.

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[1] Drafts of the bills recommended by this subcommittee were submitted to the chairman along with the subcommittee report. These draft bills have not been reproduced in this final report but will be submitted, with other proposed legislation, at a later date.

D. PROTECTIVE CONSUMER LEGISLATION

Section A. Consumer fraud and the attorney general's injunctive power

We recommend the addition of an unlawful practices section to the Consumer Fraud Act of 1961 (1961 Ill. Rev. Stat., ch. 121½, par. 261, et seq.).

Section B. Home building loan regulations

We recommend that with regard to loans for improvement, repair, or remodeling of residential structures used byone or more families, there shall be required a completion certificate, signed by both the borrower and contractor, certifying that the work covered in the contract, or a specific percentage thereof, has been completed and that such certificate shall be delivered to the lender of funds before a loan can be purchased or disbursed (in whole or in part) by any such lender in the State of Illinois. We further recommend that the form for such completion certificate be set out in the statute and that predating and other falsification of such a completion certificate, or other violation of the act, be made a misdemeanor.

Section C. Automobile Dealers Licensing Act

1. We recommend that "dealer" be defined in the Illinois Motor Vehicle Law (1961 *Ill. Rev. Stat.* ch. 95½, pars. 1–101) to include "broker" and that the penalties for doing business without a license be increased.

2. We recommend that it be made mandatory on the secretary of state to revoke the dealer's license of any person found in violation of the Consumer Fraud Act by a court of competent jurisdiction.

3. We recommend that the licensing fees be increased to such a level as necessary to provide adequate reimbursement to the State for the cost of enforcing the act.

4. The following proposals are recommended in principle, but we further recommend that the actual drafting of such proposals into bill form be worked out with the appropriate department in the secretary of state's office so that the changes will be administratively feasible:

(*a*) Financial responsibility, character, and fitness requirements should be included in the act.

(*b*) Repeated and knowing violation of the Retail Installment Sales Act, Wage Assignment Act, law regarding wage deduction orders, or article IX of the Uniform Commercial Code (dealing with secured transactions) should be grounds for denial, suspension, or revocation of a dealer's license.

(*c*) Knowing and repeated use of fraudulent advertising and deceptive forms should be grounds for denial, suspension, or revocation of a dealer's license.

(*d*) Previous revocation for any ground other than failure to pay fees should be grounds for denial, suspension, or revocation of a dealer's license.

V. Summary of Proceedings

A. ORGANIZATION AND PROCEDURE

On August 8, 1962, Gov. Otto Kerner appointed the undersigned as chairman of a committee to review the credit laws of Illinois and to report their findings and recommendations to him and to the legislature. A group of over 50—broadly representative of the commercial and business interests concerned, of the legislature and of the consumer public—was appointed by the Governor to serve on this study committee.

The first meeting of the committee was held on August 29, 1962, in the State of Illinois Building in Chicago. A statement by Governor Kerner, outlining the committee's task, was read. The text of the statement follows:

"Although it is impossible for me to be with you today, I wanted to extend a few words of greeting as you begin this most important task. I am delighted that each of you has been generous enough to give your time and talents to the credit laws study commission.

"As you know, the considerable interest in this area—an area that deeply affects the lives of so many people in our State—resulted in some excellent legislation during the last regular session of the general assembly. You also know that many important questions were not answered and require further examination. In my letter to you, I briefly mentioned four of these problems. There are many more.

"I am asking you to review these and other questions you deem pertinent and to present recommendations to me and to the legislature before the next regular session. I stress the need for widespread agreement so that these important proposals will not become hopelessly entangled in legislative battles.

"With the realization that there is still much to do in this important field, I am not suggesting what results should come out of your deliberations. I rely on your sense of public responsibility and good judgment to produce recommendations both reasonable and acceptable. I am confident that under the very able leadership of Harold Smith, your proposals will be fair to the business community of the State and will also give important consideration to the welfare of the consumer. With legislative proposals of this nature, I promise the fullest support of my office to implement their passage.

"I know that your service on this committee will entail a great deal of sacrifice and diligent effort. This is especially so in the absence of a State appropriation to support a professional staff or cover other expenses. There are other compensations, however, that will come from your labors. In time, I feel confident all the people of Illinois will recognize the opportunities you have given them for a better, more secure manner of governing their own destinies. Your most satisfying reward will be in knowing your contribution has helped to make this possible."

At the August 29 meeting the Chairman appointed an executive committee of eight members to aid him in the organization and procedure of the committee. The members of the executive committee were as follows:

George Bynum, vice president, Illinois State AFL-CIO Executive Council.
Edward F. Crowe, vice president, Suburban Trust & Savings Bank of Oak Park.
T. E. Courtney, president, Northern Illinois Corp.
Hon. Dwight P. Freidrich, State senator.
Hon. Abner J. Mikva, State representative.
Samuel M. Mitchell, attorney, Credit Department, Sears, Roebuck & Co.
Marvin W. Mindes, attorney.
Phillip J. Murphy, Assistant to the Director, Legal Aid Bureau.

The chairman presented to the members as suggested outline of topics to be studied and a suggested method of procedure. The proposals called for division of the subject matter into specific problems which would then be explored in depth by subcommittees. Each member was to serve on at least one subcommittee. The members were to be given an opportunity to indicate the specific area in which they were interested, and appointments were to be made by the chairman and executive committee so far as possible on the basis of these preferences. The membership of each subcommittee would be balanced to reflect all groups interested in the issues to be considered by that subcommittee. After discussion, the committee adopted the proposals outlined by the chairman.

Subsequently, the executive committee met, set up the subcommittees and made appointments thereto. Two members of the executive committee were assigned to each subcommittee to serve as liaison with the chairman of the committee. Later it was decided that executive committee members should serve as voting ex officio members of all the subcommittees.

B. SUBCOMMITTEE MEMBERSHIP

The four subcommittees established by the executive committee, the topics assigned to them and the membership assignments follow:

Assignment of members to subcommittees and designation of chairmen and vice chairmen

A. Subcommittee on Lending of Money:
1. Study of laws regulating finance companies.
2. Review of usury laws.
3. Evaluation of proposals to enact an industrial finance act.
4. Small loan companies.
5. The licensing and regulating of miscellaneous lenders.

Members:
- William B. Davenport, chairman
- Prof. Sidney Davidson, vice chairman
- Frank J. Csar
- Robert O. Emrick
- Senator Dwight P. Friedrich
- Morton I. Goldman
- Harold Haugan
- Paul Iaccino
- Willard J. Lassers
- Frank McCallister
- Rev. Thomas B. McDonough

Members—Continued
- Senator Thomas A. McGloon
- Lester B. Masor
- Representative Abner J. Mikva
- Representative Cecil A. Partee
- Paul M. Van Arsdell
- James J. Walsh
- And members of the executive committee
- Charles J. Komaiko (by reassignment)
- Rev. William S. Van Meter (by reassignment)

B. Subcommittee on Retail Installment Sales:
1. Study of cap rates on installment buying.
2. Negotiability of paper arising from these transactions.
3. Licensing and regulating of retail sellers.
4. Review of Retail Installment Act of 1957.
5. Problems relating to cosigners.
6. Credit cards.

Members:
- Thomas Tearney, chairman
- Prof. William Trumbull, vice chairman.
- Roland Blaha
- Miss Barbara Curran
- Fred Goerlitz
- George Hansen
- Robert Johnson
- Ernest S. Lair

Members—Continued
- Samuel M. Mitchell
- Philip J. Murphy
- Jerome Schur
- Charles A. Snavely
- Rabbi Jacob J. Weinstein
- Elmer Zumm
- And members of the executive committee

C. Subcommittee on Remedies:
1. Wage assignments and garnishments.
2. Deficiency judgments.
3. Confession judgments.
4. Evaluation of the Private Debt Adjustment Act.
5. Regulation of collection agencies.

Members:
- Charles Beckett
- George Bynum
- Bernard Chaitman
- Stephen R. Chummers
- T. E. Courtney
- Clifford C. DeLong
- Cobert Ets-Hokin
- Robert Gibson
- Senator Arthur R. Gottschalk
- Thomas D. Griffin
- Irving B. Harris

Members—Continued
- Carl Hobbit
- LeRoy L. Kohn
- Mrs. Dorothy A. Lascoe
- Joseph V. Mahoney
- George A. Ranney, Jr.
- Z. R. Rogozinski
- And members of the executive committee
- Robert McRae (by reassignment)
- Edward Marsalek (by reassignment)

D. Subcommittee on Protective Consumer Legislation:
1. Consumer fraud.
2. The attorney general's injunctive power in this area.
3. Availability of consumer information.
4. Home building loan regulations.
5. Automobile licensing act.

Members:
- Charles J. Komaiko, chairman.
- Rev. William S. Van Meter, vice chairman
- Ely Aaron
- Edward F. Crowe
- Fred M. Dumke
- Clayton Krug
- Edward Marsalek

Members—Continued
- Robert McRae
- Marvin W. Mindes
- Daryl B. Oldaker
- Representative William D. Walsh
- Frank Yarnall
- And members of the executive committee

(The following correspondence, and the questions referred to on p. 1053, were submitted by Senator Simpson.)

FEBRUARY 5, 1964.

Mr. NATHAN S. PAVEN,
Massachusetts Consumers Council,
Massachusetts Consumers Association,
Boston, Mass.

DEAR MR. PAVEN: You will recall when you were testifying on S. 750 that I said I would like to send you some questions for your response. You indicated your willingness to do so. Enclosed are the questions.

I understand that the record is scheduled to go to the printers on February 18. I would appreciate having your response before then.

Sincerely yours,

MILWARD L. SIMPSON,
U.S. Senator.

(A similar letter was sent to John J. Graham, Massachusetts Consumers Association.)

FEBRUARY 5, 1964.

Mr. WALTER D. MALCOLM,
National Conference of Commissioners on Uniform State Laws,
Boston, Mass.

DEAR MR. MALCOLM: Enclosed is a set of questions I am directing to Messrs. Nathan S. Paven and John J. Graham. During the hearings, I indicated to these gentlemen that I had several questions, but the time schedule was such that I did not have an opportunity to ask them at the hearings.

I would be interested in your observations on these questions.

Sincerely yours,

MILWARD L. SIMPSON,
U.S. Senator.

QUESTIONS ON S. 750 BY SENATOR MILWARD SIMPSON

(Meaning of the statute)

1. Let me direct your attention to the third clause of the definition of "credit" in section 3(2), which reads: "* * * any contract to sell or sale, or contract of sale of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract; * * *." Would this language cover a contract to purchase goods for cash on delivery if the goods aren't delivered until subsequent to making the contract?

2. The definition of credit would apply then to an agreement to buy a car, for example, where the car was not picked up and paid for until the following week, would it not?

3. And this is true even though the full price of the car is paid by the purchaser, is it not?

4. The definition of credit also applies to services. What if I make an agreement with my next door neighbor's son, whereby he will mow my lawn each Saturday afternoon and I will pay him 50 cents each time he completes the job. Would this be included in the definition of credit also?

5. Transactions such as those I have just outlined, where payment and performance occur at the same time, are normally thought of as cash transactions and not credit transactions, are they not?

6. Why, then, are these transactions included in the bill's definition of credit?

7. Look a little further down in the definition, where you will see the phrase, "* * * any contract or arrangement for the hire, bailment, or leasing of property; * * *." Is a lease of property a credit transaction?

8. Are not the charges commonly incident to a lease, rental payments?

9. A finance charge is defined as a charge incident to the extension of credit. Since credit is defined to include the leasing of property, this means charges incident to a leasing of property. Are rental payments finance charges within the meaning of the bill?

10. How can a lessor fulfill the requirements of section 4 with respect to such charges?

11. There isn't any cash or delivered price for the property, is there?

12. Is there anything to which an interest charge can be computed?

13. Do you think the bill intends to reach such a transaction by the definitions of credit and finance charge?

14. But the definitions would seem to, wouldn't they?

15. Anyone reading the definitions and then section 4 would be puzzled as to what he had to do, wouldn't he?

16. Wouldn't he be worried that if he guessed wrong he would be subject to the penalties of section 7?

17. Wouldn't the problem be the same if a company rented cars for $50 a week, payable at the end of the period?

18. Wouldn't the definitions of credit and finance charge similarly cover the hire of taxicabs rented for an hour, or of a horse for half an hour?

19. Doesn't the fact that those definitions would cover such transactions prove that there is something wrong with the definitions?

20. What kind of leases, if any, was the definition of credit intended to reach? Can you think of any?

21. What kind of contracts of hire? What kind of bailments?

22. Don't you think the language of the statute should be limited to those transactions which it is intended to reach, and not to all leases, contracts for hire and bailments?

23. Now let's take the next phrase, "any option, demand * * * or other claim against, or for the delivery of, property or money." Suppose that for $100 one person sells another an option to buy a house. Wouldn't that come within the statutory definition of credit?

24. If it does, should the definition of credit apply to it?

25. What kind of option, if any, could or should the bill apply to?

26. Now how about the word "demand." What kind of a demand is it for which a charge is made?

27. If the word is tied in with the subsequent phrases "against, or for the delivery of, property or money," what kind of transactions would it apply to?

28. And if there are some demands to which the definition of credit could apply, certainly every demand for property or money for which a charge is made shouldn't come within the definition of credit, should it?

29. Isn't the same true about the words "other claims against, or for the delivery of, property or money?"

30. What kinds of claims are intended to come within a definition of credit like this, if any?

31. Would there be many others which couldn't fit under it?

32. What about the words "lien" or "pledge"? Is every lien or pledge for which a charge is made a credit transaction?

33. Should all such liens or pledges be included in the definition of credit?

34. If not all, which ones should?

35. Shouldn't the definitions make this clear?

36. What about a rental-purchase contract?

37. Should all such contracts be subject to this definition of credit?

38. If there are any such transactions which are intended to be covered, shouldn't the definitions be tied down to them?

39. Doesn't the above make it clear that this broad classification, including leases, bailments, options, pledges, liens, demands, and claims in the definition of "credit" goes much too far, and indeed makes no sense, and that the whole definition should be thought out more carefully?

40. Refer to the beginning of section 3(2), which starts with the phrase "any loan." To take the simplest transaction, if a bank lends you $1,000 at a specified percent of interest, is there any reason why all the other items in section 4(a) should be specified?

41. Refer to the word "mortgage." This applies, of course, to real estate mortgages as well as chattel mortgages, does it not?

42. Don't mortgagees usually know the rate of interest they are paying?

43. Is it really desired that all fees such as lawyers' fees, fees for credit investigations, title searches, title insurance, be included within the interest rate?

44. Is that the way it is done now?

45. Aren't the buyers or mortgagees adequately informed now when they are told the interest rate and the dollar amount of these charges?

46. Isn't it more accurate to say that the mortgage is at a 6-percent rate plus $200 for fees which are paid once at the beginning, than to lump them all together and say that the rate is 6-plus percent?

47. What is meant by "deed of trust"?

48. Is every deed of trust a credit transaction, using that term in its normal sense and not with the enormously inflated meaning given it in this bill?

49. Even if there is a charge for a deed of trust, would it necessarily be a finance charge?

50. What is meant by "advance"?

51. In section 4(a)(4) the bill says that chargees must be itemized "which are not incident to the extension of credit." This contrasts with section 8(3) which includes fees and service charges, among other things, as among the charges incurred as incident to the extension of credit. Can anyone tell clearly what charges are or are not "incident" to the extension of credit?

52. Would a fee for a title search or credit investigation be incident?

53. How about a lawyer's fee in connection with the sale of property or for recording a mortgage?

54. (a) How about title insurance?

(b) Or the fee for collision insurance on a car sold on an installment basis, or theft insurance for jewelry bought on time?

(c) Or the fee for fire insurance on leased or mortgaged property?

(d) Or the cost of life insurance on the borrower for the duration of a loan?

55. Is it clear whether any of the above charges are or should be included in the finance charge?

56. Don't you agree that if these insurance charges are finance charges they must be included in the numerator in computing the percentage rate required by section 4(a)(7)?

57. And if they are so included, would this not increase the percentage figure?

58. Don't you agree that people normally carry insurance on such items, even if they buy them outright for cash?

59. And where the merchandise is sold on time, such insurance operates to protect the buyer as well as the seller, doesn't it? It will cover the buyer's obligation to the seller, and also protect the buyer himself as he gradually pays that obligation off.

60. In view of this, isn't it unfair to the seller to require him to state insurance charges in such a way that they appear to increase the interest rate being paid by the buyer?

61. Doesn't this analysis suggest that the phrase "incident to the extension of credit" is too broad? It either includes (1) all such insurance, which is unreasonable, or (2) only some such insurance, in which case no one can tell which is included and which is not.

62. Wouldn't it seem that money actually expended for various cost items incurred at the time of the transaction should be included in computing the total cost of the purchase, or the total amount to be financed, rather than in computing the amount of interest and the annual interest rate to be earned in the future, as seems to be required under the bill?

63. Section 4(a) requires delivery of a written statement to the debtor "prior to the consummation of the transaction." Take, as an example, a typical sale of merchandise, where the store delivers to the consumer a few days later. Is the transaction consummated when the buyer signs the contract to purchase, or when the goods are actually delivered?

64. The bill does not make this at all clear, does it?

65. Look at section 5(a), page 6, lines 9 through 12, which states that the Board shall prescribe rules and regulations requiring that the information specified in section 4 "be set forth with sufficient prominence to insure that it will not be overlooked by the person to whom credit is extended." How can this be insured? Some persons will overlook this information no matter what the Board prescribes, wouldn't you say? And what about a blind person?

66. Sections 4(b) (1) and (2) require "a clear statement in writing" setting forth the simple annual interest rate. What is meant by "clear"—big, legible print, or a statement of the percentage which can be understood?

67. Does this mean a statement written in English?

68. Several witnesses who testified before this committee about being duped into making purchases have been unable to speak English. If the buyer can't speak or write English, will a statement written in English convey any information to him?

69. Does the requirement that the written statement be "clear" mean that in such cases the seller must furnish the buyer a statement in his native tongue?

70. Section 6(2) provides that State laws shall not be affected except to the extent that they are directly inconsistent "with the provisions of this Act." Does the reference to provisions of the act include the rules and regulations promulgated by an administrative agency?

71. The penalty provisions refer to violations of this act "or any regulation issued thereunder." Does the absence of any express reference to regulations in section 6(a) give rise to the argument that the section doesn't apply to regulations, and that State laws inconsistent with regulations under the act are not to be regarded as inconsistent with the act and are not superseded?

72. Section 6(a) provides that State laws are not superseded "except to the extent that such laws are directly inconsistent with the provisions of this act." Would that exclude a State law making it illegal to disclose any of the items required by the Federal law, if there was such a State law?

73. If the State law required additional information, would that be all right?

74. Suppose the State law required approximately the same information, stated or computed somewhat differently. Would it be "inconsistent" if the information were given both ways, so as to satisfy both the State and Federal requirements?

75. Couldn't this be confusing, if the rate of interest was to be computed in two different ways? If so, would it be inconsistent?

76. If the creditor put in both rates, would that violate the Federal requirement of "a clear statement"?

77. If the creditor merely followed the Federal form, might not he be in violation of the State law?

78. Section 7(a) exempts the seller from any civil penalties "if the percentage disclosed to such person pursuant to this act was in fact greater than the percentage required by [section 4] * * * to be disclosed." Does this mean that a seller or lender who wants to be sure he is avoiding civil penalties may adopt a procedure whereby the percentage rate is intentionally overstated?

79. There is no such exemption in the criminal penalty provision, section 7(c), is there?

80. Would such a person be "willfully" violating the act by knowingly overstating the interest rate, and hence subjecting himself to the criminal sanctions of section 7(c)?

81. Section 3(5) defines the term persons as including the United States and any other government or subdivision or agency thereof. Would it thus cover loans by the Federal Government or State governments?

82. Section 7(d), however, says that no penalties shall apply to those agencies. Does this mean no civil penalties or no criminal penalties or no penalties at all?

83. Must the debtor pay the agency the undisclosed finance charge?

LAW OFFICES OF MASON & PAVEN,
Boston, Mass., February 10, 1964.

Hon. MILWARD L. SIMPSON,
Senate Office Building,
Washington, D.C.

DEAR SENATOR SIMPSON: I have just this day received your questions concerning S. 750.

While I will certainly make every effort to complete the answers, so that they may be forwarded to the printers, I would like to give as much care in drafting my answers as you have given in drafting the questions.

In the midst of my practice of law, I shall attempt to comply with your request.

With best personal wishes,

NATHAN S. PAVEN.

NATIONAL CONFERENCE OF COMMISSIONERS ON UNIFORM STATE LAWS,
February 11, 1964.

Senator MILWARD L. SIMPSON,
Senate Office Building,
Washington, D.C.

DEAR SENATOR SIMPSON: I have received your letter of February 5 and the copy of the questions you are directing to Messrs. Nathan S. Paven and John J. Graham. I think these are an excellent set of questions which bring out very well the absurb but, at the same time, very troublesome problems that are created by the all-encompassing language in certain sections of S. 750. If S. 750 ever were enacted, legitimate houses extending credit would have no choice but to ask exactly this same kind of questions and answer them rightly or wrongly at their peril. Almost certainly some percentage of the cases involving questions of this kind would result in litigation. I would certainly think that risks involved in questions of this type would induce some houses to simply cease doing certain kind of business on the reasoning that any earnings that might be made would not justify assuming the risks involved. Of course, the cumulative effect of decisions of this kind could be very serious.

Sincerely yours,

WALTER D. MALCOLM, *President.*

(The following correspondence relating to Senator Simpson's questions was submitted for the record by Senator Robertson:)

FEBRUARY 6, 1964.

Hon. PAUL H. DOUGLAS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR DOUGLAS: If the time should come for the Subcommittee on Production and Stabilization to meet in executive session on S. 750, it seems to me that a great deal of clarification will have to be brought about in the text of the bill. I enclose a number of questions about the meaning and effect of the bill which Senator Simpson has brought to my attention. I understand he intended to ask these of one of the witnesses at the hearings in Boston. The answers to these questions are not, I think, clearly indicated by the present text of the bill. It seems to me that these questions should be carefully and clearly answered before we consider imposing on any regulatory agency the burden of writing regulations for a statute of this breadth and importance.

I have, therefore, sent copies of these questions to the Federal Reserve Board and the Federal Trade Commission, with the request that they be answered at the earliest possible moment. I should also appreciate your consideration of these questions. If you should wish to supply answers for any of these for the record, I am sure this will be helpful to the members of the subcommittee.

I understand that Senator Simpson has asked that these questions be inserted as part of the record of the Boston hearings. Perhaps you would also like to include in the record your answers.

With kindest personal regards, I am,

Sincerely yours,

A. WILLIS ROBERTSON,
Chairman.

FEBRUARY 6, 1964.

Hon. PAUL RAND DIXON,
Chairman, Federal Trade Commission,
Washington, D.C.

DEAR MR. CHAIRMAN: I enclose several questions which seek to clarify the meaning of S. 750, Senator Douglas' bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

Since the administration has recommended that the Federal Trade Commission administer this proposed law, I believe it is desirable for the Commission to provide answers to these questions for our guidance in considering the bill.

Since it is hoped that we can send the transcript of the recent out-of-town hearings on the bill to the printer by February 19, I should like to have your reply by that date so that it can be included in the record.

With kindest reagrds, I am

Sincerely yours,

A. WILLIS ROBERTSON, *Chairman.*

FEDERAL TRADE COMMISSION,
Washington, D.C., February 18, 1964.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: On February 6, 1964, you submitted to this Commission a series of 83 questions concerning S. 750, 88th Congress, 1st session, a bill to assist in the promotion of economic stabilization by requiring the disclosure of financial charges with extensions of credit, with a request that our answer be supplied by February 18, 1964.

Before specific referral is made to the 83 questions posed, it is believed that some attention should be given to the general purpose of this proposed legislation and the procedure provided within the act for insuring the effective and efficient attainment of this purpose.

Section 2 of S. 750 provides that:

"The Congress finds and declares that economic stabilization is threatened by the untimely use of credit for the acquistion of property and services. The untimely use of credit results frequently from a lack of awareness of the cost thereof to the user. It is the purpose of this Act to assure a full disclosure of such costs with a view to preventing the uniformed [sic] use of credit to the detriment of the national economy."

When introducing S. 750, Senator Douglas stated:

"The truth-in-lending bill is both a simple and effective measure. It requires that all lenders and credit sellers fully disclose to the consumer the costs of using credit in an accurate and uniform manner.

"Anyone engaged in the business of extending credit at the retail level would have to fully disclose in writing the costs of credit to the borrower before the credit transaction is signed."

In short, the purpose of this bill is to require that any creditor, as defined in the bill, furnish to each person to whom credit is to be extended, a clear written statement prior to the consummation of the transaction. This statement must apprise the prospective debtor of exactly how much more than, and what percentage of, the cash price of the property or services to be purchased will be the amount added as a result of any credit that is to be extended. Furthermore, it is required that such an amount be itemized in order that the prospective purchaser can ascertain exactly what we will be paying for.

It is believed that the draftsman of this legislation, recognizing the impossibility of specifically providing for every persently known and future means of extending credit, envisioned that the Board empowered to issue rules and regulations pursuant to section 5 of this act, would develop an expertise that would allow it to provide for adjustments and exceptions necessary or proper to effectuate the purposes of the act, prevent evasion of the act and facilitate its enforcement.

If the Federal Trade Commission, as suggested by President Kennedy, were to be the agency given the authority of prescribing such rules and regulations as may be necessary to carry out the provisions of the act, the Commission would be operating within a procedural area in which it has had considerable experience.

The Commission now exercises jurisdiction over acts authorizing it to issue substantive rules and regulations. The granting of such authority to the Commission by Congress has been expressly included in several laws. Among these special acts are the Wool Products Labeling Act of 1939, followed by the Fur Products Labeling Act of 1951, the Flammable Fabrics Act of 1953, and our latest, the Textile Fiber Products Identification Act of 1958. Under all of these labeling acts, the Commission has been authorized to, and has, issued rules and regulations, which, when adopted in accordance with the provisions of the respective acts, have the binding force and effect of law.

Before any rules or regulations are promulgated under these acts, the Commission notifies all interested parties of the nature of the proposed rules and regulations and invites comments from them. Other Government experts are also consulted in order that the benefit of their views can be obtained. Should Congress, in the proposed bill, authorize the Commission to prescribe rules and regulations provided therein, the same procedures will be followed before their adoption.

In addition to administering these fairly narrow statutes, the Commission has, of course, had much experience in giving specific definition to the broad provisions of section 5 of the Federal Trade Commission Act which, as amended, forbids: "Unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce * * *." It is thought that the administration of legislation containing broad provisions and rulemaking powers such as are contained in S. 750 would similarly require the utilization of expertise in relating the provisions of such a bill in the light of its purpose to specific economic practices which may evolve.

Thus, in responding to the questions attached to your letter of February 6, 1964, the Commission feels that its answers, as set out below, are necessarily subject to qualifications that might be indicated as a result of further information that might come to its attention during the course of the procedures set out above.

In requiring that all lenders and credit sellers fully disclose to the consumer the costs of using credit, section 3 of S. 750 contains certain definitions indicating exactly what types of transactions are deemed to be of such a nature as to fall within the purview of the act.

First, there must be a transaction involving "credit" as defined in section 3(2). Second, a "finance charge" as defined in section 3(3) must be imposed in this transaction involving "credit" as defined in section 3(2). Third, only a "creditor" as defined in section 3(4) is required to make the disclosure required under this act.

It must be understood that "credit" as used in this bill is a term of art which encompasses many legal forms which can be employed in entirely cash transactions. However, each of these transactions has the potentiality for use in credit in the ordinary sense of that word. In order to determine whether any transaction which involves credit within the meaning of section 3(2) falls within the scope of the bill, it is necessary to inquire whether a "finance charge" is imposed; i.e., whether the borrower or credit purchaser is required to pay any amount which would not be incurred in a cash transaction.

Thus, based on a consideration of section 3 as a whole, it is believed that your questions 1 through 39 can be examined as a single entity. As you will recall, questions 1 through 39 contain a series of examples of typical financial transactions. As each example is set out, it is questioned as to whether such a transaction is a "credit" transaction, under the definition provided in section 3(2) of the act. Then, based on the assumption that said transactions are "credit" transactions within the meaning of section 3 in its entirety, it is further questioned as to whether these transactions are meant to fall within the scope of this act. For it is apparent that if this bill is construed to subject the exemplified transactions to the disclosure requirements and enforcement procedures set out in sections 4 and 7, respectively, serious difficulties will arise.

In construing section 3 in its entirety, the serious difficulties demonstrated in questions 1 through 39 become obviated as the hypothetical transactions do not fall within the coverage of this act. The reason for this is that none of the exemplified transactions involved a creditor as "creditor" is defined in section 3(4) of the act and only a "creditor" as defined under section 3(4) of the act is required to make a disclosure as set forth in section 4 of the act or is subject to a penalty as set forth in section 7 of the act.

To clarify and exemplify the theory set out above let us examine the specific transactions detailed in questions 1 through 39. Question 1 involves "a contract to purchase goods for cash on delivery if the goods aren't delivered until subsequent to making the contract." In this situation, although the transaction is a credit transaction within the meaning of section 3(2) in that payment is not required until subsequent to the making of the contract, no finance charge is required as an incident to the extension of credit. Without a finance charge there can be no creditor as defined in section 3(4) and without a creditor as defined in section 3(4) no duties of disclosure arise under this act.

The same reasoning applies to an agreement to buy a car where the car was not picked up and paid for until a week after the agreement (questions 2 and 3); an agreement with a neighbor's son wherein it is agreed that he undertakes to mow a lawn every Saturday and you agree to pay him 50 cents each time he completes the job (questions 4, 5, 6); a lease of property (questions 7 to 16) etc.

The fact that the examples set forth in questions 1 through 39 fall within the definition of "credit" in section 3(2) of the bill does not prove that there is something wrong with these definitions as the limiting provisions of the remainder of section 3, the definition of finance charge in section 3(3) and the definition of "creditor" in section 3(4), eliminate the possibility of considering the hypothetical transactions within the scope of this act.

With specific reference to questions 40 to 83:

Question 40. No. Section 4(a) provides that the statement, "to the extent applicable", should contain the prescribed information. In the instance cited of a simple transaction of a bank lending $1,000 at a specified rate of interest, the only provisions of section 4(a) applicable would be—(5) the total amount to be financed; (6) the finance charge to be expressed in dollars and cents; (7) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the average unpaid balance of the obligation.

Question 41. Yes. The language apparently is meant to include all types of mortgages.

Question 42. Not necessarily. It is presumed that this question was meant to refer to "mortgagors" rather than "mortgagees." From our understanding, it is certainly true that it is much more common in real estate mortgages than in personal property transactions to state the interest rate in terms of annual interest on the unpaid balance. But even here, the bill would serve a useful function by requiring a statement of the total amount of interest payments as well as the rate. Real estate transactions, wherein mortgagors usually pay interest only on the unpaid principal balance as it diminishes, are unlike the typical credit transaction involving personal property where monthly payments usually do not reduce the amount of interest, which has already been predetermined on an annual basis. Thus credit is usually given the borrower for the periodic diminution in his principal balance, in terms of interest, whereas the same is not usually true in the case of credit sales of personal property. The buyer is often unaware of this fact, which results in the true rate of interest being considerably greater than the rate stated to him.

Question 43. The Commission is of the opinion that a guideline as to which charges or fees are incident to the extension of credit can be developed from the preliminary study reported by the Housing and Home Finance Agency on page 190 of the 1962 hearings.

Question 44. Not necessarily. Such practices are dependent on the procedures utilized by individual lenders and the varied requirements imposed by State laws now in existence.

Questions 45 and 46. No. It is believed that it would be more meaningful to the consumer if all charges defined as incident to the extension of credit would be disclosed in both chattel and real estate transactions in terms of interest percentage as well as specifically broken down by charge.

Question 47. A "deed of trust" is a legal instrument conveying legal title to property to a trustee in order to provide security for the performance of some condition, such as the payment of a credit obligation incurred by the grantor of such deed; i.e., the buyer of such property.

Question 48. No. By definition a deed of trust can be for a condition other than the extension of credit. (Black's Law Dictionary, 4th ed., 1957, p. 503.)

Question 49. Not necessarily. It would depend on the purpose for which the charge is imposed; or, stated differently, it would depend on whether the charge comes within the definition of a finance charge.

Question 50. An advance is the supplying, beforehand, of money or goods (or other thing, of value) before an equivalent is received. (Black's Law Dictionary, 4th ed., 1957, p. 72.)

Question 51. Yes. As noted by Senator Douglas' memorandum appearing in the 1961 hearings, pages 1309–1312, the charges which are incident to the extension of credit are determined by the following criteria:

1. Is the expense one which the debtor would not normally incur if he did not receive the particular extension of credit—if, for example, he purchased for cash?
2. Is it required by the creditor as a condition to extending credit?
3. Does it run for the same term as the credit?
4. Is the benefit of the charge primarily to the creditor and only secondarily to the debtor, or is the benefit of the charge primarily to the debtor and secondarily to the creditor?
5. Is the charge paid to the creditor or to a third party to purchase a service or protection for the debtor?

Question 52. It would appear that a fee for a title search would not be incident to the extension of credit, whereas a fee for a credit investigation may properly be so designated. There possibly may be an exception to the above where a title search is required by a lender as a condition for making a loan.

Question 53. It would appear that a lawyer's fee in connection with the sale of property, particularly where he acts in lieu of a broker on behalf of a client, would not ordinarily be "incident to the extension of credit" unless the attorney also aids in the procurement of a loan in connection with such transaction, whereas a fee for recording a mortgage would more properly be within the scope of such term.

Question 54. See the answer to question 51.

Question 55. The answer is "Yes," in view of Senator Douglas' memorandum appearing in the report of the 1961 hearings at pages 1309–1312, as set forth in answer to question 51.

Question 56. Yes. If the insurance charges are incident to the granting of credit, they are included in the finance charges and must be included in the numerator in computing the percentage rate required by section 4(a)(7).

Question 57. The inclusion of any charges incident to the granting of credit in addition to the nominal interest rate would naturally increase the percentage stated as required by section 4(a)(7).

Question 58. No. It is true that people may carry insurance on outright purchases for cash, but the nature of the insurance and the extent of the insurance would vary with the circumstances and would be determined by the purchaser and not by the seller or, in the case of a credit transaction, not by the lender. The purchaser would also pay the premiums in such a case. In case of credit transactions, the premiums are often advanced by the creditor and charged to the purchaser as part of his loan.

Question 59. Yes. Where merchandise is "bought on time" and the buyer is required as an incident to the extension of credit to purchase some type of insurance, it cannot be questioned that benefits from such insurance may inure to the buyer as well as the seller.

Question 60. Not necessarily. In order to determine whether or not it is "unfair" to the seller to require him to state insurance charges in such a way that they appear to increase the interest rate to be paid by the buyer, the insurance being purchased would have to be tested under the standards set out in the answer to question 51. Since an insurance charge which is not incident to the extension of credit as determined by the standards set forth in answer to question 51 need not be included in computing the interest rate, it is not believed that there would be any unfairness.

Question 61. No. It is not believed that the phrase "incident to the extension of credit" is too broad in relationship to the context of question 61. Not all insurance would fall within the category of being "incident to the extension of credit" and it is believed that the agency empowered to administer the act could, under the provisions of section 5(a), promulgate rules and regulations which would provide a framework for determining what types of insurance should be regarded as incident to the extension of credit under the terms of the act.

Question 62. It appears that the answer to this question is covered in our answer to question 46.

Question 63. The proposed legislation contemplates that the duty of disclosure would arise when the transaction is "consummated" that is, for the purpose of the bill, when the contract to purchase is signed.

Question 64. The bill appears reasonably explicit in this regard. Delivery, in and of itself, is not ordinarily an incident preliminary to the existence of contractual obligations, and the purpose of the bill, quite clearly, is to require disclosure before the consumer enters into a binding contractual obligation.

Question 65. Compliance with this section of the bill can be reasonably insured by the issuance of appropriate regulations prescribing the manner, details, and form which such compliance will take. There is no more of a problem here than in the case of any other commercial transaction, in respect to which a particular statute, State or otherwise, requires a lucid presentation of pertinent information in connection therewith. The problems of blind persons are no more serious in this respect than in other commercial transactions where they must, of necessity, rely on the eyes of one whom they trust for enlightenment in this area.

Question 66. The word "clear" in this connection would appear to mean a statement of the simple annual percentage rate which can be easily understood. Of course, it is recognized that it is essential that the writing in question be legible.

Question 67. Ordinarily. It is presumed that the statement would ordinarily be required to be in the English language as parties to practically all commercial transactions within the United States, with some few inconsequential exceptions, are warranted in the use of this, our national language. The exigencies of the situation may, of course, dictate the seller's or creditor's use of another language, in order to effect a sale or credit transaction. This is a matter properly a subject for future regulations.

Question 68. Of course the answer to this is "No."

Question 69. In the absence of a person upon whom the prospective buyer or debtor can rely for an appropriate translation, the word "clear" may require that the statement be in the prospective buyer's (debtor's) native tongue. However, this is a matter to be more appropriately covered by future regulations, after due consideration of all the pertinent facts in connection with this problem.

Questions 70 and 71. Questions 70 and 71 point out an inconsistency in the draftmanship of this act. Although it is believed that section 6(a) would apply to the provisions of the act as well as any regulation issued thereunder, it is recommended that line 14 of section 6(a) should be amended to include the words "or any regulation issued thereunder" after the word "act." In this manner, any ambiguity that might now exist about this section could be removed.

Question 72. Yes. Any State law making it illegal to disclose any of the items required by the act would be inconsistent with the act to the extent that the State law made such disclosure illegal.

Question 73. As the purpose of this statute is to assure a full disclosure of credit costs to the consumer without placing any undue burdens on creditors, the act imposes a minimum rather than a maximum disclosure requirement. If a State felt that it was necessary to pass legislation requiring a disclosure additional to that required under the act, such legislation would not ordinarily be inconsistent with the act.

Question 74. Not necessarily. If a State law required the same information, stated or computed somewhat differently such a State law would not necessarily be inconsistent with this act. As long as the requirements of the act were met, additional information complying with the requirements of the State law could be given by the creditor.

Questions 75 and 76. Although it is recognized that the possibility exists that the computation of interest on different bases could be confusing, and possibly inconsistent, it is believed that rules and regulations could be promulgated pursuant to section 5 that would provide for compliance with the Federal requirement even though a different type of computation may be required under State statutes.

Question 77. If the creditor merely followed the Federal form, he would not, by reason of that act alone, be in violation of any State law requiring a more detailed disclosure than that required under the act. However, as the bill only establishes a minimum standard, compliance with this bill would not satisfy a State law calling for a more detailed disclosure than that required pursuant to the provisions of the act. The resolution of such problems may be found in the exercise of discretionary powers provided under section 6(b).

Question 78. It would appear so, but we do not envision that sellers or lenders will find it necessary to engage in such a practice in order to be assured of protecting themselves.

Question 79. It is true that there is no such exception in the criminal penalty provision.

Question 80. It does appear that a person may technically be in violation of the proposed criminal provisions of the legislation; however, a culpable intent would be patently lacking in such an instance, where no one would be injured by an intentional overstatement. An amendment to the bill would be desirable, to make sure that overstatement by the creditor would have at least the same exculpating effect which it now has under the civil penalty portion of the bill.

Question 81. Yes.

Question 82. No penalties at all. The provision provides that "No punishment or penalty provided by this Act shall apply to [these agencies] * * *".

Question 83. Yes. Section 7(b) of the bill provides: "Except as specified in subsection (a) of this section, nothing contained in this Act or any regulation thereunder shall affect the validity or enforcibility of any contract or transaction." However, the problem is de minimis in respect to governmental agencies, as they are usually scrupulously careful to fully inform members of the public with whom they deal of all the pertinent facts in connection with financial transactions.

With the qualifications as expressed above, it is hoped that this information will be of guidance in your consideration of this bill.

By direction of the Commission, Commissioners Anderson and MacIntyre not participating.

PAUL RAND DIXON, *Chairman.*

FEBRUARY 6, 1964.

Hon. WILLIAM MCCHESNEY MARTIN, Jr.,
Chairman, Board of Governors of the Federal Reserve System,
Federal Reserve Building, Washington, D.C.

DEAR MR. CHAIRMAN: I enclose several questions which seek to clarify the meaning of S. 750, Senator Douglas' bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

Since the bill names the Federal Reserve Board as the administrator of the proposed law, I believe it is desirable for the Board to provide answers to these questions for our guidance in considering the bill.

Since it is hoped that we can send the transcript of the recent out-of-town hearings on the bill to the printer by February 18, I should like to have your reply by that date so that it can be included in the record.

With kindest personal regards, I am

Sincerely yours,

A. WILLIS ROBERTSON, *Chairman.*

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, February 17, 1964.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This refers to your letter of February 6, 1964, which enclosed a list of questions relating to S. 750, Senator Douglas' bill. To assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit.

Because of the rather technical and detailed nature of most of the 83 questions on the list, it was submitted to the Board's staff for study. In response to your letter, there is enclosed a memorandum which the staff has prepared commenting on the various questions. It is hoped that the memorandum will be useful in connection with further considerations of the bill.

In this connection, the Board would like to point out again that it is in full accord with the purpose of requiring creditors to disclose their finance charges. There is no doubt that the more information borrowers and credit purchasers have about the prices they are paying for credit, the more efficiently they can choose among the alternatives available to them. The Board expressed the same view in its report of February 20, 1963, to you on S. 750 and also in its reports on similar bills introduced in 1960 and 1961.

However, as these reports have stated, the Board believes that administration of such legislation would not constitute an appropriate activity for the Federal Reserve System. The regulation of trade disclosure practices would be foreign to the Board's present responsibilities. As noted in its report to you of February 20, 1963, the Presidential message of May 15, 1962, concerning consumer protection stated that: "Inasmuch as the specific credit practices which such a bill would be designed to correct are closely related to and often combined with other types of misleading trade practices which the Federal Trade Commission is already regulating, I recommend that enforcement of the new authority be assigned to the Commission."

Accordingly, as stated in its earlier reports, the Board endorses the objective of requiring creditors to disclose their finance charges, but believes that it would be inappropriate for the Board to administer such a bill.

Sincerely yours,

(Signed) WM. McC. MARTIN, Jr.

COMMENTS OF THE STAFF OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM ON QUESTIONS CONCERNING S. 750 SUBMITTED WITH CHAIRMAN ROBERTSON'S LETTER OF FEBRUARY 6, 1964.

Comments concerning questions 1 through 39.—These questions involve principally the definition of "credit" in section 3(2) of the bill, and, in effect, suggest—as does question 22 specifically—that the definition "should be limited to those transactions which it is intended to reach."

Where the apparent intent of the legislation, as in the case of S. 750, is to prescribe rules for a broad area of activity, involving innumerable technical problems and wide variations in types of transactions and practices, it may well prove more feasible and workable for Congress to establish comprehensive definitions or standards and leave to an administering agency the function of filling in the details as may be necessary or appropriate in effectuating the congressional purpose and design in the light of experience and developments. A more limited approach might fail adequately to provide in the legislation for categories of transactions or practices not specifically anticipated at the time of the legislation, but which clearly should be subject to it.

An example of the broader approach involves the definition of "credit" in section 602(d)(2) of the Defense Production Act of 1950 (64 Stat. 814) after which the definition of "credit" in S. 750 seems to be patterned. The definition in the 1950 act, of course, applied to a control of the use of credit in a selected area. On the other hand, while S. 750 is limited to the disclosure of the cost of credit, it is intended to apply to credit transactions in a much broader area. Narrowing the definition in S. 750 might be undesirable, particularly in the light of the great variety of the means for effectuating credit transactions and the tendency for changes in practices among grantors of credit. In any event, however, the bill clearly would not apply to cash transactions.

It may be observed also that the application of the definition of "credit" in S. 750 is dependent on other relevant provisions of the bill. Thus, the requirements of the bill apply to "credit" extended by a "creditor." The latter term is defined in section 3(4) of S. 750 to mean "any person *engaged in the business* of extending credit * * * who requires, as an incident to the extension of credit, the *payment of a finance charge.*" [Emphasis added.] The term "finance charge" is defined in section 3(3) of the bill which, at various places, including sections 4 and 5(a), places broad regulatory authority in the agency designated to administer the bill, including authority to prescribe "classifications and differentiations * * * adjustments and exceptions as * * * are necessary or proper to effectuate the purposes of this Act or to prevent circumvention or evasion, or to facilitate the enforcement of this Act, or any rule or regulation issued thereunder."

The foregoing provisions of the bill, it is believed, answer many of the questions 1 through 39 either specifically or indicate that a specific answer would depend on rules or regulations prescribed under the bill. In addition, specific answers, in some instances, might be misleading since the correct conclusion would necessarily depend upon all of the facts and circumstances of the particular transaction.

Comments concerning question 40.—This question seems to ask whether, if a bank makes a "loan" at a given rate of interest, there is any reason why "all the other items" in section 4(a) of S. 750 should be set forth in the statement required to be given to the borrower, meaning, apparently, the items covered under subparagraphs (1) through (7).

As indicated in the opening sentence of section 4(a), such items would have to be set forth "to the extent applicable" to the transaction "and in accordance with rules and regulations prescribed" by the administering agency. It may be noted that items (1) through (3) relate to regulated transactions where the credit is to finance the acquisition of "property or services." With respect to item (4), the answer would depend on the facts. As to items (5) through (7), the information would seem necessary in any regulated transaction.

Comments concerning question 41.—As suggested by the question, the word "mortgage" in the definition of "credit" in section 3(2) of S. 750 would cover both real estate mortgages and chattel mortgages.

Comments concerning question 42.—Whether the mortgagors usually know the "rate of interest" they are paying might depend on whether the mortgage involved is a chattel mortgage or a real estate mortgage. It is believed to be a usual practice for real estate mortgage papers to specify the "rate of interest" applicable to the mortgage loan. In the case of chattel mortgages, this may not be the case. In the case of real estate loans, there may be some question in various situations as to whether the "rate of interest" specified in the mortgage papers might fail to reflect certain costs of the credit included, for example, in the closing costs.

Comments concerning question 43.—This question concerns the fees that should be included within the "interest rate" apparently in the case of a real estate mortgage transaction.

This question would seem to be discussed quite fully by the letter of June 19, 1962, to Senator Douglas from the General Counsel of the Housing and Home Finance Agency, set forth at pages 189 and 190 of the hearings in May 1962 on S. 1740 before the Subcommittee on Production and Stabilization of the Senate Committee on Banking and Currency ("Truth in Lending—1962").

Comments concerning question 44.—Whether the practice today is to include certain fees within the "interest rate" applicable to real estate mortgage transactions would depend both on the particular fees in question and the practice followed in the particular locality. As stated in the letter referred to in the comments concerning question 43, the matter would be one for continuing study so that the regulations to be issued under S. 750 could reflect changes, from time to time, in terminology and practices.

Comments concerning question 45.—This question seems to suggest that buyers and mortgagors are now adequately informed of various charges incident to the extension of credit "when they are told the interest rate and the dollar amount of" various charges related to the transaction. An answer to the question would necessarily depend on the practices followed by the lenders involved; and the practices of various lenders are not the same. In some cases the questions would require a negative answer.

Comments concerning question 46.—The answer to this question involves a matter of policy. The purpose of S. 750 is to establish uniform standards on the basis of which meaningful comparisons of the cost of credit may be made, and the bill has adopted a specific design, rather than some other approach, by which that purpose may be attained. Where competing lenders, for example, follow the different practices suggested in the question, borrowers would find it difficult to make meaningful comparisons.

Comments concerning questions 47 through 49.—A deed of trust can be used for various purposes. In some States an instrument known as a deed of trust is used in the financing of real estate purchase transactions which, in other areas, would be covered by a mortgage. In such cases the trustee under the deed of trust holds the property until the fulfillment of a condition, which is the payment in full of the loan by which acquisition of the property was financed. The deed of trust thus secures payment to the lender of the amount of his loan. It would seem relevant in this connection to refer again to the definition of "credit" in section 602(d)(2) of the Defense Production Act (64 Stat. 813) which covers, among other things, "any loan, mortgage, *deed of trust* * * *. [Emphasis added.]

Comments concerning question 50.—This question asks what is meant by "advance." The reference apparently is to that word as used in the definition of "credit" in section 3(2) of S. 750. In the context of the bill, the word includes a credit transaction in which funds are transferred by one person for the use of another on the condition that they will later be repaid to the former. It may be noted that the definition of "credit" in section 602(d)(2) of the Defense Production Act (64 Stat. 814) includes "advance." The word is used to describe a credit transaction in other provisions of law such as, for example, section 13 of the Federal Reserve Act (12 U.S.C. 347) relating, among other things, to "advances" by Federal Reserve banks to members banks, and section 6(a) of the Bank Holding Company Act (12 U.S.C. 1845) concerning "advances" by banks on certain security.

Comments concerning questions 51 through 62.—These questions all seem to relate to the provision in section 4(a)(4) of S. 750 which requires any creditor "to furnish to each person to whom credit is extended, prior to consummation of the transaction, a clear statement in writing setting forth, to the extent applicable and in accordance with rules and regulations prescribed by" the administering agency, among other things, "the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit." Section 3(3) and 4(a)(6) are companion provisions concerning charges "incident to" the extension of credit. The questions are concerned, in the main, with what might or might not be regarded as incident to an extension of credit.

This matter is gone into at some length at pages 189 and 190 of the May 1962 hearings cited in the comments on question 43. It is also discussed in the memorandum in the appendix to the hearings in July 1961 on S. 1740 before the Subcommittee on Production and Stabilization of the Senate Committee on Banking and Currency ("Truth in Lending"), page 1309. As there pointed out, precedent in this connection has been established not only in the Uniform Small Loan Act but also in connection with the administration and supervision of Federal credit unions. Whether a charge is or is not incident to the making of a loan is a question that must be answered by Federal credit unions in connection with their loans under section 7(5) of the Federal Credit Union Act of 1934 (12 U.S.C. 1757). In any event, specific answers would depend in part on the regulations that the administering agency would issue under sections 4(a) and 5(a) of S. 750.

In connection with question 62, it may be noted that the policy of the bill, in effect, to emphasize the cost of credit to the borrower. Where the emphasis should lie on this matter is, of course, for the decision of the Congress.

Comments concerning questions 63 and 64.—These questions concern the requirement of section 4(a) of S. 750 that the creditor shall furnish to each person to whom credit is extended a clear statement in writing setting forth certain detailed information "prior to the consummation of the transaction."

The questions suggest that the bill does not make it at all clear when the transaction is consummated. It would seem that the transaction, for the purpose of the bill, would be consummated when the buyer or borrower became legally committed or obligated to pay for goods or services or repay a loan, for example. Just this occurs would be a question to be determined by the rules applicable under the laws of the appropriate State. It may be of interest that section 197.2(a) of the Federal Trade Commission's regulations relating to the sale and financing of motor vehicles contains a similar requirement (16 CFR 197).

Comments concerning questions 65 through 69.—These questions relate to section 4(b) (1) and (2) and section 5(a) of S. 750. The first of these sections requires, in connection with a revolving or open-end credit plan, that the creditor, in accordance with the rules and regulations prescribed by the administering agency, furnish the customer, (1) prior to agreeing to extend such credit, "a clear statement in writing" setting forth the charge for the credit, and (2) at the end of each monthly period following the extension of credit, "a credit statement in writing" setting forth the outstanding balance of the account.

The second of the sections referred to above requires the administering agency, by rule or regulation, to require that certain information "be set forth with sufficient prominence to insure that it will not be overlooked by the person to whom credit is extended."

The questions ask how this can be "insured," for example, in the case of a blind person, and what would be "clear" to a borrower, for example, who could neither read nor write in the English language. This involves practical problems that are no doubt frequently faced under laws and regulations by many of the same classes of creditors who would be subject to S. 750. An example is the regulation of the Federal Trade Commission regarding the disclosure of certain information relating to installment sales of automobiles (16 CFR 197). Similar problems no doubt arise under such statutes as the 1958 act of Congress requiring the disclosure of certain information concerning new automobiles, including prices (15 U.S.C. 1231 et seq.). Another example is the Wool Products Labeling Act (15 U.S.C. 68 et seq.). Thus, S. 750 presents no novel questions in this regard.

Comments concerning questions 70 and 71.—These questions seem to refer principally to section 6(a) of S. 750, which provides that it "shall not be construed to annul, or to exempt any creditor from complying with, the laws of any State relating to the disclosure of information in connection with credit transactions, except to the extent that such laws are directly inconsistent with *the provisions of this act.*" [Emphasis added.]

Under the holding of the court in *United States* v. *Mersky*, 361 U.S. 431 (1960), it can be argued that the language "the provisions of this act" would include the regulations issued thereunder by the administering agency. However, it might be preferable to amend the language "the provisions of this act" so as to include specifically the rules and regulations issued by the administering agency pursuant to the act. The penalty provisions in section 7 of the bill specifically refer not only to violations of the act and provisions of the act, but also the regulations issued thereunder. This, a technical amendment to section 6(a) as just suggested, conforming that section in this respect to section 7 might seem desirable as a precautionary matter.

Comments concerning question 72.—It seems clear, under section 6(a) of S. 750, that the bill would supersede a State law making it illegal to disclose any of the items required in a given case by S. 750 to be disclosed. The question, of course, would always be whether, as a legal matter, the State law was "directly inconsistent" with S. 750.

Comments concerning question 73.—The fact that a State law required the disclosure of information in addition to that required to be disclosed by S. 750 would, of itself, seem to be unobjectionable under the bill.

Comments concerning questions 74 through 77.—The answers to the specific questions necessarily would depend on the facts and circumstances, including any applicable regulations of the administering Federal agency, and particularly its regulations under section 6(b) of the bill. Where the State law was more severe than the provisions of S. 750 by requiring the disclosure of more complete information, for example, a creditor might be in violation of the State law if he chose merely to follow the less severe provisions of S. 750.

Comments concerning questions 78 through 80.—These questions, which rest on a very literal reading of the bill, suggest that it might be desirable that the standards for civil penalties in section 7(a) and the standard for criminal liability in section 7(c) be reexamined in order to remove any possiblity of unintended hardship or undue severity. However, since the exemption from civil penalties for overstating percentages would exempt any creditor who erred on the high side to protect himself, he would seem clearly to be exempt also in such a case from criminal prosecution, because he would not be "wilfully" violating the act.

Comments concerning questions 81 and 82.—Like the definition of "person" in section 702(a) of the Defense Production Act of 1950 (64 Stat. 815), the definition of that term in section 3(5) of S. 750 includes "the United States or any agency thereof, or any other government, or any of its political subdivisions, or any agency of" the foregoing. Thus, as was true in certain situations under the 1950 act, it would also be the case under S. 750 that the Federal Government, for example, would be a person for the purposes of the definition of "creditor" in the bill, and, therefore, depending on the circumstances, might be subject to the requirements of the bill in extending credit.

However, a civil or criminal penalty could not be enforced against the Federal Government because, under section 7(d) of S. 750, no punishment or penalty provided in the bill could be imposed against "the United States, or any agency thereof * * *." Here again, the bill follows the principle of the Defense Production Act which, in section 702(a), specified that no punishment provided for violations of the act would apply against "the United States or any agency thereof * * *."

Comments concerning question 83.—Section 7(b) contains a provision that "nothing in this act or any regulation thereunder shall affect the validity or enforceability of any contract or transaction." Thus, it appears that a debtor would not be relieved of his obligation to the creditor simply because the creditor, in the case of a regulated transaction, failed to disclose the cost of the credit as required by the bill. Section 7(d) draws no distinction between whether the creditor is a private business or governmental agency.

FEBRUARY 17, 1964.

DUGGAN, MCDONALD & BAHNER,
Chattanooga, Tenn., May 10, 1963.

Re our file DM 10.020, Senate bill S. 750.

Senator ESTES KEFAUVER,
Senate Office Building,
Washington, D.C.

DEAR SENATOR KEFAUVER: As you know, this firm has represented the Beneficial Finance Co., of Wilmington, Del., for several years and they have kept us reasonably well posted on pending legislation in the various States, as well as the Congress, as it relates to its activities.

Our client is very much concerned and we are very much surprised at the technical changes in S. 750 of the 88th Congress compared with S. 1740 of the 87th Congress in that it appears to worsen rather than improve the circumstances. If the legislation functions as we are inclined to believe by the terminology, it might be termed the "end in lending" bill. Our reason for this identification is illustrated as follows:

1. Assume a $1,000 household mortgage at 5 percent for 1 year. The interest rate would conceivably be 5 percent but under S. 750 all expenses in connection with the loan such as (a) the lawyer's fee for drafting the mortgage; (b) the fee for recordation; (c) the notary fee for taking the acknowledgement; (d) the fire insurance premium required for the house, together with (e) other expenses incidental to the procurement and recordation, even to the releasing of the mortgage, is included. Assuming the attorney's fee to be $25, recordation costs $5, fire insurance premium $9, a notary fee $1, the sum total of expense $40. The rate of credit was 5 percent but under this circumstance it will be 9 percent, and if the expenses should by chance equal the interest payment, the rate of credit would be portrayed as double what it actually is. In the terminology of the model Small Loan Statute, the representation would be "false, misleading, and deceptive."

2. Assume an individual, discovering himself in a distant city, borrowed $5 to be repaid the following day by U.S. postal money order, the expense of 20 cents for the money order on a non-interest-bearing loan would make the rate of credit 1,460 percent a year; or

3. Assume a loan of $100 for 1 month at 5 percent would require a note, or similar security which may be recorded. The interest charge for the period of the loan would be 42 cents but the prothonotary and recording fees may total $5 and the rate of credit would therefore approximate 65.04 percent. Again, in the words of the small loan statute, the representation would be "false, misleading, and deceptive."

It is observed you are a cosponsor of S. 750 with Senator Douglas and others. Perhaps some of the phraseology has been misconstrued but these illustrations seem to indicate the general intent. We believe there are some Tennessee decisions dealing with Federal housing charges on small mortgages and the violation of the Tennessee constitution. The court held they were not "interest" charges. Further, section 7 of S. 750 apparently exempts Federal agencies and its officers and staffs from the burdens and penalties provided for therein and it is difficult to conceive how the "servants" of the people can outline a rule of conduct excluding them from the penalties which this legislation will apparently place upon private citizens, until recent years presumed to be the "masters."

We are enclosing an editorial appearing in the Wall Street Journal of March 7, 1963, which we feel is apropos.

Yours very truly,

BEN O. DUGGAN
(For Duggan, McDonald & Bahner).

(The editorial appears on p. 1655.)

CIRCUIT COURT OF OREGON,
COUNTY OF MULTNOMAH,
Portland, Oreg., June 17, 1963.

HON. PAUL DOUGLAS,
Chairman, Subcommittee on Truth in Lending,
U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: I have been advised that your Subcommittee on Truth in Lending is contemplating field trips to various areas of the country, including ours, for hearings on this proposed legislation.

I am happy to hear this, as I recall that I have on several occasions in the past written to you indicating my support. At that time I was a judge in a court that had a lot of litigation on debtor-creditor relationship.

I would be most happy to respond to a committee's invitation to appear before it if they would be interested in my experiences and observations in this field.

Respectfully yours,

RICHARD J. BURKE.

PILL FURNITURE,
Montclair, N.J., July 29, 1963.

Re bill to protect consumers.

Senator DOUGLAS of Illinois,
Washington, D.C.

HONORABLE SIR: Please be advised that we believe that we are the largest house to house installment dealer in the State of New Jersey. At the outset, we wish to state that we agree that there are people in this line of business who are taking advantage of the consumer. However, there is no business existing today that does not have its minority of unscrupulous and crooked members.

As you know, when the percentage of business losses are high the businessman must raise his prices to make up the loss. Therefore, if losses are cut to a minimum the consumer will be charged much less; and he will benefit directly from his saving to the dealer.

We therefore suggest that any bill you sponsor should include these points, which if corrected will aid the businessman:

1. All Federal employees should be subject to wage executions except those earning over $15,000 per annum.
2. All Federal, State, and city employees should cooperate fully with business by giving them details concerning the consumers who are being aided by the government. Since the businessman is a large contributor (taxwise) toward the money used to aid these people, certainly they should not be punished by being denied legitimate information as to the whereabouts of the consumer and his employment, if he is being aided in any way by the government (Federal, State, and city).
3. Federal, State, and city welfare boards should take a realistic attitude toward the facts of life. The government states that they are not supposed to buy on credit, and that they will not persuade recipients of welfare to pay these bills. It is common knowledge that people on welfare do buy items on credit. When they refuse to pay, they are hurting not only the businessman, but all other people who are on welfare. The government should control their credit buying, but at the same time compel them to pay their legistimate debts.
4. The telephone companies now permit people to get private unlisted numbers. Some people have unlisted numbers simply to avoid their creditors. We do not say that unlisted phone numbers should not be permitted. We merely request that phone companies should be forced to divulge these numbers upon the ligitimate request of credit houses or other businesses.

These steps may be sweeping in nature, however, so will any bill that you pass to protect the consumer. The legitimate businessman who has high losses due to the lack of cooperation of government or government-controlled personnel (public utilities) can, by lowering his losses, aid the consumer by consequently lowering his prices. Since there are more legitimate businessmen than unscrupulous businessmen, the consumer will be aided to a far greater degree in this way than in any bill that will protect them against the minority of fraudulent dealers.

Sincerely yours,

WERNER NATHAN, *Owner.*

HOUSE OF REPRESENTATIVES,
Washington, D.C., August 13, 1963.

Hon. Senator PAUL DOUGLAS,
Chairman, Senate Subcommittee on Production and Stabilization,
Washington, D.C.

DEAR SENATOR DOUGLAS: I am herewith enclosing a copy of a letter I received recently from Mr. and Mrs. Michael D. Eckart, constituents of mine from Cresaptown, Md., in which they recount an experience in borrowing which I thought you might find useful for your information and guidance in investigations on truth-in-lending legislation.

As you know, I have introduced a bill, H.R. 4548, which is identical to that now under consideration by your committee. I am deeply concerned with the problem and am anxious to assist in any way possible.

My office has been in contact with Mr. and Mrs. Eckart who, for personal reasons, would be unable to testify in person, but who have given permission to use their letter in any way in which it might help others avoid their unpleasant and costly experience.

If there is any way in which I can be of further assistance in this matter, please let me know.

Best wishes,

Very sincerely,

CARLTON R. SICKLES,
Member of Congress.

CRESAPTOWN, MD., *July 23, 1963.*

Hon. CARLTON R. SICKLES,
U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN SICKLES: It has been brought to our attention that a bill entitled "the truth-in-lending bill" has been introduced into Congress. It is our understanding that the purpose of this bill is to protect the public against unethical practices of moneylending institutions. Until recently we had no reason to suspect that such a law was needed. The following experience convinces us of the need of such a bill.

We are both college graduates with degrees in mathematics, physics, and chemistry. In November we purchased a new mobile home. We had $4,000 of our own and needed less than $3,000 additional funds in order to make a cash purchase. We took our problem to Mr. J. Lee Temple of the National Bank of Keyser, Keyser, W.Va., and gave him the following information on our earning ability. In the year following our graduation from college, our earnings were $6,600 and during this period we had managed to save $2,000 plus pay a $500 hospital bill and a $300 debt. Our combined salaries in the last 12 months has been $11,000. Obviously, with our past record, we could easily save $3,000 in a year's time. Since we had had no experience in borrowing money previously, we foolishly took the word of Mr. Temple that we were receiving what we were asking for—a loan with a straight 6 percent per annum. Although we felt sure of paying the loan off in less than a year, Mr. Temple told us that it would be no more expensive to secure the loan for 2 years instead of 1 and then pay it off in 1 year. We would in this event be refunded the straight 6 percent interest that would have been incurred during the second year. We saw no objection to securing the loan for 2 years as the cost to us would be the same, in the event that we paid the loan off in a year as originally planned. On our banknote and also the trust paper, we noticed that no indication of rate of interest or type of interest was given. We questioned this lack of detail but were assured verbally by the bank that everything was in order and that we were getting what we asked for—a loan that accrued 6 percent simple interest per year.

After 9 months, when making final payment on the note, much to our surprise, we were informed that we were not paying 6 percent simple interest but instead were paying 6 percent discounted interest. So on a $3,044.20 loan we have been charged $216.69 (for 9 months) instead of the promised $180.54 (simple interest for a year).

We are fortunate as we can afford to pay $40 as the price of experience. However, there are many people less fortunate than we who are being victimized by such unethical business practices. It is our feeling that "the truth in lending bill" as described to use will help to protect the public against such practices without hampering legitimate businesses. Therefore, as registered voters of Allegany County we expect you to lend your support to this bill.

Sincerely,

MICHAEL D. ECKART,
(Mrs.) MARIE H. ECKART.

HARRIS-INTERTYPE CORP.,
Cleveland, Ohio, August 20, 1963.

Hon. A. WILLIS ROBERTSON,
Banking and Currency Committee,
Senate Office Building, Washington, D.C.

SIR: Since we and our customers would be affected by Senate bill 750 designated as the Truth in Lending Act, we feel that we should give the committee the benefit of our comments and experience.

Our principal objection is to section 4(a)(7) and to the penalties provided. In common with other manufacturers of printing and broadcasting equipment, we offer our customers deferred payment terms as an aid in making a sale. Our contract sets forth all the information in items (1)-(6) of section 4(a), including the amount of the financing charge expressed in terms of dollars and cents. We were influenced in the use of a finance charge as against a simple interest computation of each payment because our customers preferred to make uniform monthly payments. The requirement that the finance charge be expressed as a simple annual rate we believe to be unnecessarily expensive and the penalties for failure to do so correctly unnecessarily harsh.

Our transactions are all to businessmen knowledgeable in business ways, with a typical balance ranging from $10,000 to $100,000. The exact amount of any sale varies with the requirements and amount of accessories which the customer may desire. Therefore each sale is likely to be for a different amount. The calculation of the finance charge as a simple interest rate requires reference to tables which the average employee is unable to work with. This requirement would require companies to employ skilled mathematicians or highly trained business administration graduates to do work which is uneconomical from the overall viewpoint. We tell our salesmen that the simple interest rate for uniform monthly payments is a little less than twice the finance charge per year. We believe this information provides our customers with all the information they need or desire.

In many cases some of the payments, particularly the first and the last, may be different from the others in order to provide rounded out sums for the remaining payments. This could well require a consulting service and a computer in order to figure out the exact simple interest rate and none of us here would be able to check the accuracy of the computation.

We suggest that (1) the bill is undesirable, (2) transactions between business concerns should be exempt on the basis that the businessman is sufficiently knowledgeable to evaluate his position, and (3) the expense and penalties involved are an undue burden on the seller and a misuse of the education and skills involved in complying with the bill.

Very truly yours,

E. C. SPENCER, *Treasurer*.

(Same letter sent to all members of the Banking and Currency Committee.)

CATERPILLAR TRACTOR CO.,
Peoria, Ill., August 23, 1963.

HON. A. WILLIS ROBERTSON,
Senate Office Building,
Washington, D.C.

DEAR SENATOR ROBERTSON: This letter, which is being sent to all members of the Senate Committee on Banking and Currency, concerns S. 750 (the truth in lending bill) which would require statements of certain factual information in connection with credit transactions.

As background information, let me briefly describe our business. Caterpillar Tractor Co. and its subsidiaries manufacture and sell throughout the free world tractors, earthmoving equipment, diesel engines and related products. Consolidated sales in 1962 amounted to $827 million and in the first 6 months of 1963, were $489.6 million. Foreign sales, which in large part comprise product sold by the parent company to subsidiaries and resold by the latter abroad, range from about 40 percent to 45 percent of total consolidated sales. Nearly all customers of the parent company are dealers, governments or governmental agencies, other manufacturers, and the subsidiaries above referred to—and all its sales, whether to domestic or foreign customers, are made in the United States and would be subject to this proposed legislation.

Our objections to S. 750, as presently drafted, may be broadly summarized as follows:

First, it includes within its scope definable categories of transactions to which it should not apply.

Second, in its present form it would require us to change our established substantive business practices in order to be able to compute the data called for by it.

As to the first of these:

When the bill was introduced in the 87th Congress on April 27, 1961, it was stated that "the central purpose of the truth-in-lending bill is to prevent the excessive, untimely use of credit by consumers" and that the bill "would require that anyone engaged in the business of extending credit at the retail level" make certain factual disclosures. When the bill was reintroduced in the 88th Congress on February 8, 1963, it was stated that: "Anyone engaged in the business of extending credit at the retail level would have to fully disclose in writing the costs of credit to the borrower before the credit transaction is signed."

The bill, of course, goes far beyond the extension of credit at the retail level, for it embraces within its scope transactions at all levels of distribution. It may be that if the disclosure called for by the bill is needed in some types of retail transactions, it may also be needed in some types of nonretail transactions. Be that as it may, there is inherent in the quoted statements the basic thought that it is the unsophisticated user of credit who needs the bill's protection—and this thought is clearly expressed in the bill itself. Section 2 thereof states that "economic stabilization is threatened by the untimely use of credit"; that "the untimely use of credit results frequently from a lack of awareness of the cost thereof to the user"; and that the purpose of the bill is "to assure a full disclosure of such cost with a view to preventing the uniformed use of credit to the detriment of the national economy."

Clearly the only justification asserted for the bill rests upon a supposed need to inform the uninformed user of credit and—whether or not such a need exists—there can be no justification for applying the bill to transactions with customers who are experienced well-informed businessmen such as those who own and operate the dealerships to which we sell. Our dealers have an average net worth of approximately $1.8 million, have been engaged in substantial business transactions for many years, and purchase constantly and in substantial amounts from us. They are far from uninformed and do not lack "awareness of the cost" of credit. Similar considerations apply to the other manufacturers to whom we sell, to our own subsidiaries, and to governments and governmental agencies (except possibly those at the local level).

Our situation in this regard is, of course, far from unique. A multitude of business concerns extend credit (particularly in the broad sense in which that term is defined in the bill) to experienced well-informed businessmen, to governments and governmental agencies, and to their own subsidiaries. Classes of customers such as these, to which the bill clearly should not apply, are susceptible of definition in terms of volume of purchases or sales, function, or relationship to the seller.

Two further considerations arise in the case of foreign customers. First, their inclusion within the scope of the bill goes far beyond the stated purpose of "preventing the uninformed use of credit to the detriment of the national economy." Second, if foreign governments believe that their citizens are so uninformed as to need this type of protection, they are entirely capable of imposing their own disclosure requirements, fitted to their own needs as they see them. It is perhaps time for us—at least in the legislative field—to resist the temptation to tell other countries what is good for them, a practice which I understand is rather resented in some foreign areas.

In view of the public representations which have been made as to the scope of the bill—such as the legislative statements quoted earlier—wherein the emphasis has been placed almost entirely upon retail transactions, it would be best to limit the bill to such transactions—that is, if it is to be enacted at all. Whether or not this be done, however, there should be excluded from the bill such classes of customers as dealerships, manufacturers, and other concerns handling a substantial volume of business; subsidiaries; governments and governmental agencies (except perhaps those below the State governmental level); and foreign customers.

To summarize this aspect of our objections:

The bill is extremely broad in scope and includes transactions—falling within definable areas—which need not be covered in order to achieve the objective sought. Such areas should be excluded from the coverage of the bill, if enacted, thereby lessening the burden upon business of applying to the Federal Reserve Board for exemptions, the burden upon the Board of dealing with a huge volume of such requests, and the expense to business (in added paper work) of complying pending issuance of exemption rulings by the Board.

Far from doing this, the bill makes no effort whatsoever to exclude from its scope definable areas where its protection clearly is not needed—and simply dumps everything into the lap of the Federal Reserve Board. This amounts to a partial abdication of the legislative function. Borderline areas, of course, may exist—and these it is proper to refer to the exemptionmaking authority of an expert administrative body. But if the purpose of the bill truly is only to protect the uninformed user of credit, there must equally exist definable areas of inapplicability such as those indicated above. It should be the function of the legislature to determine and define the clearly excludible areas, delegating to an administrative agency only the problem of detailed definition of the borderline areas.

The second general area in which we find objection to S. 750 lies in its potential effect—undoubtedly not intended by its sponsors—upon our established business practices. Let me illustrate.

Much of our business results from orders placed upon us by dealers, and accepted by us, on the basis that prices and terms shall be those in effect on date of shipment. Shipment, of course, usually is not and cannot be made until some time after receipt and acceptance of the order, and ordinarily payment is not to be made until after shipment.

Under section 3(2) of the bill "credit" includes any contract to sell property under which part or all of the price is payable subsequent to the making of the contract. When we accept our dealer's order, as above described, we make a contract to sell with payment to be made in the future (see 26 Ill. Ann. Stat. sec. 2-305). Likewise, when we make shipment we make a sale with payment to be made in the future. Thus at both times we extend "credit" under the broad definition in section 3(2).

In many such instances machines are sold on the basis that payment of the full price is due a specified time (e.g., 30 days) after shipment, with a discount for prompt payment if payment is made within a specified shorter period (e.g., 15 days). In other instances we accept the dealer's interest bearing promissory note payable in specified installments (e.g., 10 percent of the principal a month) beginning at the end of a specified time (e.g., at the end of the sixth month) following our sale to the dealer, with the proviso that if the machine is resold by the dealer earlier the entire principal amount (or remaining balance if any payments have already been made) must be paid within a specified number of days after such resale.

In the one case the cash discount, and in the other case the interest on the dealer's note, would appear to be a "finance charge" as defined in section 3(3) of the bill, and under section 3(4) we would be a "creditor" within the meaning of the bill. Section 4 of the bill would therefore require that at some time prior to shipment—and possibly prior to acceptance of the dealer's order—we furnish to the dealer a statement showing both the effective simple annual interest rate and the dollar amount of the finance charge.

In order to determine the effective simple annual interest rate and the dollar amount of the finance charge it is, of course, necessary to know the principal amount involved, the discount rate for prompt payment, and, in cases where the dealer's note is accepted, the interest rate to be charged on the note. Thus the bill would compel us to discontinue our established practice of selling on the basis of prices and terms in effect at date of shipment, and instead sell on the basis of prices and terms in effect at some earlier date. Only by doing this would we be able to determine, at the time required by the bill, the principal amount, the discount rate for prompt payment, and, where a promissory note is accepted, the applicable interest rate.

Furthermore, even such a change in our method of doing business would not enable us to comply fully with the bill's requirements. To do so, some additional change or changes in our practices would be necessary.

Thus, in the case of the discount for prompt payment, making the above described change in our method of doing business would enable us to determine—at the time required by the bill—the principal amount involved and the percentage rate of discount to be applied to that principal amount. This in turn would enable us to determine the dollar amount of the cash discount—but it would still be impossible to express the effective simple annual interest rate because the determination of that rate depends upon the length of time the credit is outstanding and this we would have no way of knowing in advance.

Similarly, in transactions in which we accept the dealer's promissory note, we could, by making the above described change in our method of doing business, determine—at the time required by the bill—the principal amount and the annual interest rate applicable to the note—but it would still be impossible to determine the dollar amount produced by that interest rate since that amount would depend upon the length of time the note is outstanding. In any case where the dealer resells the purchased item in less than the maximum time provided in the note, the length of time that the note is outstanding is dependent upon the time at which he makes the resale—and neither we nor the dealer can possibly predict in advance when such resale will be made.

For these reasons the bill, if enacted in its present form, would compel changes in our business practices in addition to the change above described—and, frankly, I cannot now visualize just what those aditional changes would be. (In this connection, it should be pointed out that the rulemaking power of the Board under section 5 of the bill does not appear to be sufficient to permit it to resolve these problems in nonexcepted transactions. Indeed, to give it such power would probably require that it be authorized to rewrite completely the provisions of sections 3 and 4—a highly dubious method of legislating.)

The professed purpose of the bill is simply to require disclosure of certain facts—not to require, through indirection, changes in established substantive methods of doing business. It should at the very least be confined to that purpose.

It appears that the bill has been drafted primarily to deal with small retail transactions, such as the purchase of a car by an individual, and that as a result its provisions become unworkable when extended—as they are—beyond the areas of such transactions. We urge that if the bill is to be enacted at all it at least be limited to retail transactions, and preferably to the small individual retail transactions with which it is designed to deal and which are the only types of transactions where it can possibly be claimed that "lack of awareness" of the cost of credit may present a problem requiring legislation.

Statutes such as this necessarily add to the costs of each affected business concern and in their cumulative effect tend to raise prices at home and lessen the ability of industry to sell abroad in competition with lower cost foreign manufacturers. They should be enacted only if their value to the country outweighs these detrimental effects, and if enacted should be limited to the areas in which a real need for their requirements exists.

Sincerely yours,

M. SARGENT.

MILWAUKEE, WIS., *August 30, 1963.*

Hon. PAUL H. DOUGLAS,
U.S. Senate Office Building,
Washington, D.C.

DEAR SENATOR DOUGLAS: I am writing in support of your truth-in-lending bill, S. 750, after having read the June 24, 1963, copy of "Here's the Issue," on the subject, which was published by the U.S. Chamber of Commerce. Among the objections to the bill quoted in the article is one published in the March 1962 monthly letter of the First National City Bank of New York. An excerpt follows:

"* * * The easiest concept, perhaps, is that the payment of $60 interest on a $1,000 loan at the end of 1 year would be 6 percent simple interest. The practice among lenders is to charge interest at shorter intervals. Payment of $5 a month interest on a $1,000, 1-year loan would work out to something in excess of 6 percent simple interest. And there is no formula which will tell exactly what the simple interest equivalent would be * * *."

Nonsense. It's all a matter of commonsense definition. In this case, a most obvious presumption is that the lender is reinvesting proceeds of the interest payments at about the same rate at which the loan was made and is, therefore, getting some 6.17 percent simple interest effectively. A similar argument can be advanced for the conclusion that the borrower is effectively paying 6.17 percent simple interest. If interest on reinvestment of interest on the reinvested interest payments is neglected (and it is negligible, except for truly usurious rates), then the appropriate formula is:

$$I_e = \frac{I}{1 - \frac{I(N-1)}{2N}}, \text{ where}$$

I_e—is the effective simple interest rate;
I—is the nominal simple interest rate; 6 percent in this case;
N—is the number of interest payments made during the year, in this case 12.

My point is not that, given appropriate definitions, deriving formulas will be easy in the more difficult cases. Obviously, these derivations can become very sticky. My point is rather that, once your bill is enacted, definitions will be agreed upon; formulas derived by experts will be expressed in handy tabular form for general consumption. The very abbreviated form below is a case in point covering our simple example.

Table of effective simple interest rate percentages

	Nominal interest rate				
	4	5	6	7	8
Interest on loan paid:					
Monthly	4.07	5.11	6.17	7.23	8.30
Quarterly	4.06	5.09	6.14	7.19	8.24
Semiannually	4.04	5.06	6.09	7.12	8.16
Annually	4.00	5.00	6.00	7.00	8.00

Those of us who do not use the PBA, revolving credit and such accounts, perhaps benefit in reduced prices from those who do. But, in conscience, this cannot permit us to condone the insidious draining of the resources of people who, unknowingly, are paying exorbitant interest rates, even to some of our most reputable establishments.

Very truly yours,

CLARENCE J. BURG.

PILSK FURNITURE CO.,
Nashville, Tenn., September 5, 1963.

Senator PAUL DOUGLAS,
Chairman, Senate Banking Committee,
Washington, D.C.

DEAR SENATOR DOUGLAS: I am a partner of the Pilsk Furniture Co., Nashville, Tenn., and am representing the Tennessee Retail Merchants Association. I was unable to appear before the subcommittee meeting in Louisville on August 26, 1963; therefore request you include this statement in the records of your committee's hearing on S. 750.

I am opposed to the enactment of this bill. Based on samplings of opinion from both large and small retailers (particularly small merchants of which I am one) this represents the convictions of all.

The enactment of the proposed legislation will not cure the abuses that have been brought to the attention of your committee. Fraudulent practices are presently prohibited by adequate laws at both State and Federal levels; therefore, S. 750 will not help matters in this area.

Many States, including Tennessee, have enacted legislation dealing with conditional title sales in which requirements are listed to disclose all pertinent items in the contract including the time price differential stated, of course, in dollars and cents.

The need of a Federal statute, therefore, is not required. Full disclosure is now almost a routine procedure with most retailers who sell merchandise on extended payments.

I will not burden you with the complexities involved in determining the true and exact "spelling out" of the simple annual percentage rate as required then the figure stated must be absolutely correct otherwise there can be no compliance and any approximation above or below the exact rate would do violence to the wording and the principle of the act.

Another observation could be made that an understatement of the rate would be a violation and an overstatement of the rate would deter the consumer from making the purchase. In either case it would do immeasurable harm to the retailer.

There is no doubt that this requirement, to state the interest rate, would force retailers to go "under cover" so far as carrying charge amounts are concerned in order to show on the sales contracts a low rate (comparable to the magic figure of 6 percent). A move in this direction would of necessity increase the cash price of the merchandise and be responsible for the following:

A. A penalty to the cash buyer (of which there are yet a substantial number).

B. A deterioration of morality.

It has been demonstrated that this has been the result whenever legislation has been enacted that is distasteful, harmful, repugnant, and/or difficult to execute.

The end result has been wholesale disregard and violation leading eventually to repeal of the legislation or no attempt to enforce.

Based on my long identification with the home goods industry and my knowledge of the small merchants, I am convinced that the "annual rate" provision is not realistic. The overwhelming majority of small merchants (and they represent a most substantial segment of our economy) are not capable of coping with this complex computation.

I can also state for myself and the merchants that we are wholeheartedly in favor of full disclosure as evidenced by the fact that the organization I am representing sponsored the statute in Tennessee. (Copy attached.)

It seems to me that an educational program, expanding those now in existence, acquainting consumers with facts relating to financing costs, intelligent use of credit, budgeting, etc. would be much more effective than restrictive legislation. Particular emphasis should be given to understanding revolving credit charges. The general conception is that a charge of 1½ percent per month on the unpaid balance represents an annual rate of 18 percent. This, of course, is not true.

Buying on terms has become a "way of life" for millions and includes families in practically all income brackets. The enactment of the proposed legislation will not stop, in any substantial volume, the use of installment credit but it surely will create resentment and noncompliance.

I urge, therefore, the elimination of the provision requiring the simple annual interest rate (if the Congress feels it is needed in those States that at this time have not enacted legislation in this area) or the withdrawal of the bill.

Sincerely,

A. PILSK.

PUBLIC CHAPTER NO. 110

SENATE BILL NO. 222

By Peters

A bill to be entitled: AN ACT to amend Title 47 of Tennessee Code Annotated by inserting at the end of said title a new chapter to be designated as "Chapter 19—Retail Instalment Sales," said chapter to be known as the "Retail Instalment Sales Act"; to regulate the sale of certain goods in retail instalment transactions, including the regulation of retail instalment contracts and retail charge agreements, and fixing the time price differentials charged on each; to regulate conditional sales contracts and the assignment thereof; to provide for various types of transfer of such contracts and agreements; to provide criminal and civil penalties and sanctions for violatons of the act; and to define certain terms used in the Act

SECTION 1. *Be it enacted by the General Assembly of the State of Tennessee*, That Chapter 47 of Tennessee Code Annotated be and the same hereby is amended by adding at the end of said title a new chapter as follows:

"47-1901. Short title.—This chapter may be cited as the "Retail Instalment Sales Act."

"47-1902. Definitions.—Unless otherwise clearly indicated by the context, the following words when used in this chapter, for the purpose of this chapter, shall have the meanings respectively ascribed to them in this section:

"(a) 'Goods' means all personalty, including certificates issued by a retail seller exchangeable for personalty or services, but not including other choses of action, personalty sold by a manufacturer or wholesaler for commercial or industrial use, money or motor vehicles. The term includes goods which, at the time of the sale or subsequently, are to be so affixed to real property as to become a part thereof, whether or not severable therefrom.

"(b) 'Services' means work or labor furnished, whether or not furnished in connection with the delivery, installation, servicing, repair or improvement of goods and includes repairs, alterations, or improvements upon or in connection with real property.

"(c) 'Retail buyer' or 'buyer' means a person who buys goods or obtains services from a retail seller in a retail instalment transaction and not principally for the purpose of resale.

"(d) 'Retail seller' or 'seller' means a person regularly engaged in, and whose business consists to a substantial extent of, selling goods to a retail buyer.

"(e) 'Retail instalment transactions' or 'transaction' means a contract to sell or furnish or the sale of or the furnishing of goods or services by a retail seller to a retail buyer pursuant to a retail instalment contract or a retail charge agreement.

"(f) 'Retail instalment contract' or 'contract' means an instrument or instruments evidencing one or more retail instalment transactions entered into in this state pursuant to which a buyer promises to pay in instalments for goods or services. It does not include a retail charge agreement or an instrument evidencing a sale pursuant thereto.

"(g) 'Retail charge agreement' means an instrument or instruments prescribing the terms of retail instalment transactions which may be made thereafter from time to time pursuant thereto, under which the buyer's total unpaid balance whenever incurred, is payable in instalments over a period of time and under the terms of which a time price differential as hereinafter defined is to be computed in relation to the buyer's unpaid balance from time to time.

"(h) 'Cash sale price' means the price for which the seller would have sold or furnished to the buyer, and the buyer would have bought or obtained from the seller, the goods or services which are the subject matter of the retail instalment transaction, if such sale had been a sale for cash. The cash sale price may include any applicable taxes and charges for delivery, installation, servicing, repairs, alterations, or improvements.

"(i) 'Official fees' means the fees prescribed by law for filing, recording, or otherwise perfecting or releasing or satisfying any title or lien retained or taken by a seller in connection with a retail instalment transaction.

"(j) 'Time price differential' means the amount, however denominated or expressed, which the retail buyer contracts to pay or pays for the privilege of purchasing goods or services to be paid for by the buyer in instalments; it does not include the amounts, if any, charged for insurance premiums, delinquency charges, attorney's fees, court costs, or official fees.

"47–1903. Retail instalment contracts.—(a) Form and Contents. Every retail instalment contract shall be in writing and shall set forth the following:

"(1) The cash price and identification of the goods or services.

"(2) The amount of the buyer's downpayment, if any, whether made wholly or in part in money or goods.

"(3) The difference between items (1) and (2).

"(4) The amount, if any, of official fees and the costs, if any, to the buyer of any insurance the buyer has agreed to procure if the seller has agreed to purchase the insurance and charge the buyer for the cost thereof.

"(5) The principal balance owed on the retail instalment contract, which is the sum of items (3) and (4).

"(6) The amount of the time price differential.

"(7) The time balance owed by the buyer to the seller, which is the sum of items (5) and (6), and except as hereinafter provided, the maximum number of instalment payments required and the amount and date of each payment necessary to pay such time balance. The foregoing items need not be stated in the sequence or order set forth above; and additional items may be included to explain the computations made in determining the amount to be paid by the buyer.

"(b) Payments. The maximum number of payments and the amount and date of each payment need not be separately listed if the payments are stated in terms of a series of scheduled amounts; and in such case the amount of the scheduled final payment may be stated as the remaining unpaid balance. The initial date for the payment of the first instalment may be a calendar date or may refer to the time of delivery or installation.

"(c) Document or Documents Comprising. A retail instalment contract need not be contained in a single document. If the contract is contained in more than one (1) document, then one (1) such document may be an original document executed by the retail buyer applicable to purchases of goods or services to be made by the retail buyer from time to time and in such case such document, together with the sales slip, account book, or other written statement relating to each purchase, a copy of all of which shall be delivered to the buyer, shall set forth all of the information required by subsection (a) hereof and shall constitute the retail instalment contract for each such purchase.

"(d) Time Price Differential. Notwithstanding the provisions of any other law the seller or other holder under a retail instalment contract may charge, receive, and collect a time price differential, which shall not exceed the following:

"(1) On so much of the principal balance as does not exceed Five Hundred Dollars ($500), Ten Dollars ($10.00) per One Hundred Dollars ($100) per year;

"(2) If the principal exceeds Five Hundred Dollars ($500) but is less than Five Thousand Dollars ($5,000), Eight Dollars ($8.00) per One Hundred Dollars ($100), per year on that portion over Five Hundred Dollars ($500);

"(3) If the principal balance exceeds Five Thousand Dollars ($5,000), Six Dollars ($6.00) per One Hundred Dollars ($100) per year on that portion over Five Thousand Dollars ($5,000), the time price differential under this subsection (d) shall be computed on the principal balance of each transaction, as determined under this section, on contracts payable in successive monthly payments substantially equal in amount from the date of the contract to the maturity of the final payment, notwithstanding that the total time balance thereof is required to be paid in one or more deferred payments. When a retail instalment contract provides for payment other than in substantially equal successive monthly payments, the time price differential shall not exceed the amount which will provide the same return as is permitted on substantially equal monthly payment contracts, having due regard for the schedule of payments. The time price differential may be computed on the basis of a full month for any fractional portion of a month in excess of fifteen (15) days. A minimum time price differential of Twelve Dollars and Fifty Cents ($12.50) may be charged, received, and collected on each such contract.

"(e) Copy of Contract Given Buyer. The seller shall deliver or mail to the buyer at his address as specified by him a copy of the retail instalment contract prior to the date on which the first payment is due thereunder. An acknowledgment of the delivery thereof contained in the body of an instrument signed by the buyer shall be presumptive proof of delivery in any action. The seller under any retail instalment constract shall, prior to the date on which the first payment is due thereunder, deliver or mail to the buyer at his aforesaid address any policy of insurance the seller has agreed to purchase in connection therewith, or in lieu thereof a certificate of such insurance.

"(f) Receipt Given for Payment. A buyer shall be given a receipt for any payment when made in cash. At any time after the execution of a contract, but not later than two (2) months after the last payment thereunder, the holder shall, upon written request of the buyer, give or forward to the buyer a written statement of the dates and amounts of payments and the total amount, if any unpaid thereunder. Such a statement shall be supplied by the holder once without charge; if any additional statement is requested by the buyer, the holder shall supply such statement to the buyer at a charge not exceeding one dollar ($1.00) for each additional statement so supplied. The term 'holder' in this section means the retail seller unless seller has assigned the contract, in which case 'holder' means the assignee of such contract at the time of the determination.

"(g) Payment in Full Acknowledged by Instrument. After payment of all sums for which the buyer is obligated under a contract, and upon written demand made by the buyer, the holder shall deliver or mail to the buyer at his last known address, one (1) or more good and sufficient instruments to acknowledge payment in full and shall release all security in the goods.

"(h) Prepayment—Refund Credit. Notwithstanding the provisions of any retail instalment contract to the contrary, any buyer may prepay in full at any time before maturity the unpaid balance of any retail instalment contract and in so paying such unpaid balance shall receive a refund credit thereon for such anticipation of payments. The amount of such refund shall represent at least as great a proportion of the time price differential after first deducting therefrom an acquisition cost not to exceed the sum of fifteen dollars ($15.00), as the sum of the monthly time balances beginning one (1) month after prepayment is made, bears to the sum of all the monthly time balances under the schedule of payments in the contract. Where the amount of such refund credit is less than one dollar ($1.00) no refund need be made.

"47–1904. Retail charge agreements.—(a) Form and Contents; Delivery to Buyer. Every retail charge agreement shall be in writing and shall be signed by the retail buyer. A copy of any such agreement executed on or after

March 15, 1961, shall at the request of the buyer be delivered or mailed to the retail buyer by the retail seller prior to the date on which the first payment is due thereunder. An acknowledgment of the delivery thereof contained in the body of the agreement shall be presumptive proof of delivery in any action. All agreements executed on or after said date shall state the amount of, or the method of calculating, the time price differential to be charged and paid pursuant thereto or shall state that a time price differential not in excess of that permitted by this law will be charged and paid accordingly.

"(b) Monthly Statements—Payment in Full Privilege. The retail seller under a retail charge agreement shall promptly supply the retail buyer under such agreement with a statement as of the end of each monthly period (which need not be a calendar month) or other regular period agreed upon by the retail seller and the retail buyer, in which there is any unpaid balance thereunder, which shall recite the following:

"(1) The unpaid balance under the retail charge agreement at the beginning and end of the period.

"(2) Unless otherwise furnished by the retail seller to the retail buyer by sales slip, memorandum, or otherwise, an indentification of the goods or services purchased during the period, the cash price and the date of each purchase.

"(3) The payments made by the retail buyer to the retail seller and any other credits to the retail buyer during the period.

"(4) The amount of the time price differential, if any.

"(5) A legend to the effect that the retail buyer may at any time pay his total balance, if such legend is not stated in the original contract signed by the buyer.

"The items need not be stated in the sequence or order set forth above; and additional items may be included to explain the computations made in determining the amount to be paid by the retail buyer.

"(c) Time Price Differential. Notwithstanding the provisions of any other law the seller and assignee under a retail charge agreement may charge, receive and collect a time price differential which shall not exceed Fifteen Cents (15 cents) per Ten Dollars ($10.00) per month computed from month to month (which need not be a calendar month) or other regular period, on all amounts unpaid from time to time under the agreement. The time price differential under this subsection (c) may be computed for all unpaid balances within a range of not in excess of Ten Dollars ($10.00) on the basis of the median amount within such range, if as so computed such time price differential is applied to all unpaid balances within such range. A minimum time price differential not in excess of Seventy Cents (70 cents) per month may be charged, received and collected under each such agreement.

"47-1905. Mail order and telephone sales.—Retail instalment contracts and retail charge agreements negotiated and entered into by mail or telephone without personal solicitation by salesmen or other representatives of the seller, where a catalog of the seller or other printed solicitation of business, which is distributed and made available generally to the public, clearly sets forth the cash price and other terms of sales to be made through such medium, may be made as provided in this section. All of the provisions of this chapter shall apply to such sales except that the seller shall not be required to deliver a copy of the contract to the buyer as provided in subsection (e) of Section 47-1903 and if the contract when received by the seller contains any blank spaces the seller may insert in the appropriate blank space the amounts of money and other terms which are set forth in the seller's catalog or other printed solicitation which is then in effect. In lieu of sending the buyer a copy of the contract as provided in subsection (e) of Section 47-1903, the seller shall furnish to the buyer a written statement of any items inserted in the blank spaces in the contract received from the buyer.

"47-1906. Transfer of contracts.—Any retail seller may assign, pledge, hypothecate, or otherwise transfer a retail instalment contract or retail charge agreement to any person, firm, or corporation on such terms and conditions and for such price as may be mutually agreed upon. No filing of the assignment, no notice to the buyer, and no requirement that the seller be deprived of dominion over payments upon the contract or agreement, or over the goods, if title thereto or a lien thereon has been retained by the seller, shall be necessary to the validity of such assignment or transfer as against creditors, subsequent purchasers, pledgees, mortgagees, or encumbrances of the seller.

"47-1907. Violations a misdemeanor—Recovery of liquidated damages.—

"(a) Intentional and willful violations of this chapter shall be a misdemeanor punishable by a fine not to exceed Five Hundred Dollars ($500.00).

"(b) In case of an intentional failure to comply with provisions of this chapter, or in case the seller shall permit the buyer to sign a contract containing blank spaces not permitted by this chapter, the buyer shall have a right to recover from the person committing such violation or to set off or counterclaim in any action by such person to enforce a contract or agreement, as liquidated damages, an amount equal to the whole of the original time balance in a contract, and all amounts payable under an agreement with respect to the transaction of transactions to which such violation pertains, together with reasonable attorneys' fees.

"(c) In case of any other failure to comply with the provisions of this chapter, the buyer shall have a right to recover from the person committing such violation or to set off or counterclaim in any action by such person to enforce a contract or agreement, as liquidated damages, an amount equal to two (2) times the time price differential charged to the buyer, together with reasonable attorney's fees.

"(d) Notwithstanding the provisions of this section, no person shall be subject to any penalty for any failure to comply with any provision of this chapter until the retail buyer has notified such person in writing of such failure and unless within thirty (30) days after such notice such failure is not corrected by such person.

"47-1908. Waiver of provisions unenforceable.—Any waiver by the retail buyer of any provisions of this chapter or any remedies granted to the buyer by this chapter shall be unenforceable and void.

"47-1909. Prior contracts not affected.—The provisions of this chapter shall not make unlawful contracts or retail charge agreements in effect prior to March 15, 1961.

"47-1911. Retail Instalment Transactions and Conditional Sales Contracts or Assignments thereof not to be Deemed Loans. A retail instalment transaction as defined herein or any other conditional sales contract or other agreement covering the time sale of personal property or services, and the assignment thereof, and the business of selling said personal property and services on a time payment basis, and the business of purchasing or acquiring such transactions, contracts, or agreements, whether or not regulated under this chapter, shall not be deemed to be loans or forbearances of money or thing of value or the making of same, nor shall they be regulated by or subject to the provisions of Sections 45-2001 through 45-2015, Tennessee Code Annotated. The terms 'personal property' and 'services' as used in this Section shall include all personal property and services whether or not purchased for a commercial or industrial use and whether or not such personal property is affixed or to be affixed to real property as to become a part thereof whether or not severable therefrom."

SECTION 2. *Be it further enacted*, That if any provision of this Act or the application thereof to any person or circumstance is held unconstitutional, the remainder of the Act and the application of such provision to other persons or circumstances shall not be affected thereby, and it shall be conclusively presumed that the legislature would have enacted the remainder of this act without such invalid or unconstitutional provision.

SECTION 3. *Be it further enacted*, That the provisions of this Act shall not make unlawful contracts or retail charge agreements in effect prior to the effective date hereof.

SECTION 4. *Be it further enacted*, That this Act take effect from and after its passage, the public welfare requiring it.

Passed: February 22, 1961:

WM. D. BAIRD,
Speaker of the Senate.
JAMES L. BOMAR,
Speaker of the House of Representatives.

Approved: February 23, 1961:
BUFORD ELLINGTON,
Governor.

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
October 19, 1963.

DR. RICHARD L. D. MORSE,
Professor and Head, Department of Family Economics,
Kansas State University, Manhattan, Kans.

DEAR DR. MORSE: In the Consumer Advisory Council report of October 1963, on page 64 are listed the council's suggested items of disclosure on credit transactions. Item (5) calls for "the simple, nominal annual percentage rate * * *." Would you please advise me what meaning or significance the word "nominal" has in this definition? I assume you are speaking of the usual simple annual rate of interest. But I am puzzled as to the necessity of the word "nominal" in this statement. You use the same term in item *c* on page 63 and also in item *a* on page 64.

Sincerely,

CHARLES H. BRADFORD,
Minority Clerk.

OCTOBER 25, 1963.

MR. CHARLES H. BRADFORD,
Minority Clerk, U.S. Senate,
Committee on Banking and Currency,
Washington, D.C.

DEAR MR. BRADFORD: I am pleased that you have asked for clarification of the use of the word "nominal" as used in item (5) on page 64, item *c* on page 63, and item *a* on page 64.

I believe it would be incorrect to assume that nominal annual percentage rate is the same as the simple annual rate of interest, although to some people it does convey the same meaning. The nominal rate, however, is less likely to be misunderstood because it has a precise meaning applicable for financial arrangements involving irregular or any periodic regular time intervals.

Nominal has been in use for many years. There are many citations for definition of "nominal rates" which I could suggest from books on the mathematics of finance. I happen to have a book published in 1913 by Ginn & Co. on "The Mathematical Theory of Investment," by Ernest Brown Skinner. The following is quoted from page 59:

"23. Nominal and effective rates of interest. The two problems for which formulas (1) and (3) of the previous section are solutions make necessary a distinction between two kinds of rates of interest when the conversion interval is less than a year; viz, nominal rate and effective rate. The nominal rate is the rate which would be realized if the interest received at the end of each conversion interval were not productively invested until the end of the year, while the effective rate is the total return on the unit principal for 1 year. For example, if $100 were invested at 6 percent, payable semiannually, with the understanding that the rate per half year be one-half the rate per year, the interest for the first half year would be $3, and the amount available at the beginning of the second half year would be $103. The interest on $103 for the second half year would be $3.09; so that the total amount at the end of the year would be $106.09. The return on $1 is therefore 0.0609, and the effective rate is 6.09 percent. If the $3 received at the middle of the year had not been productively invested, the total amount at the end of the year would have been $106, and the rate would have been 6 percent. This rate is the nominal rate. *The nominal rate may also be defined as the product of the rate per conversion interval by the number of conversion intervals in a year.* In the example the rate per conversion interval is 0.03, and the number of conversion intervals in a year is 2, giving 0.06 as the nominal rate."

The second definition, which I have italicized for emphasis, is almost identical with that in item (5) on page 64 in which the words "periodic rate" have been substituted for Skinner's words "rate per conversion interval."

Probably one of the more distinguished writers of installment credit and considered authoritative by many in the installment credit business, is Dr. M. R. Neifeld who published in 1953 "Neifeld's Guide to Installment Computations." It is published by Mack Publishing Co., Easton, Pa. Chapter 3 is entitled "Compound Interest, Nominal and Effective Rates of Interest." I think you will find Neifeld's discussion of nominal interest helpful and convincing that there is merit in distinguishing between simple interest and nominal interest. For your convenience I have selected quotations from pages 59 through 61 of chapter 3.

"Simple interest, as defined in chapter II, is interest computed on a principal that does not change. * * *"

"Compound interest is interest on interest. * * *"

"Interest may be compounded at fractional periods within the year as well as annually. When interest is compounded in fractional periods of a year, a distinction is made between a nominal interest rate and an effective rate."

"The nominal interest rate is the quoted annual rate which does not take into account that interest is compounded at intervals throughout the year."

"The effective interest rate is the rate actually earned per year. * * * An effective interest rate is also called a real interest rate, or a true interest rate. * * *"

"Given the nominal interest rate j and the frequency of conversion p, the effective interest rate i can be found from the relation

$$i=(1+j/p)^p-1"$$

I call your attention to the advertised rate which appears periodically in the Wall Street Journal by a savings and loan association which pays interest daily. The ad reads: "Only Lytton Savings pays 4.85 percent a year compounded daily! * * * returning you a full 4.97 percent in a year." (Wall Street Journal, Oct. 3, 1963). It is the intention of item c on page 63 to distinguish clearly between the 4.85 and the 4.97 by use of the word "nominal," which, by the above definition, would refer to the 4.85 percent and not the effective rate of 4.97 percent. Because this is a compound interest situation, simple interest would be inadequate or at least more difficult to defend.

The recommendation is that quoted rates be comparable with the nominal rates quoted to attract savings. If institutions "borrow" savings from depositors at a nominal rate, is it not reasonable that they can lend at a nominal rate? The recommended method of quotation not only standardizes but neutralizes the quotation so that words employed for the identical mathematical operation do not vary according to whether the borrower is addressing the lender or the lender is addressing the borrower.

In closing you may ask if the expresion "simple annual nominal percentage rate" is not redundant, and I might agree were it not for the fact that there seems to be a disposition to confuse nominal with effective. Hence, I defend including all of these words for emphasis.

The signficance of the use of the word "nominal" is implied in the above. However, there may be other aspects of this matter that have escaped my attention since I am consumer oriented.

If I can be of further service, I hope you feel free to write me.

Sincerely yours,

RICHARD L. D. MORSE, *Member.*

[Excerpts from first report, Consumer Advisory Council, October 1963]

Truth in lending

The council supports the principles and purposes of the Douglas truth in lending bill (S. 750). Such legislation will—

Promote the right of consumers to have the facts they need to make rational, informed choices regarding credit usage;

Protect the ethical and efficient buisnessman who wishes to fully disclose credit charges from those competitors whose charges are deceptively concealed;

Reinvigorate price competition in the consumer credit market, and thereby contribute to the free enterprise system;

Introduce a stabilizing, countercyclical element into the Nation's economy by making consumers aware of rising credit costs in boom times and declining credit costs during recessions; and

Encourage consumers to shop for cheaper credit, thereby releasing funds for purchasing goods and services, thus buttressing the economy and consumer purchasing power.

After careful examination of the proposals and objections thereto and consultation on technical problems, the council spelled out in detail what it considers the term "full disclosure of credit" to mean. This will be found in the summary of committee 4's activities in appendix B.

* * * * * * *

COMMITTEE 4: CONSUMER CREDIT AND ECONOMIC WELFARE

The members of this committee are Dr. Morse (chairman), Mr. Angevine, Mr. Du Brul, Dr. Lewis, Attorney General Mondale, Mrs. Nelson, and Dr. Ware.

Two major topics were considered by Committee 4: consumer credit and economic welfare indicators. In addition, the committee rendered ad hoc advisory opinions on several specific topics.

Consumer credit

The committee's responsibilities in this area were established at the September meeting of the Consumer Advisory Council, as follows:

1. Study the effect of consumer credit on the family.
2. Study the effect of consumer credit on the national economy.
3. Evaluate consumer credit terms as they facilitate or inhibit efficient and intelligent use of credit.
4. Appraise the procedures used in cases where consumers have made excessive use of credit.

Progress was achieved through (1) staff research and referral of questions to appropriate in-government experts; (2) study of the three sets of published hearings on the truth in lending bill, the two-volume 1957 Federal Reserve Board study of "Consumer Installment Credit," the Personal Finance Law Quarterly Report, and the consumer finance trade publications, such as Consumer Finance News, Credit Union magazine, Time Sales Financing; (3) extensive correspondence between the chairman of the committee and Ralph Botts of the U.S. Department of Agriculture; and (4) consultation with interested individuals and groups.

The committee adopted a recommendation on policy regarding standardization and full disclosure of consumer credit terms at the November meeting. A tentative position was presented for discussion at the January 1963 meeting with a group of Government experts directly concerned with consumer credit: Ralph Botts of the Department of Agriculture, Miss Mona Dingle and Francis R. Pawley of the Federal Reserve Board, Gale P. Gotschall of the Federal Trade Commission, Jonathan Lindley of the Senate Banking and Currency Committee, Milton P. Semer of the Housing and Home Finance Agency, and John Skillman of the Department of Commerce. Action was taken at the March meeting. The council's recommendations on consumer credit are to be found on page 18, except for the detailed statement on full disclosure of credit, which follows:

The council believes full disclosure of credit means that:

1. When credit is extended on the basis of separate contracts, each contract shall include—

(*a*) An itemization of the cash or delivered prices of goods and services purchased, and all additional charges assessed against the debtor in connection with the transaction,

(*b*) The terms of payment (including downpayment, amount to be financed, amounts and times of payments needed to retire the obligation),

(*c*) The rate at which the finance charge is to be imposed on the amount financed, such rate to be in standardized terms so as to be directly comparable with rates (a simple annual nominal percentage rate) that banks, savings and loan associations, credit unions, and postal savings use to disclose earnings on money saved,

(*d*) The cost of such credit services, expressed in dollars and cents, and

(*e*) The terms of credits or charges imposed in the event of advanced or delayed payments from the contract terms; and

2. When credit is extended on revolving credit, open-end credit, or plans other than credit, each contract shall include—

(*a*) A clear statement in writing, prior to any agreement to extend such credit, setting forth the simple annual nominal percentage rate at which the finance charge will be imposed, and

(*b*) A clear statement in writing, at the end of each month (which need not be a calendar month) following the date of the contract setting forth—

(1) The outstanding balance in the account as of the beginning of the month,

(2) The amount of each extension of credit (including the cash price or delivered price of any property or service) during such period, together with the date thereof and brief identification of any property or services so acquired,

(3) The total amount credited to the account during the period,

(4) The amount or amounts on which the finance charge will be based and the time period for each amount if other than 1 month,

(5) The simple, nominal annual percentage rate at which the finance charge is imposed, which rate shall be the periodic rate multiplied by the number of periods in 1 year.

(6) The finance charge in dollars and cents required for such period, and

(7) The outstanding balance in the account at the end of the month.

KANSAS BANKERS ASSOCIATION,
Topeka, Kans., December 12, 1963.

To: Members of the Kansas Bankers Association.
Senators and Representatives to Congress from Kansas.
Senate Banking and Currency Committee.
House Banking and Currency Committee.
Managing officers, State bankers associations.
ABA Installment Credit Commission.
Director, Federal Deposit Insurance Corporation.
The Comptroller of the Currency.
Federal Reserve Board of Governors.
ABA Washington Office.
Dr. Charls Walker, executive vice president, ABA.
Mr. R. M. Bunten, Merchants National Bank, Topeka.

GENTLEMEN: For your attention we are enclosing a copy of a resolution pertaining to the Douglas disclosure bill which has been adopted unanimously by the executive council of the Kansas Bankers Association.

Cordially,

CARL A. BOWMAN,
Executive Secretary.

RESOLUTION

Whereas it has come to the attention of this executive council of the Kansas Bankers Association that there is pending in the Congress of the United States a bill known as Senate bill 750 commonly referred to as the Truth in Lending Act, the declared purpose of which act is "to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit"; and

Whereas the act further states that "the untimely use of credit results frequently from a lack of awareness of the cost thereof to the user"; and

Whereas the Kansas Bankers Association has a sincere interest and deep responsibility for continuing and maintaining consumer credit in banks upon the sound and mutually beneficial high plane it has come to occupy in Kansas banks; and

Whereas responsibility for regulating consumer credit has been recognized in most States by enactment of appropriate legislation; and

Whereas the proposed legislation now pending in Congress is impractical because of the impossibility of interpreting and enforcing the proposed law under the many and varied conditions existing and arising out of the many different types of transactions covered by the proposed law; and

Whereas the law infringes on the rights of the several States to determine and regulate such matters within the respective States: Now, therefore, be it hereby

Resolved, That this executive council, governing body of the Kansas Bankers Association, go on record as being opposed to the proposed legislation, specifically known as Senate bill 750, because such legislation is unnecessary, impractical and can be better administered and regulated by the individual States; and be it further

Resolved, That the Kansas Bankers Association carry on a continuing program, urging its members to express the cost of borrowing in terms of dollars per hundred per year whether required to express in such manner by State statute or not, and to scrupulously observe the prime responsibility of banks for guiding seekers of installment credit so that such seekers of credit do not assume a burden of debt inconsistent with their ability to repay, and to carry on in their respective communities, a continuing program directed to the public, to competition, and to State and local government officials concerning the true principles upon which consumer credit has been successfully and soundly administered by banks during the past 50 years, to adhere to the principle that if legislation is deemed necessary, it must be susceptible to practical administration and must be administered at the State level and not at the national level; and be it further

Resolved, That a copy of this resolution be forwarded to each member of the Kansas Bankers Association, to the Senators and Representatives elected to represent this State in Congress, to the members of the Senate Banking and Currency Committee, to the members of the House Banking and Currency Committee, to the secretaries of the State Banking Associations, to the Installment Credit Commission of the American Bankers Association, to the Federal Deposit Insurance Corporation, to the Comptroller of the Currency, and to the Federal Reserve Board.

Certified to be a complete copy of a resolution adopted by the executive council of the Kansas Bankers Association on the 4th day of December 1963.

CARL A. BOWMAN,
Executive Secretary.

NATIONAL ASSOCIATION OF MANUFACTURERS,
New York, N.Y., December 18, 1963.

Subject: S. 750.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Production and Stabilization, Committee on Banking and Currency, U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: As chairman of the marketing committee of the National Association of Manufacturers, and as a representative of our association, I wish to direct the attention of your committee to the particular concern of industrial producers as to the implications of the proposals embodied in S. 750 affecting the terms and conditions of sale of the Nation's products and services.

Against any supposition that such a statute as suggested would create difficulties solely at the retail level of distribution, our experience indicates that the proposed controls would have direct impact upon the selling operations of a wide range of manufacturers, in addition to the more serious disruption which may be expected within the whole credit structure of our economy.

We have in our possession, for example, information that credit facilities are operated by manufacturers of such diverse goods as shoes, aircraft, heating control equipment, dry-cleaning chemicals, home construction materials, pinspotters, theater equipment, foods, locomotives, tires, metal products, feed grinders, and a full line of farm equipment, in addition to automobiles, television sets, home appliances, and other common consumer products with which the hearings on this bill largely have dealt. We can advise that the requirements of this bill would impose upon such companies and industries wholly needless, onerous, and extremely costly burdens of compliance.

Just as the typical retailer would be confronted by a completely impossible task of determining an accurate interest rate under the revolving charge account systems, so would manufacturers find themselves at a loss to compute such rates under the varied credit situations we find within the manufacturing segment of the economy. Such a law, of course, would apply not only to those firms with established credit subsidiaries, but to all manufacturers who under any circumstances extend credit in the normal course of their marketing operations. The needlessness of such a new regulation within the industry structure is apparent in light of the fact that the bulk of such arrangements would be between strictly professional sellers and buyers.

Where credit is extended by these producers to individual consumers, such as occurs in the sale of farm equipment to farmers, we find again that the terms and conditions of sale may be developed to meet the convenience of the buyer's uncertain seasonal income. We cannot understand why Congress should consider legislation so potentially damaging to the flexible, wholly beneficial credit system which is so much a part of this Nation's remarkable economic life.

Our general views on the impact of such legislation upon marketing operations, economic stabilization, and competition in the credit field were presented to your subcommittee in a letter to you, as chairman, under date of June 29, 1962. In the succeeding period we have observed closely the additional hearings and information developed on the matter. The utter needlessness of such a law as a protective device for the consumer has become even more apparent. As sellers, we have been appalled at the type of some of the testimony which has been offered in support of the bill. Witnesses who have been clearly victimized in their retail purchases in violation of existing State laws have offered their experiences as evidence of the need for this Federal regulation. Such testimony would have been significant if S. 750 had been drawn to deal with usury, fraud, or other loan-shark practices. But S. 750, an economic stabilization measure whose supporters disclaim any intent to impute excessive charges to established lending institutions, is not directed to these evils. Such testimony has been wholly irrelevant to the bill, and the experiences of the witnesses could not have been forestalled by adoption of the bill.

One such witness, it was interesting to observe, testified that she would not have been so victimized in the purchase of an appliance if she had known the true cost of her loan in dollars and cents. Her yardstick, she revealed, was her total cash outlay, not an interest rate or other percentage figure. Ironically, it has been the contention of business witnesses from the start that full disclosure of the cash cost of all carrying charges is the consumer's best protection from credit abuses, and such disclosure is the general practice among sellers today. The testimony of this witness, therefore, was a complete repudiation of the concept of the bill, which holds that a "percentage ratio" is more meaningful to a buyer than a statement in terms of the dollars-and-cents in which he receives his pay and buys all his goods and services.

The National Association of Manufacturers does not stand against full disclosure of the lending terms to any buyer. We believe that those who engage in sharp lending practices should suffer the full consequences of the law—laws which already are in existence and which this bill would not reinforce in any way.

At this time, in reaffirming our earlier views that the proposed legislation, S. 750, is wholly unnecessary and irrelevant to the evil it seeks to correct, as well as damaging to the economy, we wish to present the following policy statement of our association, adopted by our board of directors on February 17, 1961, as reflecting most succinctly the views of manufacturers and their thousands of marketing executives:

"MANDATORY DISCLOSURE OF TERMS AND CONDITIONS OF SALE

"Adopted, February 17, 1961

"Industry stands fully in accord with the objectives of local, State, and Federal regulations protecting the consumer from false, deceptive, or misleading representations as to the price, quality, or conditions of sale of any product or service. Individual business firms, trade associations, and industry-supported organizations have amply demonstrated respect for and responsibility to the consuming public.

"The furnishing of information as to the terms and conditions of sale of any product or service is a basic element of good supplier-customer relationships and a function which is self-regulating in a free market. The mandatory disclosure of such information places an unreasonable burden upon all business and moves toward a controlled economy."

We ask that the text of this letter be incorporated in the record of the current hearings as an official statement of the position of our association on this bill.

Sincerely yours,

D. BERYL MANISCHEWITZ,
Chairman, NAM Marketing Committee.

Copies of this letter were also sent to Senators A. Willis Robertson (Virginia), Wallace F. Bennett (Utah), Joseph S. Clark (Pennsylvania), Peter H. Dominick (Colorado), Jacob K. Javits (New York), Edmund V. Long (Missouri), Thomas J. McIntyre (New Hampshire), Edmund S. Muskie (Maine), Maurine B. Neuberger (Oregon), William Proxmire (Wisconsin), Millard L. Simpson (Wyoming), John J. Sparkman (Alabama), John G. Tower (Texas), and Harrison A. Williams (New Jersey).

TRANS WORLD SERVICES, INC.,
HYATTSVILLE, MD., *January 3, 1964*.

Hon. PAUL H. DOUGLAS,
Room 109, Old Senate Office Bldg.,
Washington, D.C.

Some time ago, Senator, I appeared before your Subcommittee on Banking and Currency during its initial hearings on proposed "truth in lending" legislation. For me the occasion was a memorable experience and one, I trust, that provided a measure of meaningful assistance to your deliberations.

Since that time, I have kept abreast of subsequent hearings as well as pursuing an expanding professional interest in the subject field. This continuing effort, while essential to the fulfillment of my responsibilities as general manager of Trans World Services, Inc., has also surfaced a subtle but disturbing aspect of the proposed legislation. Without discouraging the continuing need to protect the uninformed and gullible individual against unscrupulous creditors, I fear that in our enthusiasm we may have unintentionally overlooked a contingency as distasteful as the one we seek to correct. I refer to the fact that enactment into law of "truth in lending" legislation as now proposed, will not only foster the advance of an objectionable form of socialism but will most assuredly weaken our economy by replacing taxable earnings with tax-exempt profits. This is a personal opinion, Senator, but one in which I believe you can concur. Please let me explain.

A few years ago, commenting on commissary stores, you stated that while you were a friend of TVA, you did not believe in the socialization of grocery stores and that military socialism was still socialism. At the same time, you also pointed out that it could be readily seen that the provision of the law that states commissary stores should be established only when there are no adequate commercial facilities which are conveniently available, has not only been liberally interpreted but has, in fact, been grossly violated.

Additionally, while commenting on the proximity of the Fort Myer commissary to commercial stores, you stated "This indicates that a farce has been made of the law and the intent of the law which was to provide commissary stores where adequate commercial facilities were not available to personnel." You also said "I subscribe to the original intention of the act and do not oppose the stores where they are genuinely needed."

It is most refreshing, Senator, to note your concern for the necessity of establishing and maintaining the healthy competitive atmosphere essential to private industry's continuing support of our ever increasing economy. With this in mind, I note how very appropriate your remarks were to the activities of many credit unions.

As in the case of commissary stores, credit unions were also created and subsidized because of a specific need. The Federal Credit Union Act of June 26, 1934, cited to the text was entitled "An act to establish a Federal Credit Union System, to establish a further market for securities of the United States and *to make more available to people of small means credit for provident purposes* through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States." [The italic is mine.] Originally, credit unions served a very needed and worthwhile purpose in undergirding the economic security of people of small means. However, as credit unions matured, they spawned organizations of substance whose activities now extend far beyond those contemplated by the architects of the law. The attached advertisements, clipped from recent issues of the Navy Times, illustrates this fact.

One ad compares the credit union with the Navy commissary stores and exchanges. I believe you will agree the comparison is well stated. Another advertisement carries the picture of a uniformed naval officer with both hands outstretched holding simulated currency. The officer shown is not only an official of the credit union but is actually on active duty as well. In addition to questioning the appropriateness of such activities by active duty officers, I doubt seriously that the commissary stores ever engaged in such worldwide acts of commercial competition.

Still other advertisements appear to encourage junior grade officers to obligate themselves for automobiles in a price range far beyond that which is appropriate to their individual level of earnings. These particular ads are also somewhat misleading in that they appear to imply that by financing a large expensive car with the credit union, the overall cost including financing would be comparable to that of an average priced car financed elsewhere. These ads also state that "most (commercial) lending institutions charge from $10.14 to $14.13 per year for every $100 they lend * * *." I am sure you will agree that 20 percent to 28 percent simple interest is substantially beyond the range of charges made by most lending institutions, particularly when an automobile is involved.

Notwithstanding these specific observations, my immediate concern is not with the technical accuracy or format of credit union advertising. Instead, and of greater significance, it is that these ads actually exist, that they are paid for out of tax-free profits and that they appear in the same media and in direct competition with private industry. It is therefore my position that such activities on the part of certain large credit unions not only makes a farce of the law and intent of the law but actually serves to defeat both.

So long as credit unions conduct their activities within intended and legal bounds, I shall vigorously defend their right to do so. However, when credit unions exploit their tax-free status by using untaxed earnings to pay for competitive commercial advertising, when the economic advantage of free space and facilities in tax-supported Government facilities is publicized in unfair comparison with self-supporting free enterprise and when credit unions otherwise use their legislated benefits in unfair competition with private industry, I trust you can agree with me that any new legislation that could be so utilized is, in this respect, both morally undesirable and economically unsound.

In conclusion, Senator, I would like to make it clear that my remarks and premises are strictly my own. They do not necessarily reflect the position of my employer, my organization, or my associates. My motivation in calling this matter to your attention is due simply to a feeling that you, as I, may not have realized that a great many credit unions have long ceased to operate in accordance with the principals and philosophies expounded at the time enabling legislation was passed. As a consequence, many are now truly operating as "big business" and should be required to either accept responsibilities appropriate to their activities or to revert to the operational format intended by law.

I would very much enjoy reviewing my position with you in person or to be otherwise helpful at your convenience.

Most sincerely,

W. A. HUSSONG.

EXAMPLES OF COMMERCIAL ADVERTISING BY THE NAVY FEDERAL CREDIT UNION

"Borrowing From NFCU Saves you Money"

When you need groceries . . . you go to the NAVY commissary.

For your other shopping . . . you use the NAVY exchange.

When you need to borrow . . . it makes sense to use the NAVY credit union.

NAVY Federal Credit Union is your source of low-cost credit.

As a non-profit organization, charging non-profit interest rates (only 4/5 of 1% per month on the unpaid balance), NFCU can save you money.

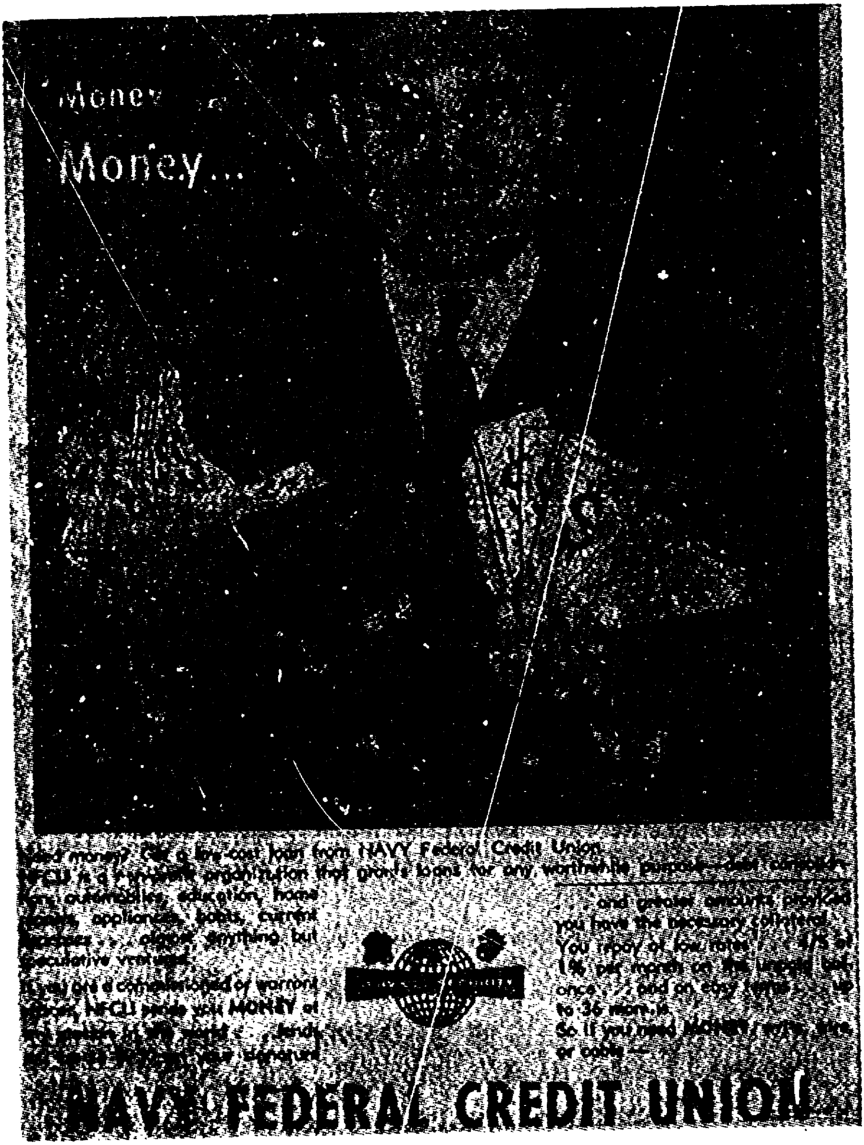
On a $1,500 loan, for example, most lenders would charge you $218.88 or more in interest, if repayed in 24 months. NFCU would charge only $154.08.

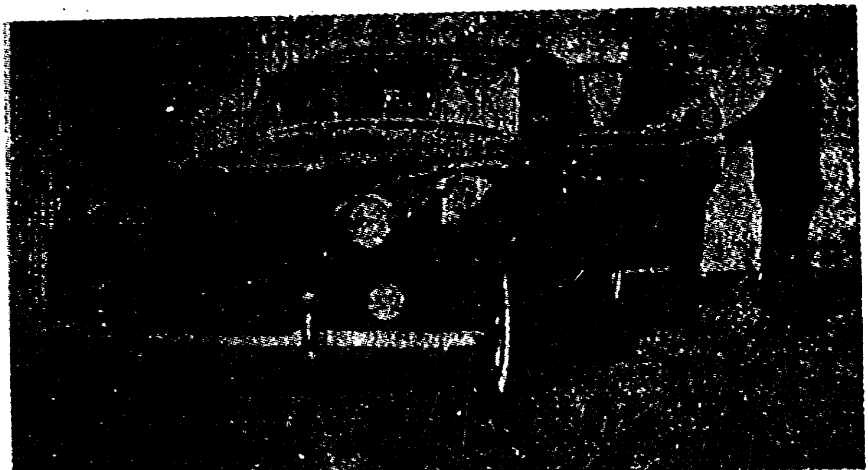
This means that by borrowing from your non-profit NAVY credit union, you could save as much as $64.80.

Why pay higher rates when you don't have to? If you need to borrow, obtain your loan from—

Navy Federal Credit Union

. . . Home Port for Money Matters . . .


Money...
loan from NAVY Federal Credit Union
organization that grants loans for any worthwhile purpose
automobiles, education, home
appliances, boats, current
almost anything but
speculative ventures
NFCU lends you MONEY at
... and greater amounts provided
you have the necessary collateral.
You enjoy low rates
per month on the unpaid balance
once ... and on easy terms ... up
to 36 months.
So if you need MONEY,
or cable —
NAVY FEDERAL CREDIT UNION



When You Pay Less for the Loan . . .

You Can Afford More for the Car!

Why spend money on "more interest" when you could spend it on "more car"?

Most lending institutions charge from $10.04 to $14.13 per year for every $100 they lend you. Your non-profit NAVY Federal Credit Union charges only $5.25.

This means that if you were to borrow $3,000 from a commercial lender and repay in 36 months, you could unwittingly pay from $431 to $1260 more in loan costs than you really have to!

So if you're in the market for a new chariot, remember: If you don't borrow from NFCU, you may spend extra dollars for your loan that you could be spending on your car.

Navy Federal Credit Union

When You Finance at Navy Federal Credit Union...

YOU CAN AFFORD MORE FOR THE CAR BECAUSE YOU PAY LESS FOR THE LOAN

Don't make the mistake of spending money on more interest when you could [illegible] 1 more car. Face facts: not all auto loans cost the same amount of [illegible] ough the principal and payment periods appear identical. Some loans are simply more pensive than others.

A case in point: most commercial lending institutions charge from $10.[illegible] to $1[illegible] r year for every $100 they lend you. Non-profit Navy Federal Credit Union charges ly $5.25.

Why spend extra dollars for your car loan that you could be spending on your car? [illegible]hen you pay up to 2 to 3 times as much for a loan as you need to, extra interest adds up [illegible]can determine whether you buy the car you really want or the one you feel you have to [illegible]tle for.

So if you're in the market for an auto loan, remember! When you borrow from Navy [Fe]deral Credit Union, you can afford more for the car because you pay less for the loan.

NAVY FEDERAL CREDIT UNION

"A non-profit service institution"

When You Pay Less for the Loan, You Can Afford More for the Car

Why spend money on "more interest" when you could spend it on "more car?"

Most lending institutions charge from $10.04 to $14.13 per year for every $100 they lend you. Your non-profit Navy Federal Credit Union charges only $5.25.

This means that if you were to borrow $3,000 from a commercial lender and repay in 36 months, you could unwittingly pay from $431 to $1260 more in loan costs than you really have to!

So if you're in the market for a new car, remember: If you don't borrow from NFCU, you may spend extra dollars for your loan that you could be spending on your auto.

Navy Federal Credit Union

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
January 18, 1964.

Mr. W. A. HUSSONG,
Trans World Services, Inc.,
Hyattsville, Md.

DEAR MR. HUSSONG: I am sorry that you have changed your mind and now think that Federal full disclosure laws "foster the advance of an objectionable form of socialism." On the contrary, I cannot concur with you.

However, I am sure that your most recent views on this legislation are a matter of sincere conviction and, with your permission, I would be happy to make your letter and attachments a part of the record on this bill.

Faithfully,

PAUL H. DOUGLAS.

TRANS WORLD SERVICES, INC.,
Hyattsville, Md., January 30, 1964.

Hon. PAUL H. DOUGLAS,
Old Senate Office Building,
Washington, D.C.:

Thanks very much, Senator Douglas, for taking the time to review and comment on my letter of January 3, 1964, to you regarding my concern over any legislation that could be utilized in unfair and unprincipled competitive activities.

While I regret that you cannot concur with me in toto, I, of course, respect your position with reference to Federal full disclosure. However, you did not clarify your position regarding the commercialized activities of large credit unions nor comment on the obvious loss of tax income occasioned by their legislative privileges. In view of pending tax legislation and your previously expressed views related to need, justification, and activities of commissary stores, I would very much like to have the benefit of your evaluation of the other areas involved in my concern for a truly "free" enterprise system.

Now as to including my letter and attachments as a part of the "Truth in Lending" record, I feel this is certainly in order as they reflect not only a sincere personal conviction but, in my opinion, voice a concern which I am sure is shared by a substantial segment of the business community.

Most sincerely,

W. A. HUSSONG,
General Manager.

CREDIT UNION NATIONAL ASSOCIATION, INC.,
Washington, D.C., February 21, 1964.

Hon. PAUL H. DOUGLAS,
U. S. Senate,
Washington, D.C.

DEAR SENATOR DOUGLAS: A letter dated January 3, 1964, written to you by Mr. W. A. Hussong, has come to our attention. This letter contains several assertions about credit unions which we feel impelled to answer for the record.

In particular, the letter stated that "enactment into law of truth-in-lending legislation as now proposed will not only foster the advance of an objectionable form of socialism but will must assuredly weaken our economy by replacing taxable earnings with tax exempt profits." Later statements in the letter make clear that this is a rather direct reference to credit unions.

First, there is the implication that truth-in-lending legislation will "foster" the development of credit unions to the detriment of other consumer lenders; it seems to be on this basis that disclosure of interest rates is assailed in the letter. Of course, it has not been proved that any particular lender would benefit from full disclosure. On the contrary, we feel this legislation would stimulate the entire consumer lending industry to provide better services at lower cost and would benefit borrowers and lenders alike by placing all on a fair and equal footing.

The letter also makes reference to the tax status of credit unions, notably their exemption from Federal income taxes. While the basis of this exemption is generally understood and accepted, it might be well to restate it for the record: Credit unions are groups of people, organized around a common bond of employment, residence, or fraternal affiliation, who save their money together and lend to each other from the resulting pool of funds at low interest rates. No one may borrow from, or save in, a credit union unless he is a member. Control of the credit union is based on the democratic principle of one member, one vote. Earnings of the credit union, primarily if not wholly derived from interest paid by its members, are used to pay office expenses, to finance the educational efforts Mr. Hussong told you about when he testified before your subcommittee in 1960, and to meet legal reserve requirements. The bulk of the remainder is returned to members in the form of dividends and interest refunds.

Thus, credit unions do not pay income taxes because there are no outside investors and there is no profit derived from their operations. Mr. Hussong's letter is misleading when it indicates that your bill somehow would replace "taxable earnings with tax exempt profits."

It is unfortunate that this letter seeks to equate credit unions with socialism. Since each member has a monetary stake in his credit union, he is a part owner in this corporation. Shortly before his death, the late President Kennedy took time out of his busy schedule to recognize the work of credit unions, and one of his comments bears directly on this question:

"Credit unions have a long history of service. They perform a valuable function—permitting people to pool their resources and attain greater economic security. It is a form of self-help in the best American tradition."

I am appending a copy of Mr. Kennedy's full statement to this letter.

The organizational structure of the credit union as a democratic, wholly member-owned corporation evolved in the United States early in this century. It was designed to fill a need for personal credit which was being supplied primarily by illicit lenders. Investor-owned organizations since have entered the consumer lending field in an aggressive manner. This fact should not cause credit unions to cease operating or to change their structure or their philosophy. They pioneered the field and will remain in it so long as people need their services.

Testimony before your subcommittee has developed a substantial collection of evidence that fraudulent practices are widespread in the consumer lending industry and that unconscionable rates of interest are still being levied every day against unsuspecting citizens. The market for providing fast, honest, and low-cost thrift and lending services has not been saturated. Credit unions help to fill a void in this area. They also provide a valuable yardstick and guide for borrowers, government representatives, and other consumer lenders.

This letter also places an onus on credit unions which have grown large in terms of membership, loans made to members, or the savings of members. The common-bond principle I mentioned earlier is simply a reflection of the fact that society can be broken down into groups sharing employment, or residence, or membership in an organization. These common-bond groups may be large or small. They may be growing, or declining, or remaining static. The fact that a particular common-bond group is large, or growing large, is not relevant to the question of whether it should have available the services of a credit union.

Mr. Hussong currently is chairman and general manager of a Maryland small loan firm, Trans World Services, Inc., of Hyattsville. When he appeared before your subcommittee to testify in favor of truth-in-lending, he was manager of Navy Federal Credit Union, of which his letter is now most critical. Navy Federal was chartered basically to serve military and civilian personnel of the Navy in Washington, D.C., and Navy and Marine Corps officers around the world. This worldwide scope is highly unusual. It was designed to fill a real and special need. As you know, usury continues to pose a serious problem for our Armed Forces personnel overseas, and the Navy Federal Credit Union is doing a necessary job in helping to combat it.

The need for truth-in-lending legislation, which Mr. Hussong so ably demonstrated before your subcommittee, still exists, and we should be most happy to have Mr. Hussong and other representatives of the consumer lending industry join us in support of it.

Sincerely,

DAVID R. WEINBERG,
Director, Legal and Legislative Department.

[Press release, Office of the White House Press Secretary, Oct. 17, 1963]

THE WHITE HOUSE.

STATEMENT BY THE PRESIDENT

Today, credit unions throughout the Nation are celebrating Credit Union Day. It is, therefore, particularly appropriate that we recognize the occasion by signing this bill, which allows Federal credit unions greater flexibility in their operation.

Credit unions have had a long history of service. They perform a valuable function—permitting people to pool their resources and attain greater economic security. It is a form of self-help in the best American tradition.

Fifty-four years ago, Massachusetts passed the first State law authorizing credit unions. Now there are active units in every one of the 50 States, and there is a Federal Credit Union Act. Fourteen million American citizens have used their facilities to accumulate $7 billion in savings.

With their growth has come increased opportunities for service—in teaching thrift—in making credit available to people without major assets at reasonable rates of interest.

This legislation, which I am delighted to approve, was sponsored by Congressman Patman and Senator Sparkman. Their longstanding interest in credit unions is known to all of us. We are grateful to them for their leadership.

QUEENS COLLEGE OF THE CITY UNIVERSITY OF NEW YORK,
DEPARTMENT OF ECONOMICS,
Flushing, N.Y., January 30, 1964.

HON. PAUL H. DOUGLAS,
The Senate,
Washington, D.C.

DEAR SENATOR DOUGLAS: Within the last few days, I have had an opportunity to read, for the first time, the testimony presented before your committee by Mr. Ira Millstein, appearing for the New York State Council of Retail Merchants in opposition to the Douglas "Truth in Lending" bill. In his testimony, Mr. Millstein held up as a shining example of good credit legislation the New York bills passed in 1956–58 during the Harriman administration when, as consumer counsel to the Governor, I was primarily responsible for developing and supporting regulation in this field. Since Mr. Millstein made certain statements in error with respect to the attitudes and beliefs of the Harriman administration in general and the consumer counsel in particular, regarding this program of credit legislation, I ask that the following note be inserted in the record together with the above explanatory paragraph:

Mr. Millstein must have misunderstood the situation when he stated that the "consumer counsel to Governor Harriman firmly believed that the disclosure of dollar amount of the service charge was sufficient to permit the consumer to compare credit charges"; and again when he stated that "everyone believed, and still believes, that the well-understood statement of service charge in terms of dollars was adequate not only for the purpose of advising the consumer of the actual service charge but also for the purpose of permitting the consumer to shop for credit."

The administration came to the decision that, in view of strong, continued opposition, it was better to go so far as politically practical in 1956–58, in order to get as good a bill through as possible to control the extensive abuses which then characterized a wide area of the industry. The administration decided most reluctantly to drop its originial proposal to require the statement of service charges in terms of an annual rate as well as a dollar amount. Statement of the dollar amount facilitates comparison between cash and time-sale prices; the annual rate facilitates comparison between the costs of different types and sources of credit. But industry opposition made it clear to the administration that we would not be able to secure passage of any legislation unless the annual rate provision was dropped.

Perhaps some historical background will make clear the kind of pressures that were being exerted at that time against the full program of regulation which the Democratic administration was urging upon the Republican-controlled legislature. Though the first steps in credit regulation in New York

State had been taken in 1941, the abuses in the credit field had reached such proportions before the end of that decade that a Republican-appointed committee of investigation had urged the need for further legislation. However, the opposition was so strong, no step forward was taken until after the Harriman administration took office January 1955.

The impression left by the Millstein testimony is that the long process involved in developing the new legislation, though "wearying" was, nevertheless, a process of friendly accommodation on details among associates basically in harmony. On the contrary, the administration was forced by the strength of industry opposition, to give up its original plan for overall regulation covering installment sales of automobiles and all other goods. It then decided to limit its first formal encounter in 1956 to automobile credit in order both to divide the formidable opposition and also to take advantage of the fact that certain groups in the automobile credit business were prepared to accept regulation and even help support it in order to cleanse the industry's "public image." Once the automobile legislation was on the statute books, the administration moved, in 1957, to extend regulation of credit to all "other goods" and also revolving credit plans. It was in this process of trying to get as much consumer protection as possible that the annual rate provision was dropped. The dollar price requirement was strengthened by addition of the total time-sale price to make comparison with the cash price even easier.

In planning to extend the area of regulation to the newly developed retail "revolving credit," the administration came to the opinion that at least some of the retailers involved, and their supporting finance agencies, were somewhat concerned about the possibility that court decisions might bring this type of credit under the usury laws: this could explain any inclination to favor legitimizing it through regulation, but the regulation proposed was at such a minimum level, the administration would not accept it as adequate for consumer protection. The conflict was particularly sharp over the question of a minimum monthly charge: the industry's demand for $1 minimum was finally reduced to 70 cents. Even 70 cents represents a higher rate of charge than the stated 1.5 percent per month on all outstanding balances under about $45. But the administration finally accepted this compromise for the same reason it dropped the annual rate provision. It wanted to save the core of its program, which at that time went further than any other State in bringing all areas of installment credit under Government supervision and control in the interest both of consumers and of responsible businessmen.

Mr. Millstein should know that the failure of subsequent amending bills introduced into the State legislature in 1961 and 1962 to require disclosure of a simple annual rate was due to the formidable opposition which he so ably represents. This failure draws attention again to the need for reestablishing a consumer counsel in the Governor's office.

Your sincerely,

PERSIA CAMPBELL, *Chairman.*

TRI-CITIES CHAMBER OF COMMERCE,
Granite City, Ill., February 3, 1964.

Hon. A. WILLIS ROBERTSON,
Senate Office Building,
Washington, D.C.

DEAR SENATOR ROBERTSON: We understand the Federal credit control bill (S. 750) will soon be up for consideration again by the Senate Banking and Currency Committee. The board of directors of the Tri-Cities Chamber of Commerce has directed me to tell you that the members of our organization strongly oppose the proposal.

We oppose the measure for a number of reasons. It is, it seems to us, impractical because it provides for no enforcement machinery. Retailers offering revolving credit service to their customers would be forced to state their service charges in terms of an annual interest rate which could not be accurate. This percentage varies from month to month depending on "add ons" and subsequent payments and cannot be determined in advance.

The abuses cited by the proponents of this measure do not represent the vast mainstream of typical business transactions. The overwhelming majority of business firms do not mislead their customers as to the interest they are asked to pay.

Our chamber further feels that legislation in this field on the part of the Federal Government is an unwarranted intervention which can best be handled on the State level. Our chamber favors truth in lending and is working for a sensible bill in the State legislature.

Thirty-two States already have such legislation on their books.

Please vote against this harmful measure when it comes up for reconsideration.

Your consideration of our views will be greatly appreciated.

Sincerely,

CHESTER L. BAKER, *President.*

[From the Chicago Daily News, Aug. 17, 1963]

NEW BATTLE ERUPTING IN CONGRESS: "TRUTH IN LENDING" SHOWDOWN LIKELY IN 1963

CREDIT CARD LIVING POINTS UP THE ISSUES

(By James McCartney of our Washington Bureau)

WASHINGTON.—Hold on to your credit cards. A new battle over "truth in lending" is about to erupt in Congress and across the Nation.

The fight has been going on for 4 years and at times has been as bitter as any in Washington.

But this may be the year for the inevitable showdown.

Senate liberals have just won a victory in a power struggle in the heretofore conservatively controlled Banking and Currency Committee.

They won a fight to hold public hearings on truth-in-lending legislation in communities scattered across the land—and thus a chance to kindle new fires of public favor for the bill.

Truth in lending is an issue that is all wound up with the Nation's galloping credit card economy—an economy in which debt has become an accepted way of life.

It's a question that advocates have made to sound quite simple, but opponents say isn't simple at all.

It's as close to you as the monthly payment on your car—or maybe on your wedding ring.

The question is: When you borrow money, should the lender have to tell you exactly how much he is charging you for extending credit?

In other words, does he have to tell you how much interest you're paying, in a simple way that anybody can understand?

At first glance, such a proposal would seem to be pretty close to noncontroversial, in the category of asking a merchant to post his prices.

But even the suggestion of simplicity is deceptive when it comes to credit—for with credit things aren't always what they seem.

According to testimony before the Banking and Currency Subcommittee on Production and Stabilization, merchants and lenders have historically had an aversion to using figures larger than 6 percent when mentioning credit costs.

Thus figures often quoted by lenders are likely to sound low—but under examination turn out to be much higher, if computed at simple, annual interest rates.

Senator Paul Douglas, Democrat, of Illinois, chief sponsor of the truth-in-lending bill, cites many examples:

A "small" service charge of 1½ percent per month on a department store charge account is often a true annual interest rate of 18 percent.

A "3 percent per month" plan often used by small loan companies is actually 36 percent for a year.

New car financing plans used by commercial banks and advertised as "4½ percent" plans are often 9 percent per year.

An advertised 5 percent rate on home improvement loans is often nearly twice as much, or about 10 percent per year.

The so-called 6 percent rate for financing used cars offered by some dealers is at least 12 percent per year and sometimes very much higher—18 to 25 percent per year or more.

The cost of teenage credit promoted by some retailers as only "pennies per week" is sometimes as high as 80 percent per year.

Sometimes soar above 100 percent

Forty percent interest rates have not been uncommon in case histories unfolded at hearings before the subcommittee and in some cases rates have soared to 50, 60, 70 or even more than 100 percent.

But they are rarely, if ever, billed that way to borrowers.

The word of credit, as one subcommittee witness put it—a credit manager with years of experience in lending—is a "wonderland."

It's a land, he said, "where percentages are divided and multiplied at will, where finance charges materialize on command and fees are collected on the way out."

It's a land where "sharp practice and rackets not only inflate the cost of credit but also impose enormous financial hardships on the debtor, particularly those who can least afford it."

He was far from alone in feeling that the "wonderland of credit" is confusing. Many experts testified that it is confusing to them, too.

One, William McChesney Martin, chairman of the Federal Reserve Board and a well-known financial conservative, admitted during public hearings that he was confused by the practices now used by lenders and vendors in stating their interest or financial rates on consumer credit transactions.

And Martin is a former Assistant Secretary of the Treasury and former president of the New York Stock Exchange.

Theodore O. Yntema, vice president in charge of finance of the Ford Motor Co., discussing automobile financing, declared:

"The variety and complexity of finance and insurance arrangements and the charges for them are such as almost to defy comprehension.

"It is impossible for the average buyer to appraise the rates for the finance and insurance services offered, as compared with alternatives available elsewhere."

Says Senator Douglas:

"The average consumer is often either unaware of or badly misinformed about the credit charges and interest rates he pays for various types of credit."

Fear to tamper with boom

The implicit suggestion of many who oppose the legislation is that any serious tampering with the Nation's credit boom, somehow, might cause the credit structure to tremble.

For credit is now a way of life in the United States, a rock upon which postwar abundance has been built.

In 1945, consumer debt in the Nation as a whole totaled less than $6 billion. Today it is more than 10 times that—something over $63 billion and still growing.

It has increased by more than $2 billion a year, for example, since 1960.

This figure covers what are usually known as short- and intermediate-term debts.

Says Douglas: "Consumers paid approximately $5 billion more last year for their personal debt than the whole Nation paid in carrying charges on the national debt."

Out of every $100 of after-tax income, the American family pays out about $18 to meet short-term installment debts.

Yet the consumer, according to the argument furnished by those who favor the "truth in lending" bill, rarely knows what this mammoth amount of credit is costing him.

Many buying on the installment plan are aware of the size of their downpayments and of their monthly payments. But they may never know what they're paying for the privilege of credit.

Senator Douglas says that a consumer who desires to obtain credit for a $100 purchase to be repaid in monthly installments is usually confronted with one of the following alternatives:

Example 1.—No rate is quoted: The borrower is told that the charges will be $10 down and $10 a month. Neither the total finance charges nor the finance rate is disclosed.

Example 2.—The "add-on rate": The borrower is told that the finance charge will be $6 on the $100 loan. The lender represents this to the borrower as being a 6-percent rate. This quoted rate is a play on the digit 6.

The actual rate is almost 12 percent, or nearly double the stated rate, because a borrower over a period of the year only has the use of approximately $50 credit rather than the $100 face value.

In other words, the interest rate is quoted on the original amount of the debt and not on the declining or unpaid balance as is the custom in business credit, Government loans, or consumer mortgage transactions.

Example 3.—The "discount rate": This is a variation on the add-on rate. In the case of the add-on the borrower receives $100 in cash or goods and must pay back $106. In the case of the discount technique the borrower receives $94, but repays $100.

The finance charge again is $6 and is often represented as being 6 percent. Again, the actual rate is almost 12 percent, or twice the quoted rate because the borrower is periodically repaying the loan.

Example 4.—A "simple monthly rate": This rate statement method is usually quoted by small loan companies and by retailers using revolving credit plans. The finance rate is represented as being 1, 2, 3, or 4 percent per month.

The simple annual rate in this case is 12 times the quoted figure, or 12, 24, 36, or 48 percent per year.

Example 5.—The "add-on or discount-plus-fee system": Sometimes lenders compound the camouflaging of credit by loading on all sorts of extraneous fees, such as exorbitant fees for credit life insurance, excessive fees for credit investigation, and loan-processing fees that rightfully should be included in the percentage rate statement so that any percentage rate quoted is completely meaningless and deceptive.

Senator Douglas offers a solution

Senator Douglas' answer to this sort of thing is a bill requiring that all lenders and credit sellers fully disclose to the consumer the costs of using credit in what he calls an accurate and uniform manner.

"Anyone engaged in the business of extending credit at the retail level would have to fully disclose in writing the costs of credit to the borrower before the credit transaction is signed," Douglas says.

"This written statement would include the total amount of the finance charge expressed in dollars and cents and the percentage that this charge bears to the total amount financed expressed as a simple annual rate on the unpaid balance."

Though it has been before the Senate for a long time, the Douglas bill has never been in serious danger of becoming law.

First of all, a great lobbying campaign against the bill was started soon after it was first introduced in 1960, and has never abated when the chips were down.

The principal opponents have been small loan companies, automobile dealers—particularly those in the used-car business—furniture dealers, and retail merchants in general.

They have successfully enlisted the support of such major lobbying powers as the U.S. Chamber of Commerce, the American Bankers Association, and the American Bar Association.

Recently the Department Store Journal characterized the battle this way: "Of all legislation actively pending in Congress, none has caused so much excitement, strident opposition, or downright anguish as the so-called truth in lending bill."

But the lobbying campaign has been aided and abetted by the fact the Senate Banking and Currency Committee has been controlled largely by conservatives.

Southern Democrats, led by the committee chairman, Senator A. Willis Robertson, Democrat, of Virginia, have worked with Republicans to retain effective control, which, until recently, had not been seriously threatened.

At the same time, until this year, a 5-to-5 deadlock existed on the 10-member Douglas subcommittee, keeping the "truth in lending" bill bottled up.

The Senate, however, is slowly changing. Bit by bit liberals are gaining power as old-line southern conservatives pass out of the picture and Northern States continue to send liberal Democrats to Washington.

Small Democratic gains at the polls in the 1962 off-year congressional elections resulted in a slight shift in power on the Douglas subcommittee—but it was a vitally important shift.

The membership of the Douglas subcommittee was cut to nine after the elections and the liberals have taken it over, with a 50-to-4 majority.

The fruits of this victory are now apparent in the truth-in-lending picture.

Allow hearings in three cities

Douglas, after a tough battle with Senator Robertson, has won permission to hold public hearings on his truth in lending bill in three cities—New York, Pittsburgh, and Louisville.

It is the first time that hearings have been scheduled outside Washington. Robertson and the conservatives were soundly beaten, and they know it.

The hearings are scheduled during the last 2 weeks in August. At the same time, discussions are underway to bring the House into the act.

Representative Leonor K. Sullivan, Democrat, of Missouri, chairman of a House Subcommittee on Consumer Affairs, is trying to set up hearings in other cities, perhaps Chicago.

The political problem of the truth-in-lending advocates lies in the full Banking and Currency Committee in the Senate.

It is generally acknowledged that if the bill could be brought to a vote on the Senate floor, it would pass. Few Senators would want to take the risk of voting against what many consumers believe are consumer interests.

But the Banking and Currency Committee appears to be relatively evenly divided on the issue. Key figures now are Senators Jacob Javits, Republican, of New York, John Sparkman, Democrat, of Alabama, Edward V. Long, Democrat, of Missouri, and Thomas J. McIntyre, Democrat, of New Hampshire.

The Labyrinth of Uncontrolled Credit

THESE FOLKS PAID AND PAID BUT THEIR BILL GOT BIGGER

(From our Washington bureau)

WASHINGTON.—In the wonderland of uncontrolled credit a man can pay and pay—and when he's paid for months, find that he owes more than when he started.

That's what happened to one man who bought a used car in a deal exposed during Senate hearings on the truth in lending bill.

The sucker in this case borrowed $300 to buy a car from an unfranchised dealer.

For 11 months he paid $15 each month.

Then he got billed for the "final" payment. The bill was for $322.65.

The total cost of borrowing the $300 came to $187.65.

According to calculations by Senator Paul Douglas, Democrat, of Illinois, sponsor of the truth in lending bill, that amounts to a simple annual interest rate of 62½ percent—a figure the lender neglected to mention.

This is just one of many examples of what Senator Douglas calls harsh practices in the lending field.

Hearings before Douglas' Senate Banking and Currency Subcommittee have been studded with many others.

They have involved purchases of everying from autos and TV sets to home improvements and—in one case—a $1,800 accordion.

TV BUYER PAYS 33 PERCENT INTEREST

One fellow bought a TV set for a list price of $285.55. He was supposed to pay for it at a rate of "about $14 a month" but there was no mention, either verbally or in writing, of interest or finance charges.

Even the number of months he supposed to pay was not mentioned in the contract.

He made payments for more than 10 months to a total of $147.30 and didn't start to wise up until he discovered that he still owed $206.22.

His $285.55 TV set cost him $353.52—a total of $67.97 in credit charges.

This works out to more than 33 percent per year in simple interest although the borrower had no way of knowing it.

Then there was the sad story of the mother of four who fell for an appeal to her parental pride and bought her daughter a $600 accordion "on time."

She was earning only $44 a week, but someone had told her that the daughter had talent. Then she was told that the talent was even more impressive than originally believed—and that a $1,800 accordion would be necessary.

Before she was through she paid carrying charges of $400, billed at a simple interest rate of 20 percent. It cost her $383 to learn the lesson.

TYPIST FOUNDERS IN LOAN MAZE

A typist in the Justice Department became deeply involved with personal loans from bank and finance companies. Before long she was at the end of her economic rope.

She began to review all the special loan charges, the refinancing costs, the required insurance and the original high—but unstated—finance charges.

She found to her amazement, that she had been paying more than 40 percent simple interest.

A 67-year-old Floridian couldn't afford to retire because he was faced with 17 more years of payments to finance a home improvement bill.

The cost of the improvements, $2,650. The total cost, including the financing, $5,482.50.

One witness before the subcommittee, Richard L. D. Morse, a professor of family economics at Kansas State University, presented a survey showing credit charges and interest rates of various lending institutions in the university area.

Each lender was asked what the monthly payment would be on a $200 loan to purchase a $300 used car, to be repaid in 12 monthly installments, and what the annual interest rate on the loan would be.

Here are some of the answers he was given:

> Five lenders said that the monthly payment for 12 months would be $18.67. However, the same lenders quoted these annual rates: 12, 9, 6, and 8 percent.
>
> Four other lenders said that they would charge $18.33 per month. The annual interest rates that these four lenders quoted were: 7.5, 10, 18, and 9 percent.

None of the rates quoted by these lenders is the true annual interest rate, according to Professor Morse.

The true annual rate on the $18.67 monthly payment is approximately 22 percent, he says, and the true annual rate on the $18.33 monthly payment is approximately 18 percent.

[From the National Informer, May 19, 1963]

SENATOR DOUGLAS TELLS HOW CREDIT RACKETEERS RAKE IN MILLIONS EVERY YEAR FROM IGNORANT CONSUMERS

(By Senator Paul Douglas, U.S. Senate)

More than 2 years ago I introduced in the U.S. Senate a bill providing that the American consumer be given full and accurate information concerning the interest rates and financial charges he is asked to pay when he borrows money or buys an article on the installment plan.

The measure requires simply that anyone engaged in the business of extending credit at the retail level disclose in writing the true cost of credit to the borrower before the lending transaction is signed.

This written statement should include the total amount of the finance charge, expressed in dollars and cents, and the percentage that this charge bears to the total amount financed, expressed as a simple annual interest rate on the unpaid balance.

For instance, when the consumer sought a 1-year $500 loans from a small loan company payable in monthly installments of $53.33, the lender would be required to tell the borrower that the total finance charge is $140 and that the true interest rate, therefore, is 52 percent.

Or, if a consumer wished to finance the balance of $2,400 due on his new car over 2 years, with monthly payments of $113.33, the dealer would be required to tell the customer the total finance charge would be $320, and the interest rate would therefore be 18 percent.

TRUE RATE

Thus, if this bill were enacted, every borrower would know in advance, before signing a note or a contract, the two indispensable measures of the price of credit—the dollar cost, and the interest or finance rate.

This would enable the consumer to compare accurately the costs of alternative credit plans and to shop as wisely for credit as he does for other items in the family budget.

For the past 2 years, the Production and Stabilization Subcommittee of the U.S. Senate Banking and Currency Committee has held extensive hearings on the truth-in-lending bill.

This U.S. congressional investigation of current consumer credit practices has conclusively demonstrated that the average consumer is unaware or at best badly misinformed about the credit charges and interest rates he pays for various types of credit.

Last spring, President Kennedy, in a message to the U.S. Congress, stated that the truth-in-lending bill is "essential to advance and protect the consumer interest."

"Excessive and untimely use of credit arising out of ignorance of its true cost is harmful both to the stability of the economy and to the welfare of the public," he said.

EVIDENCE STRONG

Yet, in spite of the overwhelming evidence offered in behalf of the truth-in-lending bill, the Senate Banking and Currency Committee's Subcommittee on Production and Stabilization voted against it by a vote of 5 to 4.

It is certainly no secret that the truth-in-lending program is opposed by some of the most powerful interests in the credit industry.

To enact this type of legislation will require equally determined efforts by everyone who believes that the consumer has the right to know the truth about the costs of credit.

NEED LOBBIES

However, American consumers are not well organized; they do not have powerful and well-financed lobbies in Washington to represent their views before Congress.

And, yet, adequate consumer protection is not only "a pocketbook" problem. It involves the translation into law of a longstanding tradition of American ethical values: The consumer, instead of being treated as a dupe, is entitled to the truth.

[From McClatchy newspapers, Sacramento, Modesto, and Fresno, Calif.]

ECHOES FROM CAPITOL HILL—SENATORS ENGLE AND DOUGLAS DO BATTLE FOR THE CONSUMER

(By Edward H. Dickson, McClatchy newspapers Washington, D.C., staff writer)

Senators Clair Engle, of California, and Paul Douglas, of Illinois, have lighted their lanterns like Diogenes and gone crusading in behalf of legislation for so-called truth in labeling and truth in lending.

The two Senators claim things are in pretty much of a mess with the consumers who buy labeled goods unaware in many cases of how much they are getting for their money and who are as ignorant of the interest they pay on installment credit as a hillbilly given a problem in nuclear physics.

Engle implies that in some of their labeling the manufacturers have adopted the Hollywood motion picture technique where every class B good guy versus bad guy film is advertised as colossal with the passable ones being ballyhooed as supercolossal.

He would require the net weight to be printed on the package in conspicuous type without any adjectives which might be as misleading as a spinster's advice on how to keep a husband.

"This," snorts the Senator, "will eliminate such absurdities as the 'giant half quart.'"

Under the Engle bill a can of succotash would not carry a picture of a savory beef stew even though a bride, after a long, hard afternoon at the bridge table, might open a can of stew, mix the two together and serve them up as a recipe from Antoine's.

It would show just plain old succotash, mainly corn, that is, son.

Douglas has had extensive hearings on the subject of how much consumers have to pay when they get involved in the great American pastime of buying on the installment plan.

He implies that some of the charges imposed on the borrowers by various lenders make Shylock look as generous as an inebiated sailor on shore leave after a 6-month cruise.

Douglas is not interested, right at the moment anyhow, in how much a borrower pays in interest but he thinks the borrower has the right to have it stated simply without the various charges being concealed like the March box score on broken New Year's resolutions.

Douglas says that during the hearings such acclaimed financial figures as William McChesney Martin, Chairman of the Federal Reserve Board, and Dr. Theodore O. Yntema, vice president in charge of finance for a big automobile manufacturing company, stated they were confused about the mechanics of installment financing and came to the conclusion it must be done with mirrors.

An experienced agent of the Federal Bureau of Investigation, Douglas says, went around sleuthing for a low interest automobile loan and finally found one which was claimed to be only 4 percent.

But when he rechecked the figures he found he was paying about 20 percent and was all in favor of putting the lender on the FBI's list of the 10 most wanted.

Douglas recalls the case of a widow with four children whose daughter was hailed by a music conservatory as an accordian genius.

The proud mother, working for $44 per week, on the conservatory's recommendation went out and bought a $600 "squeezer."

In about 6 months the conservatory reported the daughter had such talent as an accordian virtuoso that it would be just commonsense to buy an $1,800 instrument.

This the mother did and came to the edge of bankruptcy.

After bailing out she found she had been paying 20 percent interest and the $1,800 instrument could have been purchased elsewhere for only $400 without even trading in a used C melody circa 1920 saxophone or a zither with a broken string.

Douglas cited another case where a borrower purchased a television set for $285.55 to be paid for at the rate of $14 per month.

The trouble was nobody bothered to write into the fine print of the contract how many months the $14 was to be paid.

The buyer, having little faith in human immortality, paid in $147.30 and then asked to settle up. He had to pay $262.22 more to get clear of the installment collectors. He had paid 33 percent interest.

Douglas says the "iron law" or the "golden rule" of many of the lending institutions is never to quote a figure of more than 6 percent interest.

The 6-percent figure dates back to medieval days when money was borrowed only because of some catastrophe which threatened starvation.

Charging more than 6 percent was considered unfair profiteering at the expense of the unfortunate.

While maintaining the fiction of 6 percent interest, Douglas says, the lenders get far more by tacking on fees for credit investigations, service charges, discounting, and other devices.

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[From Fortune, June 1961]

THE MONSTER SPIEGEL KEEPS KEEPS SPIEGEL

(By Carl Rieser)

Spiegel's credit terms have created a monster that has to be fed constantly with long-term money. This kind of thing shakes Sears and Ward. But the terms sell goods—and the profits are wonderful.

"I know what it is to be both a hero and a bum." This was Modié J. Spiegel, chairman and president of Spiegel, Inc., of Chicago, talking recently about the curious pattern of his career. Spiegel first appeared on the business scene as a boy wonder who took over the family mail-order business during the depression and saved it by extending millions of dollars of credit, ostensibly without charge, to people who didn't have much money. Spiegel stock rose from 62½ cents a share in 1932 to $120 in 1937, when it was split 5 for 1. But after the war Modie Spiegel looked less heroic when he stubbornly persisted in trying to become a big chainstore operator as well as a catalog merchandiser. The decline and demise of the retailing venture were largely responsible for a decline in Spiegel stock from $39 in 1946 to $5 in 1953. But in the past few years the stock has bounced up nearly twelvefold, and Modie himself, now 60, has become a kind of late middle-aged wonder, still jolting retailers' thinking by showing them new possibilities in credit.

What it is showing them, specifically, is something called the budget power plan, a form of installment credit that makes it easy to get into virtually permanent debt to Spiegel, Inc. In effect, Modie Spiegel has taken the familiar revolving-credit idea, developed by department stores back in the 1930's, and extended it further than anyone used to think practicable. His company has pushed the customer's line of credit—or what it euphemistically calls his trust fund—up to a standard $550, and in some cases even up to $1,000, and it allows up to 22 months for repayment. Even more disconcerting to orthodox merchandisers is Spiegel's liberality with small accounts; it permits a man owing only $90 to pay it back at $5 a month over 18 months. Furthermore, Spiegel has applied its plan to everything it sells, from refrigerators to stockings, and has merchandised it so relentlessly that customers often feel they are losing out on the good things of life if they fail to use their Spiegel trust fund to the hilt.

The results of this liberality have been breathtaking, both to the company and to its customers. Spiegel now has some 1,752,000 credit customers, whose average debt to the company is $141, and who account for 84 percent of the company's revenues—an extraordinarily high ratio. One of Spiegel's own directors noted recently that the company strongly resembles "a combination merchandise and small-loan company." In any event, the combination has been mainly responsible for running Spiegel's total revenues from $138,608,000 in 1957 to $268,834,000 last year; they may go up as high as $300 million this year. Net profits meanwhile have risen from $3,500,000 to nearly $12 million, and by several criteria Spiegel is now among the most profitable of all big general merchandisers.

Despite this vast success other major merchandisers have not seen fit so far to adopt Spiegel's extended credit terms. An exception is Aldens, Inc., one of Spiegel's competitors in the catalog business. Aldens has not only borrowed the basic idea and many details, but has stretched the terms ever further, and allows monthly payments as low as $3. However, two much larger competitors, Sears Roebuck & Co. and Montgomery Ward & Co., have notably refrained from tampering with their own revolving-credit plans. The fact is that Spiegel's scheme makes many merchants nervous, for several reasons. One is the need it creates for borrowed capital. Installment credit uses up money in inordinate quantities as it is; Spiegel's liberal terms require it in massive, dizzying amounts. Four years ago, Spiegel's gross customer receivables were $91,600,000 and it had short-term borrowings of $40 million. Now, with gross receivables at $246,400,000, its short-term borowings alone are $50 million, and its long-term obligations are $120 million. (They were just increased 6 weeks ago by the sale of $40 million of senior debentures to the public.) "You have to feed the monster," says an Aldens official, commenting on Spiegel's (and his own company's) credit systems.

What would happen if merchants generally started to compete with each other by offering liberalized credit terms like Spiegel's and Aldens'? Consumer credit, aside from some $140 billion in home mortgages, now totals about $55 billion in all kinds of installment and noninstallment debt, including personal loans, modernization loans, and charge accounts. Consumer-goods paper alone, irrespective of automobile paper, comes to more than $11 billion. Now, a merchant, by extending his terms in the fashion of Spiegel, will automatically increase the level of receivables that results from any given level of sales. Thus, if Spiegel should touch off a great new era of credit competition, it is easy to see that retailers could very easily sop up additional billions in financing—providing they could find lenders willing to give it to them. Contemplating the prospect, a Ward executive recently said, bleakly and not altogether fancifully, "There isn't enough money in the commercial banking system to finance them."

POP-UPS AND COUTURIERS

Spiegel has been in the credit business for nearly a hundred years, ever since Modie Spiegel's grandfather opened a credit furniture store on Chicago's Wabash Avenue just after the Civil War, before installment credit became respectable. The company had a tradition of pioneering new ideas even before Modie Spiegel, and its present setup is unique even aside from its credit terms. It is the only one of the four big catalog houses that sells solely out of a catalog,—that is, that has no retail stores. Sears, which is the world's biggest catalog merchandiser, nevertheless did more than three-quarters of its $4.1 billion volume last year in stores. Spiegel is free to concentrate on the two things it understands well—credit and catalogs—and is no longer distracted by operating stores which, on the record, it doesn't understand very well.

Modie Spiegel is a thin, intense man of many moods, by turns reflective, explosively good-humored, brusque, and dramatic. He runs his shop in a highly personal way, chivying and coaxing people like an irascible but indulgent father. He has a huge portfolio of organization charts on the wall of his office, with photographs of all the company's executives and supervisors pasted in place. If he runs into one whose name he can't recall, he is apt to plow through the charts penitently, page by page, until he finds the man in question. He was the first major retailer in Chicago to hire Negroes on any scale—that was in 1946—and Negroes now constitute over 75 percent of the company's employees, who range in number from 11,000 in slack seasons to 16,000 around Christmastime. There is no executive dining room in the headquarters building in south Chicago, and the company restaurant in which Spiegel and most of the executives have lunch is open to any employee who wants to eat there. Modie's own distinctive mixture of democratic generosity and autocratic highhandedness attracts and stimulates people, and he has built and kept a staff of capable top executives. Their average age is only 47, but their average length of service is 20 years.

The Spiegel catalog invariably features a big picture of Modie accompanied by a few sententious words of wisdom such as, "You can have more of life's rewards when you use both your catalog and your trust fund regularly—fully." The Chicago catalog houses pore over each other's books with keen attention, and Modie's competitors are amused by what they regard as his pretension. But from Modie Spiegel's point of view, the customer can never get enough of his face, a view arising less from vanity than from a decision to exploit the fact that the other catalog houses have become impersonal, faceless corporations, as he puts it, while Spiegel is still a family business. (Modie's son, his son-in-law, and brother Frederick, who is an executive vice president, are all officers of the company, and the family stockholdings make up about 20 percent of the 3,100,000 outstanding shares of common.) And, indeed, the company still gets scores of letters in the same genre as one that arrived recently with a cigar and a birth announcement and began, "Dear Mr. Spiegel: This is why we were late paying our bill * * *"

Spiegel is a tireless innovator, which means that some of the ideas he has tried over the years have been not so good, as he cheerfully concedes. In the 1930's he commissioned the late Laszlo Moholy-Nagy, the Bauhaus painter who founded the Institute of Design in Chicago, to redesign the Spiegel catalog. Moholy-Nagy came up with one of his most inspired and least usable ideas in cardboard pop-ups for the furniture section of the catalog. Modie once tried to sell the Spiegel catalog on newsstands at a dollar, the money to be refunded with the buyer's first order, but the idea was a bust.

On the other hand, Modie has had a few quite original successes. Spiegel was the first catalog house to sell live pets. A squirrel monkey, for instance—"Affectionate, cheerful, lively and not destructive * * * no sex choice"—costs

$32.79 plus shipping charges. Modie's innovations in soft goods have been even more successful. Spiegel was, for example, the first house to buy new designs from Jacques Heim and other Paris couturiers and feature low-price copies in its catalog. We're trying to get away from the mail-order look," says Robert Engelman, executive vice president in charge of merchandising. Though the company offers some 15,000 items of all kinds in its catalog, from absorbers (shock) to zippers, in general it concentrates on soft goods and does not try to compete too seriously with Sears in such products as automotive parts, refrigerators, and plows. Spiegel does 56 percent of its sales volume in apparel.

Of all Modie Spiegel's innovations, however, his work in credit is plainly his masterpiece. To appreciate it fully, one must understand certain basic aspects of the catalog business and how it has changed in the past decade or so.

THE TYRANNY OF STATISTICS

The mail-order business is no longer rural. The 5 or 6 million catalogs that Spiegel distributes twice a year are flossy and handsomely printed, and are filled with much of the same high-priced merchandise—aluminum boats for $209 and transistor radios for $49.95—sold by department stores. Spiegel's customers live in the cities and suburbs—about half of them are in cities of 25,000 or more. They are pretty much concentrated in the lower middle income brackets, as are the customers of the other catalog companies. (A lot of families have catalogs of at least two of the four big companies—Sears alone distributes 9 million semiannual books—which means that there is a lot of comparative price shopping.)

The bulk of the catalog business today is not really a "mail order" business. It is handled, instead, by clerks who take orders either in the so-called catalog stores, or at catalog desks in retail stores; or sometimes it is handled through telephone-order offices. The catalog stores are generally supplied by overnight shipment from Chicago or from branch plants scattered around the country. Actually, Spiegel is unique among the big four catalog companies in that its mail-order business is still relatively large—about 70 percent of the total. It has 201 catalog stores, mainly concentrated in the Midwest. (Sears has 947, Ward 638.)

Among retailers, catalog people are a breed apart, and they have a certain contempt for merchants who sell over a counter. Like those of other catalog companies, Spiegel's fortunes are tied to "the book," and the book imposes on Spiegel a set of rigid conditions from which there is no backtracking (until the book expires). The catalog houses get out numerous flyers and sale catalogs, but it is the big semiannual books, appearing in January and July, that circumscribe their lives and require an almost military precision in their operations.

Goods must be selected, priced, and put into the catalog months before the books go out to the customers. Whatever goes into the book must be described exactly, so that there is no confusion about what the customer is getting. Workmanship and fit must be almost perfect—a store can make alterations, a catalog house obviously cannot make them, and it cannot afford high rates of return. Furthermore, what is in the catalog must always be in stock, which means that inventories must be kept up to just the right levels; catalog houses have scores of assistants who are known as "control buyers," whose principal job is to see that nothing is ever out of stock.

The catalog business is tyrannized by statistics. Modie Spiegel has made almost a fetish of statistical controls, and the company keeps endlessly detailed records—as, for instance, the reasons why customers return merchandise. "We have taken the judgment out of this business," say Spiegel's vice president of sales and marketing, Louis Rudin. On the basis of the first few orders, Spiegel can predict with remarkable accuracy just how each item in the new catalog is going to sell, and this ability is reflected in phenomenally efficient inventory buying. Spiegel turns its inventory 12 times a year, against an average for big department store chains of about 8 times.

The catalog itself is planned to get the maximum benefit from its fabulous selling power. (A color picture of a $9.97 wool frock, one of six dresses on page 29 in the 1960 fall-winter catalog, generated $250,000 of sales.) But the catalog is expensive; Spiegel's semiannual book runs to about 600 pages and it costs about $1.20 to produce and distribute each copy. In allocating costs to the various merchandise departments, Spiegel figures a single black-and-white page at $10,000 and a color page at $20,000. Obviously, sheer circulation could bankrupt a catalog company faster even than returned merchandise. "Our catalog is very desirable," says Rudin. "Kids like to cut out the pictures.

We make it hard to get." This is done by requiring everyone who wants a catalog to make out an application for credit. This procedure both limits the distribution of the catalog and acts as bait to pull in credit customers.

Spiegel must keep acquiring new credit customers on the scale that big-circulation magazines, book clubs, and other mass media acquire new subscribers. There is a steady rate of attrition among Spiegel credit customers. Each year about 20 percent of them disappear, die, go broke, or for some reason become dissatisfied. When they stop buying for a year, Spiegel culls them from its files and stops sending them the catalog. Meanwhile, to keep growing, it is sending out solicitations by direct mail; some 30 million households (out of 53 million in the United States) were invited last year to apply for Spiegel credit and accept a catalog.

In response to its mailings, Spiegel gets a return of some 2 million to 2,500,000 applications a year, which poses a staggering job of screening. Spiegel does some of the job with a so-called pointing system, a method of evaluating applicants en masse, based on Spiegel's experience with its own credit delinquents. The applicants answer various questions concerning, for example, the number of rooms in their houses, whether they rent or own, their occupation, income, and marital status. In Spiegel's experience, Connecticut residents get the best ratings, Mississippians, the worst. A wife rates lower than a husband, and a professional man rates lower than a skilled laborer. (Financial Vice President James E. Burd explains: "A man moving up in the world won't be so prompt in meeting his obligations as a poor person who knows how necessary credit is to him and who has to meet his obligations.") By and large, Spiegel grants credit immediately to the 35 percent of the applicants who make the best score, and rejects out of hand the worst 15 percent. This leaves about 50 percent who must be checked further by credit analysts.

The point system is based on a conviction that Spiegel's best bets are families in the $3,000-to-$7,500-a-year class. It tends to screen out applicants who report very high incomes, on the grounds that such an applicant is apt to be lying. (Spiegel doesn't want liars, and $30,000-a-year men don't want Spiegel credit.) Recently, the point system threw out the application of a Chicago multimillionaire because he had "no present employment."

The rejected applicants, about 30 percent of the total, pose a ticklish problem. After all, Spiegel probably solicited their trade in the first place, and so Spiegel has a special problem in saying no to them. For years, Vice President Rudin composed gentle and evasive letters of rejection, which talked vaguely about a "Board of Budget Counselors" (actually there was no such thing) by whose implacable decisions we must abide. The usual approach today is to send the rejectees a catalog, without comment, on the theory that this hurts fewer feelings in the long run—and may even produce a few cash customers.

THE UNLOVED TRAMPS

Spiegel puts out about $5 to acquire each new credit customer, and pays a substantial amount regularly thereafter for billing, posting, etc., just to maintain the account. But the costs are well worth it, for credit customers, as every retailer knows, spend more than cash customers. In Spiegel's case, the average credit order in 1960 was $31 against an average cash order of $13. Furthermore, the credit customer tends to stay around longer—to be, in a word, hooked. To be sure, the service charges on his first years' purchases generally do not cover the collection and interest costs involved in handling the account. But the longer he stays with Spiegel the more he is apt to spend. The cash customer, on the other hand, is apt to move restlessly from one merchant to another, patronizing each impartially. An old epithet for this kind of customer in the credit business is "cash tramp."

Spiegel's basic premise about the credit customer is that he is more concerned about being able to afford the monthly payment than he is about the total bill he runs up. Indeed, his entire standard of living is determined by his monthly income—or rather, by what is left of it after he has paid for the necessities—and not by his total resources. As a kind of corollary to the basic premise, Spiegel has developed the principle that a customer must never be given a chance to reduce his monthly payment. Spiegel's frank intention is to get its customers in the habit of earmarking a certain part of their budgets for Spiegel, month in and month out, and to coax them into increasing the rate whenever possible.

Spiegel uses every known device in coaxing its customers to spend, and it has developed a few ingenious refinements. In its monthly statements, the company not only tells the customer the current state of his account, but it goes on to tell him, in bright orange ink, just what he could do if he chose to make fuller use of his Spiegel line of credit. For instance, to a man with a $250 trust fund, who has bought $145 worth of goods and has worked his unpaid balance down to $67.47 at $8 a month, Spiegel says ingratiatingly: "With no increase in your payment, you can buy this amount today—$77.53. You can use all your trust fund. You have this amount available—$182.53. If you use all your funds, this is all you pay a month—$14."

"NO CHARGE FOR CREDIT"

Spiegel issued its first furniture mail-order catalog in 1905, offering terms as low as 75 cents down and 50 cents a month. From furniture it moved into apparel and general merchandise, and sales hit a peak of $24 million in 1920. But by 1932, the year Modie took formal charge, the business was at a depression low of $7 million. Modie acted with characteristic daring. He closed the last of the retail furniture stores, ruthlessly culled the nonbuyers from the catalog mailing list, pushed Spiegel deeper into apparel and other goods that were more profitable than furniture. He smartened up the catalog. And, most important of all, he vigorously promoted the slogan, "No charge for credit." He also eliminated down payments except on the customer's first purchase, and thus became a pioneer of what has since come to be known generally as the "add-on"—in which all the customer's purchases are consolidated in one running account instead of being treated as a series of separate installment transactions, which had been the custom. These moves paid off handsomely, and sales bounded up to $56 million by 1937.

There is really no such thing, of course, as "no charge for credit." As one of Spiegel's directors today puts the case, "The cost came out of the quality." Spiegel had a real problem in staying competitive on trademarked goods and staple items, which could be compared with similar goods sold by the other mail-order houses. But on other goods there was no problem; Modie Spiegel remarked recently, "I got enough on the 'blind' items so that I was all right on the rest." The customers were in no position to complain because they were largely lower income families, there was a depression on, and where else could they get credit on such easy terms?

This merchandising formula later became an embarrassment, however. As the depression eased, the customers were able to afford better and more tasteful goods. By the mid-1930's, Modie had established a quality-control bureau and was gradually upgrading Spiegel's merchandise. But the upgrading came into conflict with the "free credit" slogan. "It became perfectly obvious that they had to get rid of the phony credit slogan," says one Spiegel director. "But the question was how—after saying just the opposite—they could explain the logic of charging for credit."

Along about 1942, Regulation W, designed to curb inflation during World War II by limiting consumer credit, did it for them. Regulation W required a one-third downpayment on most of the goods Spiegel sold; it also required a repayment period of not over a year. This had the desired effect of discouraging credit buying, and it forced Spiegel into doing more and more of its business for cash. This gave Spiegel the chance it had been waiting for: it began to charge two prices, one for cash and one for credit.

But Spiegel was not really set up to do a cash business, and as the old credit customers stopped buying and paid up their accounts, Spiegel had lower volume and profits. It also had more and more cash in the bank, in addition to some tax credits. Modie Spiegel decided to put these mounting reserves to work by buying up all the retail chains he could find. For a while, the decision worked out well. The stores were profitable during and just after the war, they built volume, and they kept Spiegel in business. By 1947, Spiegel had acquired 150 apparel, furniture, and automotive-supply stores, and had a combined retail-catalog business of almost $130 million.

Eventually, the acquisitions created some sizable problems. The chains Spiegel collected were a hodgepodge, and many of the stores were "dogs." Modie's team of bright young executives was thoroughly unsuited by temperament and training to run retail stores, which soon began to lose money. As the catalog business came back after the war, the store business dwindled proportionally to about a third of the overall volume. But it was still absorbing an inordinate amount of the executives' time. And it represented a $28 million investment, tying up capital that was desperately needed in the catalog business.

Modie Spiegel stuck with the stores for a long time—partly because of the losses he would have to take on any liquidation, and partly, as one director recently put it, because of "the normal desire of a brilliant man to have one more try and not to admit that he had made a mistake." Finally, in 1954, when the operating losses of the store division had reached $1,500,000 a year, Modie swallowed his pride. By 1956 he had sold off the retail properties, and the company had digested a loss, before tax credits, of about $8 million. Retrieved from the debacle was about $20 million in cash.

THE WONDERFUL SPIGOT

Now able to concentrate on the catalog business again, Modie began to "rev" up his credit machine in a big way. He introduced the trust fund—the customer's line of credit—and to ease the customer's worries about getting so deeply into debt, the company covered every customer with a Prudential Insurance Co. policy that would take care of any posthumous debt to Spiegel up to $1,000. The effects of this vigorous merchandising of credit were electrifying. Credit sales during 1954-56 rose from $81,800,000 to $98 million, and total catalog revenues rose to almost $139 million, offsetting the loss of the retail business. Profits rose even faster.

Spiegel was able to offer so much credit largely because of the $20 million it had salvaged from the retail business; this was invested in receivables. The company's gross customer receivables rose from $65 million in 1954 to $89 million in 1956. But this kind of growth required constant infusions of money, and in the spring of 1957 Spiegel ran out of money. The company's credit terms were competitive with other plans—10 month to pay on a $50 balance, up to 17 months on $550 or more—but in order to turn its funds over faster and stretch them further, Spiegel now shortened the periods allowed for repayment by about 10 to 15 percent. It was like turning off a spigot. Spiegel's sales volume not only stopped growing, but even began to recede slightly.

Modie Spiedel and Jim Burd went out hunting for long-term money and found it very elusive. Money was tight, anyway, but insurance companies and other lenders were especially leery of Spiegel because of its volatile history and its recent retailing flop. There was something else about Spiegel that made financial people uneasy. Most big concerns with a sizable credit business either sell off their receivables, at a discount, or have credit corporations of their own to handle the paper. But Spiegel holds on to almost all its receivables, for tax reasons. Like other companies receiving income in the form of installment payments, Spiegel has the option of paying its Federal corporate tax on a cash-collection basis or on an accrual basis. Spiegel has been on the former basis ever since 1917, when the law first allowed companies to defer payments to the Government until the customer paid up his account. Meanwhile, the cost of the goods and other expenses are deducted from income in the year they occur. This means that Spiegel has had a lot of working capital put up, in effect, by the taxpayers—capital on which Spiegel does not have to pay any interest.[1] If it sold its paper and got spot cash in return, it would lose this tax deferral.

Spiegel finally did interest Prudential in lending the company some long-term money. It took about 3 months before the Prudential men had chewed their way through the Spiegel system and made up their minds about it, but eventually they came up with $25 million 15-year loan that was tailored to Spiegel's needs. For example, the terms did not require Spiegel to set up a sinking fund to reduce the debt, though such a requirement was normal in corporate long-range borrowing. But the "Pru" reasoned that Spiegel was not the usual corporate borrower, which requires money for one specific purpose, like building a plant that can be amortized over a period of years. Instead, Spiegel somewhat resembled a finance company, which uses money as a commodity and whose need for money is continuous. If Spiegel were required to pay money into a sinking fund, it would only have to borrow money somewhere else; so why set up the fund? However, the "Pru" did thoughtfully forbid Spiegel to go back into the retail-store business.

THE POOR MAN'S CHARGE ACCOUNT

With $25 million in its pocket, and the possibility of more money where that came from, Spiegel could now afford to open the throttle wider. First it restored

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[1] If it had a bad year, and new sales fell below cash collections, Spiegel would have to give the taxpayers a refund.

its terms to competitive levels, and then, in January 1958, it offered a new credit plan that incorporated some of the basic features of revolving credit.

Revolving credit started as a kind of poor man's charge account. It was introduced by Wanamaker's in 1938 as a means of financing customers who could not afford to pay up their charge accounts in the usual 30 or 60 days. The idea was wonderfully adaptable, and it spread rapidly. In a typical plan, the customer can charge merchandise up to a limit set by the store, to which he repays a stipulated amount every month (including a service charge on the unpaid balance); as he reduces his debt, he restores his credit line and is allowed to charge additional purchases. Virtually all department stores use it now, and so do many other companies, including banks, which have introduced revolving credit accounts and made of them a kind of permanent small-loan plan. About 7 years ago Sears first introduced revolving credit to the customers of its retail stores and its popularity among Sears' customers has been impressive. Sears has, in all, four credit plans, including installment terms specifically designed for major appliances and home modernization. Of its total sales volume, 53.4 percent, or over $2 billion, is done on credit. Revolving credit, though it was offered to the catalog customers only 2 years ago, now accounts for more than $700 million of Sears' sales, and it is growing much faster than all of Sears' other installment plans combined.

Up to a few years ago, the credit service fee commonly charged by merchants was 1 percent a month, but now the usual charge is 1½ percent. This rise is often ascribed to the influence of Sears, one of the first major merchandising companies to levy the higher charge. Since 1½ percent a month comes to 18 percent a year, it was very attractive to other merchants, like Spiegel, who had been charging flat service fees for installment credit. Under this system, customers tended to pay high annual rates on the smaller balances that are cleared up in a few months, and low rates on the larger, long-term balances. The average worked out to less than 18 percent.

In the beginning, revolving credit conformed with conventional credit doctrine, which holds that the period of repayment shall have some relation to the useful life of the goods involved. This doctrine is based on the premise that the goods are security for the amount owed, and that the seller can, if necessary, assert the right of repossession. Thus cars, appliances, and hard goods in general can ordinarily be paid for over a longer term than, say, wearing apparel, housewares, and other soft goods, which are soon not worth repossessing. Most revolving credit was used to buy the latter kind of goods and department stores usually held the period of repayment down to a year or less.

The old doctrine has been eroded in recent years, but Spiegel has probably flouted it more openly than any other company. Jim Burd sums up Spiegel's philosophy when he remarks, "Our belief is that the customer does not associate the moral obligation to pay with the kind of merchandise." This total repeal of the law of repossession has not produced chaos; Spiegel's loss rate is about 1½ percent of credit sales, which is about triple Sears' rate but still compares favorably with small-loan companies' losses, which Spiegel uses as its own yardstick.

WHAT $5 CAN BUY

When Spiegel first offered its new credit plan, its scale started at $5 with 12 months to pay, which meant that $5 a month would "buy"—as Spiegel puts it—$60 worth of credit. At the top of the scale, $25 a month for 22 months would buy $550. Then, in 1959, Spiegel really broke loose. It offered the customers one simplified table, which lengthened the terms on the lower end of the scale. This meant that a cutomer paying $5 a month could now get 18 months to pay, so that his $5 would buy $90, and $10 a month would buy $180. (A Sears' revolving-charge customer, meanwhile, could buy only $100 for $10 a month.) This put, or seemed to put, more millions of dollars into the pockets of Spiegel customers. The results were awe inspiring.

From 1957 through 1960, Spiegel's overall revenues about doubled, to $268,834,000. Very little of this came from increases in cash sales, which went up only about $10 million, to $43 million. Credit sales, however, almost doubled, from $96,100,000 to $186 million. Meanwhile, service charges rose nearly four times, from $10,300,000 to $39,700,000, a rise reflecting the combined effect of increasing the monthly service charge and the length of time over which it was paid. By last year, the income from service charges represented a thumping 14.8 percent of total revenues, and was almost equal to the volume brought in by cash sales. By the end of 1960, net receivables (after allowances for doubtful accounts and collection expenses) had risen to almost $225 million, and constituted an unusually large part of Spiegel's total assets of $288 million.

To finance the rising costs of carrying all this paper, Spiegel has several times been back to the well for more money. Its long-range debt picture now looks like this: Prudential holds $50 million in senior notes and another $20 million in subordinated notes. In 1959, Spiegel issued $15,417,500 of convertible subordinated debentures, now reduced by conversion to about $10 million. In addition, $40 million of senior debentures were sold in mid-April. There is also the $50 million of short-term bank loans and commercial paper. But against this must be placed those deferred taxes, now totaling some $38 million. By the end of this year, if Spiegel's credit sales keep on rising at their present rate, this kitty of interest-free working capital should swell to something like $52 million. The lesson has not been lost on others. Recently Sears asked for and got permission from the Internal Revenue Bureau to shift over to a deferred tax basis.

THE DOUGLAS JITTERS

Financial Vice President Burd says that 40 percent of Spiegel net profit now comes from its service charges. This statement has probably caused more exasperation in the trade than anything else the maverick company has ever said or done. Other merchants do not like to concede that they make any profit on credit. "In our business," says Andrew Lamb, treasurer of Montgomery Ward, "it is not in the cards to make a profit on credit." And he adds, "We regard credit as a customer service, not as a primary profit source."

What really annoys the competition is Spiegel's indiscretion in talking about credit profits. There is an uneasiness in the credit business today, but not only because of the magnitude of consumer debt, but also because over the retailers' heads hangs a consumer-credit labeling bill, the so-called truth-in-lending bill. This was introduced last year by Senator Paul H. Douglas, who will undoubtedly hold hearings on the bill again in this session of Congress. It requires that all installment-financing charges be stated in dollars and cents and also as a simple annual rate on the unpaid balance. Almost all merchants (including Spiegel) and their organizations are violently opposed to it. They argue that it would be unenforceable, and also that it is the first step on the way to Government control over consumer credit through a kind of peacetime regulation W. Senator Douglas insists his bill is intended only to bring about better self-policing of credit by consumers who are in full possession of the facts.

THE PROBLEMS OF GROWTH

Spiegel's rate of growth has been less in 1961 than in the past couple of years. The company is now busily trying to catch up with the enormous increase in business that it has already experienced. It is involved in building additions to its complex of Chicago warehousing and shipping operations, and by the end of this year it will have increased its total plant space by 70 percent in 3 years. Spiegel is also tackling another expensive problem. Because it has only its Chicago plant, it has been at a disadvantage insofar as parcel post and express charges—which are paid by the customer—are concerned, and this has been a sales deterrent in the East, South, and Far West. It is now pushing into the East on an experimental basis. Instead fo building a warehouse there it has established a fast trucking service from Chicago to carry goods to a distribution point in Philadelphia.

The chances are that the Philadelphia move is only the first step toward the erection of a plant. And in Chicago, Spiegel confronts the possibility of having to modernize as well as to expand its present facilities, which are a congeries of old buildings laced together by conveyor belts and chutes. There simply hasn't been the money to do everything at once. "If you put too much in brick and mortar," Modie Spiegel remarked recently, "you won't have the liquid assets you need to finance your receivables." He added, "We have to stay as liquid as possible."

[From the Boston College Industrial and Commercial Law Review, Spring 1961]

PROTECTION INSTALMENT BUYERS DIDN'T GET

(By William F. Willier*)

"Yours on easy credit terms" has become the bark and cry in an affluent society in which every man feels entitled to be as affluent as the next at whatever the personal cost to himself. In the years following World War II consumer credit was introduced upon a wide scale until, today, there is hardly a consumer good or service not available upon some sort of credit terms.[1] Sellers could not afford to pass up this selling innovation, but neither could they afford to assume the rather bad risk of the personal credit of so many buyers whom they could not possibly know or afford to investigate. The secured credit transaction was the answer, but also the undoing of the unwary buyer at the hands of unscrupulous or profit-hungry sellers. In various ways, security would often disproportionately exceed the amount of the debt; charges for credit, hidden and otherwise, would be excessive; fine print would conceal unreasonable terms. As easy credit became the opiate of the people, more and more pushers made a fix more accessible, though not less expensive. Monthly payments became the monkey on the back of the consumer. The plight of the consumer soon came to the attention of the legislatures of a number of states. Existing legislation did not purport to deal with these problems or, if so, it was piecemeal and easily circumvented. At worst, it provided the creditor with unbridled freedom of contract and the utmost protection in realizing upon his security. Legislators were at once faced with conflicting demands for protection from the credit seller and financing agencies and from credit buyers. The result was the enactment by a number of states of what have come to be known as Retail Instalment Sales Acts.[2] The acts vary in their scope and approach, but generally follow a similar pattern. They require full disclosure of all contract terms to the buyer, prescribe and proscribe a number of those terms, and limit the security and charges for credit.[3] Thus, they tend to be regulatory rather than prohibitive and at first glance they give the appearance of broad protection to the consumer. But a careful analysis of their essential provisions reveals that the protection they afford is minimal if not minus, more often formal than real.

This article proposes to consider the effect and effectiveness of certain major provisions of those acts. The exemplary acts of California[4] and New York[5] have been chosen for this purpose and, where relevant for comparison, the Uniform Conditional Sales Act, Uniform Negotiable Instruments Law, certain exemplary chattel mortgage and motor vehicle certificate of title acts, and the Uniform Commercial Code are considered.

TRANSACTIONS INCLUDED

Problem of use.—Retail Instalment Sales Acts clearly include the secured transaction in which the security interest is in goods and payment of the indebtedness for the purchase price is in instalments.[6] But the extent of the inclusion is not so clear. The New York act, defining "goods" as "all chattels personal, other than things in action or money * * *",[7] excepts transactions with goods for "business or commercial use"[8] but nowhere defines such use. The

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[1] Of $33.1 billion in outstanding instalment credit in the United States in 1958, almost $15 billion consisted of payments for or against automobiles. Ill. Bus. Rev., Nov. 1958, p. 5.

[2] "As of 1959 Retail Installment Sales Legislation had been enacted in 31 jurisdictions." Corman, Sales and Secured Financing 553 (1960).

[3] For an excellent survey of the approaches of different states as of 1958, see Hogan, A Survey of State Retail Installment Sales Legislation, 44 Cornell L.Q. 38 (1958).

[4] Cal. Civ. Code, Title 2.

[5] N.Y. Pers. Prop. Law, Articles 9 and 10.

[6] "Retail instalment contract" includes a chattel mortgage, conditional sales contract, or a bailment or lease whereby the bailee or lessee can or will become the owner upon fulfillment of terms. N.Y. Pers. Prop. Law § 401(6); Cal. Civ. Code § 1802.6.

[7] N.Y. Pers. Prop. Law § 401(1): This is the same definition as appears in the Uniform Conditional Sales Act § 1.

[8] N.Y. Pers. Prop. Law § 401(1). Article 9 of the Personal Property Law deals solely with motor vehicles as defined in § 301(1) with provisions almost identical in effect to those of Article 10. The "business and commercial use" exception is there found in the definition of a "retail instalment sale," § 301(5).

California act[9] defines "goods" in the same manner as "consumer goods" are defined in sec. 9–109(1) of the Uniform Commercial Code:[10] "If they are used or bought for use primarily for personal, family or household purposes", but California,[11] like New York,[12] employs the same exception with reference to "services." The dilemma presented by this exception and by the differing definition of "goods" in the two acts, so similar in other respects, is not easy to resolve. Secured transactions under Article 9 of the Commercial Code and conditional sales under the Uniform Conditional Sales Act are not excepted according to use and hence these acts are broader in their inclusion than the Retail Instalment Acts.[13] Chattel mortgage acts seldom define "chattels" but have been held to apply to all movable things without reference to use.[14] The California definition of "goods" and the New York Act's emphasis upon "retail" probably correlate to mean only "consumer goods and services," but if so, both imply a very narrow meaning to "consumer" and hence, in many instances, thwart their purpose of protecting the unwary buyer. It is unfortunate to exclude the small entrepreneur such as, to use an extreme example, the energetic college student who buys a power mower under an instalment sales contract with which to earn summer money on the grounds that the mower was bought not for household purposes but for a business use. Purchase of cows by a farmer would likewise be excluded.[15] Yet these buyers are as unwary and as in need of protection as the buyer of the home appliance. Thus, the "consumer goods" definition or "business and commercial use" exception can provide a convenient loophole to the unscrupulous seller requiring prolonged and expensive litigation with doubtful results. A distinction based upon the capacity of the buyer or the nature of the goods[16] would better achieve the intended purpose. Both Acts might well define their application by classifying transactions along the lines of the suggested distinctions, but with differing maximum sums.[17]

Unmovable fixtures.—Both the California and the New York Acts include "goods which, at the time of the sale or subsequently, are to be so fixed to realty as to become a part thereof whether or not severable therefrom."[18] Thus, goods are included which may be excluded from the protective and remedial provisions of the Uniform Conditional Sales Act.[19] The same, in effect, is true of the Uniform Commercial Code, although both uniform acts apply to secured transactions with certain fixtures whether before or after they become so.[20] It is possible, however, that under the broad definition of such goods even "sticks and stones" incorporated into a structure are included while expressly excluded by the other acts.[21] This can, no doubt, create an interesting skirmish between holders of security in the real property and in the one-time personal property, while the rights of the buyer-debtor dangle precariously somewhere in the "in between."

Perfection of the security interest.—While the Retail Instalment Sales Acts expressly include chattel mortgages and leases which are security devices,[22] the term "retail instalment contract" by which the chattel paper involved must be designated and the provisions which must be included and excluded, create the problem of how the secured creditor is to perfect his security interest. Tradi-

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[9] Cal. Civ. Code § 1801.2.

[10] Uniform Commercial Code, 1958 Official Text (hereinafter cited as UCC).

[11] Cal. Civ. Code § 1802.2.

[12] N.Y. Pers. Prop. Law § 401(2).

[13] Uniform Conditional Sales Act § 9 provides expressly for sales for resale with reference to the rights of a buyer in the ordinary course. Interestingly, Cal. Civ. Code § 1802.4 defines "retail buyer" as one who buys goods "not principally for the purpose of resale." Article 9 of the UCC distinguishes types of goods primarily for purposes of perfection against third parties. See definitions of "consumer goods," "equipment," "farm products," and "inventory," § 9–109, and §§ 9–307, 9–312, and 9–401.

[14] See, e.g., N.Y. Lien Law § 230.

[15] So held in Welch v. Campbell, 197 Misc. 165, 94 N.Y.S. 2d 860 (Sup. Ct. 1950), aff'd. 278 App. Div. 605, 102 N.Y.S. 2d 51 (1950). In this case, the court applied the same exception found in the N.Y. Pers. Prop. Law § 64a, which amended the Uniform Conditional Sales Act and required disclosure of terms to buyers under a "conditional sales contract" similar to the requirements of Article 10.

[16] The UCC makes such a distinction, but for other purposes. See note 13 supra.

[17] The California act excludes an unsecured transaction of fifty dollars or less. Cal. Civ. Code § 1801.3. New York limits indebtedness by "added-on" security to $3,000. N.Y. Pers. Prop. Law § 410(2).

[18] Cal. Civ. Code § 1802.1; N.Y. Pers. Prop. Law § 401(1).

[19] Uniform Conditional Sales Act § 7 provides that the reservation of property in fixtures not serverable without material injury is void against those who have not assented or, if severable, against owners and subsequent purchasers in the absence of filing in a manner to perfect a lien upon realty.

[20] See UCC §§ 9-104(j) and 9–313(2)–(5); Uniform Conditional Sales Act. § 7.

[21] UCC § 9–313(1).

[22] See note 6 supra.

tional rigid construction of filing requirements may render a "retail instalment contract" filed as a chattel mortgage or lease unperfected against third parties.[23] By omission, the Instalment Sales Acts leave this to existing legislation and decisions. Problems of this sort would not arise under the UCC, since formal distinctions between secured transactions are abandoned in favor of a functional distinction.[24] This, perhaps, has little direct effect upon the credit buyer, but indirectly he may suffer from over-extension of his indebtedness induced by creditors who have neither constructive nor actual notice of another security interest in the same goods. Signing on the line with the "X" is easier for a buyer than a consideration of the personal economic or legal ramifications involved.

"Add-ons."—Retail Instalment Sales Acts attempt to curb another evil, "add-ons",[25] while other acts usually do not purport to deal with this problem.[26] In brief, the Instalment Sales Acts limit extension of security of prior contracts to new contracts and provide for ratable application of instalment payments to old and new retail instalment sales with termination of the security interest in the former when fully paid.[27] These contracts take on certain characteristics of "after-acquired" property transactions except that the subsequent purchases must involve a retail instalment sale and not property acquired in some other way.[28] Hence, a provision such as that in the UCC which restricts after-acquired consumer goods to acquisitions within ten days[29] would either have no bearing or create a conflict of provisions. The Code contemplates an initial security agreement which provides for the after-acquired property,[30] while an "add-on" contract in the usual sense includes prior, not subsequent, transactions. In this respect, the seemingly similar language in both exemplary acts tends to differ in effect. The California act[31] allows the initial contract to provide for adding on subsequent purchases, while the New York act refers only to a subsequent contract in which a previous instalment balance is included.[32] When both expressly permit adding the security of prior contracts to that of subsequent, the language is almost identical: "* * * [S]uch [California, 'the'] contract * * * may [California, 'also'] provide that the goods purchased under the previous contract or contracts shall be security for the goods purchased under the subsequent contract. * * *".[33] "The contract" in the California act must refer to that of the immediately prior language in the same section, which is an initial contract allowing for "subsequent add-ons", but the "previous contract" reference in the quoted sentence creates an inconsistency.[34] The New York act is at least consistent, for its prior language permits "add-ons" only by subsequent contracts.[35] Whatever the construction of these provisions, the protection afforded the buyer is doubtful. In the first place, the seller will be inclined to encourage additional purchases under the "add-on" arrangement and his only duty to the buyer is to make the writing available to him.[36] Only those who have been injured by the enforcement of such a contract would know what the highly legalized language means in practical results. While the security interest under the prior contract terminates when it is fully paid by allocation,[37] a situation is more than remotely conceivable where default occurs only shortly prior to termination. The buyer is not allowed to redeem the collateral of only the prior con-

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[23] See People v. Burns, 161 Mich. 169, 125 N.W. 740 (1910).

[24] "Security interest" means an interest in personal property or fixtures which secures payment or performance of an obligation, § 1–201. ". . . [T]his Article applies so far as concerns any personal property and fixtures within the jurisdiction of this state (a) to any transaction (regardless of its form) which is intended to create a security interest in personal property or fixtures. * * * § 9–102(1).

[25] Cal. Civ. Code § 1808.1–.6; § 1804.3., N.Y. Pers. Prop. Law § 410. "Add-ons" would seem to be prohibited in New York where a motor vehicle is the subject matter of the contract. N.Y. Pers. Prop. Law § 302(17).

[26] Cf. N.Y. Pers. Prop. Law § 45.

[27] Supra note 25.

[28] Cal. Civ. Code 1808.1; N.Y. Pers. Prop. Law § 410(1).

[29] UCC § 9–204(4)(b). Cf. § 9–108.

[30] UCC §§ 9–203(1)(b), 204 (1) and (3).

[31] Cal. Civ. Code § 1808.1.

[32] N.Y. Pers. Prop. Law § 410(1).

[33] Cal. Civ. Code § 1808.1 (last sentence); N.Y. Pers. Prop. Law § 410(2).

[34] Cal. Civ. Code §§ 1808.1 and 1810 tend to overlap in their contemplation of a series of purchases provided for in an initial contract. The definition of "goods" in the California act and the sentence dealing with security for "add-ons," the former taken from the UCC and the latter apparently taken from the New York act, indicate that the act borrows language from other statutes with the unfortunate results of inconsistency and conflict.

[35] N.Y. Pers. Prop. Law § 410(1).

[36] Cal. Civ. Code § 1808.4; N.Y. Pers. Prop. Law § 410(1)(d).

[37] Cal. Civ. Code §§ 1806.4, 1806.2; N.Y. Pers. Prop. Law §§ 410(2), 412.

tract. In fact no provision at all is made for redemption. Under existing statutes, the buyer could be forced to pay the entire amount under the "add-on" contract in order to redeem anything.[38] Were this not so, the add-on device would serve little more than to coerce the buyer to make his payments. The acts would do well to clarify redemption statutes or prohibit "add-ons" altogether. As they are, they reflect a less than satisfactory compromise of their very purpose.

Priorities.—Were the above not enough, the acts create problems for creditors as well. Since, under both acts, it seems the security interest for a subsequent indebtedness could attach[39] only by the subsequent contract (though in California the added debt could be anticipated in the prior contract), an intervening lien would take precedence over the interest arising from the second contract, assuming all perfection requirements were met at the time of the transactions.[40] The termination of "added-on" security when the balance due under the prior contract is fully paid[41] confirms this conclusion. The collateral of the first contract at that point ceases to secure the subsequent indebtedness. It is probable, however, that unless the security is actually added to the subsequent contract, consolidating all prior and present indebtedness, it will be lost to an intervening lienor.[42] This problem would probably not arise in mere refinancing to extend maturity and alter payments and charges, since this would amend the original contract, which would remain in force.[43]

Revolving accounts.—The California act specifically, and by cross reference to other provisions, allows a "retail installment account" which contemplates a series of installment sales under an "account" agreement or, apparently, the conversion of prior indebtedness to an installment payment plan.[44] Where this arrangement involves security,[45] it closely resembles an after-acquired property transaction which may conflict with judicial hostility toward, or other statutory restrictions upon, such clauses.[46] Otherwise, the security interest would presumably be perfected by virtue of the "account agreement" even though it attached subsequently. Under the usual third-party protections statute, the perfection of the security would relate back to the first agreement and thus the security interest would be prior to an intervening lien.[47] This is the statutory scheme for "revolving accounts" and similar arrangements whereby an installment payment automatically extends that much additional credit to the buyer. The theory is that once the buyer is on the merry-go-round, he can never get off. The facility with which the seller makes the credit available and the tempting inducements he offers insure the success of the ride. The California statute merely legalizes the practice. In New York, any installment contract involving security is, by definition, a "retail installment contract" regardless of form and, in view of the New York act's position as to "add-ons," and the "entire agreement" requirement,[48] it would seem that the "installment account" for after-acquired collateral would not be permitted.[49]

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[38] Uniform Conditional Sales Act § 18. California has added redemption provisions to its Retail Instalment Sales Act but makes no provision for redemption under an "add-on" contract. Cal. Civ. Code § 1812.2.

[39] "Attach" is here used in the UCC sense, § 9–204(1), requiring an agreement that it attach, that value is given, and that the debtor has rights in the collateral.

[40] The same result would be reached under UCC §§ 9–107, 301 (1)(c) and (2), 312 (4) and (5) (a) and (b).

[41] Cal. Civ. Code § 1808.1; N.Y. Pers. Prop. Law § 410(2). New York adds "or (b) twenty per centum of the time sale price of the goods purchased under the subsequent contract has been paid, whichever event first occurs."

[42] Cal. Civ. Code § 1806.4 and N.Y. Pers. Prop. Law § 412 provide for cancellation of the contract and release of security when terms are performed. "The contract" referred to in these provisions would be the subsequent consolidated contract and whatever security was included in it. In essence, it would be a con ract completely substituting for the former ones. Cf. Uniform Conditional Sales Act § 1, "Conditioral sale" and § 16; Cal. Civ. Code § 1812.2; UCC § 9–404.

[43] Refinancing is allowed by both acts with method and charges restricted. Cal. Civ. Code § 1807; N.Y. Pers. Prop. Law § 409.

[44] Cal. Civ. Code §§ 1802.7 and 1810.1–.11.

[45] Allowed by Cal. Civ. Code § 1810.8. Allocation of payments to prior purchases is the same as in an "add-on" transaction. Cal. Civ. Code §§ 1810.8, 1808.2.

[46] See Callahan v. Auburn Production Credit Ass'n, 240 Ala. 104, 197 So. 347 (1940); UCC § 9–204.

[47] See N.Y. Lien Law § 230; Uniform Conditional Sales Act §§ 4 and 5; UCC §§ 9–204, 312(6).

[48] N.Y. Pers. Prop. Law § 402(2).

[49] A chattel mortgage on inventory requires notice to be given creditors. N.Y. Lien Law § 230a. Lien Law § 230b deals specifically with, among other goods, mortgages on crops to be grown. Certain non-secured credit transactions are treated separately in the New York Retail Instalment Sales Act. Merchandise certificates to be exchanged for goods may be

PROVISIONS OF CONTRACT AND THEIR EFFECT

Retail Instalment Sales Acts have as their ostensible purpose curtailing freedom of contract. Form and terms are carefully restricted to protect the innocent buyer from the seller's fine print, especially in the fact of the effect of the parol evidence rule upon an integrated contract [50] or, suiting the seller's purpose, the lack of effect upon the multi-document, non-integrated contract.[51] Some statutes, such as those giving holders in due course cut-off powers,[52] operated to the detriment of the buyer.

Form in other statutes.—The Uniform Commercial Code adopts an extremely liberal policy toward freedom of contract, allowing the parties to agree to choice of law,[53] to vary rights and remedies otherwise imposed by law,[54] and to waive those same rights and remedies.[55] On the other hand, the UCC adds to its many "unless otherwise agreed" provisions "subject to any statute" in at least one instance,[56] which allows specific intrustion of the Retail Instalment Sales Act. In spite of the open door of section 9-203(2): "A transaction, although subject to this Article, is also subject to [designated Retail Installment Acts], and in case of conflict between the provisions of this Article and any such statute, the provisions of such statute control * * *," conflict can well arise as to when there is in fact a conflict.[57] Other existing statutes, unless amended in keeping with the Instalment Sales Acts, seldom limit the form or terms of the contract involved, and then usually by indirection.[58] Such limitations do not have as their purpose the protection of the buyer, and they leave open no doors for Retail Instalment Sales Acts, the latter acts providing only an occasional keyhole for the others.

The California and New York acts both provide that the retail instalment contract, both in form and terms, shall be the entire agreement of the parties,[59] thus excluding separately executed security agreements [60] and instruments evidencing the indebtedness.[61] This in effect, supersedes the application of the parol evidence rule.[62] Of course, in cases of refinancing or consolidation there may be more than one writing, but each writing, as well as the combination of writings, must comply with the statute.[63]

Disclosure.—The form of retail instalment contracts is prescribed from the label, "RETAIL INSTALMENT CONTRACT,"[64] to the size of type.[65] The items to be set forth have as their purpose full disclosure of the subject matter and all amounts for which the buyer is liable, without hidden charges or lump-

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issued, but with limitations upon charges, full disclosure of terms to the buyer, and restriction of those terms. N.Y. Pers. Prop. Law § 402A. "Retail installment credit agreements" include a merchandise certificate or other arrangement whereby a buyer agrees to pay his "outstanding indebtedness" in installments. Form, terms, and charges are restricted. N.Y. Pers. Prop. Law §§ 401(8) and 413. A retail installment obligation is simply an agreement of the buyer to pay for goods or services in installments. Restrictions are similar. N.Y. Pers. Prop. Law §§ 401(7) and 402(7).

[50] See Valley Refrigeration Co. v. Lange Co., 242 Wis. 466, 8 N.W.2d 294 (1943) and UCC § 2-202.

[51] See Restatement, Contracts §§ 239-240 (1932).

[52] See Uniform Negotiable Instruments Law (hereinafter cited as NIL) §§ 52, 57 and 58; UCC §§ 3-302, 3-305, 3-306.

[53] UCC § 1-105(1).

[54] UCC § 1-102(3).

[55] UCC §§ 9-206(1), 9-318(1); cf. § 2-316.

[56] UCC § 9-201.

[57] See, e.g., UCC § 9-507 and "Remedies and Penalties," infra.

[58] Uniform Conditional Sales Act §§ 1-3 describe the contract in broad terms; chattel mortgage acts makes no reference as to form. N.Y. Lien Law § 230. New York, however, added remedial provisions and a brief form similar to those provided in its conditional sales act, as amended, Lien Law § 239 a-1. and to the form in the Retail Instalment Sales Act § 402. Motor Vehicle Certificate of Title Acts do not prescribe form, see New Jersey Stats. Ann. § 39:10-11 and 15.

[59] Cal. Civ. Code § 1803.2(a): N.Y. Pers. Prop. Law § 402(2).

[60] N.Y. Pers. Prop. Law § 403(3)(c). See In re Finkelstein, 11 Misc. 2d 938, 174 N.Y.S. 2d 126 (Sup. Ct. 1958).

[61] N.Y. Pers. Prop. Law § 403(1) (indicates separate instruments may be allowed, but they must be non-negotiable); Cal. Civ. Code § 1803.2(a) (separate instruments expressly prohibited).

[62] This is implied from the emphatic language invalidating a separate assignment of wages in In re Finkelstein, supra note 60. Cf. UCC § 2-202.

[63] Cal. Civ. Code §§ 1807.1-.3, 1808.1-.6 (cf. "instalment accounts," §§ 1810.1-.11); N.Y. Pers. Prop. Law §§ 409, 410 (cf. "retail credit obligation" §§ 403(7), 402A).

[64] Cal. Civ. Code § 1893.2(b); N.Y. Pers. Prop. Law § 402(2)(a).

[65] Cal. Civ. Code § 1803.2 (agreement must be in eight point type, label in ten point bold type); N.Y. Pers. Prop. Law § 402 (1), (2).

ing of charges.[66] In fact, there may be no blanks in the document whether an item is part of the contract or not.[67] The buyer is warned at the bottom in bold type, "Do not sign this agreement before you read it or if it contains any blank space."[68] The buyer is entitled to a copy of the complete agreement and the seller must deliver it in person or by mail.[69]

The disclosure requirements of Retail Instalment Sales Acts do proscribe certain obvious evils, such as blanks to be filled in by the seller after signing, usually with added charges, and the lack of a visible total of obscure smaller amounts to be paid. However, it is doubtful that the anxious buyer will read the agreement carefully, if at all, or even understand it if he does; nor will he be inclined to seek legal advice in advance. Typical of the inconsistency and inadequacy of remedies available to the buyer are those available upon the seller's failure to deliver a copy of the agreement to the buyer. New York allows cancellation and return of payments and trade-ins where the buyer has not received the goods or services,[70] but apparently leaves him to the penalty provisions if the goods have been received.[71] California, in addition to the penalties, holds the buyer responsible only for the cash sale price until the copy is delivered.[72]

Assignee's "cut-off" power.—Most significant for this analysis are the restrictions upon the terms of the contract other than upon the chargeable items. Negotiable instruments are in effect prohibited,[73] the buyer, it would at first seem, thus being allowed to retain and assert his defenses against the seller and his assignees.[74] However, should a seller, not complying with the statute, employ a negotiable instrument which is negotiated to a holder in due course,[75] the buyer's remedies would be solely against the seller or perhaps his immediate assignee, for the Installment Sales Acts do not go so far as to impair the free flow of negotiable instruments by destroying their most important attribute.[76] The Acts contemplate only one assignment, to a "financing agency,"[77] which then becomes the "holder" of the contract.[78] While the contract may contain no blanket waiver of defenses against the assignee,[79] generally allowed by other statutes,[80] a qualified waiver is allowed which can render both the negotiable instrument and waiver prohibitions practically nugatory. The contract *may* contain a waiver of defenses against an assignee for value, in good faith, and without notice, who receives no notice of the defenses within ten days of the mailing of the notice of assignment with full details of the contract to the buyer. In New York the notice must warn the buyer that if there is error in the statement, or if he has not received the goods, or "if the seller has not fully performed all his agreements with you," the assignee must be notified within ten days; "Otherwise, you will have no right to assert against the assignee any right of action or defense arising out of the sale which you might otherwise have against the seller."[81] Since the contracts are usually assigned, by prearrangement, to a financing agency almost simultaneously with execution, the buyer has very little time to discover the seller's defaults. This is especially true of defects under an express or implied warranty[82] which may not appear for some time.

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[66] Cal. Civ. Code § 1803.4 (add-ons involve a "memorandum" with the terms of the consolidated contract, to be sent to buyer before first instalment is due, § 1808.3; N.Y. Pers. Prop. Law § 402(2)(b), (4). (However, a subsequent contract of consolidation or add-on need not contain the amount of credit service charge, the time balance, or the time sale price, but the rate of service charge must be stated. These may be included or attached after the buyer signs, but within ten days. § 410(1) (c) and (d).

[67] Cal. Civ. Code § 1803.2(c); N.Y. Pers. Prop. Law § 402(2)(b).

[68] Cal. Civ. Code § 1803.7; N.Y. Pers. Prop. Law § 405.

[69] N.Y. Pers. Prop. Law § 405.

[70] N.Y. Pers. Prop. Law § 414.

[71] See "Remedies and Penalties," infra.

[72] Cal. Civ. Code §§ 1803.7, 1812.7.

[73] See note 61 supra.

[74] Cal. Civ. Code § 1804.2; N.Y. Pers. Prop. Law § 403(1).

[75] See note 52 supra. The Acts use the negotiable instrument law term "holder" to mean the seller or an assignee. Cal. Civ. Code § 1802.13; N.Y. Pers. Prop. Law § 401(15).

[76] See Hawkland, Bills and Notes 3 (1956).

[77] "Financing agency" is a person engaged in purchasing retail installment contracts, including a bank, trust company, private banker, or investmet company. N.Y. Pers. Prop. Law § 401(18) (pledgee of a number of contracts to secure a loan excluded); Cal. Civ. Code § 1802.16.

[78] See note 75 supra, for definition of "holder."

[79] Cal. Civ. Code § 1804.1(a); N.Y. Pers. Prop. Law § 403(3)(a).

[80] Uniform Conditional Sales Act §§ 2 and 26; UCC §§ 9–206(1), 9–318(1). Cf. NIL § 5(3).

[81] N.Y. Pers. Prop. Law § 403(3)(a) (services to be rendered more than ten days after notice of assignment excepted); Cal. Civ. Code § 1804.2 (fifteen days allowed and form of notice not prescribed).

[82] Sales warranties are retained in secured transactions for sale of goods by the Uniform Conditional Sales Act § 2 and UCC § 2–102.

An important remedy, rescission, would seem to be lost to the buyer after that time, along with the coercion for adjustment which its threat provided.[83] Thus, in effect, when a good faith assignee enters the picture, the buyer's rights are actually lessened since even defenses arising before the assignment and notice, normally available against an assignee, are cut off ten days after notice of the assignment. Seemingly, this would be true of the forfeiture of charges provided as a penalty for noncompliance with the Acts.[84] It is absurd to expect a buyer to know within ten days whether, for example, the complex computation of a service charge is correct. Further, the acts allow a non-complying error to be corrected by the seller or holder within ten days of a notice given at any time,[85] but a good faith assignee would not be inclined to surrender his advantage and, if so, it becomes a gamble whether or not the buyer ever discovers and gives notice of an error. Of course, many factors may affect the good faith of the assignee. Shouldn't he be required to check the provisions of the contract against the requirements of the Act? What is his past experience with assignments from the same seller? At what discount did he buy the contract? But the acts do not define good faith. Certainly a test as liberal as that used with regard to a person's status as a holder in due course of negotiable instruments should ~~not be~~ applied.[86] Unfortunately, the seller and financing agency seem to have complete freedom of contract in their dealings.[87]

Annual statement and acceleration.—The buyer is entitled once each year to a statement of account informing him of the dates and amounts of payments and the unpaid balance.[88] The Uniform Commercial Code makes a similar provision.[89] The creditor, however, need not provide the statement absent the buyer's unlikely request.

Maturity of the obligation may not be accelerated arbitrarily or without reasonable cause, but this is vague language likely to create litigious questions of fact and controversies not unlike those with reference to the negotiability of instruments.[90] Mere default is excepted and hence gives some clue as to what constitutes a "reasonable cause." The Commercial Code has liberalized acceleration of the obligation evidenced by a negotiable instrument to the extreme of allowing any acceleration.[91] This may be a sound commercial practice where parties involved are familiar with commercial usage.[92] One of the reasons negotiable instruments are precluded in retail instalment sales transactions under the Acts is to protect the nonbusiness buyer who is not familiar with commercial practices. A commercially reasonable cause may be unreasonable as to a buyer of a washing machine. Acceleration upon default alone would provide ample protection to the secured seller or financing agency. An allowed delinquency charge is optional and, if provided in the contract, would be cumulative with acceleration upon default.[93]

Prepayment and finance charges.—The buyer may pay the entire sum before maturity and is entitled to a proportional refund of charges and insurance premiums included.[94] This is true also of refinancing before maturity: the sum refinanced is with refund credit on the amount of the original contract.[95] The credit is allowed whether or not the buyer is in default or maturity is accelerated.[96] Again, this sort of restriction seems fair enough on the surface, but it

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[83] See Uniform Sales Act § 69 (1)(d), (3), (4), (5) and UCC §§ 2–608, 2–711.

[84] See "Remedies and Penalties," infra.

[85] Cal. Civ. Code § 1812.8; N.Y. Pers. Prop. Law § 414(3).

[86] See NIL §§ 52, 56; UCC §§ 3–302, 3–304; Benton v. Sikyta, 84 Neb. 808, 122 N.W. 61 (1909).

[87] Cal. Civ. Code § 1809.1 ("on such terms and conditions and for such price as may be mutually agreed upon."); N.Y. Pers. Prop. Law § 411(1).

[88] Cal. Civ. Code § 1806.2; N.Y. Pers. Prop. Law § 407.

[89] UCC § 9–208 (debtor may send his statement of the transaction, including collateral, once each six months for approval or correction within two weeks). Chattel mortgage acts do not provide for account statements. See, e.g., N.Y. Lien Law § 230. Uniform Conditional Sales Act § 18 provides for buyer's demand of a statement only for purposes of redemption.

[90] Cal. Civ. Code § 1804.1(b); N.Y. Pers. Prop. Law § 403(3)(b). Under the NIL acceleration has been allowed where there is an objective test which does not include the holder's deeming himself insecure. NIL § 4 (2), (3); see Hawkland, Bills and Notes 62 (1956).

[91] UCC § 3–109(1)(c).

[92] See UCC § 3–109, comment 4; but cf. the requirement of good faith, § 1–208.

[93] Cal. Civ. Code § 1803.6; N.Y. Pers. Prop. Law § 402(6). See "Remedies and Penalties," infra.

[94] Cal. Civ. Code § 1806.3; N.Y. Pers. Prop. Law § 408.

[95] Cal. Civ. Code § 1807.2; N.Y. Pers. Prop. Law § 409.

[96] Cal. Civ. Code § 1806.3; N.Y. Pers. Prop. Law § 408.

is simply the end result of a statutory pattern giving sanction to charges which, prior to the Acts, were usurious in fact although not always considered such by the law.[97] In the first place, finance charges are based upon percentage rates applied progressively or regressively according to the amount or the age of the chattel involved[98] as if higher rates for smaller amounts or second-hand chattels are invariably justified. The rates tend to be higher than those which reputable and competitive sellers and financing agencies charged prior to the Acts. The Acts provide an incentive to make the price inducingly competitive while charging the no longer questionable maximum rates. The lower price is thus often illusory.

Upon prepayment, buyers are often shocked to learn that the amount of refund is not a simple interest computation, but is based upon a sum-of-digits fraction.[99] Further, if the earned service charge upon rebate is less than the minimum charge, the minimum charge may be retained.[100] As a result, extremely high charges upon small purchases are exacted and the thrifty buyer is deterred from saving toward prepayment which, after a relatively early period, would be economically impracticable.[101]

REMEDIES AND PENALTIES

The penalties provisions tend to supplement the other civil remedies afforded the buyer or seller. Wilful violations of the Retail Instalment Sales Acts constitute misdemeanors and if such occur, the contract is probably unenforceable against the buyer,[102] except where the holder is a good faith assignee.[103] A prohibited term is void, but the remainder of the contract terms are enforceable.[104] It is not clear what effect this has upon the buyer's right to recover charges for violation,[105] but neither the criminal sanction nor this severability provision should preclude the buyer from this remedy. Otherwise, a material and nonmaterial violation test must be read into the Acts with resultant uncertainty.[106] Strict compliance is essential to achieve the intended protection to the buyer.

Thus, if any violation allows the buyer this recovery, then even though the buyer is in default, or maturity is accelerated, or repossession effected, he would be entitled to recover the charges, including delinquency charges, if he could show a violation. A buyer redeeming repossessed goods would have to pay only the unpaid balance less all forfeited charges. However, it appears that "any failure to comply" with the Act, presumably even wilful failures, may be corrected by the seller or holder within ten days of notice.[107] This should not allow the seller or holder who gambled against discovery to correct the error while enforcement is in progress thereby defeating the sanctions of the Act; on the other hand, the clever buyer should not be entitled to withhold notice until then in order to reap his harvest. The correction provision is capable of reducing the Acts to mere formalities.

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[97] The legal rate of interest in New York for banks and trust companies is six per centum per annum, N.Y. Banking Law § 108. See Hare v. General Contract Purchase Corp., 220 Ark. 601, 249 S.W. 2d 973 (1952).

[98] California multiplies progressive rates times the number of months from date of execution to the date of the last instalment payment: Up to $1000, 5/6 of 1 percent upon the excess over $1000, 2/3 of 1 percent, with minimum fees of $10 if the contract is for eight months or less, or $12 if for a longer time. Cal. Civ. Code § 1805.1. New York provides for ten per centum per annum up to $500, and eight per centum upon the excess, with the same minimum fees as California. N.Y. Pers. Prop. Law § 404. Upon automobiles, the rate progresses according to age, from seven percent for new cars to thirteen percent for automobiles more than two years old. N.Y. Pers. Prop. Law § 303.

[99] Upon a twelve-month contract, the denominator would be 78. Thus, refund upon prepayment at six months would not be ½, but 21/78.

[100] See note 98 supra. In New York, for example, there would be no rebate upon any one year contract of up to $120 at any time prepayment was made.

[101] In the simple case of the $1000 contract for one year with nothing but the service charge of $80 added, prepayment at nine months would allow a rebate fraction of 6/78 or 1.13 or, in dollars, $6.15.

[102] N.Y. Pers. Prop. Law § 414(1); Cal. Civ. Code § 1812.6. See Bratta v. Caruso Car Co., 166 Cal. App. 2d 661, 333 P. 2d 807 (1958), 1 B.C. Ind. and Comm. L. Rev. 102 (1959).

[103] See "Assignee's Power of 'Cut-off'," supra.

[104] Cal. Civ. Code § 1804.4; N.Y. Pers. Prop. Law § 403(8).

[105] N.Y. Pers. Prop. Law § 414(2); Cal. Civ. Code § 1812.7 (non-complying party may not recover the service charges from buyer and buyer may recover all that he has paid).

[106] See General Motors Acceptance Corp. v. Kyle, 351 P. 2d 768 (Cal. 1960).

[107] Cal. Civ. Code § 1812.9; N.Y. Pers. Prop. Law § 414(3); (error in service charge on consolidated or "add-on" contract may not be corrected, Cal. Civ. Code § 1812.9; N.Y. Pers. Prop. Law § 414(4).

The holder is entitled to collect a single prescribed delinquency charge when there has been default for "not less than ten days."[108] This is no doubt in addition to his other remedies, such as repossession, although the "not less" clause has the characteristics of a grace period. Under the Uniform Conditional Sales Act the seller may retake possession immediately upon default, in which case he could not collect the delinquency charge,[109] or he may give notice to the buyer of intent to retake twenty to forty days before retaking.[110] In the latter case, a notice given immediately upon default would allow the buyer to pay within ten days without the delinquency charge; a notice given after ten days would allow the holder to collect the charge from a buyer redeeming before the repossession. The notice must contain a statement of the buyer's rights or, if retaking occurs without notice,[111] a statement of the sum due must be given the buyer upon his demand under penalty of forfeiture, plus damages to the buyer.[112] The Code makes no provision for notice of intent to retake, the right accruing immediately upon default.[113] Further, the secured party need not hold the repossessed collateral for any length of time and, in the case of consumer goods, where the buyer has paid at least sixty per cent of the sum due, he must dispose of the collateral within ninety days.[114] Redemption is allowed at any time prior to disposition.[115] Curiously, the Code penalizes the secured party for failure to comply with Part 5 of Article 9 by imposing a forfeiture of the credit service charge plus an additional sum [116] which tends to overlap with the similar penalties of the Retail Installment Acts.

CONCLUSION

From the above analysis it should be apparent that the two exemplary Retail Installment Sales Acts were enacted with little correlation to existing legislation. They have imposed new, complex, and often conflicting terminology and requirements upon the secured sales transaction involving an innocent and unwary buyer. In more instances than not, the buyer, who is the object of their shelter, receives less protection than without them. The buyer's need for protection is obvious, but a great deal more thought, research and draftsmanship must go into legislation which will meet his need. Merely drawing the pushers from the street corners and the public view will curtail neither their activites nor the addiction which they impose and sustain. Uniform legislation is called for.

STATEMENT OF DR. RICHARD L. D. MORSE, PROFESSOR AND HEAD, DEPARTMENT OF FAMILY ECONOMICS, KANSAS STATE UNIVERSITY, MANHATTAN, KANS., ON CONSUMER CREDIT

Presented to the Assembly Committee on Finance and Insurance, California Legislature, January 23, 1964, Los Angeles, Calif.

I feel both honored and privileged to have been invited to appear before you and to participate in your interim study of consumer credit.

The opening phase of my statement emphasizes the significance of consumer credit. It is followed by a listing of certain essential principles and values that I use in approaching a public policy issue such as we are discussing. This is followed by a brief review and evaluation of legislation which will reveal a segmented approach to credit resulting in consumer protective legislation that misses its mark by its failure to recognize the needs of consumers for standard information. What is meant by full disclosure is the fourth and I hope the most constructive part of my report. In the final phase I will respond to as many counterarguments as time will permit.

There is one question I keep asking myself whenever I am confronted with such language as add-on, discount, rule of 78's, constant-ratio formula. How successful would a seventh grade schoolteacher be in getting students to

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[108] N.Y. Pers. Prop. Law § 402(6) ; Cal. Civ. Code § 1803.6.
[109] Uniform Conditional Sales Act § 16, but seller must hold repossessed goods for ten days after retaking, § 18.
[110] Uniform Conditional Sales Act § 17.
[111] Id.
[112] Uniform Conditional Sales Act § 18. See "Annual Statement and Acceleration," supra.
[113] UCC § 9-503.
[114] UCC §§ 9-504(1), 9-505(1).
[115] UCC § 9-506.
[116] UCC § 9-507(1).

understand these terms? For it is usually in seventh grade that credit and interest rates are taught.

I suggest as a motto: Let's keep credit decisions in the hands of the people and question seriously any proposal which is too complicated for teaching effectively at the seventh grade level. Then, future generations can use credit intelligently and confidently. With a better informed public, credit legislation will become self-enforcing.

I. SIGNIFICANCE OF CONSUMER CREDIT

Consumer credit is a very significant element of the economy. The total 1963 debt in the United States was over $1 trillion word ($1,096 billion).

The three major debt sectors are: Government debt of $343 billion, corporate debt of $372 billion, and individual and noncorporate debt of $381 billion. Government debt, of which the public is keenly aware, is the smallest of the three. Individual and noncorporate debt is the greatest.

	Billions
Federal ($261,000,000,000) and State and local ($82,000,000,000) debt	$343
Corporate debt	372
Individual and noncorporate debt	381
Total debt	1,096

Individual and noncorporate debt of $381 billion is approximately equal to the annual rate of personal consumption expenditures.

What is the makeup of the individual and noncorporate debt?

[Billions of dollars (rounded)]

Individual and noncorporate debt	381
Mortgage nonfarm debt	238
Farm mortgage and production debt	33
Financial debt for securities or insurance	41
Consumer credit, short term and intermediate term	70
Installment credit	54
Automobile paper	22
Other installment	14
Repaid and modernization	3
Personal installment loans	14
Noninstallment credit	16
Single-payment loans	6
Retail charge	5
Service credit	5

What has been the growth in debt?

The total debt in 1952 (of $555 billion) is approximately one-half of what it is today. Although total indebtedness has almost doubled (97 percent) the growth rate is far from uniform.

[In billions of dollars]

	1952	1963	Increase	
			Dollars	Percent
Total	555	1,096	541	97
Government	249	343	94	38
Federal Government	223	261	38	17
State and local	26	82	56	215
Corporate	307	372	65	21
Individual and noncorporate	136	381	245	180
Mortgage, nonfarm	75	238	163	217
Farm mortgage	15	33	18	120
Financial	18	41	23	128
Consumer credit	27	70	43	159
Installment	19	54	35	184
Noninstallment	8	16	8	100

The fastest growing debt areas are those closest to the people. State and local debt increased 215 percent while the Federal debt advanced only 17 percent. Thus it is not the Washington-authorized debt that has been climbing, but the debt requiring State and local approval.

Furthermore, both the corporate debt increase of 21 percent and Government debt increases of 38 percent were slight in contrast with the individual and noncorporate debt increase of 180 percent. These more rapidly expanding debts are a result of financing home purchases, automobiles, household equipment, and other durables paid for in installments. This type of debt accumulation has become accepted as a normal pattern for young growing families. Consumer credit is no longer symbolic of poverty or destitution. It is an integral part of the modern family's money management pattern. Our major concern is whether the credit facts are sufficiently well disclosed to encourage intelligent and efficient credit decisions on the part of these consumers.

But before I develop the need for more informative disclosure of consumer credit terms, I want to make manifestly clear that it is not my intent to state that consumer debt should or should not be reduced. Economic life consists of more than balanced books; it involves maintaining high level of employment of our resources, economic growth with stability of prices, and a balance of payments in international trade. This is not the appropriate time or occasion to discuss the role of credit in economic policymaking. Thus I make no judgment as to the appropriateness of the consumer debt growth as it affects the national economy. Our primary concern is whether consumer credit decisions are being made with adequate credit information being available to them for intelligent and efficient decisions. Credit may be excessive if it is contracted by consumers uninformed of the true cost of credit.

One of our issues today is whether facts can be understood when expressed as rates. If there is any question about my use of rates, let me reinforce my point by quoting dollars: The Federal debt since 1952 has increased $38 billion. At the same time consumer credit has increased $43 billion which is $5 billion more than the Federal debt. The Federal debt is limited by the Congress which debates, periodically and strenuously, recommendations to raise the limit. The consumer debt is limited by the willingness of consumers to borrow and lenders to lend under mutually agreed upon terms. Are credit facts sufficiently well disclosed that consumers can make wise credit decisions? The effect of these decisions, since they concern the largest and fastest growing debt in the Nation, is of greater economic importance in the economy than the growth in the Federal debt. This unwise use of credit by uninformed or misinformed consumers may lead to excessive credit usage.

A conservative basic remedy for such excessive credit usage is education and meaningful reliable facts in the marketplace where this education is put into practice.

By contrasting the growth rate of the Federal debt with that of consumer debt I do not imply that congressional limits be placed on consumer credit. But I am disturbed by the fears generated about the Government debt. In fact one might question, in light of the evidence presented, whether much of the loose talk about the looming Federal debt is but a cover for breeding distrust in our Government or an expression of fear and ignorance. For example, why is automobile credit considered necessary for a healthy economy, but Federal debt contracted to build safer highways considered irresponsible economics? The place to start curbing debt, if debt reduction is appropriate, is right at home."

(3) Lastly, we have heard much about the cost of servicing the Government debt and burdening future generations. It is true that this is an important consideration. But when we think of Government debt costing 3-4 percent, corporate debt at 4-5 percent, mortgage debt at 6-8 percent, and installment debt at 8-36 percent, we come face to face with the cost of servicing our debts. The fastest growing form of credit costs 2 to 12 times that of servicing Government debt. The "cost" of servicing the Federal debt is the least expensive. If savings are to be made, they can best be made at the private-home-local level.

Servicing of consumer credit alone, assuming a rate of 12 percent on installment credit and 8 percent on noninstallment credit, I estimate to cost consumers at least $8 billion. Are the terms so well disclosed that consumers can shop efficiently for credit and so competition between lenders results in lower credit costs?

II. ASSUMPTIONS, VALUES, AND PRINCIPLES

We are concerned today with the discussion of matters which are quite complex in their details but quite simple in basic principles.

Certain values governed my selection of materials for presentation today, and I hope they are implicit in every aspect of my message. As an economist I am extremely sensitive to value judgments and the need to make them explicit. So I will set forth what I consider to be the more important value judgments I make in this discussion:

1. I believe that insofar as possible economic decisions should be made by the parties most directly affected. That is, I feel the best decisions as to the wise use of credit can best be made by the consumer; Government regulation of consumer credit use must be resorted to only if consumer control in the day-to-day market breaks down and affects the whole economy significantly.

2. I believe in consumers' ability and their sovereign right to guide our economy, with Government and industry keeping the rules of trade, fair and clear. It would be absurd to think that Government could legislate safe driving. But it seems reasonable to me that Government should legislate whether traffic should keep to the right or left, and thereby remove a serious threat to safe driving.

3. I believe that better informed consumers are able to make better decisions than poorly informed or misinformed consumers. Governor Brown has said. "The consumer has the right to be informed," and I think we all would agree that the consumer must be informed to act responsibly. Responsible consumer action is the foundation of a free enterprise economy.

4. I believe our markets can provide some of the best opportunities for adult self-education, in which students can sharpen the tools learned in the classroom as they apply them to their life situations. Our markets, like some rat mazes, seem designed to induce frustration and result in resignation on the part of the consumers to their fate. The consumers' effort required to get the information needed for intelligent decisionmaking is uneconomic and unsatisfying. This process of commercial mesmerization is designed to soften and comfort the consumer. It fails to excite thought or dignify price comparison shopping. Yet this is the consumers' role and responsibility, and our economy relies upon them to act wisely and intelligently.

Specifically, I think it wasteful for our public schools to teach about rates of interest, and then for students to discover that interest rates, as they learned them in school do not apply to car financing and many other consumer credit situations. They will find their school-learned concepts of interest rates applicable to financing home purchase and figuring savings returns, but deceptive in other phases of consumer credit.

III. CONSUMER CREDIT INFORMATION AND PROTECTION

If we believe in freedom of consumer choice, and, if we believe that better choices can be made by consumers better informed about the alternatives from which to choose, then it is appropriate to look at the complexity of credit situations facing a consumer.

Let us first scan the alternatives that might be considered by a car buyer: The consumer may accumulate enought to pay cash for the car by withdrawing cash from various savings accounts or borrowing against savings accounts or life insurance. Other ways to obtain cash may be to borrow from the credit union, finance company, or bank. Furthermore there is a growing tendency for savings and loan to extend home loans and release cash for purchasing durables. Another and more popular method of buying cars is to finance them with dealers, or, through dealers with banks or sales finance companies. Consumers buy other items on credit. So, there is often a question of comparing creditors. On what items should the highest cash downpayments be made, or on which should payments be extended over the longest period of time? What are the comparative costs?

Obviously there are more alternatives to compare than we have time to trace through today. Essentially the consumer wants to compare costs. Costs can and should be measured in two ways: by dollars and by rates. Both must be applied. For example, withdrawal of savings will mean loss of interest, which is expressed as a simple annual nominal rate. On the other hand, car financing either through a dealer or the installment credit department of the bank will be expressed in dollars. Thus, for direct comparison, dollars must be converted to rates or rates to dollars. Furthermore to be directly comparable, the rates must have a comparable base. This is important, for some rates are based on the beginning balance of a loan while other are based on the current unpaid balance. The rates must be standardized to be comparable.

Finance experts can make these calculations. But can and will consumers? Hoskins and Coles, in their study of 105 families buying cars on credit in the San Francisco Bay area noted that many consumers were generally unaware of the cost of credit, but "those who shopped for credit for used cars paid a median rate of 12 percent, compared with 22.3 percent paid by those who had not shopped." So comparative shopping can be profitable. Yet, as Hoskins and Coles remind us, "Information about costs is usually given reluctantly and, when given, may be misrepresented or misleading, such as implying that 'bank rates' are charged for credit and that the add-on rate is the same as annual interest." (Journal of Home Economics, January 1961).

The Agricultural Extension Service of California has an excellent pamphlet (HXT-18) entitled: "Use Credit Wisely." It is written to help consumers know how to compare the cost of credit. A formula is supplied for converting dollars of cost to the "true annual interest rate." It notes, for example, that "1 percent a month on the original debt becomes a true annual rate of about 22.2 percent" and "that interest stated at 8 percent could mean you actually pay an annual interest rate of almost 15 percent." A warning is given California consumers: "Whether credit becomes 'tool' or 'trap' depends on how wisely you use it." But it also recognizes the problems facing consumers: "The forms of credit available to consumers are confusing to even the experienced shoppers." Is this correct?

Let us review briefly the legislative pattern that legalizes and supports these purportedly confusing methods of credit.

Legal and contract rates of interest are limited by statute to 7 and 10 percent. Rates in excess are considered usurious. Since Biblical times the charging of usurious rates has been frowned upon, and most States have legislation of this type.

Such low rates, however, are unrealistic, and legislatures have recognized the need for exceptions. The result has been resort to the time price doctrine, which I will discuss in detail, or a series of special pieces of legislation which codify the practices of the specialized lending groups. The result is confusing to the consumer.

Finance charge is not interest.—This is no revelation to most lawyers or lenders, but it is to consumers. A consumer who finances a car pays a finance charge or a time price differential, but not interest. Thus, much of consumer credit escapes regulations applied to the lending of money.

This year the North Carolina Supreme Court reapproved the time price doctrine for a sale in which the consumer paid $376.20 to complete paying for a car on which $795 was due.

The figures are shown.

Cash selling price of car	$1,295.00
Cash downpayment	500.00
Balance due	795.00
Plus differential for time payment (figured at 6 percent per annum)	+376.20
Total selling price of car including time price differential (payable in 24 monthly installments of $48.80)	1,171.20
Cash downpayment	+500.00
Time selling price of car	1,671.20

This car carries a cash price of $1,295 and a time price of $1,671.20. These are held to be two different prices for the same car, and the difference is not interest but the time price differential.

The cost to the consumer for financing the $795 the consumer would have needed to pay the cash price, I calculate to be at about a rate of 45 percent per annum. Nevertheless, the court held that the amount of the time price differential was not interest and the transaction was not usurious. For further details I refer you to "Personal Finance Law Quarterly Report" (vol. 18, No. 1, winter 1963).

This same issue of the quarterly report reviews the recent positions taken by the Nebraska Supreme Court. It has raised some serious doubts as to the usefulness of the time price doctrine in Nebraska. (The Nebraska constitution prohibits "special or local legislation" and "special legislation regulating the interest on money".)

The position taken by the court is clear:

"There seems to be an impression that if a cash price is quoted and the buyer is unable to pay cash, it is then possible to apply a certain schedule of rates or charges to the cash price in order to determine the time sales price, the difference being denominated a time price differential. * * * When we look through the form, can we come to any other conclusion but the one that the difference between the price and what the buyer finally pays is the cost of carrying the balance of the cash price? * * * A rose is still a rose though we may label it a violet. This charge, regardless of its label, is interest."

I present these two conflicting and current decisions to emphasize that different views are being taken regarding the lending of money and the financing of a sale. Thus we have special legislation for cash lenders and special legislation for sales financing, both to legalize lending or financing at rates above the usury rates. Finance legislation has come only recently with the tremendous growth of installment selling and the fear of court reversals of the time price doctrine which originated in England in 1827.

What I have been saying has been told the industry by their own representatives. The keynote speaker at the 1962 Convention of the National Consumer Finance Association said:

"Lines of demarcation between direct lending and time sales financing, between small loans and loans under the industrial loan acts—all these distinctions must become modified. More and more customers will see no logical reason for such separation and our combined industries (time sales and consumer finance) must be in a position to answer their needs."

All of this may help explain the sources of confusion, but I am sure the ordinary consumer would agree with the Nebraska Supreme Court: "* * * the cost of carrying the balance of the cash price * * * regardless of its label, is interest."

Let us return to the array of mechanisms confronting the consumer in need of credit:

A. Cash loans:

1. Credit unions are limited to 1 percent per month on the unpaid balance. This is 12 percent per year.

2. Consumer loans legislation limits the rate to 2½ percent per month on balances owed to $200; 2 percent per month on balances of $200 to $500 or $700; five-sixths of 1 percent per month on balances over $500 or $700 to $5,000.

The true annual rate equivalents are 30, 24, and 10 percent for the three loan levels, respectively. But such blending of rates presents difficulties.

A loan of $200 would be at the annual rate of 30 percent, but a loan of $300 would be a blend of the 24 and 30 percent. And an $800 loan would blend three rates. What the equivalent annual rate is for such a loan is almost impossible to compute accurately without amortization tables. Good business management would dictate knoweldge of what the various blended rates would yield, so there is no real problem about lender's not knowing. The problem is one of getting the lender to disclose it to the consumer, who is not a professional financier.

The problem is analogous to figuring the average price per gallon if one had to fill a tank with 800 gallons of gas. Available are three pumps: One pumps gas at 30 cents a gallon, another at 24 cents a gallon, and the third at 10 cents a gallon. He is required to use all three pumps until 300 gallons is delivered, then the 10-cent pump can no longer be used. The remaining 500 gallons would be supplied by the 24- and 30-cent pumps, with the 24-cent pump cutting off after 600 gallons were in. The remaining 200 gallons would come from the 30-cent pump, which has been pumping from the beginning.

Since most loans are refinanced before they pay out, the 30 percent rate is the most persistent.

3. Bank loans of the traditional type which charge interest only on the actual money used by the borrower are still widely available. The rates are within the usury law limits and are expressed as a simple annual rate. Banks also frequently charge interest on the interest charged. The rate is the simple annual rate discount and is within the usual limits.

4. Loans made on cash value of life insurance, shares in savings and loans or credit unions, and savings in banks are usually quoted at a straight simple annual rate.

B. Home loans—the prevailing practice is to quote the simple annual rate and to use published amortization tables to determine the monthly payments.

Rates on home mortgages have been within the usury limits. However, FHA title I limited home improvement loans formerly were quoted as a discount per year per $100. However, a recent FHA publication (No. 428) warns the reader: "The $5 or $4 discount should not be interpreted as 5 or 4 percent interest." A prepared table presents all the essential financial information. It gives both the $5 discount and the 9.58 percent equivalent interest rate for an advance of $500 to be repaid in 12 monthly payments of $43.86, for which the total cost of interest would be $26. Thus FHA is prepared to give both the simple annual interest rate and the dollar cost.

C. Sales financing:

1. Automobile sales: The maximum rate of the time-price differential is 1 percent of the original unpaid balance multiplied by the number of months. For a 12-month note, this equivalent to a 22.2 percent interest rate.

2. Retail installment sales of goods other than motor vehicle—maximum rate of time-price differentials is five-sixths of 1 percent per month on $1,000 or less and two-thirds of 1 percent per month on balances exceeding $1,000. Thus for balances up to $1,000, to be repaid in 12 months, the equivalent interest rate is 18.5 percent. For balances above $1,000, the blended rate defies a simple conversion, although the rate can be approximated by using the constant ratio formula.

3. Store revolving credit—the maximum rates of 1½ percent per month is applied to a current unpaid balance. I do not know whether the balance is specified in the California law, but the practices throughout the United States vary considerably (see p. 16).

4. In addition there are credit cards, bank revolving and bank check credit and charge accounts.

In summary, some charges are based on the actual money in use by the creditor while others are based on the original balance, although it is gradually dissipated through monthly payments. Credit cost is referred to as carrying charges, finance charge interest, discount, and service charge. Further reading of the laws would have introduced such terms as "precompute," "rule of 78's," "amortization," as methods of figuring payments or refunds. An understanding of consumer credit today is incomplete if these terms are not known, particularly in reference to the phase of credit to which they apply. The same words have different meanings to different credit conditions.

Thus, is there any reason why the credit consumer had better be able to compute her own figures or not bother to shop around? Hoskins and Coles reported: "* * * almost four-fifths of them did not check any source of credit other than car dealers * * * over two-thirds admitted that they did not know the simple or annual interest rate they were paying to finance the purchase of their automobiles." How competitive are vendors if consumers do not shop? The excellent educational materials such as your Extension Pamphlet EXT–18 "Use Credit Wisely," are available to help consumers. But until the channels for efficient and meaningful communication are straightened out, we cannot expect consumers to shop wisely for credit. Most consumers will not riot; they will acquiesce to the hopelessness of trying to make sense out of the confusion. Others may learn the arts of defiance and join the credit "dead beats," dodgers, and bankrupts.

I have heard it said that any consumer who really wanted to know could get the necessary credit facts. I agree but ask "at what cost?" My secretary needed help in understanding certain terms regarding her car financing with one of the largest companies in the United States. We got the answer, but only after an exchange of 13 letters, a long-distance telephone call, and an evening call at home from a company representative based 100 miles away. Our study in Kansas demonstrates beyond a doubt that students were able to obtain quotations which were accurate within 3 percent above or below the correct rate from only 26 percent of the banks, 17 percent of the used car dealers, 52 percent of the finance companies, and 72 percent of the credit unions. This report is published in the fall 1963 issue of the Personal Finance Law Quarterly Report.

IV. CONSUMER VIEWS ON DISCLOSURE OF CREDIT TERMS

I believe it is appropriate to view credit from the consumer-shopper's viewpoint by asking: "What information would I need to make an intelligent comparison of the wonderful opportunities credit offers?"

What constitutes full disclosure of credit—so those who wish to act intelligently can do so, and so those engaged in education for wise use of credit can go directly to the basic issues without wasting valuable time stumbling around to obtain or compute the facts of credit?

For an answer to this question I turn to the First Report of the Consumer Advisory Council. It was appointed on July 19, 1962, by Dr. Walter W. Heller, Chairman of the Council of Economic Advisers at the direction of President Kennedy. Your outstanding consumer counsel, Mrs. Helen Nelson, and I are among the 11 members of this Council.

The CAC has given serious study to the matter of full disclosure of credit. The First Report of the CAC, issued in October of 1963, includes a detailed statement of what the Council believes full disclosure of credit to mean. I submit it as a positive and constructive guide for your use in considering your credit statutes:

The Council believes full disclosure of credit means that:

1. When credit is extended on the basis of separate contracts, each contract shall include—

(*a*) An itemization of the cash or delivered prices of goods and services purchased, and all additional charges assessed against the debtor in connection with the transaction,

(*b*) The terms of payment (including downpayment, amount to be financed, amounts and times of payments needed to retire the obligation),

(*c*) The rate at which the finance charge is to be imposed on the amount financed, such rate to be in standardized terms so as to be directly comparable with rates (a simple annual nominal percentage rate) that banks, savings and loan associations, credit unions, and postal savings use to disclose earnings on money saved,

(*d*) The cost of such credit services, expressed in dollars and cents, and

(*e*) The terms of credits or charges imposed in the event of advanced or delayed payments from the contract terms; and

2. When credit is extended on revolving credit, open-end credit, or plans other than credit, each contract shall include—

(*a*) A clear statement in writing, prior to any agreement to extend such credit, setting forth the simple annual nominal percentage rate at which the finance charge will be imposed, and

(*b*) A clear statement in writing, at the end of each month (which need not be a calendar month) following the date of the contract, setting forth—

(1) The outstanding balance in the account as of the beginning of the month,

(2) The amount of each extension of credit (including the cash price or delivered price of any property or service) during such period, together with the date thereof and brief identification of any property or services so acquired,

(3) The total amount credited to the account during the period,

(4) The amount or amounts on which the finance charge will be based and the time period for each amount if other than 1 month,

(5) The simple, nominal annual percentage rate at which the finance charge is imposed, which rate shall be the periodic rate multiplied by the number of periods in 1 year,

(6) The finance charge in dollars and cents required for such period, and

(7) The outstanding balance in the account at the end of the month.

Several comments may be helpful:

1. Two distinct types of credit are recognized: Contract credit, and open end credit. The first section assumes that both parties to a contract should know at the outset before credit is granted or accepted what it is they agree to.

Full disclosure, such as is proposed, has been held impractical because the credit granter cannot be sure in advance when the borrower will pay. Therefore, it is claimed, the creditor cannot tell in advance what the cost will be in dollars, or what the effective rate (yield) would be.

I seriously question the wisdom of parties entering into contracts with neither party expected to meet the terms of the contract. I cannot respect such reasoning. It is a matter of simple arithmetic to determine in advance the dollar costs of a note to be repaid at specified times with charges figured at a specified nominal annual rate. Of course, such details as the number of days in a month and year and the number of days of grace must be agreed upon in advance.

2. Because changes in plans may arise, and because all creditors will not comply faithfully with the contract terms, section *e* provides for such deviant behavior.

3. The word "nominal," which is introduced to distinguish the rate "in name only" from yield, can be clarified by applying it to currently appearing advertisements of savings and loan associations. They advertise "4.85 percent = $4.97," which is to say that a nominal simple annual percentage rate of 4.85 percent will yield $4.97.

There is doubt and mystery about the effect of compounding. The effect of compounding diminishes with the advance in compounding. For example, the earnings on $100 at a nominal rate of 6 percent would be:

At end of 1st year:	*If compounded—*
$6	Annually.
$6.09	Semiannually.
$6.1364	Quarterly.
$6.1678	Monthly.
$6.1800	Weekly.
$6.1831	Daily.
$6.1837	Continuously.

The magnitude of the difference between the nominal rate and effective rate as a result of the most extreme form of compounding is evident from the following table:

Nominal annual rate no compounding (percent)	*Effective annual rate continuous compounding (percent)*
0	0
2	2.02
6	6.18
12	12.75
24	27.75
30	34.49

4. The other type of credit arrangements is the open end or revolving credit account which details no specific repayment terms. Thus, the dollar cost cannot be anticipated, but the rate and the manner by which it is to be imposed can be.

The recommendation is that the creditor be advised monthly as to the status of the account, credit charges imposed, the simple nominal annual rate, and the balance of the account to which the annual rate is applied. If the credit grantor prefers to figure charges on a daily or weekly basis, he may do so.

Many credit grantors could comply with this section by buying one rubber stamp for use on its future billings. It would read: "Finance charges are computed at 18 percent per annum of the balance to which the arrow points."

This sounds so simple you may wonder why I feel I moved to make such a point of this. Last year I initiated a few inquiries as to how this simple easy credit plan is administered by various stores. I found to my complete surprise anything but clarity. One national chain outlet even had a store policy not to give consumers such information. So I followed up my inquiry with the regional office, but my reply was forwarded to the national office for reply. I ask, "Must the American consumer become dependent on a centralized data processing center?" I think not.

These recommendations merely require that the consumer be informed, as a matter of routine business, of the same "instructions" and information as are fed into the computers. The consumer could then determine for himself what he is paying for and why. Designation of the balance, and repetition of the rate would assist those who wish to check their bills. The revolving credit study which follows shows how important their base balance is.

Revolving credit study—Summary of responses to a hypothetical 6-month account

Retailer	Reported by—	Total charges	Rate per month (percent)	Base
A. Virginia	Clerk-consumer	$2.32	1½	Previous month's unpaid balance after deducting current month's payment.
B. Virginia	do	4.46	1½	Previous month's balance.
C. Illinois	do	(1)	1½	Service charge is 1½ percent of unpaid balance at cutoff or billing date.
D. Illinois	do	6.20	1½	On the balance each month.
E. New Jersey	do	5.66	1½	1½ cents for each dollar of previous month's balance. "He wouldn't do the arithmetic so I had to figure it myself."
F. U.S. chain	Vice president	2.74	1½	Opening balance of monthly account unless paid within 30 days.
G. U.S. chain	General credit manager.	2.28	1½	Previous (months ending) balance after payments and credits have been deducted.

1 Refused.

NOTES

(1) The similarity of rates.
(2) The variation in service charges for the same service.
(3) The different methods of computing the service charge. Even the slight difference between stores G and F can be significant. Store G is far more favorable to the customer than store F. If the initial balance had been $100 and each month $90 is paid and $90 charged, the service charge at store G would have been $1.95 and store F 904 percent higher with charges of $19.57. The service charge expressed as a percent of the opening balance would be about 2 percent for store G and 20 percent for store F.

5. The disclosure of rates is not allowed. Credit grantors who prefer to use step rates in determining costs and payments would need to disclose a single simple nominal annual rate equivalent. If credit grantors prefer to use complicated procedures that defy simple interpretation by the consumer, they should be required to perform the necessary calculations for the consumer's use in comparative shopping between credit vendors.

V. SOME COUNTERARGUMENTS

A. Argument: Rates are too difficult to compute.

Answer: State the rate and computation problems evaporate. This presents no problems for savings and loan associations, credit unions and some consumer finance companies. For installment dealers using dollar add-on quotations, tables giving simple annual rate equivalents are published and available.

B. Argument: Dollars of charge are more meaningful than the simple nominal annual rate.

Answer: Dollars of charge for what? And for how long? And if the amounts and times differ, how can they be compared simply unless shifted to a common denominator? The traditional common denominator is $100 for the amount and year for time. So 6 percent means $6 per $100 per year. Those who like to quote dollars may feel more comfortable with this longer, but equivalent statement.

C. Argument: Dollar quotations are more important than rate quotations.

Answer: Both are important. Each provides valuable and useful information for making decisions efficiently.

It is dollars that are paid to satisfy a contract, but for comparing alternatives, relative figures, such as percentages, are useful and meaningful. Both absolute and relative figures are in common use. In baseball, for example, hits are important and needed to bring in runs. But is there anyone who doubts the usefulness of batting averages (based on 1,000) for comparing batters?

I have studied 11 national advertisements for "full bank service" issued by the Foundation for Commercial Banks. All but two include some reference to the more favorable interest rates obtainable from banks. They believe in advertising rates even if the official position of the ABA is not to disclose them.

D. Argument: "The introduction of a dual price system in the form of dollars and percentages offers a greater opportunity for confusion than clarity." (Pers. Fin. Law Quarterly Report, 18:1:8, winter 1963)

Answer: Most consumer educators, textbooks, pamphlets on credit published by the many State extension services and by the U.S. Department of Agriculture are in agreement with the California Extension pamphlet which advises consumers "to know the cost of credit," and tells how to determine the dollar cost and how "to determine the true annual rate." Typically the constant ratio formula is presented for computing the rate.

Clearly there is a division between what industry representatives deem best for the consumer, and what students of consumer education deem best.

I wish time allowed presentation of a disclosure game problem as I presented it at the July hearings before the Senate Banking and Currency Subcommittee on S. 1740. The problem demonstrated that as more information was presented, choices changed and the player gained in confidence that the choices made were correct (pp. 307–311).

E. Argument: "Simple interest is too complicated." (First National City Bank, monthly letter, March 1962)

Answer: The simple nominal annual rate is the most universally used term in finance. It is learned in seventh grade and applied at all levels of finance.

Creditors who quote add-ons, percent on original balance, and percent per month generally borrow their funds and figure their yields on simple interest terms. Is it too complicated, or too revealing?

F. Argument: If consumers knew they were paying 12 percent rather than 6 percent they would stop buying. The result would be disastrous for the economy.

Answer: I feel the soundness of the American economy should not rest on deceptively quoted rates. I have faith that the Americans buy on credit because they need the goods. Most credit charges are not excessive or higher than consumers are willing to pay in order to buy goods now, rather than wait to pay cash.

G. Argument: Disclosure of rate will permit deceptive pricing, and encourage unwise choices by consumers.

Answer: Such a position presumes complete stupidity of the American public. I question the objectivity of industry consultants as to how the consumer should be protected. Such paternalistic interest in protecting consumers from information essential for intelligent appraisal of alternatives is not in keeping with the right of the American consumer to information.

The consumer is accustomed to merchandise mixes whereby services are offered at less than cost to attract customers to more profitable lines. Credit extension has been used in various ways to attract patronage, sometimes at a loss.

The Wall Street Journal (Nov. 5, 1963) reports a recent study of the National Retail Merchants Association:

"A consumer who charges his purchases at a department store pays only about 70 percent of the store's cost in maintaining his account * * *.

"'It seems apparent that the average department store would enhance its profits by eliminating the credit function—if it could maintain the same sales volume,' the study reported.

"'It is clear, therefore, that credit must be justified economically by the department store as a selling tool—not as a separate business venture.'"

If credit charges are unprofitable for the store, there is even more reason to let the consumer know what this "extra" costs. And, if the cost disclosure discourages use of expensive credit, both they and the store will benefit.

U.S. retailing has thrived on open pricing as a policy of retailing. Why should the rental rate of credit not be disclosed?

H. Argument: The industry will regulate itself. There is no nerd for Government action.

Answer: Consumers will increasingly insist on voicing their concerns through their Government. Unless industry acts fast to relieve consumers of their growing dissatisfaction with the confusion, consumer credit will fail to make its maximum contribution to families and the economy.

I shall close by quoting directly from a significant address by Dr. Chapman, a longtime student and observer of the consumer credit industry:

"I think it is generally agreed among the leaders in this business that the consumer or borrower should be given the facts. But the second question arises, How or by what method can this information be made available to the consumer understandably? This is especially important when it is realized that a large portion of the borrowers appear to be confused or uninformed on this matter.

"The main weakness of the industry point of view is not that the lenders refuse to give the information, but that they fail to consider it as an overall industry problem. Each type of consumer lender prefers to state finance charges in the form to which he has become accustomed, regardless of the similarity of his transactions to those of other types of financial institutions.

"Add to this the fact that there are many methods of stating finance charges. Let us cite three: the annual add on, annual discounts, and the percent per month. The use of even three methods tends to confuse both the borrower and the public.

"This is an important problem. Could not great progress be made in meeting these criticisms by having the leaders sit down together and agree on a simple solution which would remove this obstacle and assist in developing a better understanding of what consumer credit costs the users? No doubt some of you will say that the industry will not accept or approve, but is this a sound reason for not trying to meet this criticism head on?"

There seems to be little or no conflict between Dr. Chapman and me regarding the problem.

After these 2 days of hearings are concluded you will be able to judge whether the industry in California is ready to meet this problem, or whether you, as representatives of the people, have a leadership responsibility.

Thank you.

(Dr. Richard L. D. Morse, professor and head of family economics at Kansas State University is a member of the President's Consumer Advisory Council, vice president of the Kansas Home Economics Association, chairman of the Citizen's Advisory Committee to the Division of Services for the Aging of the State Department of Social Welfare, board member of the Kansas Citizens Council on Aging, past president of the Council on Consumer Information and past chairman of the Consumers Interests Committee of the American Home Economics Association, Florida Home Economics Association, and Kansas Home Economics Association. He has testified twice in support of Senator Douglas' "truth in lending bill.")

[From Notre Dame Lawyer, August 1963]

DISCLOSURE STATUTES ON THE STATE AND FEDERAL LEVELS

State		Type of Statute: All-Goods[2]	Type of Statute: Motor Vehicle[3]	Type of Statute: License Required[8]	Disclosure of Terms: Cash Price[4]	Part Payment; Trade-In	Unpaid Balance	Cost of Insurance[5]	Official Fees; Other Charges	Principal Balance
Alabama		None[11]								
Alaska	ALL	×			Each Item	×	×	×	×	×
	MV		×[12]		×	×		×	×	
Arizona	ALL	Proposed[13]		Finance Co.[14]	×	×	×	×	×	×
	MV		×	Both	×	×	×	×		×
Arkansas										
California	ALL	×			×	×	×	×	×	×
	MV		×		×	×	×	×	×	×
Colorado	ALL	×			×	×	×	×	×	×
	MV		×	Both	×	×	×	Lumped		
Connecticut		×	All-Goods	Finance Co.[15]	×	×	×	×	×	×
Delaware	ALL	×			×	×	×	×	×	×
	MV		×	Both	×	×	×	×	×	×
District of Columbia			×[16]							
Florida	ALL	×		Dealer	×	×	×	×	×	×
	MV		×	Dealer	×	×	×	×	×	×
Georgia										
Hawaii		×	All-Goods		×	×	×	×	×	×
Idaho		×			×	×		×	×	×
Illinois		×	All-Goods		×	×	×	Lumped	×	×
Indiana		×	All-Goods	Finance Co.	×	×	×	Lumped		×
Iowa		None[17]	×	Both	×	×	×	×	×	×
Kansas		×	All-Goods	Finance Co.	×	×	×	×	×	×
Kentucky	ALL	×			×	×	×	×	×	×
	MV		×		×	×	×	×	×	×
Louisiana			×	Both	×	×	×	×	×	×
Maine			×	Finance Co.[18]	×	×	×	Lumped	×	×
Maryland		×	All-Goods	Finance Co.	Each Item	×	×	×	×	×
Massachusetts	ALL	×[20]			×	×	×	×	×	
	MV		×	Both	×	×	×	×	×	×
Michigan			×[21]	Both	×	×	×	Estimate	×	×
Minnesota	ALL	Proposed			×	×	×	×	×	×
	MV		×	Both	×	×	×	×		×
Mississippi			×	Finance Co.[22]	×	×	×	×	×	×
Missouri		×			×	×	×	×	×	×
Montana		×	All-Goods	Finance Co.	×	×	×	×	×	×
Nebraska	ALL	×		Finance Co.	×	×	×	×		×
	MV		×[24]	Both	×	×		×	×	
Nevada			×		×	×	×	×	×	×
New Hampshire	ALL	×[26]								
	MV		×	Both	×	×	×	×	×	×
New Jersey		×	All-Goods	Both[27]	×	×	×	×	×	×
New Mexico	ALL	×[28]			×		×	×		
	MV		×	Finance Co.	×	×	×	×	×	×
New York	ALL	×[29]		Finance Co.[30]	Each Item	×	×	Lumped[31]	×	×
	MV		×	Finance Co.[32]	×	×	×	×	×	×
North Carolina			×[34]	Both	×	×		×	×	
North Dakota		×	All-Goods		×	×	×	×	×	×
Ohio		×	All-Goods		×	×	×	Lumped		×
Oklahoma										
Oregon	ALL	Proposed			Each Item	×	×	×	×	×
	MV		×		×	×	×	×	×	×
Pennsylvania			×	Both	×	×	×	Estimate	×	×
Rhode Island		None[38]								
South Carolina										
South Dakota			×	Finance Co.	×	×	×	×	×	×
Tennessee		×			×	×	×	×	×	×
Texas			×[40]		×	×		×	×	
Utah		×			×	×	×	×	×	×
Vermont		Proposed			×	×	×	×	×	×
			×	Finance Co.	×	×	×	×	×	×
Virginia			×[47]	Both	×	×		×	×	
Washington	ALL	×	All-Goods		Each Item	×	×	×	×	×
	MV		×[48]	Dealer				×	×	
West Virginia										
Wisconsin	ALL	Proposed			×	×	×	×	×	×
	MV		×	Both	×	×	×	Lumped	×	×
Wyoming										
FTC Rules			×		×	×		Estimate	×	
Truth in Lending Bill		Proposed			×	×	×	×	×	×

DISCLOSURE STATUTES ON THE STATE AND FEDERAL LEVELS

DISCLOSURE OF TERMS					PENALTIES		
Amount of Finance Charge[8]	Amount of Time Balance[7]	Number, Amount, Date of Installments	Time Sales Price	Denial, Suspension or Revocation of License	Fine (Maximum Amount)	Imprisonment[4] (Maximum Term)	Buyer's Recovery,[9] Seller's Bar[10]
Rate	×	×			$ 1000	6 months	×
×	×				100		
×	×	×	×	×	1000		
×	×	×		×	500		×
×	×	×	×				×
×	×	×					×
×	×	×	×				×
Lumped	×	×	×	×			×
×	×	×	×	×	25-500		×
×	×	×	×				×
×	×	×		×	500		×
Rate	×	×			500		×
×	×	×		×	500		×
Rate	×	×	×		500		×
×	×	×					×
Lumped-Rate	×	×	×		500		×
Lumped	×	×		×	1000	1 year	
×	×	×		×	500		
×	×	×	×	×	500	6 months	×
×	×	×			500	6 months	×
×	×	×			500		×
×	×	×		×	500	6 months	×
Lumped	×	×		×	500		×
×	×	×		×	100[23]		×
×	×	×	×		100-500		×
×	×	×	×	×	500	6 months	×
×	×	×		×	500[23]		
Both							×
×	×	×		×			×
×	×	×		×	500		×
×	×	×	×		500	6 months	×
×	×	×		×	500	6 months	×
×	×	×	×	×	500	6 months	
×	×				10-100	90 days	
×	×	×			×[23]		
Rate					500	60 days	
×	×	×		×	500		×
×	×	×	×	×	500		
		×	×		25-100		
×	×	×		×	500		×
Lumped-Rate[23]	×	×	×	×	500		×
×	×	×	×	×	500		×
×	×	×		×	Discretion of Court	Discretion of Court	
Rate	×	×			500	1 year	×
Lumped-Rate	×	×			1000	1 year	
×	×	×	×		500		×
×	×	×	×		500		×
×	×	×		×	500		
×	×	×		×			
×	×	×			500		×
×	×	×					
×	×	×					×
×	×	×	×		500	6 months	×
×	×	×	×	×			
×	×	×		×	500	6 months	×
Rate	×	×	×		1000	6 months	×
×				×			
Both	×	×		×	500	1 year	×[23]
Lumped					25-100	90 days	
×	×	×			5000		
Both					5000	1 year	×[23]

1 Those statutes whose disclosure provisions are of the all-goods variety are: ALASKA STAT. § 45.10.050(a) (1962); ARIZ. H.B. 243 § 44-870, 26th Leg., 1st Reg. Sess. (Feb. 28, 1963); ARIZ. S. 255 § 44-856, 26th Leg., 1st Reg. Sess. (1963); CAL. CIV. CODE § 1803.3; COLO. REV. STAT. ANN. § 13-16-6(2) (1953); CONN. GEN. STAT. ANN. § 42.84(a) (1960); DEL. CODE ANN. tit. 6, § 4305 (Cum. Supp. 1962); FLA. STAT. ANN. § 520.34(1) (1962); HAWAII REV. LAWS § 201A-3 (Supp. 1961); IDAHO CODE ANN. § 64-806 (Cum. Supp. 1961); ILL. ANN. STAT. ch. 121½, § 225 (Smith-Hurd 1960); IND. ANN. STAT. § 58-904 (1961 Replacement); KAN. GEN. ANN. § 16-507(f) (Supp. 1961); KY. REV. STAT., Acts 1962, S. 97, § 2(5) (Cum. Issue 1962); MD. CODE ANN. art. 83, § 129(a) (1957); MASS. ANN. LAWS ch. 255, § 12 (Cum. Supp. 1961); A Bill for an Act to Require Truth in Lending; Providing Penalties, Minn. (1963); MO. ANN. STAT. § 408.260(5) (Cum. Supp. 1962); MONT. REV. CODES ANN. § 74-607(f) (1947 Replacement); NEB. REV. STAT. § 45-303 (1960 Reissue); N.H. REV. STAT. ANN. § 399-B:2 (Supp. 1961); N.J. STAT. ANN. § 17:16C-27 (Cum. Supp. 1961); N.M. STAT. ANN. § 61-8-15 (1953 Replacement); N.Y. PERS. PROP. LAWS §§ 402(3), and 64-a(e); N.D. REV. CODE § 51-13-02(5) (1960); OHIO REV. CODE § 1317.02 (Anderson 1954); ORE. S. 122, 52nd Leg. Ass., Reg. Sess. (Feb. 1, 1963); TENN. CODE ANN. § 47-1903(a) (Cum. Supp. 1962); UTAH CODE ANN. § 15-1-2a(B) (1953 Replacement); VT. H.B. 161, Gen. Ass., Reg. Sess. (1963); WASH. S. 415, 38th Sess. (Feb. 12, 1963); S. 750, 88th Cong., 1st Sess. (1963); H.B. 330, A., § 115-25(3), Wis. Ass (Feb. 27, 1963).

2 Those statutes whose disclosure provisions are limited to the sale of motor vehicles are: ALASKA STAT. § 28.10.050(b) (1962); ARIZ. REV. STAT. ANN. § 44-287 (Cum. Supp. 1962); CAL. CIV. CODE § 2982(a); COLO. REV. STAT. ANN. § 13-16-6(2) (1953); DEL. CODE ANN. tit. 5, § 2906(a)(4) (Cum. Supp. 1962); FLA. STAT. ANN. § 520.07(2) (1962); IOWA CODE ANN. § 322.3(6)(c) (Cum. Supp. 1962); KY. REV. STAT. § 190.100(2) (1962); LA. STAT. ANN. § 956(E) (Cum. Supp. 1961); ME. REV. STAT. ANN. ch. 59, § 254(II) (Cum. Supp. 1961); MASS. ANN. LAWS ch. 255B, § 9 (Cum. Supp. 1961); MICH. STAT. ANN. § 23.628(13)(b) (1957); MINN. STAT. ANN. § 168.71(5)(b) (1960); MISS. CODE ANN. § 8075-13(b) (Cum. Supp. 1960); NEB. REV. STAT. § 60-617 (1960 Reissue); NEV. REV. STAT. § 97.020(2) (1957); N.H. REV. STAT. ANN. § 361-A:7(II) (Supp. 1960); N.M. STAT. ANN. § 50-15-7(B) (1953 Replacement); N.Y. PERS. PROP. LAWS § 302(5); N.C. GEN. STAT. § 20-303(b) (Cum. Supp. 1961); ORE. REV. STAT. § 83.520(3) (1961 Replacement); PA. STAT. ANN. tit. 69 § 614(B) (Cum. Supp. 1961); S.D. CODE § 6.04C03(5) (Supp. 1960); TEX. REV. CIV. STAT. ANN. art. 5074a (1951); VT. STAT. ANN. tit. 9, § 2355(f) (Cum. Supp. 1961); VA. CODE ANN. § 46.1-545(b) (1958 Replacement); WASH. REV. CODE ANN. § 46.70.130 (1962); WIS. STAT. ANN. § 218.01(6)(b) (Cum. Supp. 1962); 16 C.F.R. § 197.2(b) (Supp. 1957). If motor vehicles are included within the coverage of the all-goods statute the column is marked accordingly.

3 Those states which require the licensing of retail dealers and/or finance companies which purchase retail installment sales contracts are: ARIZ. REV. STAT. ANN. § 44-282 (Cum. Supp. 1962); ARIZ. H.B. 243, § 44-852, 26th Leg., 1st Reg. Sess. (Feb. 28, 1963); COLO. REV. STAT. ANN. § 13-16-2 (1953); CONN. GEN. STAT. ANN. §§ 14-52, and 36-235 (1960); DEL. CODE ANN. tit. 5, § 2902 (Cum. Supp. 1962); FLA. STAT. ANN. § 520.03 (1962); IND. ANN. STAT. § 58-911 (1961 Replacement); IOWA CODE ANN. § 322.3(1) (1949); KAN. GEN. STAT. ANN. § 16-503(a) (Supp. 1961); LA. STAT. ANN. § 6:952(B) (Cum. Supp. 1961); ME. REV. STAT. ANN. ch. 59, § 250(I) (Cum. Supp. 1961); MD. CODE ANN. art. 83, § 154 (1957); MASS. ANN. LAWS ch. 255B, § 2 (Cum. Supp. 1961); MICH. STAT. ANN. § 23.628(3) (1957); MINN. STAT. ANN. § 168.67(a) (1960); MISS. CODE ANN. § 8075.02 (Cum. Supp. 1960); MONT. REV. CODES ANN. § 74-603(a) (1947 Replacement); NEB. REV. STAT. §§ 45-312(1), and 60-619 (1960 Reissue); N.H. REV. STAT. ANN. § 361-A:2(I) (Supp. 1961); N.J. STAT. ANN. § 17:16C-2 (Cum. Supp. 1961); N.M. STAT. ANN. § 50-15-3 (1953 Replacement); N.Y. PERS. PROP. § 492; N.C. GEN. STAT. § 20-287 (Cum. Supp. 1961); PA. STAT. ANN. tit. 69, § 604 (Cum. Supp. 1961); S.D. CODE § 6.04C09 (Supp. 1960); VT. STAT. ANN. tit. 9, § 2352 (Cum. Supp. 1961); VA. CODE ANN. § 46-1523 (1958 Replacement); WASH. REV. CODE ANN. § 46.70.020 (1962); WIS. STAT. ANN. § 218.01(2) (1957).

4 The cash price includes any repairs, charges for delivery, cost of servicing or improving goods, costs of accessories, and installation or other costs normally included in the delivered cash price of goods, unless the statement of each separate item is indicated in the column.

5 The cost of insurance must be exactly and separately stated unless indicated in the column to the contrary.

6 The finance charge must be separately stated as a dollar amount unless indicated in the column that may be lumped with the cost of insurance and/or may be stated in terms of a rate, or in terms of both a dollar amount and rate.

7 In most of the statutes permitting the finance charge to be stated in terms of a percentage rate the amount of the time balance may be omitted when the dollar amount statement is not used.

8 All statutes providing for the imprisonment of the violator state that such violator will be punished by fine or imprisonment, or both.

9 Those states which enable the buyer to recover the charges he has paid when the seller violates the disclosure provisions are: Cal.; Del. (all-goods statute); Fla. (motor vehicle statute); Hawaii; Ill.; Minn.; N.Y. (conditional sales contracts statute); Tenn.; Utah. Recovery of reasonable attorney fees and court costs are usually allowed the prevailing party.

10 Those states which bar the violating seller's recovery of any time price differential, delinquency or collection charge are: Alaska; Ariz.; Cal. (all-goods statute); Colo.; Conn.; Del.; Fla. (all-goods statute); Idaho (rather than barring recovery, the statute in this state denies the seller the right to register or record the conditional sales contract); Ill.; Kan.; Ky.; La.; Me.; Md.; Mass.; Miss.; Mo.; Mont.; N.H. (motor vehicle statute); N.M. (motor vehicle statute); N.Y. (motor vehicle statute); N.D.; Ore.; Va. Reasonable attorney's fees and court costs are usually awarded to the prevailing party. The seller is ordinarily permitted to recover the cash price of the goods sold and also the cost of any insurance which he has purchased in connection with the goods.

11 A very comprehensive bill of the all-goods variety was introduced in the 1959 Regular Session of the Alabama Legislature S. 174, Leg. Reg. Sess. (1959). However it was never reported out of the committee to which it was referred. Letter From Charles M. Cooper, Director, Legislative Reference Service to the *Notre Dame Lawyer*, March 11, 1963, on file in Notre Dame Law Library.

12 The disclosure provisions are part of the Motor Vehicle Act. The dealer must furnish the purchaser a Statement of Motor Vehicle Sale prior to the consummation of the sale. Disclosure under this statute is very incomplete and unsatisfactory.

13 H.B. 243, § 44-870, 26th Leg., 1st Reg. Sess. (Feb. 28, 1963); S. 255, § 44-856, 26th Leg., 1st Reg. Sess. (1963).

14 Retail sellers holding contracts exceeding $10,000 are included. *Ibid.*, H.B. 243.

15 Only motor vehicle dealers, in addition to the sales finance companies, must be licensed.

16 The Installment Sales of Motor Vehicles act does not contain disclosure requirements.

17 The current session of the Iowa General Assembly has had a bill for the creation of the office of consumer counsel introduced before it. H.B. 453, 60th Gen. Ass. (Feb. 28, 1963).

18 Retail sellers holding contracts which in the aggregate exceed $25,000 any calendar year must also be licensed.

19 Each subsequent offense is punishable by a fine of not over $500.

20 As a disclosure statute these provisions are largely ineffective since the information must be disclosed by the secured party only to the extent that it is known at the time of the execution of the security agreement.

21 The Motor Vehicle Finance Act of 1950 [MICH. STAT. ANN. § 23.628 (1957)] did not provide for the repeal of either the Motor Vehicle Installment Sales Act [MICH. STAT. ANN. § 19.415(2) (1957)] or the Motor Vehicle Code Provision [MICH. STAT. ANN. § 9.1951 (1957)].
22 For any subsequent offense, the violator is subject to a like fine and/or imprisonment for not over one year.
23 Sales finance companies purchasing retail sale installment contracts, and dealers holding retail installment contracts exceeding a total aggregate outstanding indebtedness of $50,000, must be licensed.
24 These provisions are part of the Motor Vehicle Dealer's License Act. The disclosure is not comprehensive and seems to have been intended more as a means of record-keeping than as a method of informing the consumer.
25 NEV. REV. STAT. § 97.060 (1957) provides for civil actions against a seller for exceeding the prescribed time price differential limits or acceleration provisions, but provides no penalty for a violation of the disclosure provisions.
26 This statute requires only the disclosure of the cost of the credit. It is largely ineffective insofar as fully informing the consumer of the full costs of his purchase.
27 *Supra* note 196.
28 This statute provides only for disclosure when the seller retains a chattel mortgage in the personal property sold. Its requirements are neither comprehensive nor complete.
29 In addition to an all-goods statute with disclosure provisions for retail installment contracts, there is also a statute requiring disclosure in conditional sales contracts. N.Y. PERS. PROP. LAWS § 64-a.
30 A bill has been introduced at the present Legislative Session which, if enacted, would require all retail installment sellers who hold more than $25,000 of installment paper to be licensed as sales finance companies. Letter From Vincent H. Crawford, Supervising Bank Examiner, New York to the *Notre Dame Lawyer*, February 26, 1963, on file in Notre Dame Law Library.
31 Lumping is permitted only under the conditional contract statute. N.Y. PERS. PROP. LAWS § 64-a(g).
32 The finance charge may be expressed as a simple interest charge on the unpaid balance only under the conditional sales contract statute. N.Y. PERS. PROP. LAWS: § 64-a(e).
33 *Supra* note 198.
34 These provisions are embodied in the Motor Vehicle Dealers and Manufacturers Licensing Laws. They do not offer complete disclosure protection.
35 A bill to establish a consumer counsel failed to pass the 1962 session of the General Assembly. S. 15, Gen. Ass., Jan. Sess. (Jan. 16, 1962). The bill still has retained considerable interest. Letter from John F. Cicilline, Research Assistant, Legislative Council to the *Notre Dame Lawyer*, March 12, 1963 on file in Notre Dame Law Library.
36 This statute merely leaves disclosure regulations to the FTC.
37 These provisions are found in the Motor Vehicles Code. They are neither complete nor comprehensive.
38 The disclosure provisions are described in the statute as the "details to be given by the mortgagor." They relate to the execution of a contract or chattel mortgage, or the consummation of the sale of any motor vehicle, and require very limited disclosure. As a disclosure statute its value is very minimal. Motor vehicles are now probably covered under the recently enacted all goods statute. S. 415, 38th Sess. (Feb. 12, 1963).
39 The violator would be liable to the purchaser in the amount of $100 or in an amount equal to twice the finance charge, whichever is greater. Liability would not exceed $2,000.
40 *Ibid.*

[Excerpt from Notre Dame Lawyer, August 1963]

Economic Institutions and Value Survey: The Consumer in the Marketplace — a Survey of the Law of Informed Buying ....*Robert C. Findlay, Frank J. Miele, Robert M. Hanlon*

I. Introduction

> If consumers are offered inferior products, if prices are exorbitant, if drugs are unsafe or worthless, if the consumer is unable to choose on an informed basis, then his dollar is wasted, his health and safety may be threatened, and the national interest suffers. On the other hand, increased efforts to make the best possible use of their incomes can contribute more to the well-being of most families than equivalent efforts to raise their incomes.[1]
>
> President John F. Kennedy

The difficulties confronting the consumer today are manifested in countless forms and varieties. The abuses are, in some instances, flagrant; but, because the consumer is not effectively organized to present a unified front in his fight for fair treatment, his views often go unheard. Attention here is focused on the consumer's inability to purchase on an informed basis and the law's attempt to secure his protection.

More particularly, consideration will be directed to three important aspects of the problem: the labeling and packaging of goods, the credit terms of installment purchasing, and guarantees and warranties. The "consumer in the marketplace" is the topic of discussion. It may be a television commercial or magazine ad[2] which excites interest and prompts the consumer to enter the marketplace; but once within its confines he is met by the hard sell of attractive labels and packages, easy credit terms, lifetime guarantees as well as the salesman.

The section of the note dealing with labeling and packaging will examine the law as it exists today and incidentally trace its origins and development. Emphasis is here placed upon federal control, simply because of the greater stature it has attained in this field. State law, however, will be considered. Attention is also given to the federal "Truth in Packaging" Bill,[3] introduced by Senator Philip Hart of Michigan, in order to assess future development in this field.

The purpose of the section concerned with credit protection is to analyze the efforts that have been made, both on the state and federal levels, to "disclose to borrowers in advance the actual amounts and rates which they will be paying for credit." The core of the discussion relates to state legislative activity. Here, in contrast to the above, the states have made the more significant law. But throughout the survey, various portions of Senator Paul Douglas' "Truth in Lending" Bill[4] will be interjected in an attempt to expose the existing deficiencies of state law.

In the final area of study, once again both state and federal law have been assigned a role in protecting the purchaser. Here, the efforts of the Federal Trade Commission to prevent misrepresentation of manufacturers' guarantees are explored. Such efforts operate prospectively, as does the administration of the law in prior two sections. But the law of warranty, as embodied in the common law, the Uniform Sales Act and the Uniform Commercial Code, offers its remedy only after the purchase has been made — when the representations, whether express or implied, that induce sale have been discovered to be untrue. Particular scrutiny will be given the seller's attempt to limit these representations through disclaimer clauses in the contract of sale.

As a result, it is hoped that the reader will be aided in his accumulation of knowledge concerning an area of law which bids fair to be a paramount one.

1 Kennedy, *Consumers' Protection and Interest Program*, Message from the President of the United States, H. R. Doc. No. 364, 87th Cong., 2d Sess. 1-2 (1962) [hereinafter cited as *1962 Consumer Protection Message*].

2 See generally Handler, *The Regulation of Advertising*, 56 Colum. L. R. 1018 (1956)

3 S. 387, 88th Cong., 1st Sess. (1963).

4 S. 750, 88th Cong., 1st Sess. (1963).

II. Labeling and Packaging

If you found yourself in a typical American supermarket or drugstore for the first time, one would hardly blame you if you stood somewhat in awe upon viewing the seemingly infinite number of items on display. A rapid tour up and down the numerous aisles would be sufficient to convince you that a man-sized job lay ahead in making a good choice among products. No friendly corner grocer, for example, would be at hand to assist you in your dilemma. With the emphasis of modern merchandising on self-service, competing commodities on the shelves veritably cry out by means of their labels and packages urging your purchase.

Unquestionably, this is American marketing life today at the retail level. With the inanimate label and package giving most of the sales pitch, there is the possibility of deceiving the unwary buyer by leaving much unsaid. The "hidden persuaders" of color scheme and design and size of package may not always lend themselves to adequate disclosure of what lies behind the label or within the package. Obviously, the unscrupulous avail themselves of such possibilities with abandon. Hence, it follows that the consumer must be afforded some measure of protection in order to pursue his shopping ends with the assurance that he is actually getting what he thinks he is getting. Perhaps it is true that one cannot judge a book by its cover, but that in effect is what the consumer should be able to do in resorting to the labeling and packaging of the items he purchases. To secure this end stand two federal agencies, the Food and Drug Administration and the Federal Trade Commission, and related state law. But, it is currently felt in some quarters that additional law is now needed to cope with the problems of contemporary marketing practices. A "Truth in Packaging" Bill, recently introduced before Congress,[5] is aimed at requiring stricter labeling and packaging standards in the consumer commodity field, which mainly includes so-called "kitchen and bathroom" items.

A. Historical Setting and General Principles of the Federal Law

It was not always thus. The doctrine of *caveat emptor* — "let the buyer beware" — was the prevailing doctrine until late in the 1800s. But as a result of the agitation over adulterated food in the early part of this century,[6] the maxim began to wane. Governmental intervention appeared in the form of the Federal Food and Drug Act of 1906.[7] As usually happens, however, the passage of time revealed the inadequacies of this legislation in view of changing conditions. Undoubtedly contributing to the several shortcomings of the act was the fact that it was the initial enactment in this area. Consequently, in 1938[8] Congress repealed the Federal Food and Drug Act, replacing it with the significantly stronger Federal Food, Drug and Cosmetic Act, still in force and aided by recent amendments.[9] Devices and cosmetics were brought within the scope of the new act. That this law manifested the recognition of the times that the consumer also deserved a "New Deal" was clearly indicated by Mr. Justice Frankfurter in *United States v. Dotterweich:*[10] "The purposes of [the Federal Food, Drug and Cosmetic Act] thus touch phases of the lives and health of people which, in the circumstances of modern industrialism, are largely beyond self-protection." Thus: "The 'high pur-

5 S. 387, 88th Cong., 1st Sess. (1963).

6 The outstanding, though inadvertent, example of this was Upton Sinclair's novel, *The Jungle.* Originally designed to provide Socialist propaganda, the book had the curious effect of calling attention to revolting meat-packing-house practices instead. Sinclair later remarked that he had aimed at the public's heart, but by accident had hit it in the stomach. See Regier, *The Struggle for Federal Food and Drugs Legislation.* 1 Law & Contemp. Prob. 3 (1933).

7 34 Stat. 768 (1906).

8 This was a good year for consumers: Congress passed both the Wheeler-Lea Amendment and the Federal Food, Drug and Cosmetic Act in 1938, during the same session.

9 Drug Amendments of 1962, 76 Stat. 780 (1962); Food Additives Amendment of 1958, 72 Stat. 1784 (1950), discussed *infra.*

10 320 U.S. 277, 280 (1943).

pose' of the Federal Food, Drug and Cosmetic Act . . . is to protect consumers."[11] The act has, in large measure, achieved that lofty purpose. Liberal construction of it, in order to protect the public effectively, is the rule.[12]

The Federal Trade Commission Act of 1914[13] made unlawful "unfair methods of competition in commerce."[14] The act as a whole, and section 5 in particular, contained general prohibitions much along the same lines as the Sherman[15] and Clayton[16] Acts but was significantly broader than the latter statutes. Mr. Justice Douglas, in *FTC v. Motion Picture Advertising Service Co.*,[17] described its scope in these words:

> The "unfair methods of competition," which are condemned by §5(a) of the Act, are not confined to those that were illegal at common law or that were condemned by the Sherman Act. . . . It is . . . clear that the Federal Trade Commission Act was designed to supplement and bolster the Sherman Act and the Clayton Act . . . to stop in their incipiency acts and practices which, when full blown, would violate those Acts, as well as to condemn as "unfair methods of competition" existing violations of them.[18]

Under the original act the basis for the Commission's jurisdiction was injury to the competitor. However, this proved to be too narrow a view, especially insofar as the ultimate consumer was concerned. In rendering its decision in *FTC v. Raladam Co.*,[19] the Supreme Court of the United States emphasized competition and minimized the factor of public interest.[20] The case was severely criticized, with the main line of attack indicating that the *Raladam* approach in reality left the consumer virtually unprotected by a weakening, if not actual nullification, of the express powers delegated to the Commission for the protection of the public.[21]

However, three years after the *Raladam* decision the Court evidenced a changed approach in *FTC v. R. F. Keppel & Bro.*[22] in which it recognized that the Commission did possess jurisdiction in unfair trading cases, irrespective of whether the interests of the public or those of merely a particular class of competitors demanded that the complained-of practice be eliminated. This holding received Congressional approval in 1938 when it passed the Wheeler-Lea Amendment[23] which granted the Federal Trade Commission authority to challenge unfair practices on the basis of whether the proceeding was in the public interest, rather than solely on the restricted basis of whether the practice in question involved injury to competition.[24] The upshot of this change worked by the Wheeler-Lea Amendment was that the Commission was enabled to concern itself with protection of the consumer in a more direct fashion, whereas previously it could only protect him indirectly *via* protection of the competitor.

11 Strey v. Devine's, Inc., 217 F.2d 187, 190 (7th Cir. 1954).
12 United States v. Bodine Produce Co., 206 F. Supp. 201 (D. Ariz. 1962).
13 38 Stat. 717 (1914), 15 U.S.C. §§ 41-77 (1958).
14 38 Stat. 719 (1914), as amended, 15 U.S.C. § 45(a) (1958).
15 26 Stat. 209 (1890).
16 38 Stat. 730 (1914).
17 344 U.S. 392 (1953).
18 *Id.* at 394-95.
19 283 U.S. 643 (1931).
20 Among other cases prior to 1938 holding that injury to competitors is the determinative criterion are Berkey & Gay Furniture Co. v. FTC, 42 F.2d 427 (6th Cir. 1930) (insufficient injury); Lighthouse Rug Co. v. FTC, 35 F.2d 163 (7th Cir. 1929) (sufficient injury).
21 See Derenberg, Trade Mark Protection & Unfair Trading 172, 173 (1936).
22 291 U.S. 304 (1934).
23 52 Stat. 111 (1938).
24 In Progress Tailoring Co. v. FTC, 153 F.2d 103, 105 (7th Cir. 1946), it was said: "[S]ince the [Wheeler-Lea] amendment . . . , the Commission has had jurisdiction of all cases in commerce affecting the public interest whether or not competition is involved; hence it is no longer necessary to show competition, if there is an act or practice in commerce inimical to the public interest."

The principal weapon utilized by the FTC in enforcing the provisions of the act is the cease-and-desist order. Its primary purpose is, in a sense, unique since it is unlike most of the usual remedies afforded by the courts: "Orders of the Federal Trade Commission are not intended to impose criminal punishment or exact compensatory damages for past acts, but to prevent illegal practices in the future."[25] Thus, since the Commission is bent on preventing what could happen before it actually does, rather than remedying the wrong after it occurs through punishment of the wrongdoer, *no damage* to the public, in the ordinary sense of the word, need be shown.[26]

Some 53 years ago, between the passage of the original Federal Food and Drug Act and the Federal Trade Commission Act, the following widely-quoted statement by Judge Coxe in *Florence Mfg. Co. v. J. C. Dowd & Co.*[27] aptly revealed the tendency of the times toward consumer protection:

> The law is not made for the protection of experts, but for the public — that vast multitude which includes the ignorant, the unthinking and the credulous, who, in making purchases, do not stop to analyze, but are governed by appearances and general impressions.[28]

Not only was it thus felt that it would be best for the public to have protection of this sort, but it was also demonstrated that the group covered would be all-inclusive.

In protecting the "vast multitude," primary consideration is given to the effect that the various methods of labeling, packaging and advertising have in inducing the consumer to consummate a purchase. The peculiar circumstances and facts which may surround a particular unfair practice, from the standpoint of the marketer, are of relatively slight, if any, importance. Thus, a seller's lack of knowledge of the falsity of a representation is no defense to a charge of deception,[29] nor is his good faith.[30] Moreover, actual deception of the consumer is not essential before a violation of section 5 can be found.[31] A showing of intent to deceive is likewise not necessary.[32] Rather, the test which is generally applied is whether or not the representation has a *capacity* or *tendency* to deceive.[33]

Furthermore, an ambiguous representation is unfair where one meaning is false;[34] and the literal truth of a representation is no excuse where a false impression is created.[35] Apparently, about the only representations that are not susceptible of being construed as violative of the act are those which contain the expression

25 FTC v. Ruberoid Co., 343 U.S. 470, 473 (1952).

26 National Harness Mfrs.' Ass'n v. FTC, 268 Fed. 705 (6th Cir. 1920).

27 178 Fed. 73 (2d Cir. 1910).

28 *Id.* at 75. *Cf.* United States v. 88 Cases Containing Bireley's Orange Beverage, 187 F.2d 967, 971 (3d Cir. 1957), *cert. denied* 342 U.S. 861 (1951): "[T]he normal inference is that the legislature contemplated the reaction of the ordinary person *who is neither savant nor dolt,* who lacks special competency with reference to the matter at hand but has and exercises a normal measure of the layman's common sense and judgment." (Emphasis added.)

29 Gimbel Bros., Inc. v. FTC, 116 F.2d 578 (2d Cir. 1941).

30 Feil v. FTC, 285 F.2d 879 (9th Cir. 1960).

31 Feil v. FTC, 285 Fd.2d 879 (9th Cir. 1960); American Life & Acc. Ins. Co. v. FTC, 255 F.2d 289 (8th Cir.), *cert. denied,* 358 U.S. 875 (1958); Northern Feather Works v. FTC, 234 F.2d 335 (3d Cir. 1956).

32 Gimbel Bros., Inc. v. FTC, 116 F.2d 578 (2d Cir. 1941); Indiana Quartered Oak Co. v. FTC, 26 F.2d 340 (2d Cir. 1928).

33 Royal Oil Corp. v. FTC, 262 F.2d 741 (4th Cir. 1959); Goodman v. FTC, 244 F.2d 584 (9th Cir. 1957); Progress Tailoring Co. v. FTC, 153 F.2d 103 (7th Cir. 1946); Etablissements Rigaud, Inc. v. FTC, 125 F.2d 590 (2d Cir. 1942). Typical of the judicial statements made with regard to the test to be applied is that of Chief Judge Gardner in American Life & Acc. Ins. Co. v. FTC, 255 F.2d 289, 293 (8th Cir.), *cert. denied* 358 U.S. 875 (1958): "The fact that there was no evidence that anyone had in fact been deceived . . . was not conclusive. The test was whether such advertisements were likely to deceive."

34 United States v. 95 Barrels of Vinegar, 265 U.S. 438 (1924).

35 P. Lorillard Co. v. FTC, 186 F.2d 52 (4th Cir. 1950).

of an honest opinion[36] and those of which it can legitimately be said are nothing more than harmless "puffing."[37]

In many respects, the FDA and the FTC each deal with quite similar problems. Since both agencies have the common objective of preventing deception of the public through the misrepresentation of food, drugs, devices, and cosmetics, both have frequently been in simultaneous pursuit of the same practice. Through the misbranding provisions of the Federal Food, Drug and Cosmetic Act,[38] the FDA is concerned chiefly with the promotion of truthful and informative labeling. Through section 12 of the Federal Trade Commission Act,[39] added by the Wheeler-Lea Amendment of 1938,[40] the FTC is given authority to deal with false advertisements, *other than labeling*,[41] of food, drugs, devices, and cosmetics. Although the jurisdictional lines appear thus to be clear, a problem is presented where material serves as both labeling *and* advertising in a given instance.[42] In that situation, the FDA and the FTC have concurrent jurisdiction and efforts on the parts of both were being needlessly duplicated in many cases. To obviate this difficulty a working agreement between the two agencies was announced on June 9, 1954 in order to provide for better liaison, thereby cutting down on duplicate litigation except in those instances where two proceedings are considered to be to the interest of the public.[43] Generally, it was decided that the FDA is to be concerned with labeling alone and the FTC shall have jurisdiction over advertising.

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III. Consumer Credit and Disclosure Statutes

The drugstore and supermarket are not the only sources of deceptive selling and confused buying. The department store, the appliance house and the used car lot, down the street or at the other end of the shopping plaza, can present the consumer with misrepresentation and bewilderment of a different sort — how much does the product cost? Here an individual is bombarded by such inducements as "no money down," "easy credit terms," "up to 18 months to pay," and "pennies a day." The Sixth Circuit some time ago succinctly stated the problem:

> The average individual does not make, and often is incapable of making, minute calculations to determine the cost of property purchased on the deferred payment plan. Mechanization, industrialization, and urbanization have transformed the structure of our society and raised to the proportions of a major social problem, the protection of the installment purchaser against his own ignorance and the pressure of his need.[186]

"The variety and complexity of finance . . . arrangements and the charges for them are such as almost to defy comprehension."[187] The retailer, it would appear,

180 109 Cong. Rec. 604 (daily ed. Jan. 21, 1963).
181 Chicago Sun-Times, Mar. 7, 1963, p. 9, col. 1.
182 *Ibid.*
183 *Id.* at col. 2.
184 *Hearings on Packaging and Labeling Practices, Part I*, at 175.
185 108 Cong. Rec. 19267 (daily ed. Sept. 24, 1962).
186 Ford Motor Co. v. FTC, 120 F.2d 175, 182 (6th Cir. 1941).
187 Statement of Theodore Yntema, vice-president in charge of finance, Ford Motor Co., testifying before the Senate Hearings on Automobile Financing, as quoted in *Hearings Before a Subcommittee of the Committee on Banking and Currency on S. 1740*, 87th Cong., 2d Sess. 404 (1962) [hereinafter cited as *1962 Hearings on Truth in Lending*].

can find many techniques to camouflage the actual cost of buying on time. To prevent this abuse, the major device employed in all regulatory statutes is based, at least in part, on the philosophy of disclosure.[188] The reasons for disclosure laws seem quite sensible: the man in the marketplace ought to know what his purchase will cost him. Accordingly, disclosure will place the consumer in a better position to determine whether his financial resources are sufficient to meet "18 easy monthly payments." Further, the knowledge of the true costs of competing and comparable merchandise will permit the purchaser to make an economically wise choice in his selection. Lastly, equipped with an awareness of actual credit costs, the consumer is able to determine the relative advantages of accepting the financial arrangement offered by the vendor or borrowing the amount of the purchase price from another source.

A final qualification—credit disclosure—will be discussed only insofar as statutes deal with the information relevant to costs which must be made known at the time of initial purchase in a vendor credit[189] transaction. These provisions may be found in many types of legislative enactments, as, for example, retail installment sales acts, motor vehicle financing acts, conditional sales contracts acts, and motor vehicle codes. However, here disclosure will be broadly considered. No distinction will be made as to the types of legislation in which these provisions appear. All legislation embodying credit and cost disclosure provisions are categorically referred to as disclosure statutes.

A. Historical Growth of Disclosure Statutes

The earliest attempt in the United States to insure disclosure of financial charges was probably under the Russell Sage Foundation's Uniform Small Loan Law, which included a provision that at the time of making the loan the borrower was to be given a clear statement of the exact terms of the loan.[190] This principle has been followed to the present day and forms the basis for disclosure statutes in the retail sale of consumer goods.

Following the early loan law, various efforts to bring about full disclosure in the installment sales field were made at both the federal and state levels. In 1933, unsuccessful efforts to agree on uniform trade practices were made under the National Industrial Recovery Act.[191] But, in that same year, the principle of disclosure gained important stature when Congress passed the Security Act of 1933.[192] President Roosevelt, in a speech before Congress, underscored the policy behind the "Truth in Securities" Law: "This proposal adds to the ancient rule of caveat emptor, the further doctrine 'let the seller also beware.' It puts the burden of telling the whole truth on the seller."[193] With this impetus, Indiana pioneered the way for the states by passing the Retail Instalment Sales Act in 1935.[194] This was the first statute to require the vendor to fully disclose all terms of purchase costs to the installment buyer.[195]

All of the activity, however, did not shift to the state legislative arena. The federal government made another attempt at control over consumer sales in the

188 Hogan, *A Survey of State Retail Installment Sales Legislation*, 44 CORNELL L.Q. 38 (1958).
189 Vendor credit is basically a transaction wherein the consumer buys directly from a retail merchant on an installment plan, the payments being deferred in payment of a finance charge. When the consumer goes to a source other than the vendor and borrow funds to pay for his purchase, paying interest for his loan, he is then relying upon lender credit.
190 Robinson & Nugent, REGULATION OF THE SMALL LOAN BUSINESS 96 (1935); 16 U. CHI. L. REV. 609 (1949).
191 See 2 LAW & CONTEMP. PROB. 200 (1935).
192 48 Stat. 81 (1933), 15 U.S.C. § 77j (1958).
193 Speech made to Congress by President Franklin D. Roosevelt, March 29, 1933.
194 Ind. Acts 1935, ch. 231 [now IND. ANN. STAT. §§ 58-901 to -934 (1961 Replacement)].
195 For an excellent discussion of the historical background of retail installment sales statutes, see 53 NW. U.L. REV. 137 (1958).

form of Regulation W.[196] Under a presidential order, Regulation W was first issued on September 1, 1941 as a defense measure.[197] Its basic purpose was to place a ceiling over prices of consumer goods. Noteworthy, however, were the provisions which required specific disclosure of all credit terms in the sale of durable consumer goods which cost $5,000 or less. Regulation W was allowed to expire in 1952.[198]

When the Uniform Commercial Code was first proposed, the drafters considered incorporating credit disclosure requirements within its provisions. Section 9-205 of the Proposed Final Draft contained extensive disclosure requirements, not unlike those now found in most state statutes.[199] But, on January 14, 1951, the Council voted to delete this section, and the executive session of the Editorial Board agreed.[200] However, this is not to say the problem is unworthy of study and attention — "Since it is the policy of the Commissioners on Uniform State Laws not to draft statutes of a highly regulatory nature at least *when regulation is in the experimental stages,* this Part does not attempt to meet abuses which may exist."[201] Today, neither the Uniform Commercial Code nor the Uniform Sales Act contains disclosure provisions.

During this same period, widespread dealer abuses in the sale of motor vehicles led the Federal Trade Commission to hold a series of extensive hearings. Here, the gap between the regulations provided by a few states and the general need for such regulation, came to the attention of the Commission. As a result of the investigation on February 6, 1951, the Commission adopted the Trade Practice Rules governing automobile financing.[202] Based on Section 5 of the Federal Trade Commission Act, these rules were designed to eliminate and prevent deceptive practices in the installment sales of automobiles. Although the FTC did not attempt to define the precise application of the Trade Practice Rules, the rules are necessarily limited to transactions in interstate commerce because of the constitutional and statutory restrictions on the Commission's jurisdiction.[203] Thus, the reach of the regulations has not offered effective protection for installment buyers because of the intrastate character of most automobile purchases. From the standpoint of consumer protection, the chief effect of the rules appears to have been the indorsement which they gave to the enactment of state regulatory rules.

A related influence spurring state activity was the notoriety of deceptive dealer practices in the sale of motor vehicles. The "Findings and Declarations of Policy" found in the Pennsylvania Motor Vehicle Sales Finance Act typifies the need then recognized for such legislation: "An exhaustive study . . . discloses nefarious, unscrupulous and improper practices in the financing of the sale of motor vehicles... which are unjustifiably detrimental to the consumer and inimical to the public welfare."[204] The act concludes that these pernicious practices "have existed to such an extent that regulation of the installment selling of motor vehicles is necessary to the adequate protection of the public interest."[205] The ice having been broken with the widespread enactment of disclosure statutes in the sale of motor

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196 See 63 Harv. L. Rev. 874 (1950).
197 Exec. Order No. 8843, Aug. 9, 1941, 3 Code Fed. Regs. ch. 2 (Cum. Supp. 1943).
198 12 C.F.R. § 222.6(c) (1949), *revoked* 14 Fed. Reg. 3742 (1949) *reinstated* 32A C.F.R. ch. XV. §6(2)(c) (1951), *suspended,* 17 Fed. Reg. 4256 (1952).
199 Uniform Commercial Code, Proposed Final Draft, Spring 1950, 742-44. See also §7-611(1).
200 6 Bus. Law. 119 (1951).
201 Uniform Commercial Code, May 1949 Draft, § 7-601, Comment. (Emphasis added.) At the time of the proposed section thirteen states had retail installment acts requiring disclosure. 16 Law & Contemp. Prob. 27, 37-38 (1951).
202 16 Fed. Reg. 1059 (1951).
203 See FTC v. Bunte Bros., 312 U.S. 342 (1949), holding that FTC jurisdiction does not extend to intrastate commerce.
204 Pa. Stat. Ann. tit. 69, § 602 (Cum. Supp. 1961). The act "was enacted for the protection of the purchaser of automobiles. . . ." Roxy Auto Co. v. Moore, 180 Pa. Super. 603, 122 A.2d 87, 88 (1956).
205 *Id.* at § 602.

vehicles, legislatures in the last decade have been quick to expand coverage by passing statutes which require disclosure in the sale of other consumer goods as well.

The period between 1957 and 1963 has seen a flurry of new legislation.[206] Presently, 42 states have statutes requiring disclosure either in the sale of motor vehicles, all other consumer goods, or both.[207] Many states also have disclosure requirements in connection with revolving credit plans and add-on contracts.[208] On the federal level, the "Truth in Lending" Bill, after difficult going in committee for the past three years, has been reintroduced by Senator Douglas.[209] One of the provisions of this bill presently causing the greatest stir among retailer groups is section 4(b), which sets forth disclosure requirements for revolving or open-credit plans.

It is apparent that disclosure has become an accepted fact of life in the field of installment sales. Therefore, the remainder of this section will be directed toward an analysis of how the principle is applied and how such application may be effectively improved.

B. *What Goods Are Covered*

To reiterate, the fundamental principle of disclosure is to *inform the uninformed* of the full cost of merchandise offered for sale under financing plans. Thus it would seem elementary that the disclosure statutes should be equally applicable to the sale of all consumer purchases, irrespective of the kind of the goods bought, the nature of their use, their cost, or the security interest which the seller retains in them. But this proposition is not at all descriptive of the existing disclosure statutes.

1. Coverage According to Kind of Goods

A look at the disclosure statutes reveals that the most variant item as to coverage is the treatment of consumer protection on the basis of the kind of goods which are involved in the sale. The broad categorization is twofold: those statutes which require disclosure in the sale of motor vehicles and those termed "all-goods" statutes which provide for disclosure in the sale of consumer goods other than motor vehicles. Forty-two states currently have disclosure statutes of one type or another. A numerical breakdown of these statutes[210] would reveal that: (1) thirty-nine states require disclosure in motor vehicle sales; (2) sixteen states require disclosure only in connection with the sale of motor vehicles; (3) twenty-eight states have separate statutes relating to the sales of motor vehicles; (4) eleven states have both motor vehicle acts and all-goods statutes; (5) twenty-six states have statutes of the all-goods variety; and (6) twelve of the states having all-goods statutes include motor vehicles within their coverage.

On the federal level, the Trade Practice Rules of the FTC regulate only motor vehicle sales, though the proposed "Truth in Lending" Bill would extend the federal regulation to all consumer goods. Since the definition of "credit" in this bill is all-inclusive,[211] Senator Douglas has indicated that there would be a substitution

206 See 13 Pers. Fin. L.Q. Rep. 99 (1959); *Id.* at 136; 14 Pers. Fin. L.Q. Rep. 153 (1960); 16 Pers. Fin. L.Q. Rep. 129 (1962).

207 See chart *infra* and accompanying notes 1c and 2c.

208 Disclosure under a revolving credit plan involves furnishing the purchaser with a monthly statement of his purchases, unpaid balance, and the finance charge on that balance. See *e.g.*, Fla. Stat. Ann. § 520.35 (1962).

209 20 Cong. Rec. 1905 (daily ed. Feb. 7, 1963) (S. 750).

210 For a state-wide listing of these statutes, along with their full citation, see chart *infra* and accompanying notes 1c and 2

211 "'Credit' means any loan, mortgage, deed of trust, advance, or discount; any conditional sales contract; any contract to sell, or sale, or contract of sale of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract. . . ." S. 750, 88th Cong., 1st Sess. § 3(2) (1963).

of the Federal Reserve Board, which is charged with enforcing the bill, for the FTC in the regulation of motor vehicle sales.[212]

As demonstrated by the mere number of statutes, legislative recognition of the need for disclosure has been readily granted the purchasers of motor vehicles. A look behind the motor vehicle statutes, to the reasons for this disparity based on the kind of goods purchased, will provide a valuable yardstick of determination for future legislative activity. Undoubtedly the greater cost of motor vehicles, as compared with the other purchases of the consumer, was an influencing factor. Of historical significance is the fact that when the application of the disclosure principle to consumer purchases was still in its embryonic stage, installment buying was itself still limited. Motor vehicles were costly. It was natural, therefore, that installment plan buying first made its mark upon our contemporary economy in that field. Motor vehicle dealers were therefore in a position to refine subtle screens to deceive consumers, unmindful of the intricacies of this new easy-money mode of buying. The schemes were varied but included such practices as lumping the insurance cost with the finance charge to give the appearance of low credit charge and advertising automobiles for $100 down and $10 a month, without indicating the interest or carrying charges. But with the continued popularity of installment buying[213] the abuses soon were uncovered. The earlier notoriety of these abuses no doubt is the key reason for the wider recognition of the need for an informed consumer in the automobile market.

Though these factors show a historical explanation of the limitation of disclosure principles to motor vehicle sales, they do not justify its continuance. The costs of goods are high. As the deferred payment plan becomes more and more an integral part of every consumer's economic existence,[214] the justification for a disparity of consumer credit protection on the basis of the kind of goods purchased becomes incomprehensible.

2. Coverage According to Use of Goods

In a small number of states the consumer is not entitled to the protection of the disclosure statutes if his purchase of goods is made for a commercial use.[215] Typical of the statutory language excluding commercial purchases from coverage is that of the Delaware statute, which defines "goods" as "tangible chattels bought for use primarily for personal, family or household purposes, as distinguished from commercial or agricultural purposes."[216] The proposed "Truth in Lending" Bill provides no blanket exclusion of commercial transactions,[217] but "credit transactions involving extensions of credit to business firms"[218] may be excepted from the act. Practical policy arguments would strongly favor the exclusion of the great bulk of daily commercial transactions. If such transactions were not excluded the state would be called upon to police the activities of firms well able to protect themselves. Staffed with competent buyers and statisticians, there is little likelihood that a large enterprise will be uninformed as to the true costs of its purchases.

212 Letter from Senator Paul H. Douglas to the *Notre Dame Lawyer*, Mar. 15, 1963 on file in Notre Dame Law Library.

213 See generally, United States Board of Governors of the Federal Reserve System, Consumer Instalment Credit, pt. 1, vol. I, c. 8 (1957) (hereinafter cited as Federal Reserve System Bulletin).

214 See generally, *Id.* at ch. 6.

215 ALASKA STAT. § 45.10.220(2) (1962); CAL. CIV. CODE § 1802.1; DEL. CODE ANN. tit. 6, § 4301 (Cum. Supp. 1962); FLA. STAT. ANN. § 520.31 (1) (1962); ILL. ANN. STAT. ch. 121½, § 223 (Smith-Hurd 1960); KY. REV. STAT., Acts 1962, S 97, § 1(1) (Cum. Issue 1962); N.Y. PERS. PROP. LAWS §§ 401, 64-a; TENN. CODE ANN. § 47-1902(a) (Cum. Supp. 1962); WASH. S 415, 38th Sess. (Feb. 12, 1963). The Idaho statute is not applicable to sales of household goods and furniture, musical instruments, motor vehicles, farm implements, and machinery. IDAHO CODE ANN. § 64-805 (1948).

216 DEL. CODE ANN. tit. 6, § 4301 (Cum. Supp. 1962).

217 S. 750, 88th Cong. 1st Sess. § 3(2) (1963).

218 *Id.* at § 5(a).

However, if all commercial purchases were exempted, protection of the law would be denied to the Main Street shopkeepers, salesmen, and others like them, in the purchase of supplies and equipment essential to earning their livelihood.[219] It is necessary to weigh both the practicability of burdening the state with protecting the large private enterprise in its commercial purchases and the need of the small businessman in his buying transactions. Perhaps the best solution is to extend the coverage of these statutes to all goods, regardless of their use, and impose dollar limits upon the cost of the goods covered.

3. Coverage According to Cost of Goods

In a handful of states the protection given consumers is limited to goods of a prescribed cost. Disclosure of the terms of sale is required only in sales of a specified cost. Such dollar limits are found in both the all-goods and motor vehicle statutes. With little exception, these statutes place a ceiling upon the cost of the goods covered.[220] In some states,[221] however, a floor is placed under the cost and all goods over that amount are covered by the statute. Minimum limits can be found only in all-goods statutes.

To evaluate the protection rendered the consumer in one of these states, as compared with the purchaser in a state whose statute has no dollar limits, it is again necessary to consider the basic principle of disclosure. Under statutes having no dollar limits, all purchases fall within their coverage. Enacted to provide the consumer with knowledge of the full cost of his purchase, it is certain that more comprehensive protection is afforded by these disclosure statutes. But practical considerations weigh heavily. Under no-limits statutes enforcement agencies have an almost infinite number of sales transactions to police, ranging all the way from a disgruntled purchaser of a lawn mower to the unhappy buyer of a 58-foot yacht. Enforcement in those states might well be less effective because of this unwieldy burden. Thus, it would seem that more vigorous protection could be given the consumer in those states limiting the scope of their acts. This is especially true of limitations in the all-goods statutes. The only hindrance to stringent enforcement under motor vehicle statutes with no dollar limits is the inclusion of commercial purchases of vehicles.

The question that is really crucial would seem to be that of determining what dollar limits are best. By setting a minimum limitation states may eliminate many spurious complaints. Some statutes[222] seem to have been prompted by the notion that purchases of under $75 or $100 are of too little value to be of concern to the state. From the practical standpoint of enforcement, it is probably true that placing upon the state the responsibility of protecting the consumer in these small purchases would result in many more complaints than could be effectively handled. But this might well defeat the fundamental purpose of the disclosure statutes by not protecting the average wage-earning consumer where he most needs protection —his weekly and daily encounters with vendor credit. It is not inconceivable that the greater number of abuses take place at this level of consumer purchases, for, not only are the greater number of the consumers in this bracket likely to be less-educated, wage earners, but also they are less likely to take pencil in hand and compute the actual cost of an item which they purchase where the amount involved is so small. It might well be, then, that this is the fertile soil in which the unscrupulous tradesman toils his craft. Maximum dollar limits, on the other

219 See 19 ROCKY MT. L. REV. 135 (1947).
220 Conn. ($6000); Fla. motor vehicle statute ($7500); Ind. ($9999); Ky. motor vehicle statute ($5000); La. ($7500); Md. ($2000); Miss. ($7500); Mo. ($7500); N.H. motor vehicle statute ($7500); N.J. ($7500); N.Y. conditional sales contract statute ($3000); Utah ($7500).
221 Del. all-goods statute $75 (unless a security interest is retained); Idaho ($100).
222 *Ibid.*

hand, seem desirable. Such limits eliminate many of the large interbusiness purchases from the coverage of the act even where there is no blanket exclusion of commercial transactions. Placing a limit of $7,500[223] upon the cost of goods and motor vehicles appears reasonable. In an all-goods statute such a limitation certainly should include most items which a consumer and small business will buy on the installment plan, while drawing the line where the larger commercial transactions are likely to begin. In the motor vehicle statutes, a $7,500 figure is adequate to protect today's average car buyer, while excluding from the terms of the act the commercial purchases of motor vehicles. Certainly the dollar amount can be re-evaluated from time to time in light of economic conditions. In this regard, the experience of Indiana should serve as a guide for other states. Initially setting the dollar limit at $1,500 when the statute was enacted in 1935,[224] the Legislature has progressively raised it through the years, increasing it to $2,500 in 1947,[225] $5,000 in 1955,[226] and its present limit of $9,999 in 1961.[227]

4. Coverage According to Interest in Goods Which Seller Retains

In the majority of the states[228] the consumer is unprotected by disclosure statutes unless the seller retains a security interest in the goods sold. This interest may be retained either by way of a conditional sales contract,[229] purchase money chattel mortgage,[230] or bailment lease. The limitation may have been motivated by the desire to delegate to the enforcement agencies a manageable number of transactions. However, in denying protection to the consumer who buys goods of nominal value or perishable nature where no security interest is retained,[231] a good part of the disclosure theory is ignored. If statutes are to secure information for the consumer, they should secure that information in all of his purchases, not just those in which the seller considers the goods of such value as to formally retain a security interest. Realizing this, several state statutes and the "Truth in Lending" Bill require that no security interest need be retained in order for the disclosure provisions to apply.

C. What Must Be Disclosed

The Fourth Circuit has noted: "Because of the misleading or ambiguous manner of stating the finance rate and other charges in the usual installment contract few installment buyers are aware of the rate or charges which they are actually paying."[232] Disclosure statutes seek to eliminate this problem by demanding that the seller set forth separately each of the items comprising the total cost of the goods purchased. Specific statutory language to this regard is essential. Failing to require such a separate itemization, the Washington motor vehicle statute[233] has led dealers to employ "hazy itemizing — grouping costs together under general heads and not specific itemization"[234] and concealment of specific contract terms by ambiguous or catch phrasing."[235]

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223 This is the generally agreed upon ceiling in those states setting dollar limits. See *supra* note 220.
224 Ind. Acts 1935, ch. 231, § 1 [now Ind. Ann. Stat. § 58-901 (1961 Replacement)].
225 Ind. Acts 1947, ch. 238, § 1 [now Ind. Ann. Stat. § 58-901 (1961 Replacement)].
226 Ind. Acts 1955, ch. 16, § 1 [now Ind. Ann. Stat. § 58-901 (1961 Replacement)].
227 Ind. Acts 1961, ch. 324, § 1 [now Ind. Ann. Stat. § 58-901 (1961 Replacement)].
228 Among the minority group of states not requiring such an interest to be retained under all-goods statutes, are Cal., Del., Fla., N.H., Ohio, and Tenn.
229 See *e.g.*, Idaho Code Ann. § 64-806 (Cum. Supp. 1961).
230 See *e.g.*, N.M. Stat. Ann. § 61-8-15 (1953 Replacement).
231 See Rocky Mt. L. Rev. 135 (1947), and 63 Harv. L. Rev. 874 (1950).
232 United States v. Bland, 159 F. Supp. 395, 396 (D. Md. 1958).
233 Wash. Rev. Code Ann. § 46-70-130 (1962).
234 Letter From Roger A. Jones, Motor Vehicle Administrator, Washington, to the *Notre Dame Lawyer*, Feb. 28, 1963, on file in Notre Dame Law Library.
235 *Ibid.*

The New Jersey all-goods statute[236] exemplifies the manner in which various items must be specifically disclosed:

> Every retail installment contract shall set forth the following separate items:
>
> (a) The cash price of the goods which are the subject matter of the retail installment contract;
>
> (b) The down payment made by the retail buyer, indicating whether made in cash or in goods or partly in cash and partly in goods. The amount of the payment in cash and in goods shall be shown separately. A description of the goods, if any, sufficient for identification, shall be shown;
>
> (c) The unpaid cash balance . . .;
>
> (d) The amount of, if any, if a separate charge is made therefore, included for insurance and other benefits, specifying the coverages and benefits;
>
> (e) The amount of official fees;
>
> (f) The principal balance;
>
> (g) The amount of the time price differential;
>
> (h) The time balance . . . owed by the retail buyer to the retail seller, the number of installments required, the amount of each installment expressed in dollars and the due date or period thereof;
>
> (i) The time sales price. . . .

The disclosure provisions found in the motor vehicle statutes are of substantially the same language and content.[237] The Trade Practice Rules of the FTC are basically the same, and the "Truth in Lending" Bill, with slight variation, is also similar.

1. How is Disclosure Made

Before discussing the terms which must be disclosed, a preliminary requirement deserves consideration: how is disclosure of the terms made.

Basic of course to the whole theory of disclosure is that the contract, or an itemization of the costs, be put into writing. All the disclosure statutes, including the FTC Trade Practice Rules and the "Truth in Lending" Bill, require such a writing. This seems merely to be in recognition of the assumption that the consumer would not long remember these individual costs if orally stated. To assure the consumer's observance of the itemized costs many statutes[238] take even greater precautionary measures by requiring that both buyer and seller sign the agreement or contract.

Of equal importance is the requisite that the executed writing be delivered to the buyer. To secure information before obligation, delivery should be made before the consummation of the purchase. It is unfortunate because in many instances even though delivery of the writing must be made, disclosure is defeated by placing the cart before the horse — requiring delivery of the writing after the contract of sale is executed. In summary, the statutes can be categorized as follows: (1) about half of the disclosure statutes require delivery at the time of contract execution;[239] (2) a great number of the statutes require that the seller deliver or mail a copy of the contract to the buyer. If there is no delivery of the motor vehicle or goods, then, until such delivery is made, the buyer can rescind;[240] (3) some statutes permit delivery prior to or concurrent with the execution of the contract[241] if requested; otherwise delivery is to be made within 10 days after execution;[242] (4) in other states, a seller must mail or deliver the executed writing before the

236 N.J. STAT. ANN. § 17:16C-27 (Cum. Supp. 1961).
237 See *e.g.*, COLO. REV. STAT. ANN. § 13-16-6(2) (1953); IOWA CODE ANN. § 322.3(6) (Cum. Supp. 1962); MISS. CODE ANN. § 8075-13(b) (Cum. Supp. 1960).
238 See *e.g.*, ME. REV. STAT. ANN. ch. 59, § 254(I)(A) (Cum. Supp. 1961); MINN. STAT. ANN. § 168.71(a)(1) (1960); NEV. REV. STAT. § 97.020(1) (1957).
239 Ala.; Cal. (motor vehicle statute); Colo.; Conn.; Idaho; Ind.; Iowa; Ky. (motor vehicle statute); Mich.; Minn.; Neb.; Nev.; N.H. (all-goods statute); N.J.; N.M. (all-goods statute); Ohio; Pa.; S.D.; Utah; Vt.
240 Ariz.; Del. (motor vehicle statute); Fla. (motor vehicle statute); Hawaii; Ill.; Kan.; Ky. (all-goods statute); La.; Me.; Md.; Miss.; Mo.; Mont.; N.H. (motor vehicle statute); N.M. (motor vehicle statute); N.Y.; N.D.; Ore.
241 Mass. (motor vehicle statute).
242 Va.; Wis.

day the first payment is due;[243] (5) in two states the seller has the option of delivering the instrument when executed or afterwards, but until the buyer receives a copy of it he is not obligated to pay more than the cash price;[244] (6) in one state the delivery must be made prior to, or about the time of, the delivery of the motor vehicle;[245] and, (7) the FTC Trade Practice Rules and the "Truth in Lending" Bill demand that the seller furnish the buyer with an itemization before consummation of the sale.

It would seem that each of these categories, with the exception of the last, is in patent conflict with the basic concept of disclosure. They do nothing more than the public-spirited citizen who phones the fire department after his neighbor's home has been razed to a heap of ashes. They provide remedies for an uninformed purchaser, such as allowing him to rescind, and relieving him of the obligation to pay the finance charge, but do little to inform him before he commits himself to that purchase. The only requirement consonant with the principle of full disclosure is that of the FTC and the proposed federal "Truth in Lending" Bill which provide for a complete itemization of all costs prior to the time the sale is consummated.

2. Cash Price and Down Payment

All disclosure statutes require the cash price to be stated. Most statutes permit the seller to include in the cash price figure the charges for accessories, delivery, installation, repair or other services upon the goods.[246] In some states, however, a separate statement of these charges must be made.[247]

Under substantially all of the disclosure statutes[248] the consumer will receive an itemization which sets forth the amount of the down payment or turn-in credit. This amount usually must be accompanied by a description of such trade-in or part payment. The statement of the amount of the unpaid balance of the cash price is customarily required.[249] An occasional statute,[250] however, requires no disclosure of the unpaid balance. Providing for a separate statement of the unpaid balance imposes very little additional clerical burden on the retail dealer. Since it provides the consumer with a complete record of the credit transaction it is a desirable feature of the disclosure statutes.

3. Statement of the Insurance

In the typical installment sale the seller will procure insurance protection for the goods sold. The expense of this coverage constitutes part of the buyer's cost. All[251] statutes, therefore, specifically state that the cost of the insurance must be set forth. A common provision, especially in the motor vehicle acts, demands that the seller not only reveal the cost of the insurance but also that he indicate the coverage which it provides.[252]

243 Fla. (all-goods statute); Mass. (all-goods statute); Tenn.
244 Cal. (all-goods statute); Del. (all-goods statute).
245 N.C.
246 See chart *infra* and accompanying notes 1c and 2c for listing of states and full citation of statutes.
247 The only states in which a separate statement of these charges is required are Md. and N.Y. (all-goods statute). The Ala. all-goods statute requires a separate statement of each item comprising the cash price. See chart *infra* and accompanying notes for a complete listing of the states and a full citation of the statutes.
248 See chart *infra*.
249 *Ibid.*
250 Alaska (motor vehicle statute); Idaho; N.H. (all-goods statute); N.C.; Tex.; Va.; Wis., FTC Trade Practice Rules. See chart *infra* and accompanying notes 1c and 2c for a complete listing and full statutory citations.
251 The New Hampshire all-goods statute is a general "disclosure" law, specifically intended to require the dealer to disclose the finance charge. However, since the purpose of the statute is disclosure, inferentially at least, it requires a separate statement of the insurance cost, even though the statute does not specify that such a statement must be made.
252 The most comprehensive statute in this regard is KAN. GEN. STAT. ANN. § 16-507(f) (Supp. 1961).

Disclosure of insurance costs is vital. Although this is recognized by statutory provision, the statutes vary in an important aspect. There is a parting of ways as to the method and precision of stating this cost and the time when the exact cost should be disclosed:[253] (1) the majority require that a separate statement of the insurance cost be included in the itemization delivered to the consumer;[254] (2) in Pennsylvania, and under the FTC's Trade Practice Rules, if the precise cost of the insurance is unavailable at the time the contract is signed, an estimated amount, ascertained from a chart or recognized rate manual, may be set forth in the contract. Further, the contract must state that the cost of the insurance is estimated and contain a notice to the buyer that the difference between the estimated cost and the actual cost, including the finance charges on such amount, will be adjusted at the time of final payment. A statement of the amount of the adjustment has to be furnished the buyer simultaneously with the delivery of the insurance policy; (3) in Michigan, if the precise cost of the insurance is not available at the time the contract is signed, an estimated amount, ascertained from the current applicable manual of a recognized standard insurance rating bureau may be set forth in the contract; (4) in other states[255] the insurance cost may be lumped with the amount of the finance charge. The seller is then under a duty to send the buyer the exact cost of both within a specified number of days; and, (5) in Wisconsin, the Commissioner of Banking may permit the motor vehicle dealer to combine the insurance cost and finance charge in one statement under such rules and regulations as the Commissioner may from time to time prescribe.

It is noted that the majority approach allows neither an estimation of the cost nor lumping. This clearly seems to be in the best interest of an informed consumer, notwithstanding the oftimes difficult task of determining the exact insurance cost which such statutes impose upon the seller. However, dealers have recurrently claimed that because they are frequently unable to ascertain the exact amount of the insurance at the time of sale, they should be entitled to estimate its cost. The Proposed Final Draft of the UCC (Spring 1950) attempted to satisfy those making such claims. It permitted the insurance to be stated as an approximated cost if the buyer was notified within 30 days of its exact cost.[256] Writing in support of the statement of the insurance cost as an estimated amount, J. Francis Ireton, secretary of the American Bar Association, argued that because of the multifarious models of vehicles and therefore many class rates it is almost impossible to know, at the time of sale, the exact cost of insurance.[257] There is merit in this argument. It would seem that Pennsylvania, the FTC, and Michigan have struck a harmonious chord. Under their statutes an estimate of the insurance cost may be recited, based upon recognized charts or manuals. The buyer is then to be notified of the exact cost shortly thereafter. Adjustments are permitted in case of an overstatement of the estimate. Since the estimate is based on a recognized standard, adherence to the principle of disclosure is still present. If it can be assumed that insurance costs among dealers would not be substantially different from those in the standard rate chart, then it could not be said that the consumer was uninformed for he would have to pay a similar premium elsewhere. The cost of insurance would not then be a decisive factor in his choice of goods. However,

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253 For a complete listing of the states see chart *infra*. Full citations to the statutes may be found in the notes 1c and 2c accompanying the chart.

254 Alaska; Ariz.; Cal.; Colo. (all-goods statute); Conn.; Del.; Fla.; Hawaii; Idaho; Ill. (sale of all goods other than motor vehicles); Iowa; Kan.; Ky.; La.; Me.; Md.; Mass.; Minn.; Miss.; Mo.; Mont.; Neb.; Nev.; N.H. (motor vehicle statute); N.J.; New York (all-goods statute); N.C.; N.D.; Ore.; S.D.; Tenn.; Tex.; Utah; Vt.; Va.; F.T.C. Trade Practice Rules; Federal Truth in Lending Bill.

255 Colo. motor vehicle statute (30 days); Ill. motor vehicle sales only (20 days); Ind. (25 days); N.Y. conditional sales contracts statute (25 days); Ohio (25 days).

256 Uniform Commercial Code, Proposed Final Draft, Spring 1950, § 9-205(2).

257 Letter From J. Francis Ireton to Judge Herbert F. Goodrich, Apr. 24, 1950, in 6 Bus. Law. 119, 135 (1951). See also, 16 Law & Contemp. Prob. 27, 37, 38(191).

if the costs of insurance are variable, objections may be raised as to the wisdom of permitting the seller to estimate the cost of insurance, for then the consumer would not be able to compare costs of competing goods. These objections would be especially valid under statutes permitting the consumer the choice of buying his insurance directly from the dealer or from his own broker.

Different considerations are involved when one measures the utility and effects of lumping the insurance cost with the finance charge. The objective of disclosure seems defeated under those statutes permitting the seller to divulge only a single combined markup that lumps together the cost of insuring the goods with the finance charge. The separate figures must be known to the dealer in order for him to ascertain the lumped sum, so it seems no undue burden to require him to disclose those figures individually. Lumping of these costs enables the unscrupulous dealer to convince buyers that "costly" insurance coverage constitutes the bulk of the lumped markup. Thus consumers regard installment buying as costing little more than a purchase for cash. Shielded by consumer ignorance, the dealer may then exact exorbitant charges with small fear of timely detection. Of course, if lumping were considered as an evil only insofar as retail sellers are concerned, then itemization would be useless, for buyers could compare lumped charges as easily as itemized charges. Commenting upon the separation offered in the Proposed Final Draft of the UCC (Spring 1950),[258] Mr. Ireton saw the situation in the same light, arguing that the "separation of the finance charge and insurance charge is a wholly unnecessary burden on industry, without compensating benefits to the public."[259] But lumping, when considered in the broader area of the competitive race for the consumer's credit, prevents comparison of vendor and lender credit costs. Accordingly, the statutes requiring a separate statement of these costs are unquestionably more sound than those in which lumping is permitted. The FTC concurs in this conclusion. States whose motor vehicle disclosure statutes permit lumping are not considered to be adequately effective by the FTC and therefore these states are not excepted from the regulation of the Trade Practice Rules.[260]

4. Official Fees and Principal Balance

Most of the disclosure laws require a separate statement of the official fees, such as registration and filing fees, and other charges, paid by the dealer in connection with the sale.[261] If these fees and charges must be paid in conjunction with a sale, and constitute a part of the buyer's cost, it is consistent with the theory of disclosure that they be separately stated.

The principal balance, which is the unpaid balance of the cash price plus the cost of insurance and official fees, generally must be disclosed.[262] This provision, though not entirely essential, is important insofar as it enables the consumer to follow the mechanics of the transaction through each successive step in the calculations.

5. Finance Charge

All statutes require the disclosure of the finance charge.[263] The charge imposed is often referred to as the time price differential, representing the excess of the time price over the cash price which the consumer agrees to pay for the privilege of buying on the deferred payment plan. But revealing only the figures,

258 See *supra* note 256.
259 Letter From J. Francis Ireton, *op. cit. supra* note 257.
260 ". . . legislation permitting the lumping of finance, insurance, and other charges and a non-disclosure as to the amount of each to the purchaser *before consummation of purchase* . . . would be regarded by the Commission as inadequate. . . ." 5 PERS. FIN. L. Q. REP. 35, 37 (1951).
261 See chart *infra* and accompanying notes 1c and 2c.
262 *Ibid.*
263 *Ibid.*

other than the finance charge, which the seller relied upon in arriving at the time sales price is not sufficient. A California court has maintained that:

> The very purpose of the code section would be defeated and nullified if the buyer was required to determine the time price differential by a mathematical process arrived at from an analysis of the seller's figures. The law requires that this item must be recited in the contract and not left to a mathematical compilation by the buyer.[264]

In the greater number of the statutes the finance charge need only be set forth as an amount, expressed in dollars and cents.[265] Variations of the dollar amount statement are to be found in eight state statutes,[266] which permit the seller to state the finance charge as a rate. This accords with the earnest claims which have been made that the finance charge should be expressed both as a dollar amount and as a rate of interest per annum, or rate of interest per month on a declining balance.[267] Although the statutes in these eight states give the seller the option of stating the finance charge as a dollar amount or rate, Section 4(a)(7) of the "Truth in Lending" Bill requires that, in addition to the statement of the dollar amount, the writing set forth "the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the average outstanding unpaid balance of the obligation."[268]

Formulations of finance charges in terms of rates are urged because they would enable the buyer to judge better the cost of competing means of financing his purchase. Thus the proponents of the Douglas Bill favor disclosure of this charge in the form of both a dollar amount and a rate. Their contention is that with such disclosure the consumer is then equipped with a yardstick with which to compare costs.[269] The opponents of the bill, on the other hand, point to the burden such a computation would put upon retailers and their clerks.[270] As pointed out, on the state level the claims for a rate statement have received very little response from the legislatures. It has been suggested that this is because of the fear of cluttering up the installment contract.[271] Further, there may be the fear that such an enactment will lead to the adoption of the dollar amount method in the solicitation of lender credit agencies.[272] Herein lies the greatest virtue of the Douglas Bill. By requiring all credit agencies, both lender and vendor, to solicit consumer patronage according to a uniform method of charge statement, the consumer will have a truly enlightened choice in selecting from among competing sources of credit.

Although the amount of the finance charge is not of primary concern to the disclosure principle, there remains one final control over finance charges which bears need of mention. Since bona fide installment sales are free of the usury laws,[273] many states have prescribed dollar limits on the amount of the finance charge.[274] If the thrust of disclosure statutes is to protect the unwary buyer from all abusive

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264 Adams v. Caruso Enterprises, 134 Cal. App. 2d 403, 285 P.2d 1022, 1026 (1955); *accord*, Foster v. Masters Pontiac Co., 158 Cal. App. 2d 481, 322 P.2d 592 (1958).
265 See chart *infra* and accompanying notes 1c and 2c.
266 Alaska (all-goods statute); Fla. (all-goods statute); Hawaii; Ill.; N.H.; (all-goods statute); N.Y. (all-goods statute, and conditional sales contract statute); N.D.; Ohio. Full citations of these statutes are included in the notes 1c and 2c accompanying the chart *infra*.
267 See, 2 LAW & CONTEMP. PROB. 189 (1935); 19 ROCKY MT. L. REV. 135 (1947); 44 CORNELL L.Q. 38 (1958).
268 S. 750, 88th Cong., 1st Sess. § 4(a)(7) (1963).
269 See, Testimony of Edward Gudeman, Under Secretary of Commerce, 1962 *Hearings on "Truth in Lending,"* at 19-23.
270 *Id.*, Wallace F. Bennett, Senator from Utah, at 15, 17, and 46.
271 44 CORNELL L.Q. 38 (1958).
272 *Ibid.*
273 2 LAW & CONTEMP. PROB. 148 (1935); 114 NW. U.L. REV. 137, 167-68 (1958); Van Asperen v. Darlings Olds, Inc., 254 Minn. 62, 93 N.W.2d 690 (1958).
274 See *e.g.*, COLO. REV. STAT. ANN. § 121-2-4 (1960 Perm. Supp.); HAWAII REV. LAWS § 201A-31 (Supp. 1961); N.J. STAT. ANN. § 17:16C-41 (Cum. Supp. 1961); WIS. STAT. ANN. § 218.01(6)(b) (1957).

practices of the unscrupulous tradesman, then this is a welcomed development in the law.

6. Time Balance and Time Sales Price

With small exception,[275] all disclosure statutes require a statement of the amount of the time balance, that is, the amount of the principal balance plus the finance charge. Also, substantially all the statutes declare that the itemized writing set forth the number, amount, and date of each installment payment.[276] The "Truth in Lending" Bill is notably absent from this group.

As to the requirement of stating the installment sales price, also known as the time sales price, the statutes split ranks. A statement of this figure, which represents the sum of the down payment and the time balance, is demanded by only a handful of statutes.[277] As with the Douglas Bill, this item need not be stated under statutes permitting the statement of the finance charge in terms of a rate.[278]

D. Enforcement

The disclosure statutes all[279] seem to exhibit a legislative agreement that some penalty provision is necessary for the effective enforcement of the disclosure provisions, perhaps because of the experience of California, where an act without any penalty provision was passed.[280] In *Carter v. Seaboard Finance Co.*,[281] the court held that the proper inference to be drawn from the omission of a penalty section was that a contract not complying with the disclosure provisions would be unenforceable. Although there is general appreciation of the need for some penalty, a distinct split exists as to what types of penalty provisions are the most effective.

1. Licenses

A common means of ensuring compliance with the disclosure laws is requiring retail sales dealers to be licensed. In many states such a requisite can be found.[282] But, the tripartite nature of most installment sales transactions has prompted many states to require only sales finance companies, engaged in the business of purchasing the contracts of retail installment sellers to be licensed.[283] This ". . . tends strongly to insure that compliance with the statutes is being done by the licensees, and the retail sellers from whom they purchase retail instalment contracts."[284] Several states require that both retail installment dealers and sales finance companies be licensed.[285] Although in these states compliance may also be sought by the imposition of a civil or criminal penalty,[286] the thrust of this method of control is in the vested power of the state to suspend or revoke these licenses. Most statutes provide

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275 The time balance need not be stated in the N.H. and N.M. all-goods statutes, nor in the Truth in Lending Bill. See chart *infra* and accompanying notes 1c and 2c for complete listing of states and statute citations.

276 The schedule is not required to be stated under the Alaska, Neb., and Va. motor vehicle statutes, nor the N.H. all-goods statute and "Truth in Lending" Bill.

277 See chart *infra* and accompanying notes 1c and 2c.

278 See *e.g.*, N.D. Rev. Code § 51-13-02(5) (1960).

279 The Nev. statute is the only notable exception. Nev. Rev. Stat. § 97.060 (1957) provides for a civil action against a seller who exceeds the prescribed time differential limits or acceleration provisions, but provides no penalty for a violation of the disclosure provisions. See chart *infra* for other states.

280 Cal. Civ. Code § 2982(e) (1954) (now violations are provided for in Cal. Civ. Code §§ 2983, 2984).

281 33 Cal. App. 2d 564, 203 P.2d 758 (1949).

282 See chart *infra* and accompanying note 3c.

283 *Ibid.*

284 Letter From Reinhard J. Bardeck, Deputy Bank Commissioner, Connecticut to the *Notre Dame Lawyer*, Feb. 27, 1963, on file in Notre Dame Law Library.

285 See chart *infra* and accompanying note 3c.

286 *Ibid.*

for the suspension or revocation of the license only if the violation of the disclosure provisions is intentional.[287]

Under all of the statutes a violation on the part of the licensee may be brought to the attention of the enforcement agency by the consumers. To determine whether the licensee is complying with the disclosure provisions, statutes permit the state to conduct investigations of their books, records, and accounts. If only the finance company is required to be licensed, the statutes usually provide that the state may also investigate the records of the retail sellers from whom it purchases its retail installment sales contracts upon registration of complaint. When the burden of reporting the violation is upon the retail buyer he must file a written complaint. The state banking commissioner, typically the official charged with enforcement, is then empowered to conduct an investigation. This is followed by a formal hearing, which could result in the license suspension or revocation. Rather than putting the full burden of disclosing violators upon the consumer, under most statutes the states retain the right of a general investigatory power, having free access to all pertinent records of the licensee at any time.[288] Typically these statutes are interpreted as providing for periodic examinations. The cost of such examinations is often charged to the licensee.[289] If only finance companies are required to be licensed, the state may not examine the records of sellers in the absence of a registered complaint. Under many of the licensing provisions this general investigatory power over licensees may be exercised only if there exists a reasonable belief that the licensee is violating the disclosure statute.[290] It would seem that this provision permits investigation only upon complaint, though it need not be in writing. Thus, investigations here too are made to depend upon the consumer. Most statutes enable the state agency to conduct investigations either upon its own initiative, or upon the written complaint of a retail buyer.[291] Those statutes which grant general investigatory powers to the state, even without reason to suspect a violation, are clearly the more effective. If a written complaint is the primary motivating force behind the state's investigatory power it seems unlikely that the state will be called upon to enforce its disclosure statute very often, for "if people have to write letters they postpone filing complaints it seems."[292]

In the absence of licensing provisions, it has been suggested that enforcement of the statutes by criminal prosecutions to imprison the violator, and/or to recover an authorized fine, is apt to fail, if for no other reason than that the prosecuting officials are usually too overburdened with prosecutions of other crimes to be much concerned with seemingly technical statutory violations in consumer credit transactions.[293]

287 Ariz.; Del.; Fla. (motor vehicle statute); Ind.; Kan.; La.; Me.; Md.; Minn.; Miss.; Mont.; Neb.; N.H.; N.J.; N.M.; N.Y.; N.C.; S.D.; Vt.; Va.; Wis.

288 Conn. (free access); Del. (power to investigate at any time); Fla. motor vehicle statute (investigations at intermittent periods); Ind. (may investigate at any time); Kan. (power to make such investigations as are deemed necessary); Mass. (whenever in the public interest); Mich. (any time during regular business hours); Miss. (investigations at intermittent periods); Mont. (power to make such investigations as are deemed necessary); Neb. (power to make such investigations as are deemed necessary); N.M. (power to make such investigations as are deemed necessary); N.Y. (power to make such investigations as are deemed necessary); Penn. (investigate at any time); Wis. (licensor may inspect).

289 See *e.g.*, KAN. GEN. STAT. ANN. § 16-505(a) (Supp. 1961); MISS. CODE ANN. § 8075-10 (Cum. Supp. 1960); NEB. REV. STAT. § 45-312(13) (1960 Reissue).

290 Ariz. (reasonable belief of violation); Fla. all-goods statute (inspect records to determine compliance); La. (reasonable belief of violation); Me. (reasonable cause); N.H. (for any reasonable cause); N.J. (if reasonable cause to believe violation); S.D. (reasonable belief of violation); Vt. (reasonable belief of violation).

291 A few states seem to permit investigation only upon the complaint of the retail buyer. Colo.; Iowa; Md.; Minn.; N.C.; Va.; Wash.

292 Letter From Joseph V. Riley, Supervisor, Division of Small Loans and Consumer Credit, Indiana, to the *Notre Dame Lawyer*, Feb. 26, 1963, on file in Notre Dame Law Library.

293 53 NW. U.L. REV. 137 (1958).

2. Criminal Penalties

Another generally accepted approach to the enforcement of the disclosure provisions is the imposition of criminal penalties. These are often included even in statutes providing for the suspension or revocation of licenses.[294] Including both of these provisions is essential to states where it is the sales finance company which must be licensed. Without direct recourse to the dealer, provided by the criminal penalties, the only party to suffer would be the finance company, thus leaving the violator unscathed. The penalty provisions require either the imposition of a fine up to a specified amount (usually $500 or less), or imprisonment of a maximum period (usually six months or less), or both.[295] To be liable under these provisions the violation must usually be intentional.[296] Many statutes classify violations of the disclosure provisions as misdemeanors.[297]

Looking to the federal controls one finds more stringent penalties. When a violation of the FTC Trade Practice Rules is found, a cease-and-desist order will issue which, if not obeyed, will subject the violator to a civil penalty of not more than $5,000 for each transgression.[298] Each separate violation is considered a separate offense. Under the "Truth in Lending" Bill a willful violator would be fined not more than $5,000 or imprisoned not more than one year, or both.[299]

Relying solely upon criminal sanctions, or criminal sanctions in conjunction with civil remedies for the buyer, for the enforcement of disclosure statutes seems to be of questionable wisdom. A vast majority of consumers are poorly equipped to avoid the infliction of a wrong or obtain its redress even though unethical sellers act in defiance of the law. Even the *in terrorem* effect of these provisions is lost if the dealers can rely on their silent partner — consumer ignorance — to keep their misdeeds from the eyes of the law. In the final analysis, therefore, licensing regulations coupled with the power of periodic investigations seem to offer the best solution to the enforcement problem.

3. Civil Remedies

In addition to the remedial actions by states through the imposition of license suspension and revocation and/or the imposition of criminal penalties,[300] many states grant the consumer a direct remedy. This is done by allowing the recovery of charges paid by the buyer, or by barring the seller's recovery of any time price differential, delinquency or collection charges, or both.[301] Here again distinctions are made between violations which are intentional and those which are not.[302]

On the federal level, the FTC Trade Practice Rules offer little direct consolation to the consumer who has dealt with a dealer violating the regulations, because of case holdings that the Federal Trade Commission Act grants injured consumers no private cause of action against violators.[303]

But the proposed "Truth in Lending" Bill would give greater direct remedies to the consumer. Section 7(a) provides that a willful violator will be liable to the consumer "in the amount of $100, or in an amount equal to twice the finance

294 See chart *infra*.
295 *Ibid*.
296 See *e.g.*, ILL. STAT. ANN. ch. 121½, § 243 Smith-Hurd (1960); MO. STAT. ANN. § 408.370(1) (Cum. Supp. 1962); N.J. STAT. ANN. § 17:16C-56 (Cum. Supp. 1961).
297 See *e.g.*, ARIZ. REV. STAT. ANN. § 44-295(A) (Cum. Supp. 1962); DEL. CODE ANN. tit. 6, § 4347 (Cum. Supp. 1962); ME. REV. STAT. ANN. ch. 59, § 258(I) (Cum. Supp. (1961).
298 38 Stat. 719 (1914), as amended, 15 U.S.C. 45(1) (1938).
299 S. 750, 88th Cong., 1st Sess. § 7(c) (1963).
300 A bill soon to be introduced in the Minnesota legislature would declare violations of the statutes to be public nuisances.
301 See chart *infra* and accompanying notes.
302 See *e.g.*, CONN. GEN. STAT. ANN. § 42-99 (1960); MONT. REV. CODES ANN. § 74-611(b) (1947 Replacement); N.D. REV. CODE § 51-13-07 (1960).
303 Samson Crane Co. v. Union National Sales, 87 F. Supp. 218 (D. Mass. 1949).

charge . . . whichever is greater, except that such liability shall not exceed $2000. . . ."[304] This section of the bill concludes by stating that "the creditor shall be liable for reasonable attorney's fees and court costs as determined by the court."[305]

These provisions would put sharpened teeth into the consumer's remedies. However, the persistent problem of litigation apathy over small amounts and the need of effective promulgation of statutory protection still prevail. On the other hand, requiring the fine to be paid to the buyer might well lead to a flood of spurious claimants willing to wage legal battle where the stakes of victory are set so high.

The Douglas Bill attempts to give some protection to the erring seller. Section 7(a) provides that "no person shall be entitled to recover such penalty solely as the result of the erroneous computation of any percentage . . . if the percentage required . . . to be disclosed . . . was in fact greater than the percentage required . . . to be disclosed."[306] If, however, the percentage disclosed is smaller than that actually due, though the computation was erroneously made, the creditor is still penalized. The harshness of this penalty might well lead sellers to overstate these percentages as a matter of routine for their self-protection, thus defeating the very purpose of this "truth" bill.

4. Corrections

Finally, many states[307] permit a seller to correct his violation. If he is notified in writing by the buyer and makes a correction within a specified number of days[308] he is exempted from both[309] civil and criminal penalties. Permitting corrections to relieve the violator of his liability under the statute is certainly a compromising measure, intended to protect the retail sellers against the imposition of penalties for unintended errors. The provision, however, defeats the purpose of the disclosure statutes. This conclusion has been recognized in Florida, where the all-goods statute permits the correction of violations.[310] It has been said of this statute:

> Penalties for violations are inadequate, and from a practical point of view nonexistent. The law is deprived of force by the provision that no penalty may be imposed unless the seller has failed to correct a violation within 30 days after having been notified by the purchaser or the Administrator of his failure to comply with provisions of the act.[311]

In effect, therefore, these provisions would seem to be instructing the seller to comply with the disclosure requirements *if he desires to do so* for, even if his violation is discovered he is still left with sufficient time to absolve himself from all liability.

E. *Effectiveness*

The foregoing discussion is clear evidence that the need for disclosure statutes has attained widespread recognition. Today attention should be focused on the effectiveness of the disclosure statute.

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304 S. 750, 88th Cong., 1st Sess. § 7(a) (1963).

305 *Ibid.*

306 *Ibid.*

307 Cal. Civ. Code §§ 1812.8, and 2984; Del. Code Ann. tit. 6, § 4349 (Cum. Supp. 1962); Fla. Stat. Ann. § 520.39(4) (1962); Hawaii Rev. Laws § 201A-21 (Supp. 1961); Ill. Ann. Stat. ch. 121½, § 243 (Smith-Hurd 1960); Ky. Rev. Stat., Acts 1962, S. 97, § 6(3) (Cum. Issue 1962); Mo. Ann. Stat. § 408.370(3) (Cum. Supp. 1962); N.Y. Pers. Prop. Laws §§ 414(3), and 307(3); Ore. Rev. Stat. § 83.990(3) (1961 Replacement); Tenn. Code Ann. § 47-1907(d) (Cum. Supp. 1962).

308 Cal. (30 days); Del. (10 days); Fla. (30 days); Hawaii (10 days); Ill. (10 days); Ky. (10 days); Mo. (10 days); N.Y. (10 days); Ore. (10 days); Tenn. (30 days).

309 The Illinois statute exempts the violators only from any criminal penalties.

310 *Supra* note 307.

311 Letter From N. E. Miller, Jr., Executive Assistant, Office of the Comptroller, Florida, to the *Notre Dame Lawyer*, Mar. 5, 1963, on file in Notre Dame Law Library.

1. How Effective is the Present Method of Stating the Finance Charge

Disclosure statutes serve a dual purpose. On the one hand, they are intended to inform the consumer of the cost of his purchase in order that he might make a selection from among goods of comparable quality before making his purchase. On the other, these statutes should enable the consumer to compare the cost of the credit offered him by the vendor with that offered by competing credit agencies. Any attempt to adequately consider the effectiveness of the statement of the finance charge must proceed with both of these aims in mind.

Presently the finance charge must be stated as a dollar amount under the existing type of disclosure statutes.[312] Clearly, this enables the consumer to make a comparison of the costs of other comparable goods before obligating himself to make his purchase. However, it fails to provide the consumer with any common denominator with which to compare other available sources of credit. The statement of the charge as a rate, if employed by all credit agencies, would furnish this common denominator. Perhaps pregnant in the history of disclosure statutes is the rationale of the method of stating the finance charge in terms of a dollar and cents amount, rather than as a rate. The finance charge has traditionally been thought of as part of the cost of goods purchased on the deferred payments plan,[313] in contradistinction to the cost of a loan. The latter, known as interest, is considered as an increment of the monies borrowed. To meaningfully express this increment, the interest has been stated as the percentage representing the proportion which the increment bears to the principal borrowed. But the finance charge, contrariwise, has been viewed as a cost rather than an increment. From the seller's position it represents the clerical expense which he incurs in granting the consumer the privilege of extending his payments over a period of time.[314]

Consequently legislatures, when first enacting disclosure statutes, reached the conclusion that since the finance charge is an item of cost, it should then be expressed as all other items of cost — as a dollar amount.[315] Agreement upon this form of statement was probably also influenced by the circumstances surrounding the early recognition of the need for disclosure statutes.[316] Unscrupulous dealers were employing devious means to conceal the full cost of the finance charge. It was no doubt felt that the consumer ought to know exactly how much he was paying the dealer for each item comprising the final sales price. Attention was directed to pointing up to the consumer the portion of the purchase price attributable to his buying on credit rather than for cash. Stating the finance charge as a dollar amount was plainly satisfactory to achieve that purpose. But when attention is shifted from the more limited purpose of disclosure — a meaningful evaluation of the credit charge for a particular transaction by itself — to the broader purpose of providing an effective comparison of competing credit prices offered by different credit extenders, this form of statement is clearly inadequate.

It could be said in support of the dollar amount statement that the consumer is primarily interested in how his purchase will affect his pocketbook. He wants to know how much, in dollars and cents, his purchase will cost him. This is un-

312 See *supra* note 265 and accompanying text. See also, *supra* note 266 and accompanying text for the eight states which permit the statement to be in the form of a dollar amount or percentage rate.

313 2 LAW & CONTEMP. PROB. 148 (1935).

314 See *e.g.*, CONN. GEN STAT. ANN. § 42-83(1) (1960). "'Finance charge' means the amount in excess of the cash price of the goods agreed upon by the retail seller and the retail buyer, to be paid by the retail buyer for the privilege of purchasing the goods under the retail instalment contract or instalment loan contract."

315 This analysis finds support in the fact that the first statutes in this area — the Indiana all-goods act, the Wisconsin motor vehicle statute, and the F.T.C. rules — all required only a dollar amount statement. See chart *infra*.

316 See *supra* notes 202 and 204 for a discussion of how the nefarious practices of dealers in concealing the cost of an installment purchase led to the enactment of the disclosure statutes.

controverted, but it avoids entirely the question of the merits of this form of statement as a yardstick of measurement when the consumer attempts to evaluate competing credit costs. With so many different methods of computing the amount of the finance charge available,[317] it is of little wonder that that even with this disclosure the perplexed consumer would still be in a quandary when he attempted to determine the most attractive source of credit. The dollar amount statement is valuable insofar as it informs the consumer as to the cost of the privilege of paying in installments rather than for cash. It eases the comparison of costs with other goods. The dollar amount statement should be retained for these purposes. But with manifold variations in the method of statement among competing credit agencies, a common basis for comparing alternative credit sources must also be provided. Requiring a dollar amount statement, supplemented by a statement of the charge in terms of a percentage that is figured on a common base period, equally applicable to all credit suppliers, would seem to satisfy this need.[318] This form of statement would "facilitate instant and easy evaluation and comparison of finance charges by all borrowers and buyers on credit."[319]

This in a nutshell is what the Douglas Bill purports to do. Section 4(a) requires that the seller disclose "the finance charge expressed in terms of dollars and cents"[320] and "the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the average outstanding unpaid balance of the obligation."[321]

2. How Effectively Have the Disclosure Statutes Been Enforced

In practically every state of the Union today[322] the consumer is protected in most of his installment purchases by disclosure statutes of varying degrees of comprehensiveness. One indicium of how effective these statutes have been in gaining the sellers' full disclosure may be the number of complaints about deceptive practices that have been made since their enactment. A sampling of the states as to the number of complaints brought within the past year has shown that few complaints have been registered.[323] However, reliance cannot be posited solely on the small number of complaints as testimony of the effectiveness of disclosure statutes. There remains the hard fact that consumers are often unaware of their rights and, even when aware of these rights, are often unwilling to complain because of the minor amounts involved. Realizing this, most states do not leave enforcement solely to the will or whim of the consumer, but, instead, require licenses and provide for state-initiated investigations of the licensee's records.[324]

A seller might continue to employ deceptive practices, shielded by consumer

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317 See 2 Law & Contemp. Prob. 188, 188-89 (1935) where the author lists eight broad classifications of methods of computing the charge, based on his survey of 60 stores.

318 Five states — Minn., N.M., N.D., S.D., and Wis. — require as a matter of law that the finance charges on small loans be stated in terms of annual rates as well as monthly rates. See, Minn. Stat. Ann. § 56.14 (Cum. Supp. 1962); N.M. Stat. Ann. § 48-17-44 (Supp. 1961); N.D. Rev. Code § 13-03-15 (Cum. Supp. 1961); S.D. Code § 6.04B25 (Supp. 1960); Wis. Stat. Ann. § 214.13 (1957).

319 Testimony of Edward Gudeman, Under Secretary of Commerce, 1962 Hearings on Truth in Lending, at 20.

320 S. 750, 88th Cong. 1st Sess. § 4(6) (1963).

321 *Ibid.* at § 4(7). A provision comparable to this can be found in the bill introduced in the Wisconsin assembly and proposal soon to be introduced in the Minnesota legislature. See *infra* note 345 and accompanying text.

322 See chart *infra*.

323 Conn. all goods ("few in number"); Conn. motor vehicles ("none"); Del. ("none"); Idaho ("none"); Kan. ("275, of which ¾ had no real foundation"); Mich. ("reduced to a minimum"); Mont. ("very limited number"); N.H. ("none"); N.J. ("800"); N.M. ("very few"); N.Y. ("2,968 complaints and inquiries"); N.C. ("fewer than before"); N.D. ("none"); Pa. ("75 legitimate complaints"); S.D. ("none"); Tenn. ("no complaints"); Utah ("very few"). Letters From State Banking Officials to the *Notre Dame Lawyer*, Feb. 25 to Mar. 15, 1963, on file in Notre Dame Law Library.

324 See chart *infra*.

ignorance or apathy,[325] but will not long avoid detection by state investigations. The importance of licensing provisions, with correlative investigatory powers, has been generally recognized. The Director of the Consumer Credit Bureau of Pennsylvania is of the opinion that "while full disclosure is most important when considering remedial legislation it is not the entire answer and . . . strict examination follow-up in addition thereto is the true test for good effective administration."[326] This opinion is bolstered by the concurring views expressed by officials of several other states with disclosure statutes. The Deputy Bank Commissioner of Connecticut, for instance, credits the effectiveness of the full disclosure statute to the "Authority of the Bank Commissioner to examine the books and account records of Sales Finance Companies."[327] The need for licensing provisions is recognized even in Florida where the all-goods statute has no such provisions. Pointing to this as one of the deficiencies of the law, the Executive Assistant to the Comptroller has written that "No provision is made for the licensing of purchasers of installment contracts, or for the periodic examination of the books and records of the installment seller or the contract holder. We consider licensing and supervision of the latter essential to good enforcement."[328] Besides periodic examinations, the Michigan Deputy Commissioner of Banking would add: "Another deterrent is surprise examinations."[329]

Licensing provisions would undoubtedly seem to be the most thorough assurance that dealers are making installment sales in full compliance with disclosure statutes. Until consumer ignorance is replaced by consumer enlightenment, and a willingness to report violators displaces consumer languishness, then enforcement through licensing remains the only effective alternative.

3. Area of Federal Regulations — FTC Trade Practice Rules

An inherent weakness of federal regulation in this area is the limit placed on the jurisdiction of the enforcing agency. Under its governing statute,[330] the FTC's jurisdiction extends only to transactions in "interstate commerce."[331] But before exercising its regulatory powers, even over interstate transactions, the Commission first looks to the state legislation.[332] Only where the state motor vehicle disclosure statute is not adequately effective, or where none exists, will automobile installment sales come under FTC surveillance.[333] Even where no effective statutes provide adequate disclosure, however, the jurisdiction of the FTC is greatly limited. Under the Federal Trade Commission Act the Commission is powerless over intrastate activities even though they "affect" interstate commerce.[334] Although "commerce"

325 Commenting on the absence of licensing provisions in the Ohio statute the First Deputy Superintendent of Banks states that "It is possible that the major weakness of this law in Ohio is the fact that no enforcement facilities were included therein." Letter From A. F. Myers, First Deputy Superintendent, Division of Banks, Ohio, to the *Notre Dame Lawyer*, Feb. 28, 1963, on file in Notre Dame Law Library.

326 Letter From J. M. Robb, Director of Consumer Credit Bureau, Department of Banking, Pennsylvania, to the *Notre Dame Lawyer*, Feb. 26, 1963, on file in Notre Dame Law Library.

327 Letter From Reinhard J. Bardeck, Deputy Bank Commissioner, Connecticut, to the *Notre Dame Lawyer*, Feb. 27, 1963, on file in Notre Dame Law Library.

328 Letter From N. E. Miller, Jr., Executive Assistant, Office of the Comptroller, Florida, to the *Notre Dame Lawyer*, Mar. 5, 1963, on file in Notre Dame Law Library.

329 Letter From Wm. L. Roy, Deputy Commissioner, Banking Department, Michigan, to the *Notre Dame Lawyer*, Feb. 28, 1963, on file in Notre Dame Law Library.

330 38 Stat. 719 (1914), as amended, 15 U.S.C. 45 (1958).

331 See Chas. A. Brewer & Sons v. Federal Trade Commission, 158 F.2d 74 (6th Cir. 1946).

332 Letter From Wm. A. Ayres, Acting Chairman of the Federal Trade Commission, to *Personal Finance Law Quarterly Report*, in 5 PERS. FIN. L.Q. REP. 35, 36 (1951).

333 *Id.* "While the Federal Trade Commission intends to leave local consumer protection to states with equivalent disclosure laws, automobile instalment sales in other states will be under the Commissioner's surveillance." Letter From Jas. M. Mead, Chairman, Federal Trade Commission, to *Yale Law Journal*, Nov. 6, 1951, in 61 YALE L.J. 718, 725 (1952).

334 FTC v. Bunte Bros., 312 U.S. 349 (1941).

may be present either by reason of the interstate movement of an automobile or the interstate movement of the papers and monies constituting the financial arrangements,[335] the FTC's comparatively slight control over local practices may still permit a host of abuses to flourish.[336] Even when a transaction is considered to be "in" interstate commerce, ". . . the Commission's scant enforcement staff cannot stalk a horde of violations."[337] So, as indicated early, the most notable effect of these rules has been the impetus given motor vehicles disclosure statutes on the state level.

F. Present Legislative Activity

Disclosure statutes have made remarkable gains during the last half decade. This support is continuing, as evidenced by current activity for the enactment of such legislation on both the state and federal levels.

1. State Legislative Activity

Activity on the state level bears witness to the fact that legislatures are paying heed to suggestions that the coverage of disclosure statutes ought to be expanded to include all consumer goods. A bill has been enacted in the current session of the Washington legislature[338] and one has been introduced in Oregon.[339] Bills have been introduced in both houses of the Arizona legislature.[340] Further, a bill patterned after the Douglas Bill has been introduced in the Wisconsin assembly,[341] and arrangements are now being made to introduce a similar bill in the Minnesota legislature.[342] If passed,[343] these bills would extend the coverage of disclosure statutes in states which presently require disclosure only in motor vehicle installment sales.[344] Worthy of note in the Wisconsin bill and the Minnesota proposal, patterned after the Douglas Bill,[345] is the requirement that the written statement set forth the percentage that the finance charge bears to the amount to be financed, expressed as a simple annual percentage rate on the anticipated average outstanding unpaid balance of the obligation.[346]

2. Federal Legislative Activity

The spotlight of federal legislative activity is centered on the "Truth in Lending" Bill. Finding that "economic stabilization is threatened by untimely use of credit

335 United States v. South-Eastern Underwriters Ass'n, 322 U.S. 533 (1944); Ford Motor Co. v. FTC, 120 F.2d 175 (6th Cir. 1941). See also FTC v. Cement Institute, 333 U.S. 683 (1947).

336 In spite of this lack of control, Texas passed a statute shortly after the adoption of the FTC rules which provides that the seller *is permitted* to make disclosures in accordance with these rules. TEX. REV. CIV. STAT. ANN. art. 5074a (1951).

337 Letter From Jas. M. Mead, *supra* note 333.

338 S. 415, 38th Sess. (Feb. 12, 1963).

339 S. 122, 52nd Leg. Ass., Reg. Sess. (Feb. 1, 1963).

340 H.B. 243, § 44-870, 26th Leg., 1st Reg. Sess. (Feb. 28, 1963); S. 255, § 44-356, 26th Leg., 1st Reg. Sess. (1963).

341 H.B. 330, A., § 115-25(3) Ass. (Feb. 27, 1963).

342 A Bill for an Act to Require Truth in Lending; Providing Penalties, Minn. (1963).

343 Passage of the Minnesota proposal is highly unlikely. Letter From Joseph P. Summers, Special Assistant, Attorney General, Consumer Protection Unit, Minnesota, to the *Notre Dame Lawyer*, Feb. 28, 1963, on file in Notre Dame Law Library.

344 ARIZ. REV. STAT. ANN. § 44-287 (Cum. Supp. 1962); MINN. STAT. ANN. § 168.71(5)(b) (1960); ORE. REV. STAT. § 83-520(3) (1961 Replacement); WIS. STAT. ANN. § 218-01(6)(b) (Cum. Supp. 1962).

345 Last year a bill was introduced in the Michigan legislature, also patterned after the "Truth in Lending" Bill, which required a statement of the finance charge both in a dollar amount and a percentage expressed in terms of simple annual interest. S. 1148, 71st Leg., Reg. Sess. Feb. 5, 1962. This bill was not reported out of committee. No bill of this nature has been introduced in the 1963 Session. Letter From David R. Bishop, Office of the Director, Legislative Service Bureau, Michigan, to the *Notre Dame Lawyer*, Mar. 11, 1963, on file in Notre Dame Law Library.

346 *Supra* notes 341 and 342.

for the acquisition of property and services" and that this "results frequently from a lack of awareness of the cost thereof to the user," it is the stated purpose of this bill "to assure a full disclosure of such cost with a view to preventing the uninformed use of credit to the detriment of the national economy."[347]

However, the scope and jurisdiction of federal controls under the proposed law are far from clear. Section 3(1) designates the Board of Governors of the Federal Reserve System as the enforcement agency.[348] This is apparently an attempt to avoid the "interstate" limitations placed upon the jurisdiction of the FTC under the commerce clause by placing this act under the money clause of the Constitution. Justification for this may be found in the bill's declaration that its purpose is "economic stabilization."[349] However, the Board of Governors has not been especially receptive to this purported delegation.[350] President Kennedy has even stated: "Inasmuch as the specific credit practices which such a bill would be designed to correct are closely related to and often combined with other types of misleading trade practices which the Federal Trade Commission is already regulating, I recommend that enforcement of the new authority be assigned to the Commission."[351] If the Board enforced the act under the money clause, then there would be little question of the government's power to probe all credit transactions on every level of activity.[352] But if the FTC were to replace the Board, then, if the bill was to attain its goal, it would have to be amended so that the Commission's jurisdiction would not be restricted to acts and practices in "commerce" as that term is defined in the Federal Trade Commission Act. If the Commission's jurisdiction were not expanded, then not only would the FTC be helpless in the area of local transactions, but also it would be unable to regulate the disclosure operations of banks.[353] This, of course, would defeat one of the primary purposes of the bill—the aim of a uniform method of stating the finance charge in order to provide the consumer with a yardstick of comparison among competing credit sources.

The heart of the lending bill lies in section 4 — "Disclosure of Finance Charges." The first part of this section provides that the creditor must set forth in writing to each person to whom credit is extended, prior to the consummation of the transaction, the following information: first, the cash price or delivered price of the property or service to be purchased; second, the amount, if any, to be credited as down payment and/or trade-in; third, the difference between the amounts set forth above — the amount of the purchase price to be financed; fourth, the charges, individually itemized, which are paid or to be paid by any borrower in connection with the transaction which are not incident to the extension of credit; fifth, the total amount to be financed; sixth, the finance charge expressed in terms of dollars and cents; finally, the percentage that this total finance charge bears to the total amount to be financed expressed as a simple annual rate on the average outstanding unpaid balance of the obligation. Senator Douglas has explained that the last two points are:

> indispensable measures of the price of credit. The first tells you how much more in dollars and cents you have to pay if you buy on credit rather than for cash. Secondly, the bill requires that the price of credit be reduced to a common denominator — a common standard or yardstick — in terms of an

347 S. 750, 88th Cong., 1st Sess. § 2 (1963).
348 *Id.* at § 3(1).
349 This delegation would apparently be constitutional and it would permit regulation even of local credit operations. See Letter From Nicholas deB. Katzenbach, Deputy Attorney General to Senator A. Willis Robertson, Aug. 22, 1962, in *1962 Hearings on Truth in Lending*, at 112-15 (1962).
350 See, Statement by William McChesney Martin, Jr., Chairman, Board of Governors Federal Reserve System, in *1962 Hearings on Truth in Lending*, at 32-34.
351 *1962 Consumer Protection Message*, at 8.
352 See Katzenbach *supra* note 349.
353 Testimony of Paul Rand Dixon, Chairman, Federal Trade Commission, in *1962 Hearings on Truth in Lending*, at 148-49, and 151-53.

> annual percentage rate on the amount actually owed, which enables every consumer to shop around and compare various credit offers.[354]

The second part of section 4 exempts revolving or open-end credit plans from the above and sets forth its own requirements. These are credit plans "under which the total amount of credit to be utilized, the dollar amount of the finance charge to be assessed, and the amounts and times of repayment are not specified at the time an agreement to extend credit pursuant to such plan is entered into."[355] Such plans are offered by large mail order houses, local department stores and other retailers. These business firms would find it impractical to meet the demands of part one, because "the customer is granted wide discretion in both the times and amounts of repayment."[356] Instead, the creditor must here furnish the purchaser with the credit cost both at the time of sale and at the end of each monthly period.

Opposing the bill, Senator Wallace F. Bennett of Utah contends that it "will be impossible in many types of consumer credit transactions to know in advance what either the actual dollar charge or the simple annual interest will be."[357] To support his argument he points to the difficulty imposed by "the requirement that the sales clerk compute the simple annual rate to be charged on any transaction before making a credit sale."[358]

Under section 5(a)[359] of the bill, certain acts of Congress would be excepted from the regulations of the bill. Senator Douglas has indicated that the bill would replace the Trade Practice Rules of the FTC.[360]

Section 6(a) asserts that only state laws inconsistent with the act will be construed so as to be annulled, thereby exempting any creditor from compliance with such statutes.[361] Again, it is not clear whether the enforcement agency would consider inconsistent the state statutes which permit the lumping of the finance charge and insurance cost. One would surmise that the Board would follow the position of the FTC and hold these statutes inconsistent, and thus of no effect.

Section 6(b) would permit the Board to except any "transactions which it determines are effectively regulated under the laws of any State so as to require the disclosure by the creditor of the same information as is required under section 4 of this act."[362] The simple annual rate on the average unpaid balance required to be disclosed by section 4(a)(7) is not required to be set forth by any of the state disclosure statutes.

Having been returned to committee once again, the future of the bill seems uncertain. Senator Bennett seems to think that "the passage of time favors the opponents of the bill."[363] Continued difficulty looms in the future of the bill according to Senator Williams of New Jersey, a member of the Senate Committee on Banking and Currency.[364] On the other hand, Senator Douglas is

> convinced that sooner or later the Congress will enact the truth in lending bill. After all, we have enacted in the past the fur products labeling act, a

354 Statement of Paul H. Douglas, Senator from Illinois, *1962 Hearings on Truth in Lending*, at 14-15.
355 S. 750, 88th Cong., 1st Sess. § 4(b) (1963).
356 *1962 Hearings on Truth in Lending*, at 13.
357 Letter From Senator Wallace F. Bennett to the *Notre Dame Lawyer*, Feb. 28, 1963, on file in Notre Dame Law Library.
358 Statements of Wallace F. Bennett, Senator from Utah, 1962 *Hearings on Truth in Lending*, at 15. This contention has been countered by the proponents of the bill who claim that the need for complicated computations would be eliminated by the use of rate books. See *supra* note 319 at 30.
359 S. 750, 88th Cong. 1st Sess. § 51a (1963).
360 Letter From Senator Paul H. Douglas to the *Notre Dame Lawyer*, Mar. 15, 1963, on file in Notre Dame Law Library.
361 S. 750, 88th Cong., 1st Sess. § 6(a) (1963).
362 *Id.* at § 6(b).
363 *Supra* note 357.
364 Letter From Senator Harrison A. Williams, Jr., to the *Notre Dame Lawyer*, Feb. 25, 1963, on file in Notre Dame Law Library.

> wool products labeling act, a textile labeling act, and an automobile price disclosure act as well as food and drug disclosure laws and the truth in securities legislation.[365]

Perhaps the fate of the bill has been forecast accurately by Senator Case of New Jersey, who believes "that it or some other similar legislation will ultimately be passed by the Senate."[366] This prediction evokes the thought that ultimately one must come to grips with an important consideration in the evaluation of this bill. Whether the "Truth in Lending" Bill succeeds or fails in its bids for passage during this session of Congress, it has advanced the basic principle of disclosure, thus paving the way, even in the event of its nonpassage, for future legislation on both the state and federal levels. The example of Wisconsin and Minnesota may be an indication of the role which history will credit this bill for playing in the advancement of disclosure statutes.[367]

* * * * * * *

DEFINITION OF FINANCE CHARGE IN S. 750

Memorandum by Senator Douglas

I am surprised that opposents of S. 750 have claimed that this bill injects a new or novel theory into the consumer credit business concerning the definition of the finance charge as spelled out in section 3(3) of the bill.

The term "finance charge" is defined in S. 750 in language similar to that which has been included in the Federal Credit Union Act and, indeed, in almost every State Credit Union Act during the last 20 or 25 years. Moreover, small loan companies in the 40 or more States which follow the Uniform Small Loan Act have followed language in their acts defining the finance charge which is substantively the same as that proposed in S. 750. In other words, the charge that this broad, all inclusive definition of the finance charge is something new or different is erroneous. Indeed, Federal credit union legislation has been within the jurisdiction of the Banking and Currency Committee since the original act was passed in 1934. The committee has periodically reviewed that legislation including language in section 8(5), which reads as follows:

"to make loans with maturities not exceeding five years to its members for provident or productive purposes upon such terms and conditions as this Act and its bylaws provide and as the credit committee or a loan officer may approve, at rates of interest not exceeding 1 per centum per month on unpaid balances, *inclusive of all charges incident to making the loan* * * *." [Emphasis added.]

Moreover, in 1959 the Banking and Currency Committee reported a bill to recodify the Federal Credit Union Act. The committee reconsidered the present law on a line-by-line basis. There was no objection to the definition of "finance charge" included in that legislation from any of those parties who now claim that this conception of "finance charge" is improper or incorrect.

The original Uniform Small Loan Act drafted by the Russell Sage Foundation, which was the earliest uniform consumer credit law enacted by most of the States, required all charges incident to a credit transaction to be included in the monthly true interest rate. The uniform credit act prohibited any additional charge from being made for credit.

S. 750 requires: (1) Disclosure of finance charges which included any charges, however labeled, if they were inciduent to the extension of credit, (2) the statement of the total finance charge in terms of a simple annual rate on the outstanding, unpaid or declining balance.

Rules for application of this principle have also been developed by State courts. The essential criterion is whether the borrower is required to pay the charge as a condition of obtaining the credit. Subordinate criteria also have been developed by courts. They could be used by the Federal supervisory agency as guides in writing regulations for the bill. The criteria should include the following:

1. Is the expense one which the debtor would not normally incur if he did not receive the particular extension of credit—if, for example, he purchased for cash?
2. Is it required by the creditor as a condition to extending credit?
3. Does it run for the same term as the credit?
4. Is the benefit of the charge primarily to the creditor and only secondarily to the debtor, or is the benefit of the charge primarily to the debtor and secondarily to the creditor?
5. Is the charge paid to the creditor or to a third party to purchase a service or protection for the debtor?

It has also been charged that the supervisory agency would have great difficulty in working within these or any other criteria to draft rules and regulations spelling out which charges should be regarded as incident to a credit transaction and which charges should not be so regarded. It has been argued that it would be terribly difficult if not impossible to draft these regulations.

It should be clearly understood that such regulations have already been drafted by the Bureau of Federal Credit Unions under the language of the Federal Credit Union Act. These regulations were drawn up many years ago and more than 10,000 credit unions, managed, to a large extent, by nonprofessional volunteers, have had no difficulty complying with these rules and regulations.

The rules and regulations follow:

CHARGES INCIDENT TO MAKING A LOAN

The question often arises as to what charges in connection with making a loan can be collected from the borrower. The Federal Credit Union Act limits the maximum interest rate which may be charged borrowers to 1 percent per month on unpaid balance. This must include all charges incident to making the loan. The law provides that all interest shall be forfeited to the borrower if he is charged more than 1 percent per month on unpaid balances including all charges incident to making the loan.

Costs that may not be charged to the borrower

None of the following costs incident to making a loan may be charged to the borrower if it results in a total cost of more than 1 percent per month (or 12 percent per annum) on unpaid balances:

1. Inspecting and appraising real or personal property.
2. Recording of chattel mortgages, real estate mortgages, or other lien instruments.
3. Title search.
4. Bringing abstract of title to real estate up to date.
5. Attorney's opinion as to title and validity of credit union's lien.
6. Title insurance.
7. Title certificate.
8. Preparing deeds of trust, mortgages, or other lien instruments.
9. Chattel lien nonfiling insurance.
10. Credit investigation and credit reports.
11. Credit life (borrower's protection), disability, health, or accident insurance.
12. Filing assignments of personal property such as life insurance policies, mortgages, etc.

Costs that may be charged to the borrower

Items of cost related to the following have been held to be outside the limitation of interest charges, and the borrower may be required to pay them:

1. Preparing release of mortgage or other lien instrument.
2. Recording release of lien.
3. Hazard insurance on the property, such as fire, theft, liability, collision, windstorm, or other casualties.
4. Restoring clear title to borrower.

Source: P. 39, Credit Manual for Federal Credit Unions; U.S. Department of Health, Education, and Welfare.

Following are two examples demonstrating the ease with which such rules and regulations could be complied with:

Example I. Extension of credit on new automobile (36 months)

1. Cash delivered price of automobile and accessories	$3,000.00
2. Downpayment or trade-in allowance	750.00
3. Difference between (1) and (2) to be paid in 36 equal monthly payments	2,250.00
4. Itemized charges to be paid by debtor—not incident to extending credit:	
(a) Standard auto insurance for 1 year	135.00
(b) State sales tax	90.00
(c) State license fee and tags	25.00
Total charge not incident to extending credit	250.00
5. Total amount to be financed	2,500.00

6. Finance charge:

(a) Direct finance charge, at $6 per $100 per year on original balance (6 percent × 3=18 percent × $2,500)	450.00
(b) Credit life insurance, on monthly unpaid balances	30.00
(c) Credit accident and health insurance	4.50
(d) Investigation fee	14.00
(e) Recording chattel mortgage	1.50
(f) Total finance charge	500.00

7. Simple annual rate, 13 percent.

In this example the foregoing criteria indicate that standard auto insurance is not incident to the extension of credit. It is an expense normally incurred by the debtor whether he borrows or not. Compulsory insurance and financial responsibility laws, as well as custom, bear this out. Although this insurance is required by the creditor, the benefit is primarily to the debtor and to the public at large. The insurance is not terminated by prepayment of the loan. The charge is paid to an insurance company or agent to purchase protection for the debtor.

Other charges which the debtor must pay whether he borrows or not, which include benefits primarily for the debtor, and which are required by State law, are State sales taxes, license fees, and tags and title certificates.

Credit life, accident, and health insurance are expenses which would not normally have been incurred if the debtor did not obtain credit; are usually required by the creditor; cover only the unpaid balance and terminate when the loan is paid. They are, however, primarily for the benefit of the creditor, particularly when the creditor is the beneficiary designated in the contract, they reduce the risk the lender incurs and thus ought to result in a lower interest rate charged. They are incident to the extension of credit.

Other charges incident to extending the credit are the investigation fees for credit and appraisal of the property, and recording fee for the chattel mortgage. The first two are for the benefit of the creditor in evaluating the credit risk, the third is an expense which the debtor would not incur if he did not obtain credit.

Example II

A consumer decides to borrow money from a financial institution. The borrower receives the full amount of the loan in cash, which he then is able to use is any way he desires. In this example the lender is extending credit without the pledge of security, to be repaid in 10 monthly installments.

(1) Amount of cash borrowed	$400
(Since this is not an installment sale of goods, items (2), (3), and (4) of sec. 4(a) do not apply.)	
(5) The amount to be financed is the same as (1)	400

(6) Finance charges incident to extending credit:

(a) Direct charge, at $6 per $100 per year on the original balance (5/6 of $6 per $100)	20.00
(b) Credit investigation fee	4.00
(c) Credit life insurance	3.75
Total finance charge	27.75

(7) Simple annual rate, 14 percent.

Example III. Retail revolving credit plan

Section 4(b) of S. 750 spells out criteria for disclosures that must be made in regard to the department store and mail order house revolving credit programs. The dollars and cents disclosures described by section 4(b) are now required by State laws which have disclosure provisions applying to revolving credit agreements.

Moreover, in the many States in which there is no requirement for disclosure of costs on revolving credit agreements, almost all reputable stores voluntarily comply with all of the dollars and cents disclosure provisions of S. 750.

Almost all retailers now charge a 1 or 1½ percent per month credit or finance charge on the unpaid credit balance of the customer. S. 750 would only require that retailers print on their credit slips that 1 percent per month on the monthly balance is equivalent to a charge of 12 percent per year on the monthly balance or 1½ percent per month on the monthly balances is equivalent to an annual rate of 18 percent per year on the monthly balances. S. 750 would not require any computation by clerks, sales girls, or any other employees of a retail establishment. It would not in any way add to the cost of doing a credit business for the vast majority of stores. Section 4(b) of S. 750 has been drafted to accord completely with existing State laws and practices. Of course, it is true that there will be some cost involved in complying with this act for any retail establishment which does not follow the practice of ethical stores of sending out monthly bills disclosing the state of the customer's account. However, reputable merchants and their organizations agree that these statements should be sent to all customers even if not required by existing State laws.

In addition, it should be noted that there is no disagreement from retail industry using revolving credit with the definition of "finance charge" included in S. 750. They have always followed the practice enumerated in the bill—the charge for credit should be all inclusive and no extra charges should be made. The retail merchants follow completely the trade practice of credit unions and small loan companies in this respect.

Section 603 of title VI of Public Law 774—81st Congress (Defense Production Act of 1950):

"SEC. 603. Any person who willfully violates any provision of section 601 or 602 or any regulation or order issued thereunder, upon conviction thereof, shall be fined not more than $5,000 or imprisoned not more than one year, or both."

* * * * * * *

Consumer credit, regulation W, effective September 18, 1950, section 6(c):

"(c) RECORD OF INSTALLMENT SALE.—The record of an installment credit arising from the sale of a listed article and required by section 3(b) shall set forth (in any order) the following information:

"(1) A brief description identifying the article purchased;

"(2) The cash price of the article;

"(3) The amount of the purchaser's downpayment (i) in cash and (ii) in goods accepted in trade, together with a brief description identifying such goods and stating the monetary value assigned thereto in good faith;

"(4) The amount of any insurance premium for which credit is extended and of any finance charges or interest by way of discount included in the principal amount of the obligation, or the sum of these amounts;

"(5) The time balance owed by the purchaser, which is the sum of items (2) and (4) minus item (3); and

"(6) The terms of payment.

The record need not include a description of the article if it is purchased by means of a coupon book or similar medium of installment credit upon which there has been made a cash downpayment at least as great as the highest downpayment required by this regulation on any article sold by the registrant. The record need not include the information called for by items (2) and (4) if the registrant is one who, with respect to the article, customarily quotes to the public a time price only which includes the finance or other charges if any, provided he sets forth such time price in such record, and provided he obtains a cash downpayment which is at least as large as would be required if the percentage specified for the article in the supplement were applicable to the time price."

TERMINOLOGY OF INTEREST RATES

The following is a more technical account of the semantics of rates and charges, adapted from a university textbook by Prof. Ernst Dauer:

The documentary evidence of a loan or credit transaction is a *note*. The amount for which a note is written is called the *face of note*. The amount of money received by the borrower or the amount of credit advanced is called the *proceeds*. (Some authors refer to this as *principal*).

Some notes include charges or interest in their "face"—these are *noninterest bearing notes;* other notes call for the payment of interest at periodic intervals or at maturity—these are *interest bearing notes*. Charges on interest bearing notes are generally computed as *simple interest;* charges on noninterest bearing notes are generally computed as *discount* or *add-on* charges, with or without additional *fees*.

Some notes are *single payment or noninstallment* notes; other notes call for periodic payments, usually referred to as *installments*. In either case the period between the day the note is signed and the final maturity date is the "term." The word "term" in its plural form, "terms," is also used to describe not only the length of the contract period, but also the contract charges, down-payment requirements, method of repayment (i.e., number and interval of payments), and other agreements, sometimes referred to as "small print."

Simple interest.—Charges are *computed on the unpaid balances* of proceeds (or principal) outstanding at the time of partial or final payment.

Precomputed simple interest.—Charges are *computed*, at the time the loan is made, *on the unpaid balances of proceeds scheduled to be outstanding* under the terms of the contract. These charges are then added to the proceeds and the face is written for the combined amount. If the borrower pays exactly according to contract, simple interest charges and precomputed simple interest charges are identical amounts.

Discount.—Charges are *computed on the original face* of the note for the term of the note. These charges are deducted from the face of the note to determine the proceeds, and such charges are therefore said to be included in the note.

Add on.—Charges are *computed on the original proceeds* for the term of the note. These charges are then "added to" the proceeds and the "face" is written for the sum of the proceeds and charges.

Fees.—Charges made in connection with a loan or credit transaction, ostensibly to cover the cost involved in making credit *investigations*, in *filing and recording* mortgages, or in *providing insurance* coverage.

Carrying charges.—A flat fee, generally based on the amount of credit advanced and sometimes computed as an "add-on percentage," charged for "carrying" the purchaser on the account receivable books for any given period of time.

Because consumer credit charges are stated in so many ways and refund practices differ widely, the problem of rate comparison is not only difficult but important. If loans are discounted, if add-on loans are paid in installments, if loans with precomputed charges are prepared, if fees are charged for services of various kinds, or if simple interest is charged at a rate other than a constant rate, the "true rate" will differ from the stated rate and under certain circumstances be more than triple the stated rate. It is therefore highly desirable to compare rates, both in terms of dollars and true rates of interest.

EXHIBIT 2

EXCERPTS FROM

CREDIT UNION CALCULATOR

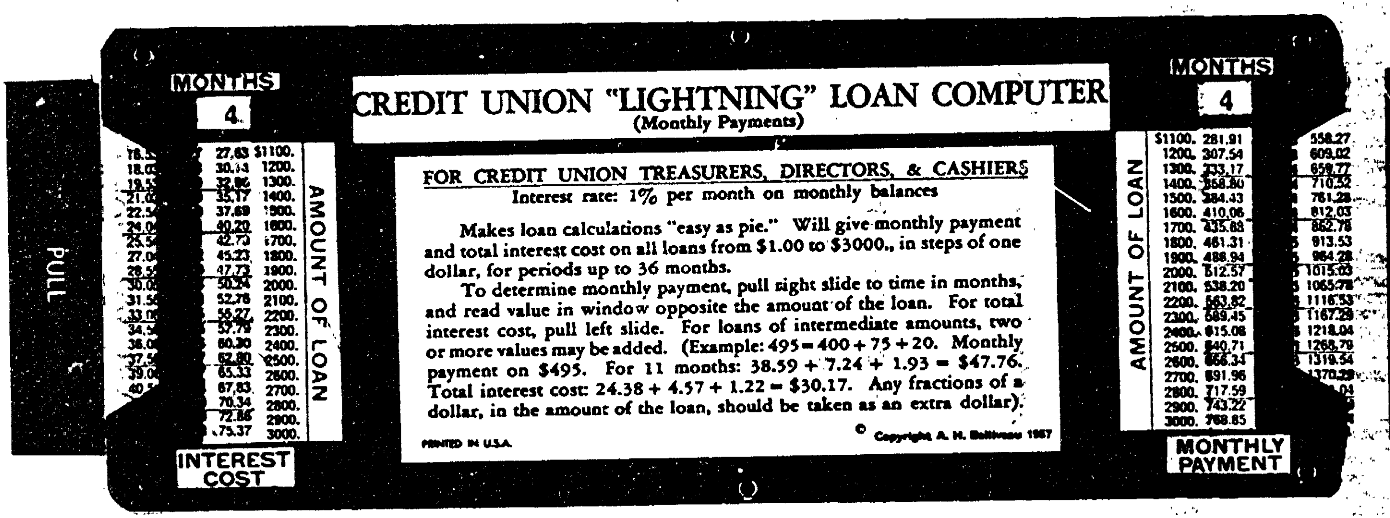
For

Credit Union Treasurers

Convenient, Accurate
and **Simple to Use**

Interest at the rate
of 1% per month on unpaid balances

Compiled by
J. DEANE GANNON
for
CUNA SUPPLY COOPERATIVE
CREDIT UNION NATIONAL ASSOCIATION
Madison 1, Wisconsin


PULL
MONTHS
4
CREDIT UNION "LIGHTNING" LOAN COMPUTER
(Monthly Payments)
27.63 $1100.
30.14 1200.
32.66 1300.
35.17 1400.
37.69 1500.
40.20 1600.
42.73 1700.
45.23 1800.
47.73 1900.
50.24 2000.
52.76 2100.
55.27 2200.
57.79 2300.
60.30 2400.
62.80 2500.
65.33 2600.
67.83 2700.
70.34 2800.
72.86 2900.
75.37 3000.
AMOUNT OF LOAN
INTEREST COST
FOR CREDIT UNION TREASURERS, DIRECTORS, & CASHIERS
Interest rate: 1% per month on monthly balances
Makes loan calculations "easy as pie." Will give monthly payment and total interest cost on all loans from $1.00 to $3000., in steps of one dollar, for periods up to 36 months.
To determine monthly payment, pull right slide to time in months, and read value in window opposite the amount of the loan. For total interest cost, pull left slide. For loans of intermediate amounts, two or more values may be added. (Example: 495 = 400 + 75 + 20. Monthly payment on $495. For 11 months: 38.59 + 7.24 + 1.93 = $47.76. Total interest cost: 24.38 + 4.57 + 1.22 = $30.17. Any fractions of a dollar, in the amount of the loan, should be taken as an extra dollar).
PRINTED IN U.S.A.
MONTHS
4
AMOUNT OF LOAN
$1100. 281.91
1200. 307.54
1300. 333.17
1400. 358.80
1500. 384.43
1600. 410.06
1700. 435.68
1800. 461.31
1900. 486.94
2000. 512.57
2100. 538.20
2200. 563.82
2300. 589.45
2400. 615.08
2500. 640.71
2600. 666.34
2700. 691.96
2800. 717.59
2900. 743.22
3000. 768.85
MONTHLY PAYMENT
PULL

(Back)

13-14 days

INTEREST CALCULATOR

THIRTEEN DAYS

	Bal.	Int.	Bal.	Int.	Bal.	Int.	Hundreds	Int.
1.16—	3.46	.01	58.84	.25	114.23	.49	200.00	.87
	5.76	.02	61.15	.26	116.53	.50	300.00	1.30
	8.07	.03	63.46	.27	118.84	.51	400.00	1.73
	10.38	.04	65.76	.28	121.15	.52	500.00	2.17
	12.69	.05	68.07	.29	123.46	.53	600.00	2.60
	15.00	.06	70.38	.30	125.77	.54	700.00	3.03
	17.30	.07	72.69	.31	128.07	.55	800.00	3.47
	19.61	.08	75.00	.32	130.38	.56	900.00	3.90
	21.92	.09	77.30	.33	132.69	.57	1000.00	4.33
	24.23	.10	79.61	.34	135.00	.58		
	26.53	.11	81.92	.35	137.30	.59		
	28.84	.12	84.23	.36	139.61	.60		
	31.15	.13	86.53	.37	141.92	.61		
	33.46	.14	88.84	.38	144.23	.62		
	35.76	.15	91.15	.39	146.53	.63		
	38.07	.16	93.46	.40	148.84	.64		
	40.38	.17	95.76	.41	151.15	.65		
	42.69	.18	98.07	.42				
	45.00	.19	100.38	.43				
	47.30	.20	102.69	.44				
	49.61	.21	105.00	.45				
	51.92	.22	107.30	.46				
	54.23	.23	109.61	.47				
	56 53	.24	111.92	.48				

FOURTEEN DAYS

	Bal.	Int.	Bal.	Int.	Bal.	Int.	Hundreds	Int.
1.08—	3.21	.01	54.64	.25	106.07	.49	200.00	.93
	5.35	.02	56.78	.26	108.21	.50	300.00	1.40
	7.50	.03	58.92	.27	110.35	.51	400.00	1.87
	9.64	.04	61.07	.28	112.50	.52	500.00	2.33
	11.78	.05	63.21	.29	114.64	.53	600.00	2.80
	13.92	.06	65.35	.30	116.78	.54	700.00	3.27
	16.07	.07	67.50	.31	118.93	.55	800.00	3.73
	18.21	.08	69.64	.32	121.07	.56	900.00	4.20
	20.35	.09	71.78	.33	123.21	.57	1000.00	4.67
	22.50	.10	73.92	.34	125.35	.58		
	24.64	.11	76.07	.35	127.50	.59		
	26.78	.12	78.21	.36	129.64	.60		
	28.92	.13	80.35	.37	131.78	.61		
	31.07	.14	82.50	.38	133.93	.62		
	33.21	.15	84.64	.39	136.07	.63		
	35.35	.16	86.78	.40	138.21	.64		
	37.50	.17	88.92	.41	140.35	.65		
	39.64	.18	91.07	.42	142.50	.66		
	41.78	.19	93.21	.43	144.64	.67		
	43.92	.20	95.35	.44	146.78	.68		
	46.07	.21	97.50	.45	148.93	.69		
	48.21	.22	99.64	.46	151.07	.70		
	50.35	.23	101.78	.47				
	52.50	.24	103.93	.48				

INSTRUCTIONS FOR INTEREST CALCULATOR

This calculator was designed especially for busy credit union treasurers as an aid to them in the quick and accurate calculation of interest on loans. The simplified arrangement requires only two factors:

1. The number of days since the last payment
2. The unpaid balance of the loan upon which interest is due

As an aid in determining the number of days between two specific dates there is provided the DAY CALCULATOR which indicates a number for each day. The number of interest days is easily obtained by subtracting the date of the last payment from the date of the present payment. For a new loan the date of the note would be subtracted from the date of the first payment. For example, if the last payment was made on February 7 (the 38th day) and this payment is being made on March 20 (the 79th day) the number of interest days would be 79 minus 38 or 41 days.

When the interest period runs from the end of one year into the next, it will be necessary to add 365 days to the number of the day of the new year before subtracting. For instance, if the last payment was made December 4 and the next payment is on January 17, you then add 365 to 17 or a total of 382 and then substract 338 (Dec. 4) for an interest period of 44 days.

In years which have 366 days it is necessary to add one (1) to the number of each day after February 29. March 1 would become the 61st day, etc. However, this is only necessary when the date of the last payment is prior to February 28 since the same number of days would intervene between any two days after that date.

The unpaid balance is, of course, the balance recorded in the Individual Ledger and in the members' pass books. To calculate interest let us suppose that the unpaid balance is $95.25 and as noted above, the interest period is from February 7 to March 20, which we have found to be 41 days. Turn to the page recording the interest for 41 days and you will note that the interest on an amount up to and including $95.48 is $1.30. We thus readily determine that the correct interest for $95.25 is $1.30 for 41 days.

Each day listed records the correct interest on principal balances from the least amount that will earn 1c to $150 in succession. There is also listed the interest on amounts from $200 to $1000 by hundreds so that any combination may easily be determined. For example, the interest on $315.60 for 41 days is easily obtained by taking the interest on $300 or $4.10, and adding 21c, the interest on $15.60, for a total of $4.31.

Separate day listings are provided from 1 to 45 days inclusive. The interest for any number of days in excess of 45 may readily be calculated by choosing the table representing one-half of the desired number of days and then multiplying the interest by two (2). The interest for 66 days on any balance would be twice the interest shown for 33 days for the same balance. The interest for 65 days could easily be calculated by taking the interest on the same amount for 40 days plus that for 25 days. Thus this calculator makes available many combinations which will very adequately serve credit union needs.

INTEREST CALCULATOR

23 days

TWENTY-THREE DAYS

.66—

Bal.	Int.	Bal.	Int.	Bal.	Int.	Hundreds	Int.
1.95	.01	52.82	.40	103.69	.79	200.00	1.53
3.26	.02	54.13	.41	105.00	.80	300.00	2.30
4.56	.03	55.43	.42	106.30	.81	400.00	3.07
5.86	.04	56.73	.43	107.60	.82	500.00	3.83
7.17	.05	58.04	.44	108.91	.83	600.00	4.60
8.47	.06	59.34	.45	110.21	.84	700.00	5.37
9.78	.07	60.65	.46	111.52	.85	800.00	6.13
11.08	.08	61.95	.47	112.82	.86	900.00	6.90
12.39	.09	63.26	.48	114.13	.87	1000.00	7.67
13.69	.10	64.56	.49	115.43	.88		
15.00	.11	65.87	.50	116.74	.89		
16.30	.12	67.17	.51	118.04	.90		
17.60	.13	68.47	.52	119.34	.91		
18.91	.14	69.78	.53	120.65	.92		
20.21	.15	71.08	.54	121.95	.93		
21.52	.16	72.39	.55	123.26	.94		
22.82	.17	73.69	.56	124.56	.95		
24.13	.18	75.00	.57	125.87	.96		
25.43	.19	76.30	.58	127.17	.97		
26.73	.20	77.60	.59	128.47	.98		
28.04	.21	78.91	.60	129.78	.99		
29.34	.22	80.21	.61	131.08	1.00		
30.65	.23	81.52	.62	132.39	1.01		
31.95	.24	82.82	.63	133.69	1.02		
33.26	.25	84.13	.64	135.00	1.03		
34.56	.26	85.43	.65	136.30	1.04		
35.86	.27	86.73	.66	137.60	1.05		
37.17	.28	88.04	.67	138.91	1.06		
38.47	.29	89.34	.68	140.21	1.07		
39.78	.30	90.65	.69	141.52	1.08		
41.08	.31	91.95	.70	142.82	1.09		
42.39	.32	93.26	.71	144.13	1.10		
43.69	.33	94.56	.72	145.43	1.11		
45.00	.34	95.87	.73	146.74	1.12		
46.30	.35	97.17	.74	148.04	1.13		
47.60	.36	98.47	.75	149.34	1.14		
48.91	.37	99.78	.76	150.65	1.15		
50.21	.38	101.08	.77				
51.52	.39	102.39	.78				

23

24

THIRTY-ONE DAYS

.49—

Bal.	Int.	Bal.	Int.	Bal.	Int.	Hundreds	Int.
1.45	.01	51.77	.53	102.09	1.05	200.00	2.07
2.41	.02	52.74	.54	103.06	1.06	300.00	3.10
3.38	.03	53.70	.55	104.03	1.07	400.00	4.13
4.35	.04	54.67	.56	105.00	1.08	500.00	5.17
5.32	.05	55.64	.57	105.96	1.09	600.00	6.20
6.29	.06	56.61	.58	106.93	1.10	700.00	7.23
7.25	.07	57.58	.59	107.90	1.11	800.00	8.27
8.22	.08	58.54	.60	108.87	1.12	900.00	9.30
9.19	.09	59.51	.61	109.83	1.13	1000.00	10.33
10.16	.10	60.48	.62	110.80	1.14		
11.12	.11	61.45	.63	111.77	1.15		
12.09	.12	62.41	.64	112.74	1.16		
13.06	.13	63.38	.65	113.71	1.17		
14.03	.14	64.35	.66	114.67	1.18		
15.00	.15	65.32	.67	115.64	1.19		
15.96	.16	66.29	.68	116.61	1.20		
16.93	.17	67.25	.69	117.58	1.21		
17.90	.18	68.22	.70	118.54	1.22		
18.87	.19	69.19	.71	119.51	1.23		
19.83	.20	70.16	.72	120.48	1.24		
20.80	.21	71.12	.73	121.45	1.25		
21.77	.22	72.09	.74	122.41	1.26		
22.74	.23	73.06	.75	123.38	1.27		
23.70	.24	74.03	.76	124.35	1.28		
24.67	.25	75.00	.77	125.32	1.29		
25.64	.26	75.96	.78	126.29	1.30		
26.61	.27	76.93	.79	127.25	1.31		
27.58	.28	77.90	.80	128.22	1.32		
28.54	.29	78.87	.81	129.19	1.33		
29.51	.30	79.83	.82	130.16	1.34		
30.48	.31	80.80	.83	131.12	1.35		
31.45	.32	81.77	.84	132.09	1.36		
32.41	.33	82.74	.85	133.06	1.37		
33.38	.34	83.70	.86	134.03	1.38		
34.35	.35	84.67	.87	135.00	1.39		
35.32	.36	85.64	.88	135.96	1.40		
36.29	.37	86.61	.89	136.93	1.41		
37.25	.38	87.58	.90	137.90	1.42		
38.22	.39	88.54	.91	138.87	1.43		
39.19	.40	89.51	.92	139.83	1.44		
40.16	.41	90.48	.93	140.80	1.45		
41.12	.42	91.45	.94	141.77	1.46		
42.09	.43	92.41	.95	142.74	1.47		
43.06	.44	93.38	.96	143.71	1.48		
44.03	.45	94.35	.97	144.67	1.49		
45.00	.46	95.32	.98	145.64	1.50		
45.96	.47	96.29	.99	146.61	1.51		
46.93	.48	97.25	1.00	147.58	1.52		
47.90	.49	98.22	1.01	148.54	1.53		
48.87	.50	99.19	1.02	149.51	1.54		
49.83	.51	100.16	1.03	150.48	1.55		
50.80	.52	101.12	1.04				

31

CONSUMER CREDIT COST CALCULATOR

WHAT PRICE CREDIT?

Shop for credit just as you shop for clothing, a car, or a refrigerator. You'll find it to your advantage to pay attention to credit terms and to compare the costs of borrowing or buying on credit from different sources. Services in credit are important, too, so shop for the kind and quality that best meet your needs.

There are many instalment credit and loan plans. Some make charges in the form of interest on unpaid balances, and others involve discounts, add-ons, fees, and carrying charges. There are many rates and combinations of charges, and plans differ in the size, number, and time of instalment repayments.

These differences make it difficult for the consumer to compare plans and to find the lowest cost credit which is suitable to his needs. Nevertheless, financing plans can be compared. *The price you pay for credit always can be measured by the true rate of interest you are charged.*

This folder is an abbreviated version of a more detailed, technical publication entitled, "Table for Converting Interest Rates Into Discount Charges and Discount Charges Into Interest Rates," which is available for professional use.

TYPICAL EXAMPLES OF INSTALMENT TRANSACTIONS

The examples below show how to find the *Financing Cost*, the *Total Amount Paid in Instalments*, and the *Cost Ratio* in some common kinds of instalment contracts.

Discount: "Interest" and Fee Deducted in Advance

A borrower signs a note for $100 and agrees to repay that amount in ten (10) equal monthly instalments of $10 each. The lender *deducts* "interest" at 7.2% per year of $100, or $6 for ten months, and an investigation fee of $2, so that the borrower receives $92 in cash. The *Financing Cost* in this case is $6 + $2, or $8. The *Total Amount Paid in Instalments* is $100. The *Cost Ratio* is $8 ÷ $100, or .08. The *true interest rate* is 1.55% a month, or 18.6% per year (12 × 1.55%).

Add-on: "Interest" and Fee Added to Amount Borrowed

A borrower receives a cash loan of $100 to which is added "interest" of $6.50 plus an investigation fee of $1.50. The entire obligation of $108 is payable in 12 equal monthly instalments of $9 each. The *Financing Cost* in this case is $8 ($6.50 + $1.50). The *Total Amount Paid in Instalments* is $108. The *Cost Ratio* is $8 ÷ $108, or .0741. *The true interest rate* is 1.20% a month, or 14.4% per year.

Ordinary Instalment Purchase

A purchaser buys an automobile which has a cash price of $3,100, and also insurance costing $150. He makes a "trade-in" or a down payment of $1,150, and wishes to finance the remaining $2,100 over a period of 30 months. The seller adds a finance charge of 6% per year, or 15% for 2½ years, which is $315 (15% × $2,100). The purchaser signs a note for $2,415 ($2,100 + $315), payable in 30 equal monthly instalments of $80.50. In this case the *Financing Cost* is $315. The *Total Amount Paid in Instalments* is $2,415. The *Cost Ratio* is $315 ÷ $2,415, or .13. The *true interest rate* is .92% a month or 11.04% per year.*

Instalment Purchase in Which the Total Amount to be Paid is Not Directly Stated

On the purchase of a refrigerator-freezer at a price of $435, the purchaser makes a down payment of $75 and finances the remaining $360. The purchaser signs a sales contract wherein he agrees to repay the $360 in 30 equal monthly instalments of $12 each plus a "service" charge of $2 per month. Since this plan in effect calls for a total monthly payment of $14, the *Total Amount Paid in Instalments* is $420 ($14 × 30). The *Financing Cost* is $60 ($420 plus $75, minus $435). The *Cost Ratio* is $60 ÷ $420, or .143. The *true interest rate* is 1.02% a month, or 12.24% per year.

Instalment Purchase Advertised, "No Carrying Charge"

A diamond ring is advertised at a price of $95, $5 down and 18 weekly payments of $5 each, with "no carrying charges." Inquiry discloses that the ring can be purchased for $85 cash. In this case the *Financing Cost* is $10. The *Total Amount Paid in Instalments* is $90. The *Cost Ratio* is $10 ÷ $90, or .111. The *true interest rate* is 1.27% a week, or 66.04% per year.

*Standard automobile insurance, sold at standard rates for the benefit of the buyer, should be included in the cash price, not in the Financing Cost.

HOW TO COMPUTE TRUE INTEREST RATES ON LOANS AND INSTALMENT PURCHASES PAYABLE IN EQUAL INSTALMENTS

1 ***Find the Financing Cost in Dollars and Cents.***

In the case of a *loan,* total all payments to be made and subtract the amount of cash obtained from the lender. The difference is the *Financing Cost.*

In the case of an *instalment purchase,* total all payments including the down payment, and subtract the price at which you could buy for cash. The difference is the *Financing Cost.*

2 ***Determine the Total Amount to be Paid in Instalments.***

Total all instalment payments. Do not include the down payment.

3 ***Figure the Cost Ratio.***

Divide the *Financing Cost* by the *Total Amount Paid in Instalments.*

4 ***Use the Table Below to Find the True Interest Rate.***

When the *Cost Ratio* comes out exactly in hundredths (such as .080 or .110), locate the column headed with this figure. Follow down this column to the line for the number of payments in the contract. The figure at the intersection is the *true interest rate per instalment period* (week, month, or other).

When the *Cost Ratio* does not come out exactly in hundredths, an approximate answer can be obtained by rounding off to the nearest hundredth (second decimal place), and then using the table as explained above. For greater accuracy, see the note in the last column.

5 ***Annual Interest Rates.***

When the contracts to be compared have different instalment intervals, the true interest rates must be converted to apply to the same interval. Annual rates are commonly used for this purpose.

To convert to an *annual interest rate,* multiply the *true rate per instalment period* by the *number of instalment periods in a year* (12, if months; 52, if weeks, etc.). This method ignores compounding, which is consistent with the general practice of converting annual rates to monthly or other fractional year rates by taking a simple arithmetic fraction of the annual rate.

NOTE—*In case the Cost Ratio does not come out exactly in hundredths,* the *true interest rate* may be determined more accurately by interpolation.

For example, if the *Cost Ratio* is .0741 for 12 monthly instalments, the *true rate* is equal to the rate for .07, plus .41 times the difference between the rates for .07 and .08, as follows:

(1) Rate for .08 *Cost Ratio* (from Table) 1.31%
(2) Rate for .07 *Cost Ratio* (from Table) 1.13%
Difference 18%
(3) .41×.18% = .07%
(4) 1.13% + .07% = 1.20% *(the true interest rate per month)*

Page 4 gives typical examples of how to figure true interest rates on various types of instalment contracts.

TABLE OF TRUE INTEREST RATES CORRESPONDING TO VARIOUS COST RATIOS AND NUMBERS OF INSTALMENTS

The figures in the body of this table are true interest rates in percent, per instalment period

Number of Equal Instalment Payments	COST RATIO .02	.03	.04	.05	.06	.07	.08	.09	.10	.11	.12	.13	.14	.15
1	2.04	3.09	4.17	5.26	6.38	7.53	8.70	9.89	11.11	12.36	13.64	14.94	16.28	17.65
2	1.36	2.06	2.76	3.49	4.23	4.98	5.74	6.52	7.32	8.13	8.96	9.81	10.67	11.55
3	1.02	1.54	2.07	2.61	3.16	3.72	4.29	4.87	5.46	6.06	6.67	7.30	7.94	8.59
4	0.81	1.23	1.65	2.08	2.52	2.97	3.42	3.88	4.35	4.83	5.32	5.81	6.32	6.83
5	0.68	1.02	1.38	1.73	2.10	2.47	2.85	3.23	3.62	4.01	4.42	4.83	5.25	5.67
6	0.58	0.88	1.18	1.49	1.80	2.11	2.44	2.76	3.10	3.43	3.78	4.13	4.49	4.85
7	0.51	0.77	1.03	1.30	1.57	1.85	2.13	2.42	2.71	3.00	3.30	3.61	3.92	4.24
8	0.45	0.68	0.92	1.15	1.40	1.64	1.89	2.14	2.40	2.66	2.93	3.20	3.48	3.76
9	0.41	0.61	0.82	1.04	1.26	1.48	1.70	1.93	2.16	2.40	2.64	2.88	3.13	3.38
10	0.37	0.56	0.75	0.94	1.14	1.34	1.55	1.75	1.96	2.18	2.39	2.62	2.84	3.07
11	0.34	0.51	0.69	0.86	1.05	1.23	1.42	1.61	1.80	1.99	2.19	2.40	2.60	2.81
12	0.31	0.47	0.63	0.80	0.97	1.13	1.31	1.48	1.66	1.84	2.02	2.21	2.40	2.59
13	0.29	0.44	0.59	0.74	0.90	1.05	1.21	1.38	1.54	1.71	1.88	2.05	2.23	2.41
14	0.27	0.41	0.55	0.69	0.84	0.98	1.13	1.28	1.44	1.59	1.75	1.91	2.08	2.25
15	0.25	0.38	0.51	0.65	0.78	0.92	1.06	1.20	1.35	1.49	1.64	1.79	1.95	2.10
16	0.24	0.36	0.48	0.61	0.74	0.87	1.00	1.13	1.27	1.41	1.55	1.69	1.83	1.98
17	0.23	0.34	0.46	0.58	0.70	0.82	0.94	1.07	1.20	1.33	1.46	1.59	1.73	1.87
18	0.21	0.32	0.43	0.55	0.66	0.78	0.89	1.01	1.13	1.26	1.38	1.51	1.64	1.77
19	0.20	0.31	0.41	0.52	0.63	0.74	0.85	0.96	1.08	1.19	1.31	1.43	1.56	1.68
20	0.19	0.29	0.39	0.49	0.60	0.70	0.81	0.92	1.03	1.14	1.25	1.36	1.48	1.60
21	0.18	0.28	0.37	0.47	0.57	0.67	0.77	0.87	0.98	1.08	1.19	1.30	1.41	1.53
22	0.18	0.27	0.36	0.45	0.54	0.64	0.74	0.84	0.94	1.04	1.14	1.25	1.35	1.46
23	0.17	0.26	0.34	0.43	0.52	0.61	0.71	0.80	0.90	0.99	1.09	1.19	1.30	1.40
24	0.16	0.25	0.33	0.41	0.50	0.59	0.68	0.77	0.86	0.95	1.05	1.15	1.24	1.34
26	0.15	0.23	0.30	0.38	0.46	0.55	0.63	0.71	0.80	0.88	0.97	1.06	1.15	1.24
30	0.13	0.20	0.27	0.33	0.40	0.47	0.55	0.62	0.69	0.77	0.85	0.92	1.00	1.08
36	0.11	0.17	0.22	0.28	0.34	0.40	0.46	0.52	0.58	0.64	0.71	0.77	0.84	0.91
42	0.09	0.14	0.19	0.24	0.29	0.34	0.39	0.45	0.50	0.55	0.61	0.66	0.72	0.78
48	0.08	0.13	0.17	0.21	0.26	0.30	0.35	0.39	0.44	0.49	0.53	0.58	0.63	0.68
52	0.08	0.12	0.16	0.20	0.24	0.28	0.32	0.36	0.41	0.45	0.49	0.54	0.59	0.63
54	0.07	0.11	0.15	0.19	0.23	0.27	0.31	0.35	0.39	0.43	0.48	0.52	0.56	0.61
60	0.07	0.10	0.14	0.17	0.21	0.24	0.28	0.31	0.35	0.39	0.43	0.47	0.51	0.55

Number of Equal Instalment Payments	COST RATIO .16	.17	.18	.19	.20	.21	.22	.23	.24	.25	.30	.35	.40	Number of Equal Instalment Payments
1	19.05	20.48												1
2	12.45	13.38	14.32	15.28	16.26	17.26	18.29	19.34	20.42					2
3	8.25	9.93	10.62	11.32	12.04	12.78	13.53	14.30	15.09	15.89	20.20			3
4	7.36	7.89	8.44	9.00	9.56	10.14	10.74	11.34	11.96	12.59	15.97	19.77	24.10	4
5	6.11	6.55	7.00	7.46	7.93	8.41	8.90	9.40	9.91	10.42	13.20	16.32	19.86	5
6	5.22	5.60	5.98	6.37	6.77	7.18	7.60	8.02	8.45	8.90	11.25	13.89	16.89	6
7	4.56	4.89	5.22	5.56	5.91	6.27	6.63	7.00	7.38	7.76	9.81	12.10	14.69	7
8	4.05	4.34	4.63	4.94	5.24	5.56	5.88	6.21	6.54	6.88	8.69	10.71	12.99	8
9	3.64	3.90	4.16	4.44	4.71	4.99	5.28	5.57	5.87	6.18	7.80	9.61	11.65	9
10	3.30	3.54	3.78	4.03	4.28	4.53	4.79	5.06	5.33	5.61	7.08	8.71	10.56	10
11	3.02	3.24	3.46	3.69	3.92	4.15	4.39	4.63	4.88	5.13	6.47	7.97	9.66	11
12	2.79	2.99	3.19	3.40	3.61	3.83	4.05	4.27	4.50	4.73	5.96	7.34	8.89	12
13	2.59	2.77	2.96	3.16	3.35	3.55	3.75	3.96	4.17	4.39	5.53	6.81	8.24	13
14	2.42	2.59	2.76	2.94	3.13	3.31	3.50	3.69	3.89	4.09	5.16	6.35	7.68	14
15	2.26	2.43	2.59	2.76	2.93	3.10	3.28	3.46	3.64	3.83	4.83	5.94	7.19	15
16	2.13	2.28	2.44	2.59	2.75	2.92	3.08	3.25	3.43	3.60	4.54	5.59	6.76	16
17	2.01	2.15	2.30	2.45	2.60	2.75	2.91	3.07	3.24	3.40	4.29	5.27	6.38	17
18	1.90	2.04	2.18	2.32	2.46	2.61	2.76	2.91	3.06	3.22	4.06	4.99	6.03	18
19	1.81	1.94	2.07	2.20	2.34	2.48	2.62	2.76	2.91	3.06	3.85	4.74	5.73	19
20	1.72	1.84	1.97	2.10	2.23	2.36	2.49	2.63	2.77	2.91	3.67	4.51	5.45	20
21	1.64	1.76	1.88	2.00	2.12	2.25	2.38	2.51	2.64	2.78	3.50	4.30	5.20	21
22	1.57	1.68	1.80	1.91	2.03	2.15	2.27	2.40	2.53	2.66	3.34	4.11	4.97	22
23	1.50	1.61	1.72	1.83	1.95	2.06	2.18	2.30	2.42	2.54	3.20	3.94	4.76	23
24	1.44	1.55	1.65	1.76	1.87	1.98	2.09	2.21	2.32	2.44	3.07	3.78	4.57	24
26	1.34	1.43	1.53	1.63	1.73	1.83	1.94	2.04	2.15	2.26	2.85	3.49	4.22	26
30	1.16	1.25	1.33	1.42	1.50	1.59	1.68	1.78	1.87	1.97	2.48	3.04	3.67	30
36	0.97	1.04	1.11	1.19	1.26	1.33	1.41	1.49	1.57	1.65	2.07	2.54	3.07	36
42	0.84	0.90	0.96	1.02	1.08	1.15	1.21	1.28	1.35	1.42	1.78	2.19	2.64	42
48	0.74	0.79	0.84	0.90	0.95	1.01	1.06	1.12	1.18	1.24	1.56	1.92	2.31	48
52	0.68	0.73	0.78	0.83	0.88	0.93	0.98	1.04	1.09	1.15	1.44	1.77	2.14	52
54	0.66	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.11	1.39	1.71	2.06	54
60	0.59	0.63	0.68	0.72	0.76	0.81	0.85	0.90	0.95	1.00	1.25	1.54	1.86	60

WHAT THE TRUE INTEREST RATE MEANS

The *true interest rate* is the rate per instalment period (whether it be a week, a month, or some other period of time) on the unpaid true balances of cash loaned or credit extended.

For example, on a loan of $240 subject to a discount of $24, repayable in twelve equal monthly instalments of $20 each, the borrower receives $216 in cash. The *Financing Cost* ($24) divided by the *Total Amount Paid in Instalments* ($240) is .10, the *Cost Ratio*. The table indicates that the *true rate of interest* in this case is 1.66% a month, proven as follows:

Proof that $24 Discount on a $240 Note Payable in 12 Monthly Instalments is equivalent to 1.66% Interest per Month on Unpaid True Balances.

(1) Month	(2) Total Payment	(3) Interest at 1.66% per Month on Unpaid True Principal Balance	(4) Principal Payment Applied to True Principal Balance (2) Less (3)	(5) Unpaid True Principal Balance End of Month	(6) Face of Note Balance End of Month
0	....	......	....	$216.00	$240.00
1	$ 20.00	$ 3.59	$ 16.41	199.59	220.00
2	20.00	3.31	16.69	182.90	200.00
3	20.00	3.04	16.96	165.94	180.00
4	20.00	2.75	17.25	148.69	160.00
5	20.00	2.47	17.53	131.16	140.00
6	20.00	2.18	17.82	113.34	120.00
7	20.00	1.88	18.12	95.22	100.00
8	20.00	1.58	18.42	76.80	80.00
9	20.00	1.27	18.73	58.07	60.00
10	20.00	.96	19.04	39.03	40.00
11	20.00	.65	19.35	19.68	20.00
12	20.00	.33	19.67	.01#	....
Total	$240.00	$24.01#	$215.99#		

The unpaid true principal balances on which interest is computed begins with $216 (column 5) for the first month, rather than $240, because this is the actual amount of cash of which the borrower has the use for one month. At the end of the first month, interest is computed at 1.66% of $216, or $3.59. This amount is deducted from the $20 instalment payment leaving the remainder, $16.41, to reduce the unpaid true principal balance from $216 to $199.59. At the end of the second month, interest amounts to 1.66% of $199.59, or $3.31, etc.

The total interest computed by using the true rate is equal to the charges actually made; and the total amount applied to reduction of principal is equal to the original true principal balance.

The True Interest Rate method is the only accurate way to compare instalment credit costs.

#If the interest rate and all the computations had been carried out to more decimal places, the true loan balance at the end of twelfth month would be zero instead of one cent.

[From Business Review, Philadelphia Federal Reserve Bank, 1960]

THE COST OF BORROWED MONEY

The cost of a loan is often expressed in terms of an annual interest rate. For example, 6 per cent is the interest rate on a $100 loan which must be repaid with $106 at the end of one year's time. Interest is a customary and convenient way to state the cost of money. Six dollars, in this case, is another way of expressing the same cost.

On an instalment purchase it is frequently difficult to translate financial charges in dollars into simple interest rates. Insurance requirements, late-payment penalties, and a variety of other terms can make such a translation a difficult and sometimes impossible project.

Nevertheless, consumers could benefit by making interest rate comparisons where possible. Consumers must frequently decide between borrowing and saving. If the decision is to borrow, they must decide "who from." Returns for saving are often expressed as interest rates and interest rate comparisons show, in a simple fashion, higher and lower costs of borrowing.

There are certain classes of loans made by certain types of lenders for which it is not too difficult to determine annual interest rates. Commercial banks often deduct the cost of a personal loan in advance. The bank may charge a 6 per cent discount rate on a $100 loan for a year; it will give the borrower $94 on condition that he pays back $100 in equal monthly instalments. Since the borrower does not have the use of $94 for a full year—only in fact for the first month—the true annual interest rate is higher than the bank discount rate. It's about twice as high—12 per cent.

Some financial institutions, like credit unions and consumer finance companies, will charge a given per cent per month on the unpaid balance of a loan. The annual interest rate will usually amount to about 12 times the rate stated. A charge of 1 per cent a month means a simple rate of 12 per cent a year. A charge of 2 per cent a month means a rate of 24 per cent a year. A 3 per cent per month rate on the unpaid balance of a loan may seem low but it amounts to a simple annual interest rate of 36 per cent a year.

All things being equal, interest will be lower if payments are monthly instead of weekly; the borrower obtains the use of a larger average amount of money on a yearly basis. If after the dollar cost of the loan is fixed the borrower has a year rather than nine months to pay it off, the interest rate will also be lower—basically for the same reason.

The annual interest rate on any loan can be easily approximated by using the following formula:

$$r = \frac{2 \times m \times I}{P(n + 1)}$$

Where r = the annual interest rate.

m = the number of payment periods in one year (12 if you repay monthly, 24 if you repay semi-monthly).

I = the cost of the loan in dollars (The cost of $100 loan for which a 6 per cent discount has been charged is $6.)

P = the actual amount of the loan itself, excluding the dollar cost of the loan ($94 in the above example).

n = the number of repayments actually made.

If $6 were deducted from a $100 loan to be repaid in 12 equal monthly instalments, the formula would be filled in as follows:

$$r = \frac{2 \times 12 \times \$6}{\$94 \times (12 + 1)} = 11.8\%$$

[Excerpts From North Dakota Loan Chart]

PREPARED BY

FINANCIAL PUBLISHING COMPANY
CHART NO. 4CG10003WS

THE CHARGE FOR LOANS UNDER $1000 IS BASED ON INTEREST AT 2 1/2% PER MONTH ON THE FIRST $250 OF BALANCE, 2% ON THE EXCESS TO $500, 1 3/4% ON THE EXCESS TO $750, AND 1 1/2% ON THE EXCESS TO $1000. FOR LOANS OVER $1000 THE CHARGE IS BASED ON A LOAN OF $1000 AT THESE SMALL LOAN RATES, AND A LOAN FOR THE EXCESS, COMPUTED SEPARATELY, AT 7% PER ANNUM ON THE MONTHLY DECLINING BALANCES.

15 MONTHS - LEVEL CREDIT LIFE AND A&H

AMT OF LOAN	INTEREST	LIFE PREM	A&H PREM	AMT OF NOTE	MONTHLY PMTS	SIMPLE INT EQUIV	DEFAULT CHARGE
660	125.70	20.78	24.82	831.30	55.42	28	1.0475
680	128.95	21.40	25.55	855.90	57.06	28	1.0745
700	132.20	22.01	26.29	880.50	58.70	27	1.1016
720	135.30	22.62	27.03	904.95	60.33	27	1.1275
740	138.40	23.24	27.76	929.40	61.96	27	1.1533
760	141.50	23.85	28.50	953.85	63.59	27	1.1791
780	144.60	24.46	29.24	978.30	65.22	27	1.2050
800	147.70	25.07	29.98	1002.75	66.85	27	1.2308
820	150.65	25.68	30.72	1027.05	68.47	27	1.2554
840	153.60	26.28	31.47	1051.35	70.09	27	1.2800
860	156.55	26.89	32.21	1075.65	71.71	26	1.3045
880	159.50	27.50	32.95	1099.95	73.33	26	1.3291
900	162.45	28.11	33.69	1124.25	74.95	26	1.3537
920	165.25	28.71	34.44	1148.40	76.56	26	1.3770
940	168.20	29.32	35.18	1172.70	78.18	26	1.4016
960	171.00	29.92	35.78	1196.70	79.78	26	1.4250
980	173.80	30.52	36.53	1220.85	81.39	26	1.4483
1000	176.60	31.13	37.27	1245.00	83.00	26	1.4716
1020	177.60	31.68	37.92	1267.20	84.48	25	1.4800
1040	178.60	32.24	38.56	1289.40	85.96	25	1.4883
1060	179.45	32.79	39.21	1311.45	87.43	25	1.4954
1080	180.45	33.35	40.00	1333.80	88.92	24	1.5037
1100	181.45	33.90	40.65	1356.00	90.40	24	1.5120
1120	182.30	34.45	41.30	1378.05	91.87	24	1.5191
1140	183.30	35.01	41.94	1400.25	93.35	23	1.5275
1160	184.15	35.56	42.59	1422.30	94.82	23	1.5345
1180	185.15	36.11	43.24	1444.50	96.30	23	1.5429
1200	186.15	36.67	43.88	1466.70	97.78	23	1.5512
1220	187.00	37.22	44.53	1488.75	99.25	23	1.5583
1240	188.00	37.78	45.32	1511.10	100.74	22	1.5666
1260	189.00	38.33	45.97	1533.30	102.22	22	1.5750
1280	189.85	38.88	46.62	1555.35	103.69	22	1.5820
1300	190.85	39.44	47.26	1577.55	105.17	22	1.5904
1320	191.85	39.99	47.91	1599.75	106.65	21	1.5987
1340	192.70	40.55	48.55	1621.80	108.12	21	1.6058
1360	193.70	41.10	49.20	1644.00	109.60	21	1.6141
1380	194.70	41.66	49.99	1666.35	111.09	21	1.6225
1400	195.55	42.21	50.64	1688.40	112.56	21	1.6295
1420	196.55	42.77	51.28	1710.60	114.04	21	1.6379
1440	197.40	43.32	51.93	1732.65	115.[illegible]	20	1.6450
1460	198.40	43.87	52.58	1754.85	116.99	20	1.6533
1480	199.40	44.43	53.22	1777.05	118.47	20	1.6616
1500	200.25	44.98	53.87	1799.10	119.94	20	1.6687
1520	201.25	45.53	54.52	1821.30	121.42	20	1.6770
1540	202.25	46.09	55.31	1843.65	122.91	19	1.6854
1560	203.10	46.64	55.96	1865.70	124.38	19	1.6925
1580	204.10	47.20	56.60	1887.90	125.86	19	1.7003
1600	205.10	47.75	57.25	1910.10	127.34	19	1.7091

18 MONTHS - LEVEL CREDIT LIFE AND A&H

AMT OF LOAN	INTEREST	LIFE PREM	A&H PREM	AMT OF NOTE	MONTHLY PMTS	SIMPLE INT EQUIV	DEFAULT CHARGE
1	.08	.00	.00	1.08	.06		.0004
2	.34	.00	.00	2.34	.13		.0019
3	.60	.11	.07	3.78	.21		.0035
4	.86	.15	.03	5.04	.28		.0050
5	1.12	.19	.17	6.48	.36		.0065
6	1.38	.23	.13	7.74	.43		.0080
7	1.64	.28	.26	9.18	.51		.0095
8	1.90	.31	.23	10.44	.58		.0111
9	2.16	.35	.19	11.70	.65		.0126
10	2.42	.39	.33	13.14	.73		.0141
11	2.68	.43	.29	14.40	.80		.0156
12	2.94	.48	.42	15.84	.88		.0171
13	3.20	.51	.39	17.10	.95		.0187
14	3.46	.56	.52	18.54	1.03		.0202
15	3.72	.59	.49	19.80	1.10		.0217
16	3.98	.64	.62	21.24	1.18		.0232
17	4.24	.68	.58	22.50	1.25		.0247
18	4.50	.72	.72	23.94	1.33		.0263
19	4.76	.76	.68	25.20	1.40		.0278
20	5.02	.79	.65	26.46	1.47	30	.0293
30	7.62	1.20	1.14	39.96	2.22	30	.0445
40	10.04	1.59	1.47	53.10	2.95	30	.0587
50	12.64	2.00	1.96	66.60	3.70	30	.0739
60	15.24	2.40	2.28	79.92	4.44	30	.0891
70	17.66	2.80	2.78	93.24	5.18	30	.1032
80	20.26	3.20	3.10	106.56	5.92	30	.1184
90	22.86	3.60	3.60	120.06	6.67	30	.1336
100	25.28	4.00	3.92	133.20	7.40	30	.1478
120	30.48	4.80	4.74	160.02	8.89	30	.1782
140	35.50	5.60	5.56	186.66	10.37	30	.2076
160	40.52	6.40	6.38	213.30	11.85	30	.2369
180	45.72	7.20	7.20	240.12	13.34	30	.2673
200	50.74	8.00	7.84	266.58	14.81	30	.2967
220	55.76	8.80	8.66	293.22	16.29	30	.3260
240	60.96	9.60	9.48	320.04	17.78	30	.3564
260	65.98	10.40	10.30	346.68	19.26	30	.3858
280	70.82	11.19	11.13	373.14	20.73	30	.4141
300	75.48	11.98	11.96	399.42	22.19	30	.4414
320	79.96	12.76	12.62	425.34	23.63	30	.4676
340	84.44	13.54	13.46	451.44	25.08	30	.4938
360	88.92	14.33	14.29	477.54	26.53	30	.5200
380	93.40	15.10	14.96	503.46	27.97	30	.5461
400	97.70	15.88	15.80	529.38	29.41	29	.5713
420	102.00	16.66	16.64	555.30	30.85	29	.5964
440	106.30	17.43	17.31	581.04	32.28	29	.6216
460	110.60	18.21	18.15	606.96	33.72	29	.6467
480	114.72	18.98	18.82	632.52	35.14	29	.6708
500	119.02	19.75	19.67	658.44	36.58	29	.6960
520	123.14	20.53	20.51	684.18	38.01	29	.7201
540	127.26	21.29	21.19	709.74	39.43	28	.7442
560	131.20	22.06	22.04	735.30	40.85	28	.7672
580	135.14	22.82	22.72	760.68	42.26	28	.7902
600	139.08	23.59	23.57	786.24	43.68	28	.8133
620	143.02	24.35	24.25	811.62	45.09	28	.8363
640	146.96	25.12	25.10	837.18	46.51	28	.8594

18 MONTHS - LEVEL CREDIT LIFE AND A&H

AMT OF LOAN	INTEREST	LIFE PREM	A&H PREM	AMT OF NOTE	MONTHLY PMTS	SIMPLE INT EQUIV	DEFAULT CHARGE
660	150.72	25.87	25.79	862.38	47.91	28	.8814
680	154.66	26.64	26.64	887.94	49.33	28	.9044
700	158.42	27.39	27.33	913.14	50.73	27	.9264
720	162.18	28.15	28.01	938.34	52.13	27	.9484
740	165.94	28.91	28.87	963.72	53.54	27	.9704
760	169.70	29.67	29.55	988.92	54.94	27	.9923
780	173.28	30.42	30.42	1014.12	56.34	27	1.0133
800	177.04	31.18	31.10	1039.32	57.74	27	1.0353
820	180.62	31.93	31.79	1064.34	59.13	27	1.0562
840	184.20	32.69	32.65	1089.54	60.53	27	1.0771
860	187.60	33.43	33.35	1114.38	61.91	26	1.0970
880	191.18	34.18	34.04	1139.40	63.30	26	1.1180
900	194.58	34.93	34.91	1164.42	64.69	26	1.1378
920	198.16	35.68	35.60	1189.44	66.08	26	1.1588
940	201.56	36.43	36.29	1214.28	67.46	26	1.1787
960	204.96	37.18	37.16	1239.30	68.85	26	1.1985
980	208.36	37.92	37.86	1264.14	70.23	26	1.2184
1000	211.58	38.66	38.56	1288.80	71.60	26	1.2373
1020	212.82	39.34	39.32	1311.48	72.86	25	1.2445
1040	213.88	40.01	39.91	1333.80	74.10	25	1.2507
1060	215.12	40.69	40.67	1356.48	75.36	25	1.2580
1080	216.18	41.36	41.26	1378.80	76.60	24	1.2642
1100	217.24	42.04	42.02	1401.30	77.85	24	1.2704
1120	218.48	42.71	42.61	1423.80	79.10	24	1.2776
1140	219.54	43.39	43.37	1446.30	80.35	23	1.2838
1160	220.60	44.06	43.96	1468.62	81.59	23	1.2900
1180	221.84	44.74	44.72	1491.30	82.85	23	1.2973
1200	222.90	45.41	45.31	1513.62	84.09	23	1.3035
1220	224.14	46.09	46.07	1536.30	85.35	23	1.3107
1240	225.20	46.76	46.66	1558.62	86.59	22	1.3169
1260	226.26	47.43	47.43	1581.12	87.84	22	1.3231
1280	227.50	48.11	48.01	1603.62	89.09	22	1.3304
1300	228.56	48.78	48.78	1626.12	90.34	22	1.3366
1320	229.62	49.45	49.37	1648.44	91.58	21	1.3428
1340	230.86	50.13	50.13	1671.12	92.84	21	1.3500
1360	231.92	50.80	50.72	1693.44	94.08	21	1.3562
1380	232.98	51.48	51.48	1715.94	95.33	21	1.3624
1400	234.22	52.15	52.07	1738.44	96.58	21	1.3697
1420	235.28	52.83	52.83	1760.94	97.83	21	1.3759
1440	236.52	53.50	53.42	1783.44	99.08	20	1.3831
1460	237.58	54.18	54.18	1805.94	100.33	20	1.3893
1480	238.64	54.85	54.77	1828.26	101.57	20	1.3955
1500	239.88	55.53	55.53	1850.94	102.83	20	1.4028
1520	240.94	56.20	56.12	1873.26	104.07	20	1.4090
1540	242.00	56.87	56.71	1895.58	105.31	19	1.4152
1560	243.24	57.55	57.47	1918.26	106.57	19	1.4224
1580	244.30	58.22	58.06	1940.58	107.81	19	1.4286
1600	245.54	58.90	58.82	1963.26	109.07	19	1.4359

21 MONTHS - LEVEL CREDIT LIFE AND A&H

AMT OF LOAN	INTEREST	LIFE PREM	A&H PREM	AMT OF NOTE	MONTHLY PMTS	SIMPLE INT EQUIV	DEFAULT CHARGE
1	.26	.00	.00	1.26	.06		.0011
2	.52	.00	.00	2.52	.12		.0022
3	.78	.14	.07	3.99	.19		.0033
4	1.04	.18	.03	5.25	.25		.0045
5	1.30	.24	.18	6.72	.32		.0056
6	1.77	.29	.13	8.19	.39		.0076
7	2.03	.34	.29	9.66	.46		.0087
8	2.29	.38	.25	10.92	.52		.0099
9	2.55	.43	.20	12.18	.58		.0110
10	2.81	.48	.36	13.65	.65		.0121
11	3.07	.52	.32	14.91	.71		.0132
12	3.54	.58	.47	16.59	.79		.0153
13	3.80	.62	.43	17.85	.85		.0164
14	4.06	.68	.58	19.32	.92		.0175
15	4.32	.72	.54	20.58	.98		.0187
16	4.58	.76	.50	21.84	1.04		.0198
17	5.05	.82	.65	23.52	1.12		.0218
18	5.31	.87	.60	24.78	1.18		.0229
19	5.57	.92	.76	26.25	1.25		.0241
20	5.83	.96	.72	27.51	1.31	30	.0252
30	8.85	1.45	1.07	41.37	1.97	30	.0383
40	11.87	1.94	1.63	55.44	2.64	30	.0513
50	14.68	2.42	1.99	69.09	3.29	30	.0635
60	17.70	2.90	2.35	82.95	3.95	30	.0766
70	20.72	3.40	2.90	97.02	4.62	30	.0896
80	23.74	3.88	3.26	110.88	5.28	30	.1027
90	26.76	4.37	3.61	124.74	5.94	30	.1158
100	29.57	4.84	3.98	138.39	6.59	30	.1280
120	35.61	5.82	4.89	166.32	7.92	30	.1541
140	41.65	6.80	5.80	194.25	9.25	30	.1803
160	47.48	7.76	6.52	221.76	10.56	30	.2055
180	53.52	8.74	7.43	249.69	11.89	30	.2316
200	59.35	9.70	8.15	277.20	13.20	30	.2569
220	65.39	10.68	9.06	305.13	14.53	30	.2830
240	71.22	11.65	9.98	332.85	15.85	30	.3083
260	77.26	12.62	10.69	360.57	17.17	30	.3344
280	82.88	13.58	11.62	388.08	18.48	30	.3587
300	88.29	14.53	12.35	415.17	19.77	30	.3822
320	93.70	15.48	13.08	442.26	21.06	30	.4056
340	98.90	16.43	14.02	469.35	22.35	30	.4281
360	104.10	17.37	14.76	496.23	23.63	30	.4506
380	109.30	18.32	15.70	523.32	24.92	30	.4731
400	114.29	19.25	16.45	549.99	26.19	29	.4947
420	119.28	20.18	17.20	576.66	27.46	29	.5163
440	124.27	21.12	17.94	603.33	28.73	29	.5379
460	129.26	22.06	18.89	630.21	30.01	29	.5595
480	134.25	22.99	19.64	656.88	31.28	29	.5811
500	139.03	23.92	20.39	683.34	32.54	29	.6018
520	144.02	24.85	21.14	710.01	33.81	29	.6234
540	148.80	25.78	22.10	736.68	35.08	28	.6441
560	153.37	26.70	22.86	762.93	36.33	28	.6639
580	158.15	27.63	23.61	789.39	37.59	28	.6846
600	162.72	28.55	24.37	815.64	38.84	28	.7044
620	167.29	29.47	25.13	841.89	40.09	28	.7241
640	171.65	30.38	25.90	867.93	41.33	28	.7430

WISCONSIN

115.09

REPAYMENT SCHEDULES

MARCH, 1959

6 MONTHLY INSTALMENTS

EACH INSTALMENT 2	AMOUNT OF NOTE 3	DISCOUNT 4	SERVICE FEE 5	PROCEEDS AFTER DEDUCTING DISCOUNT & SERV FEE 6	COST OF LIFE INS 7	REMAINING PROCEEDS AFTER DEDUCTING LIFE INS 8	PERCENT PER ANNUM INTEREST CHARGED 9
55	330	13.05	6.60	310.35	1.24	309.11	21.39
60	360	14.10	7.20	338.70	1.35	337.35	21.25
65	390	15.15	7.80	367.05	1.46	365.59	21.13
70	420	16.20	8.40	395.40	1.58	393.82	21.03
75	450	17.25	9.00	423.75	1.69	422.06	20.94
80	480	18.30	9.60	452.10	1.80	450.30	20.86
85	510	19.35	10.20	480.45	1.91	478.54	20.79
90	540	20.40	10.80	508.80	2.03	506.77	20.73
95	570	21.45	11.40	537.15	2.14	535.01	20.67
100	600	22.50	12.00	565.50	2.25	563.25	20.62
110	660	24.60	13.20	622.20	2.48	619.72	20.54
120	720	26.70	14.40	678.90	2.70	676.20	20.47
130	780	28.80	15.60	735.60	2.93	732.67	20.41
140	840	30.90	16.80	792.30	3.15	789.15	20.36
150	900	33.00	18.00	849.00	3.38	845.62	20.31
160	960	35.10	19.20	905.70	3.60	902.10	20.27
170	1020	37.20	20.00	962.80	3.83	958.97	20.09
180	1080	39.30	20.00	1020.70	4.05	1016.65	19.65
190	1140	41.40	20.00	1078.60	4.28	1074.32	19.26
200	1200	43.50	20.00	1136.50	4.50	1132.00	18.91
210	1260	45.60	20.00	1194.40	4.73	1189.67	18.59
220	1320	47.70	20.00	1252.30	4.95	1247.35	18.30
230	1380	49.80	20.00	1310.20	5.18	1305.02	18.04
240	1440	51.90	20.00	1368.10	5.40	1362.70	17.80
250	1500	54.00	20.00	1426.00	5.63	1420.37	17.58
260	1560	56.10	20.00	1483.90	5.85	1478.05	17.37
270	1620	58.20	20.00	1541.80	6.08	1535.72	17.19
280	1680	60.30	20.00	1599.70	6.30	1593.40	17.01
290	1740	62.40	20.00	1657.60	6.53	1651.07	16.85
300	1800	64.50	20.00	1715.50	6.75	1708.75	16.70
310	1860	66.60	20.00	1773.40	6.98	1766.42	16.35
320	1920	68.70	20.00	1831.30	7.20	1824.10	16.42
330	1980	70.80	20.00	1889.20	7.43	1881.77	16.30
340	2040	72.90	20.00	1947.10	7.65	1939.45	16.18
349	2094	74.79	20.00	1999.21	7.85	1991.36	16.08

CHART NO. 3235 115.09

12 MONTHLY INSTALMENTS

EACH INSTAL-MENT 2	AMOUNT OF NOTE 3	DIS-COUNT 4	SER-VICE FEE 5	PROCEEDS AFTER DEDUCTING DISCOUNT & SERV FEE 6	COST OF LIFE INS 7	REMAINING PROCEEDS AFTER DEDUCTING LIFE INS 8	PERCENT PER ANNUM INTEREST CHARGED 9
28	336	26.52	6.72	302.76	2.52	300.24	19.68
30	360	28.20	7.20	324.60	2.70	321.90	19.55
32	384	29.88	7.68	346.44	2.88	343.56	19.44
34	408	31.56	8.16	368.28	3.06	365.22	19.34
36	432	33.24	8.64	390.12	3.24	386.88	19.26
38	456	34.92	9.12	411.96	3.42	408.54	19.18
40	480	36.60	9.60	433.80	3.60	430.20	19.11
45	540	40.80	10.80	488.40	4.05	484.35	18.96
50	600	45.00	12.00	543.00	4.50	538.50	18.84
55	660	49.20	13.20	597.60	4.95	592.65	18.74
60	720	53.40	14.40	652.20	5.40	646.80	18.66
65	780	57.60	15.60	706.80	5.85	700.95	18.60
70	840	61.80	16.80	761.40	6.30	755.10	18.54
75	900	66.00	18.00	816.00	6.75	809.25	18.49
80	960	70.20	19.20	870.60	7.20	863.40	18.44
85	1020	74.40	20.00	925.60	7.65	917.95	18.32
90	1080	78.60	20.00	981.40	8.10	973.30	18.05
95	1140	82.80	20.00	1037.20	8.55	1028.65	17.82
100	1200	87.00	20.00	1093.00	9.00	1084.00	17.60
105	1260	91.20	20.00	1148.80	9.45	1139.35	17.41
110	1320	95.40	20.00	1204.60	9.90	1194.70	17.24
115	1380	99.60	20.00	1260.40	10.35	1250.05	17.08
120	1440	103.80	20.00	1316.20	10.80	1305.40	16.93
125	1500	108.00	20.00	1372.00	11.25	1360.75	16.80
130	1560	112.20	20.00	1427.80	11.70	1416.10	16.67
135	1620	116.40	20.00	1483.60	12.15	1471.45	16.56
140	1680	120.60	20.00	1539.40	12.60	1526.80	16.45
145	1740	124.80	20.00	1595.20	13.05	1582.15	16.35
150	1800	129.00	20.00	1651.00	13.50	1637.50	16.26
155	1860	133.20	20.00	1706.80	13.95	1692.85	16.17
160	1920	137.40	20.00	1762.60	14.40	1748.20	16.09
165	1980	141.60	20.00	1818.40	14.85	1803.55	16.02
170	2040	145.80	20.00	1874.20	15.30	1858.90	15.95
175	2100	150.00	20.00	1930.00	15.75	1914.25	15.88
181	2172	155.04	20.00	1996.96	16.29	1980.67	15.80

CHART NO. 3235 115.09

15 MONTHLY INSTALMENTS

EACH INSTAL- MENT 2	AMOUNT OF NOTE 3	DIS- COUNT 4	SER- VICE FEE 5	PROCEEDS AFTER DEDUCTING DISCOUNT & SERV FEE 6	COST OF LIFE INS 7	REMAINING PROCEEDS AFTER DEDUCTING LIFE INS 8	PERCENT PER ANNUM INTEREST CHARGED 9
24	360	35.25	7.20	317.55	3.38	314.17	19.33
26	390	37.88	7.80	344.32	3.66	340.66	19.19
28	420	40.50	8.40	371.10	3.94	367.16	19.06
30	450	43.13	9.00	397.87	4.22	393.65	18.96
32	480	45.75	9.60	424.65	4.50	420.15	18.86
34	510	48.38	10.20	451.42	4.78	446.64	18.78
36	540	51.00	10.80	478.20	5.06	473.14	18.71
38	570	53.63	11.40	504.97	5.34	499.63	18.65
40	600	56.25	12.00	531.75	5.63	526.12	18.59
45	675	62.81	13.50	598.69	6.33	592.36	18.46
50	750	69.38	15.00	665.62	7.03	658.59	18.36
55	825	75.94	16.50	732.56	7.73	724.83	18.28
60	900	82.50	18.00	799.50	8.44	791.06	18.22
65	975	89.06	19.50	866.44	9.14	857.30	18.16
70	1050	95.63	20.00	934.37	9.84	924.53	17.94
75	1125	102.19	20.00	1002.81	10.55	992.26	17.67
80	1200	108.75	20.00	1071.25	11.25	1060.00	17.44
85	1275	115.31	20.00	1139.69	11.95	1127.74	17.24
90	1350	121.88	20.00	1208.12	12.66	1195.46	17.05
95	1425	128.44	20.00	1276.56	13.36	1263.20	16.89
100	1500	135.00	20.00	1345.00	14.06	1330.94	16.74
105	1575	141.56	20.00	1413.44	14.77	1398.67	16.61
110	1650	148.13	20.00	1481.87	15.47	1466.40	16.49
115	1725	154.69	20.00	1550.31	16.17	1534.14	16.38
120	1800	161.25	20.00	1618.75	16.88	1601.87	16.28
125	1875	167.81	20.00	1687.19	17.58	1669.61	16.19
130	1950	174.38	20.00	1755.62	18.28	1737.34	16.11
135	2025	180.94	20.00	1824.06	18.98	1805.08	16.03
140	2100	187.50	20.00	1892.50	19.69	1872.81	15.95
145	2175	194.06	20.00	1960.94	20.39	1940.55	15.89
147	2205	196.69	20.00	1988.31	20.67	1967.64	15.86

CHART NO. 3235 115.09

18 MONTHLY INSTALMENTS

EACH INSTAL-MENT 2	AMOUNT OF NOTE 3	DIS-COUNT 4	SER-VICE FEE 5	PROCEEDS AFTER DEDUCTING DISCOUNT & SERV FEE 6	COST OF LIFE INS 7	REMAINING PROCEEDS AFTER DEDUCTING LIFE INS 8	PERCENT PER ANNUM INTEREST CHARGED 9
20	360	42.30	7.20	310.50	4.05	306.45	19.27
22	396	46.08	7.92	342.00	4.46	337.54	19.09
24	432	49.86	8.64	373.50	4.86	368.64	18.94
26	468	53.64	9.36	405.00	5.27	399.73	18.82
28	504	57.42	10.08	436.50	5.67	430.83	18.71
30	540	61.20	10.80	468.00	6.08	461.92	18.62
32	576	64.98	11.52	499.50	6.48	493.02	18.54
34	612	68.76	12.24	531.00	6.89	524.11	18.47
36	648	72.54	12.96	562.50	7.29	555.21	18.41
38	684	76.32	13.68	594.00	7.70	586.30	18.35
40	720	80.10	14.40	625.50	8.10	617.40	18.30
42	756	83.88	15.12	657.00	8.51	648.49	18.25
44	792	87.66	15.84	688.50	8.91	679.59	18.21
46	828	91.44	16.56	720.00	9.32	710.68	18.17
48	864	95.22	17.28	751.50	9.72	741.78	18.14
50	900	99.00	18.00	783.00	10.13	772.87	18.11
55	990	108.45	19.80	861.75	11.14	850.61	18.04
60	1080	117.90	20.00	942.10	12.15	929.95	17.75
65	1170	127.35	20.00	1022.65	13.16	1009.49	17.48
70	1260	136.80	20.00	1103.20	14.18	1089.02	17.26
75	1350	146.25	20.00	1183.75	15.19	1168.56	17.06
80	1440	155.70	20.00	1264.30	16.20	1248.10	16.89
85	1530	165.15	20.00	1344.85	17.21	1327.64	16.73
90	1620	174.60	20.00	1425.40	18.23	1407.17	16.60
95	1710	184.05	20.00	1505.95	19.24	1486.71	16.48
100	1800	193.50	20.00	1586.50	20.25	1566.25	16.37
105	1890	202.95	20.00	1667.05	21.26	1645.79	16.27
110	1980	212.40	20.00	1747.60	22.28	1725.32	16.18
115	2070	221.85	20.00	1828.15	23.29	1804.86	16.10
120	2160	231.30	20.00	1908.70	24.30	1884.40	16.03
125	2250	240.75	20.00	1989.25	25.31	1963.94	15.96

CHART NO. 3235 115.09

20 MONTHLY INSTALMENTS

EACH INSTAL-MENT 2	AMOUNT OF NOTE 3	DIS-COUNT 4	SER-VICE FEE 5	PROCEEDS AFTER DEDUCTING DISCOUNT & SERV FEE 6	COST OF LIFE INS 7	REMAINING PROCEEDS AFTER DEDUCTING LIFE INS 8	PERCENT PER ANNUM INTEREST CHARGED 9
18	360	47.00	7.20	305.80	4.50	301.30	19.28
20	400	51.67	8.00	340.33	5.00	335.33	19.09
22	440	56.33	8.80	374.87	5.50	369.37	18.92
24	480	61.00	9.60	409.40	6.00	403.40	18.79
26	520	65.67	10.40	443.93	6.50	437.43	18.67
28	560	70.33	11.20	478.47	7.00	471.47	18.57
30	600	75.00	12.00	513.00	7.50	505.50	18.49
33	660	82.00	13.20	564.80	8.25	556.55	18.38
36	720	89.00	14.40	616.60	9.00	607.60	18.29
39	780	96.00	15.60	668.40	9.75	658.65	18.21
42	840	103.00	16.80	720.20	10.50	709.70	18.15
45	900	110.00	18.00	772.00	11.25	760.75	18.09
48	960	117.00	19.20	823.80	12.00	811.80	18.04
51	1020	124.00	20.00	876.00	12.75	863.25	17.94
54	1080	131.00	20.00	929.00	13.50	915.50	17.75
57	1140	138.00	20.00	982.00	14.25	967.75	17.58
60	1200	145.00	20.00	1035.00	15.00	1020.00	17.42
63	1260	152.00	20.00	1088.00	15.75	1072.25	17.29
66	1320	159.00	20.00	1141.00	16.50	1124.50	17.16
69	1380	166.00	20.00	1194.00	17.25	1176.75	17.04
72	1440	173.00	20.00	1247.00	18.00	1229.00	16.94
75	1500	180.00	20.00	1300.00	18.75	1281.25	16.84
78	1560	187.00	20.00	1353.00	19.50	1333.50	16.75
81	1620	194.00	20.00	1406.00	20.25	1385.75	16.67
84	1680	201.00	20.00	1459.00	21.00	1438.00	16.59
87	1740	208.00	20.00	1512.00	21.75	1490.25	16.52
90	1800	215.00	20.00	1565.00	22.50	1542.50	16.45
93	1860	222.00	20.00	1618.00	23.25	1594.75	16.39
96	1920	229.00	20.00	1671.00	24.00	1647.00	16.33
99	1980	236.00	20.00	1724.00	24.75	1699.25	16.28
102	2040	243.00	20.00	1777.00	25.50	1751.50	16.23
105	2100	250.00	20.00	1830.00	26.25	1803.75	16.18
108	2160	257.00	20.00	1883.00	27.00	1855.00	16.13
111	2220	264.00	20.00	1936.00	27.75	1908.25	16.09
114	2280	271.00	20.00	1939.00	28.50	1960.50	16.05

CHART NO. 3235 115.09

24 MONTHLY INSTALMENTS

EACH INSTAL-MENT 2	AMOUNT OF NOTE 3	DIS-COUNT 4	SER-VICE FEE 5	PROCEEDS AFTER DEDUCTING DISCOUNT & SERV FEE 6	COST OF LIFE INS 7	REMAINING PROCEEDS AFTER DEDUCTING LIFE INS 8	PERCENT PER ANNUM INTEREST CHARGED 9
16	384	59.76	7.68	316.56	5.76	310.80	19.28
17	408	63.12	8.16	336.72	6.12	330.60	19.16
18	432	66.48	8.64	356.88	6.48	350.40	19.06
19	456	69.84	9.12	377.04	6.84	370.20	18.97
20	480	73.20	9.60	397.20	7.20	390.00	18.88
22	528	79.92	10.56	437.52	7.92	429.60	18.74
24	576	86.64	11.52	477.84	8.64	469.20	18.62
26	624	93.36	12.48	518.16	9.36	508.80	18.52
28	672	100.08	13.44	558.48	10.08	548.40	18.44
30	720	106.80	14.40	598.80	10.80	588.00	18.36
32	768	113.52	15.36	639.12	11.52	627.60	18.30
34	816	120.24	16.32	679.44	12.24	667.20	18.24
36	864	126.96	17.28	719.76	12.96	706.80	18.19
38	912	133.68	18.24	760.08	13.68	746.40	18.15
40	960	140.40	19.20	800.40	14.40	786.00	18.11
42	1008	147.12	20.00	840.88	15.12	825.76	18.05
44	1056	153.84	20.00	882.16	15.84	866.32	17.90
46	1104	160.56	20.00	923.44	16.56	906.88	17.77
48	1152	167.28	20.00	964.72	17.28	947.44	17.65
50	1200	174.00	20.00	1006.00	18.00	988.00	17.54
55	1320	190.80	20.00	1109.20	19.80	1089.40	17.30
60	1440	207.60	20.00	1212.40	21.60	1190.80	17.10
65	1560	224.40	20.00	1315.60	23.40	1292.20	16.93
70	1680	241.20	20.00	1418.80	25.20	1393.60	16.78
75	1800	258.00	20.00	1522.00	27.00	1495.00	16.66
80	1920	274.80	20.00	1625.20	28.80	1596.40	16.55
85	2040	291.60	20.00	1728.40	30.60	1697.80	16.45
90	2160	308.40	20.00	1831.60	32.40	1799.20	16.36
95	2280	325.20	20.00	1934.80	34.20	1900.60	16.29
98	2352	335.28	20.00	1996.72	35.28	1961.44	16.25

CHART NO. 3235 115.09

30 MONTHLY INSTALMENTS

EACH INSTAL-MENT 2	AMOUNT OF NOTE 3	DIS-COUNT 4	SER-VICE FEE 5	PROCEEDS AFTER DEDUCTING DISCOUNT & SERV FEE 6	COST OF LIFE INS 7	REMAINING PROCEEDS AFTER DEDUCTING LIFE INS 8	PERCENT PER ANNUM INTEREST CHARGED 9
13	390	75.75	7.80	306.45	7.31	299.14	19.58
14	420	81.00	8.40	330.60	7.88	322.72	19.43
15	450	86.25	9.00	354.75	8.44	346.31	19.30
16	480	91.50	9.60	378.90	9.00	369.90	19.19
17	510	96.75	10.20	403.05	9.56	393.49	19.09
18	540	102.00	10.80	427.20	10.13	417.07	19.00
19	570	107.25	11.40	451.35	10.69	440.66	18.93
20	600	112.50	12.00	475.50	11.25	464.25	18.85
21	630	117.75	12.60	499.65	11.81	487.84	18.79
22	660	123.00	13.20	523.80	12.38	511.42	18.73
24	720	133.50	14.40	572.10	13.50	558.60	18.63
26	780	144.00	15.60	620.40	14.63	605.77	18.55
28	840	154.50	16.80	668.70	15.75	652.95	18.47
30	900	165.00	18.00	717.00	16.88	700.12	18.41
32	960	175.50	19.20	765.30	18.00	747.30	18.35
34	1020	186.00	20.00	814.00	19.13	794.87	18.26
36	1080	196.50	20.00	863.50	20.25	843.25	18.10
38	1140	207.00	20.00	913.00	21.38	891.62	17.96
40	1200	217.50	20.00	962.50	22.50	940.00	17.84
42	1260	228.00	20.00	1012.00	23.63	988.37	17.72
44	1320	238.50	20.00	1061.50	24.75	1036.75	17.62
46	1380	249.00	20.00	1111.00	25.88	1085.12	17.52
48	1440	259.50	20.00	1160.50	27.00	1133.50	17.43
50	1500	270.00	20.00	1210.00	28.13	1181.87	17.35
53	1590	285.75	20.00	1284.25	29.81	1254.44	17.25
56	1680	301.50	20.00	1358.50	31.50	1327.00	17.15
59	1770	317.25	20.00	1432.75	33.19	1399.56	17.06
62	1860	333.00	20.00	1507.00	34.88	1472.12	16.98
65	1950	348.75	20.00	1581.25	36.56	1544.69	16.91
68	2040	364.50	20.00	1655.50	38.25	1617.25	16.85
71	2130	380.25	20.00	1729.75	39.94	1689.81	16.79
74	2220	396.00	20.00	1804.00	41.63	1762.37	16.74
77	2310	411.75	20.00	1878.25	43.31	1834.94	16.69
80	2400	427.50	20.00	1952.50	45.00	1907.50	16.64
81	2430	432.75	20.00	1977.25	45.56	1931.69	16.62

CHART NO. 3235

115.09

Table distributed by South Dakota Bankers Association. Submitted for the record by Herbert Cheever, Brookings, S. Dak.

Flat Finance Rate Percent Net Discount	PERCENT YIELD OR RETURN PER ANNUM									Flat Finance Rate Percent Net Discount
	6 Months	8 Months	10 Months	12 Months	15 Months	18 Months	24 Months	30 Months	36 Months	
1.00%	3.43%	2.67%	2.18%	1.85%	1.50%	1.26%	.96%	.77%	.65%	1.00%
1.25	4.29	3.33	2.73	2.31	1.88	1.58	1.20	.97	.81	1.25
1.50	5.14	4.00	3.27	2.77	2.25	1.89	1.44	1.16	.97	1.50
1.75	6.00	4.67	3.82	3.23	2.63	2.21	1.68	1.35	1.14	1.75
2.00	6.86	5.33	4.36	3.69	3.00	2.53	1.92	1.55	1.30	2.00
2.25	7.71	6.00	4.91	4.15	3.38	2.84	2.16	1.74	1.46	2.25
2.50	8.57	6.67	5.45	4.62	3.75	3.16	2.40	1.94	1.62	2.50
2.75	9.43	7.33	6.00	5.08	4.13	3.47	2.64	2.13	1.78	2.75
3.00	10.29	8.00	6.55	5.54	4.50	3.79	2.88	2.32	1.96	3.00
3.25	11.14	8.67	7.09	6.00	4.88	4.11	3.12	2.52	2.11	3.25
3.50	12.00	9.33	7.64	6.46	5.25	4.42	3.36	2.71	2.27	3.50
3.75	12.86	10.00	8.18	6.92	5.63	4.74	3.60	2.90	2.43	3.75
4.00	13.71	10.67	8.73	7.38	6.00	5.05	3.84	3.10	2.59	4.00
4.25	14.57	11.33	9.27	7.85	6.38	5.37	4.08	3.29	2.76	4.25
4.50	15.43	12.00	9.82	8.31	6.75	5.68	4.32	3.48	2.92	4.50
4.75	16.29	12.67	10.36	8.77	7.13	6.00	4.56	3.68	3.08	4.75
5.00	17.14	13.33	10.91	9.23	7.50	6.32	4.80	3.87	3.24	5.00
5.25	18.00	14.00	11.45	9.69	7.88	6.63	5.04	4.06	3.41	5.25
5.50	18.86	14.67	12.00	10.15	8.25	6.95	5.28	4.26	3.57	5.50
5.75	19.71	15.33	12.55	10.62	8.63	7.26	5.52	4.45	3.73	5.75
6.00	20.57	16.00	13.09	11.08	9.00	7.58	5.76	4.65	3.89	6.00
6.25	21.43	16.67	13.64	11.54	9.38	7.89	6.00	4.84	4.05	6.25
6.50	22.29	17.33	14.18	12.00	9.75	8.21	6.24	5.03	4.22	6.50
6.75	23.14	18.00	14.73	12.46	10.13	8.53	6.48	5.23	4.38	6.75
7.00	24.00	18.67	15.27	12.92	10.50	8.84	6.72	5.42	4.54	7.00
7.25	24.86	19.33	15.82	13.38	10.88	9.16	6.96	5.61	4.70	7.25
7.50	25.71	20.00	16.36	13.85	11.25	9.47	7.20	5.81	4.86	7.50
7.75	26.57	20.67	16.91	14.31	11.63	9.79	7.44	6.00	5.03	7.75
8.00	27.43	21.33	17.45	14.77	12.00	10.11	7.68	6.19	5.19	8.00
8.25	28.29	22.00	18.00	15.23	12.38	10.42	7.92	6.39	5.35	8.25
8.50	29.14	22.67	18.55	15.69	12.75	10.74	8.16	6.58	5.51	8.50
8.75	30.00	23.33	19.09	16.15	13.13	11.05	8.40	6.77	5.68	8.75
9.00	30.86	24.00	19.64	16.62	13.50	11.37	8.64	6.97	5.84	9.00
9.25	31.71	24.67	20.18	17.08	13.88	11.68	8.88	7.16	6.00	9.25
9.50	32.57	25.33	20.73	17.54	14.25	12.00	9.12	7.35	6.16	9.50
9.75	33.43	26.00	21.27	18.00	14.63	12.32	9.36	7.55	6.32	9.75
10.00	34.29	26.67	21.82	18.46	15.00	12.63	9.60	7.74	6.49	10.00
10.25	35.14	27.33	22.36	18.92	15.38	12.95	9.84	7.94	6.65	10.25
10.50	36.00	28.00	22.91	19.38	15.75	13.26	10.08	8.13	6.81	10.50
10.75	36.86	28.67	23.45	19.85	16.13	13.58	10.32	8.32	6.97	10.75
11.00	37.71	29.33	24.00	20.31	16.50	13.89	10.56	8.52	7.14	11.00
11.25	38.57	30.00	24.55	20.77	16.88	14.21	10.80	8.71	7.30	11.25
11.50	39.43	30.67	25.09	21.23	17.25	14.53	11.04	8.90	7.46	11.50
11.75	40.29	31.33	25.64	21.69	17.63	14.84	11.28	9.10	7.62	11.75
12.00	41.14	32.00	26.18	22.15	18.00	15.16	11.52	9.29	7.78	12.00
12.25	42.00	32.67	26.73	22.62	18.38	15.47	11.76	9.48	7.95	12.25
12.50	42.86	33.33	27.27	23.08	18.75	15.79	12.00	9.68	8.11	12.50
12.75	43.71	34.00	27.82	23.54	19.13	16.11	12.24	9.87	8.27	12.75
13.00	44.57	34.67	28.36	24.00	19.50	16.42	12.48	10.06	8.43	13.00
13.25	45.43	35.33	28.91	24.46	19.88	16.74	12.72	10.26	8.59	13.25
13.50	46.29	36.00	29.45	24.92	20.25	17.05	12.96	10.45	8.76	13.50
13.75	47.14	36.67	30.00	25.38	20.63	17.37	13.20	10.65	8.92	13.75
14.00	48.00	37.33	30.55	25.85	21.00	17.68	13.44	10.84	9.08	14.00
14.25	48.86	38.00	31.09	26.31	21.38	18.00	13.68	11.03	9.24	14.25
14.50	49.71	38.67	31.64	26.77	21.75	18.32	13.92	11.23	9.41	14.50
14.75	50.57	39.33	32.18	27.23	22.13	18.63	14.16	11.42	9.57	14.75
15.00	51.43	40.00	32.73	27.69	22.50	18.95	14.40	11.61	9.73	15.00
15.25	52.29	40.67	33.27	28.15	22.88	19.26	14.64	11.81	9.89	15.25
15.50	53.14	41.33	33.82	28.62	23.25	19.58	14.88	12.00	10.05	15.50
15.75	54.00	42.00	34.36	29.10	23.63	19.89	15.12	12.19	10.22	15.75
16.00	54.86	42.67	34.91	29.54	24.00	20.21	15.36	12.39	10.38	16.00
16.25	55.71	43.33	35.45	30.00	24.38	20.53	15.60	12.58	10.54	16.25
16.50	56.57	44.00	36.00	30.46	24.75	20.84	15.84	12.77	10.70	16.50
16.75	57.43	44.67	36.55	30.92	25.13	21.16	16.08	12.97	10.86	16.75
17.00	58.29	45.33	37.09	31.38	25.50	21.47	16.32	13.16	11.03	17.00
17.25	59.14	46.00	37.64	31.85	25.88	21.79	16.56	13.35	11.19	17.25
17.50	60.00	46.67	38.18	32.31	26.25	22.11	16.80	13.55	11.35	17.50
17.75	60.86	47.33	38.73	32.77	26.63	22.42	17.04	13.74	11.51	17.75
18.00	61.71	48.00	39.27	33.23	27.00	22.74	17.28	13.94	11.68	18.00

(Mr. J. D. Elmer, representing the American Bankers Association, had commented on this table in the 1961 hearings. His statement follows:)

At the hearing on July 20 Senator Douglas asked me a question concerning a conversion chart which I believe is issued by a State banking association. I was handed a copy of this chart just as our testimony was being concluded, and I had no opportunity to comment on its usefulness.

This chart, which is attached, is essentially the same as all other charts which offer a simple conversion of basic annual finance charge to a basic simple interest rate. It is somewhat unusual in its organization in that it gives the various flat finance charges in increments of 0.25 percent from 1 to 18 percent. In our opinion the rates expressed under the heading "Flat finance rate percent not discount" should be quoted in dollars per hundred. However, this chart may have some special application of which I am not aware.

In any event, this chart has the same shortcomings of all other simplified conversion methods. It can only be applied with accuracy to those transactions which are absolutely regular in all respects. Wherever the schedule of payments has been varied for the accommodation of the customer in any respect, the chart would be inaccurate in proportion to the extent of the variance. These variations occur frequently, running as high as 70 to 80 percent in the case of extended periods to the date of first payment. I should like to restate at this point that these variations are, in nearly all cases, made at the request of and for the convenience of the borrower. It is a well-established tradition that these concessions will be made by the lender without additional charge in spite of the fact that they may result in a moderate variation in the simple interest yield on the investment.

Other witnesses have offered for exhibit various other charts, slide rules, etc., which are effective within the narrow range of services those organizations perform for their clients. A commercial bank, seeking to perform an effective finance service throughout the broad range of demand made upon it, finds these specialized charts of no assistance. Our only means of conversion are to apply complex formulas which are expensive and time consuming, and the result very seldom seems to be of interest to the borrower.

(Mr. J. O. Elmer, representing the American Bankers Association, illustrated the great practical problems of converting discount charges to simple interest. His statement follows:)

Some weeks ago, in an effort to educate ourselves on this point, we in California, through our California Bankers Association, addressed identical letters to three of our major universities, to the mathematics departments of these three major universities, and asked the simple question:

"What is the effective rate of interest charged on a loan of $1,000 when a total of $1,060 is to be repaid in 12 equal monthly payments?"

I have here stenciled or mimeographed copies of these letters should you gentlemen care to have them.

Mr. ELMER. In one instance we were informed that there were three possible theories for the conversion of discount charges to simple interest. These are known, first, as the merchant's rule, the constant-ratio method, and, finally, the U.S. rule, which has been approved by the Supreme Court.

In each of these three rules the result as given by these mathematicians comes out a different figure.

As a matter of fact, in two of the rules, two different possible solutions are offered.

In the other two letters that we received from the other universities, only a single answer was given. Each was different.

In other words, we received seven possible answers out of our one simple question.

Senator BENNETT. Mr. Elmer, may I interrupt at this point to make it perfectly clear in the record that this was not a case where you had any unusual procedure for collecting payments. These were regular payments over a 1-year period, and the rate was 5 percent. You collected $60 on $1,000 over a year. Approximately $5 per month. Or it is five-tenths of 1 percent a month?

Mr. ELMER. Yes, Senator. The example we used assumed a \$6 per hundred per annum add-on of \$60 on \$1,000, with payments that were absolutely regular and equal both as to amount and term.

Senator BENNETT. Did any of the people who replied to you give you the formulas that they used?

Mr. ELMER. Yes, sir. And they are extremely lengthy formulas.

(The summaries referred to follow:)

QUESTION: What is the effective rate of interest charged on a loan of $1,000, when a total of $1,060 is repaid in 12 equal monthly payments?

ANSWER I:

In solving this problem, we shall first develop the theory needed to solve any problem of this sort.

Suppose that a loan of P dollars is made, and the borrower agrees to repay R dollars at the end of each period for n periods after receiving the loan. Then this will determine an effective interest rate i per period, and we shall now derive the relationship between P, R, n, and i.

This relationship is found by means of the principle of the "changing value of money through time." For instance, at a rate of 4% per annum, $104 one year from now is worth the same as $100 right now, because one shouldn't care whether he is given $100 now, or $104 one year from now. (If he did have a preference, then the interest rate applicable to his situation would be different from 4%.)

Thus, in our problem, we must equate P dollars now to the aggregate of payments of R dollars made at the end of each of n periods in the future.

R dollars one period hence is worth $\frac{R}{1+i}$ dollars now, R dollars two periods hence is worth $\frac{R}{(1+i)^2}$ dollars now, and R dollars k periods hence is worth $\frac{R}{(1+i)^k}$ dollars now. Thus we have

$$P = \frac{R}{1+i} + \frac{R}{(1+i)^2} + \frac{R}{(1+i)^3} + \cdots + \frac{R}{(1+i)^n}$$

Now, we multiply each side by $\frac{1}{1+i}$, and subtract the resulting equation from the first equation:

$$\frac{1}{1+i} \cdot P = \frac{R}{(1+i)^2} + \frac{R}{(1+i)^3} + \cdots + \frac{R}{(1+i)^n} + \frac{R}{(1+i)^{n+1}}$$

$$P - P \cdot \frac{1}{1+i} = \frac{R}{1+i} - \frac{R}{(1+i)^{n+1}} \; ,$$

and this can be simplified to the following:

$$\frac{R}{P} = \frac{i}{1-(1+i)^{-n}} = \frac{i(1+i)^n}{(1+i)^n - 1}$$

This fraction, $\frac{i}{1-(1+i)^{-n}}$, is tabulated in interest tables for various values of i and n. It is known by several names, including "capital recovery factor", used by Eugene L. Grant in <u>Principles of Engineering Economy</u> (3rd ed.), and "annuity whose present value is 1", used in the interest tables of the <u>Mathematical Tables from Handbook of Chemistry and Physics</u> (Tenth Ed.).

As far as this writer knows, there is no general formula giving i explicitly in terms of P, R, and n, so that to solve for i, one must use a method either of successive approximations, or of interpolation in interest tables, the latter of which is illustrated below.

Coming back to the problem posed at the beginning of this paper, we see that

$P = \$1{,}000$, $R = \frac{\$1{,}060}{12} = \$88.33$, and $n = 12$, the basic period being one month.

Thus $\frac{R}{P} = \frac{1{,}060}{12 \times 1{,}000} = 0.08833$; so we must solve for i in the equation,

$0.08833 = \frac{i}{1 - (1+i)^{-12}}$. Referring to the table of "annuity whose present value is 1" in the Handbook of Chemistry and Physics, we see that $\frac{0.0075}{1 - (1 + 0.0075)^{-12}} =$

0.08745, while $\frac{0.01}{1 - (1 + 0.01)^{-12}} = 0.08885$. The relationship between i and

$\frac{i}{1 - (1+i)^{-12}}$ is approximately linear over this range, so we may interpolate

between these two values, and we get $i = 0.00907 = 0.907\%$ per month. This is equivalent to a nominal rate of $(12)(0.907\%) = 10.9\%$ per annum, and an effective rate of $(1.00907)^{12} - 1 = 11.5\%$ per annum.

Reference:

Eugene L. Grant, Principles of Engineering Economy (Third Edition). New York: The Ronald Press Company, 1950.

Chapters 3, 4, and 5 of this book contain an excellent discussion of the theory needed to solve interest-rate problems, along with many numerical examples.

Example 21, page 61, is a problem almost exactly the same as that solved in this paper, the only difference being that in Example 21, the monthly payments are

$\frac{\$1{,}070}{12}$, instead of $\frac{\$1{,}060}{12}$.

QUESTION: What is the effective rate of interest charged on a loan of \$1,000, when a total of \$1,060 is repaid in 12 equal monthly payments?

ANSWER II:

The formula required to answer this question is as follows:

Find the interest rate (i) such that

$$\frac{1.06}{12} = \frac{(1+i)^{1/12} - 1}{i}(1 + i)$$

The answer to this problem is 11.45 per cent per year.

This answer is based on the assumption that money is always earning interest so that the unpaid installments can be paid at interest at the same rate. This is the usual assumption in all such problems involving interest. Your emphasis on the words "simple interest" is not clear. Perhaps the schedule below may clarify the answer I have given you. In it I have shown that if you calculate interest on the unpaid balance of the loan at the rate of .91 per cent per month, the loan is repaid in 12 equal installments of \$88.33. Since the interest rate of .91 per cent is not quite exact, the figures show that there will remain an unpaid balance of \$.20.

UNPAID BALANCE	INTEREST	PAID ON PRINCIPAL
\$ 1,000.00	\$ 9.10	\$ 79.23
920.77	8.38	79.95
840.82	7.65	80.68
760.14	6.92	81.41
678.73	6.18	82.15
596.58	5.43	82.90
513.68	4.68	83.65
430.03	3.91	84.42
345.61	3.15	85.18
260.43	2.37	85.96
174.47	1.59	86.74
87.73	.80	87.53
.20		

QUESTION: What is the effective rate of interest charged on a loan of $1,000, when a total of $1,060 is repaid in 12 equal monthly payments?

ANSWER III

Definition. The principal P is the net amount of money actually received (which may or may not be the amount "borrowed," as we have just seen).

The amount A is the amount of money to be repaid.

1. Merchant's rule. The theory behind this is the following. The entire principal (see definition above) is assumed to earn simple interest during the life of the debt; this interest is credited to the lender. Each partial payment is likewise assumed to earn the same interest, from the date of its payment to the date of final settlement; this latter interest is credited to the borrower.

Let I denote the monthly installment that the borrower pays. Then at the end of the loan, the lender has accrued

$$I[(1 + (n-1)i + (1 + (n-2)i) + \ldots + (1 + i) + 1]$$

and the principal has become $P(1 + n\,i)$. Setting these equal and solving for i gives (in this formula, I have used i = yearly rate, and n = number of months of payment)

$$i = \frac{24}{n} \quad \frac{n\,I - P}{2\,P - n\,I + I}$$

Thus,

(a). $i = \frac{24}{12}. \quad \frac{60}{1880 - 1000 + 83.33} \times 100 = 12.45\%$

(b). $i = \frac{24}{12}. \quad \frac{60}{2120 - 1060 + 88.33} \times 100 = 11.66\%$

NOTE: This formula can be adapted to installment buying, and is sometimes so used. Here, (n I-P) = "carrying charge" = K, and P = price of article minus down payment (i.e., unpaid balance) = U; and we get

$$i = \frac{24\,K}{U\,(n + 1) - K\,(n - 1)}$$

2. Constant ratio method. Here, the theory is the following. Each partial payment is made up of principal repayment and interest repayment; the ratio of these two quantities in each installment is constant, and equal to the ratio of the original principal to the total interest to be paid. On this assumption, with the notations as is 1., we find

$$i = 24 \cdot \frac{n\,I - P}{(n + 1)\,P}$$

ANSWER III (continued)

Thus, (a). $i = \frac{24 \times 60}{13 \times 940} \times 100 = 11.78\%$

(b). $i = \frac{24 \times 60}{13 \times 1000} \times 100 = 11.07\%$

NOTE: For installment buying, this leads to $i = \frac{24 K}{(n + 1) U}$

3. United States rule. This rule has the legal sanction of the U. S. Supreme Court. The theory behind this is the following. Each partial payment must be first used to pay the interest on the outstanding debt accrued from the date of the previous payment; the excess of this partial payment over the accrued interest is then used to reduce the outstanding debt. (This is sometimes called paying interest on the unpaid balance only - calculation based on the resulting outstanding debt.)
Letting D_2 = denote the remaining debt after the 1^{th} payment, i = interest rate per unit time, n = the number of units of time for the loan,

$$D_1 = P - (I - P_i) = P(1 + i) - I$$

$$D_2 = D_1 - (I - D_1 i) = D_1 (1 + i) - I = P(1 + i)^2 - I(1 + i) - I$$

- - - -

$$D_n = o = D_{n-1} (1 + i) - I$$

and therefore,

$$P(1 + i)^n = I\, S_{\overline{n}/i}$$

($S_{\overline{n}/i}$ is found in any handbook containing interest tables)

Two remarks are in order:

REMARK 1. It is unfortunate that finding i from this equation is not simple at all, and is a trial and error process. However, one can determine I in case the interest to be charged is known, and in this way determine what the total repayment should be (so that one can find the "service charge"). Thus, in case (b) with i = 6%/year and n = 12,

$$I = \frac{1000 \times (1.0616)}{12.3356} = 86.03 \text{ / monthly}$$

Thus, the total payment is (86.03)(12) = 1032.36; pocketing 1000, the person should pay back 1032.36.

If, on the other hand, i = 12%, the analogous calculation for the same case leads to a "service charge" of 66.33.

REMARK 2. If the monthly interest rate is quite small (say - .01) then it can be shown mathematically that the Merchant's rule will give a very close approximation to the interest rate under the United States rule.

EXCERPT FROM

INSTALMENT FINANCING

Practical Handbook
for computing

FINANCE RATES

DISCOUNT RATES

AVERAGE CASH TIME DECIMALS

YIELDS

W. RUSSELL MULES
J. WILMER LOVE

BALTIMORE
COMMERCIAL CREDIT CORPORATION
1959

INDEX

TABLES

Instalment Financing

Practical Handbook for computing

Finance Rates
Discount Rates
Average Cash Time Decimal
Yields

Definitions of the terms used will be given, to avoid the confusion which has sometimes arisen due to a lack of understanding or the misuse of these terms. The definitions given are intended for use only in the field of instalment financing.

"Yield" is the ratio of the charge to the average amount for one year of the cash invested in a transaction. This Yield is generally expressed as a percentage and although simply called Yield, shall always mean Yield per annum.

"Average Cash and/or Average Time" are terms which are used in the solution of the mathematical problems and shall mean the equivalent amount of the original principal outstanding for a period of one year or the equivalent portion of one year the original principal is outstanding.

"Discount Rate" is the rate by which the face of the note or instalment obligation is to be multiplied to determine the amount of the charge. The charge thus found is to be deducted from the face amount to determine the purchase price.

"Finance Rate" is the rate by which the original principal outstanding is to be multiplied to determine the amount of the charge. This charge is always added to the original principal outstanding to determine the face amount of the instalment note or obligation.

It is sometimes desirable to purchase paper for less than 100% advance, and the amount withheld (Reserve) can either be returned currently as collected, or held until the note has been fully paid. A further explanation of reserves returned currently as collected, or held until the note is fully paid, will be found in the rates and yields section.

There are 5 most prominent and well known methods for computing yields:

- Minimum yield method
- Maximum yield method
- Actuarial method
- Direct Ratio method
- Constant Ratio method (sometimes called the rule of 78 method)

Experience to date has found that the Constant Ratio Method is entirely practical from the standpoint of actual results produced and ease of application to the problems of instalment financing.

The formulae given and tables compiled in this text are based on the Constant Ratio Method.

Symbols

The symbols mentioned herein and used in the various formulae are as follows.

A — Amount or Terms Outstanding 1st Month.

ACTD — "Average Cash Time Decimal."

ATR — Average Cash Time Decimal for Reserve Held.

B — Original Balance. (Original Principal Outstanding.)

C — "Finance Rate."

D — "Discount Rate."

I — Assigned Value of Money Cost.

L — Amount or Term Outstanding Last Month.

N — Number of Equal Monthly Payments.

PA — Percent of Unpaid Balance Advanced.

PW — Percent of Unpaid Balance Withheld.

Y — Yield Per Annum. (Constant Ratio Method.)

Average Cash Time Decimal

In the computation of Rates or Yields the first important step is determining the Average Cash Time Decimal.

By reducing an instalment obligation to an amount which, if it were a single note outstanding for one year would represent the same investment value as the original instalment note, the computation of the rate and yield becomes a simple problem.

The Average Cash Time Decimal is the equivalent amount of each dollar of original face, or principal of the instalment note, outstanding as a single amount for a period of one year, or the equivalent time outstanding, expressed in years, of each dollar of original face or principal. The Average Cash Time Decimal is a compound factor being Amount multiplied by Time. By setting the unit of time as one year, the decimal represents the equivalent amount of each dollar of the original face, or principal outstanding, for one year and, of course, if the amount is set at one dollar this decimal represents the equivalent time expressed in years the original face or principal is outstanding.

Because, under the Constant Ratio Method, the charge is a fixed and constant percentage of each instalment, the Average Cash Time Decimal can be computed by using the note and instalment payments as well as the initial cash investment and the proportionate amount of each instalment to be applied to the reduction of this initial investment.

To compute the Average Cash Time Decimal for an instalment note all that is required is to determine the face amount outstanding each month and the sum of these outstandings divided by 12 gives the average outstanding for one year, and this result divided by the original face will give the average amount for each dollar of original face. This figure is by definition the Average Cash Time Decimal.

Where the transaction is paid in equal instalments at equal intervals of time the listing, totaling and dividing by twelve times the face, as explained above, can be accomplished by substituting in the formulae below.

By using the formula for the sum of a series, which sum equals the first term plus the last term divided by two, multiplied by the number of terms, and dividing this sum by the product of the number of terms in a year and the number of terms the formula becomes:—

$$\frac{\frac{A + L}{2} \times \text{Number of Terms}}{\text{Number of Terms} \times \text{No. of Terms per year}}$$

This formula reduces to the simple form of number of payment periods plus one multiplied by the number of months in each period, divided by two times 12, the number of months per year. Thus:

$$\text{Average Cash Time Decimal} = \frac{(\text{No. of Pmt. Periods} + 1) \times (\text{No. of Months in each Period})}{24}$$

In the case of equal monthly instalments the formula is:

$$\text{ACTD} = \frac{N + 1}{2 \times 12 \text{ (No. of months per year)}}$$

For example, if a transaction is paid in twelve equal monthly instalments the Average Cash Time Decimal would be

$$\text{ACTD} = \frac{12 + 1}{24} = .54167$$

For semi-monthly payments.

$$\text{ACTD} = \frac{\text{No. of semi mos.} + 1}{2 \times 24 \text{ (No. of semi mos. per year)}}$$

Example, if a transaction is paid in 24 equal semi-monthly instalments the Average Cash Time Decimal would be

$$\text{ACTD} = \frac{24 + 1}{48} = .52083$$

For equal weekly payments.

$$\text{ACTD} = \frac{\text{No. of weeks} + 1}{2 \times 52 \text{ (No. of weeks per year)}}$$

Example, if a transaction is paid in 26 equal weekly instalments the Average Cash Time Decimal would be

$$\text{ACTD} = \frac{26 + 1}{104} = .25962$$

For equal quarterly instalments

$$\text{ACTD} = \frac{(\text{No. of quarterly pmts.} + 1) \times \text{No. of mos. in each period}}{24}$$

Example, if a transaction is paid in eight equal quarterly instalments over a period of two years the Average Cash Time Decimal is:

$$\text{ACTD} = \frac{(8 + 1) \times 3}{24} = 1.12500$$

The corresponding formulae for the Average Cash Time Decimal for Reserve Held are:

For equal payments at equal periods.

$$\text{Average Cash Time Decimal for Reserve Held} = \frac{[\text{No. of Pmt. Periods} - 1] \times [\text{No. of Months in each Period}]}{24}$$

And again using the transaction paid in eight equal quarterly payments over a period of two years.

$$\text{ATR} = \frac{(8 - 1) \times 3}{24} = .87500$$

For equal monthly payments.

$$\text{ATR} = \frac{N - 1}{24}$$

And again using a transaction paid in 12 equal monthly instalments.

$$\text{ATR} = \frac{12 - 1}{24} = .45833$$

For equal weekly payments.

$$\text{ATR} = \frac{N - 1}{104}$$

Example if a transaction is paid in 26 equal weekly instalments the Average Cash Time Decimal would be:

$$ATR = \frac{26-1}{104} = .24038$$

To find the Average Cash Time Decimal on a transaction to be paid in equal amounts but with skip payment periods, take a total of the number of payments outstanding each month and divide by the number of payments x 12. Example: A ten payment plan purchased on July 1st, without payment until November 1st.

During	Instalments Employed	Total of instalments collected
July	10	0
August	10	0
September	10	0
October	10	0
November	9	1
December	8	2
January	7	3
February	6	4
March	5	5
April	4	6
May	3	7
June	2	8
July	1	9
	85	45

$$AT = \frac{85}{120} = .70833 \qquad ATR. = \frac{45}{120} = .37500$$

Note:—The computation of ATR is not made except when Reserve is Held until Note Fully Paid.

Examples

To compute Average Cash Time Decimals on Regular and Irregular payments; also Skip payments of equal amounts and Skip payments of irregular amounts.

If the payments and terms are equal and consecutive, the total of any column of figures, either dollars or terms can be quickly computed.

Formula: Add the amount or number of terms outstanding the first month and the amount or term outstanding the last month and multiply by one-half the number of payments or terms.

Example: $1200.—balance payable $100. per month for 12 consecutive months.

Dollars				Instalments Employed
$1200.00	outstanding	1st	month	12
1100.00	outstanding	2nd	month	11
1000.00	outstanding	3rd	month	10
900.00	outstanding	4th	month	9
800.00	outstanding	5th	month	8
700.00	outstanding	6th	month	7
600.00	outstanding	7th	month	6
500.00	outstanding	8th	month	5
400.00	outstanding	9th	month	4
300.00	outstanding	10th	month	3
200.00	outstanding	11th	month	2
100.00	outstanding	12th	month	1
$7800.00	(1200.00+100.00) x 6=7800.00			78 (12+1) x 6=78

To arrive at the ACTD divide the total by 12 times the original number of instalments or 12 times the starting balance regardless of the term of the transaction.

$$\frac{7800.00}{14400.00} = .54167 \text{ ACTD} \qquad \frac{78}{144} = .54167 \text{ ACTD}$$

If the payments are <u>unequal</u>—but the term consecutive, the ACTD can only be determined by the dollar method.

Example: $1200.00 Balance payable 2 @ $200.00 and 8 @ $100.00.

$1200.00	outstanding	1st month
1000.00	outstanding	2nd month
800.00	outstanding	3rd month
700.00	outstanding	4th month
600.00	outstanding	5th month
500.00	outstanding	6th month
400.00	outstanding	7th month
300.00	outstanding	8th month
200.00	outstanding	9th month
100.00	outstanding	10th month
$5800.00		

$$\frac{5800.00}{14400.00} = .40278 \text{ ACTD}$$

If payments are equal but term is irregular.

Example: $1200.00 balance payable 4 @ $100.00 skip 3 months and pay 8 @ $100.00.

Dollars			Instalment Employed
$ 1200.00	outstanding	1st month	12
1100.00	outstanding	2nd month	11
1000.00	outstanding	3rd month	10
900.00	outstanding	4th month	9
800.00	outstanding	5th month	8
800.00	outstanding	6th month	8
800.00	outstanding	7th month	8
800.00	outstanding	8th month	8
700.00	outstanding	9th month	7
600.00	outstanding	10th month	6
500.00	outstanding	11th month	5
400.00	outstanding	12th month	4
300.00	outstanding	13th month	3
200.00	outstanding	14th month	2
100.00	outstanding	15th month	1
$10200.00			102

$$\frac{10200.00}{14400.00} = .70833 \text{ ACTD} \quad \frac{102}{144} = .70833 \text{ ACTD}$$

If both payments and terms are irregular the ACTD can only be determined by the dollar method.

Example: $1009.60 balance payable $200.00 2 months from date of transaction, $250.00 4 months from date of transaction, $100.00 payable 5 months from date of transaction and the balance 8 months from date of transaction.

Dollars		
$1009.60	outstanding	1st month
1009.60	outstanding	2nd month
809.60	outstanding	3rd month
809.60	outstanding	4th month
559.60	outstanding	5th month
459.60	outstanding	6th month
459.60	outstanding	7th month
459.60	outstanding	8th month
$5576.80		

$$\frac{5576.80}{12115.20} = .46031 \text{ ACTD}$$

After determining the ACTD you can readily determine the proper rate to use from the table on pages 20-21 "Average Cash Time Decimals."

For instance, if your Average Cash Time decimal for any transaction regardless of how or when the payments are made is .6250 the finance rate would be the same as a 14 equal monthly payment deal. Or if the ACTD is .9167 the finance rate would be the same as a 21 equal monthly payment deal.

However, if the ACTD is different than any shown in the schedule mentioned above you should use the rate for the maturity nearest the ACTD you developed. For example, you arrive at an ACTD of .2596 you should use the 5 month finance rate.

Short method to compute a charge on any irregular payment or term deal where the yield is predetermined.

Amount to be financed $1009.60

Purchaser to pay $200.00 two months from date of contract, $250.00 four months from date of contract, $100.00 five months from date of contract, and the balance eight months from date of contract.

USE FORMULA AS FOLLOWS:

[illegible]			[illegible]	[illegible]	[illegible]	
	200			2	400	
	250			4	1000	
	100			5	500	
	459	60		8	3676	80
				[illegible]	5576	80

The total of the product column is the same as having $5576.80 outstanding for 1 month. Multiply this total by 1/12 of the predetermined yield.

For example, if you desire a yield of 12% multiply $5576.80 x .01 (1/12 of .12) = $55.77.

If you desire a yield of 15% multiply $5576.80 x .0125 (1/12 of .15) = $69.71.

To Determine Average Maturity:

Very often it is necessary to know the average maturity on a given group of transactions in order to arrive at a desired rate to give a predetermined yield.

The formula is: $\dfrac{\text{Total of} - N \times B}{\text{Total of} - B}$

Consequently, if you have a series of deals and the payments and terms are equal and consecutive, the formula will apply.

Example:

Number of Months to Maturity	Unpaid Face of Note			Total
5	$ 828.21	x	5	$ 4141.05
6	1025.56	x	6	6153.36
7	1588.53	x	7	11119.71
8	418.40	x	8	3347.20
9	2101.05	x	9	18909.45
10	618.89	x	10	6188.90
11	3770.94	x	11	41480.34
12	3158.52	x	12	37902.24
13	2911.22	x	13	37845.86
14	3440.52	x	14	48167.28
15	1555.02	x	15	23325.30
16	—	x	16	—
17	3159.96	x	17	53719.32
18	6881.02	x	18	123858.36
19	7916.20	x	19	150407.80
20	6945.00	x	20	138900.00
21	5560.17	x	21	116763.57
	$51879.21			$822229.74

$\dfrac{822229.74}{51879.21}$ = 15.848 months average maturity

Any transaction with irregular payments and/or terms will have to be handled individually.

RATES and YIELDS

Having determined the Average Cash Time Decimal the next step is the computation of the Rates and Yields. These computations and the formulae developed are based on the Cash Employed in the transaction. The Advance is the Principal Balance at the time of purchase of the transaction and the Yields are the ratio of the charge to the average cash employed. By definition the Finance Rate is the rate by which the Principal Balance is to be multiplied to determine the amount of the charge so for this reason the Finance Rates are developed first and the corresponding Discount Rates are found by converting these Finance rates. By using this method the mathematics and formulae are simplified.

FINANCE RATES

100% Advance

The fundamental formula for the Finance Rate in terms of Yield and Average Cash Time Decimal is as follows:

$$C = Y \times ACTD$$

and to find the Yield when the Finance Rate and Average Cash Time Decimal is given the formula is:

$$Y = \frac{C}{ACTD}$$

Example: To find the Finance Rate for a 24 equal monthly instalment transaction at a Yield of 10% per annum:

For 24 months, formula $ACTD = \frac{24 + 1}{24} = 1.04167$

By substituting in formula:

$$C = .10 \times 1.04167 = .104167 \text{ or } 10.4167\%$$

To find the Yield for the same transaction when the Finance Rate is 10.4167%

By substituting in formula:

$$Y = \frac{.104167}{1.04167} = .10000 \text{ or } 10.000\%$$

STATEMENT BY SENATOR WALLACE F. BENNETT REGARDING THE COMMERCIAL CREDIT CORP. HANDBOOK ENTITLED "INSTALLMENT FINANCING PRACTICAL HANDBOOK"

In a colloquy with Mr. Biemiller, Senator Douglas said that the Commercial Credit handbook could handle virtually every conceivable credit transaction. When I challenged him on this, the Senator from Illinois said that I was taking the "infinitesimally small fraction and playing that up." I would like to reply to that comment.

There are two very common retail practices used by department stores which cannot be handled by the Commercial Credit handbook. One is the add-on sale and the other is the revolving charge account. I checked with Sears, Roebuck and Montgomery Ward, both of which testified at the hearings. Using the example of Sears, Roebuck, 53.4 percent of its sales in fiscal year 1960 were on credit. Of these credit sales, 65.6 percent were installment sales and 34.4 percent were revolving charge plans. According to the testimony of Mr. Samuel M. Mitchell of Sears, Roebuck, 80.8 percent of the installment sales consisted of subsequent sales, or add-ons, which take place while some part of the balance on previously purchased items remains unpaid. Collecting these figures together, nearly half of Sears, Roebuck total sales are on plans which present impossible situations, or at best, extremely difficult situations, for the Commercial Credit handbook. In the case of Montgomery Ward, 40 percent of its sales are on credit, three-fourths of which are installment sales and one-fourth of which are revolving charge accounts.

In a recent Fortune magazine article it was reported that Spiegel's does 84 percent of its business on credit. Spiegel's uses what is called a budget power plan, which is essentially a revolving charge account. Thus, Spiegel's faces the same difficulties as Sears and Montgomery Ward, and in its case 84 percent of its business is involved. Certainly these figures do not bear out Senator Douglas' accusation that these are an infinitesimally small fraction.

THE ADD-ON SALE

An installment payment plan does not create any real difficulty in using the Commercial Credit handbook if only one purchase is made and paid off before a subsequent purchase is made, but as I have indicated, in most cases, a followup purchase is made whereby the two prices and the two credit charges run concurrently. The following is a very typical example under the installment plan. The figures have been rounded for simplicity, but the case illustrated is very common.

Customer A purchases a washing machine. The amount to be financed is $200. The seller adds $32 carrying charge for a 24-month contract.

After making six payments on the washing machine, Customer A decides she wants to purchase a dryer and combine it with the account on the washer so she has only one monthly payment to make. Assuming that the balance on the washer has only 18 monthly payments remaining and that the price of the dryer is likewise $200, to which the seller adds $32 as the finance charge, and that the customer wants 24 months in which to pay for the combined purchases, how would you suggest the merchant translate the finance charge to a simple annual rate, using the Commercial Credit handbook?

The answer is that it would be extremely difficult, if not impossible, because of conflicting assumptions which would have to be considered with respect to the application of payments.

THE REVOLVING CHARGE ACCOUNT

With respect to the revolving charge, one of the essential ingredients required for the computation of simple annual interest is missing, and that ingredient is the time of payment. The rule in computing simple annual rates is that you start from the date of the transaction and the finance charge must be made from that day to the time the customer makes his first payment. Accordingly, the time interval between all subsequent payments must be taken into account. In a revolving charge situation, the customer does not know and the clerk does not know at the time she buys an item for, say $12.50, whether she will buy anything more that month. Neither party knows whether she will pay for the goods that month or some other month. Because of this indefinite payment situation, the computation of simple annual interest is absolutely impossible. Estimates could be made, perhaps, but they could go widely astray and would not comply with the requirements of the bill. Without the date of payment known in advance, it will be impossible to make use of the tables in the Commercial Credit handbook since they require knowledge of the payment schedule.

In addition to this reply to the comment of Senator Douglas, I would like to insert in the record at this point a statement I have prepared on the general nature of the Commercial Credit handbook describing briefly how it is used and a few general criticisms concerning it.

ADDITIONAL STATEMENT BY SENATOR WALLACE F. BENNETT REGARDING THE COMMERCIAL CREDIT CORP. HANDBOOK ENTITLED "INSTALLMENT FINANCING PRACTICAL HANDBOOK"

It must be admitted that in certain circumstances this book is workable and relatively easy to handle after sufficient training. The basic operation of the book is to translate a finance rate into simple annual interest. It takes the place of working a constant ratio formula.

HOW THE HANDBOOK IS USED

The first step outlined in the book is to compute the average cash time decimal (ACTD).

Different methods are given for determining this for different types of transactions—for example, equal consecutive monthly payments, unequal but consecutive monthly payments, equal but not consecutive monthly payments and both unequal and not consecutive monthly payments. In addition, variations of these methods are necessary where weekly, semiweekly, or other than monthly payments are concerned.

After the "ACTD" is determined, this figure is referred to the tables on pages 20 and 21. If the ACTD does not happen to be a number which appears on the table, interpolation is necessary.

This table gives the equivalent number of months which would produce a rate similar to the transaction in question, should the particular transaction not be of equal consecutive monthly installments.

Now that the number of months has been ascertained from the tables on pages 20 and 21, this figure must be referred to the table beginning on page 22. If the number of months does not appear on this table, interpolation is again necessary. When this has been done, the other figure required is the finance rate. If, in the installment transaction, the finance charge is stated only in dollars, then it is necessary to make a further computation to translate the finance charge into a finance rate before the table can be used.

Here again, we must interpolate if the exact finance rate does not appear on the table.

CRITICISMS OF THE HANDBOOK

The chief criticism from the retailers' standpoint is that it is extremely difficult, if not impossible, to handle an add-on sale, and a revolving credit account problem presents an impossible situation. I have discussed these elsewhere.

In addition, even on the simple one-time transactions, the book in its present form is limited because:

1. The tables by themselves will only handle transactions where monthly payments are equal. In any payment plan without equal installments a lengthy, time-consuming computation must first be made.

2. It only handles interest in one-half-of-1-percent steps between 4 percent and 15 percent.

3. A contract of any uneven number of months would not be computable without interpolation, since only even-numbered months appear in the contract life column of the tables. Every interpolation increases the chance for error.

4. Where you only have the finance charge, you would have to compute the finance rate before using the tables (dollar differential divided by the sales price, less downpayment).

5. If there are deferred or skipped payments, additional computation must be made before referring to the table.

[Excerpt from "Personal Finance," Cohen and Hanson]

Cost of Charge Accounts

The large volume of business secured through charge accounts and the small losses incurred allow goods to be sold on charge accounts at the same price as is charged for cash sales. Macy's, the large New York department store, maintains, however, that it can sell for 6 per cent less by not using ordinary charge accounts. Indeed, the very large department stores and mail-order houses which formerly sold only for cash have in recent years, to meet the competition of credit houses, added credit plans. They operate, however, on a two-price system. There is a basic cash price; and if you want credit, you pay for it. Obviously, if you are a consistent cash buyer, these are the best places for you to buy, since no part of your purchase price goes to cover the costs of the credit purchases. In stores which charge cash and credit customers the same price and make no charge for credit, the cash customers are helping to pay the cost of the credit extended to those who charge. A government publication declares:

> If the cost of open-account (charge) credit were generally known, much less of it would be used. It costs money for a dealer to extend credit whether or not these costs show up in the price of the purchased goods. Some merchants mark the prices of all goods up enough to cover the cost of the credit extended. Others have two prices—one for cash and the other for purchases on account. The actual cost to a farmer of open-account credit is the difference between the cash and credit price.
>
> It is surprising how high a charge is sometimes paid for this kind of credit. It is not uncommon to find discounts of 5 to 10% for cash. For instance, a farmer finds he can buy a small implement for $100 and get three months' credit on an open account. But he also finds that he can buy the same item for $95 cash. If he buys on such credit terms, he is paying $5 for the use of $95 for three months. This is at the rate of 21% interest a year.[9]

THE INSTALLMENT PLAN

Commonly about a fifth of all retail sales are made on the installment plan. Formerly it was thought that a stigma was attached to buying on the installment plan, but the method is in general acceptance today.

In recent years it has become possible to buy anything from a baby carriage to a tombstone on the installment plan. As one sprightly author declared:

> The ordinary life cycle in the United States starts with a lay-away plan in the baby department of a convenient store, wends its way past the diamond

[9] *Managing Farm Finances*, U.S. Department of Agriculture, Misc. Pub. No. 652 (Washington, D.C., 1948), p. 35.

counter of a credit jeweler, finds shelter beneath an FHA mortgage and is eventually laid to rest in a time-payment cemetery plot. After that presumably, the terms are strictly cash.[10]

Generally, higher-priced consumer durables, such as automobiles, furniture, radio and television sets, washing machines, and refrigerators, have been the particular object of installment sales promotion, but the practice has now been extended even to clothing. In some stores all sales are on installments, and in these so-called "borax houses"[11] are to be found some of the dubious practices which plague the business. Frequently sellers try to hide the fact that they are engaging in the practice by giving the installment plan some such name as "Budget Plan" or "Thrift Plan."

"Sail Now—Pay Later" was the eye-catching headline in a newspaper,[12] indicative of the wide ranging appeal of installment selling. "Own this boat today . . . ten years sooner than you think." Signs with that intriguing message were displayed on many of the sleek craft, large and small, shown at the National Motor Boat Show at the New York Coliseum. The play-now–pay-later aspect of pleasure boating is a fairly new development sponsored by Yacht Finance, Inc., an independent finance company with headquarters at Red Bank, New Jersey.

Protection for the Seller

The merchandise sold on the installment plan is usually paid for, with interest, in monthly installments which may range over a period

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[10] See Penn Kimball, "Cradle to Grave on Easy Terms," *New York Times Sunday Magazine*, June 1, 1952, p. 15.

[11] The word "borax" needs explanation. "In every sizable industry—the American furniture manufacturers are no exception—there is a fringe element that seeks quick profits by shortcut routes. Their product sacrifices quality in order to appear at a low price. In the trade such products are known as 'borax,' which may be defined as 'cheaply built, second rate, sold to the buyer at his own risk.'

"The origin of the word is interesting. Years ago, borax companies asked people to save the wrappers on their products; these—the equivalent of the modern box-top—could be exchanged for furniture. So many hundred wrappers bought a chair; so many a table; so many a bed. The borax companies obtained this premium merchandise from the cheapest sources they could find, and the better factories spoke of it in contempt as 'borax.' The blunt description has persisted." From Max Hess, Jr., *Every Dollar Counts: The Story of the American Department Store* (New York: Fairchild Publications, Inc., 1952), p. 106.

[12] *The New York Times*, January 24, 1957. The widespread use of installment buying and its relationship to the American standard of living are discussed in Clyde W. Phelps, *The Role of the Sales Finance Company in the American Economy*, Studies in Consumer Credit, No. 1 (Baltimore: Commercial Credit Co., 1954), pp. 11–31.

of a year or more. Commonly the seller protects himself until he has received the total payment due by one of three formal written contracts: (*a*) the conditional sale, (*b*) the chattel mortgage, or (*c*) the bailment lease. All have a common purpose—to protect the installment seller against the buyer's general creditors or against innocent third-party purchasers from the buyer. Since a down payment is frequently received, which further protects the seller, sellers commonly allow (witness the advertisements in the newspapers) very liberal terms on installment sales, but these are usually more costly than the buyer realizes.

Conditional Sales

If a conditional sales contract is used, and this is the most common type of arrangement, title remains with the seller until he has received payment in full. In the event that payments are not made when due, the goods may be repossessed. Money already paid may be regarded as rent for the use of the property, or the buyer may receive part of it back, depending on state law.

In ten states and one territory, installment sales are governed by the Uniform Conditional Sales Act. If the buyer has paid any substantial sum on the price at the time of his default, he is entitled to get that sum back, less the depreciation on the goods caused by wear and tear. The amount of depreciation will ordinarily be estimated by selling the goods a second time, frequently at auction, and seeing what it brings. Depreciation is the difference between what the installment seller sold the goods for originally and what the second, auction, sale brings in. For example, Smith bought a suite of furniture from a dealer on the installment plan for $600. He paid $100 down, got possession of the furniture, and agreed to pay the balance in 20 installments of $25 each. Title to the furniture was to remain with the seller until Smith paid the entire purchase price. After paying $200, Smith took sick, lost his position, and failed to make a payment which was due. The dealer took the furniture back. In a number of states the dealer can keep both the $300 Smith paid plus the furniture. But not under the Uniform Conditional Sales Act. If the dealer, in a state in which the act is in force, sold it again at auction for $400, he would have to pay Smith $100, since the $300 he had received from Smith plus the $400 at the auction sale added up to $700, or $100 in excess of the original selling price of $600. Smith would lose $200 of his $300 paid because the furniture, as evidenced by the second sale, had depreciated $200.

An uninformed buyer, however, in the hands of a sharp seller, may not be able to discover what the furniture brings at the second sale; or the second sale may be rigged to establish a low price so that there need be no repayment. Only rarely does the defaulter recover what he has already paid on the conditional sales contract.

When the goods or property which have been sold under the installment plan have been repossessed and resold, the proceeds of resale applied to payment of the debt may not be sufficient to cover the total amount. To satisfy this deficiency, a judgment may be secured against the debtor through court action. Thus the installment buyer may lose not only the cash he has paid and the article purchased but additional amounts as well.

The seller, if he wishes to protect himself against the buyer's creditors and against innocent purchasers from the buyer, is obliged to file his contract in a public office, such as the county clerk's, in certain states. For example, Simpson, a radio dealer, sold Thompson a television set under a conditional sales contract but did not have the contract recorded in a public office, as required by statute. Thompson used the television set for a month and then sold it to Hillman. Hillman received good title to the set because Simpson, through his failure to record the contract, lost his rights in the television set when it came into the hands of an innocent third party.

If the goods are damaged, lost, or destroyed while the conditional buyer is holding them and making his payments, the loss falls upon the buyer, under most contracts, and he must complete his payments. Since under these circumstances the buyer may have no financial means of meeting this obligation, the seller customarily protects himself through insurance, which is paid for by the buyer.

Chattel Mortgages

If a chattel mortgage is used, the buyer signs a promissory note or a series of promissory notes which are secured by the mortgage. In Massachusetts, which follows the old English law, the effect of the mortgage is to convey the legal title to the goods back to the seller for his protection. The seller not only gets back the legal title to the goods but a "power-of-sale" clause in the mortgage gives the seller the right to sell the goods at public auction if the notes are not met in due course. Money received from the sale of the goods is applied to the note or notes; and if it is not sufficient to satisfy them, the buyer (who made the notes) is liable for the deficiency. Upon parting with the legal title to the goods, the buyer retains only an equitable title, which is often called the "right of redemption."

In most of the other states the chattel mortgage does not convey the legal title back to the seller, but it does give the seller an equitable interest in the goods; this enables the seller to go into court and ask the judge to have the goods sold at sheriff's sale for his benefit. Naturally, the buyer should be sure to receive back all paid notes, and he should also obtain and record a discharge of the mortgage if the mortgage was recorded at the county courthouse. Local newspapers sometimes make a practice of publishing such recordings—often to the discomfort of those who do not like their private business made public.

The Bailment Lease

In the bailment lease, seldom used except in Pennsylvania, title remains with the seller until the last payment has been made and then is purchased for a nominal sum, usually waived by the seller. Until then, the buyer has merely hired the goods for use. If the buyer cannot continue to meet the agreed-upon payments, the seller simply takes back his goods and keeps the previous payments, since legally they were made for the use of the goods for the period. There is no need to return any part of installments previously paid as under the Uniform Conditional Sales Act.

Protection for the Buyer

Unfortunately the average buyer fails to protect himself by reading carefully and understanding thoroughly the papers he signs in many transactions, including installment sales. For no good reason at all, he feels embarrassed to take the necessary time to read a lengthy document in which a lot of important stipulations may appear in very fine print. For his own protection, he should most certainly read and understand before he affixes his signature to anything. It must always be remembered that sellers engage in many transactions of the installment type and obtain the services of able lawyers to see that they are protected to the utmost. The buyer, who engages in relatively few of these transactions and naturally does not know a great deal about them, should try to protect himself as best he can.

At times installment purchasers sign blank contracts even before the store fills in the amounts and special terms. If most installment purchasers read and understood their contracts, fewer people would buy on this basis, because the contracts often contain harsh provisions which both the sellers and the courts are loath to enforce. Installment sellers expect their customers to fall somewhat behind schedule in their payments. Trade custom usually results in a softening of installment contracts. A rule of thumb often heard in the installment trade is that the average customer will miss about one out of every four payments due. Furthermore, the courts do not look kindly upon the installment house which habitually hauls customers into court. Courts resent being called upon as collection agencies. Nevertheless, the installment contract usually so binds and ties the customer that losses are very low, less than one half of 1 per cent of total sales.

Some aspects of installment contracts to watch out for are:

The Add-on Clause. Add-on, or open-end, contracts are something for the individual not to sign. This type of clause or contract is drawn to cover a succession of installment purchases and provides that the seller retains his title or mortgage on each article until the very last one is paid for. A thousand dollars' worth of house furnishings, bought over several years, might be seized because the customer failed to meet a $20 payment on a recently purchased $100 item.

The Wage Assignment. The most drastic form of security in the installment contract may be the wage assignment. An obscure clause may give the dealer power of attorney to collect all or part of the buyer's pay check or envelope if the buyer misses a payment. Most wage assignments are probably signed because the buyer does not know what he is signing. Long contracts in legal verbiage and fine type make it difficult for the buyer to read or understand the contract. The oversight may be encouraged if the document is headed simply "Contract" or "Chattel Mortgage" and fails to call the buyer's attention to the fact that he is signing away future wages. Wage-assignment abuses, like other shady practices, are restricted to a minority of installment dealers. That such abuses threaten the legitimate dealer as well as the unwary customer is indicated by the suggestion of the National Association of Sales Finance Companies that state laws prohibit any wage assignment made before actual default on the installment contract.

Originally the installment contract was used to sell only products for which there was a definite resale market. If an individual lagged behind in his payments on a piano or a car, the dealer could repossess and probably make up the unpaid balance by reselling the item. The merchandise itself was adequate security, until the installment dealers, trying to conquer new markets, made their terms so "easy" that often the unpaid balance exceeded the resale value of the article. At the same time, they went into new fields, selling "soft goods," such as clothing, for which resale value was either low or nil. Resale of a repossessed pair of pants brings little. As added security for deals such as these, the wage assignment came into prominence.

The legal process of attaching the debtor's wage is known as "garnishment" or "garnisheeing wages." By court order, the employer of the debtor is obliged to pay all or a certain percentage of the wages of the debtor (buyer) to the creditor (installment seller) until the debt is paid in full. Some states limit by law the percentage of a wage earner's salary which may thus be taken by a creditor at any given pay period (New York State, 10 per cent) or prohibit assignment entirely under certain conditions. Wages below a certain small sum, as, for example, $12 a week, in most states are not subject to garnishment, it being deemed unwise to deprive the individual of the minimum amount necessary for living expenses. In some states, however, the entire pay envelope may be taken by the installment seller. Some employers dislike being bothered with legal forms and with the added bookkeeping routine involved in turning over wages to a creditor. They, therefore, fire employees whose wages are garnisheed.

The Acceleration Clause. This provides that a default in one payment makes all other payments immediately due and payable. If the buyer is dishonest, this drastic safeguard is necessary. But an honest buyer may miss a payment date because of an emergency, perhaps sickness in the family or a temporary layoff from the job. Unscrupulous dealers take advantage of the acceleration clause to swoop down and immediately repossess the car, or refrigerator, or television set, and cart it off for resale without any notice.

Sales of repossessed merchandise, especially automobiles, offer an avenue of abuse. Frequently there is no requirement for public sale. Repossession when only one or two payments remain may wipe out the entire equity the purchaser has established. Ethical dealers find ways of avoiding such repossessions, but some firms, particularly in the used-car field, appear to specialize in repossession. They draw up contracts, such as those with "balloon clauses," which encourage delinquency and then, when a payment cannot be met, seize the car without notice and either sell it at a rigged sale or collect excessive fees for its return to the customer. In larger cities, in a number of states, dozens of cars are reported to the police as stolen though in fact they have been repossessed without notice to the installment purchaser.

In many jurisdictions, collateral can be retaken without notice to the purchaser if it does not involve breach of the peace. Breaching the peace, in this connection, is generally interpreted as breaking into a garage, removing a car from a private driveway, or taking a car from a resisting installment buyer. When a purchaser in default will not surrender a car peacefully, a writ of replevin is served on him by the sheriff. In some states, if the collateral is retaken without notice to the purchaser, he may redeem the collateral within ten days after the retaking by tendering the amount due under the contract, together with any expenses incurred by the seller; but he frequently does not know about this legal right or may not have or be able to obtain the funds to take advantage of it.

The "Balloon Contract." A contract which has as its final installment a payment substantially in excess of the preceding installments is known as a "balloon contract." For example, the contract may call for eleven monthly installments of $25 each and one (the twelfth payment) of $300. This is a highly undesirable type of payment arrangement because total charges paid by the purchaser are higher because of the necessity of refinancing at least once and sometimes two or three times. To illustrate, an example cited by *Business Week* may be used. It should be noted that the balloon contract is usually found in the financing of automobiles.

Business Week stated: [13]

[13] "Easy Auto Credit Returns (But Is It Really Easy?)," *Business Week*, October 29, 1949, p. 21.

Here's how a typical "$100 down and $40 a month" deal worked in Cleveland:

Advertised Price of the car	$1,795.00
But a heater is necessary	60.00
So that the cost now stands at	1,855.00
Add state tax on $1,855	56.65
Add cost of title transfer, etc.	6.36
So the total cost is	1,918.00
The buyer is talked into paying	118.00
Leaving a balance to be financed of	1,800.00
Two years insurance	194.00
Which brings the price back to	1,994.00
Add interest at 6% and carrying charges for two years	269.00
And, as the owner drives away he owes	2,263.00

Notes are $40 a month (as advertised) for 23 months, with a "balloon note" for the balance falling due in the 24th month. So:

The buyer makes 23 monthly payments at $40 each	$ 920.00
And the balloon note amounts to	1,343.00

Meanwhile, the car has depreciated to perhaps $1,450 at the end of the first year, and perhaps in the same proportion during the second. At any rate, the owner can't afford to pay out $1,343 in a lump sum. So he refinances the 24th note for another two years. It works this way:

Amount of the balloon note	$1,343.00
Add another two years' insurance	181.00
Add interest and carrying charges for another two years	200.00
And the buyer starts paying again on	1,724.00

(Remember this is on a two-year-old car that was advertised at $1,795).

And so he makes 23 more payments at $40 each	$ 920.00
And he runs smack up against another balloon note this time for (the car is now four years old)	804.00
So he adds another two years insurance	120.30
And another two years interest and carrying charges	146.90
And he starts the fifth year paying on	1,071.60
So he makes 23 more payments of $40 each	920.00

And at the end of six years he finds (if he bothers to add it up) that he has paid out $2,878 in cash, that he still owes $151.60, and that his car is now worth perhaps $150.

Obviously, a balloon contract is something to avoid.

Hidden Clauses. At times an obscure clause in the contract you sign obligates you to buy something which you do not want and cannot possibly use. An example from the *American Legion Magazine* will make clear what is meant:

John and his wife needed a new refrigerator. John knew they needed it, but felt that they couldn't afford it until they had paid off on the car and a couple of other things. One Thursday evening, wifey inveigled John into an appliance store "just to look."

The companion of his joys and sorrows was just showing John one of the new Blank refrigerators, and he was saying that it was swell, but they still couldn't afford it, when Temptation reared its ugly head. Temptation took the form of a smooth-talking, high pressure salesman with a quarter-a-day meter in his hand. He explained that they could have one of these fine new super-de-luxe Blank refrigerators for just twenty-five cents a day. The refrigerator would be delivered with the meter attached, and all they had to do would be to drop a daily two bits into the slot in the meter. Simple. The refrigerator would run as long as the meter was fed, and a man would come around and empty the meter every month until the appliance was paid for.

So John fell. After all a quarter-a-day doesn't sound like much. Umm-hmmmm. A quarter-a-day is over seven dollars a month—seven dollars they very definitely did not have to spare. But the things that the salesman didn't tell them (it was in a fine-type clause in the contract) and the thing that really burned John to a crisp when he found out about it, was the fact that along with the refrigerator, they were also buying the meter. Twenty bucks it cost them, about twice what it was actually worth. They didn't have to have a refrigerator, but the meter was absolutely useless after it had served its purpose.[14]

Cost of Installment Financing

In one way or another a seller must be paid for financing the buyer who acquires goods on credit. The various expenses of investigation, collecting, bookkeeping, repossession, reconditioning, reselling, bad debts, and insurance must be covered either by an inflated price for the article sold, by separate fees and charges, or by inclusion in the charge for interest. Although a nominal rate of 5 or 6 per cent may be quoted, analysis of the charges will reveal that the real rate is far in excess—and it must be in order to cover the cost of the service rendered.

Suppose an article selling for $75 is sold with a 20 per cent down payment, the balance to be paid in installments over a period of nine months. If a charge of 6 per cent of $75 is made for the service rendered, it amounts to $4.50.

But the	1st month the buyer has the use of	$60.00
"	2nd " " " " " " "	53.33
"	3rd " " " " " " "	46.67
"	4th " " " " " " "	40.00
"	5th " " " " " " "	33.33
"	6th " " " " " " "	26.67
"	7th " " " " " " "	20.00
"	8th " " " " " " "	13.33
and "	9th " " " " " " "	6.67

[14] "How to Keep Your Financial Balance," *American Legion Magazine*, January, 1950, p. 48.

Adding the money column, we find that, all told, the buyer had had the equivalent of the use of \$300 for a month, which is the equivalent of only \$25 for a year. Now \$4.50 interest on \$25 for a year is $\frac{4.50}{25} \times 100 = 18$ per cent, instead of the nominal 6 per cent which was quoted.

This result may also be found by using the constant-ratio formula

$$R = \frac{2mi}{P(n+1)},$$
$$R = \frac{2 \times 12 \times \$4.50}{\$60\,(9+1)},$$
$$R = \frac{\$108}{\$600} = 0.18 = 18 \text{ per cent},$$

where R equals the annual rate charged; m equals the number of payment periods in one year (12 if you are repaying monthly; 52 if you are repaying weekly); i equals the true dollar cost of the credit; P equals the net amount of the balance to be paid; and n equals the number of installment payments you will make.

Another way to look at these figures intelligently is that if the buyer had the use of \$60 the first month and only \$6.666 during the ninth, he had the use of

$$\frac{\$60 + \$6.66}{2} = \frac{\$66.66}{2} = \$33.33$$

on the average for the nine-month period. Since \$4.50 was paid for this accommodation (for nine months), it amounts to paying \$6.00 for a year's use of an average amount of \$33.33.

Now,

$$\frac{\$6}{\$33.33} \times 100 = \frac{\$600.00}{\$33.33} = 18 \text{ per cent}.$$

Variations in Stating the Installment Cost

Broadly speaking, there are four main ways of representing the installment credit charge:[15]

1. There is the familiar "no charge for credit" used by credit jewelers and clothing and furniture houses. In this case the price of credit is

[15] For further information see "Calculating the Cost of Credit," chap. ii of *Using Consumer Credit*, Consumer Education Series, Unit No. 9 (Washington, D.C.: National Education Association, 1956); see also the *Consumer Credit Cost Calculator*, obtainable free of charge from the Household Finance Corporation, which shows how to figure the true cost in installment purchases.

included in the price of the goods. A purchaser who offers cash instead of asking for time to pay can get the article for less than the stated price. How is the cost of the credit found in such a case? A piece of jewelry, for example, sells for \$79, payable \$9.00 down and \$10 a month for seven months, with "no carrying charge." A cash customer can get the jewelry for \$7.00 less, if he asks for the cash price. The cost of credit, therefore, is \$7.00. Applying the constant-ratio formula:

$$r = \frac{2 \times 12 \times 7}{70 \times (7 + 1)} = \frac{168}{560} = 30 \text{ per cent.}$$

The rate is, therefore, 30 per cent a year as against the stated "no charge for credit."

2. A second method of representing the installment credit charge is merely to apply a nominal percentage charge to the unpaid portion of the price. For example, a jeweler requires a 10 per cent down payment and adds a 6 per cent charge to the unpaid portion of the price when payment is to be completed in 25 weekly installments. The amount of the down payment is immaterial. The plan is represented as a 6 per cent one. Applying the formula:

$$r = \frac{2 \times 52 \times .06}{25 + 1} = 24 \text{ per cent.}$$

The rate, therefore, is actually 24 per cent rather than 6 per cent, as represented.

3. The third method is where a flat charge in dollars is made rather than a percentage. For example, the cash price of a television set is \$250; a down payment of \$50 is required. There is a flat charge of \$16 for the privilege of taking 15 months to pay. What is the rate which the purchaser is paying?

$$r = \frac{2 \times 12 \times 16}{200\,(15 + 1)} = 12 \text{ per cent.}$$

The true annual rate is 12 per cent.

4. The fourth method is the most complicated. It is sometimes found in automobile time financing. It calls for interest payable on monthly outstanding balances as well as the usual finance charge. Consider the following example in the case of a car purchase:

Original unpaid balance	\$1,600
Charge	112
Note	\$1,712

Interest is to be charged at 6 per cent per annum, or one half of 1 pe cent a month on outstanding balances, and there are to be eigh monthly payments of $214 plus the interest. The way the eight monthly payments run and the amount still outstanding is shown in the accompanying tabulation. The total cost consists of two items, the

	Payments			Outstanding	
	Principal	Charge	Interest	On Note	On Advance
1	$ 200	$ 14	$ 8.56	$1,712	$1,600
2	200	14	7.49	1,498	1,400
3	200	14	6.42	1,284	1,200
4	200	14	5.35	1,070	1,000
5	200	14	4.28	856	800
6	200	14	3.21	642	600
7	200	14	2.14	428	400
8	200	14	1.07	214	200
	$1,600	$112	$38.52	....	....

$112 charge and $38.52 of interest, or a total of $150.52. Applying the formula to find the true annual rate:[16]

$$r = \frac{2 \times 12 \times 150.52}{1{,}600\,(8+1)} = 25 + \text{ per cent.}$$

The Time-Honored 6 Per Cent

Interest rates are often not given at all in installment contracts. When they are given, they are seldom what they seem. Usually they are disguised as forms of the time-honored 6 per cent. In the course of the years, 6 per cent has come for many people to be synonymous with "fair return." As one merchandiser put it, "Six per cent has sex appeal for the customer."

When installment sellers, who are to be repaid in equal installments, state their charge (say 6 per cent) as a percentage of the total unpaid balance at the start, since this balance is reduced by installment payments, the average balance outstanding during the term of the installment contract is only about half the original unpaid balance. Therefore, the true rate, in the absence of other manipulations and distortions, when payments are spread over a year, is roughly twice the stated rate.

"One per cent a month" appears to be a reasonable charge; but depending on the way it's calculated, it is much more than it seems. It is 12 per cent a year if levied on the new reduced unpaid balance each month; but if levied as a percentage of the total unpaid balance at the beginning of the contract, it is about 24 per cent, since, over a year, the

[16] For further details see Milan V. Ayres, *Instalment Mathematics Handbook* (New York: Ronald Press Co., 1946).

average balance outstanding is only half the original unpaid balance.

A government committee in Massachusetts, investigating installment selling practices, checked on "6 per cent" rates. In 105 cases in which "6 per cent" was quoted, the rates actually were:

1 case	6 per cent
6 cases	actually between 7 and 10 per cent
61 cases	between 11 and 20 per cent
19 cases	between 21 and 30 per cent
10 cases	between 31 and 100 per cent
8 cases	between 101 and 679 per cent

Most automobile purchasers, a state legislative committee in Wisconsin found, thought they were paying between 8 and 12 per cent for credit. The real rates, the committee estimated, were between 17 and 40 per cent and, in many transactions, even higher.

The Federal Trade Commission issued an order against the General Motors Corporation, its subsidiaries, and the Ford Motor Company to cease using the words "six per cent," or the symbol "6%" in advertising installment payment plans for purchasing automobiles. The Commission found as a fact "that when the term '6%' is used in connection with monthly payments is is understood to mean 6% simple interest per annum, computed on the declining balance as reduced by the monthly payments." In the installment plan advertised, the purchaser paid 6 per cent on the total amount originally owed, which resulted in a charge of approximately 11½ per cent simple interest per annum on the declining balance instead of 6 per cent interest, as was generally implied.

A student in the personal finance course was asked to shop in a number of retail stores to purchase the same model television set in each store on the installment plan and to compute the actual amount of interest charged as against the stated amount. In each case, as may be seen in Table 3–1, which presents the results, the stated charge was 6 per cent, whereas the actual rate ranged from a minimum of 11 per cent to a maximum of 25 per cent. Perhaps even more interesting is the wide range in basic price. Had the student been asked to try to buy for cash as well, doubtless the range would have been even greater.

Hidden Charges

At times the finance charge is clearly and explicitly stated in installment contracts. More often it is only obscurely indicated and is accompanied by a variety of fees—reinstatement fees, adjusters' fees, extension fees, transfer fees, repossession fees, reconditioning fees, etc.—all provided for in obscure clauses in the installment contract, but all equally unknown to the installment purchaser. Perhaps the one which is more often concealed than any other is the "pack" in automobile financing.

The "pack" is an amount arbitrarily added by an automobile dealer to the normal authorized finance charge called for by the finance company. It is kicked back to the car dealer by the finance company when

TABLE 3–1

Comparative Rates of Interest Charged by Retail Stores in New York For RCA Victor 17" Television Set—Model No. 151T

Store	Price	Price of Installation	Total Price (Tax Included)	Down Payment	Monthly Payment	Stated Per Cent Charged	Actual Per Cent Charged
Ritz Radio	$224.00	$50.00	$280.00	$45.00	$22.30 (12 mos.)	6	25.6
Dynamic	235.00	35.00	277.05	42.05	21.24 (12 mos.)	6	15.6
Turner Radio	232.00	25.00	265.00	45.00	19.43 (12 mos.)	6	11.1
O.K. Radio	235.00	25.00	267.80	42.80	20.16 (12 mos.)	6	13.9
Vim	245.00	32.50	285.50	85.50	17.66 (12 mos.)	6	11.0
Bedford	229.00	30.00	266.00	41.00	20.31 (12 mos.)	6	15.3
Powers Radio	235.00	25.00	266.90	46.90	13.32 (18 mos.)	6	11.3
Davega	247.00	32.50	288.50	43.90	21.70 (12 mos.)	6	11.6
Macy's	279.95	79.50	370.23	55.54	27.80 (12 mos.)	6	11.1
Gimbel's	279.95	79.50	370.23	55.54	27.80 (12 mos.)	6	11.1

SOURCE: Student survey.

the car buyer has made his last payment. This swollen finance charge is paid by the installment purchaser, who does not know that it is more than he needs to pay for credit and who also does not know that later the finance company will pay (kick) back the extra charge (the pack) to the dealer. The dealer is able to secure this extra charge because he is able to create competition among finance companies and banks for the installment purchaser's note. The dealer may have you sign the note promising to pay in installments to him, and then he may discount the note with a finance company or bank, or he may have you sign the note promising to pay a given finance company or bank. His ability to direct a volume of financing business to a favored finance company enables him to see to it that the favored company pays him back the extra sum, or "pack," which has been added to the regular finance charge. This extra charge or "pack" adds anywhere from 6 to 50 per cent to the credit cost of buying cars on the installment plan.

Business Week supplies an actual example of how the "pack" worked out for a Baltimore car buyer who took his case to the AAA:

> He bought a new Ford custom coupé last year; the total cash price plus delivery was $3,075. He paid down $1,075. He thus owed the $2,000 plus $148.80 for insurance. Added to this was $515.20 in finance charges, bringing his total time balance to $2,664—which he agreed to pay off in 24 monthly instalments of $111 each. Meantime, the dealer had an agreement with the finance company. The company would take this contract, for example, at 6% per year of $2,148.80. For 24 months this came to $257.86. But the buyer was paying $515.20 in finance charges. So, when he paid off his last instalment, the finance company paid back to the dealer the difference between $515.20 and $257.86—or $257.34.[11]

The Role of the Sales Finance Company

You may sign an installment agreement to purchase an automobile from a dealer only to find that you must make your payments to a finance company. Often you are immediately told of the arrangement; sometimes you are not. The reason the dealer utilizes a finance company is that in many cases he does not have sufficient capital of his own to finance the volume of business he can do if he sells on time. Therefore, he uses a finance company, which pays him at the time the car is sold, thus replenishing his capital while, at the same time, financing the extension of credit to the purchaser. The finance company extends the credit and relieves the dealer of this obligation, thus freeing his capital for more rapid turnover.

There is nothing alarming about finding yourself in debt to the finance company rather than to the dealer. There are nearly 6,000 sales finance companies and offices operating throughout the country holding more than one fourth of all consumer installment paper outstanding. They account for more than one half of the total automobile paper and about one tenth of other durable goods paper. The finance company is most prominent in automobile financing. The giants in the field are General Motors Acceptance Corporation ($1,500,000,000), which finances General Motors cars; CIT Financial ($1,100,000,000), which finances Ford cars, grants home-modernization loans, and finances other consumer durable sales; Commercial Credit Corporation ($749,000,000), which finances Chrysler cars; and Associated Investment Company ($355,000,000), which finances miscellaneous auto paper. Recently Sears Roebuck established the Sears Roebuck Acceptance Cor-

[11] *Business Week*, October 1, 1949.

poration. Some 41 per cent of Sears $3.5 billion annual sales volume is handled on credit, whereas only 5 per cent was a quarter of a century ago. All these companies are well-established, reputable concerns which treat installment debtors fairly and make (as installments costs go) only resonable charges. It is often better to deal directly with one of these companies than with some unscrupulous dealers.

Finance companies are anxious to have an absolute promise to pay from the purchaser, which cannot be impaired by any disputes or claims between the dealer and the purchaser. Frequently, however, the purchaser will not find servicing or repairs satisfactory; or he will claim he received an inferior or damaged product and will, therefore, refuse to pay. To guard against this, the finance companies have employed a variety of devices. One attempt to deal with the problem has been to provide in the conditional sales contract that the purchaser will settle all claims with the dealer directly and will not set up any such claim in an action brought by the finance company. The courts, however, have been loath to enforce such a clause. Another attempt to deal with it has been the use of the negotiable promissory note which the purchaser is asked to sign along with the conditional sales contract.

The use of the negotiable note with the conditional sales contract is generally held to cut off defenses and claims which the purchaser might have against the dealer, thus achieving the finance company's purpose. Recently, however, the courts have held against the finance companies where the purchasers had legitimate grievances, and several states have forbidden by law the use of negotiable notes with installment sales contracts. Generally speaking, if the finance company is a legitimate one, the purchaser, by stopping payment when his grievances against the dealer are proper and justifiable, can get the finance company to exert pressure on the dealer to take care of the purchaser's grievances. In this way a time purchaser may often, through the threat of stopping payment, secure better dealer servicing than a cash purchaser. On the other hand, there is the danger of a quick repossession.[18]

Installment Credit Costs versus Bank Credit Costs

Each semester we have asked our students to sample four installment sellers and one bank. We have suggested that they represent

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[18] For more details on the operation of sales finance companies see Clyde W. Phelps, *Installment Sales Financing: Its Services to the Dealer* (Baltimore: Commercial Credit Co., 1953), p. 99; and Walter S. Seidman, *Accounts Receivable and Inventory Financing* (Ann Arbor: Masterco Press, 1957). See also *Financing Small Business*, Report to The Committees on Banking and Currency and The Select Committees on Small Business by The Federal Reserve System (*85th Cong., 2d sess.*) (Washington, D.C.: U.S. Government Printing Office, 1958).

themselves as actual purchasers (as a borrower in the case of the bank) and obtain the actual installment terms in order to compute the exact cost of buying on the installment plan. They have then been asked to compare these costs with the cost of a personal loan from a large New York commercial bank. The conclusion which has emerged, inescapably, from such surveys is that in almost all cases it is much less expensive to borrow from the large New York commercial bank and then use the money to make a cash purchase than it is to buy on the installment plan. Over a year, the cost of the bank loan ranges from 7 to 12 per cent, depending on the particular bank, while the cost of installment credit runs from 10 to 45 per cent, depending on the article and the store.[19] Even in the case of automobile loans financed by a large and legitimate finance company, bank loans may be cheaper.

This conclusion was confirmed by a Federal Reserve Survey in 1956 which found that banks charged the lowest rates; national sales finance companies were a close second, while local finance companies charged the highest rates.[20]

A typical bank or national sales finance company transaction ran somewhat as follows: A man bought a $3,200 car, received a $1,200 trade-in allowance on his old car, and paid $400 down. The amount financed therefore is the unpaid balance of $1,600 plus $34 for "package insurance," or a total of $1,634, and the finance charge for a 24-month contract, on a 6 per cent add-on basis, is $196.24, making the amount of the note $1,830.24. Under the constant-ratio method, the effective annual rate would be 11.5 per cent, as follows:

$$R = \frac{2mi}{P(n+1)},$$

$$R = \frac{2 \times 12 \times 196.24}{1{,}634 \times 25}$$

$$= \frac{4{,}709.76}{40{,}850.00}$$

$$= 0.1153, \text{ or } 11.53 \text{ per cent.}$$

[19] The consumer, of course, needs to compare not only the rates but also the services given for the rates charged. Some two-dozen services which may or may not be offered by a financing service in connection with the rate it charges for installment credit are enumerated in Clyde W. Phelps, *Using Installment Credit*, Studies in Consumer Credit No. 4 (Baltimore: Commercial Credit Co., 1955), pp. 29–32.

[20] See Board of Governors of the Federal Reserve System, "Automobile Installment Credit Terms and Practices," Supplement III, pp. 141–69 in *Consumer Installment Credit*, Part I, Vol. II, Growth and Import (Washington, D.C., March, 1957).

FIGURE 3–3

Before You Sign

Here are some of the questions the instalment buyer should ask himself—and the dealer—before he signs on the dotted line:

(1) What will the credit actually cost me in money? What rate of interest is charged?

(2) Are all the dollars and cents figures in the contract correct? Are there any blank spaces to be filled in later?

(3) What are the insurance charges, if any? What insurance is actually provided?

(4) To whom will I owe the payments?

(5) What penalty charges may be imposed for late payment? Are there any other extra charges?

(6) Do I have a right to fair notice before the merchandise can be repossessed? What repossession charges may be collected?

(7) What security have I given? Does the security include other merchandise previously bought? Does it include a wage assignment?

(8) What legal safeguards and guaranties have I waived?

(9) Do terms in fine print commit me to additional obligations?

(10) Is there provision for a fair refund on carrying charges if early payment is made?

It is least expensive to pay cash; but if you must take time to pay, it is usually less costly to get a bank loan. If you do buy on the installment plan, be sure you ask yourself the questions shown in Figure 3–3.

* * * * * * *

How Much Will the Loan Cost?

If, in shopping for a loan of $100, repayable in equal monthly installments over a 12-month period, one lender required you to repay $10.07 per month, another $9.75, a third $8.87, and a fourth $8.67, and all other factors were equal, there is little doubt that you would be inclined to borrow from the lender who quoted the lowest rate, namely $8.67. Over the year you would save $16.80 by borrowing from the last rather than the first lender above. These are actual rates. The first lender is a small personal-loan company, the second is a large national consumer finance company, the third is a credit union, and the last is the personal-loan department of a very large commercial bank.

But rates are often not quoted on this simple, comparable basis, and it is frequently difficult to know exactly what comparable costs are. There are different ways of measuring costs. Lenders use varying methods of charging for loans, and in some cases there may be several scattered charges instead of a single one. Fees may be charged for credit investigations, for example. Or if you put up some security, such as an autmobile, or insurance, or securities, there may be a legal fee. Generally speaking, legal rates on an annual basis range from 4 to 42 per cent, though a 42 per cent rate will never be quoted as such. It will be stated as a 3½ per cent per month rate. Rates may be quoted either on a monthly or an annual basis. Consumer finance companies and credit unions are required to compute rates on a monthly basis, and hence state them in this manner. Rates may be charged either on the full amount of the loan or only on the outstanding balance, the latter, of course, being the more desirable. Rates may be on a discount basis, deducted by the lender in advance from the face amount of the loan, or on an interest basis, added each month to the face amount of the loan repayable.

In many cases the rate will not be clearly stated. The borrower is given a table, such as that shown in Figure 4–1, which indicates the

FIGURE 4–1

Find Here the Cash Loan You Need	Choose Your Monthly Payment Here			
	6 payments	12 payments	15 payments	20 payments
$ 50	$ 9.08			
75	13.62	$ 7.31	$ 6.06	
100	18.15	9.75	8.08	$ 6.41
200	36.13	19.33	15.98	12.65
300	54.02	28.82	23.80	18.80
400	71.53	38.00	31.31	24.64
500	88.83	48.94	38.57	30.22

N.Y.

The company's charge is 2½ per cent per month on balances of $100 or less, 2 per cent per month on that part of the balance in excess of $100 and not in excess of $300, and ½ of 1 per cent per month on that part of the balance in excess of $300, up to a maximum of $500.

amount repayable monthly for a given number of months for a stated loan. To find the real dollar cost of his loan, the borrower must multiply the monthly amount repayable by the number of months he is to pay and, from the resulting figure, subtract the amount borrowed. The remaining sum is the true dollar cost of the loan. For example, in Figure 4–1, the borrower will repay $9.75 per month for 12 months if his loan is $100 and he elects to pay back over a year; 12 × $9.75 = $117 − $100 = $17, the true dollar cost of the loan.

This "true dollar cost" is one of two basic methods of measuring and comparing costs. You add up all the money that you pay the lender from the time you apply for the loan until it is repaid, including all fees, and then subtract the amount of cash you get from the lender. The difference is the true dollar cost. It is the real figure you are looking for, but it affords an accurate comparison only when two loans have the same length and method of repayment. When they do not, then it is better to use the second basic method, the true annual rate. This will enable you to compare costs when loans differ in length and payment plans.

In the dollar-cost illustration given above, you might imagine at first glance that the true annual rate was 17 per cent. You paid $17 for a loan of $100 over a period of a year. Offhand, that looks like 17 per cent, but it is not. Why? Because you did not have the use of the whole $100 for a complete year. During the second month you would have the use of only $^{11}/_{12}$ of the loan, during the third month only $^{10}/_{12}$ of the loan, etc., and during the final month only $^{1}/_{12}$, so that, for the whole year, you would have had, on the average, the use of only about $50. To approximate the true annual rate, you need only apply the following formula: $r = \frac{2mI}{p\,(n+1)}$, where

r = the annual rate charged,
m = the number of payment periods in one year (12 if you are repaying monthly, regardless of the number of months you take, and 52 if you are repaying weekly, regardless of the number of weeks you actually take),
I = true dollar cost of the loan,
p = the net amount of the loan,
n = the number of repayments you actually will make.

Applying this formula to the illustration above, of the $100 loan, repayable over a year, which cost $17, we find

$$r = \frac{2 \times 12 \times 17}{100\,(12+1)} = 31 + \text{ per cent.}$$

Thus, it is apparent that the annual rate of interest is 31 + per cent rather than 17 per cent.[2] By applying this formula to each case as one shops for a loan, comparative costs will become clear and evident, and, as will soon be apparent, they will be found to vary considerably.

[2] The formula used is known as the "constant-ratio method." It always results in a slightly higher yield than that obtained by the actuarial method, which is recognized as the most accurate but which is much more complicated and cannot be easily computed by the student. For this reason we will use the constant-ratio method, which can be quickly and easily computed, throughout the chapter. Neifeld compares the three methods (constant ratio, direct ratio, and actuarial) and speaks of "the closeness of the results." See M. R. Neifeld, *Guide to Instalment Computations* (Easton, Pa.: Mack Publishing Co., 1951), p. 198; see also his *Trends in Consumer Finance* (Easton, Pa.: Mack Publishing Co., 1954).

STATEMENT OF MORDECHAI E. KREININ,[1] MICHIGAN STATE UNIVERSITY, EAST LANSING, MICH.

IMPORTANCE OF CONSUMER CREDIT

In spite of the rapid growth of consumer credit over the past 40 years, its total is still relatively small by comparison to other relevant aggregates in the economy. In 1955, total non-Government debt amounted to $367 billion, of which $127 billion was owed by consumers. However, only $39 billion of that was in the form of nonmortgage consumer credit, consisting of $29 billion in installment and $10 billion in noninstallment debt. By the end of 1959 total consumer credit rose to $52 billion, of which $39 were in the form of installment debt. If thus appears that nonmortgage consumer credit forms about 10 percent of total private debt in the economy. In 1955 it amounted to 14 percent of liquid assets held by consumers.[2] In terms of its impact on economic stability, most studies[3] undertaken thus far indicate that while installment credit tends to aggravate economic fluctuations, it is not an initiating factor of business cycles.

But the aggregative figures presented above tend to hide more than they reveal. Cross-sectional data[4] show that the incidence of consumer credit is widespread. Sixty-three percent of all car buyers and 55 percent of durable goods buyers in 1958 used credit to finance some or all of their purchases. At the beginning of 1959, 60 percent of all consumer spending units owed some consumer debt. And the incidence of such debt was particularly widespread among the middle and upper-middle income brackets.

Any legislative action in the field of consumer credit is thus likely to affect wide segments of the population. And it is this effect with which we are here concerned. The present inquiry is not to examine whether or not consumer credit controls would help stabilize aggregate economic activity. Rather it is to determine whether the users of consumer credit need additional information about the financing terms which they assume.

THE COST OF CONSUMER CREDIT

Three factors constitute the terms of installment credit: The amount of downpayment, the duration of the loan, and the financing charges. While all three factors are interrelated, it is the last one in which we are presently interested.

Of the three methods used to calculate financing charges on installment credit, the "add-on" method is the most common one in contracts involving purchases of durable goods. The finance charges are added on to the amount the customer wishes to borrow, and the resulting figure is divided by the number of months for which the credit is extended to obtain the amount of monthly payments. Typical add-on rates in 1956 were 6 percent for new cars; 8–12 percent on used cars; 5–7 percent on new trailers; 7–10 percent on household appliances; and 6 percent on home improvements.

When converted to annual rates as a percentage of the unpaid balance, most financing charges emerge well in excess of 10 percent. A 6 percent add-on rate for 1 year, for example, woulld yield close to 12 percent on the unpaid balance.[5] These are very high charges. Yet there is considerable evidence that most borrowers are not sensitive to variations in the cost of credit. The demand for consumer installment credit is highly inelastic with respect to finance charges, even though it is elastic with respect to the downpayment requirement and the length of the contract.

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[1] I am grateful to Prof. C. Larrowe for helpful comments.

[2] Currency, demand and time deposits, and government bonds. These figures were derived from recent Federal Reserve Bulletins.

[3] See the various studies published in "Consumer Installment Credit," Board of Governors of the Federal Reserve System, Washington, 1957.

[4] Based on the University of Michigan surveys of consumer finances.

[5] Because the obligation is repaid in installments, on the average the debtor has the use of only about half of the original amount of the credit over the life of the contract. The effective annual finance rate on the declining unpaid balance is thus roughly twice the add-on rate.

CONSUMER AWARENESS OF FINANCING CHARGES

This insensitivity is generally attributed to two reasons. First, substantial changes in finance charges have a relatively small effect on the size of the monthly payments which is the main interest of most borrowers. Second, consumers are generally unaware of the actual financing rates that they are paying. Financing charges are almost invariably quoted on an add-on basis and are further disguised by variations in insurance charges, delinquency penalties, investigation fees, etc. Conversion of this information to a percentage of the unpaid balance is beyond the ability of most consumers. Furthermore, evidence from surveys suggests that consumers are frequently ignorant even of the dollar amount of their finance charges, let alone the percentage rate.

Is it important that borrowers be made aware of their finance charges? The answer is definitely in the affirmative. Full information is a prerequisite to the efficient functioning of any market. In the consumer credit market the removal, or at least the lessening, of ignorance will have several beneficial effects.

To begin with, it could make the market more competitive with respect to the cost of credit. At present most finance companies tend to charge the maximum rates permitted by State regulations, and seldom to vary their rates. There is also some evidence that these charges are too high.[6] Increased competition may reduce rates to the benefit of consumers, and eliminate some of the "economic rent" reaped by lenders.

A second and perhaps more important effect of fuller information is the opening of new alternatives to the consuming public concerning the amount to be borrowed and the source of funds. Data about the financial position of borrowers indicate that many of them have considerable leeway in making such decisions. Although consumer debt and liquid asset ownership are inversely related, many debtors have substantial amounts of liquid assets as well as relatively high incomes. Table 1 shows that 36 percent of the spending units with income in excess of $7,500 and liquid asset holdings of $2,000 and over owe personal debt. The median debt of debtors in this category is $960—well below their asset holdings. A glance at other cells in the lower right-hand section of table 1 indicates that personal debt is widespread among spending units whose income-asset position would permit a substantial reduction of such debt. Table 2 provides a somewhat more accurate picture. Forty percent of all spending units have no personal debt. One-third of the debtors (19 percent of all spending units) have sufficient liquid assets to pay off their debt. Of the 24 percent of all spending units whose liquid assets fall short of their personal debt, 11 percent have an income of over $6,000, suggesting a reasonably strong financial position. (This statement should be modified by adding a family size variable to indicate financial need, before it can be made conclusive.) On the other hand, close to half of all debtors (28 percent of all spending units) are in a weak position. They either own no liquid assets, or their asset holdings fall short of their debt and their incomes are relatively low. On balance, at least half of all borrowers are in a strong enough position to have considerable leeway in choosing the amount they want to borrow, the lending institution, and other terms which affect the cost of credit.

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[6] See the comment by W. P. Mors, "Consumer Installment Credit," op. cit., pt. II, vol. 1, p. 448.

TABLE 1.—*Personal debt*[1] *within liquid assets*[2] *and income groups, 1959*

Liquid assets	Income: Under $3,000			$3,000–$4,999			$5,000–$7,499			$7,500 and over		
	Percent	Amount	Cases	Percent	Amount	Cases	Percent	Amount	Cases	Percent	Amount	Cases
None	61	$200	(510)	81	$325	(184)	80	$900	(77)	...	...	(³)
$1 to $499	59	190	(228)	83	600	(228)	88	700	(312)	89	1,400	(134)
$500 to $1,999	25	180	(151)	46	360	(135)	65	500	(158)	75	860	(193)
$2,000 and over	13	150	(119)	25	270	(121)	35	300	(148)	36	960	(281)

[1] Personal debt includes installment and noninstallment credit but excludes mortgage debt.
[2] Liquid assets include bank accounts and Government bonds.
[3] Too few cases.

Figures in each cell indicate:
Proportion of debtors within cell.
Interpolated median dollar amount owed by debtors within cell.
Number of cases on which figures are based (in parentheses).

Source: Based on the 1959 Survey of Consumer Finances.

TABLE 2.—*Relation of personal debt to liquid assets and income, 1959*

	All groups	Income: Under $2,000	$2,000–$4,000	$4,000–$6,000	$6,000–$9,999	$10,000 and over
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Has no personal debt	40	12	10	7	7	4
Liquid assets exceed personal debt	19	1	4	6	6	2
Personal debt exceeds liquid assets	24	1	4	8	9	2
Has no liquid assets but has personal debt	17	7	6	3	1	0
Total	100	...	...	...	...	...
Number of cases	3,100	630	748	729	727	266
Weighted percent of sample	100	20	24	24	24	8

Source: Based on the 1959 survey of consumer finances.

Knowledge of financial charges as percent of the outstanding balance would enable prospective borrowers to compare effectively the interest rate which they undertake to pay with the rate earned on their liquid assets. In most cases their earnings per dollar would amount to only one-quarter of the cost of debt. Given the relatively strong financial position of many consumer goods purchasers, they may be induced to increase their downpayment and reduce the amount to be financed. At present, consumers are known to incur personal debt and accumulate liquid assets at the same time. In part this can be traced to such attitudinal variables as a desire to remain liquid in anticipation of possible emergencies. While better knowledge of rates paid on consumer loans would not eliminate such attitudes, it may induce many consumers to reexamine their asset-debt position, and perhaps to lower the amount of debt incurred. This would minimize misallocation of borrowers resources resulting from decisions which are not based on full information.

In many cases, larger downpayments are associated with smaller financing charges. Since many consumers possess the financial ability to increase their downpayment, better knowledge of the cost of credit may result in direct saving on financing charges.

Finally, ability to make effective comparisons of costs as between alternative lenders may direct consumers to the lower cost sources and at the same time increase price competition in the field. Banks, for example, are known to charge less (on direct loans) than other lenders, but to require higher credit standards. Inasmuch as many consumers are able to meet these standards, they may be induced to borrow from banks at lower cost.

CONCLUSION

Consumers are frequently unaware of the dollar amount of financing charges they pay in connection with consumer loans. They are almost invariably ignorant of the percentage of the outstanding balance paid in such charges. Yet, given the financial position of many borrowers, knowledge of that percentage is essential for making sensible decisions regarding the amount borrowed, and for comparing the cost of borrowing from various sources of funds. A requirement of lenders to disclose the financing charges as a percentage of the unpaid balance, suggested in this bill, is long overdue and urgently needed. Since this information is usually available in the case of mortgages the bill should be confined to nonmortgage consumer credit. Regulated by the Federal Reserve System, it would make possible a better allocation of consumer resources.

[Excerpts from Educational Pamphlet No. 1, Bureau of Business Research, Western Reserve University]

CONSUMER CREDIT FACTS FOR YOU

(By Wallace P. Mors)

* * * * * * *

Origin of modern consumer credit

The rise of an industrial economy in the United States, occurring over most of the last century, set the consumer credit stage. It brought increased incomes and rising living standards. It stimulated our appetites for additional goods. Seeking improved living standards became an accepted social goal. Credit became an increasingly popular means of advancing this goal.

Industrialization affected many consumers in another way. It took them out of intimate community groups and placed them in the impersonal setting of large cities. Emergencies no longer called forth the friendly aid of neighbors. Each family was on its own. Families hit by emergencies instinctively sought aid through credit. But the average family found to its dismay that it could obtain no credit, or could secure it only under intolerable conditions.

This seems strange to us, when we consider the many sources of credit available today. Commercial banks, whose consumer loan departments are happy to lend to consumers today, would not do so then. They would make unsecured loans to wealthier families. They would also lend to persons who had adequate security in the form or real estate, stocks, and bonds. Only a very small percentage of consumers could meet these requirements.

Some borrowers were able to obtain credit from remedial loan societies which made loans to wage earners on a semicharitable basis. These organizations were the real pioneers. They led the way in showing the public that consumer lending was needed and was here to stay. Their organizers recognized the need for higher interest rates than those allowed under the usury law, and obtained special State charters permitting higher charges.[1] The first society was founded in Boston in 1859. Other societies followed slowly but never became sufficiently numerous to meet more than a small part of the demand.

The vast majority of borrowers were forced to turn to the only other commercial source then readily available—illegal lenders. As the demand for credit increased in the post-Civil War years these lenders multiplied. Their rates were often excessive, and their collection practices were often harsh.

As borrowers grew in numbers, the harsh treatment they received from illegal lenders drew public attention. Remedies were suggested. One was stricter enforcement of the usury laws which prohibited interest of more than 8 or 10 percent a year. This was as futile then as it is today. As we shall show later, consumer loans require higher interest or financing rates than those permitted by usury laws. In fact, this was one—not the sole—reason why banks initially frowned on consumer lending. Furthermore, the usury laws have few teeth in them. They are not effective in preventing violations in the case of consumer loans primarily because their enforcement depends on action by the borrower. He seldom has the knowledge or the resources to take

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[1] Usury laws set maximum interest rates which may be charged in the absence of specific legislation permitting higher rates. All but four of the States have such laws.

legal action. There is little incentive for him to do so, since the usury laws generally provide only that the lender shall forfeit the excess interest collected.

Special legislation adopted

About 1907 the Russell Sage Foundation began a thorough study of lending conditions and then started a vigorous campaign to bring illegal lenders under State control. Some lenders offered their cooperation. Massachusetts was the first to pass a workable law in 1911. By 1915 five States had legislation regulating consumer lending.

Experience under these laws led to the drafting of the Uniform Small Loan Act in 1916. This is a model bill. It permits lenders who obtain licenses to charge interest rates higher than usury law limits. In return, lenders must conform to its rigid provisions and submit to State supervision. About four-fifths of the States now have workable small loan laws, patterned in whole or in part after the Uniform Act.[4] Illegal lenders still flourish in States without workable small loan legislation.

Credit union laws are another example of specialized legislation. Massachusetts chartered the first credit union in 1909. Most other States and the Federal Government (1934) have since passed credit union laws.

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RATE MAXIMUMS AND LENDING PRACTICES

The legal maximum rate under which a financing agency operates has a very important bearing on its lending practices. The higher the maximum, the greater is the lender's freedom in making smaller loans and relaxing credit standards. Setting proper maximums is an important task and has far-reaching effects on lenders, borrowers, and society in general.

In the previous section, we pointed out that some lenders must be able and willing to make all sizes and types of loans. It is not essential that all types of lenders be in such a position to secure satisfactory results. In the United States, only consumer finance companies operating under small loan laws, and at rates whose maximums are sufficient, can make the small and more risky loans.

Banks operating under bank consumer loan laws are usually subject to lower rate maximums. They have been able to operate profitably under these lower rates by eliminating small loans and enforcing strict credit standards. Many banks, for example, have a general policy of refusing, or at least not promoting, loans under $100. This is particularly true of banks located in the larger population centers.

The accompanying table shows that consumer credit users pay a wide variety of rates. Several things need to be kept in mind when studying the table. They are grouped under the four headings which follow:

1. *Legislation has an important influence on maximum rates.*—About one-half of the States set maximum rates on automobile or all retail installment financing transactions. In these States the maximum rate varies from 24 percent on new cars to 43 percent or more on used cars. Evidence collected by legislative bodies indicates that corresponding maximums in uncontrolled States are at least 120 to 275 percent. This parallels conditions in the cash lending field in States without adequate small loan legislation.[5] Illegal lenders exist in these States and charge rates reported to run as high as 1,200 percent. Seven States have no limit on the rate which commercial banks may charge—California, Colorado, Connecticut, Louisiana, Maine, Massachusetts, New Hampshire.

2. *Maximum rates vary among States having legislation.*—The table shows a maximum of 42 percent for commercial banks. Actually this applies only in New Mexico where some banks are operating under the small loan law. Rhode Island permits a maximum rate of 30 percent and Missouri of 27 percent. About half of the States have special laws which permit maximum bank charges between 12 and 18 percent. The remaining States limit bank charges to usury-law maximums ranging, in the main, from 6 to 12 percent. Banks commonly interpret the usury law as permitting a charge in advance equal to the amount loaned times the usury rate.

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[4] These laws are fully described in pamphlet No. 2 of the Bureau of Business Research called "Small Loan Laws."

[5] They are: Alabama, Arkansas, Delaware, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, and Texas. The District of Columbia needs also to be added. For more detailed discussion see pamphlet No. 2 of the Bureau of Business Research on "Small Loan Laws."

Installment credit rates [1]

Financing agency or type of loan	Common rate	Range of legal maximum rates
A. Cash lenders:		
Credit unions	12	12
Commercial banks—personal loans	12	12-42
Consumer finance companies—under small loan laws	30	24-48
Illegal lenders		[2] 42-1200
B. Retail installment financing in 24 States with rate legislation—12-month contract:		
New cars	12	12-24
Used cars under 2 years old	(3)	18-31
Used cars over 2 years old	(3)	18-43
C. Retail installment financing in States without rate legislation—12-month contract:		
New cars	12	[2] 12-120
Used cars	(3)	[2] 19-275

[1] The rates shown represent the equivalent percent per year on unpaid balance.
[2] There is no legal maximum here. The figures shown give the range of actual rates reportedly being charged.
[3] Information is not available.

Michigan and Pennsylvania have a 12-percent maximum on new car installment financing. The other States with rate control have new car maximums ranging from 14 to 24 percent.

Only Alaska has a 48-percent maximum small-loan rate. Maximums in the other workable small-loan laws vary from 24 to 42 percent.

3. *States change maximum rates from time to time.*—Most of the States with small-loan laws fall in this category. Many of them have also raised loan limits above $300 in recent years. These States provide an excellent social laboratory in which to observe the effects of rate changes on lending practices. Practically all of them set a lower maximum rate on loans over $300 than the maximum permitted on loans under $300. A few of these States have also lowered the maximum rate on loans under $300. In spite of reduced rates, consumer finance companies have continued to make all sizes of loans. This record is the more remarkable since operating costs have risen sharply under the impact of inflationary pressures. These same pressures are the primary factors which has led States to increase loan limits. The $300 limit was satisfactory in 1916 when the uniform small loan law was drafted but became too low following the sharp rise in prices after World War II.

What happens when a maximum rate is lowered too far? New Jersey's experience provides a graphic answer. Between 1914 and 1929 the State's small loan law allowed a maximum interest rate of 3 percent a month on unpaid principal balances. Consumer finance companies made loans of all sizes from $10 to $300 during this period. In 1930 New Jersey reduced the maximum to 1½ percent a month. Consumer finance companies could not afford to do business at that rate and many closed up soon thereafter. A few hung on for a time longer but only by restricting loans to $100 or more. Illegal lending became widespread. In 1932 New Jersey raised the rate to 2½ percent a month. Consumer finance companies returned and once again granted loans of all sizes up to $300.

4. *Not all financing agencies and retailers charge maximum rates.*—The common rate column in the table shows that rates which consumers pay are often below the maximums which they could legally be asked to pay. Financing agencies and retailers may reduce rates to increase volume, build good will, or for other reasons.

The reader may well ask at this point: Why so many maximums? Wouldn't one maximum serve for all financing agencies? What is a fair maximum? In answering these questions one important fact must be kept in mind. To prevent illegal lending, at least one type of financing agency must be in a position to make all sizes of loans to qualified credit risks. In our society this agency is the consumer finance company operating under small-loan laws. These companies have been in existence a long time. Their experience is thus valuable in helping to determine a fair maximum.

When the uniform small-loan law was adopted in 1916 the maximum rate was usually a flat 3½ percent a month and the maximum loan $300. Subsequent experience has shown that an average of 3 percent is adequate in those areas in which consumer finance companies can develop sufficient loan volume to introduce operating economies. We have already mentioned that many States have raised loan limits above $300 in recent years. Maximum rates have been successfully lowered to 2½ percent a month in some of these States.

Many States have abandoned flat rates in favor of multiple rates. Ohio's small-loan law serves as an illustration. It provides the following monthly maximums on unpaid balances: 3 percent on that part of any loan balance between 0 and $150; 2 percent on that part of any loan balance between $150 and $300; two-thirds percent on that part of any loan balance between $300 and $1,000. Thus, on several illustrative loans, repaid in 12 equal monthly installments, the monthly payments, the maximum total interest charge, and the true monthly interest rate, are as follows:

	Total monthly payment	Total annual interest charge	True monthly interest rate
On a 12-month loan of—			*Percent*
$100	$10.07	$20.84	3.0
$300	29.68	56.16	2.7
$500	48.00	76.00	2.2
$1,000	92.16	105.92	1.6

Experience of consumer finance companies to date, indicates several things. The current required maximum rate varies between 2½ and 4 percent a month depending on such factors as loan limits, loan volume, and operating economies. Because most small loan laws now contain multiple rates, average rates are substantially below these maximum rates. Consumer finance companies operate profitably under these multiple rate structures. Except possibly for pawnshop loans, there is no justification for consumers paying higher rates.

We have already seen how consumer finance sources developed and why they have different maximum rates. We have also seen how agencies with lower rates and flat-rate structures are able to operate by eliminating smaller loans and holding to strict credit standards. Differences in rate maximums and rate structures will undoubtedly continue for a long time to come.

Under these conditions society's responsibility is clear. It must (1) provide rate maximums and structures high enough to permit legal financing agencies to operate, (2) educate consumers to understand the reason for differences in rate maximums and structures, and (3) encourage competition among financing agencies. Competition is important. It acts as a spur to financing agencies in increasing efficiency and reducing costs.

HOW TO TELL WHAT RATE YOU PAY

Each consumer credit user owes it to himself to get credit on the best possible terms. This requires knowing several things. One of these is the price or interest which he will have to pay.

The simple percentage method

Credit unions and consumer finance companies are required by law to state their interest charges as a monthly percentage rate on unpaid balances. The percent rate is applied, not on the original amount of the loan, but on the actual unpaid principal balance. An illustration will make this method clear. Suppose you borrow $100 from a consumer finance company on March 1. The company quotes you a monthly rate of 3 percent. At the end of March you owe interest of $3 (3 percent of $100). Suppose you pay the $3 plus $30 of the principal on March 31. Then on April 30 you owe interest of $2.10 (3 percent of $70).

This is called the simple percentage, or true interest-rate method. Under it the quoted monthly rate is the actual monthly rate. If you wish to know what yearly rate you are paying, multiply the monthly rate by 12. Thus, 1 percent a month is 12 percent a year, 2½ percent a month is 30 percent a year, and 3½ percent a month is 42 percent a year. This does not mean, however, that the charge on a $100 loan at 2½ percent a month repaid in 12 equal monthly installments is $30; rather it is $17, because the 2½ percent is applied to successively lower amounts of principal reflecting the monthly installment in payments.

The uniform small loan law prohibits fees, delinquency charges or extra payments of any kind. Interest payments which the borrower misses may not be added to the principal balance owed. He pays interest at the regular rate, however, on the delinquency. Thus, the monthly rate quoted by consumer finance companies is an actual, all-inclusive rate. With minor exceptions, this is also true of credit union rates. Credit unions are generally permitted delinquency but no other extra charges. Some charge for delinquency and some do not.

The add-on method

Commercial and industrial banks, sales finance companies, and installment sellers generally state their charges in the form of an add-on rate. This is not the same as a "true interest" rate. If the borrower wishes to know the "true interest" rate, he must figure it himself. An exact answer requires the use of compound interest formulas,[6] but fortunately a convenient shortcut provides a reasonably accurate answer. We have already described it above and need only elaborate a bit at this point.

Suppose you borrow $300 at an annual add-on rate of 6 percent a year and agree to pay the loan plus the add-on charge of $18 in 12 monthly installments. This means you receive $300 and agree to make 12 installment payments of $26.50 ($318÷12). A little arithmetic shows that the average amount of money you get to use during the year is approximately one-half of what you borrow, or $150 in our example. The annual interest rate is about 12 percent ($18÷$150) or approximately double the add-on rate. This leads to the following simple rule. If the add-on (or discount)[7] rate is an all-inclusive charge and the loan is repaid in equal monthly installments, the interest rate is approximately double the add-on (or discount) rate.

In many cases the add-on (or discount) rate is not the only charge. Finding the interest rate in such cases is slightly more complicated. The customer must first determine the dollar cost of the credit.

The dollar cost of a loan

Many banks add an investigation or other fee to the add-on rate. The dollar cost of the loan is the sum of the add-on and the fee. A bank, for example, agrees to lend you $100 at an add-on rate of 5 percent plus an investigation fee of $3. You agree to pay back $108 in 12 monthly installments of $9 each. The "true interest" rate here is approximately 16 percent a year ($8÷$50).

Two other bank practices must also be considered in determining the true rate of interest at the time of borrowing. One is delinquency and deferment charges. Borrowers who fail to make payments on time are generally charged a penalty fee to cover the extra expenses involved. The other concerns the refund of interest when the installment loan is refinanced or paid in full before maturity. Under the add-on method the interest charge is added to the loan in advance. Many State laws do not require banks to refund any of this interest if borrowers refinance or pay their debt in full ahead of schedule. The failure to make refunds can increase the "true interest" rate sharply. In the example given in the preceding paragraph, if monthly payments are made on schedule during the first 5 months and the entire outstanding balance is paid in full at the end of the sixth month (instead of running for the full year), the "true interest" rate increases to about 21 percent a year. Some banks voluntarily make prepayment refunds; others do not.

The recent trend toward precomputed charges in the small loan field needs mention at this point. A few States now permit consumer finance companies to precompute charges. Here the lender computes interest for the whole loan period using the simple percentage method described on page 18, and adds the interest to the loan. The borrower then pays off the sum of the loan plus interest in equal monthly payments over the life of the loan. States which per-

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[6] These formulas are not easy to use. A substitute and easier to apply formula, called the constant-ratio formula, is illustrated in the appendix.

[7] Banks, sales finance companies, and installment sellers occasionally use a discount rate instead of an add-on rate. In this case the finance charge is deducted in advance and the borrower pays back the face amount of the loan. To illustrate, if you borrow $300 at an annual 6 percent discount, you receive $282 and agree to pay back $300 in 12 monthly payments of $25 each. You pay $18 and get to use an average of $141 on a yearly basis. The interest rate is $18÷$141 or slightly over 12½ percent. The discount and add-on methods thus give generally similar results, the actual rate being slightly higher with the discount method. It becomes progressively higher as contract periods lengthen beyond 12 months.

mit precomputation require prepayment refunds when borrowers refinance or pay a loan in full before maturity. Some of these States permit delinquency and deferment charges. Precomputation thus raises problems which are essentially similar to those raised by the add-on method.

The dollar cost of retail sale credit

The dollar cost of retail sale credit is the difference between the true cash price of an article and its credit price. This is not always an easy figure to determine. Retailers have different price policies. Some stores quote credit prices only, others quote cash prices only, and still others quote both cash and credit prices. Stores with credit prices only may advertise that they make no interest or carrying charges. What they mean by this, of course, is that carrying or financing charges are included in the price of the article.

We are concerned here mainly with installment credit transactions in which the finance charge is added to the cash price as a separate charge. Cash price means the price which applies to a cash buyer. Actually installment transactions often include not only the cash price and finance charge but other items, such as cash downpayments, trade-in allowances, insurance charges, and other charges.

Insurance alone is far from simple. Personal liability, property damage, and collision insurance are commonly included in automobile installment transactions. Credit life and credit disablity (health and accident) insurance have been used increasingly in connection with all types of installment transactions. With credit life insurance, the installment contract becomes paid up if the borrower dies. With credit disability insurance, the borrower's current payments are paid by the insurance company if he is disabled or sick for an extended period before completing his installment payments.

A number of State legislative committees and the Federal Trade Commission have investigated installment-contract disclosure practices in recent years. Their findings are: (1) The majority of installment sellers report installment contract items separately, a minority do not; (2) when the items are combined, abuses often result; and (3) such abuses are unfair both to installment buyers and to ethical installment sellers.

Full disclosure of all terms of an installment contract is now required in States with retail installment financing laws. The Federal Trade Commission also requires full disclosure in its code of fair practices covering the installment selling of automobiles. Following is an example of a full disclosure installment contract:

Item		*Dollars*
Cash price (new model automobile)		$2,425.00
Down payment:		
Trade-in allowance on used car	$800.00	
Cash	200.00	
		1,000.00
Unpaid balance of cash price		1,425.00
Insurance:		
Personal liability	$60.00	
Property damage	10.00	
Collision	90.00	
Credit life	15.00	
		175.00
Principal or unpaid balance		1,600.00
Financing charge		96.00
Total unpaid balance		1,696.00
Number of monthly installment payments		12
Amount of each monthly installment payment		$141.33

With this information, the installment buyer know the dollar cost of credit and can compute the add-on and "true interest" rates. They are 6 and about 12 percent, respectively, in the above example. The buyer also knows the specific insurance charges and can compare them with standard insurance rates. States with retail financing laws require that installment sellers give insurance policies to the buyer within a certain time after the installment contract is signed by the buyer. This helps prevent sellers from charging for insurance protection which they fail to provide.

Most of the retail financing laws set maximum delinquency charges and require prepayment refunds when buyers refinance or prepay their contracts in full before maturity. Investigating and legislative committees have found excessive delinquency charges and inadequate prepayment refunds in States without adequate legislation.

The percentage cost of credit

The spread of retail installment financing legislation helps ethical installment sellers in their effort to give installment buyers exact information on the dollar cost of credits. This information permits buyers to make direct comparisons of credit purchases and cash loans which are alike in amount and maturity. Whenever amount and maturity vary, as they often do, a percentage rate is necessary for intelligent comparison. States do not require installment sellers or financing agencies using the add-on method to furnish consumers with the "true interest" rate. Consumers who wish such a rate must figure it themselves. How to do this has already been explained on page 19.

Many installment sellers say that customers are interested in dollar costs but not in percentage rates. Legislative reports show very clearly that greater interest in percentage rates would save consumers considerable money and worry. Here is a challenge in consumer education.

"Kickbacks" and "packing"

We have already stated that many installment sellers turn over their installment contracts to sales finance companies and banks. These agencies pay the seller and collect installment payments from the buyer.

Finance companies and banks can afford to engage in financing retail installment sales only if interest or financing rates are high enough to cover costs and allow a reasonable profit margin. But how can installment sellers know what these rates are? Financing agencies provide installment sellers with rate charts. Sellers use these charts as guides in determining what add-on rates to charge installment buyers. Two problems of vital concern to consumers arise at this point.

Individual finance companies and banks actively compete for the financing business of retail dealers by offering them a number of inducements. One consists in sharing the finance charge with the dealer. The dealer's share is called the "kickback."

Investigating committees have found that competitive pressures sometimes push "kickbacks" to unreasonably high levels. These same committees have found that a minority of installment sellers make an additional gain by charging rates above chart levels. This excess, or "pack" as it is called, goes entirely to the seller. Financing agencies turn it over to him as they collect it from consumers. Since the "pack" is part of the financing charge, consumers are usually unaware of its existence. "Packing" is, of course, unwarranted; the seller is getting something for which he renders no service. The Federal Trade Commission considers it an unfair trade practice.

Competitive pressures make it impossible for any one financing agency to eliminate "packing" and keep "kickbacks" within reasonable limits. Collective action by financing agencies would represent a violation of Federal antitrust laws. State action is the only effective way of dealing with the problem. A few State laws do so by setting the maximum "kickback" which financing agencies may pay. This also eliminates "packing."

Illegal lending rates and methods

Up to this point we have talked mainly of legal rates. It is equally, if not more important, for consumers to know when they are being charged illegal rates and what these rates are.

Illegal lenders exist mainly in States in which small loan laws are inadequate or nonexistent. Some of these lenders attempt to meet the demand for loans at fair, though illegal, rates. Most charge whatever the "traffic will bear." People who need money have little choice but to pay whatever rates illegal lenders may charge. Constructive legislation is the only road to lower rates.

Illegal lenders have every incentive, of course, to mask their rates. The average borrower thus has a difficult, if not impossible, task in determining what rate he is paying. One of the chief devices used by illegal lenders today is to require borrowers to buy credit life insurance and credit health and accident insurance. Legislative and court records show that in some cases, over 80 percent of the premiums paid by borrowers for the policies are returned by the insurance companies to the lenders as commissions. Borrowers receive little benefit, and the tie-in sale of the insurance is merely a device to increase the income of the lender.

Another common trick is the so-called brokerage plan. You want to borrow $50, let us say, in a State without a small loan law. Through a card handed you when you leave work, you learn that Mr. Jones arranges loans. When you call on Mr. Jones he explains that he does not lend money himself but that for a fee he will act as a broker in arranging a loan for you. He tells you the brokerage fee will be $18.50 and the interest $1.42. As soon as you agree he gives you $50 and asks you to sign a note for $69.92 payable in eight biweekly installments of $8.74. Almost before you know it, you have committed yourself to a loan at a yearly interest rate of more than 260 percent. When asked how he figured the brokerage fee in each case one broker replied, "Well, I just look it over and see what the traffic will bear."

Although rates are high—up to 1,200 percent—they are not the only bad feature of the business. Illegal lenders usually aim to keep the borrower in debt. If the borrower wishes to pay part of his principal he is told to pay all of it or none. If he misses interest payments he is subject to a heavy delinquency charge or to a refinancing fee. Many lenders use short maturities as another method to build up refinancing charges.

Take, for example, the file clerk who borrowed $25 and agreed to pay back $37.33 in six semimonthly payments. After she had reduced the principal balance to $12.39 she borrowed an additional $29.88. For this principal balance of $42.27 she had to agree to make eight semimonthly payments totaling $79.30. In other words, on the original loan she agreed to pay $1 in interest for each $2 borrowed. On the refinanced loan she agreed to pay $1 in interest for each $1.14 borrowed. Even allowing for the added month's maturity on the refinanced loan, this is a steep refinancing charge. When a borrower cannot pay the charges, they are added to his principal. This in turn increases future interest payments. Many consumers end up owing more than they borrowed, even after making payments for years.

Legal aid and welfare societies have done effective work in aiding borrowers who need relief. Lawyers and others who work for these societies know that helping a borrower free himself from an illegal lender often provides only temporary relief. They advocate a more permanent remedy in the form of adequate small loan legislation. Borrowers in trouble can also seek relief through court action. Such action is always expensive and sometimes ineffectual because of delay and miscarriage of justice.

Adequate retail installment financing legislation is also important, for retail installment financing charges are much lower in States with adequate legislation than they are in States with poor or no legislation.

Conclusion

We have emphasized several things in this section. Consumers need to know the dollar costs of credit. They need to know how to figure percentage costs. Because these are not always simple matters, States offer aid and protection at several points. Consumers must not, however, be content to let the State carry the whole burden. They must make an honest effort to determine costs and to act intelligently on the basis of what they find.

This does not mean that as a consumer you will always take the lowest cost credit available. Services received are also important. They include speed, convenience, privacy, need for financial guidance, type of security, length of contract and number of payments. Services, together with the dollar cost, determine what you get for the interest you pay.

STATE PROTECTION AND CONSUMER WELFARE

When you pay cash, the transaction is over. Credit transactions extend over a period of time varying from several months to several years. During this time many things can happen. A borrower loses his job and is unable to make any more payments. What happens to the television set he has pledged as security? A seller moves and fails to let the buyer know his new address. This causes the buyer to be late with his payment. Is he subject to the delinquency charge? A borrower suffers an accident and loses a week's pay. He misses one installment payment but is able and willing to make subsequent payments. What are his rights?

None of these things can be foreseen when credit is advanced. How to handle them, if they do occur, must be provided for ahead of time. As a result contracts are long and complex. Most people fail to read them. Contracts are drawn up by the financing agency (seller) and reflect his point of view. This is well and good if the financing agency is ethical. If not, the buyer may find himself in an unenviable position.

Can credit users be educated to look after themselves? Perhaps, yes, in the long, long run; certainly, no, in the short run. Borrowers who need money are often in a poor position to bargain. Installment buyers often look on credit as relatively unimportant because it is usually only a small part of the total installment transaction. Consumers are generally confident they will be able to fulfill their commitments on schedule. Therefore they don't worry too much about the fine print in the contract—until something goes wrong. Then it may be too late.

Legislative committees have found the following to be true. Most financing agencies and sellers write fair but strict contracts and enforce them rigidly only when required to do so by questionable action on the part of the credit user. Only a minority of financing agencies and sellers take advantage of the credit user. They do this by inserting unfair provisions in contracts and enforcing these provisions to the letter of the law. Honest financing agencies and sellers as well as consumers require protection through State action. This protection must extend to all important parts of the contract between the consumer and the financing agency or seller.

Protection against unreasonable charges

There is no question that States have made real progress in their battle to protect the public against unreasonable interest rates, and to some extent against excessive finance charges. States have two alternatives in pushing ahead to secure greater progress. They can consider the consumer a useless ally and rely solely on government to influence prevailing interest rates. Or they can consider the consumer a valuable ally and enlist his aid. The second approach is more in keeping with the spirit of our history and the nature of a private enterprise economy.

How can consumers best be made into valuable allies in the fight for fair consumer credit rates? Tell them the actual rates which they are being charged. Even if only a minority of consumers use the information, the effect will be important and cumulative. We have already mentioned the handicaps which now prevent consumers from comparing rates of different lenders and installment sellers. State need to give serious consideration to the problem of making the consumer's task easier.

One authority (Evans Clark, "Financing the Consumer") makes the following suggestions. Every agency extending credit should be required by law to: (1) include all of its charges in a single, overall rate, (2) figure this rate according to auniform standard, (3) publish this calculation in all its loan contracts, and (4) submit its rates to a State supervisory authority as part of its regular public accounting. One State, Nebraska, now requires all cash lending agencies to follow a uniform standard—the simple interest percentage method. This method was originally developed to fit consumer lending conditions. As we have seen, it is the method now used generally by consumer finance companies and credit unions.

Other problems

The question may well be asked: What other types of protection do consumer credit users need? Experience would indicate that, as a minimum goal, States should require contracts which:

(1) Are easy to read and contain no tricky clauses.

(2) Set up reasonable safeguards to prevent excessive charges for delinquency and refinancing.

(3) Compel financing companies and retail sellers who use the add-on or precomputation methods of charging interest, to make adequate refunds whenever consumers refinance or pay in full ahead of schedule.

(4) Provide for fair procedures in those cases in which financing agencies and retail sellers repossess and resell property pledged as security for credit.

(5) Prohibit so-called add-on contracts. They are found only in retail installment selling and are contracts in which installment sellers add on a given buyer's installment purchase to an installment contract which the buyer already has covering a previous purchase.

States now vary considerably in the extent to which they regulate consumer credit. Laws governing consumer finance companies and credit unions are the most numerous and comprehensive. A growing number of States have passed laws covering industrial banking and retail installment financing in recent years. A few have broadened existing statutes governing consumer lending by commercial banks.

Many of the problems listed above are common to the several types of consumer credit agencies. States are finding this out as they gain experience with consumer credit laws. In fact, a tendency toward more uniform legislation has been noticeable in recent years. As one authority puts it, there is a noticeable drift toward a uniform consumer credit code. Thus, considerable progress is being made. Again, much still remains to be done.

[Excerpts from statement of George Katona,[1] Survey Research Center, University of Michigan, Ann Arbor, Mich.]

S. 2755, submitted to Congress in January 1960 by Senator Paul H. Douglas, which requires the disclosure of finance charges in connection with extensions of credit, cannot be discussed without analyzing the function of installment buying in our society. The Survey Research Center of the University of Michigan has collected information on installment buying in surveys conducted over the last 10 years. Part 1 of this paper summarizes the findings obtained; in part 2 the author, who directed the studies, draws his personal conclusions from the data.

The information to be presented is characterized by the following features:

1. The information is obtained from American consumers through nationwide sample interview surveys. Consumers' opinions about and attitudes toward installment buying are examined. The studies are motivated by the conviction that people's opinions and notions influence their actions and are, therefore, of great importance, whether they are objectively correct or whether they represent misconceptions or prejudices.

2. The information relates to the purchase of large durable consumer goods, primarily automobiles, on the installment plan. Other forms of consumer borrowing are omitted from consideration in this paper.

3. The information is restricted to recent findings most relevant to the problem. Older findings are mentioned briefly, and references are made to earlier publications.[2] The newest findings, obtained in November 1959 and not previously published, are emphasized.

PART 1. FINDINGS

I. Consumer attitudes toward installment buying

In repeated surveys conducted over several years the study of attitudes toward installment buying began by asking representatives samples of consumers (each sample being selected independently) the following simple question: "Do you people think it is a good idea or a bad idea to buy things on the installment plan?" Following this question the respondents were asked: "Why do you think so?"

These questions elicited extensive answers on the part of most people. The answers revealed that people in general are familiar with installment buying, interested in problems connected with it, and have quite definite opinions about it. The enclosed tables 1, 2, 3, 4, and 5 present the answers received after they were classified in a few broad categories.[3]

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[1] The author is director of the economic behavior program, Survey Research Center, and professor of economics and psychology at the University of Michigan.

[2] An extensive discussion of consumer attitudes toward installment buying can be found in the author's book, "The Powerful Consumer," published by McGraw-Hill, New York, in March 1960.

[3] Among earlier publications in which findings obtained to the same question were reported, see George Katona, "Attitudes Toward Saving and Borrowing," in pt. II, vol. 1, of "Consumer Installment Credit," published by the Federal Reserve Board in 1957.

The findings reveal that very many people see important advantages in installment buying. The following is a summary of the major findings presented in the tables:

1. The majority of people think that buying on the installment plan is a good idea. Yet a substantial minority is opposed to installment buying.

2. The proportion of people with favorable attitudes toward installment buying has increased during the last few years.

3. The lowest and the highest income groups think least favorably of installment buying, the middle and upper-middle income groups—families with an annual income between $3,000 and $10,000—most favorably. It is also true that the lowest and the highest income groups less frequently buy on the installment plan than the middle and the upper-middle income group.[4]

4. People who at any given time have no installment debt think less favorably of installment buying than those who have such a debt. It may be that people who do not have favorable attitudes refrain from borrowing: it may also be that those who do not need to borrow tend to have unfavorable attitudes toward installment buying.

5. Younger people have the most favorable attitudes toward installment buying (especially young married couples with children); old people think least favorably of it.

6. Favorable attitudes toward installment buying are usually explained by saying that one could not buy many necessary or important things except for the installment plan, or that it is good to use the commodities while paying for them.

7. Intermediate attitudes toward installment buying are usually expressed in the following ways: Installment buying is a good idea provided one is not too deeply in debt and the payments are not too burdensome: whether or not installment buying is a good thing depends on who buys and what he buys.

8. Opposition to installment buying is expressed (a) by people, representing about 10 percent of the population, who think that debt is morally wrong or that going into debt should be avoided under all circumstances; (b) by people who think that installment buying makes for excessive spending; and (c) by people who think that installment buying costs too much.

9. When people are asked to discuss the advantages and disadvantages of installment buying and are not specifically asked about its costs, approximately one out of every six people refer spontaneously to the high cost of borrowing.

II. Buying on installment when cash is available

Is installment buying seen by most people as something questionable or even evil, which, however, is accepted because it is necessary? If this were the essence of consumer attitudes, then people who have the necessary cash and could avoid borrowing would not buy on the installment plan. Yet the "Surveys of Consumer Finances" have repeatedly shown that every year a substantial number of people purchase large durable goods on time even though they have sufficient money in savings or checking accounts to pay for the respective articles.[5] In order to shed light on this behavior and on positive motives for installment buying, the Survey Research Center studied people's attitudes toward a consumer who bought a car on time even though he had enough cash.

In November 1959, survey respondents were asked the following questions:

"Speaking of buying a car on time, Mr. Smith has just done so although he has enough money in the bank to pay cash: why do you think he bought the car on time? What kind of a man is he?"

The answers are presented in tables 6 and 7 and show that only a small proportion of people failed to understand the behavior of Mr. Smith or characterized him as a stupid or foolish man. According to table 7 derogatory remarks about Mr. Smith were made by 17 percent of all people, neutral remarks or inability to express an opinion about Mr. Smith by 31 percent (this proportion includes, of course, many poorly educated people who could not express their thoughts), while complimentary statements about Mr. Smith were made by 52 percent.

Similarly, we find in table 6 that no fewer than 68 percent of people could find a meaningful reason which explained to their satisfaction why Mr. Smith

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[4] See "Survey of Consumer Finances" in the Federal Reserve Bulletin of July 1959, and J. B. Lansing and others, "Factors Associated With the Use of Consumer Credit," in the volume on "Consumer Installment Credit" previously cited.

[5] See, for instance, Federal Reserve Bulletin, July 1959, supplementary, table 19.

bought his car on time even though he had enough money in the bank to pay cash. The most frequent of these reasons was, of course, that the money in the bank was earmarked for something else. Liquid reserves in the form of bank accounts are regarded primarily as reserves for a rainy day; therefore, they should not be used for paying for the car. Bank accounts should be kept intact, so very many people said. Of interest are three further arguments attributed to Mr. Smith. One is that by buying on the installment plan one establishes credit; another is that by buying on credit rather than paying cash one gets better service, sometimes even that one gets a better price; and finally, 5 percent said in essence that it is difficult to replace savings. In other words, after paying cash for a car one is not under pressure to replenish the depleted bank deposits. But after buying on installment one must make the monthly payments out of income so that after a couple of years one owns a car on which there is no debt and still has one's untouched liquid reserves.

The data clearly indicate that these reasons attributed to Mr. Smith are viewed and approved by the majority of people as sufficient for his action. A person who chooses to buy on the installment plan is commonly characterized as intelligent, as informed, as one who plans ahead, or as cautious and conservative. He is seldom called a spendthrift or one who does not know how to manage his money.

The attitudes just described permit us to draw a definite conclusion which is supported by numerous older findings. Of the two alternatives, buying a large-ticket item on the installment plan or delaying the purchase for several months until the necessary cash is accumulated, very many people choose the first. They do so because installment credit is considered the proper method of paying for large expenditures out of income. Savings and reserve funds in banks or securities have, in the opinion of most people, a different function.

III. Consumer information about the cost of installment buying

It has been reported before that only relatively few consumers complain about the cost of installment buying when they discuss its advantages and disadvantages. Is this the case because most people consider the costs reasonable? Studies directed toward answering this question make a different explanation more probable. People in general are not well informed about how much installment credit costs—and are less interested in these costs than in certain other aspects of installment buying.

Survey respondents, after expressing their opinions about installment buying, were asked this question in November 1959:

"Do you happen to know how much interest or carrying charges one has to pay to buy a car on time; suppose you need a thousand dollars which you would repay monthly over 2 years; about how much do you think the interest or carrying charges would be each year?"

The question was asked in terms of buying a car on time and respondents were given a specific example. Some people answered by expressing the costs in dollars—in the tables these answers were transformed into percentages—many more gave costs in percentages. In either case, attention was paid to obtaining the annual charges. No attempt was made in the survey to separate interest charges from service charges, and no question was asked as to whether the percentages relate to the amount originally borrowed or to the unpaid balance. In view of how the question was asked and in the light of how some people replied to the question, it is probable that the percentages given by most people represent proportions of the debt incurred at the time the car was bought.

The findings are reported in tables 8, 9, 10, and 11. As can be seen from the tables, 39 percent of all people did not give an answer from which a precise estimate of the cost of installment credit could be derived. Many of these people simply said they did not know, while some others gave such wide ranges as, for instance, "Oh, between 5 and 15 percent a year" which could not be used. These people are most frequent in lower-income groups, among people who have no debt, among people with little education, and among Negroes. Yet even among people with incomes over $10,000 the proportion who confess that they do not know how much installment credit cost is as high as 32 percent, among people who are making large monthly payments it is as high as 24 percent, and among people with a college degree it is as high as 28 percent.

As can be seen in table 8, 61 percent of the sample made fairly specific estimates of the cost of installment credit: 23 percent said that the cost is 6 percent per year or less, 22 percent placed the cost between 7 and 12 percent, and 16 percent at 13 percent or higher. Obviously many people believe that the cost of installment buying is lower than it actually is. Are these well-founded opinions?

On practically any item of knowledge or information we have studied, we find that high-income people, people with college education, and people with personal experience in the matter studied are better informed than other people. But this finding is not sustained on the item of cost of installment credit. We find that 31 percent of people with more than $10,000 income, likewise 31 percent of people with a college education, and likewise 31 percent of people who make monthly payments of over $100 place the cost of installment credit at 6 percent or under. On the whole, various population groups have quite similar notions about the cost of installment credit. The one exception perhaps is that on the average Negroes place the cost of installment credit higher than whites.

The relatively great frequency with which costs of 4 or 5 and especially 6 percent were mentioned may be interpreted as a carryover from other information. Especially better educated people dislike to confess to an interviewer that they do not know the answer to a simple question. Other studies conducted a few years ago showed that the rate of interest paid on U.S. Government savings bonds is well known (3 percent or "about 3 percent" was the common answer) and the same is true of the interest rate obtained on savings accounts. Most people also know that borrowing costs more than what one gets on savings. On the basis of these pieces of information, some people appear to have surmised an answer to the question of cost of installment buying. They mention some percentages with which they are familiar and which seem appropriate to them. Actually, their answers are uninformed guesses.

If consumers are uninformed about the cost of installment credit even though they buy on the installment plan, it is probable that cost is not the crucial consideration for them. This conclusion is justified because in many other respects people are very well informed about everything connected with purchasing an automobile. Very many people believe that the advantages of buying on time are so large that a few dollars difference resulting from higher or lower interest rates do not matter. According to these findings, then, the use of installment credit is fairly insensitive to fluctuations in the interest rate. (On the other hand, mortgage credit, and house buying in general, was found to be retarded by rising interest rates.)

How can people be uninformed, or misinformed, about the cost of borrowing even though they actually pay the charges? (See table 9.) That the borrower is not told how large the charges are does not suffice as an answer. In many other instances buyers shop around and compare prices and charges while, apparently, many people make no inquiries about the cost of installment credit. The difference in this case is that people are attracted to installment buying for reasons that are powerful irrespective of costs and that people are primarily interested in an item of information other than costs. This item of information is, of course, the size of the monthly payments. Repeated studies have shown that the size of monthly payments is well known (well remembered and correctly reported to interviewers) and is often carefully figured and budgeted.

It does not follow that many consumers are careless because they concern themselves with the size of monthly payments rather than with the true cost of borrowing. Whether the interest rate is 1 or 2 percentage points higher or lower could hardly influence the decision to buy or not to buy a car or a washing machine; how large the monthly payments are does influence that decision.

Survey findings indicate that buying on the installment plan is often associated with the practice of budgeting family expenditures, and even that installment buying is one of the foremost budgetary devices used by the American people. What may be called contractual obligations—the mortgage payments of homeowners or the rent, taxes and social security payments, life insurance premiums, the monthly installment payments, etc.—are figured by many families and compared with their income. When asked whether it would be easy or hard for them to buy some large items on the installment plan, people often refer to such calculations and explain that their contractual payments are already so large that they cannot be increased further or, alternatively, that they are not too large and could be increased easily.

Interviews have revealed not only that some people use installment buying as a budgetary device but also that they like this system. After having bought their home with a large mortgage and many other greatly needed and highly cherished durable goods on installment, they spend their income on these necessities and on food rather than fritter it away on less necessary things. Installment buying often makes for discipline in handling finances. Many people feel that, if it were necessary to put money in a savings bank for later cash purchases of durable goods, they would not have the fortitude to accumulate enough.

Nevertheless, interest rates and the cost of installment buying play a role in a different context. While the size of finance charges is of little importance in the first major decision (should I, or should I not, buy?), it is a significant factor in a second decision: Where shall I make the arrangements for time payments? Recent studies indicate:

1. The majority of consumers are well informed about where one can arrange for the financing of the purchase of a car. (The majority say—at a bank or at a dealer through a finance company.)

2. The majority of consumers are capable of discussing the respective advantages and disadvantages of making the financial arrangements at different places. (People answer such questions in terms of convenience, service, treatment in case of default, as well as in terms of interest rates.)

3. The majority of consumers believe that the cost of installment credit is substantially higher if one makes the credit arrangements through a car dealer rather than with a bank.

It appears then that interest rate differentials are important. People want to pay as litle as possible for the necessary and valuable service of financing their purchases. Recent advertisements of banks about the advantages of financing car purchases through them have been noticed and recalled in interviews.

Is there a contradiction between the two findings reported in this paper, namely, that most people are not concerned with the cost of installment credit and that they are concerned with cost differentials? Instead of answering this question directly, we report an analogous finding from a related area.

Studies carried out both in 1957 and 1959; that is, at times when interest rates were rising substantially, indicated that:

1. The great majority of upper income people knew that interest rates were rising;

2. Hardly anybody among these informed people was aware of any new or additional motive for saving; and

3. Even when asked directly, very few people conceded that higher interest rates induced them to save more.

At the same time, however, interest differentials induced very many people to shift their savings or reserve funds to those forms of savings where somewhat higher interest rates were obtainable. (In 1957, primarily to savings and loan associations; in 1959 the story of public participation in the 5-percent Government notes is well known.) In other words: Higher interest rates do not stimulate people to increase their rate of saving (because the saving-spending decision hinges on other more powerful considerations), but interest differentials do induce people to shift their reserve funds. Similarly, the rate of installment buying does not appear to be much influenced by a small increase in interest charges, but people's notions about differences in interest charges influence their choice of the institution from which they borrow..

Appendix: On the methods used

The findings reported here have been derived from surveys conducted by the Survey Research Center of the University of Michigan. It is not possible in this paper to describe the methods used in these surveys and to discuss the reliability of survey data. It may suffice to refer to such publications as "Methods of the Survey of Consumer Finances," in Federal Reserve Bulletin of July 1950; "Research Methods in the Behavioral Sciences," edited by Festinger and Katz, Dryden Press, New York, 1953; part V of George Katona's "Psychological Analysis of Economic Behavior," New York, McGraw-Hill, 1951; and Katona and Mueller, "Consumer Expectations," Survey Research Center, 1956. These publications describe the methods used and present data on sampling errors. The surveys utilized in this paper are based on small representative samples (1,500 to 3,000 families for each survey) selected by probability methods. Because of the sample size only substantial differences between subgroups are significant. (For instance, only differences of 6 to 8 percentage points between data obtained for two income groups are statistically significant at the 95-percent probability level.) In general the surveys do not present precise data, but rather the order of magnitude of the data. Great stress is placed in the surveys on the avoidance of interviewing or reporting errors.

PART 2. CONCLUSIONS

I. Regarding the introductory section of S. 2755

The introduction to the bill correctly refers to the prevailing lack of appreciation of the cost of consumer credit and concludes: "The excessive use of credit results frequently from a lack of awareness of the cost thereof to the user." This statement does not appear to be justified if it is means to imply that lack of awareness of the cost of credit is a major factor which makes consumers use installment credit, and to use it excessively. As shown in this paper, there exist powerful reasons which during the past years induced the American consumers to make great use of installment credit; cost considerations are not among these reasons.

Has installment credit been used excessively? The term "excessive use" cannot be defined adequately and therefore the question cannot be answered. It may suffice to say that optimism, feeling of security, and what has been called thing-mindedness have been among the powerful motives of purchases of durable goods, for cash as well as on the installment plan.[6]

In the last decade young Americans have decided that they want babies and other good things of life at the same time. More specifically they have decided: (1) to marry early; (2) to have several children in the early years of marriage; (3) to bring up their children in a nice neighborhood (with a backyard, far from juvenile gangs); and (4) to have a car, a washing machine, a TV set, and innumerable other things.

How have millions of families accomplished this? To some extent it seems that not only do expenditures depend on income but income also depends on consumer needs. Needing and wanting expensive things, people have worked hard for higher incomes. Millions of husbands have held second jobs and millions of wives have returned to work as their children greup up. Most importantly, however, installment buying has helped raise consumption levels.

The size of installment debt they can afford, most people figure on the basis of their current income and sometimes also on the basis of their expected income. It follows then that if income declines, and also if optimistic income expectations fail to materialize, installment debt may be burdensome. But even a sizable increase in installment debt may have no dire consequences if income continues to grow as the debts are repaid. The following conclusion by D. D. Humphrey is fully supported by Survey Research Center data: "Installment debt is likely to become an important problem only after income falls: it is a reinforcing influence, rather than an initiating cause of instability."[7]

"To assist in the promotion of economic stabilization"—this is how the purpose of bill S. 2755 has been stated. It must therefore be asked: Has installment buying contributed to economic fluctuations and made our economy less stable? Once, between the end of World War II and the present time, this may have been the case. In 1955, when installment maturities had been lengthened and the automobile models were most favorably received, there was a sharp increase in the use of installment credit; this led to an automobile boom which could not be maintained. But in the 3 or 4 years prior to 1955 the use of installment credit served to stabilize the economy, and again in 1956 and 1957 the American people on the whole used installment credit prudently. The increased use of installment credit in 1959 helped substantially in overcoming the recession of 1958. No final judgment can be made. But the conclusion that installment credit has contributed to making America prosperous during the 14 years after the end of World War II and has also helped in maintaining that prosperity without unduly large fluctuations may be closer to the truth than the statement "installment credit has been an unstabilizing factor."

It may, of course, happen that a sharp increase in the use of installment credit threatens economic stability. Should it then become necessary to control installment credit, then methods other than those incorporated in bill S. 2755 would have to be used (e.g., raising downpayment requirements or shortening the repayment period).

We do not know whether or not this will be necessary. What we do know is that a further expansion in the use of installment credit is needed in the sixties. There are good reasons to expect such an expansion because in a few

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[6] For further data regarding the ideas expressed in this section, see G. Katona, "The Powerful Consumer," McGraw-Hill, New York, 1960.

[7] D. D. Humphrey, "Installment Credit and Business Cycles," p. 6 of the volume, "Consumer Installment Credit," cited before.

years family formation will increase greatly (the "war babies" will marry), and young couples are the greatest users of installment credit (and need installment credit most). The expansion of installment credit should not be impeded—though it should not be "excessive."

II. Major arguments in favor of the bill

1. Senator Douglas calls bill S. 2755 a truth bill. Disclosure of the truth is a worthy objective, as is the prohibition of deception. No service should be offered without acquainting those who make use of the service with the price charged for the service.

2. The bill may result in driving some lenders out of the market; namely, those who charge substantially more than the majority of lenders. This would be most welcome, especially because those lenders probably find their customers among minority groups or the underprivileged.

3. The bill may result in increased price competition. The less expensive lenders would gain business at the expense of the more expensive lenders.

(If, then, the more expensive lenders reduced their charges the result would be very advantageous. Of course, it is possible that the less expensive lenders, getting more business than they can accommodate, would raise their charges.)

III. The major argument against the bill

The most potent argument against the bill consists of the possibility that there would be a shock effect following its introduction. The "announcement effect" of a new measure often differs from the permanent effect of the measure. I believe that the bill, if enacted, would not depress the volume of installment buying permanently (because, as explained before, the motives for installment buying are powerful and are not dependent on costs). Nevertheless, the disclosure of the true cost of borrowing might result in an unexpected shock for some would-be purchasers of durable goods with adverse consequences on the rate of automobile purchases in the period immediately following the enactment of the bill.

It has been shown before that many present-day users of installment credit believe that the finance charges amount to 6 percent or even less. If these people were given a document in which a percentage twice or three or four times as high is shown, they will be surprised, disappointed, and resentful. This will probably be the case even though the percentages consumers have in mind relate to the original amount borrowed, and the newly disclosed percentages to the unpaid balance.

Whether or not the shock would result in would-be purchasers giving up or postponing some of their discretionary purchases, we do not know. Pending further studies, however, the possibility must be taken into account that the immediate effect of the introduction of bill S. 2755 would be unstabilizing.

I believe that recession and unemployment are much greater evils than creeping inflation. Fighting inflation in a manner which might promote recession does not appear justified.

IV. Conclusions

It appears, then, that the bill is in the public interest, were it not for its one possible adverse effect. What conclusion should be drawn? Obviously more needs to be learned about the probability of an adverse announcement effect. If it could be shown that disclosure of finance charges would not shock prospective borrowers, the bill should be passed. The same would be the case if it were possible to devise such a method of disclosing finance charges which would not have a shock effect. Finally, if the bill were to go into effect at the time of a runaway boom, when reduction in the use of installment buying and of automobile purchases is called for, the objections to the bill would be much less weighty.

I am not aware of any development which makes the enactment of the bill urgent at the beginning of 1960. I therefore recommend intensive study of the problem before a solution is attempted.

NATIONAL RETAIL MERCHANTS ASSOCIATION

STUDY OF CONSUMER CREDIT COSTS IN DEPARTMENT STORES

OCTOBER 11, 1963

BY

TOUCHE, ROSS, BAILEY & SMART

1493

TOUCHE, ROSS, BAILEY & SMART

80 PINE STREET
NEW YORK, NEW YORK 10005

October 11, 1963.

Board of Directors,
National Retail Merchants Association,
New York, New York.

Gentlemen:

At your request, we have made a study of the costs of consumer credit in department stores. The following report sets forth the results of our study as well as the scope of the study and the methodology employed.

Results are based on data obtained from eleven department stores participating in the study. In performing the study, we used allocation methods which we deemed appropriate in identifying total costs of credit and in determining costs by type of credit account.

In our opinion, based upon the data furnished to us by the eleven study participants, the attached exhibits, together with report comments, fairly present an analysis of credit costs and service charge revenues for the participating stores.

Very truly yours,

Touche, Ross, Bailey & Smart

N. R. M. A.

STUDY OF CONSUMER CREDIT COSTS IN DEPARTMENT STORES

CONTENTS

SECTION I - SCOPE OF STUDY

Objective:

There is a lack of knowledge on the part of the general public as to what it costs department stores to provide customers with credit services. This lack of knowledge also exists within the department store field itself. It was with this background in mind that the National Retail Merchants Association engaged Touche, Ross, Bailey & Smart to undertake this study and appointed an advisory credit committee to provide counsel and assistance throughout the study.

The objective of this study is to provide factual information concerning: (1) the costs of credit services provided by department stores to their customers; and (2) the relationship between these costs and the service charges which customers pay for these services.

General approach:

Eleven retailers were selected to participate in this study. Pertinent operating data for ten of these retailers were reviewed for the fiscal year ended in January, 1962; one retailer furnished relevent operating information for the fiscal year ending with January, 1963.

In reviewing these results, the first task was to identify those operating costs which were incurred to provide credit services to customers. The basic criterion for identifying costs of credit was to identify for each participant those costs which could be eliminated if the credit function were discontinued, assuming no change in total sales volume. The assumption concerning unchanged sales volume was made solely to permit a sound identification of credit costs to be made; it does not reflect an opinion concerning the possible reaction of sales volume if credit services were eliminated. By applying this criterion, those store expenses incurred to provide services to credit customers only were segregated from the expenses incurred to provide services that were available to both cash and credit customers.

For ten of the participants, total identified credit costs were then allocated by major type of credit account. Three types of credit account categories have been used: Regular (30 day) Charge Accounts; Revolving Credit Accounts; and Conventional Installment Accounts. For these ten participants, service charge revenues were also segregated by type of account to permit the ready portrayal by account type of the relationship between service charge revenues and the costs of providing credit services. Operating data for one of the participating retailers did not permit total credit costs to be allocated meaningfully by type of credit account.

The appendix to this report contains a more detailed description of the methodology used in this study. Schedule A outlines the specific steps followed in this study. Schedule B lists the various store activities required to provide customers with credit services.

Schedule C contains a detailed list of credit costs. Schedule D details the bases used in allocating credit costs by type of account. Schedule E discusses the concept of cost of capital and the manner in which cost of capital should be determined.

Retailers participating in the study:

The eleven retailers participating in this study include some of the biggest department store chains in the country as well as a number of smaller, independent stores.

Two factors influenced the selection of this relatively small number of participants comprising primarily large stores. First, it was initially decided to conduct this study by means of personal visitations to each participating retailer rather than through the use of a questionnaire. This decision was dictated by the need to assure that the data obtained from each participant were comparably compiled. Further, it was felt that responses to a general questionnaire sent out to many retailers for the first time would not have been as complete or as accurate as was desired because of the complexities involved in compiling the necessary information. This personal visitation approach limited the size of the sample that could be handled, and made the selection of a sample that would be more representative of the entire industry impractical within the time and expense limitations of the study.

Secondly, in selecting individual study participants, emphasis was placed upon their ability to furnish the credit cost and statistical data necessary to the successful completion of the study. In general, these data were more likely to be readily available in larger stores.

It was felt that larger stores would experience lower credit costs than would small retailers. This was based on the assumption that the larger store, because of its greater sales volume, would be able to spread its fixed credit costs over a larger number of transactions and thus provide credit services at a lower cost per customer than could the small retailer. Experience in conducting this study has tended to confirm this assumption.

In general, for each participating retailer, data for this study were selected for the smallest available grouping of stores with a common credit administration. Typically, each participating retailer has organizationally grouped his stores into a number of administration units each of which centrally administers all customer credit activities for the group of stores assigned to it. This grouping of stores has been termed a credit administration unit for purposes of this study.

Generally, the one credit administration unit selected from each participating retailer comprised from three to five stores. There are two major exceptions to this. The credit unit selected for one retailer comprises a significantly greater number of stores. For another participating retailer, data from more than one credit administration unit were included in this study - one credit unit of three stores was included together with four other individual small stores, each of which comprised a separate credit unit. The latter exception was made to include a greater number of small stores in the study.

The stores included in the sample are located in the following geographical areas:

Northeastern States	-	New York City, Long Island, northern New Jersey, Allentown, Pa. and Pittsburgh areas.
Midwestern States	-	Detroit, Grand Rapids, St. Paul, Peoria, Fort Wayne and Dover, Ohio areas.
Southern States	-	Baltimore, Washington, Richmond, Norfolk, Fredericksburg and West Virginia areas.

In total, the study includes cost data from approximately 80 separate stores operated by the eleven study participants. These stores had approximately 2 million active customer accounts during the study period. The size of the credit unit groups included in the study varied extensively; annual credit sales ranged from $1 million to about $100 million. During the study period, total credit sales for all stores with data included in this study aggregated approximately $375 million.

Types of credit accounts:

With few exceptions, each store participating in the study was offering its customers a minimum of three different types of credit accounts. Four or five types of accounts per store was not an unusual occurrence although usually one or two of them were relatively insignificant.

On reviewing the various types of accounts in use, it was decided to group them into three main categories. It was apparant that the primary grouping should be between those accounts on which no service charges were assessed, but which require account balance payment within 30 days, and those permitting repayment on an installment basis over a number of future months. The deferred payment accounts were subdivided between those permitting relatively short repayment terms and involving numerous small unit sales transactions, and those permitting longer repayment terms but involving a more limited number of transactions of a relatively larger unit sales amount.

The following account grouping has been used:

Regular (30 day) charge accounts
Revolving credit accounts
Conventional installment accounts

Regular (30 day) charge accounts - This category includes the accounts of all customers who are on a straight 30 day required payment basis. (Accounts that offer an "option" payment feature, whether it is used or not, are included under the revolving credit account classification.) A basic requirement for inclusion as a regular charge account is that the customer who does not pay his balance within the 30 day time limit, is not assessed a service charge until he has missed a minimum of two or three payments. At that time he may be assessed a late charge by some stores. The average sales transaction for this type of account ranges between $6 and $11; the number of average annual sales transactions per account ranges from 18 to 24. There are 730,000 regular

(30 day) charge accounts in the sample of ten retailers for which statistics were available by type of account. This amounts to 44% of the total accounts in this sample.

Revolving credit accounts - This category includes the many multi-transaction, small-sales-unit, shorter-credit-term types of deferred payment accounts. As a rule, the annual number of sales transactions within this group ranges from 18 to 24 per account, while the average sale is between $6 and $10 per sales transaction.

Included in this category are accounts on which the assessed service charge is a given percentage of the amount of the monthly opening balance, the amount of the monthly closing balance, or the amount of monthly opening balance less payments and credits during the month. Among these accounts, monthly payment terms range from one-third of the account balance to one-tenth of the balance. Some accounts require equal monthly payments based on the credit limit set for each customer. On other accounts, required monthly payments are computed as a percentage of the account balance; generally, the larger the account balance, the larger the percentage of the balance required as a monthly payment. These are the more important variables appearing in this account grouping.

Service charge rates on revolving credit accounts were consistent. During the study period, all stores but one were charging 1-1/2% on the monthly account balance, as described in the previous paragraph. The one exception has since changed policies and is currently charging 1-1/2% also.

There are 663,000 accounts grouped under this category in the ten store sample for which type-of-account statistics are available. This amounts to 39% of the total accounts covered by this sample.

Conventional installment accounts - This category includes a rather broad coverage of accounts that are basically similar as to length of credit repayment terms, unit sales activity per year and the size of each sales transaction. One or two sales transactions per year are typical for this type of account, while the size of the average transaction ranges between $90 and $160.

Based on customer usage, the majority of the accounts in this category have repayment terms running from 18 to 24 months. In addition, however, there are a limited number of accounts - usually for home modernization purposes - that run as high as five years. At the other extreme, some stores offer installment type accounts with repayment terms as short as six months. Also included under this category are accounts on which the customer has chosen to pay off his account in three months because of the 90 day-no service charge feature which is often available on this type of account. Ninety day payouts are a fairly significant factor for a number of the stores participating in the study, and in some cases, these payouts run as high as 1/4 to 1/3 of the store's total installment account sales. Also included in this group are merchandise certificate type of accounts on which payment terms are usually six to eight months. These certificate accounts were generally insignificant. Another variable within this category concerns the flexibility of merchandise "add-on" provisions. Although some stores are relatively restrictive as to the dollar limits and types of merchandise that can be "added-on" to an installment type account, other stores are quite liberal.

Another variable relates to the method of assessing service charges and to the amount assessed. Seven participating stores assessed service charges monthly on outstanding balances. The rate used was generally 1-1/2% although two stores were using lower rates - one used 1-1/4% and the other, 1%.

The other four stores used the assessment method of "adding-on" the service charge to the sales price less down payment at the time of sale and collecting it over the term of the repayment. Within these four stores, differences also existed. At two stores a flat "add-on" percentage rate was used, while at the other two a diminishing rate was in effect, with the rate diminishing as the sales amount and the length of repayment period grew. For a given purchase, the amounts charged by these four stores by means of the "add-on" method were basically similar to those charged by the "per cent of balance" method.

Cost groupings:

In this report, credit costs have been grouped in eight categories. The first three - new account costs, account servicing costs and account collection costs - represent those costs most directly identifiable with the credit operation. They depict the costs of obtaining new customer accounts, the costs of the day-to-day servicing of active customer accounts, and the costs of the collection effort required on accounts with payments in arrears. Only out-of-pocket costs (costs that could be eliminated if the credit function were discontinued) have been included in these three categories.

The fourth category - interest at 6% on accounts receivable investment - depicts interest on the capital required to finance customers' outstanding receivable balances. This too is an out-of-pocket cost for without credit there would be no receivable balances to finance and, therefore, no need for capital to finance them. Since the appropriate cost of capital rate is not as readily measurable as are most of the other costs of credit, this intentionally conservative 6% rate has been used in the body of the statistical exhibits. However, in order to show the effect of using more realistic costs of capital, the "excess (deficiency) of revenue over costs" has been recomputed at the bottom of each statistical exhibit using cost of capital rates of 9%, 12% and 15%.

The fifth credit cost category is space and equipment costs. It is included as a credit cost since the office equipment used in the credit operation would no longer be needed if credit services were discontinued. In addition, the space used for credit activities would thereby be available for alternative store use.

The sixth cost category covers the cost of the additional salespeople required to handle credit customers. The additional effort results from the added sales check preparation time and credit authorization work necessary when a sale is made on credit. This is also an out-of-pocket cost since the added salespeople would not be required if the credit function were discontinued.

The seventh category - management expenses - represents that portion of general management expenses that is assignable to the credit operation. These represent the costs of services provided to the credit departments by various other service activities within the store. It is reasonable to assume that if these services were no longer required due to the elimination of the credit function, the departments performing these services would be able either to eliminate the cost related thereto or to provide additional services to other departments.

An eighth category is termed "other credit costs". This category is used to assure recognition of the fact that store costs in addition to those specifically identified in the first seven categories, are affected by the existence of the credit function in department stores. The existence of credit affects the entire character of a store and its expenses. It results in the incurrence of additional costs, some of which are not readily susceptible to specific measurement. Among these other credit costs are:

1. The cost of handling "extra" returns by credit customers. Commonly, returns from credit customers significantly exceed cash customer returns. In addition, this returned merchandise is frequently subject to mark-downs because of its condition or because of its return subsequent to a peak selling period. This results in extra costs attributable to the existence of credit.

2. The cost of handling "extra" credit deliveries. Commonly, credit customers have merchandise delivered more frequently than do cash customers. This too is a cost of credit.

3. The cost of maintaining the somewhat larger than normal inventories required for credit selling because of the additional amount of merchandise in the hands of credit customers which is destined to be returned to the store.

These and other costs like them are definitely costs of credit. They contribute towards increasing store operating costs. Recognition of their existence is important in assessing the costs of the credit operation. No amounts have been shown in the study exhibits for these costs since they could not be ascertained with the necessary degree of accuracy.

Conservatism of approach:

A conservative approach has been followed both in selecting the study sample and in identifying those costs which are incurred because of the existence of credit. The study sample gives substantial weight to the large retailer who can be expected to enjoy lower credit costs per customer than the smaller store because of the large store's ability to spread fixed credit costs over a large volume of transactions. The credit administration units selected to represent the larger retailers were generally among the most efficient units in the retailers' total operations. The more efficient units were selected deliberately to assure conservative results.

A conservative approach was employed in identifying that portion of a store's operating expenses which were attributable to the credit function. When it was necessary to use allocation procedures to apportion an expense as between credit and non-credit activities, the amount charged to the credit activity was always conservatively estimated.

Further, no amounts for "other credit cost" were included in the study exhibits, Consequently, total credit costs are conservatively stated.

Presentation of study results:

The relationship between service charge revenues and credit costs for the participating retailers is shown in this report in basically two ways. First, results are portrayed in terms of revenue and cost per active customer account. Secondly, results are shown as percentages of credit sales.

Percentages and unit costs have been used throughout the report so as to keep each store's sales and cost data confidential. Absolute dollar figures are shown only in total for all stores.

Because of the size of the study sample, and because the size of the credit units included varies widely, study results portraying all-store averages have been computed on an arithmetic average basis unless otherwise specifically indicated. On this basis, all-store averages were determined by initially totalling individual participant percentage of sales or per active account data. The totals thus determined were divided by the number of stores involved to obtain the arithmetic average.

Total study results computed on this basis give equal weight to the data obtained from each participant. The results obtained from one or two large stores do not dwarf smaller store results in the all-store averages.

SECTION II - STUDY FINDINGS

Results for total credit activity:

Total credit costs for all stores studied aggregate $22 million while service charge revenues amount to $15.8 million. In total, costs exceed revenue by $6.2 million.

On an individual customer account basis, the cost of handling the average credit account was $11.23 annually. This was $4.04 more than the $7.19 service charge revenue collected on the average account.

Furthermore, each individual retailer has a deficiency of revenue over costs. Individual participant figures range from a minimal deficiency of .14% of credit sales to a significant 5.85%. Of the eleven participants, four experienced costs which were more than twice as large as their service charge revenues.

Results by type of credit account:

Exhibit I analyzes this deficiency of revenue over costs by type of credit account. Summarized below are the highlights of this exhibit:

	Total dollars (in thousands)			Per active account		
	Regular (30 day) charge account	Revolving credit account	Conventional installment account	Regular (30 day) charge account	Revolving credit account	Conventional installment account
Service charge revenue	$ 171	$8,473	$5,649	$ .13	$11.82	$17.27
Total credit costs	5,721	9,024	5,207	6.73	13.64	17.25
Excess (deficiency) of revenue over costs	$(5,550)	$ (551)	$ 442	$(6.60)	$(1.82)	$ .02

It will be noted that the credit costs associated with the regular (30 day) charge accounts materially exceed service charge revenues. On revolving credit and conventional installment accounts, credit costs and service charge revenues are more balanced. For the revolving credit accounts as a group, credit costs exceed service charge revenue by $551 thousand, while service charge revenues exceed credit costs by $442 thousand for conventional installment accounts as a group. These figures, when related to total service charge revenues of $8.5 million and $5.6 million, respectively, disclose a relatively close relationship between service charges and costs on deferred payment types of accounts.

On a per account basis, revolving credit account costs exceed service charge revenue by $1.82 - service charges total $11.82 while costs amount to $13.64. Comparable figures per average conventional installment account show that service charge revenue and costs are approximately equal at $17.27 and $17.25, respectively. The average regular (30 day) charge account, on the other hand, incurs costs of $6.73 annually which is only slightly offset by a minimal $0.13 service charge revenue.

Results by store:

Exhibits II through V show the relationships between service charge revenue and credit costs by store, expressed as percentages of credit sales.

Exhibit II shows the relationship between total service charge revenue and total credit costs for all types of credit accounts for each of the eleven study participants.

In Exhibit III, the relationship between service charge revenue and credit costs is shown for regular (30 day) charge accounts, for each of ten participants. It will be recalled that it was possible to assemble credit costs by type of account for only ten of the eleven study participants. All stores showed a deficiency of revenue over costs. One store - Store C - had no regular 30-day charge accounts.

Exhibit IV displays revenue and credit cost information for revolving credit accounts. It will be noted that six of the ten stores have credit costs which exceed service charge revenue. A seventh store has service charge revenue which barely exceeds its costs. The arithmetic average of all stores' experience indicates that costs exceed service charge revenue by 1.3% of revolving credit sales.

Exhibit V shows that six out of nine stores with conventional installment accounts have credit costs which exceed service charge revenue. It is of interest to note that the arithmetic average for all stores shows costs exceeding service charge revenue by .05% of installment credit sales. By comparison, total dollar data on conventional installment accounts show service charge revenues exceeding costs by $442 thousand.

Results by credit cost element:

A comparison of unit costs by type of credit account (Exhibit I) shows that the cost of handling the average revolving credit account is about twice the cost of handling the average regular (30 day) charge account - the costs are $13.64 and $6.73, respectively. The cost per conventional installment account is higher still, amounting to $17.25 per average active account. Differences in new account, account servicing, account collection and interest on investment costs account for the bulk of these variations. Although differences in cost by type of account vary among stores, certain common factors cause these four cost elements to vary by type of account.

New account cost: The cost of opening a new account is basically the same for regular charge and revolving credit accounts, and somewhat lower for conventional installment accounts. However, new account costs per active account shown in Exhibit I vary significantly by account type. The major cause of this lies in the relationship between new accounts opened and total active accounts. Regular charge and revolving credit accounts are of a more permanent nature, once opened, than are conventional installment accounts. Consequently, there are more new accounts opened per active conventional installment account than per active regular charge or revolving credit account. This accounts for the high new account cost per active conventional installment account. The cost per active revolving credit account exceeds the cost per active regular charge account because the stores studied generally were opening proportionately more of the former type account.

Account servicing costs: Generally, account servicing costs are incurred in rough proportion to the number of postings required on customer accounts. Sales and sales return transactions and payments on account, along with the need for billing the prior month's balance and the current month's service charge, if any, give rise to the bulk of required postings. Servicing costs are lowest for conventional installment accounts where only one or two sales transactions are typically handled each year per active account. These costs are highest for revolving credit accounts which involve handling between 18 and 24 sales transactions annually per account and which require computing service charges monthly. The average annual number of sales transactions also ranges between 18 and 24 for regular (30 day) charge accounts. However, except for a few late charges, monthly service charge billings are not required on this type of account.

Account collection costs: Account collection costs per active account are significantly higher for revolving credit and conventional installment accounts than for regular (30 day) charge accounts. Bad debt expense and collection department salaries account for the major share of account collection costs.

The reason for the lower unit cost on regular charge accounts is twofold. First, department stores frequently impose more stringent credit requirements in accepting regular charge customers and experience lower bad debt losses on this type of account. Secondly, most stores do not find it necessary to "dun" a regular charge account until it is two or three months in arrears. As relatively few accounts are actually dunned, collection salary costs are comparatively small per active regular charge account.

In accepting revolving credit and conventional installment accounts, however, department stores generally set up more liberal credit tests and experience higher bad debt losses. Stores generally dun these accounts after the first missed payment. Because of this difference in dunning policy, a considerably greater proportion of accounts are dunned - commonly between one-quarter and one-third of the total number of active accounts. These accounts are not only dunned earlier, but they are also dunned for a proportionately longer period of time. Collection costs per active account are thus higher than on regular (30 day) charge accounts.

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Interest on receivable investment: The most significant unit cost differences among types of accounts arise in the interest on receivables cost category. This cost is determined by applying 6% to the average monthly accounts receivable balance. Thus, cost differences arise because of differences in the average account receivable investment by type of account.

Further details on the composition of new account, account servicing and account collection costs by type of account are set forth in Exhibit VI.

Other credit costs:

As mentioned in Section I of this report, Exhibits I through V contain the caption "Other credit costs" with no amounts shown. This caption refers to the added store costs arising from the existence of credit which could not be identified with sufficient accuracy for all study participants to warrant inclusion in this report.

The data available for four study participants, however, did permit some estimates to be made of two of these other credit costs - namely, the costs incurred to handle the extra merchandise returns and the extra deliveries arising from credit operations. The following tabulation reflects the effect that these costs have on the excess (or deficiency) of service charge revenue over credit costs for these study participants:

THE EFFECT OF EXTRA CREDIT DELIVERIES AND MERCHANDISE RETURNS ON THE COST OF CREDIT

	Store			
	D	E	J	K
	(Measured as percentages of credit sales)			
Total credit activity:				
Excess (deficiency) of revenue over costs	(1.90%)	(2.46%)	(3.10%)	(1.31%)
Extra delivery costs	.91	.79	1.17	1.67
Extra return costs	.22	.08	.11	.11
Adjusted excess (deficiency) of revenue over costs	(3.03%)	(3.33%)	(4.38%)	(3.09%)
Regular (30 day) charge accounts:				
Excess (deficiency) of revenue over costs	(3.43%)	(2.90%)	(3.69%)	
Extra delivery costs	.92	.79	1.21	N/A
Extra return costs	.22	.08	.11	
Adjusted excess (deficiency) of revenue over costs	(4.57%)	(3.77%)	(5.01%)	

	Store D	Store E	Store J	Store K
	(Measured as percentages of credit sales)			
Revolving credit accounts:				
Excess (deficiency) of revenue over costs	1.89%	(1.05%)	(2.17%)	
Extra delivery costs	1.36	.88	1.35	N/A
Extra return costs	.33	.09	.12	
Adjusted excess (deficiency) of revenue over costs	.20%	(2.02%)	(3.64%)	
Conventional installment accounts:				
Excess (deficiency) of revenue over costs	2.63%	(1.06%)	.42%	
Extra delivery costs	.07	.08	.09	N/A
Extra return costs	.03	-	.01	
Adjusted excess (deficiency) of revenue over costs	2.53%	(1.14%)	.32%	

It is noteworthy that these costs amount to about 1% of credit sales - they reach as high as 1.78% for store K. It is especially significant to note that for store D, these additional costs reduce the "excess of revenue over costs" on revolving credit accounts from 1.89% of credit sales to .20%.

The effect of these costs is relatively insignificant on conventional installment accounts because of the lesser number of transactions involved and because bulk delivery costs have been excluded from consideration as these heavy items would require delivery whether they were sold for cash or on credit.

The methods used in calculating the extra portion of these costs are outlined in Schedule C of the appendix to this report.

Cost of capital:

A 6% rate has been assigned in the body of the exhibits as the cost of capital required to finance customer accounts receivable. This is a low cost of capital rate. Accordingly, Exhibits I - V show the effect on study results if higher cost of capital rates were employed. Specifically, the "excess (or deficiency) of revenue over costs" is shown assuming 9%, 12% and 15% cost of capital rates. (Schedule E of the appendix discusses the cost of capital concept and its method of determination.)

It is noteworthy that each store shows a deficiency of revenue over costs at the 12% cost of capital rate for both revolving credit and conventional installment accounts. In addition, Exhibit IV shows that only one store shows an excess of revenue over costs on revolving credit at a 9% cost of capital rate. This excess amounts to only .10% of sales. In the conventional installment group (Exhibit V), only two stores show an excess of revenue over costs at the 9% cost of capital rate - one of 1.22% of credit sales and the other of .72%.

Service charge rates:

The following data extracted from Exhibit VII summarize the relationships between annual service charge revenue and average accounts receivable investment for ten participants:

(In thousands)	Regular (30 day) charge account	Revolving credit account	Conventional installment account
Average monthly investment in accounts receivable balances	$26,431	$53,561	$44,055
Service charge revenue	$ 171	$ 8,473	$ 5,649
Service charge revenue as a per cent of receivable balances	.6%	15.8%	12.8%

On an individual store basis, the highest rates achieved were 17.2% for revolving credit accounts and 16.7% for conventional installment accounts. These percentages are less than one might assume in view of common store practice of assessing service charges on revolving credit accounts at 1-1/2% of the amount due on a fixed day of each month and in view of practices followed in assessing service charges on conventional installment accounts (see pp. 4 and 5). There are numerous reasons for this; a few of the more significant of these are listed below:

1. Some revolving credit customers exercise the option to pay their accounts within 30 days and pay no service charges.

2. Some stores assess their revolving credit service charges on the beginning of the month receivable balance after deducting the current month's payments and returns.

3. Most stores do not assess a service charge on a customer purchase in the same month on which the purchase was made.

4. Many stores do not assess a service charge in the last month of activity - the month in which the account is paid up.

5. Some stores offer their conventional installment account customers the option of paying off their account within 90 days at no service charge. This is an important consideration for several stores participating in the study.

6. Stores assessing service charges at the time of sale do not realize revenue at the initially assessed rate when customers miss payment dates and no late charges are made. This is a significant factor on the conventional installment accounts of those stores using the "add-on" service charge assessment basis, as experience has shown that one-quarter to one-third of all installment customers have payments in arrears at the end of any month.

Sales productivity of investment:

Variations by type of account in sales generated per dollar invested in accounts receivable are significant. The following tabulation, compiled from data shown in Exhibit VII, shows average sales and average accounts receivable investment per active account by account type for ten study participants:

(In thousands)	Regular (30 day) charge account	Revolving credit account	Conventional installment account
Basic data:			
Number of active accounts	730	663	238
Annual credit sales	$153,212	$120,177	$61,973
Average monthly investment in accounts receivable balances	$ 26,431	$ 53,561	$44,055
Results:			
Average annual credit sales per active account	$ 210	$ 181	$ 219
Average investment per active account	$ 36	$ 81	$ 156

It will be noted that annual sales per active account are higher for conventional installment accounts than for regular (30 day) charge accounts, and higher for regular (30 day) charge accounts than for revolving credit accounts. The amount of capital invested in accounts receivable per active account, however, is highest for conventional installment accounts and lowest for regular (30 day) charge accounts. Annual sales per dollar invested in accounts receivable amount to $5.83 for regular (30 day) charge accounts, $2.23 for revolving credit accounts, and $1.40 for conventional installment accounts. The sales return per dollar invested in regular (30 day) charge accounts is thus significantly higher than that on either of the other two account types.

It will be noted that these relationships have been determined by using the weighted averaging approach whereby the data obtained from each participant were directly added together and averages developed from these total data for all stores. The weighted average approach, of course, gives greater weight to large store results than does the arithmetic averaging method which gives equal weight to each participant's data.

The weighted averaging method was used in the above tabulation as well as in Exhibit VII primarily to develop more meaningful account receivable investment figures per active customer account. Two of the study participants have very few regular (30 day) charge accounts, the bulk of which are with commercial concerns rather than with consumers. The investment in these accounts is very large compared to the investment in consumer regular (30 day) accounts, both for these two stores and for the other nine study participants. To use the arithmetic averaging method, under these circumstances, would give undue weight to these few regular charge accounts with commercial companies.

SECTION III - STUDY CONCLUSIONS

Extending credit is a costly undertaking:

Commonly, department stores organize their internal operating statements so that total operating expenses are deducted from gross margin to arrive at an operating profit. Included within these operating expenses are the costs incurred in extending credit services. Service charge revenue is then added to this "operating profit" as if it were an independent, cost free source of revenue. A superficial examination of this type of statement could suggest that credit is a profitable business for the retailer.

Such a conclusion would be completely erroneous. Study findings indicate that providing credit in the department store field is a costly undertaking. Total credit costs for all stores included in this study exceed their $15.8 million total service charge revenue by $6.2 million. The average deficiency for all participants amounts to 2.55% of credit sales. It will be recalled that credit costs have been conservatively identified. If it were practical to assemble all costs arising because of the existence of credit, the excess of credit costs over service charge revenue would be further increased.

Further, the 6% cost assigned in this study to the capital required to finance accounts receivable is very conservative. As discussed in Schedule E of the appendix, a more realistic cost of capital figure is probably at least 15%. The effect of using cost of capital rates in excess of 6% on the relationship between credit costs and service charge revenue is striking. Exhibits IV and V show that, assuming a 12% cost of capital, no participant has an excess of service charge revenue over credit costs on either revolving credit accounts or on conventional installment accounts. The following figures summarized from Exhibit I show for all stores the excess (deficiency) of revenue over cost per active account using 6% and 15% cost of capital rates:

	6% cost of capital	15% cost of capital
Regular (30 day) charge accounts	$(6.60)	$ (9.39)
Revolving credit accounts	$(1.82)	$ (8.73)
Conventional installment accounts	$ .02	$(12.58)

It seems apparent that the average department store would enhance its profits by eliminating the credit function - if it could maintain the same sales volume. Not only would it make a greater profit, but it would be doing so on a much smaller investment since discontinuing credit services would also eliminate the need for investing capital in customers' accounts receivable.

In a practical sense, eliminating the credit function would not necessarily enhance store profits as sales would undoubtedly be adversely affected. It is clear, therefore, that credit must be justified economically by the department store as a selling tool - not as a separate business venture. From the store's viewpoint, extending credit should increase sales by such an amount that profits resulting from these increased sales are large enough to absorb any excess of credit costs over service charge revenue.

Service charges vs. credit costs:

In general, service charge revenues on revolving credit accounts and conventional installment accounts approximately equal the conservatively determined costs of credit for these accounts. The excess of costs over revenue amount to 1.31% of credit sales on revolving credit accounts and .05% of credit sales on conventional installment accounts.

Among the individual stores, there are significant variations around these averages. Although the number of small store participants in the study was limited, available data indicated that the small store generally experiences a greater excess of credit costs over service charge revenue than does the large store. This occurs essentially because of the lesser number of sales transactions over which the small store can spread its fixed credit costs.

Credit costs of regular (30 day) charge accounts:

The costs of extending credit to regular (30 day) charge account customers far exceed service charge revenues from these accounts. While no service charges are assessed on regular (30 day) charge customers, this relative disadvantage is partially offset by the greater turnover of the investment in regular charge account balances. As noted in the findings section, regular (30 day) charge accounts generate $5.83 annually in sales for each dollar invested in accounts receivable. This turnover is 2.6 times greater than the $2.23 in sales generated by each dollar invested in revolving credit accounts. By comparison, annual sales per dollar invested in conventional installment accounts amount to only $1.40.

Because stores enjoy higher sales per dollar invested in regular (30 day) charge accounts, they can realize a higher gross margin per dollar invested in these accounts. Since profit margins vary widely by store and by type of merchandise, it is impractical to determine whether this higher turnover on regular (30 day) accounts results in higher net profits per dollar invested in these accounts than per dollar invested in revolving credit or conventional installment accounts. It is apparent, however, that the greater turnover associated with the investment in regular (30 day) charge accounts at least partly offsets the fact that no service charges are assessed on these accounts.

SECTION IV - STATISTICAL EXHIBITS

Exhibit I

N. R. M. A.

STUDY OF CONSUMER CREDIT COSTS IN DEPARTMENT STORES

COSTS AND SERVICE CHARGES PER ACTIVE ACCOUNT

(In thousands)

	Total dollars				Per active account			
	Total	Regular (30 day) charge account	Revolving credit account	Conventional installment account	Total	Regular (30 day) charge account	Revolving credit account	Conventional instalment account
	(11 stores)	(10 stores)			(11 stores)	(10 stores)		
					(Arithmetic average)**			
CREDIT SALES	$375,097	$153,212	$120,177	$ 61,973	$179.92	$184.31	$163.68	$218.53
SERVICE CHARGE REVENUE	$ 15,773	$ 171	$ 8,473	$ 5,649	$ 7.19	$ .13	$ 11.82	$ 17.27
New account costs	$ 1,794	$ 438	$ 758	$ 465	$ .91	$ .50	$ 1.04	$ 1.92
Account servicing costs	6,083	2,232	2,378	902	3.36	2.78	3.58	2.64
Account collection costs	3,735	601	1,869	926	2.09	.75	3.29	3.36
Interest at 6% on account receivable investment	8,215	1,596	3,182	2,657	3.90	1.86	4.61	8.40
Credit space and equipment costs	512	131	211	82	.30	.23	.33	.25
Additional salespersons' costs due to credit	796	388	321	40	.17	.17	.22	.04
Management costs	816	285	305	135	.50	.44	.57	.64
Other credit costs (See note below *)								
TOTAL CREDIT COSTS	$ 21,951	$ 5,721	$ 9,024	$ 5,207	$ 11.23	$ 6.73	$ 13.64	$ 17.25
EXCESS (DEFICIENCY) OF REVENUE OVER COSTS	$ (6,178)	$ (5,550)	$ (551)	$ 442	$ (4.04)	$ (6.60)	$ (1.82)	$ .02
EXCESS (DEFICIENCY) OF REVENUE OVER COSTS ASSUMING COST OF CAPITAL AT:								
9% of receivable investment	$ (10,286)	$ (6,349)	$ (2,141)	$ (887)	$ 5.99)	$ (7.53)	$ (4.12)	$ (4.18)
12% of receivable investment	(14,394)	(7,147)	(3,732)	(2,215)	(7.94)	(8.46)	(6.43)	(8.38)
15% of receivable investment	(18,501)	(7,945)	(5,323)	(3,543)	(9.89)	(9.39)	(8.73)	(12.58)
TOTAL NUMBER OF ACTIVE ACCOUNTS	1,935	730	663	283				

* NOTE: Other credit costs are discussed on page 6 in Section I of the text.

** NOTE: The reasons for using arithmetic averages are outlined on page 7 in Section I of the text.

Exhibit II

N. R. M. A.

STUDY OF CONSUMER CREDIT COSTS IN DEPARTMENT STORES

COSTS AND SERVICE CHARGES AS A PER CENT OF CREDIT SALES

TOTAL CREDIT ACTIVITY

	Total dollars (11 stores)	Per cent of credit sales											
		Arithmetic average ** (11 stores)	Store										
			A	B	C	D	E	F	G	H	I	J	K
CREDIT SALES	$375,097,000	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
SERVICE CHARGE REVENUE	$ 15,772,728	3.89%	8.05%	6.61%	2.71%	3.23%	1.39%	4.12%	3.08%	4.10%	3.50%	2.31%	3.72%
New account costs	$ 1,793,441	0.52%	0.71%	0.48%	1.53%	0.24%	0.29%	0.73%	0.12%	0.39%	0.52%	0.41%	0.33%
Account servicing costs	6,083,437	1.93	1.94	2.18	2.52	1.65	1.23	2.25	3.47	1.22	1.57	1.74	1.44
Account collection costs	3,734,725	1.21	1.52	1.79	2.33	0.78	0.58	1.64	1.20	0.43	1.01	1.16	0.85
Interest at 6% on accounts receivable investment	8,215,141	2.14	3.54	3.17	1.45	1.87	1.26	2.24	2.33	2.07	1.97	1.64	1.97
Credit space and equipment costs	511,893	0.18	0.16	0.18	0.34	0.14	0.17	0.20	0.25	0.09	0.19	0.13	0.09
Additional salespersons' costs due to credit	796,382	0.17	0.11	0.09	0.27	0.20	0.14	0.18	0.11	0.38	0.09	0.18	0.12
Management costs	816,184	0.29	0.21	0.27	0.12	0.25	0.18	0.30	1.00	0.19	0.33	0.15	0.23
Other credit costs (See note on Exhibit I)													
TOTAL CREDIT COSTS	$ 21,951,203	6.44%	8.19%	8.16%	8.56%	5.13%	3.85%	7.54%	8.48%	4.77%	5.68%	5.41%	5.03%
EXCESS (DEFICIENCY) OF REVENUE OVER COSTS	$ (6,178,475)	(2.55%)	(0.14%)	(1.55%)	(5.85%)	(1.90%)	(2.46%)	(3.42%)	(5.40%)	(0.67%)	(2.18%)	(3.10%)	(1.31%)
EXCESS (DEFICIENCY) OF REVENUE OVER COSTS ASSUMING COST OF CAPITAL AT:													
9% of receivable investment	$(10,286,045)	(3.62%)	(1.91%)	(3.13%)	(6.57%)	(2.83%)	(3.09%)	(4.54%)	(6.56%)	(1.70%)	(3.16%)	(3.92%)	(2.29%)
12% of receivable investment	(14,393,616)	(4.69%)	(3.68%)	(4.72%)	(7.30%)	(3.77%)	(3.72%)	(5.66%)	(7.73%)	(2.74%)	(4.15%)	(4.74%)	(3.27%)
15% of receivable investment	(18,501,186)	(5.76%)	(5.45%)	(6.30%)	(8.02%)	(4.70%)	(4.35%)	(6.78%)	(8.89%)	(3.77%)	(5.13%)	(5.56%)	(4.25%)

** NOTE: The reasons for using arithmetic averages are outlined on page 7 in Section I of the text.

Exhibit III

N. R. M. A.

STUDY OF CONSUMER CREDIT COSTS IN DEPARTMENT STORES

COSTS AND SERVICE CHARGES AS A PER CENT OF CREDIT SALES

REGULAR (30 DAY) CHARGE ACCOUNTS

	Total dollars (10 stores)	Per cent of credit sales										
		Arithmetic average ** (10 stores)	Store									
			A	B	C	D	E	F	G	H	I	J
CREDIT SALES	$153,212,000	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
SERVICE CHARGE REVENUE	$ 170,614	0.08%	- %	- %	- %	0.24%	- %	0.10%	- %	- %	0.18%	0.22%
New account costs	$ 437,614	0.29%	0.33%	0.15%	- %	0.16%	0.15%	0.69%	0.07%	0.26%	0.68%	0.18%
Account servicing costs	2,232,046	1.56	0.70	0.62	-	1.59	1.16	2.34	3.15	1.10	1.67	1.72
Account collection costs	601,302	0.43	0.46	0.54	-	0.32	0.14	0.40	0.39	0.20	0.90	0.49
Interest at 6% on accounts receivable investment	1,596,290	1.01	1.14	0.56	-	1.06	1.00	0.93	1.13	1.03	1.17	1.07
Credit space and equipment costs	181,000	0.13	0.02	0.02	-	0.13	0.15	0.20	0.22	0.08	0.20	0.12
Additional salespersons' costs due to credit	388,169	0.17	0.07	0.09	-	0.20	0.14	0.19	0.11	0.43	0.10	0.19
Management costs	285,065	0.25	0.09	0.09	-	0.21	0.16	0.29	0.74	0.15	0.36	0.14
Other credit costs (See note on Exhibit I)												
TOTAL CREDIT COSTS	$ 5,721,486	3.84%	2.81%	2.07%	- %	3.67%	2.90%	5.04%	5.81%	3.25%	5.08%	3.91%
EXCESS (DEFICIENCY) OF REVENUE OVER COSTS	$ (5,550,872)	(3.76%)	(2.81%)	(2.07%)	- %	(3.43%)	(2.90%)	(4.94%)	(5.81%)	(3.25%)	(4.90%)	(3.69%)
EXCESS (DEFICIENCY) OF REVENUE OVER COSTS ASSUMING COST OF CAPITAL AT:												
9% of receivable investment	$ (6,349,017)	(4.26%)	(3.38%)	(2.35%)	%	(3.96%)	(3.40%)	(5.40%)	(6.37%)	(3.76%)	(5.48%)	(4.22%)
12% of receivable investment	(7,147,162)	(4.77%)	(3.95%)	(2.63%)	- %	(4.49%)	(3.90%)	(5.87%)	(6.94%)	(4.28%)	(6.07%)	(4.76%)
15% of receivable investment	(7,945,307)	(5.27%)	(4.52%)	(2.91%)	-	(5.02%)	(4.40%)	(6.33%)	(7.50%)	(4.79%)	(6.65%)	(5.29%)

** NOTE: The reasons for using arithmetic averages are outlined on page 7 in Section I of the text.

Exhibit IV

N. R. M. A.

STUDY OF CONSUMER CREDIT COSTS IN DEPARTMENT STORES

COSTS AND SERVICE CHARGES AS A PER CENT OF CREDIT SALES

REVOLVING CREDIT ACCOUNTS

	Total dollars (10 stores)	Per cent of credit sales: Arithmetic average ** (10 stores)	Store: A	B	C	D	E	F	G	H	I	J
CREDIT SALES	$120,177,000	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
SERVICE CHARGE REVENUE	$ 8,473,498	7.51%	7.14%	6.50%	2.71%	13.09%	5.80%	12.49%	6.03%	7.75%	6.45%	7.17%
New account costs	$ 758,441	0.64%	0.53%	0.53%	1.53%	0.57%	0.56%	0.77%	0.16%	0.45%	0.24%	1.12%
Account servicing costs	2,378,028	2.27	2.04	2.56	2.52	2.43	1.54	2.35	4.09	1.60	1.66	1.96
Account collection costs	1,869,418	2.15	1.40	1.85	2.33	2.50	2.10	4.72	1.97	0.62	0.90	3.07
Interest at 6% on account receivable investment	3,181,503	2.95	2.64	2.68	1.45	4.70	2.02	4.65	3.52	2.75	2.44	2.62
Credit space and equipment costs	211,174	0.21	0.15	0.21	0.34	0.22	0.21	0.22	0.30	0.12	0.20	0.15
Additional salespersons' costs due to credit	320,686	0.22	0.16	0.13	0.27	0.30	0.16	0.22	0.12	0.49	0.10	0.21
Management costs	304,928	0.38	0.19	0.30	0.12	0.49	0.26	0.36	1.30	0.25	0.31	0.21
Other credit costs (See note on Exhibit I)												
TOTAL CREDIT COSTS	$ 9,024,178	8.82%	7.11%	8.26%	8.56%	11.21%	6.85%	13.29%	11.46%	6.28%	5.85%	9.34%
EXCESS (DEFICIENCY) OF REVENUE OVER COSTS	$ (550,680)	(1.31%)	0.03%	(1.76%)	(5.85%)	1.88%	(1.05%)	(0.80%)	(5.43%)	1.47%	0.60%	(2.17%)
EXCESS (DEFICIENCY) OF REVENUE OVER COSTS ASSUMING COST OF CAPITAL AT:												
9% of receivable investment	$ (2,141,432)	(2.78%)	(1.29%)	(3.10%)	(6.57%)	(0.46%)	(2.06%)	(3.12%)	(7.19%)	0.10%	(0.61%)	(3.48%)
12% of receivable investment	(3,732,183)	(4.26%)	(2.61%)	(4.44%)	(7.30%)	(2.81%)	(3.08%)	(5.44%)	(8.95%)	(1.27%)	(1.83%)	(4.79%)
15% of receivable investment	(5,322,935)	(5.73%)	(3.93%)	(5.78%)	(8.02%)	(5.16%)	(4.09%)	(7.76%)	(10.71%)	(2.64%)	(3.05%)	(6.10%)

** NOTE: The reasons for using arithmetic averages are outlined on page 7 in Section I of the text.

Exhibit V

N. R. M. A.

STUDY OF CONSUMER CREDIT COSTS IN DEPARTMENT STORES

COSTS AND SERVICE CHARGES AS A PER CENT OF CREDIT SALES

CONVENTIONAL INSTALLMENT ACCOUNTS

	Total dollars (10 stores)	Per cent of credit sales: Arithmetic average** (10 stores)	Store A	B	C	D	E	F	G	H	I	J
CREDIT SALES	$ 61,973,000	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
SERVICE CHARGE REVENUE	$ 5,648,419	8.14%	9.54%	10.50%	- %	7.86%	5.98%	10.32%	4.79%	8.75%	6.15%	9.41%
New account costs	$ 465,379	0.84%	0.92%	0.55%	- %	0.28%	2.49%	0.87%	0.26%	0.63%	0.92%	0.62%
Account servicing costs	901,514	1.29	1.93	2.25	-	0.77	0.49	1.66	1.59	0.87	0.80	1.21
Account collection costs	925,617	1.65	1.71	2.38	-	1.11	0.64	2.70	1.57	0.70	1.95	2.10
Interest at 6% on accounts receivable investment	2,656,898	3.96	4.60	5.62	-	2.82	2.96	4.77	2.79	3.66	3.65	4.78
Credit space and equipment costs	82,310	0.12	0.17	0.20	-	0.07	0.08	0.16	0.14	0.09	0.08	0.11
Additional salespersons' costs due to credit	39,704	0.04	0.07	0.06	-	0.03	0.03	0.05	0.02	0.07	0.02	0.03
Management costs	135,125	0.29	0.23	0.31	-	0.15	0.35	0.30	0.71	0.18	0.25	0.14
Other credit costs (See note on Exhibit I)												
TOTAL CREDIT COSTS	$ 5,206,547	8.19%	9.63%	11.37%	- %	5.23%	7.04%	10.51%	7.08%	6.20%	7.67%	8.99%
EXCESS (DEFICIENCY) OF REVENUE OVER COSTS	$ 441,872	(0.05%)	(0.09%)	(0.87%)	- %	2.63%	(1.06%)	(0.19%)	(2.29%)	2.55%	(1.52%)	0.42%
EXCESS (DEFICIENCY) OF REVENUE OVER COSTS ASSUMING COST OF CAPITAL AT:												
9% of receivable investment	$ (886,577)	(2.03%)	(2.39%)	(3.68%)	- %	1.22%	(2.54%)	(2.57%)	(3.69%)	0.72%	(3.34%)	(1.97%)
12% of receivable investment	(2,215,026)	(4.01%)	(4.69%)	(6.49%)	- %	(0.19%)	(4.02%)	(4.96%)	(5.08%)	(1.11%)	(5.17%)	(4.36%)
15% of receivable investment	(3,543,475)	(5.99%)	(6.99%)	(9.30%)	- %	(1.60%)	(5.50%)	(7.34%)	(6.47%)	(2.94%)	(6.99%)	(6.75%)

** NOTE: The reasons for using arithmetic averages are outlined on page 7 in Section I of the text.

N. R. M. A.

STUDY OF CONSUMER CREDIT COSTS IN DEPARTMENT STORES

ANALYSIS OF MAJOR EXPENSES

	Total dollars (in thousands)				Per cent of credit sales			
	Total	Regular (30 day) charge account	Revolving credit account	Conventional instalment account	Total	Regular (30 day) charge account	Revolving credit account	Conventional instalment account
	(11 stores)	- - - - - (10 stores) - - - - - - -			(11 stores)	- - - - - (10 stores) - - - - - - - - - - - - (arithmetic average)** - - - - -		
NEW ACCOUNT COSTS:								
Salaries	$ 956	$ 221	$ 355	$ 310	.25%	.15%	.29%	.50%
Promotion costs	242	78	113	36	.06	.05	.08	.05
Credit investigation fees	422	93	212	83	.16	.06	.20	.21
Supplies and other expenses	174	46	78	36	.05	.03	.07	.08
Total costs	$1,794	$ 438	$ 758	$ 465	.52%	.29%	.64%	.84%
ACCOUNT SERVICING COSTS:								
Salaries:								
Accounts receivable	$3,127	$1,062	$1,225	$ 597	.91%	.74%	1.06%	.67%
Supporting services	1,030	452	413	81	.37	.31	.45	.20
Postage - statements	758	303	293	67	.23	.18	.27	.15
Supplies and other expenses	1,168	415	447	157	.42	.33	.49	.27
Total costs	$6,083	$2,232	$2,378	$ 902	1.93%	1.56%	2.27%	1.29%
ACCOUNT COLLECTION COSTS:								
Salaries	$1,260	$ 216	$ 556	$ 350	.32%	.16%	.47%	.42%
Bad debt losses	1,780	262	997	392	.69	.20	1.34	.89
Collection agency fees	360	70	174	86	.11	.04	.21	.22
Supplies and other expenses	335	53	142	98	.09	.03	.13	.12
Total costs	$3,735	$ 601	$1,869	$ 926	1.21%	.43%	2.15%	1.65%

** NOTE: The reasons for using arithmetic averages are outlined on page 7 in Section I of the text.

Exhibit VII

N. R. M. A.

STUDY OF CONSUMER CREDIT COSTS IN DEPARTMENT STORES

SUPPLEMENTARY RATIOS AND PERCENTAGES

(Weighted average - 10 stores)**

	Regular (30 day) charge account	Revolving credit account	Conventional instalment account
Credit sales ($000)	$153,212	$120,177	$ 61,973
Accounts receivable investment ($000)	$ 26,431	$ 53,561	$ 44,055
Service charge revenue ($000)	$ 171	$ 8,473	$ 5,648
Average number of active accounts (000)	730	663	283
Excess (deficiency) of revenue over costs ($000)	$ (5,551)	$ (551)	$ 442
RESULTS:			
Service charges to accounts receivable investment	.6%	15.8%	12.8%
Service charges to credit sales	.1%	7.0%	9.1%
Return on accounts receivable investment	(21.0%)	(1.0%)	1.0%
Turnover of accounts receivable investment	5.8	2.2	1.4
Average accounts receivable investment per active account	$36	$81	$156

** NOTE: The reasons for using weighted averages are outlined on page 14 in Section II of the text.

- 23 -

SECTION V - APPENDIX

SCHEDULE A

OUTLINE OF THE APPROACH USED IN DETERMINING

THE COST OF THE CREDIT FUNCTION IN RETAIL STORES

Results of this study are drawn from actual operating data experienced by ten department stores for the year ended in January, 1962; the eleventh participant furnished relevant operating data for its fiscal year ending with January, 1963. The reason for this exception was that the participant concerned was generating certain accounting and statistical information essential to this study as a part of its regular accounting system for the year ended in January, 1963, whereas these data were not readily available for the prior year. A specific year's operating data were reviewed for each participant so that the costs assigned to credit for each store could be directly related to the store's actual books of account.

Step One:

The first step in determining the cost of the credit function was to review all store expense accounts to determine which accounts contained elements of credit costs.

Step Two:

In the second step each "credit element" expense account was analyzed to determine the dollar amount therein that was attributable to credit operations. In performing this credit/non-credit analysis, the following guidelines were used:

(a) For each account the following question was asked, "What costs would be eliminated if credit activities were discontinued, assuming that sales remained at their present level?"

(b) Emphasis was placed on obtaining an accurate charge to credit. Where doubt existed as to what portion of an expense should be identified with the credit function, a conservative credit cost determination policy was followed.

(c) Emphasis was placed on documenting all expenses included as credit costs.

Step Three:

The next step was to allocate credit costs by type of credit account. It was decided to group all of the various types of credit accounts encountered in the study into three major account categories: Regular (30 day) Charge Accounts, Revolving Credit Accounts, and Conventional Installment Accounts. If costs were regularly accumulated in these account groupings, there would be little difficulty in determining costs by type of credit account. However, costs are not usually accumulated in this manner and a cost allocation problem was posed.

Many stores maintain various activity statistics to measure the productivity of employees. As some of these statistics seemed to effectively measure the activity of a number of the important credit functions, these specific statistics were selected as bases for allocating the costs of credit activities by type of account. Eleven or twelve allocation bases, depending upon the availability of data at each location, were developed for use in allocating each store's total credit costs. (These bases are reviewed in Schedule D.) Because appropriate statistics were lacking in some areas, it was frequently necessary to run tests or, where no material distortions would be introduced, to estimate some of the allocation bases.

Although this approach does not produce a precise expense identification, it does give a fairly close approximation of credit costs by account type.

In summary, Step Three involves the development of a number of statistical bases which could be used to allocate total credit costs by type of credit account.

Step Four:

The fourth step was a purely mechanical one. It required that the appropriate allocation percentage be applied to each credit cost element to arrive at the dollar amount to be charged to each type of credit account.

Step Five:

The fifth step involved grouping and summarizing credit costs by type of account. Percentages and unit costs have been used throughout the report so as to preserve the confidential nature of each store's sales and cost data. Dollar amounts are shown only in total for all stores.

SCHEDULE B

OUTLINE OF THE VARIOUS ACTIVITIES

ASSOCIATED WITH THE CREDIT FUNCTION

The following list outlines the various credit activities performed by a department store in providing credit services to its customers:

New account activities:

1. The solicitation of new accounts and the reactivation of old ones, both within and outside the store, through the use of employee contacts, credit signs, newspaper advertising (slugs), direct mailings and solicitation by outside agencies.

2. The preparation of literature outlining the advantages and terms of the various credit accounts offered to customers.

3. The answering of customer inquiries with regard to opening of individual credit accounts.

4. The interviewing of potential credit customers and the preparation of application and customer contract forms.

5. The checking of customer applications with credit bureaus, employers, etc.

6. The processing and reviewing of customer applications through the credit department and the final granting or rejection of credit.

7. The preparation of a charga-plate or identification card for each new customer and its issuance by mail.

8. The preparation of an addressograph plate and a customer account card for each new customer.

Sales check processing activities:

1. The preparation of a sales slip for each credit sale or return transaction. (It takes between one and two minutes more time for a salesperson to record a credit sale than it does a cash sale.)

2. The obtaining of authorization by sales personnel of all credit sales in excess of the floor limit.

3. The processing, sorting and verification of all credit sales and return transactions by the sales audit department. (It takes up to four times as long to process a credit sale, as against a cash sale, through the sales audit department.)

4. The sorting and "stuffing" of sales and return slips by customer account so as to facilitate billing.

23-902 O—64—pt. 2——54

Customer account servicing activities:

1. The maintenance of customer name and address files in the addressograph department.

2. The monthly addressographing of customer statements with the name and address of each credit customer.

3. The acceptance of customer payments on account made by customers in person at the store. Also the preparation of customer receipts and the balancing of payments received with customer receipts.

4. The receipt and sorting of mail from credit customers.

5. The opening of mail containing customer payments on account. The preparation of payment posting media. The balancing of payments and posting media, and the sorting of media by customer account cycle.

6. The sorting and stuffing of payment media by customer account.

7. The day to day maintenance of the customer account files.

8. The monthly preparation of customer statements involving posting sales, credits, payments, adjustments, old balances, and the calculation and billing of service charges, where applicable.

9. The checking and balancing of customer statements with posting media and cycle controls.

10. The microfilming of posting media and statements for future reference.

11. The inserting of customer statements into envelopes. Also the stamping and mailing of customer statements.

12. The handling of customer inquiries and complaints with regard to their statements. Also the processing of customer billing adjustments.

13. The handling of customer changes of address. This requires changing the address on customer account cards and addressograph plates, and the reissuance of the customer's charga-plate. (Change of address volumes usually run at about 10% to 15% per year of total active customer accounts.)

Customer account collection activities:

1. The monthly review of customer accounts to determine the degree of delinquency of the accounts.

2. The determination of amounts in arrears. The preparation of dunning notices on the more current delinquent accounts and the inclusion of these notices with the appropriate customer statement for mailing to the customer.

3. The review of the older delinquent accounts i.e., those on "collection"). The preparation of collection letters for these accounts. Personal phone calls are also frequently used to obtain payment from these "collection" accounts. Personal interviews are also used on occasion.

4. The tracing of customers who have moved without paying their accounts. Also the dealing with collection agencies to whom old uncollectible accounts have been referred for collection.

5. The quarterly or semi-annual aging of accounts receivable balances, which is used to determine the amount of the allowance for doubtful accounts.

SCHEDULE C

LIST OF EXPENSES INCURRED BY DEPARTMENT STORES IN

PROVIDING CREDIT SERVICES TO CUSTOMERS

Credit costs were initially accumulated in nine major categories: (1) direct credit costs; (2) related credit costs; (3) interest at 6% on accounts receivable investment; (4) space costs; (5) depreciation - credit function equipment; (6) interest at 6% on investment in credit equipment; (7) additional salesperson's costs due to credit; (8) management costs; and (9) other credit costs. In order to portray credit costs functionally, costs in the first two groupings - direct credit costs and related credit costs - were rearranged for presentation purposes into three cost groupings: (1) new account costs; (2) account servicing costs; and (3) account collection costs. Further, because of the relatively small amounts involved, the fourth, fifth and sixth groupings used in accumulating costs - space costs, depreciation - credit function equipment and interest at 6% on investment in credit equipment - have been combined for report presentation purposes into a single category - credit space and equipment costs. Thus, eight cost categories were used for presentation purposes: (1) new account costs; (2) account servicing costs; (3) account collection costs; (4) interest at 6% on accounts receivable investment; (5) credit space and equipment costs; (6) additional salespersons' costs due to credit; (7) management costs; and (8) other credit costs.

Listed below are individual credit costs grouped in the categories used in initially accumulating credit costs as well as a description, where applicable, of the method used in determining what portion of each cost was assignable to the credit function. Expenses in the direct and related credit cost categories are cross-referenced to show whether they were included as New Account, Account Servicing, or Account Collection costs for presentation purposes. The following material is presented in considerable detail to permit its being used as a guide to department stores not included in the study sample wishing to determine their own credit costs on a basis comparable to that employed in this study.

Direct credit costs:

Direct credit costs are those costs which are wholly identifiable with the credit function. These costs are out-of-pocket costs of credit and include the following items:

Expenses	Grouping for presentation
Credit salaries	New account costs
Collection salaries	Account collection costs
Billing salaries	Account servicing costs
Pre-billing salaries	Account servicing costs
Bill adjustment salaries	Account servicing costs
Charge account promotion salaries	New account costs

Expenses	Grouping for presentation
Employee benefits on the above salaries - This amount was determined by relating total store employee benefits to total store salaries. The resulting percentage was applied to the above salaries in order to determine the amount of applicable employee benefits to be added to credit costs.	
Included in employee benefits are the following types of expenses: Group insurance, pensions, FICA, unemployment insurance, workmen's compensation, supper money (if treated as a supplementary benefit), and vacation pay and sick benefits (if not specifically included with salaries).	
Other direct credit expenses are:	
Postage on customer statements	Account servicing costs
Postage on collection (dunning) mail	Account collection costs
Postage on new account correspondence (including the mailing of charga-plates to customers, where applicable)	New account costs
Credit supplies and unclassified expenses	New account costs
Collection supplies and unclassified expenses	Account collection costs
Accounts receivable supplies and unclassified expenses (billing and pre-billing)	Account servicing costs
Bill adjustment supplies and unclassified expenses	Account servicing costs
Accounts receivable balancing differences	Account servicing costs
Charga-plate costs or services:	
Plates for new customers	New account costs
Change of address and lost plates, etc.	Account servicing costs
Addressograph services for credit or accounts receivable purposes	Account servicing costs
Credit bureau services	New account costs
Collection agency fees	Account collection costs
Customer account solicitation services	New account costs
Advertising expenses for new account solicitation - cost of making credit signs, TV or radio announcements, etc., if applicable	New account costs
Bad debt expense (customer accounts written off less recoveries, plus fraudulent purchases, and any adjustments made to the bad debt reserve)	Account collection costs

Expenses	Grouping for presentation
Other direct credit expenses are (continued): Equipment rental and maintenance costs on equipment used primarily for the credit function (i.e., imprinters, billing machines, microfilm equipment, proof machines, pay-bill validators, mailroom equipment used for customer statements, etc.)	Account servicing costs

Related credit costs:

Related credit costs are the costs of activities which are in part directly associated with rendering credit services. The amount of each expense charged against credit operations was based on the question: "What portion of this expense could be eliminated if the credit operations were discontinued, assuming that total store sales remain at the current level?" Like "direct costs", these costs are out-of-pocket costs of the credit function. The following costs were included in this category:

Expenses	Grouping for presentation
Sales audit salaries	Account servicing costs
Cash office salaries	Account servicing costs
Paybill cashiers salaries	Account servicing costs
Mail service salaries	Account servicing costs
Statistical salaries	Account servicing costs

The procedure used to determine the portion of these salary costs attributable to credit was as follows: First, the average number of employees employed in each of the above departments during the study period was determined from the employee census. Each department was then analyzed as to the major functions performed, and the approximate number of people performing each of these functions. An estimate was next made as to which functions could be eliminated or curtailed if the credit operation were discontinued, and the number of people that could be excessed. The percentage obtained by relating the equivalent number of people that could be excessed by each department to the department's total staff was then applied to the total salary expense for that department to obtain the salary cost applicable to the credit function. If it was felt that additional people would be required to handle an "all cash" business, allowances were made for these additions in determining the charge to the credit operation.

Employee benefits on the above salaries were determined as previously outlined under direct credit costs.

Telegram expense - the portion charged to credit was based on an estimate of the number of telegrams sent out for collection (and other credit function uses) as a percentage of total store telegram usage. This expense was grouped under account collection costs as telegrams are primarily used for collection purposes.

Long distance toll costs (telephone) - the credit charge here was based on an estimate of the proportionate number of long distance calls made for collection and other credit functions to the total calls made by the store.

Local telephone service - this charge to credit was based on a detailed analysis of the telephone costs and number of extension telephones in use at four of the stores that were studied. The credit portion of telephone service costs ranged from 22% to 25% of the total telephone expense for those stores. As a result, a 22% rate was used for the other stores in the study, unless special conditions indicated that a specific store's rate should be lower. At such times, the procedure was adjusted to reflect these special conditions. The detailed approach used in calculating the credit portion of this expense was as follows:

The store telephone directory was analyzed to determine the total number of extensions in use at the store. This total figure was then broken down between credit function phones (including those in the new account, collection, accounts receivable, bill adjustment and sales authorization areas), buyers' phones, sales floor phones and lastly, all other non-credit and non-selling phones as a group.

Because the main function served by the selling floor phones is customer sales authorizations, it was estimated that each selling department with more than one phone could get by with half the number of phones if the credit operation were discontinued. This approach resulted in the elimination of one-third of the total selling floor and buyer phones. These "eliminated" selling floor phones, together with the group of direct credit phones outlined above, were then related to the total store phones and the resulting percentage (which usually ran between 25% to 28%) was used to determine the telephone service charge assessed against credit.

This percentage was applied to the total telephone bill after deducting such non-credit telephone expenses as directory advertising, the cost of private lines not used for credit purposes, the cost of the telephone order board and its supporting equipment, the cost of tie lines used for merchandising and other non-credit purposes, etc.

<u>NOTE:</u> To verify the results of this approach, a comparison was made of two New York branch stores, both of approximately the same sales volume and floor space, one of which was strictly a cash operation while the other offered credit services. The cash operation store had a total of 75 phones in use while the credit store was using 110. This difference in phone usage was 35%.

Telephone order board salaries
Telephone switchboard salaries
Employee benefits on above salaries

Based on the number of incoming telephone calls and outgoing toll calls handled by the main switchboard operators for the credit operation, together with the numerous bill adjustment calls and inquiries handled by both the main switchboard and order board operators, an estimate was made of how many operators could be eliminated on each board if the above types of calls were eliminated. This number of equivalent operators was multiplied by the average annual telephone operators' salary to determine the charge against credit.

Telephone costs were assigned to new account costs, account servicing costs and account collection costs for presentation purposes, largely in proportion to the number of new account, account servicing and collection telephones in use in the store.

Taxes - Any tax applicable to the credit operation was charged to credit. Examples are: gross receipts taxes applicable to service charge income, and personal property taxes on the net asset value of equipment and furniture used in the credit operation. Taxes were included in account servicing costs for presentation purposes.

Insurance - Any insurance premiums paid on accounts receivable balances were included in account servicing costs.

Supplies and expenses:
Sales audit
Cash office
Paybill cashier
Mail service

In assigning these expenses to credit, the same percentages were used as were used in charging these departments' salaries to credit.

Direct selling supplies (sales books, etc.) - An estimate was obtained of the dollar value of sales books and credit books, etc., used to record credit sales transactions. An allowance was deducted therefrom to cover sales books needed to record cash-send sales. The net difference was charged to credit.

All of these supply costs are included in account servicing costs for presentation purposes, as is the next item, audit fees.

Audit fees - An estimated amount to cover the audit expenses associated with confirming accounts receivable balances, verifying allowances for doubtful accounts and other similar identifiable credit functions, was also charged to credit based on the estimated amount of time required by the auditors to perform these functions.

Attorney fees - The cost of any special legal fees associated with a specific credit function; for instance, any retainer fees paid to an attorney involved in the store's collection activities, was charged to credit costs. Such a cost would, of course, be charged to account collection costs.

Interest at 6% on accounts receivable investment:

The cost of the capital required to finance the investment in accounts receivable is an important cost of credit. Cost of capital is discussed at length in Schedule E of this appendix.

In the body of the exhibits a conservative 6% cost of capital rate was used. This cost was determined as follows: each participant's outstanding accounts receivable balance was determined as of the end of each month during the year. The twelve monthly balances for the fiscal year were totalled and an average monthly balance determined. The 6% rate was then applied to this average balance to arrive at "interest at 6% on accounts receivable investment".

Credit space costs:

Space costs were assigned to credit based on the assumption that if the credit function departments were not occupying space in the store, this space would be available for expanded selling, or sales supporting activities.

The method used to determine the amount of space cost chargeable to credit is as follows: The square footage of space occupied by "direct" credit departments (i.e., credit, collections, prebilling, billing and bill adjustment) was calculated for both the main store and any branch stores that had significant credit operations. Total usable floor space was then determined for each of these stores. Usable floor space included not only selling space, but also office, stockroom and receiving space, etc., if located within the applicable store. Other buildings containing no credit operation, such as warehouses and small branch stores, for example, were excluded from consideration. Credit floor space was then related to total floor space for each applicable store and a percentage determined. This figure was then applied to the total "occupancy" cost of the store and the dollar amount thereby determined was charged to the credit operation.

Included in occupancy costs were store rent, taxes, insurance and depreciation, as well as such housekeeping costs as utilities, maintenance and cleaning.

Depreciation - credit function equipment:

Depreciation on credit function office furniture and equipment is an additional cost of credit that has been included in the study. The approach used in determining this expense follows: An inventory was made of all owned furniture and office equipment used in the credit function. Included were such furniture as: desks, chairs, tables, file cabinets, etc., used in the "direct" credit departments (i.e., credit, collections, billing, prebilling, and bill adjustment), plus such equipment as: billing machines, customer account files, paybill validators, proof machines, mail inserting machines, postage meters for customer statements, graphatypes, speedaumat files, microfilm and other similar types of equipment. The price of each piece of equipment was then determined at its current market price or at the actual price paid for it by the store, if this information was readily available. Because many desks and chairs tended to be old, a conservative cost price was used for these items.

After each item was priced out, the total "gross asset value" was calculated, and the charge to credit determined by using a depreciation rate of 10% on the gross asset value.

Interest at 6% on investment in credit equipment:

The cost of capital invested in credit space and equipment, although comparatively small in amount, is also a cost of credit. A 6% rate was applied to the net asset value of credit space and equipment. These net asset values were determined as follows:

(a) Credit equipment - The relationship between the net and gross asset value of each store's total equipment, furniture and fixtures investment was determined as of the end of the study year. This percentage was then applied to the previously determined gross asset value of credit equipment. The resulting net asset value was multiplied by a 6% interest rate.

(b) Credit space - Where the credit activity was situated in an owned building, the net asset value of that building was determined as of the end of the study year. The portion of this investment attributable to credit was determined based on the relationship between the floor area used by credit and the total floor area available in the building. The charge to credit was then determined by applying the 6% rate to the credit operation's share of the investment.

If the credit activity was located in leased premises, of course, no interest on investment in credit space was determined. Rent expense was included in occupancy costs.

Additional salespersons' costs due to credit:

In most cases, more time is required for a salesperson to complete a credit sale than a cash sale because of the time required to: (1) prepare a credit sales check; and (2) to obtain credit authorization when it is in excess of the established "floor limit". On the other hand, the typical cash sale requires only a "throw-out" cash register tape. Therefore, if credit services were discontinued, it would be possible for the salespeople to provide the same customer sales coverage over a shorter period of time.

Because of the large volume of sales checks processed, the total potential time-savings are substantial. Further, in part because potential savings are heaviest in peak selling periods when stores generally use extra part-time help and handle a large share of their sales transactions, a significant portion of these potential savings could be realized as out-of-pocket savings if credit services were eliminated.

Included as additional salespersons' costs due to credit is only that portion of potential time savings that were estimated to be realizable if the credit function were eliminated. This proportion was determined to be 40% of the total potential time-savings. The basis for this 40% figure, together with the method used to establish total potential time-savings, are described below:

A. Method of determining the extra portion of sales peoples' time required to prepare credit sales checks:

1. The average ring-up and write-up time required to process a credit sale, including authorizing and sales check preparation time, was compared to the average ring-up time required to process a cash sale.

2. The extra time incurred in handling the credit sale was multiplied by the total number of credit sales transactions processed during the year.

3. The percentage of cash "send" transactions (including COD's) in relation to the total number of cash sales transactions was then determined.

4. The resulting percentage was then applied to the total time figure determined in Step 2. This gave the total time pertaining to send transactions that should be deducted from the total credit sales check preparation time. The final result is the extra time required to authorize credit sales and prepare credit sales checks.

5. This extra time was then multiplied by the average hourly salesperson's salary, including employee benefits. The resulting figure is the extra cost of the sales people's time that is consumed in preparing credit sales checks and in authorizing credit sales.

6. A 40% out-of-pocket cost factor was then applied to this figure to determine the amount to be charged to credit.

B. Method of calculating the out-of-pocket cost of sales peoples' time:

Total available selling time:

52 weeks less equivalent of one week of holidays = 51 weeks

51 weeks X 6 days per week X 8 hours per day = 2,448 hours

Period during which an out-of-pocket savings in salespersons' time is possible:

Christmas season	- 4 weeks at 8 hours per day	=	192 hours
	- extra weighting because of high proportion of transactions handled during Christmas period	=	192
Easter season	- 2 weeks at 8 hours per day	=	96
Special sales	- 1 week at 8 hours per day	=	48
Regular periods of business - (52 weeks, less one week of holidays and seven weeks covered separately above) - 44 weeks at 2 hours per day		=	528
			1,056 hours

Calculation of percentage used in reducing salespersons' time to an out-of-pocket cost.

$\frac{1,056}{2,448}$ = 43.1%   Actual percentage used - 40%

Management costs:

Costs included in this category represent the costs of services provided to the credit departments by various other service activities within the store. It is reasonable to assume that if these services were no longer required due to eliminating credit activities, the departments performing these services could either eliminate the costs related thereto or could provide additional services to other departments. The costs included in this category are listed below.

Controller's staff expenses, including salaries, employee benefits and miscellaneous supplies and expenses.

The portion of these expenses that is charged to credit was determined as follows:

A percentage was obtained by relating the portion of those salaries charged against credit for all departments under the responsibility of the controller, to the total salaries of all departments responding to the controller. This percentage was then applied to the above controller's staff expenses to obtain the applicable charge to credit.

General management expenses, including salaries, employee benefits, supplies, unclassified, travel, professional services, memberships, etc.

Included in this category are expenses of a general management nature. Excluded therefrom were any expenses that had been handled separately in the direct or related expense classifications (audit fees, for example), or those types of general expenses which would not logically include services to the credit function (i.e., store opening expenses or head office charges for centralized purchasing services).

The portion of these expenses that was charged to credit was determined by relating all of those salaries charged to credit under the "direct" and "related" classifications, plus the share of the controller's staff salaries charged to credit, to total store salaries. The resulting percentage (usually around 5% to 6%) was applied to the above general management expenses.

Supply department expenses, including salaries, employee benefits, supplies and miscellaneous expenses.

The distribution percentage used to break down these expenses between credit and non-credit costs was determined by relating those supply expenses charged to credit (under the direct and related classifications) to total store supply expenses.

Other expenses, including salaries, employee benefits, supplies, services and miscellaneous expenses for such service departments as the welfare, employment, medical, training and payroll departments.

The distribution percentage determined for general management expenses was used in charging these expenses to credit.

Other costs:

This category was used to assure recognition of the fact that costs in addition to those which could be specifically identified with the credit function are affected by the existence of credit in department stores. No amounts were shown in the study exhibits for such costs since they could not be ascertained with the requisite degree of accuracy for all study participants.

The data available for four study participants, however, did permit some estimates to be made of two of these other credit costs: (1) the costs incurred to handle the extra merchandise returns arising from credit operations; and (2) the costs of the extra deliveries arising from credit operations. These estimates are set forth on pages 11 and 12 of the report. The methodology employed in making these estimates is described below.

A. Method of determining the extra costs of customer returns on credit sales:

1. The total number of credit return sales transactions was determined for the year.

2. The percentage relationship between total cash (and COD) return transactions and total cash (and COD) sales transactions was then determined.

3. This percentage, determined in Step 2, was applied to the total number of credit sales transactions.

4. The figure derived in Step 3 was then deducted from the total number of credit return transactions as determined in Step 1. The resulting figure is the extra number of return credit transactions.

5. The extra number of return credit transactions was next multiplied by the estimated average time required to handle the return transaction. This time estimate includes the contact time with the customer, plus the time required to prepare a return sales check and to process the merchandise for remarking.

6. The resulting time figure was multiplied by the average hourly salary rate of the sales people, including employee benefits, to determine the extra cost of salespersons' time spent in handling returned merchandise. (If someone other than a salesperson handled this function, the procedure was adjusted accordingly.)

7. A share of the cost of the other departments involved in processing returns (except for the Delivery Department, which is handled separately) was also charged to extra credit return costs.

8. These "other department" extra credit return costs were determined as follows:

   (a) The extra number of credit return transactions was related to the total number of cash (including COD's) and credit return transactions.

   (b) The resulting percentage was then multiplied by the cost of operating the various "returned merchandise" departments, to give the amount of the extra costs that are chargeable to credit.

B. Method of determining the extra costs of delivery costs on credit sales:

1. A test was made of several days' sales transactions within a number of selling departments. These transactions were broken down between cash "takes" and "sends", and credit "takes" and "sends".

2. The percentage relationship of cash sends (including COD's) to total cash transactions was determined and applied to the total number of credit sales transactions in the sample.

3. The resulting "allowable" deliveries figure was deducted from the total number of credit deliveries in the sample to derive the extra deliveries due to credit.

4. This extra number of credit deliveries was related to the total number of cash and credit deliveries and a percentage developed.

5. This percentage was applied to the total "package" delivery costs to give the extra portion of delivery costs applicable to credit.

NOTE: The delivery costs applicable to bulk deliveries were not considered in this calculation as it was felt that bulk packages, because of their size, would have to be delivered regardless of whether they were sold on credit or for cash.

SCHEDULE D

BASES FOR ALLOCATING COSTS BY TYPE OF CREDIT ACCCOUNT

Although many stores had many of the necessary bases needed to allocate credit costs by account type readily available, it was frequently necessary to build up other bases from special tests or from other information that the store had available. Because of these difficulties, it was not always possible to use exactly the same allocation bases for every store. In all, there were about twelve major bases that were developed wherever possible. Following are these twelve bases - in order of their relative importance, together with a tabulation of the credit costs on which they were most frequently used:

Basis	Costs distributed thereby
(1) Average monthly balances of customer accounts receivable. (This basis was calculated by averaging the twelve monthly balances for the year 1961. The balances were shown gross before deducting sales to banks or the allowance for doubtful accounts.)	- Interest on accounts receivable balances. - Insurance on accounts receivable balances. - Audit fees.
(2) Number of customer statements produced by the Billing Department. (This basis included accounts with zero balances at the end of the month if there had been sales or payment activity, etc. in those accounts during the month. For stores that do not produce statements for their instalment customers, the number of active customers was used instead. This basis was also used to determine the number of active accounts for calculating unit costs. The number of active accounts is equal to one-twelfth of the number of statements produced annually.)	- Billing Department salaries and expenses. - Addressograph Department services. - Supply Purchasing Department salaries and expenses. - Charga-plate costs or services re: the changing of customer addresses. - Telephone salary and services for all account servicing functions.

Basis	Costs distributed thereby
(3) Number of billing postings made, excluding service charge postings. (This basis reflects the following types of postings made to a customer's statement or account - sales, sales returns, payments and miscellaneous adjustments.)	- Prebilling Department salaries and expenses. - Accounts receivable control differences.
(4) Number of billing posting made, including service charge postings.	- Bill Adjustment Department salaries and expenses. - Maintenance and repair of billing equipment.
(5) Number of new account applications accepted for processing. (This includes rejected applications if they were processed through the regular credit approval procedures. It also includes instalment "add-ons" if the "add-on" is processed through the regular credit approval procedures, but not if the "add-on" is only given a cursory credit inspection.)	- Credit investigation fees. - Credit Department "new account" salaries and expenses. - Postage on new account mail. - New account advertising and promotion expenses.
(6) Number of new accounts opened for the type of accounts using charga-plates. (Excludes new instalment accounts, etc. where charga-plates are not used.)	- Charga-plate costs or services re: the opening of new charga-plate accounts.
(7) Number of accounts in arrears (This basis represents the number of customer accounts that are delinquent enough to be subject to dunning. It is determined from the store's aging analysis of receivable balances.)	- Used to establish the number of dunning contacts made.

Basis	Costs distributed thereby
(8) Number of dunning contacts made. (This basis includes the number of "drop-in" and letter duns mailed out, as well as the number of personal interviews and phone duns made. Where this information is not directly available, duns can be estimated by relating the store's dunning policy to the number of accounts in arrears.)	- Collection Department salaries and expenses. - Postage on collection mail (use only the number of letter duns - not drop-ins.)
(9) Bad debt recoveries (dollars). (This basis is used only when a relatively large proportion of bad debt recoveries are made through agencies.)	- Collection agency fees.
(10) Number of customer statements mailed. (This basis is a refinement on the number of customer statements produced and is used, if available, when zero balance statements are not mailed to customers.)	- Postage on customer statements.
(11) Number of credit sales transactions processed. (In a number of cases estimates were made based upon the total number of postings, excluding service charges, less the number of payments received on account.)	- Sales Audit Department salaries and expenses. - Sales books and supplies. - Additional salespersons' costs due to credit.
(12) Number of customer payments received on account. (If not readily available, this basis can be closely estimated by reducing the number of statements mailed by the number of accounts in arrears - i.e., those accounts with payment missing.)	- Cash Office salaries and expenses. - Mail and messenger salaries and expenses.

23-902 O—64—pt. 2——55

In addition to the expenses mentioned above, there were a number of other major expenses requiring special handling. These expenses and the methods used to allocate them follow:

(A) Bad debt expense - The actual breakdown by type of account was usually available at the store.

(B) Employee benefits - The predetermined employee benefits rate (based on the relationship of total employee benefits to total store salaries) was applied to all credit function salaries after they were allocated by type of credit account.

(C) Management costs - These costs were allocated based on the cumulative total of all direct and related salaries after they had been segregated by type of account.

(D) Telephone expense - These costs were first allocated between new account, servicing of account and collection of account costs, based on the number of phone instruments used for each purpose. New account costs were then allocated by type of credit account, based on the number of new account applications accepted; servicing of account costs were allocated based on number of active accounts; collection account costs were allocated based on the number of dunning contacts made.

(E) Space costs - These costs were allocated based on the number of active accounts. Most of the space in the credit function area is occupied by the customer account files and billing equipment, each of which is mainly related to the number of active accounts.

(F) Depreciation on credit equipment - Depreciation on addressograph, mailroom and paybill equipment was allocated based on the number of customer statements produced. Depreciation on other equipment was allocated based on number of postings, largely because the major portion of this equipment, measured in dollar value, is made up of customer account files and billing machines.

(G) New account solicitation - This expense, covering the fees paid to outside agencies for obtaining new account applications, was allocated based on the actual number of new accounts solicited, if this information was available. If not available, the allocation was made based on applications accepted for processing. This approach was refined somewhat in that only those <u>types</u> of accounts actually solicited were included in the base. (e.g., If the agency was only authorized to solicit 30-day and revolving accounts, but not instalment accounts, then instalment account applications would be excluded in establishing the percentage allocation base.)

SCHEDULE E

OUTLINE OF COST OF CAPITAL CONCEPT

AND METHOD OF DETERMINATION

Often, because cost of capital is not completely akin to other costs with respect to the way in which the obligation must be met, it is overlooked and not considered a cost in evaluating business activities. However, the fact that it is an economic cost is widely recognized in knowledgeable circles including the Supreme Court of the United States.

Accordingly, the cost of the capital required to finance accounts receivable balances is a valid cost element which must be included in measuring the total cost of credit. The only real question centers about establishing the appropriate cost of capital rate.

It is typically impossible, except on an arbitrary basis, to identify particular capital investments with specific sources of capital. The costs of capital derived from different sources vary considerably, and using capital from any single source can influence the cost of capital available from other sources. Therefore, the cost of capital invested in a particular activity should represent the company's over-all average cost of capital.

To illustrate, if a department store finances a major investment in accounts receivable by means of long-term debt, it might be argued that the applicable cost of capital rate is the interest rate on the debt. However, as this transaction increases the proportionate amount of debt in the retailer's capital structure, it may well increase the cost of future debt financing or restrict the retailer's ability to utilize additional debt sources for any future near-term financing. As a result, further investment possibilities might require the use of higher cost equity capital. Therefore, the cost of the capital required to finance receivable balances is best measured in terms of the store's over-all average cost of capital.

Computing cost of capital:

While in theory there is some disagreement concerning how a company's over-all cost of capital should be measured, the following procedure embodies the thinking of a number of authorities on the problem: First, a projection of the company's capital structure over a five or ten-year period is made. Additionally, a projection of the company's average interest rate on long-term debt is made, together with a projection of dividend rates on the company's preferred stock. Lastly, an estimate is made of the ratio of anticipated earnings per share of common stock to the stock's current price. This estimate should be made over a relatively long term, say five or ten years.

Once the capital structure has been projected and the cost of each type of capital estimated, the company's average cost of capital is computed by striking a weighted average cost of capital. For example, assume that a department store has the following capital structure - which is typical of a major department store chain - 15% long-term debt, 5% preferred stock, and 80% common equity. The company projects a 5% average interest rate on long-term debt; dividends on preferred stock are estimated to average 6%. Collective investor expectations are for corporate after tax earnings per common share over the next several years to approximate 10% of the stock's current price. In the manner illustrated below, the company's weighted average cost of capital from the investor viewpoint, is computed to be 9.05%.

	Capital structure	Cost of capital investor viewpoint		Pre-tax cost of capital*	
		Separate	Weighted	Separate	Weighted
Long-term debt	15%	5%	.75%	5%	.75%
Preferred stock	5	6	.30	12	.60
Common equity	80	10	8.00	20	16.00
	100%				
Weighted average cost of capital			9.05%		17.35%

* These rates are based on an assumed corporate income tax rate of 50%.

The 9.05% cost of capital from the investor viewpoint is equivalent to a 17.35% company cost of capital. Because of corporate income taxes (assumed to be 50%) the company must earn at a rate of 12% on its preferred stock and 20% on its common equity to provide the required investor returns of 6% and 10%, respectively. As debt interest is a deductible expense for income tax purposes, the company must earn at only a 5% rate to meet debt investor requirements. The following tabulations illustrate these cost of capital relationships.

Table I shows a hypothetical profit and loss statement while Table II analyzes these profits in terms of capital sources and cost of capital rates. The numbers used relate to the above cost of capital computation.

Table I

Profit and Loss Statement

Income before interest and income taxes	$173,500
Less interest on long-term debt	7,500
Income before income taxes	$166,000
Less income taxes at 50%	83,000
Net income after taxes	$ 83,000
Less preferred stock dividend	3,000
Common equity share of earnings	$ 80,000

Table II

Analysis of Capital and Cost of Capital by Source

Source of capital	Amount	Investor cost of capital rates	Distribution of earnings among investors	Income taxes	Company's pre-tax cost of capital requirements	Company pre-tax cost of capital rates
Long-term debt	$ 150,000	5%	$ 7,500	$ -	$ 7,500	5%
Preferred stock	50,000	6	3,000	3,000	6,000	12
Common equity	800,000	10	80,000	80,000	160,000	20
Total capital	$1,000,000					
Income after taxes, but before interest and dividends			$90,500			
Income taxes (at a tax rate of 50%)				$83,000		
Income before interest and income taxes					$173,500	
Weighted cost of capital rates			9.05%		17.35%	

Study costs of capital:

In a practical sense, a host of assumptions underlie the derivation of the 17.35% cost of capital computed in the above example. For example, a number of assumptions surround the determination of the 10% cost of common equity from the investor viewpoint. It is extremely difficult to determine investor expectations concerning future earnings/price relationships with precision.

Fortunately, a certain degree of imprecision in computing cost of capital does not destroy the usefulness of the computed rate. For example, if an investor cost of common equity capital as low as 8% were used in the above illustration, the retailer's average cost of capital would become 14.15% rather than 17.35%. This rate is still materially above the 6% cost of capital used in the body of study exhibits.

Obviously, a 6% rate is a very conservative average cost of capital. To portray the effects upon credit costs of using more realistic rates, supplemental data are shown on the exhibits depicting the "excess (deficiency) of revenue over costs" of using costs of capital of 9%, 12% and 15%.

AMERICAN BAR FOUNDATION,
Chicago, Ill., February 19, 1964.

Hon. WALLACE F. BENNETT,
Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR SENATOR BENNETT: The American Bar Foundation has, during the past 2 years, been conducting a study of statutory materials relating to consumer credit. In this study, we have collected and reviewed all of the existing legislation, both State and Federal, regulating consumer credit arrangements and the process out of which such arrangements arise. We have recently completed the drafting of a manuscript which describes these statutory materials and sets forth conclusions which may be drawn from a review of such materials. Publication and distribution of the manuscript will be made only after the research committee of the bar foundation reviews and approves the manuscript. It is expected that the committee will, in its mid-March meeting, review, discuss, and possibly act upon the manuscript. Publication would follow within approximately 8 months after committee approval.

In May of 1962, the foundation prepared a prospectus in which the broad outlines of a general program for research in consumer credit laws were described. The work described above represents the first phase of the study as described in the prospectus. We are planning to amend the aforementioned prospectus within the next few months to more carefully delimit the next phase of consumer credit research now being considered by the bar foundation. In this second phase and subject of course to the approval of the bar foundation board of directors and research committee, we shall engage in empirical research for the purpose of studying the effect of the absence or presence of selected types of statutory controls on particular phases of the consumer credit process.

Very truly yours,

BARBARA A. CURRAN,
Research Attorney.

AMERICAN BAR ASSOCIATION,
Chicago, Ill., April 11, 1963.

Hon. WALLACE F. BENNETT,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BENNETT: Pursuant to your request for information on the status of the consumer credit project of the American Bar Association, I am enclosing the foundation's prospectus of the study, and a copy of a letter from Miss Curran, the research attorney for the project.

The overall study itself will be most comprehensive, and, in its entirety, will take an indeterminate time to complete. The purpose of the study is to provide thorough and up-to-date information on the entire consumer credit field so that responsible judgments may be made as to whether any kind of legislation should be enacted.

The first phrase of the report is the compilation and review of all consumer credit legislation presently on the books. As Miss Curran's letter states, this compilation should be completed by early summer. At that time, a determination will be made as to where the foundation will proceed in this broad field.

Very truly yours,

LOWELL R. BECK,
Assistant Director, Washington Office.

AMERICAN BAR FOUNDATION,
Chicago, Ill., March 29, 1963.

LOWELL R. BECK, Esq.,
Washington, D.C.

DEAR MR. BECK: Pursuant to our telephone conversation of yesterday afternoon, I am enclosing two copies of the prospectus for our consumer credit project. You will notice that the prospectus includes a brief review of consumer credit arrangements and their regulation, an outline of the program for research, and a description of the estimated staff requirements and time schedule. I think you will find you are primarily interested in part II of the prospectus entitled "Program for Study of Consumer Credit." This part describes the objectives of the study, the scope of the study, and the nature of the research contemplated.

I would like to mention that this prospectus was completed in May 1962 and that the brief review of consumer credit arrangements set forth in part I has not been brought up to date.

At the present time we are engaged in the first phase of the study program. For the past several months we have been compiling and reviewing legislative material relating to consumer credit including retail installment sales acts; small loan laws; interest and usury status; credit insurance legislation; legislation relating to industrial loan companies, savings and loan associations, credit unions, and pawnbrokers; credit insurance legislation; installment loan legislation; materials relating to debt pooling, wage assignments and wage garnishments; as well as chapter XIII of the Bankruptcy Act. In the course of our study of this material we have been comparing similar statutes in different jurisdictions to determine in what respects they differ and in what respects they are alike. In addition, we have been seeking to determine the trend and comprehensiveness of legislation. Our primary goal in undertaking this phase of the project is to furnish ourselves with the basic materials necessary to make decisions about the nature and scope of field studies that we ultimately plan to undertake. We do, however, plan to make available on a general basis a monograph covering the analysis and evaluations we make on the basis of our study of the statutory materials. We expect that the monograph will be ready by the early summer.

If after you have reviewed the prospectus you have any questions or comments, please let me know. I shall be glad to furnish you with any additional information you may require or to expand on any of the points set forth in the prospectus or in this letter.

Very truly yours,

BARBARA A. CURRAN, *Research Attorney.*

AMERICAN BAR FOUNDATION

CONSUMER CREDIT PROJECT

I. Brief Review of Consumer Credit Arrangements and Their Regulation
II. Program for Study of Consumer Credit
III. Estimated Staff Requirements and Time Schedule

May, 1962

A BRIEF REVIEW OF CONSUMER CREDIT ARRANGEMENTS AND THEIR REGULATION

As of December 31, 1961, outstanding consumer credit in the United States was equal to $57,139,000,000. The size of this figure in and of itself makes apparent that consumer credit is a substantial and significant factor in the economy of this country. The above figure represents the aggregate outstanding indebtedness incurred by individual persons for the purpose of acquiring goods and services to be used in maintaining, enhancing or attaining a particular standard of living for themselves and their families. $43,163,000,000 or about 80% of the above figure represents instalment credit, that is, debts repayable by consumers in substantially equal amounts over a specified period of time. Credit for purchase of automobiles and other high cost durable goods (such as furniture and household appliances), for repair and modernization of property, and for the consolidation of existing debts is usually extended on the basis that repayment will be made in instalments. Non-instalment credit, including thirty-day charge accounts, credit extended for services performed (e.g., for physicians' fees), and single payment loans, was equal to $13,976,000,000 as of December 31st.

Who are the people who avail themselves of consumer credit? For what purposes do they seek credit? What institutions make consumer credit available? What are the different types of consumer credit arrangements made available by such institutions? In what respects do credit arrangements made available by different institutions differ and in what respects are they similar? In what ways are consumer credit institutions and consumer credit arrangements regulated by state legislation? What is the purpose of such legislation; in what ways does it fulfill its purpose; and in what ways is it inadequate? The above questions will be discussed on the following pages in a most general way. At best such a review can touch upon major points only in a cursory way. The danger in such a summary lies in the fact that it tends not only to make the entire subject matter appear one-dimensional but also to oversimplify the nature and complexity of the problems involved. However, it seems, in spite of the disadvantages inherent in covering such a complex subject matter in such a general and brief way, that this summary would be useful in orienting the reader preliminary to his review of the program for study hereinafter set forth.

Identity of the Consumer

The social, economic, and political forces present in our society during the past fifty years have provided a favorable environment for the increase of interest in, and acceptance of, consumer credit, both by potential consumer-debtors and by potential suppliers of credit. The income of the average American has become such that his purchasing power exceeds that required for subsistence level food, shelter, and clothing. He thus has available to him funds from which he may purchase goods and services which are not, strictly speaking, necessary for preservation of life and health. The industrialization of the society and the production of goods on a mass basis has, in addition, provided reasonably stable employment for large numbers of people. By the same token, mass production has made available to these very people goods and services at a cost that is within their buying power. As a result, the average consumer is placed in the position where he can reasonably expect to have sufficient income in the long run to enable him to acquire goods and services which represent something other than necessitous purchases. Potential creditors can, because of the level of income and the stability of employment, reasonably expect that advances of credit made to such consumers for such goods and services will be repaid.

A consumer may, if he wants to acquire particular goods and services, pay cash for them and thereby acquire ownership in, and enjoyment of, such items immediately upon deciding that he wants them. This presupposes that he has the resources available to make cash purchases. Studies tend to show, however, that the need and desire for a number of high-cost consumer goods and services arise for many consumers at a time when their cash resources are insufficient to pay for them. In many cases it is the young married couple that feels the greatest need for a house, washer, television set, or car. A study in 1961 (made by the Bureau of Business Research at the University of Michigan) has shown that small loan borrowers clustered in the following manner:

(1) 55% of the borrowers were 21 to 40 years of age and 75% of the borrowers were 21 to 50 years of age;

(2) 81% of the borrowers were married; only 19% were single;

(3) 62% of the borrowers' annual income fell between $3600 and $6000; 21% of the borrowers had a yearly income in excess of $6000.

It should be noted that the above figures are based on a study of the characteristics of borrowers from small loan companies. Yearly income figures would probably be somewhat higher for other types of consumer debt. Other studies tend to show that the educational and social characteristics of the consumers have more effect on the type of consumer product that is acquired on a credit basis rather than the degree or incidence of use of consumer credit.

Uses of Consumer Credit

Consumer credit represents an alternative either to (a) paying cash out of current savings or (b), in the absence of savings, postponement of use and enjoyment of goods or services until resources can be accumulated. Through the use of consumer credit the individual can acquire present enjoyment of goods and services, but not necessarily ownership or title, and pay for these items as well as acquire absolute ownership of them out of future income.

Consumer credit is used by consumers for

(1) Purchase of high-cost goods, such as automobiles, home furnishings, boats, and other durable goods; purchase of lower priced items such as clothing and food;

(2) Purchase of services, such as rental of automobile, physician and dentist care, funerals, hospital care, hotel accommodations, meals;

(3) Repair and modernization of homes;

(4) Purchase of residential real estate;

(5) Consolidation of outstanding debts or payment of one outstanding debt;

(6) Travel;

(7) Education.

Consumer debt may be assumed by the individual for the purpose of paying for emergency needs or expenditures. Sometimes a consumer is faced not merely with the choice between enjoyment of goods or services now or at a later date but with an emergency situation in which he must obtain funds to finance the payment for services or goods which he requires immediately. Unexpected medical fees, funeral expenses, hospital charges represent outlays with respect to which the individual consumer has no practical choice. Borrowing, or otherwise obtaining credit for such services, would be considered necessitous or emergency borrowing. On the other hand, enjoyment of, or use of, a car or television set or taking a trip to Bermuda can be postponed by the consumer if he so elects. His decision to obtain credit to finance the payment for such services or goods is a voluntary act involving one of two alternatives. Theoretically at least, he could forego enjoyment of such goods or services until he had saved the required money to pay for them. It should also be noted, however, that the standard of living of the community generally and of the group to which a particular consumer belongs may have made some services and goods, which technically can be classified as luxuries, necessities for members of that particular community or society. Consequently, forbearance by a particular individual from use or enjoyment of such goods or services may involve something more than just a postponement of enjoyment of non-necessitous items.

Credit Institutions

Since the beginning of the twentieth century the volume of consumer debt has steadily increased. During the period commencing in 1916 and ending in 1959, consumer debt (including residential mortgage debt) increased from $6.25 billion to $187 billion. Consumer instalment debt was less than $1 billion at the end of World War I; at the end of 1959 it was $40 billion. During the same period a similar increase in the number and types of institutions which participate in the consumer credit market also took place. Institutions currently engaged in consumer credit financing include commercial banks; savings and loan associations; credit unions; industrial loan companies (Morris Plan banks); small loan companies; retailers, including, but not limited to automobile dealers, department stores, specialty stores, mail order houses and gasoline companies; sales finance companies; and pawnbrokers. The share of each of these institutions in the total market differs and constantly changes. In 1959 the total instalment credit outstanding was $34,029,000,000. Of this amount almost $13 billion was held by commercial banks, $8,733,000,000 was held by sales finance companies, $2,647,000,000 was held by credit unions, $3,380,000,000 by consumer finance companies, $1,510,000,000 by other financial institutions, and $4,851,000,000 by retail outlets including furniture stores, department stores, household appliance stores, automobile dealers and others.

Prior to the twentieth century, credit for consumer goods or services was not generally available to the individual wage earner. With the growth of the factory and the wage system, individual lenders did begin to make credit available to wage earners. However financial institutions such as commercial banks did not generally make loans to individual consumers. Such institutions could profitably invest their resources in loans for commercial productive enterprises. Other business organizations which might have been willing to enter the field of consumer credit found it economically not feasible because most usury laws then on the books established maximum contract rates of interest which were insufficient to cover the high cost of making numerous small loans repayable on an instalment basis. Individuals in need of credit therefore looked to those who were willing to make loans to them at illegal rates. Such illegal lenders charged exorbitant rates and used unscrupulous collection methods. It was often the case that once an individual became indebted to one of these "loan sharks" he found he could barely manage to keep up interest payments, let alone pay off the principal amount of the loan. Refinancing loans at exorbitant rates was standard practice. Prompted by the plight of the necessitous borrower, the Russell Sage Foundation in the early 1900's sponsored extensive studies in the field of small loans and in 1916 published a uniform small loan law (the first of seven drafts). The uniform law permitted rates of interest in excess of the maximum permitted by usury statutes to be charged for instalment loans made to consumers by lenders licensed by appropriate state agencies under the small loan law. Since 1915, the uniform law, or laws similar to it, have been enacted in most jurisdictions. It is under, and by virtue of, these laws that the small loan companies (sometimes called personal loan companies or consumer finance companies) were created and still operate in the field of consumer instalment credit. Small loan companies in 1959 held about 10% of the consumer instalment debt then outstanding. There are currently a few organizations such as the Household Finance Corporation and the Beneficial Finance Company which operate on a nationwide basis and many independent small loan companies which operate on a purely local basis.

Pawnbrokers have historically engaged in consumer credit of a limited type. Evidence shows, however, that the absolute numbers of pawnbrokers have decreased in recent times and that their participation in the consumer credit market is very small and limited in scope.

In 1910 Arthur J. Morris created the Morris Plan which was a method of extending instalment credit to individuals at effective interest rates in excess of that permitted under usury statutes. Under the Morris Plan, an individual borrowed money for a specified period such as one year at the maximum legal rate of interest. The interest was deducted in advance from the face amount of the loan. In connection with this but as a separate transaction the individual made monthly deposits in an account with the lender during the period of the loan. The amount of each deposit was such that the total made during the term of the loan would equal the amount necessary to pay off the loan when it matured. Morris Plan banks, or industrial banks, participated to a greater extent in the consumer credit market in the 1920's and 1930's than in recent years. The relative share of such banks in the market has lessened partly because of competition and partly because of attrition due to the fact that many such banks, initially organized as industrial banks, subsequently became chartered as commercial banks.

Savings and loan associations were in existence as early as 1830. These institutions have historically engaged in the financing of home building. They may be chartered either under state statutes or under the Federal Savings and Loan Act of 1933.

Credit unions which currently may be chartered either under state or federal legislation were first organized in this country in the early 1900's. Credit unions are associations of consumers, some of whom save funds with the organization for the purpose of investment and some of whom borrow funds from the association to meet individual needs. The growth of credit unions and their increased participation in the consumer credit market has been steady and substantial since the Federal Credit Union Act of 1934 was enacted. In 1939 credit unions accounted for $132 million of consumer instalment credit or a little less than a 3% share in the total consumer instalment credit outstanding at that time. In December 1959, credit unions held $3,232,000,000 of consumer instalment credit or shared in a little over 8% of the market.

Commercial banks were historically reluctant to participate in the consumer credit market with the exception of mortgage loans on residences. One of the first personal loan departments established by any commercial bank was established by the First National City Bank in New York in 1928. During the 1930's, the number of business borrowers decreased. Banks had funds available for investment but the sources for investment were limited. It was then that the banks turned to consumer loans as a means of investment. Since that time, and particularly since the Second World War, the participation of banks in all phases of consumer credit has grown. Today banks participate in almost all phases of consumer credit activity. Banks make instalment loans, either secured or unsecured, to individual consumers for all kinds of consumer purposes including purchase of goods and services and payment of debts. Banks also purchase instalment sales paper from retailers including, but not limited to, automobile dealers, department stores and airlines. Finally, banks have recently experimented with novel types of revolving credit arrangements with consumers such as check credit and charge credit (described more fully hereinafter).

The first sales finance companies in the United States were established in the second decade of the twentieth century for the primary purpose of financing the purchase of automobiles. These early sales finance companies included General Motors Acceptance Corporation, a subsidiary of General Motors established in 1919; Commercial Investment Trust established in 1924; and Commercial Credit Company established in 1912. By 1920 there were 120 sales finance companies; by 1925, 1600; and by 1952, 2,720. In 1950 90% of sales financing volume was handled by 500 companies and 75% by 100 companies. The aforementioned companies are the three largest national sales finance companies. The participation of sales finance companies has not, however, been limited to automobile financing. Today sales finance companies purchase consumer instalment paper acquired by sellers for many kinds of goods and services. It is interesting to note that in December, 1959, sales finance companies held $10,149,000,000 of instalment credit or almost 30% of the total consumer instalment credit outstanding at that time. Commercial banks were the only credit institutions which held a greater volume of consumer instalment at that time, i.e., $14,992,000,000 or almost 40% of the total consumer instalment credit outstanding.

Sales finance companies do not engage in any form of direct lending or granting of credit to consumers. Rather, the retail seller enters into the credit arrangement with the consumer at the time the consumer purchases the goods. Thereafter, the seller assigns or otherwise transfers his interest as creditor to a sales finance company. Thus sales finance company dealings with the consumer arise after the contract negotiations have been completed and at the time payments by the consumer become due. However, it is generally recognized that sales finance companies exert a substantial influence on sellers with respect to the nature, content, and form of the instruments used and the pattern of negotiations followed by sellers when they work out instalment credit arrangements with customers.

Most small retail sellers assign or otherwise dispose of their accounts receivable with sales finance companies. Some of the larger retail sellers such as Sears Roebuck have subsidiary corporations which engage in sales financing (e.g. Sears Acceptance Corporation). A small percentage of retailers do not transfer their consumer credit paper to third parties. Most retail sellers do not have the resources to engage in long term consumer financing arrangements whereas they can afford to deal in short term thirty-day charge accounts. In any event, practically all retailers engage in consumer credit operations to the extent that they make available to the buyer on their premises consumer credit arrangements and handle the negotiation of the instalment contract with the buyer even though they may ultimately transfer their interest in such contracts to either a bank or a sales finance company. In 1959 retail outlets held $5,644,000,000 of instalment credit or about 12% of the total consumer instalment credit outstanding.

Types of Consumer Credit Arrangements

There are numerous types of credit arrangements available to the consumer today. In some cases credit arrangements which are classified by credit institutions, by courts, by state legislatures, and even by some economists as different types of arrangements having different legal and technical implications for both credit institutions and consumers seem in practical effect, for the consumer at least, to be very much the same. On the other hand, proprietary names given by particular credit institutions to certain kinds of arrangements tend to indicate that these plans are substantially different from any other plans available. It is small wonder then that the average consumer finds it difficult to distinguish between consumer credit arrangements available to him and thereby sometimes fails to evaluate properly what typ of credit arrangement is best suited for his needs and financial abilities in a given situation.

The development and establishment from time to time of new credit arrangements has, for the most part, been a matter of creating new arrangements for needs not completely satisfied by existing arrangements. In addition, the characteristics of new arrangements have been generally determined by customs and usages of the credit institutions which establish the particular new arrangements. Pattern or unity in design has, for the most part, been disregarded in the development of credit arrangements and specific arrangements offered by a particular credit institution have tended to take on characteristics peculiar to the type of arrangement such credit institution generally engages in. Consequently, credit arrangements offered by different credit institutions appear, upon superficial appraisal, to be dissimilar not only in form but in substance and function; whereas a study of such arrangements which takes into consideration both the historical context of their creation and development and the credit function they perform tends to show that basic similarities in substance and function do exist to some degree among all such arrangements and that such similarities do exist in a marked degree for particular arrangements.

Credit arrangements may be classified as two basic types: vendor credit and lender credit. Lender credit is that type of arrangement in which cash or credit is extended to the consumer in return for his promise to repay. Interest may be charged and the debt may be secured by some security interest. The entire transaction consists of the granting of credit or the payment of cash without, technically at least, any regard to the use to which the credit granted will be put by the borrower. A loan of a flat cash amount by a bank to a consumer in return for the consumer's promise to repay the amount borrowed plus interest in equal instalments over a specified period of time constitutes lender credit. Vendor credit is credit which is tied to a sale of goods. That is, credit is extended to an individual by a seller of goods for the sole purpose of permitting the buyer to take delivery of the goods at the time of the sale without paying the cash price of the goods to the seller-creditor at that time. Accordingly, for our purposes, we shall define vendor credit as credit extended by an institution primarily engaged in the sale of goods or services for the purpose of enabling the buyer to receive goods or services at the present time in return for the buyer's promise to pay cash for the goods or services at some future time. Lender credit will be used to mean the extension of credit by a business organization, other than a seller of goods or a purveyor of services, for the purpose of making cash or credit available to an individual for any purpose or for a specific purpose (including the purchase of goods from a seller) in return for the promise by that individual to repay the amount loaned at some future date.

Lender Credit. Lender credit may be classified as (a) non-instalment credit, i.e., loan repayable in a lump sum and (b) instalment credit, i.e., loan repayable in instalments. The major portion of consumer lender credit is of the instalment type. Non-instalment credit includes but is not limited to short term bank loans secured by savings passbooks or other collateral and loans made on insurance policies. Instalment credit will be our main concern. Instalment lender credit includes:

(1) Lump sum loans made by banks. Such loans may be secured or unsecured. The interest may be computed in advance and deducted from the face amount of the loan. In such a case the cash amount received by the borrower is the face amount of the loan less precomputed interest. On the other hand, the interest may be computed in advance but not deducted from the cash amount paid to the borrower. In any event, the loan is repayable by the borrower generally in substantially equal instalments over a specified period of time. Instalments cover principal and interest. Instalment loan arrangements may be repayable over as long a period as three years for purchase of automobiles or five years for repair and modernization loans or for longer periods for tuition loans.

(2) Lump sum loans made by industrial banks (i.e., Morris Plan banks). Industrial banks make cash loans repayable in instalments. The interest is generally precomputed and discounted from the face of the note. The full amount of the loan plus interest is due and payable as of the maturity date specified in the note. At the same time that the note is executed, the borrower arranges to deposit in a special account with the bank (on some periodical basis) specified amounts the total of which will equal by the date of maturity of the note the amount of the loan plus the precomputed interest. Sometimes an additional fee for services (for example, 2% of the amount of the loan) may also be charged where permitted by law.

(3) Lump sum loans made by credit unions. Lump sum loans made by credit unions may be secured or unsecured. Loans are made to members of the union. The borrower receives a lump sum cash amount which is repayable in instalments. Interest is computed monthly on the basis of the outstanding descending balance. Instalment payments include both principal and interest.

(4) Lump sum loans made by savings and loan associations. Loans made by savings and loan associations are generally extended for the purchase of real estate or for the modernization or repair of residences. Such loans are repayable in instalments and are usually secured.

(5) Lump sum loans made by small loan companies. Lump sum loans repayable in instalments are made by small loan companies either on a secured or unsecured basis. The calculation of interest and method of repayment are fully regulated by statute. Statutes establish a maximum interest rate computed on a monthly basis on the amount of the declining balance as in the case of credit unions. However in some jurisdictions interest may be precomputed and added to the principal for the purpose of calculating equal monthly instalments in advance. The difference between these two approaches becomes significant when the borrower anticipates his payments. In general, the loan is more costly for the borrower who prepays at an early date if the interest has been precomputed than if it is computed on a month to month basis on the then outstanding balance.

The difference in treatment of the loans described above can be traced to their origins. Banks customarily dealt in terms of interest quoted on an annual basis and sometimes discounted in advance. Special legislation was often not needed for them to enter into the instalment loan field. Small loan legislation, as well as credit union legislation, were consumer oriented. It was felt that the borrower would be more aware of the cost of credit to him if rates were quoted on a per cent per month basis.

Other kinds of lender instalment credit arrangements offered by banks include:

(1) Charge credit plans. Even though charge credit plans vary in specifics from bank to bank, certain general characteristics are present in all such plans. The bank enters into an arrangement whereby the bank extends to the consumer a credit in specified retail stores, but not cash, up to an appropriate maximum determined by the bank. Under the arrangement, the consumer can purchase goods in such stores on credit and the bank pays the retailers for purchases made. The bank bills the consumer periodically, usually once a month, for payments made by the bank for purchases made by the consumer. If the consumer pays all charges within thirty days from the billing date, no interest is charged to him. If the consumer takes longer than thirty days to pay in full, he is required to pay a specified interest charge on the amounts which are outstanding on his account with the bank for more than thirty days. Generally, the bank requires a minimum monthly instalment based on the amount of the credit then outstanding or as agreed between the bank and the consumer at the time the arrangement was negotiated. The bank also makes arrangements in advance with the retail stores at which the bank's charge credit arrangement will be honored. The retailers, of course, compensate the bank for its administration of the charge credit service. From the viewpoint of the consumer, the arrangement is much the same as the charge credit accounts made available to him by large retailers. The only difference, from his point of view, is that he pays the bank instead of the store.

(2) Check credit plans. Check credit plans are revolving credit arrangements whereby the consumer and bank agree upon a maximum amount of credit which will be established for the consumer at the bank. No cash is paid by the bank to the consumer at the time negotiations are completed. Instead the consumer is entitled to draw on such credit by writing a check in any amount above a specified minimum and no greater than the maximum amount of credit extended. When the check is paid by the bank, the consumer becomes indebted to the bank for that amount. The consumer may draw additional checks from time to time as long as his outstanding debt together with the amount of the new check drawn do not exceed the aggregate credit authorized under the initial arrangement. Repayment is made by the consumer in monthly instalments. The amount of monthly instalments will be established at the time the arrangement is negotiated and may be a specified amount or may be based at all times on the then outstanding balance. Instalments include interest which may be computed monthly on the outstanding balance. Generally, a handling fee (e.g. $.25) is charged for each check drawn.

Vendor Credit. With the exception of charge credit plans, the loans described above may be made for a variety of purposes: purchase of a home; repair and modernization of a home; payment of educational expenses; travel; purchase of an automobile, boat, household appliances; consolidation of bills; payment of emergency expenses such as fees for doctor's care; or payment for myriad consumer expenses. Vendor credit is specialized to the purchase of goods that a particular vendor sells or to services a particular vendor furnishes.

(1) Short term vendor credit. Vendor credit represents the major portion of non-instalment consumer credit. In 1959, short term vendor credit accounted for approximately two-thirds of non-instalment consumer credit then outstanding. Non-instalment vendor credit is short term credit and consists of two types: charge accounts and service credit. Retail sellers and service organizations generally extend credit to consumers for purchase of goods and services respectively for thirty days, more or less, without making a finance charge therefor. Most credit cards or charge plates issued by retail sellers such as department stores, gasoline companies, or transportation companies represent thirty-day charge accounts. Most vendors will impose a credit charge or otherwise convert charge accounts into instalment accounts if accounts are not paid in full thirty to ninety days from the billing date.

Credit arrangements provided under plans such as Diners credit cards, Carte Blanche, and American Express are also short term credit. It is not entirely accurate to classify these arrangements as vendor credit since the credit arrangement is between the consumer and an intermediary organization which makes payment to the vendor. The arrangement is similar to charge credit arrangements provided by banks. However, in the latter case, repayment may be on a long term instalment basis whereas generally, the former type of arrangements are short term.

The second type of short term vendor credit, i.e., service credit, is that provided by those vendors who "sell" a service, for example, doctors, dentists, repairmen, hospitals. In general, a service is performed for the consumer and then the consumer is billed for the service and is required to make payment immediately or within a specified number of days after the receipt of the bill. No finance or credit charge is made or specified for the short term extension of credit of this type.

(2) Long term vendor credit. Long term vendor credit is made available by retail sellers such as automobile dealers, department stores, mail order houses, furniture stores, appliance stores, boat dealers and other sellers of high cost durable goods. Such credit arrangements are of two types. One is the credit arrangement which covers the payment for one item purchased, e.g. the retail instalment contract for the purchase of an automobile. The other is the credit arrangement whereby subsequent purchases made by the consumer are added from time to time to the original retail instalment arrangement. The first will be referred to hereinafter as the "one item instalment arrangement" and the second as the "add-on instalment arrangement."

Under the "one item instalment arrangement" the vendor agrees to deliver to the consumer the item purchased in return for the consumer's promise to pay the purchase price (plus an appropriate finance charge) in instalments to the vendor. The vendor may or may not retain a security interest in the item purchased. The vendor and consumer will agree on a purchase price plus a specified finance charge to cover the period during which payments are to be made. The total amount of the price and finance charge is then divided by the number of payments the consumer agrees to make. For example, if the consumer is purchasing an automobile for $2,000 and is to pay for it in monthly instalments over a period of one year, the total finance charge might be $200. Thus, the consumer would pay $2,200 divided by 12 or $183.33 per month to the vendor. If the consumer is permitted to pay all or some instalments prior to their due date, an appropriate adjustment in the finance rate may be made. By the same token, if the consumer fails to make timely payment of one or more instalments a delinquency charge may be made.

In some cases of "one item instalment arrangements" the finance charge is computed on the basis of a fixed percentage of the descending outstanding balance. For example, a consumer might purchase a sofa for $500. The finance charge could be 1% per month on the outstanding balance as of the consumer's billing date. Usually, a minimum monthly payment is required of the consumer. The instalment paid in any one month will cover the finance charge f that month and the balance will be applied to principal balance outstan In this example, the finance charge for the first month would be $5 (1% of $500). If the consumer paid $55, then his outstanding balance for the second month would $450 ($50 of the instalment is applied to principal and $5 to finance charge). His finance charge for the second month would be $4.50. This type of arrangement gives the consumer a great deal of flexibility in payment but results in a great deal of administrative work for the vendor. Generally, vendors even when they use a finance charge based on per cent per month of outstanding balance precompute instalments and handle the whole arrangement in a manner similar to that described in the preceding paragraph.

"Add-on instalment arrangements," which are merely extensions of the "one-item instalment arrangements" described above, are used extensively by retail sellers such as department stores. The advantage to the retailer and, in some respects, to the consumer of such arrangements is that it encourages the consumer to continue to make purchases even though the first purchase has not been paid for in full. The details of such plans vary but they are basically the same in that the consumer enters into the instalment arrangement at the time that the initial purchase is made and the cost of subsequent purchases is merely added to the unpaid balance outstanding under the contract at the time the subsequent purchase is made. The desire for flexibility and ease for the consumer in making additional purchases and for efficient clerical administration for the seller have resulted in experimentation with different types of add-on plans including:

Plan #1. Amount of instalments and maximum outstanding balance are established at the time of initial purchase. Subsequent purchases by consumer can be made only when unpaid balance is less than maximum and then only to the extent of maximum.

Plan #2. Neither the amount of instalments nor maximum outstanding balance are established at the time of initial purchase. The minimum amount of instalments due are at all times determined by the then unpaid balance. The consumer determines the amount of any instalment due from a chart in the contract showing the minimum amount of instalment for the unpaid balance then outstanding. (Note: retailer will unilaterally establish a maximum debt that will be authorized for any individual consumer.)

Plan #3. This arrangement is a combination of short term thirty-day charge and Plan #2. The consumer can pay in full within thirty days of purchase and no service charge is made; otherwise he pays on instalments as per Plan #2.

Plan #4. Under this arrangement the consumer purchases a book of merchandise certificates which he pays for in instalments. A service charge is included in each instalment.

He receives delivery of these certificates at the time he enters into the arrangement. The merchandise certificates are redeemable at any time in seller's store for goods.

As indicated earlier, many vendors assign, or otherwise transfer, their interests in instalment paper to commercial banks and sales finance companies. Almost all automobile dealers and many other vendors sell their retail instalment contracts to sales finance companies or banks for a fixed price less than the face amount owed under the contracts. Such contracts may be sold with or without recourse, or a variation thereof, by the sales finance company or bank against the retail seller in case of default by the consumer. In most jurisdictions and under most circumstances the transferees are considered holders in due course of the instalment paper transferred. In December of 1959, sales finance companies held approximately one-fourth of all instalment vendor credit outstanding and all vendors held only one-eighth of such credit. Commercial banks held a little more than one-fourth of all instalment credit outstanding, but of this one-fourth only about 50% was instalment paper purchased from vendors; the other 50% represented direct loans made by the banks.

Significance of Distinction between Lender and Vendor Credit. To the contemporary consumer who is seeking credit to enable him to acquire use of goods or enjoyment of services in the present and to pay for them out of future earnings, there probably doesn't seem to be basically a great deal of difference between vendor and lender credit except for the source of the credit. Vendor credit is generally available to him at the site where he makes his purchase whereas lender credit may not be. In addition and more importantly, however, lender credit may be available for certain kinds of needs, such as consolidation of debts, for which vendor credit is not available at all. The consumer may well be unaware that the origins and development of lender and vendor credit are such that the legal implications of the two types of credit differ in what are very significant respects for the consumer as well as for the purveyors of credit.

Any contract for a loan of money has historically been subject to usury statutes. Today all but four states of the United States have usury statutes. Prior to the enactment of small loan laws, the maximum contract interest rates permitted under usury statutes were insufficient to pay the prospective lender for the administrative cost of the small instalment loan. This fact, together with the general total lack of interest by banking institutions in consumer credit at the time, led to the flourishing of the loan shark, a lender who was willing to make the small loan at interest rates in excess of the maximum permitted by usury statutes, as pointed out previously. These unsavory characters charged exorbitant rates, preyed on the ignorance of their customers, and managed to keep their borrowers in constant debt to them. It was largely to remedy this situation that the Russell Sage Foundation developed the Uniform Small Loan Law which has, in one form or another, been adopted in every state except Arkansas. The small loan law permits a rate of interest on small loans made by lenders licensed under the law in excess of that permitted under the usury statute. Under early statutes the maximum loans permitted were only \$200 - \$300 and the rates of interest were as high as 3.5% per month on the unpaid principal balance. This rate is substantially in excess of the maximum rate permitted under usury statutes (e.g. 6% per annum or an effective rate for an instalment loan of 11 - 12% per annum).

Loans made by Morris Plan banks continued to be subject to usury statutes but the transactions were such that they produced a sufficient return to make the loan profitable to the lender. In most states special legislation relating to loan transactions and interest rates for industrial banks is now on the books. Loans made by credit unions are usually not subject to general usury statutes but rather to the specific enactment authorizing creation of the credit union itself.

Commercial banks did not engage in consumer instalment loans, other than mortgage loans on real property, until the late 1930's and 1940's. Bank loans were subject to general usury statutes. However, by discounting interest in advance, banks were able to acquire a sufficiently large return on consumer instalment loans to make participation in the market profitable to them. It must be pointed out here that the effective annual interest rate on any instalment loan made at a discounted rate of 6% is really in excess of 11%. Appropriate instalment loan legislation was enacted in jurisdictions where discounting in advance was not permitted under the applicable usury statute, where the maximum rate permitted by usury statute was too low, or where precomputing interest was prohibited.

In general, then, consumer loans are subject to usury statutes or, alternatively, to legislation specifically regulating rates of interest for such loans. In addition, the institutions granting such loans are generally subject to regulation as well as the provisions of the loan contract (e.g. small loan companies under small loan laws, credit unions, industrial banks, commercial banks). Such statutes do not apply to vendor credit.

Historically, vendor credit has not been subject to the provisions of usury statutes. In every state today, except Arkansas, courts adhere to the "time-price doctrine" although exceptions arising out of special circumstance found in particular transactions abound. Essentially, the "time price doctrine" means that the finance or credit charge that a vendor may add to the cash price of an article which is to be paid for, not at the present, but at some future time, is not interest but is a function of the price. That is, the vendor may charge a different price for an article to be paid for in instalments in the future than he would charge for the same article if cash were to be paid for it at the time the sale is consummated. Thus, an automobile may cost $2,000 on a cash basis and $2,200 on a time instalment basis. The theory is that these are two different prices--a time price and a cash price; no interest is involved. The net result of the time-price doctrine has been to eliminate application of all usury statutes and other statutes regulating the making of loans to the consumer-vendor credit transaction. Thus, in the absence of special legislation, the consumer-vendor contract is subject only to the law of commercial transactions (i.e., the law of contracts and sales, negotiable instruments law and other laws relating to security interests represented by chattel mortgages, conditional sales contracts and bailment-lease arrangements).

As a consequence of the legal implications of the sales-credit transaction, no ceiling was placed on the charge to be made for credit extended. In addition, the seller was armed with a battery of legal devices, such as the parole evidence rule, deficiency judgments, wage assignments, confession of judgment, automatic acceleration of maturity date clauses, together with a superior bargaining position and a substantially better knowledge of the legal implications of the instalment sales contract than the consumer. When the instalment paper was negotiated by the seller, at whatever price the seller and transferee agreed upon, to a sales finance company or bank, the transferee often qualified as a holder in due course thus cutting off, as to the holder, defenses the consumer may have had against the seller. It is small wonder then that abuses occurred; that exorbitant credit charges were imposed by some unscrupulous sellers, and that consumers overextended themselves into a complicated web of debt that in some cases resulted in bankruptcy if not more dire consequences.

One of the basic problems was that the consumer did not have sufficient information by which he could, if he so chose, make an intelligent evaluation as to whether he should assume a debt for the purpose of acquiring goods and services and, if he did decide to assume such a debt, as to which of the alternative sources of credit available to him (including both vendor and lender credit) would be best for his particular situation. Legislatures began to enact instalment sales legislation (as early in 1935 in Indiana) to provide some protection for the unwary, unsophisticated consumer. Most of the early legislation was designed to ensure that the information that the consumer should have in order to make an intelligent decision about a particular credit arrangement offered was made available to him before he signed his name to the forms setting forth the arrangement between the parties. Subsequent legislation, especially since the mid-1950's, has become more comprehensive and has included provisions limiting the amount of credit charge that may be made by the vendor, prohibiting the inclusion of certain types of contract provisions; providing for methods of computation of refunds in case of prepayment; specifying maximum charges for delinquent payments; setting forth provisions for refinancing or deferral or extension of payments; and, finally, providing for the licensing of vendors, in some cases, and of sales finance companies. A brief resume of existing legislation covering vendor and lender credit is included in the next section.

In summary, regulation relating to consumer lender credit has consisted of an extension of usury principles by the courts to such credit and then an adaptation and molding of these principles by the legislatures to the specific problems of the consumer instalment loan. On the other hand, consumer vendor credit regulation (other than the general protections afforded by commercial law) has had to be initially established by the legislatures without regard to usury statutes. What is remarkable is that in spite of the difference in origin of lender and vendor credit, and probably because of the fact that they both, economically and in respect to the consumer, serve the same function, there is a great deal of similarity between the two types of credit and between the legislation affecting the two types of credit. In addition, it seems that the dissimilarities are increasingly limited in many cases to terminology rather than substance.

Current Status of Regulation Affecting Consumer Credit Arrangements

Legislation affec ng consumer credit arrangements varies substantially from state to state. There may be as many as ten distinct enactments in any state which may affect consumer credit arrangements. In brief such enactments are:

(1) General usury statutes. All states except four (Colorado, Maine, New Hampshire, and Massachusetts) have usury legislation. In a few states (e.g. California, Arkansas) the maximum legal and contract rates of interest are established by constitutional provision and in others the rate is established by statute. Maximum contract rates permitted vary from state to state but most fall within the limited range of 6% to 12% per annum. It should again be pointed out here that if interest is computed at the rate of 6% per annum for a loan of $100 and if the loan is repaid in twelve equal monthly instalments, the effective annual rate if approximately 11%. The difference results from the

fact that when the loan is repaid at periodic intervals the borrower does not have the use of all of the money for twelve months which a rate quoted at 6% per annum presupposes. In some states compliance with usury statutes is based on annual rate quoted and not on effective annual rate.

(2) Small loan laws. Small loan laws were, as of 1961, in force in all states except Arkansas. The constitution of Arkansas provides that the maximum contract rate of interest is 10% per annum. In 1953 a small loan law which permitted service charges and insurance fees to be charged in excess of 10% interest was held unconstitutional by the Arkansas Supreme Court. The offending legislation was repealed in 1953. A small number of states have small loan laws which are substantially inadequate.

The vast majority of states (at least 42) have basic legislation based on the prototype of all small loan laws--the Russell Sage Foundation's Uniform Small Loan Law. These laws provide that lenders licensed under the act may charge interest in excess of the rates permitted under the usury statutes up to specified maximum rates of interest. Maximum rates permitted are usually graduated on the basis of the amount of the loan. For example, maximum rates are in California: 2 1/2% per month for first $200; 2% per month for $200-$500; 5/6 of 1% per month for that portion of loan in excess of $500. Rates in most states fall between 2% and 3 1/2% per month on a graduated basis on unpaid balance.

Other provisions of these laws include:

(a) Maximum loan permitted is established under small loan laws. Most maximums fall between $500 and $1,500. California permits up to $5,000; Missouri has no limits because of the fact that the Missouri constitution has been interpreted to prohibit classifying interest rate by type of business and thus the small loan law applies to all lenders.

(b) Lenders' activities and records are placed under the supervision of a small loan administrator

(c) Small loan laws are not usually applicable to banks, savings and loan associations, industrial loan companies, credit unions, or pawnbrokers.

(d) Maximum term of a loan is established.

(e) Contracts must disclose all provisions of arrangement.

(f) Wage buying and tie-in sales are prohibited.

(g) False or misleading advertising is prohibited.

(h) Licensees may be restricted from entering other business.

(3) Instalment loan laws. As of 1960, 23 states had enacted instalment loan laws. These laws, which generally apply to banks, permit rates in excess of those permitted under usury acts but usually less than those permitted under small

loan laws. Such laws may include:

(a) Provisions permitting lender to discount and compute interest in advance on entire period from date of loan to date of last payment;

(b) Provisions establishing maximum loan to which law applies (e.g. New York - $5,000);

(c) Provision establishing maximum term for loan;

(d) Provision establishing maximum rate of interest permitted;

(e) Specific provisions relating to revolving credit (e.g. New York - 1% per month on outstanding balance on billing date or on average balance for month).

(4) Industrial loan laws. Industrial loan legislation is usually included with other legislation relating to banks incorporated under the industrial banking law. Historically, industrial banks circumvented usury legislation by combining two transactions as described earlier. Today some statutes specify special maximum rates for industrial banks (e.g. California - 2 1/2% per month on first $200; 1 1/2% on $200 - $700; 5/6 of 1% per month in excess of $700). Some states permit industrial banks to make a special service charge of 2% of amount of loan in excess of interest rate (e.g. Indiana).

(5) Credit unions laws. Credit unions may be chartered either under state legislation or under the Federal Credit Union Act. Most credit unions are permitted to make unsecured loans up to a specified amount. Larger amounts (subject to higher maximums) may be loaned if secured. Loans are made only to members. Interest for loans is computed on a monthly basis on the then outstanding balance. Most statutes permit maximum rates of about 1% per month on outstanding balance. Other general requirements relating to loans may also be included.

(6) Pawnbrokers laws. In most states, a maximum rate of interest for pawnbrokers' loans is established which exceeds the usury rate. In many states pawnbrokers must be licensed.

(7) Building and loan associations laws. Federal savings and loan associations are created under federal legislation. Interest on instalment loans may be made at the rate of no more than 6% per annum, computed for the entire period of the loan. Such loans may be secured by real estate or members' shares. Building and loan associations may be incorporated under state legislation. Maximum rates may be fixed by statute and, in such a case, the general state usury statute will not apply to loans made by such organizations.

(8) Motor vehicle instalment sales acts. As of April 1, 1962, instalment sales acts covering motor vehicles were in force in 37 states (including District of Columbia). Four additional states had some legislation requiring disclosure of some contract terms. The bulk of the legislation currently in force has been enacted since 1957. A few general provisions are common to all acts. However, the acts vary considerably in the scope of their regulation.

Practically all 37 states require that the sales contract be in writing with blanks filled in and include an itemization of charges including cash price, down payment, insurance charges, insurance coverage, official fees, finance or credit charge, principal balance, and number, amount and due date of instalments.

Many states require that the buyer be given the option to select his own insurance agent and that any rates charged for insurance must be as filed with the insurance commissioner or as promulgated in insurance company manuals.

All 37 states except Illinois specify maximum finance charges which may be made for instalment sales of motor vehicles. Such charges are graduated on the basis of the age of the vehicle. Maximum amounts differ from state to state. Most states place a limit on delinquency charges. All 37 states require that the contract permit the borrower to anticipate payments and provide a method of computing appropriate refunds of finance charges when prepayment is made.

A number of provisions such as arbitrary acceleration, confession of judgment, power of attorney for collection, wage assignment, waiver of remedies of buyer are prohibited but not all of these provisions are in force in all 37 states. Provisions relating to repossession and deficiency judgments are also included in some acts.

Two states, Ohio and Michigan, limit rebates on reserves made by sales finance companies to retail dealers. Indiana has a similar provision permitting the Department of Finance to fix such limits. At the present time no such limit is in effect in Indiana.

Finally, 24 states require licensing of sales finance companies and, in some cases, retail dealers who engage in instalment selling. Generally, banks are exempted from such licensing requirements. The degree of supervision and control of the licensing department over licensees and their activities and books varies from state to state.

(9) Retail instalment sales acts applicable to goods other than motor vehicles. Retail instalment sales legislation applicable to goods other than motor vehicles is in force in only 21 of the 37 states mentioned above. Generally speaking, all goods acts are, with the exception of some states like New York and Kansas, less strict and less comprehensive than retail sales acts applicable to motor vehicles. No doubt a partial reason for this lies in the fact that abuses in the motor vehicles sales arrangements were more flagrant, widespread and well-publicized than those occurring in course of sales of other goods.

Only 16 states specify maximum finance charges for instalment sales of goods other than motor vehicles. All 21 states require in some measure that the credit arrangement be in writing, with blanks filled in, including itemization of charges. Some statutes apply only to instalment sales in which the seller retains a security interest. Some statutes do not apply to revolving or add-on accounts, whereas some (e.g. New York) have substantial provisions applicable to such accounts. Only a few statutes apply to merchandise certificates. All statutes require the seller to permit the buyer to prepay instalments and designate a method or methods for computing refunds. Provisions relating to refinancing, deferral and extension of instalments may also be included. A few require licensing of sales finance companies. Finally, two states (California and Delaware) give the consumer an absolute right to a new instalment contract with instalments no greater than instalments under the preceding contract where any instalment under the preceding contract is more than two times any other instalment under such contract. Most of the legislation described above has been enacted since 1957.

(10) Federal legislation. The FTC promulgates motor vehicle financing regulations "to eliminate and prevent certain unfair and deceptive acts or practices in... instalment sale of motor vehicles, and in the financing of such sales which are considered by the Commission to be violative of Section 5 of the Federal Trade Commission Act." In addition, under the Soldiers and Sailors Relief Act of 1948 civil liabilities of servicemen are suspended during military service. Interest on debts suspended will not exceed 6% per annum.

At the present time, the Douglas Bill or the Truth in Lending Act is still pending in the Senate. This Act would require the disclosure of finance charges in a dollar amount and as an effective annual rate for all consumer credit arrangements described previously. The Board of Governors of the Federal Reserve System would handle administration and supervision. The Bill endorsed this year by President Kennedy has already faced, in 1960 and 1961, very rough sledding and presumably will do so again in the current session. The Bill deals in a superficial manner with only one aspect of the extremely complicated problem of regulation of consumer credit arrangements, i.e., the bill deals only with the method of spelling out to the consumer the cost of credit.

Coverage of Existing Legislation

Consumer credit negotiations and arrangements receive more comprehensive regulation in some states than in others. In New York, for example, almost all credit institutions and arrangements are regulated by legislation. In addition to a standard usury statute which establishes the maximum contract interest at $6 per $100 per annum, the following arrangements are specifically covered by statutes:

(1) instalment loans made by banks;

(2) revolving credit arrangements established by banks;

(3) loans made by credit unions, industrial banks, savings and loan associations;

(4) loans made by licensees under the small loan law;

(5) loans made by pawnbrokers;

(6) retail instalment sales contracts including add-on contracts and merchandise certificates.

All of the above provisions limit the amounts which may be charged for credit. Various other phases of credit arrangements and negotiations therefor are also regulated to some degree. Such additional provisions relate to prepayment, extension or deferral of instalments, refinancing, licensing of various credit institutions, contract provisions, and insurance. On the other hand, New York statutes do not cover balloon notes, limitations on insurance rates, rebates by purchaser of instalment paper to vendor. It should be noted, however, that, although New York regulation is extensive in its scope, not all of the phases of consumer credit to which such regulation does relate are adequately or comprehensively dealt with. In Arkansas, on the other hand, the maximum contract interest rate permitted is 10% per annum. There are no special regulations relating to instalment loans made by banks or other credit institutions nor is there any retail instalment sales legislation.

Function of Existing Legislation

The lack of sophistication on the part of the consumer about consumer credit, his ignorance in the face of the complexities of commercial law, his psychologically and economically inferior bargaining position have, in the past, oftentimes left him with the short end of the stick in credit negotiations.

As a general rule, consumers seeking credit have been primarily concerned with being granted credit rather than with the cost of credit. For the reasons indicated above, consumers have not considered the cost of credit a negotiable item and have not engaged in comparative shopping for credit. Consequently, consumers have in the past entered into credit arrangements in which they have assumed the burden of paying excessive finance charges. By the same token, the individual consumer's preoccupation with acceptance as a credit risk and his naivete about credit negotiations has often resulted in his participation in arrangements which contained unnecessary or over-priced frills which could have been entirely eliminated or, at least, could have been acquired by the consumer from other sources at a lower cost. For example, the purchase of necessary insurance coverage (e.g. protection against loss of damage to security interest of creditor) has often been made a part of the credit arrangement. The rates for such insurance in many cases may exceed those which the consumer would have paid if he had acquired similar coverage on the open insurance market. The creditor may directly benefit from such insurance arrangements because commissions for the sale of such insurance protection may be payable to him as agent of record. In addition, insurance protection for which the consumer is charged, but which the consumer may not need and would not have elected, if given a choice, is often automatically included in the credit arrangement (e.g. credit life insurance, credit accident and health insurance).

In addition to paying excessive charges for credit, the consumer has been encouraged by deceptive advertising into overextending himself financially. He may subject himself to rapid refinancing of unpaid balances by signing balloon notes. For example, the outstanding principal balance under an instalment arrangement might be $2,400 repayable in 12 months. The individual may agree to pay 11 equal monthly instalments in the amount of $75 each and then a twelfth and final instalment in the amount of $1,575. When the twelfth instalment in the amount of $1,575 becomes due, the consumer in all likelihood will not be able to make the full payment. His only alternative is to enter into another credit arrangement, at additional credit charges, to pay off the $1,575 in instalments.

Because of his ignorance about commercial law and because of his inferior bargaining position, the consumer may sign contracts which include provisions manifestly favorable to the creditor. Such provisions include the following: right of the creditor to arbitrarily accelerate due date of instalments; waiver by the consumer of remedies or causes of action held by consumer against the creditor or his transferee; assignment of consumer's wages, power of attorney to confess judgment; power of attorney appointing the creditor or his transferee as consumer's agent in collecting payments.

In general then, and because of the factors noted above, consumers have oftentimes entered into credit arrangements in which they find themselves in legal positions quite unlike any they contemplated before entering into credit negotiations. Default in payment by an individual consumer might well mean more than just payment of reasonable delinquency charges for late instalments or loss of security interest. Default may also mean garnishment of wages and loss of job or even bankruptcy for the consumer. As a matter of fact the substantial increase in individual bankruptcies in recent years has been attributed, in part at least, to the excessive use of credit by some consumers. For example, there were 91,000 individual bankruptcies in 1960 and 141,000 in 1961. An imprudent consumer taking advantage of easy credit terms finds it relatively simple to commit practically all of his earnings for substantial periods of time in the future to instalment payments. When emergency expenditures from earnings so committed are made, the consumer finds his financial world crashing down about his head. Unscrupulous commercial debt poolers or counselors, as often as not, make a difficult financial situation worse for the individual by siphoning off consumer's much needed resources for their fees. Increasingly, consumers seek bankruptcy as a panacea for their financial ills.

Legislation which has been enacted has sought to remedy abuses by improving the consumer's position in the consumer-creditor negotiations. Thus, the ignorance of the consumer about the complexity of commercial law is sought to be remedied by requiring that contracts include provisions specifying the consumer's rights under the law. The psychological disadvantage of the consumer is sought to be remedied by assuring that the consumer is adequately informed of the content of the contract and by prohibiting misleading and false advertising. The inferior bargaining position of the consumer is sought to be remedied by the prohibition of certain kinds of contract provisions such as wage assignments, and by the requirement that there be included in the contract certain kinds of provisions which favor the consumer (e.g. right of prepayment clauses), and finally by the establishment of ceilings on such items as credit charges, deficiency charges, and rebates made by holders of instalment paper to transferors.

General Observations About Legislation

The existing legislation, in the aggregate, includes all of the remedies described above. In any given state, consumer credit legislation is nowhere near as comprehensive. Some states like New York, have substantial coverage of most consumer credit arrangements. Even in such states the legislation is compartmentalized along the separate lines that consumer credit has historically been treated (e.g. separate legislation for small loans, for instalment loans by banks, for motor vehicle vendor credit, for other vendor credit). In some states, legislation is either non-existent or admittedly inadequate.

The nature of abuses and problems for the consumer in the credit market have, from the perspective of the consumer, been amazingly similar when one considers the different types of credit arrangements involved. The legislation on the books in any one state, which corrects or attempts to remedy inadequacies of different types of credit arrangements is, except for terminology, remarkably similar in many respects. The significant differences in legislation in any one jurisdiction tend to be in degree of regulation rather than type. Differences between jurisdictions also appear to be more in the degree of comprehensiveness of legislation rather than in substance. It is quite true that different credit institutions have a whole set of different problems to deal with in their businesses. Consumer credit arrangements for different purposes cannot all be the same. However, it would seem that a fruitful inquiry could be made into the questions of what inadequacies, if any, do exist in contemporary consumer legislation and can those inadequacies be remedied by a consolidated legislative approach to the consumer credit problem. That is, can existing inadequacies in consumer credit regulation, if any, be best remedied by treating all consumer credit as an integral unit rather than a heterogeneous group of relationships based on historical origins and stopgap legislation?

PROGRAM FOR STUDY OF CONSUMER CREDIT

The American Bar Foundation will undertake a study of the effect of regulation of consumer credit arrangements on consumers and credit institutions. The objectives of the study, the scope of the study, and the method of conducting research and evaluating data for the study are described below.

I. Objectives of Study

The function of the study will be to provide those who are responsible for, or interested in, the drafting of consumer credit legislation with the kind of materials, organized in an efficient and meaningful way, which will be useful to them (a) in making decisions about the nature and scope of legislation they would propose and (b) in evolving the framework for and spelling out the specific provisions which would be included in such legislation. The study will not indulge in normative conclusions or ethical judgments about what the purposes or goals of consumer credit legislation should be or what kinds of provisions should or should not be included in such legislation. It is hoped that the study will aid those who do make such judgments to choose the most effective way to carry out their goals. Accordingly, the study

(1) will enumerate the aspects of consumer credit arrangements and negotiations therefor which those interested in legislation should take into consideration in deciding upon content and comprehensiveness of legislation;

(2) will annotate each item so enumerated as follows:

(a) identification of alternative methods of dealing with each item in legislation and appraisal of differences among such alternatives;

(b) evaluation of effects of inclusion of each item in legislation or exclusion of such item from legislation;

(3) will, where appropriate, make recommendations about the framework, form, and terminology of such legislation.

II. Scope of Study

The study will adequately fulfill its objectives only if the tasks described in (1) through (3) above are based on a thorough knowledge of and an intelligent appraisal of the significant factors affecting consumer credit arrangements. Such factors include all phases of the interaction between the consumer and the credit institution giving rise to the credit arrangement as well as all relevant factors conditioning such interaction, including characteristics of consumers, characteristics of credit institutions, and nature and scope of legal prescriptions regulating such interaction or phases thereof. Accordingly, the study will examine the following to the extent consistent with, and necessary for, attaining the aforementioned objectives and, in particular, for performing the three specific tasks identified in Section I above:

A. Credit Institutions - Credit institutions, their development, organization and administration, their goals, their conduct and practices in negotiating and otherwise participating in credit arrangements will be studied together with the credit arrangements made available or held by them for the purpose of

(1) comparing the roles and activities of different credit institutions in the consumer-credit institution interaction;

(2) identifying wherein similarities both in the mode of operation of and in credit arrangements made available by different institutions exist and wherein such similarities do not exist;

(3) appraising the effect of regulation or absence of regulation of any aspects of the consumer-credit institution interaction (as described more fully in subparagraphs (2) and (3) of item C below).

The following institutions will be considered initially for study:

(1) commercial banks;

(2) credit unions;

(3) savings and loan associations;

(4) sales finance companies;

(5) consumer finance companies;

(6) retail sellers;

(7) pawnbrokers;

(8) industrial banks.

B. Consumers - Consumers, their perspectives, their objectives, their attitudes, their social, economic, educational, and psychological characteristics will be reviewed to the extent relevant to our general inquiry for the purpose of

(1) evaluating the conduct of the consumer during negotiations preceding the stablishment of a credit arrangement and during the period the arrangement remains in force and thereafter;

(2) appraising the effect of regulation or absence of regulation of any aspects of consumer-credit institution interaction (as described more fully in subparagraphs (2) and (3) of C following).

C. Legal Prescriptions Regulating Consumer-Credit Institution Interaction - The legislation regulating one or more phases of consumer credit arrangements and negotiations therefor, as well as interpretation of such legislation by the courts, and decisions made by the courts in the absence of legislation will be examined for the purpose of

(1) aiding in identifying the various ways in which different aspects of the consumer-credit institution may be dealt with by legal prescription;

(2) determining the practical effect that specific kinds of regulation or lack of regulation will have on designated phases of the consumer-credit institution interaction;

(3) evaluating the material obtained in (2) for the purpose of predicting ways of securing by legislation preferred results in the consumer-credit institution interaction (i.e., "preferred" by those promoting legislation).

III. Compilation of Data

In order to carry out the tasks outlined in the preceding sections, certain basic information must be acquired and then organized in an efficient and accessible manner for the purpose of making the evaluations described in section IV hereof.

A. Compilation of Relevant Legislation - A compilation of the laws, both federal and state, which relate to consumer credit arrangements and negotiations therefor will be made. The goal of the compilation will be to arrange and organize the statutory material so that any cross-section of statutory material, or any set of similar provisions, or any specific item may be recalled from the compilation as the need arises. Accordingly, it will be planned to order statutory material on a simple automated basis for easy and speedy accessibility to all items contained therein. The legislation to be included in such a compilation will be

(1) usury statutes;

(2) statutes relating to consumer loans made by commercial banks, credit unions, industrial banks, savings and loan associations, or pawnbrokers;

(3) small loan laws;

(4) other applicable federal legislation;

(5) retail instalment sales legislation;

(6) credit insurance legislation.

The materials for this part of the study are available in the Cromwell Library or in libraries in the immediate vicinity of the American Bar Center.

B. Compilation of Relevant Case Materials - A compilation of relevant case materials will be made to show

(1) trend and nature of decisions in the absence of legislation;

(2) trend and nature of decisions interpreting specific legislation.

To the extent feasible, these materials will be consolidated with the statutory compilation described in A above. Case materials are also for the most part available in the Cromwell Library or in the immediate vicinity of the American Bar Center.

C. Compilation of Data Relating to Credit Institutions - The data sought will be that which gives us the information described in II A above. Two sources will be investigated:

(1) Other studies - Most of the material relating to origins and historical development of various credit institutions has been organized and documented. A considerable amount of this material will be useful to us.

(2) Interviews and on-the-spot observations made by staff members of the study - Current data, particularly that reflecting recent trends and new types of credit arrangements as well as that reflecting the effect of new types of legislation, will be acquired in this manner.

D. Compilation of Data Relating to Consumers - There has been a substantial amount of work in the field of consumer motivation, attitudes, characteristics and needs in the past few years. It is hoped that we will find that we will be able to use these studies for the data, as described in II B, that we require about consumers. In the event we find such sources inadequate we shall consider using the services of those who are expert in this field such as the Survey Research Center at the University of Michigan.

E. Compilation of Data Relating to Effect of Legislation, or Lack of Legislation on Credit Arrangements, and Negotiations Therefor - This data will, for the most part, be acquired by staff researchers in the field. Some materials from other studies may be useful (e.g. the study of the significance of rate ceilings established under retail instalment sales acts currently being conducted by the National Bureau for Economic Research). It is contemplated that specific geographical areas for field work will be selected on the basis of regulations applicable in those areas. That is, a cross-section sampling will be made so that data acquired in areas with dissimilar regulations may be compared for the purpose of determining the significance of regulation, or lack of it, in respect to various phases of the consumer-credit institution interaction. The choice of areas and the specific conduct of the field investigation will in large measure be determined only after material in the sections A, B, C, and D above has been acquired and analyzed. However, in general, it is contemplated that the nature of pre-contractual negotiations, the contractual arrangements agreed upon, and the conduct of both consumers and credit institutions during all phases of their dealings will be studied. Particular emphasis will be made upon gathering information which will show what real differences in the conduct of, and in the relative position of, all parties before, during the continuance of, and after credit arrangements have been agreed upon, exist in jurisdictions subject to different degrees of regulation.

IV. Evaluation of Data

All of the data compiled, as described in section III, will be used to answer the questions specified in section II and thereby ultimately to fulfill the tasks set forth in section I. The analyzing and evaluating of the data described in section III will be a continuing process. Materials must be constantly reviewed and studied to make sure that the course of the study is at all times the optimum one for achieving the objectives of the study. There will be at all times a certain amount of feedback. For example, the nature and scope of the data to be compiled for item E in section III will be in part determined from the material obtained for items A, B, C, and D. However, inadequacies of the data compiled for item A, for example, may be revealed by a review of data compiled for item B.

Accordingly, evaluation of data obtained in subparagraphs A, B, C, D, and E of section III will be carried on at two levels:

(a) To test the adequacy and, in some cases, the usefulness of data acquired;

(b) To make such determinations and judgments from the data as will accomplish the tasks specified in section I.

ESTIMATED STAFF REQUIREMENTS, TIME SCHEDULE AND BUDGETARY NEEDS
CONSUMER CREDIT PROJECT

I. Project Staff

A. Project Director. The project director should be available for the entire period of the study. His services would be particularly important for the following phases of the study:

(1) preliminary organization;

(2) evaluating material from time to time to judge progress and course and study;

(3) final period during which bulk of evaluations are made from data compiled;

(4) preparation of final report.

It would be particularly useful if the project director had substantial familiarity with commercial law.

B. Consulting Economist. A consulting economist, not necessarily on a full time basis for the entire period of the study, should be a member of the staff. His special knowledge would be necessary to make valid judgments about the need for certain kinds of data or about the significance of data obtained. An economist with substantial exposure in the field of consumer credit would be desirable.

C. Assistant Project Director. Besides aiding the project director in evaluating material, in determining course and scope of study, and in preparing the project report, the assistant project director would be responsible for seeing that the administrative details of various decisions are properly carried out. Accordingly, he would, together with or under the direction of the director, devise methods for compiling data and for arranging and ordering data in an efficient manner. The assistant would also be responsible for supervision of research personnel and clerical personnel and for maintaining and organising efficient ways for acquiring and storing materials and for organizing and carrying on field studies.

D. Staff Researchers.

(1) Two men on a full time basis for a period of two months for compilation and organization of legislation and case materials (law school students or recent graduates).

(2) Two men on a full time basis for a period of two months for compilation and organization of materials on credit institutions including conducting or assisting, if necessary, assistant project director in field studies (recent graduates preferred for field work).

(3) Two men on a full time basis for a period of six weeks for compilation and organization of materials on consumers (field work not contemplated at this time). (Law school students or recent graduates are preferred.)

(4) Two or three men on a full time basis for a period of four to six months for field studies of effects of legislation and organization of materials so obtained.

B. Administrative Personnel.

(1) One full time clerk-typist to maintain files and work on automated material for period during which material is being compiled.

(2) One full time secretary for duration of project.

II. Estimated Time Schedule (based on staff described in preceding section)

Time needs are as follows:

(1) one to one and a half months orientation and organization by staff (i.e., director, assistant, consulting economist);

(2) two months compilation and organization of legislative data and case materials;

(3) one month evaluation of this material by staff;

(4) two months compilation and organization of credit institution data;

(5) one month evaluation of this material;

(6) one month compilation and organization of material on consumers;

(7) one month evaluation of this material;

(8) four to six months compilation and organization of materials on effects of legislation;

(9) six months evaluation of all materials by staff;

(10) six months preparation of final report by staff.

The total time is approximately 27 1/2 months. Some work could be carried on simultaneously, e.g., (2), (4), (6), if the number of staff researchers was large enough. On the other hand a great deal can be gained in quality of work as well as efficiency if the staff researchers who carried on the project specified in item (2) also carried (4), (6), and (8) studies.

Accordingly, it is estimated that the project could be handled in a little over two years with efficient and competent administration and decision-making.

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
January 30, 1964.

Mr. JOSEPH W. BARR,
Chairman, Federal Deposit Insurance Corporation,
Washington, D.C.

DEAR MR. BARR: During the recent out-of-town hearings held by the Production and Stabilization Subcommittee of the Senate Banking and Currency Committee on S. 750, the truth-in-lending bill, a number of questions arose in regard to the bonding of individuals handling funds in commercial banks, savings and loan associations, and credit unions.

During these hearings, it was agreed the chairman of the Production and Stabilization Subcommittee would address letters to the respective agencies requesting information about the bonding coverage required under the various laws applying to these various financial institutions. It would be most helpful to the subcommittee if you would submit to us information on the following aspects of bonds required of commercial bank officers as well as bonding experience:

1. A description of the bonding coverage required by law including the number of persons required to be covered as well as extent of loss covered;
2. Information as to rates charged by commercial companies offering this bonding coverage;
3. Statistics on losses incurred by bonding companies covering commercial banks.

It would be very helpful if you could provide this information not only for national banks but for State-chartered banks as well.

If possible we would like to have this information by February 10, 1964.

Sincerely,

PAUL H. DOUGLAS,
Chairman, Subcommittee on Production and Stabilization.

FEDERAL DEPOSIT INSURANCE CORPORATION,
Washington, February 10, 1964.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Production and Stabilization,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: This Corporation is pleased to submit, to the extent available, the information requested in your letter of January 30, 1964.

We trust the enclosed report listing the information in the order set forth in your letter will be of assistance to you and the other members of the Subcommittee on Production and Stabilization.

Sincerely yours,

JOSEPH W. BARR, *Chairman.*

REPORT OF THE FEDERAL DEPOSIT INSURANCE CORPORATION ON INFORMATION REQUESTED BY THE SUBCOMMITTEE ON PRODUCTION AND STABILIZATION OF THE COMMITTEE ON BANKING AND CURRENCY

This report is prepared in response to a letter request dated January 30, 1964.

The following data are set forth in the same order as listed in Senator Douglas' request.

1. A description of the bonding coverage required by law including the number of persons required to be covered as well as extent of loss covered

Requirements of law.—Each of the three Federal banking agencies, that is, the Comptroller of the Currency, the Federal Reserve Board, and the Federal Deposit Insurance Corporation, has either statutory provisions in its laws, or regulations and rulings, or adheres to policies dealing with bank fidelity coverage as follows:

Comptroller of Currency.—Ruling 5215 of the Comptroller of the Currency states: "All officers and employees of a national bank must have adequate fidelity coverage, and the failure of directors to require bonds with adequate sureties and in sufficient amount may make them liable for any losses which the bank sustains because of the absence of such bonds. Directors should not serve as sureties on such bonds. The board of directors should determine the amount of such coverage, premised upon a consideration of such factors as (1) internal auditing safeguards employed, (2) number of employees, (3) amount of deposit liabilities, and (4) amount of cash and securities normally held by the bank, among others."

Federal Reserve Board.—There is no specific requirement under the Federal Reserve Act and the Federal Reserve Board has issued no rules or regulations pertaining to fidelity coverage for State member banks. However, under the broad provisions of section 9 of the Federal Reserve Act and regulation H of the Federal Reserve Board issued pursuant thereto, the Federal Reserve Board and the Federal Reserve banks in admitting State banks to membership and in examining them gives consideration to the adequacy of their bankers blanket bond. Each uses its best efforts to have the State member banks maintain at least the basic amount of bankers blanket bond recommended by the Insurance and Protective Committee of the American Bankers Association and to acquire the $1 million excess employee dishonesty blanket bond. The Federal Reserve Board has indicated its policies relative to adequate bank fidelity insurance coverage in a series of letters to the presidents of all Federal Reserve banks, copies of which are attached as exhibits A, A-1, and A-2.

Federal Deposit Insurance Corporation.—Section 18(e) of the Federal Deposit Insurance Act provides: "The Corporation may require any insured bank to provide protection and indemnity against burglary, defalcation, and other similar insurable losses. Whenever any insured bank refuses to comply with any such requirement the Corporation may contract for such protection and indemnity and add the cost thereof to the assessment otherwise payable by such bank."

State authorities.—Current data have not been compiled by the Federal Deposit Insurance Corporation and are not available to us on the definite requirements of the 50 States pertaining to commercial bank fidelity coverage. It is known, however, that a number of States have specific minimum schedules of bankers blanket bonds for the commercial banks under their supervision. Even in those States with no statutory provisions or specific regulations dealing with a required amount of blanket bond coverage for commercial banks, the State banking authorities insist on fidelity coverage on bank officers and employees. A number of States require blanket bond coverages in line with the recommendations of the Insurance and Protective Committee of the American Bankers Association.

Description of fidelity coverage.—Insured banks provide fidelity coverage on their officers and employees mainly through bankers blanket bonds. Attached as exhibits B, B-1, B-2, B-3, and B-4 are specimen copies of Bankers Blanket Bonds, Standard Forms 2, 24, HANC, and 28. (Exhibit B is filed with the committee.) Also attached as exhibits C and C-1 are two schedules reflecting the principal differences in bankers blanket bonds and a list of bank insurance and other coverages. These schedules, reprinted from the Digest of Bank Insurance issued by the Insurance and Protective Committee of the American Bankers Association, describe in digest form the blanket bond coverages provided by the several types of blanket bonds.

Amounts of coverage recommended.—The Corporation desires that every insured commercial bank carry blanket bond fidelity insurance in an amount adequate to its needs and at least equal to the amount suggested by the Insurance and Protective Committee of the American Bankers Association for a bank of its size. These suggested amounts of blanket bond coverage are the products of discussions by the supervisory authorities with a practical group of representative bankers having access to comprehensive loss experience data covering many years and pertaining to a large number of banks.

The following schedule shows the recommended minimum amounts of blanket bond coverages for insured commercial banks based upon their sizes as suggested by the Insurance and Protective Committee of the American Bankers Association:

[Amounts in thousands]

Deposits equal to or over—	Suggested amount of blanket bond	Deposits equal to or over—	Suggested amount of blanket bond
$300	$25	$25,000	$350
$500	35	30,000	400
$750	50	35,000	450
$1,000	60	42,500	500
$1,500	75	50,000	550
$2,000	90	62,500	625
$2,500	105	75,000	700
$3,000	120	100,000	850
$4,000	135	125,000	1,025
$5,000	150	150,000	1,200
$6,000	160	200,000	1,450
$7,500	175	250,000	1,700
$9,000	190	375,000	2,100
$10,000	200	500,000	2,500
$12,500	225	750,000	3,250
$15,000	250	1,000,000	4,000
$17,500	275	1,500,000	5,000
$20,000	300	2,000,000	6,000
$22,500	325	(1)	(2)

1 Over $2,000,000,000.
2 Over $6,000,000.

Insured State commercial banks, not members of the Federal Reserve System, are requested by the Corporation, during the course of its regular examinations of such banks, to carry blanket bonds in an amount not less than that suggested in the above schedule. Through the cooperation of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System all other insured banks are requested during the course of their regular examinations to provide this level of protection as a minimum. Many State supervisory authorities also are following these suggested schedules.

Basing the amount of blanket bond coverage which a bank should carry on the size of the bank may appear to be highly arbitrary, but experience demonstrates that there is a correlation between the amounts of fidelity losses experienced and the sizes of the banks in which they occurred. This is believed true despite certain glaring exceptions of heavy losses in small banks during recent years. While the Corporation considers the amount of blanket bond coverage specified in the above schedule to be a fair minimum, other factors may dictate carrying blanket bonds in individual banks in amounts higher than those suggested by the insurance committee of the bankers association. Such factors include unusually large amounts of cash on hand, more than normal amounts of owned, collateralized, trust or safekeeping securities on the premises, limited adequacy of the protective devices, trust activities, rapidly expanding operations, excess exposure of location, character of the operations and business conducted, signing powers of officers and employees, and the number, experience, training and turnover of officers and employees. Corporation examiners check the fidelity and other indemnity insurance carried by the bank at each examination, analyze the bank's need for insurance protection in excess of both that being carried and the amounts suggested by the insurance committees of the bankers associations, and make recommendations to management designed to provide the bank with adequate amounts of insurance coverage for the various types of risks to which the bank is exposed.

A separate page of the report of examination prepared by the Corporation examiner is devoted to the fidelity and other indemnity insurance protection of the bank. This page lists data on the insurance carried by the bank, sets forth the examiner's comments on exposure and other insurance inadequacies and reflects the recommendations of the examiner pertaining to insurance. Also, when warranted, the examiner includes comments and recommendations on insurance in the summary page of his conclusions and recommendations.

Bankers blanket bonds, standard forms 2, 24, and HANC, are an overall form of insurance coverage providing protection against the possibility of dishonesty losses, both internal and external. The insuring clauses of robbery, burglary, misplacement, forgery, etc., may vary in amount of insurance from the face amount of the bankers blanket bond to give flexibility to such bonds in meeting the needs of individual banks. Also separate bonds may provide these and other forms of indemnity protection. In order to more adequately protect the bank against possible catastrophic loss resulting from dishonest acts of its officers and employees, the Corporation, beginning in 1958, has persistently promoted excess employee dishonesty insurance in all the banks it regularly examines and has suggested banks acquire not less than $1 million of such fidelity coverage. It is estimated that about 8,600 of the 13,500 insured banks, including approximately one-half of the insured State banks, not members of the Federal Reserve System, are now protected by million dollar excess bank employee dishonesty blanket bonds, standard form 28, whereas in 1960 there were only about 2,000 insured banks so covered.

In addition to recommending adequate fidelity and other indemnity insurance be carried by the banks it examines, the Corporation obtains the assurances of proponents of proposed new State banks, not members of the Federal Reserve System, that such banks will carry adequate insurance before approving their applications for Federal deposit insurance.

2. Information as to rates charged by commercial companies offering this bonding coverage

To answer this question we obtained information as to rates charged for bankers blanket bonds from the Surety Association of America, a voluntary nonprofit, unincorporated association of companies engaged in the business of suretyship. The Surety Association currently has 92 member companies, 56 subscriber companies, and 61 other companies purchasing its services. It is licensed by the various States as a rating organization for the fidelity and surety business and has been designated by State insurance departments as statistical agent for fidelity, surety, gurantee and forgery bonds. In that capacity it represents a total of 227 companies and has the duty to gather for such insurance departments all loss and expense data and to make compilations thereof as required by law.

In accordance with the provisions in the rate regulatory statues of the various States, the rates and rating procedures for fidelity coverages, including bankers blanket bonds, are filed in all States by the Surety Association of America on behalf of its members and subscribers. However, there are many companies licensed to write fidelity coverage which are not members or subscribers of the Surety Association of America and such companies file their own rates and rating procedures for bankers blanket bonds with the various State insurance departments in those States in which they do business.

An endeavor has been made to present the following data on rates and rating procedures in an understandable and nontechnical manner:

RATES AND RATING PROCEDURES BANKERS BLANKET BONDS, STANDARD FORMS 2 AND 24

The Surety Association manual contains a table of "Basic annual premiums or rates" for commercial banks which provides for a coverage charge according to bond amount plus an employee charge on a graduated scale subject to percentage increase according to bond amount. The entire table of "Basic annual premiums or rates" for commercial banks is not reproduced here but partial sections are set forth to illustrate the application of this rating procedure for bond penalties up to $500,000 and for employees up to 500.

Coverage charge

The following coverage charges are applicable to bonds of $25,000 or more regardless of the number of employees.

Bond amount:	*Coverage charge*
$25 000	$175
$50,000	250
$75 000	325
$100,000	375

Thereafter, for each additional $25,000 add $25.

EMPLOYEE CHARGE

Add to the coverage charge an additional annual charge for each employee according to the following table for $25,000 bonds (minimum three employees):

First 50 (0–50) employees at $25 each.
Next 50 (51–100) employees at $20.
Next 50 (101–150) employees at $15.
Next 50 (151–200) employees at $10.
Next 100 (201–300) employees at $8.
Next 200 (301–500) employees at $6.

Increase the employee charge given above according to the following percentages for bond penalties in excess of $25,000.

	Percent
Bond of $50,000	30
Bond of $75,000	50
Bond of $100,000	60
Bond of $125,000	65
Bond of $150,000	70

Thereafter, for each additional $25,000, add 2½ percent.

The foregoing rate procedure produces the basic annual premium which is subject to modification for form of coverage.

The specific forms for commercial banks are the bankers blanket bond, standard form No. 2 and bankers blanket bond standard form No. 24. The form 24 bond is the most widely accepted form as it provides broader coverage. The form No. 2 bond provides the essential coverages and is generally utilized to provide additional or "excess" coverage. The standard form 24 bond is rated at 95 percent of the basic annual premium. The standard form No. 2 bond is rated at 87½ percent of the basic annual premium.

There is an additional charge for each additional location covered under the bond calculated at a flat rate of $5 per employee (at the location) subject to a minimum charge of $100 or $250 dependent upon the extent of the banking operation conducted at the location. The $100 minimum applies to locations that afford only limited banking facilities as distinguished from a general banking business.

Optional coverages are available to commercial banks which provide forgery protection on checks and securities. The check forgery protection is provided by insuring clause D and the securities forgery coverage by insuring clause E.

For insuring clause D a charge is developed on the first $25,000 of coverage for each regular and special checking account dependent upon the average amount of deposits of the bank, ranging from 14 cents per regular account to 50 cents per regular account while special accounts are charged for at a flat rate of 7 cents per account. There is a charge for coverage in excess of $25,000 on a graduated scale at a rate per thousand of coverage ranging from $1.50 per thousand for the first $75,000 in excess of $25,000 to 10 cents per thousand for coverage in excess of $1 million of coverage.

The charge for insuring clause E coverage is developed on a graduated premium table dependent upon the average amount of loans and discounts. Banks with average loans and discounts of $5 million or less the premium charges set forth in the tables represent the annual manual premium for insuring clause E. For banks with average loans and discounts of over $5 million, there is an additional charge based upon such loans and discounts which is added to the basic premium developed from the tables for the amount of coverage selected.

The premium computed for form 2 or 24 coverage within the first basic unit (of coverage) is subject to experience rating. Banks are classified as to size into various deposit groups on the basis of the average amount of the total deposits as reported in the latest published June 30 and December 31 financial statements. For each such deposit group a basic unit (of coverage) is established. The basic unit ranges from $50,000 for banks with average deposits of less than $750,000 to $500,000 for banks with average deposits of $50 million or more.

The experience modification applicable to the premium developed for coverage within the first basic unit (of coverage) is restricted to the range of from .500 to 1.500.

Coverage for commercial banks may be written for a premium term of 1 or 3 years. When written for a term of 3 years, the premium if fully paid in advance, is 2.7 times the annual premium. If paid in installments, the 3-year premium is 2.7 times the annual premium plus 5 percent payable 50 percent in advance, 30 percent at the first anniversary date and 20 percent at the second anniversary date within each 3-year period.

The following is an example of the application of the rating procedures:

Bank with deposits of	$14,764,800
Loans and discounts	$6,000,000
Employees (2 branches)	[1] 37
Regular checking accounts	1,900
Special checking accounts	2,900
Form 24 bond	$250,000
Insuring clause D	$250,000
Insuring clause E	$50,000

[1] Minimum.

RATES AND RATING PROCEDURES EXCESS BANK EMPLOYEE DISHONESTY BLANKET BOND, STANDARD FORM 28

Banks are classified as to size into various "Deposit groups" on the basis of the average amount of the total deposits as reported in the latest published June 30 and December 31 financial statement.

Form 28 coverage is available only in multiples of $1 million and only as excess over a deductible amount of not less than the "Underlying amount" for the appropriate "Deposit group."

The premium charge for a unit of $1 million of form 28 coverage depends upon not only the "Deposit group" of a given insured but also the level over which the coverage is written as excess; that is, whether this level (deductible amount) is at least 100, 150, or 200 percent of the "Underlying amount."

The following schedule shows the annual premiums for $1 million excess bank employee dishonesty blanket bonds, standard form 28, for commercial banks based upon their deposit size:

Deposit group, equal to or over col. (1) (in thousands)	Underlying amount, col. (2) (in thousands)	Annual premium excess over a deductible amount of—		
		Not less than 100 percent of col. (2)—col. (3)	Not less than 150 percent of col. (2)—col. (3-a)	Not less than 200 percent of col. (2)—col. (3-b)
Less than $750	$50	$350	$250	$200
$750	75	390	285	235
$1,500	90	415	310	250
$2,000	120	455	335	270
$3,000	150	450	350	[illegible]
$5,000	175	540	430	[illegible]
$7,500	200	600	475	[illegible]
$10,000	250	610	475	[illegible]
$15,000	300	635	475	[illegible]
$20,000	350	660	475	[illegible]
$25,000	450	675	475	[illegible]
$35,000	550	690	475	[illegible]
$50,000	700	720	475	[illegible]
$75,000	850	760	475	[illegible]
$100,000	1,200	790	475	[illegible]
$150,000	1,700	815	475	[illegible]
$250,000	2,500	(1)	(1)	(1)
$500,000	4,000	(1)	(1)	(1)
$1,000,000	6,000	(1)	(1)	(1)
$2,000,000	6,000	(1)	(1)	(1)

[1] Submit to association.

3. Statistics on losses incurred by bonding companies covering commercial banks

Statistics on the premiums collected and the losses paid by all reporting fidelity companies in the United States on bankers blanket bonds standard forms 2 and 24, including clauses D and E, held by commercial banks, have been furnished by the Surety Association of America. The following data cover the most recent 5-year period available at this time:

Year	Premiums	Losses	Ratio
			Percent
1957	$18,079,930	$10,175,743	56.3
1958	19,322,441	10,617,656	54.9
1959	19,654,350	11,229,293	57.1
1960	21,623,485	15,106,217	69.9
1961	22,888,314	16,717,188	73.0
Total	101,568,520	63,846,097	62.9

The following statistics on the premiums collected and losses paid by all reporting fidelity companies in the United States on excess bank employee dishonesty blanket bond, standard form 28, held by commercial banks and first available in April 1958 were also furnished by the Surety Association of America:

Year	Premium	Losses	Ratio
			Percent
1958	$432,066	$40,998	9.5
1959	752,276		
1960	1,001,294	1,810,488	180.8
1961	2,601,244	942,220	36.2
Total	4,786,880	2,793,706	58.4

EXHIBIT A

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 7, 1957.

Dear Sir:

This letter supersedes the Board's letter S-1135 of August 28, 1950, (F.R.L.S. #3625) regarding fidelity coverage and audit and control practices and procedures.

The June 1957 Protective Bulletin issued by the American Bankers Association contains the recommendations of its Insurance and Protective Committee relative to the revision of the schedule of Blanket Bond Coverage. The revised schedule consists of a Suggested Range of Amounts of Blanket Bond Coverage according to deposit size. Enclosed is a reprint of the article "How Much Blanket Bond?" from the Protective Bulletin, a copy of which was sent by the American Bankers Association to the officer in charge of examinations at each Reserve Bank.

The Board feels that all banks should provide adequate amounts of Blanket Bond Coverage and that the schedule suggested by the bankers' own committee should be a useful guide in making a determination as to the appropriate amounts of coverage in relation to the exposure involved.

Comments in Reports of Examination

The Board requests that the Reserve Banks endeavor to see that each State member bank provides such coverage as may be appropriate and feasible in the circumstances and, in any event, at least the amount of coverage suggested by the ABA Committee. The revised schedule contemplates that appropriate amounts of suggested coverage may be arrived at by interpolation. The enclosed table, EXAM 292 (Revised October 1957), has been prepared for the use of your examiners in arriving at the appropriate amounts of Blanket Bond Coverage for banks of various sizes. (Examiners for the Comptroller of the Currency and the Federal Deposit Insurance Corporation have been supplied with the same table.) A supply of the table and the reprint from the June 1957 Protective Bulletin are being sent to your Bank.

In subsequent reports of examination of State member banks having Blanket Bond Coverage below the amounts indicated in the table, it is suggested that a statement along these lines be included on page 19, under "Comments":

"It is suggested that your bank should have Bankers Blanket Bond Coverage of, at least, $__________. In this connection, the Insurance and Protective Committee of the American Bankers Association suggests Blanket Bond Coverage of $__________ to $__________ for banks with deposits of $__________ to $__________."

Where there is a material deficiency in the amount of Blanket Bond Coverage, appropriate comments should be included on page 2 of the examination report and in the letter of transmittal requesting corrective action.

Computation of Deposit Base

Attention is called to the comments in the Protective Bulletin regarding deductions to be made for balances in United States Treasury Tax and Loan Accounts and for deposits at branches in arriving at the deposit base.

In the case of banks with branches, the total amount of deposits at the largest office in the branch banking institution (whether it be the head office or one of the branches) may be used as the deposit base in arriving at the appropriate amount of Blanket Bond Coverage. The Protective Bulletin suggests that "Before adopting this approach to determine the amount of blanket bond coverage to be carried, careful analysis should be made of branch office operations, and particularly auditing procedure. If there is an opportunity for one employee acting alone or in collusion with others to manipulate deposit accounts, loan balances or other records pertaining to more than one office, it seems preferable to consider only total deposits at the head office and all branches."

It is requested that all reports of examination of banks with branches show the amount of deposits at each branch on page 16 if not shown on the follow sheets to page 1(a) of the report.

Audit and Control Practices and Procedures

Although important, the provision of fidelity and other insurance protection is no substitute for appropriate internal safeguards. It is requested, therefore, that examiners be instructed to be especially vigilant in reviewing the audit and control practices and procedures in effect in each State member bank examined and include appropriate comments on pages 2 and 16 where the internal safeguards are not regarded as satisfactory.

In cases where defalcations have occurred between examinations, it is requested that the examiners be instructed to include detailed comments in the confidential section as to (1) the procedure through which the defalcation was effected and (2) the changes made, or to be made, in the audit and control practices of the bank with a view to the prevention of similar occurrences in the future. Where the inclusion of such information would delay the submission of the report of examination or would otherwise be impracticablo, it is suggested that the Division of Examinations be advised by letter or memorandum when the detailed information becomes available.

Very truly yours,

S. R. Carpenter,
Secretary.

Enclosures 2

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

EXAM 292
(Rev. October 1957)

AMOUNTS OF BLANKET BOND COVERAGE BASED ON
SUGGESTIONS OF INSURANCE AND PROTECTIVE COMMITTEE
OF AMERICAN BANKERS ASSOCIATION

(000 omitted)

sted deposits l to or over	Suggested Coverage	Adjusted deposits equal to or over	Suggested Coverage
300	25	25,000	350
500	35	30,000	400
750	50	35,000	450
1,000	60	42,500	500
1,500	75	50,000	550
,000	90	62,500	625
,500	105	75,000	700
,000	120	100,000	850
,000	135	125,000	1,025
,000	150	150,000	1,200
,000	160	200,000	1,450
,500	175	250,000	1,700
,000	190	375,000	2,100
,000	200	500,000	2,500
,500	225	750,000	3,250
,000	250	1,000,000	4,000
,500	275	1,500,000	5,000
,000	300	2,000,000	6,000
,500	325	Over 2,000,000	6,000 and up

EXHIBIT A-1

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 15, 1961.

Dear Sir:

Excess employee dishonesty blanket bonds in multiples of $1 million were made available to banks in 1958 by the Surety Association of America, and information about this coverage was forwarded to the Vice President in charge of examinations at your Bank in a letter of July 8, 1958, from the Board's Division of Examinations.

Recent bank defalcations include a number where insurance has been inadequate, and in some cases severe losses or even bank failures could have been averted if the $1 million dishonesty bond had been held.

The Board believes that boards of directors of banks should be impressed with the necessity of carrying adequate fidelity insurance, and those banks which are not protected by the $1 million dishonesty bond, or its equivalent, should give consideration to its acquisition. There is enclosed a reprint of the "Protective Bulletin" of the American Bankers Association of June 1960 discussing "Directors responsibility for defalcation losses."

The Board requests that, in the course of each examination of a State member bank, Federal Reserve Bank examiners discuss with bank officers and with directors when available the protective benefits and relatively low costs of the excess employee dishonesty bond where such insurance, or its equivalent, is not held. Such discussions should of course be conducted prudently and tactfully, and comments should be made on page 2 of the report of examination respecting the views of the bank's management toward the examiner's suggestions. In banks where the primary bankers blanket bonds are so large in total amount that an increase in the amount of fidelity insurance would not add appreciably to the practical protection afforded the bank, examiners may dispense with discussion with the management. Letters transmitting examination reports should emphasize the desirability of acquiring the additional insurance protection provided by the excess employee dishonesty blanket bonds in support of comments on page 2.

Existing efforts to assure that State member banks have adequate audits and internal controls should also be intensified.

A supply of the "Protective Bulletin" will be sent under separate cover for the use of examiners.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
(Enclosures with addressed copies only)

EXHIBIT A-2

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 28, 1962.

Dear Sir:

In its letter of March 15, 1961 (S-1785), the Board suggested that the protective benefits and low cost of the $1 million excess fidelity bond should be recommended to banks by examiners, and comments on page 2 of examination reports and in letters transmitting such reports to banks should emphasize the need for acquiring the additional insurance protection.

Federal and State supervisors and many banking associations joined in this effort and, as a net result, the number of banks having in force the $1 million excess fidelity bond increased from about 2,000 to approximately 6,500 during this period. More than 200 additional banks are acquiring the protection of these fidelity bonds each month.

The risk to depositors in banks which are not insured by the $1 million fidelity bond, however, is still great with nearly 45 per cent of the nation's banks exposed to possible crippling defalcation losses. This was clearly evident recently when a $1,750,000 bank was closed by the embezzlement of $350,000 by its managing officer. In this case, the bankers blanket bond was $125,000 and capital about $150,000. There was no excess fidelity bond to save this bank from closing.

The Board believes that efforts to convince banks of the need for the protective benefits of the $1 million excess fidelity bond as outlined in S-1785 mentioned above should be continued and redoubled. One Federal Reserve Bank has experienced considerable success by writing letters to boards of directors of State member banks not known to have obtained the $1 million excess fidelity bond to impress them with the necessity of acquiring this form of depositor protection. A copy of the letter used by this Bank is enclosed for your guidance, and unless it has already been done by your Bank, it is recommended that an appropriate officer of your Bank send a similar letter to banks not known to have obtained the $1 million bond. This would be in addition to the suggested actions to be taken in connection with the Board's letter of March 15, 1961.

The Board is also convinced that many larger banks do not have sufficient protection from the primary bankers blanket bond and also need the additional protection available from the $1 million excess fidelity bond, which may be obtained in larger amounts if necessary. An example of the need for this extra protection by larger banks occurred in a $61 million bank having a bankers blanket bond of $700,000 and the $1 million fidelity bond. A defalcation loss occurred of $1,412,145, of which more than 50 per cent, or $712,145 was insured under the $1 million excess fidelity bond. Thus, even larger banks in some cases may need to give consideration to obtaining the protective benefits of the excess fidelity bond, and examiners should bear this in mind when examining such banks.

Vigorous efforts to assure that banks have adequate internal controls and audits should, of course, be continued as a means of prevention of bank crime.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

(Copy of a Letter from the Vice President
of a Federal Reserve Bank to a Member Bank)
November 16, 1961.

During recent months considerable interest has been manifest in excess employee dishonesty bonds available to banks in multiples of $1 million at reasonable cost with a rapidly expanding group of banks attaining this protection. An article in May 1961 issue of the Protective Bulletin, which your bank probably receives from the Insurance and Protective Committee of the American Bankers Association, reports that in nine instances during 1960 defalcations exceeded primary coverage carried by the banks affected; losses of six of the underinsured banks which carried the excess coverage exceeded their blanket bonds at $530,000. Without the additional protection afforded by the excess bonds these nine institutions would have suffered losses aggregating $2,952,000. Figures for six months ending June 30, 1961, indicate the record for the current year may be even worse.

Review of your file as part of a survey of all State member institutions indicates that at the examination of your bank as of May 31, 1961, you did not have a policy of this nature. It is, of course, to be hoped there will never be a need to collect under such insurance. In reality, though, there are a great number of very serious shortages every year which wreck banks and shock their communities. There is no insurance to cover human suffering and adverse publicity resulting from such events but the premium on a dishonesty bond seems a small price to pay for protection against financial loss to the bank which may easily exceed the primary fidelity coverage.

We are wondering whether you have considered the matter and if you now have this insurance we would appreciate hearing from you to that effect in order that we may advise the Board of Governors of the Federal Reserve System. If not, we would like to suggest that you give careful thought to the advisability of obtaining such a bond. When the degree of protection afforded is weighed in relation to the premium there would seem to be little room for doubt that it represents money well spent.

As we feel sure the Commissioner of Banking would concur in our recommendation a copy of this letter is being furnished him and it will be appreciated if you will send him a copy of your reply.

Yours very truly,

(Signed)

Vice President.

(Exhibit B is in the committee files.)

[Reprinted from the Digest of Bank Insurance Issued by the Insurance and Protective Committee of the American Bankers Association]

EXHIBIT C

Principal differences in bankers blanket bonds (compiled December 1965)

	Form 2	Form 24	Lloyd's HANC	Forms 5 and NAMS
Losses covered	Direct loss of property *sustained* at any time but *discovered* while the bond is in force.	Any losses *sustained* at any time but *discovered* while the bond is in force—not limited to direct losses.	Similar to form 24.	Similar to form 24.
Property covered	Property as defined including: Money securities and other instruments; precious metals of all kinds and articles made therefrom; jewelry, gems, precious and semiprecious stones.	Similar to form 2, but covers additional items, such as canceled postage stamps, deeds, and other valuable papers and documents, including records. (See sec. 4 in bond.)	Similar to form 24, also "valuables, and the like."	Similar to form 24.
	Not specified.	Chattels not enumerated for which the insured is legally liable are also covered until other insurance is obtained but not longer than 60 days.	Similar to form 24 but without 60-day limitation.	Not specified.
Causes of loss: 1. Dishonesty of officers and employees.	Any dishonest act wherever committed, alone or in collusion with others.	As in form 2, *also* fraudulent or criminal acts and includes, but is not limited to, loss of property.	Similar to form 24.	Similar to form 24.
	"Guest Students" and retained attorneys are covered.	Same as form 2.	Similar to form 2.	Similar to form 2; also covers conveyancers.
2. Burglary, robbery, larceny, etc.	Robbery, burglary, larceny, theft, holdup, misplacement, mysterious unexplainable disappearance, damage or destruction. Also covers loss of subscription privileges, etc., through *temporary* misplacement of securities.	As in form 2 and in addition false pretenses.	Similar to form 24.	Similar to form 24 and in addition abstraction or removal from possession, custody or control of insured; also see item 7 below.
On premises	Insured offices, branches, and recognized places of safe deposit—banking institutions, clearing houses, transfer agents and registrars, all in the United States—the U.S. Treasury, subtreasuries, mints and assay offices.	Any offices or premises located *anywhere*, except an office excluded or in the mail or with a carrier for hire other than an armored motor vehicle company. Also covers loss of property in possession of customers, within insured's premises and through robbery or holdup at outside tellers' windows, driveways, parking lots or similar facilities.	Any premises wherever situated, except in the mail or with a railway express or air express carrier. Also covers loss of property in possession of customers similar to form 24.	Similar to form 24.

EXHIBIT C

Principal differences in bankers blanket bonds (compiled December 1965)—Continued

	Form 2	Form 24	Lloyd's HANC	Forms 5 and NAMS
Causes of loss—Continued 3. Robbery, theft, larceny, etc., in transit.	Robbery, larceny, theft, holdup, misplacement, mysterious unexplainable disappearance, or through negligence. Also covers loss of subscription privileges, etc., by temporary misplacement of securities.	Similar to form 2 and in addition damage or destruction, being lost or otherwise made away with.	Similar to form 24.	Similar to form 24 and in addition specify embezzlement and misappropriation of property. NAMS also specifies being "mislaid."
Transit territory	In the United States and within 20 miles of each office located outside the United States.	Anywhere.	Anywhere.	Anywhere.
Transit conditions	In custody of employees, or armored car company with one or more *armed guards.*	In custody of employees or any other persons acting as messengers, except in the mail or with a carrier for hire other than an armored motor vehicle company.	Except in the mail or with a railway express or air express carrier.	Similar to form 24.
4. Damage to offices and loss of or damage to equipment.	Resulting from larceny, theft, burglary, robbery, holdup, vandalism or malicious mischief; covering offices, furnishings, fixtures, stationery, supplies, and equipment owned by insured or liable therefor—not fire damage.	Same as form 2.	Similar to form 2, but also covers damage to building where office is located.	Same as form 2, except do not specify insured must own or be liable for property damaged.
5. Forgery insuring clause D.	Optional by rider at additional premium for coverage same as form 24.	Forgery or alteration of, on or in checks, drafts and other instruments named, including certain written instructions, receipts for the withdrawal of funds or property, and *payment* of promissory notes. Promissory notes must be payable at insured bank and paid from funds on deposit. (May be written without this forgery clause.)	Similar to form 24, but omits the requirement that promissory notes must be payable at insured bank and paid from funds on deposit.	Forgery or alteration of, on or in *any instrument;* also cover guaranteeing signatures on transfers, assignments, powers of attorney, etc., in connection with securities, regardless of authority to so act.
6. Forgery insuring clause E.	Optional by rider at additional premium for coverage same as form 24.	In any capacity purchased or acquired, accepted, received, sold, delivered, given any value, extended any credit, assumed any liability or otherwise acted upon any securities, documents, or other written instruments which are counterfeited, forged, altered, lost or stolen. Also covers *any* loss through guaranteeing or witnessing signatures on securities. Excludes checks, drafts, money orders, and other losses which are specified in clause D. (May be written without this forgery clause.)	This clause is not included, but similar coverage may be added by rider.	

7. Fraud	Not specified.	Not specified.	Not specified.	Loss of property through any other fraud or dishonesty.
8. Redemption of U.S. savings bonds.	Paying or redeeming, or guaranteeing signatures upon, U.S. savings bonds, series A to E, or Armed Forces leave bonds, which have been forged, counterfeited, raised or otherwise altered, or lost or stolen.	Same as form 2.	Same as form 2.	Same as form 2.
9. Counterfeit currency	Not specified.	The receipt of counterfeited or altered paper currencies or coin of the United States.	Similar to form 24. Also covers counterfeited currencies or coin of the Dominion of Canada.	Similar to form 24.
10. Indemnity against court costs and attorneys' fees.	Incurred in defending any suit to enforce a claim which, if established, would be a loss collectible under the bond.	Same as form 2.	Same as form 2.	Same as form 2.
11. Mortgage servicing contractors.	Not covered.	Loss through any fraudulent or dishonest acts and loss through failure to pay money collected or received—optional by rider for additional premium.	Similar to form 24.	Form 5 same as form 24. NAMS form similar to form 24.
Exclusions: Forgery	Not covered unless committed by employees or unless covered by the redemption of US savings bonds insuring clause or by one of the optional clauses, D or E.	Same as form 2.	Not covered unless by the fidelity insuring clause, the U.S. savings bonds insuring clause or a forgery insuring clause.	Not excluded.
Hurricane, earthquake, etc.	Not covered.	Same as form 2.	Similar to form 2, but losses due to hurricane are not excluded.	Same as form 2.
War, usurped power, etc., riot, civil commotion.	Not covered on premises but *are covered in transit* when person initiating transit had no knowledge of military, naval or usurped power, insurrection, riot or civil commotion.	Similar to form 2, except losses due to riot and civil commotion in the United States and Canada are not excluded.	Similar to form 24.	Similar to form 24, except losses due to riot and civil commotion *anywhere* are not excluded.
Nuclear fission or fusion	Not covered unless loss results from industrial use of nuclear energy.	Same as form 2.	No specific exclusion.	Form 5 same as form 2. No specific exclusion in NAMS form.
Directors' acts	Not covered, except acts of a director who is a *salaried*, *pensioned* or *elected* official or an Employee or who is appointed to perform specific acts.	Same as form 2.	Similar to form 2.	Same as form 2.

EXHIBIT C

Principal differences in bankers blanket bonds (compiled December 1965)—Continued

	Form 2	Form 24	Lloyd's HANC	Forms 5 and NAMS
Exclusions—Continued Larceny or theft—voluntary delivery.	Not covered when property is delivered by bank employee unless dishonesty of employee is involved (sec. 1d). Does not exclude any loss covered by forgery clause D or E.	No similar exclusion.	No similar exclusion.	No similar exclusion.
Loans	Not covered unless dishonesty of employee is involved (sec. 1d). Does not exclude any loss covered by forgery clause D or E when added by rider.	Not covered unless dishonest, fraudulent, or criminal act of employee is involved or unless covered by forgery clause D or E.	Not covered unless dishonesty, etc., of employee is involved or unless covered by a forgery insuring clause.	Similar to form 24.
Safe deposit boxes	Not covered unless through dishonesty of identifiable employee *and* insured is legally liable.	Similar to form 2, except insured is not required to *identify* dishonest employee.	Similar to form 24.	Covered if insured is legally liable.
Travelers checks	Unsold checks not covered unless dishonesty of employee is involved *and* insured as legally liable *and* checks are later paid. When forgery clause D is added by rider, also excludes *paying* forged or altered travelers checks unless dishonest employee involved.	Similar to form 2, except that loss of unsold checks where dishonest employee involved is not excluded regardless of insured's liability and later payment of checks. Also excludes loss through *paying* forged travelers checks unless dishonest employee involved.	No exclusion.	No exclusion.
Armored car	Loss covered if not recoverable from armored car company, its insurer, or other insurance, and then only as excess.	Same as form 2.	No such limitation, but policy is excess over other similar insurance carried by insured.	Form 5 similar to form 2, NAMS form similar to HANC form.
Property not owned	Not covered after 3 business days from receipt unless examined and a record made or verified.	No such exclusion	No such exclusion.	"Affirmative proof of loss with full particulars" required within 6 months.
Tellers' shortages due to error.	Not covered. Shortages of *normal* amounts are considered due to error unless dishonesty, theft, etc., can be proved.	Same as form 2, but may be covered for an additional premium.	No exclusion.	No exclusion.
Foreign exchange	Excludes losses arising out of fluctuations in exchange.	No such exclusion.	No such exclusion.	No such exclusion.

Nonreduction of liability	Payment of loss does not reduce underwriters' liability for other losses whenever sustained. Underwriters' total liability limited to amount of bond as to loss(es) caused by *any* one person or by any one casualty or event. This limitation does not apply to separate burglaries or robberies committed by the same burglar(s) or bandit(s) without employee implication or to separate unintentional or negligent acts of *any* person.	Same as form 2.	Similar to form 2.	Similar to form 2.
Discovery period after termination.	12 months at request of insured for additional premium, if coverage is not replaced in whole or in part.	Same as form 2.	24 months at request of insured for additional premium, if coverage is not replaced in whole or in part.	Same as form 2.
Notice and proof of loss	Notice at the earliest practical moment. Proof within 90 days.	Notice at the earliest practical moment. Proof within 6 months.	Notice within a reasonable time. Proof not specified.	Notice earliest practical moment. Proof within 6 months.
Legal proceedings	Within 12 months from discovery of loss.	Within 24 months after discovery of loss.	No limitation specified.	Same as form 24.

NOTE.—This chart lists the principal differences in forms 2, 24, HANC 5 and NAMS written on a discovery basis which has been recommended to all banks since September 1954. Any blanket bonds still written on loss-sustained forms without a discovery rider should be converted to discovery forms.

EXHIBIT C-1

LIST OF BANK INSURANCE

and Other Coverages

Revised June, 1958

FORM OF CONTRACT	RISKS COVERED
1. Bankers Blanket Bond Standard Form No. 24	A. Dishonesty of officers and employees including, but not limited to, loss of Property as defined.
	B. Loss of Property (cash, securities, etc.) through burglary, robbery, larceny, false pretenses, misplacement, disappearance, destruction, etc., on *any premises anywhere.*
	C. Loss of Property through robbery, larceny, disappearance, or otherwise made away with, etc., in *transit.*
	D. Forgery of checks, drafts, acceptances, etc., optional for additional premium.
	E. Forgery of securities, documents or other written instruments optional for additional premium.
	F. Paying, redeeming or guaranteeing signatures upon forged, altered, lost or stolen U. S. Savings Bonds or Armed Forces Leave Bonds.
	G. Loss through receiving counterfeit U. S. currency or coin.
	H. Indemnity for court costs and attorneys' fees in defending suits.
2. Lloyd's Banks' and Trust Cos' Policy — Form HANC (1955)	Similar to Form 24 above.
3. Bankers Blanket Bond Standard Form No. 2	Similar to Form 24 above, but not so broad in several respects.
4. Bankers Blanket Bonds for Savings Banks: Standard Form No. 5 Revised, "NAMS" Form	Similar to Form 24 above and broader in some respects.
5. Optional Endorsements for Blanket Bond Forms 24, 2 and 5	Fraudulent or dishonest acts of mortgage servicing contractors and real estate agents and their failure to pay funds collected. (Bankers Servicing Contractors Rider.)
	Loss on loans through acceptance of real property mortgages, deeds of trust or like instruments or assignment of such instruments on which signatures are defective by reason of fraud. (Rider to cover fraudulent mortgages, etc.—SR 5609.)

FORM OF CONTRACT	RISKS COVERED
6. Excess Bank Employee Dishonesty Insurance—$1 million	Dishonest acts of officers and employees in excess of a designated underlying amount of bankers blanket bond coverage.
7. Excess Securities Coverage	Destruction, disappearance or wrongful abstraction of securities, excluding fidelity.
8. Securities Deposited with Bank or Trust Company Policy	Destruction, disappearance or wrongful abstraction of securities within the premises or while being conveyed by an officer or employee of the depository.
9. Securities Deposited with Public Officials Policy	Destruction, disappearance or wrongful abstraction of securities while in the custody, possession or within any depository of the custodian.
10. Fidelity Schedule Bond A.B.A. Standard Form Copyright 1936	Dishonesty of officers and employees specifically named in the bond.
11. Bank Burglary and Robbery Policy A.B.A. Standard Form Copyright 1937	Loss of and damage to Property (cash, securities, etc.) by burglary from specified safes by robbery on insured's premises.
12. Messenger Robbery Policy	Loss of and damage to Property (cash and securities as defined) by robbery in custody of officer or employee.
13. Money and Securities Policy Broad Form	Robbery, destruction, disappearance or wrongful abstraction of money and securities being conveyed by messenger.
14. "All Risk" Transit Policy	"All risks" of securities in transit by messenger or armored car, usually as excess over bankers blanket bonds, but may grant primary coverage also.
15. Bankers Limited Forgery Bond	Payment by insured of forged or altered savings account withdrawal orders or receipts, certain certified checks, certificates of deposit, etc.
16. Bankers Blanket Forgery and Alteration Bond	Forged checks and drafts ostensibly drawn or endorsed by customers; also payment (but not discount) of promissory notes, trade and bank acceptances; savings withdrawals not covered.
17. Bankers Forgery Bond, Lenders Form	Forgery of notes and similar instruments used in consumer financing.

FORM OF CONTRACT	RISKS COVERED
18. Securities Bond Standard Form No. 3	Forgery, alteration, etc., of securities (and related documents) purchased, taken as collateral, or sold; also guaranteeing or witnessing signatures.
19. Securities Bond Standard Form No. 4	Forgery, etc., of securities (and related documents) when transferring, registering, issuing, redeeming, etc., own issues or others' issues.
20. Lloyd's Forgery Policy (securities, etc.)	Counterfeited, raised, altered, lost or stolen securities and related documents received, delivered or acted upon, and including other losses by forgery not covered by bankers blanket coverage.
21. Combination Safe Depository Policy	A. Loss, damage or destruction of property in customers' safe deposit boxes when bank is *legally* liable. B. Loss of property in customers' safe deposit boxes through burglary or robbery whether or not bank is legally liable.
22. Lloyd's Safe Deposit Policy	Similar to Item 21 above, but broader.
23. Individual Safe Deposit Box Burglary and Robbery Policy (for lessees of boxe.,	Similar to Item 21-B above but covers directly the lessee and not the bank.
24. Registered Mail and Express Policy	"All risks" including excess coverage of theft by employees of bank or addressee of Property (cash, securities, etc., as defined) sent by registered mail, air mail, express, air express. (War risk excluded unless specifically covered.)
25. First Class Mail Bonds and Policies	All risks, except war, on shipments of non-negotiable securities and specified shipments of negotiable securities in limited amounts.
26. Lost Securities Bonds	To protect bank from possible loss when issuing for customers and others *duplicate* checks, passbooks, certificates of deposit, stock certificates, bonds and other instruments to replace those which have been lost. Bank may furnish such bond when requesting replacement of lost securities, etc., it owns.

FORM OF CONTRACT	RISKS COVERED
27. Fire Policy	Direct loss, including damage, by fire or lightning of real and personal property excluding money, securities, notes, records, etc. Fire caused by war, invasion, etc., not covered.
28. Extended Coverage Endorsement (added to fire policy)	Direct loss or damage by windstorm, cyclone, tornado and hail, explosion, riot, aircraft, smoke, vehicles; subject to various exceptions.
29. Homeowners Policies (various forms)	Fire, lightning and extended coverage exposures; optional are additional extended coverage exposures and all risk. All forms include theft, comprehensive personal liability, property damage.
30. Errors and Omissions	Loss to bank as mortgagee for lack of proper insurance due to error or omission and legal liability under all perils as mortgagee, fiduciary or mortgage servicer.
31. Extra Expense	Cost of using other premises, equipment, etc., because of damage to, or destruction of, insured's premises by fire or other insured hazards.
32. Rental Income	Loss of rental income when property rented to others is unoccupied because of fire or other insured hazards.
33. Business Interruption (Use and Occupancy)	Loss of earnings, etc., where business operations interrupted because of fire or other insured hazards.
34. Comprehensive General Liability	All general liability risks, except those specifically excluded.
35. Comprehensive Automobile Liability	All liability risks arising from automobiles except those specifically excluded.
36. Optional Endorsements for Comprehensive Liability Policies	Medical Payments — necessary expenses incurred within one year from date of accident. Fiduciary Liability of Banks — liability risks of corporate fiduciaries, co-fiduciaries and other parties with interests in estates, trusts and real estate management contracts. Substitution of "Occurrence" for "Accident" — events that might not be deemed an accident. (Comprehensive General only.)

FORM OF CONTRACT	RISKS COVERED
36. *(Continued)*	Personal Injury — liability arising from false arrest, malicious prosecution, wilful detention or imprisonment, libel, slander, defamation of character, invasion of privacy, wrongful eviction or wrongful entry. (Comprehensive General only.)
	Check Stop Payment — liability from refusal to pay, failure to stop payment or to give proper notice of dishonor of any check or draft. (Comprehensive General only.)
	Repossessed Automobiles — liability with respect to automobiles being repossessed and use thereof for resale. (Comprehensive Automobile only.)
37. Comprehensive General — Automobile Liability Policy	All general and automobile liability risks except those specifically excluded. Combines coverages of Items 34 and 35.
38. Public Liability of Owners, Landlords and Tenants	Liability to the public for bodily injuries or death due to accidents on insured premises. (Excludes injuries to insured's employees.)
39. Property Damage	Liability for damage to property of others, such as lessees of real estate owned by insured—may be part of Owners' Public Liability Policy.
40. Elevator Liability	Liability to the public for bodily injuries or death due to accidents in connection with elevators on owned or leased premises.
41. Automobile — public liability — property damage	Bodily injuries to the public and damage to property of others.
42. Automobile — non-ownership — hired car liability	Bodily injuries to the public and damage to property of others in use of cars not owned by insured but used on insured's business.
43. Automobile — fire and theft	Loss through fire, lightning or theft anywhere.
— comprehensive	Loss by fire, theft, pilferage, windstorm, hail, explosion, earthquake, water, malicious mischief or vandalism.
— collision	Damage to insured's car by accidental collision or upset.

FORM OF CONTRACT	RISKS COVERED
44. Workmen's Compensation	Liability imposed by workmen's compensation laws of the declared states where operations are carried on, because of injuries or death to employees by accident in the course of employment.
45. Boiler Explosion and Machinery Breakdown	Damage to property of insured and others and liability for personal injury or death to public.
46. Sprinkler Leakage (and liability for damage)	Damage by water caused by leakage or accidental operation of sprinkler system. Liability of owner or lessor for such damage.
47. Water Damage (and liability for damage)	Damage by water from accidents to plumbing or heating systems, defective piping, freezing, overflowing, etc. (Excludes rising or surface waters and sewers.) Legal liability of insured may also be covered.
48. Earthquake	Direct loss of and damage to property by earthquake.
49. Plate Glass	Accidental breakage of or damage to plate glass and lettering—chiefly a replacement coverage.
50. Valuable Papers and Destruction of Records Policy	Cost of reproducing records damaged or destroyed, including cost of blank books and other materials. Similar coverage provided under bankers blanket bonds. Also, covers cost of research not included under bankers blanket bonds. (War risk excluded.)
51. Depositors Forgery Bond; Comprehensive Dishonesty Disappearance and Destruction Policy (for depositors)	Forgery or alteration of checks, drafts, etc., and indemnifies *depository* bank as well as the depositor. Incoming check coverage may be added by rider. Comprehensive 3-D Policy also covers other risks, such as fidelity, burglary and robbery, for additional premiums.

Note: This list includes the contracts in general use by banks and omits some forms not generally carried by banks, also other forms applicable to transactions with bank customers, including trust activities.

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
January 30, 1964.

Mr. JOSEPH P. MCMURRAY,
Chairman, Federal Home Loan Bank Board,
Federal Home Loan Bank Board Building, Washington, D.C.

DEAR MR. MCMURRAY: During the recent out-of-town hearings held by the Production and Stabilization Subcommittee of the Senate Banking and Currency Committee on S. 750, the truth-in-lending bill, a number of questions arose in regard to the bonding of individuals handling funds in savings and loan associations, credit unions, and commercial banks.

During these hearings, it was agreed the chairman of the Production and Stabilization Subcommittee would address letters to the respective agencies requesting information about the bonding coverage required under the various laws applying to these various financial institutions. It would be most helpful to the subcommittee if you would submit to us information on the following aspects of bonds required of savings and loan association officers as well as bonding experience:

1. A description of the bonding coverage required by law including the number of persons required to be covered as well as extent of loss covered;
2. Information as to rates charged by commercial companies offering this bonding coverage;
3. Statistics on losses incurred by bonding companies covering Federal savings and loan associations.

It would be very helpful if you could provide this information not only for Federal savings and loan associations but for State-chartered savings and loan associations. Of course, I realize that you have no direct responsibility for the operation of State-chartered savings and loan associations; however, any information you may have on State bonding programs will be helpful to the subcommittee.

If possible, we would like to have this information by February 10, 1964.

Sincerely,

PAUL H. DOUGLAS,
Chairman, Subcommittee on Production and Stabilization.

FEDERAL HOME LOAN BANK BOARD,
Washington, D.C., February 6, 1964.

Hon. PAUL H. DOUGLAS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR DOUGLAS: I am pleased to be able to supply the following information responsive to your request of January 30, 1964:

1. Bonding coverage required of Federal savings and loan associations and of State-chartered savings and loan associations insured by the Federal Savings and Loan Insurance Corporation.

(*a*) Sections 563.19, 563.20 and 563.21 of the Rules and Regulations for Insurance of Accounts prescribed requirements as to minimum amount of bond, persons who must be bonded, form of bond, and acceptable bonding companies, with which requirements all such institutions must comply. These requirements are as high as, or higher than, those of the States generally. Copies of the cited regulations are enclosed.

(*b*) Also enclosed are copies of Savings and Loan Blanket Bond, Standard Form No. 22, revised to September 1960, designed especially for savings and loan associations and approved by us as acceptable under the provisions of section 563.19 of the regulations.

(*c*) In respect to the regulatory requirement that required bonds shall be executed by responsible sureties acceptable to the Insurance Corporation, we have determined as acceptable all of the many companies listed in the circular of the Treasury Department as having complied with the law and the regulations of the Treasury and that are acceptable thereunder as sureties on Federal bonds.

2. Rates of premiums charged by bonding companies.

A statement or description of the rates charged is made most difficult by reason of the fact that the rate in each case depends upon such variables as the size of the institution, the amount of coverage, number of employees, number of branch offices, number of agents, etc. For instance, for form No. 22 institutions having assets of $4 million or less are charged by basic units and then in price units for each $25,000 of coverage purchased. There is a further charge if forgery coverage is desired. Enclosed for such assistance as they may be are copies of relevant pages of the manual published by the Surety Association of America.

3. Losses incurred by bonding companies.

Our information as to bonding company losses is limited to defalcations committed by directors, officers, employees, and agents of insured institutions, and we are not in position to furnish anything about their losses from robberies and burglaries.

Enclosed are tables summarizing our data for the 5½ years ended June 30, 1963, and showing losses paid by bonding companies as a result of such defalcations. Compilation of comparable information for the last half of 1963 has not yet been completed.

I understand that the Surety Association of America, 110 William Street, New York City, acts as a statistical center for member companies, and perhaps it can be helpful to you.

If I can add any further explanation or clarification, I shall be glad to do so.

Sincerely,

JOSEPH P. MCMURRAY, *Chairman.*

SAVINGS AND LOAN BLANKET BOND

Standard Form No. 22 Revised to September, 1960

Bond No.

(Herein called Underwriter)

DECLARATIONS

Item 1. Name of Insured (herein called Insured):

Principal Address: (NO.) (STREET) (CITY) (STATE)

Item 2. Bond Period: from noon on (MONTH, DAY, YEAR)

to noon on the effective date of the termination of this bond, standard time at the Principal Address as to each of said dates.

Item 3. Limit of Liability: $

except as follows:

Audit Expense Coverage: $

Item 4. The liability of the Underwriter is subject to the terms of the following riders attached hereto:

Item 5. The Insured by the acceptance of this bond gives notice to the Underwriter terminating or canceling prior bond(s) or policy(ies) No.(s)
such termination or cancelation to be effective as of the time this bond becomes effective.

SPECIMEN

The Underwriter, in consideration of an agreed premium, and subject to the Declarations made a part hereof, the General Agreements, Conditions and Limitations and other terms of this bond, agrees with the Insured, in accordance with the Insuring Agreements hereof to which an amount of insurance is applicable as set forth in Item 3 of the Declarations and with respect to loss sustained by the Insured at any time but discovered during the Bond Period, to indemnify and hold harmless the Insured for:

INSURING AGREEMENTS

FIDELITY

(A) Any loss through any dishonest, fraudulent or criminal act of any of the Employees, committed anywhere and whether committed alone or in collusion with others, including loss, through any such act of any of the Employees, of Property held by the Insured for any purpose or in any capacity and whether so held gratuitously or not and whether or not the Insured is legally liable therefor.

AUDIT EXPENSE

Any expense incurred by the Insured for that part of the cost of audits or examinations required by State or Federal supervisory authorities to be conducted either by such authorities or by independent accountants by reason of the discovery of loss sustained by the Insured through dishonest, fraudulent or criminal acts of any of the Employees. The total liability of the Underwriter for such expense by reason of such acts of any Employee or in which such Employee is concerned or implicated or with respect to any one audit or examination is limited to the amount stated opposite "Audit Expense Coverage" in Item 3 of the Declarations; it being understood, however, that such expense shall be deemed to be loss sustained by the Insured through dishonest, fraudulent or criminal acts of one or more of the Employees and the liability of the Underwriter under this paragraph of Insuring Agreement (A) shall be a part of and not in addition to the Limit of Liability stated in Item 3 of the Declarations.

ON PREMISES

(B) Any loss of Property through robbery, burglary, common-law or statutory larceny, theft, hold-up, misplacement, mysterious unexplainable disappearance, damage or destruction, abstraction or removal from the possession, custody or control of the Insured (whether with or without negligence on the part of any Employee) and loss of subscription, conversion, redemption or deposit privileges through the misplacement or loss of Property, while the Property is (or is supposed to be) held in or on any premises anywhere, except while in the mail or with a carrier for hire other than an armored motor vehicle company for the purpose of transportation.

Any loss of any of the items of property enumerated in the paragraph defining Property, in the possession of any customer of the Insured or of any representative of such customer, whether or not the Insured is legally liable for the loss thereof, provided such loss is included in the Insured's proof of loss,

(a) through any hazard specified in the preceding paragraph, while such property is within any of the Insured's offices covered hereunder, or

(b) through robbery or hold-up while such customer or representative is actually transacting business with the Insured at an outside window or other similar facility offered to the public for that purpose by the Insured, and attended by an Employee of the Insured, at any of the Insured's offices covered hereunder, or

(c) through robbery or hold-up during business hours while such customer or representative is in any building or on any driveway, parking lot or similar facility maintained by the Insured as a convenience for such customers or representatives using motor vehicles provided that any such customer or representative is present in such building or on such facility for the purpose of transacting business with the Insured at any of the Insured's offices covered hereunder;

excluding, in any event, loss caused by such customer or any representative of such customer.

OFFICES AND EQUIPMENT

Any loss of furnishings, fixtures, stationery, supplies or equipment in any of the Insured's offices, or loss through damage to any such office and to the furnishings, fixtures, stationery, supplies or equipment therein, in either case caused by larceny or theft in, or by burglary, robbery or hold-up of, such office, or attempt thereat, or by vandalism or malicious mischief, provided that the Insured is the owner of such offices, furnishings, fixtures, stationery, supplies or equipment, or is liable for such loss or damage,—always excepting, however, all loss or damage through fire.

IN TRANSIT

(C) Any loss of Property (occurring with or without negligence) through robbery, common-law or statutory larceny, embezzlement, theft, hold-up, misappropriation, misplacement, mysterious unexplainable disappearance, being lost, stolen or otherwise made away with, damage or destruction, and loss of subscription, conversion, redemption or deposit privileges through the misplacement or loss of Property, while the Property is in transit anywhere in the custody of any of the Employees of the Insured or of any other person acting as messenger, except while in the mail or with a carrier for hire other than an armored motor vehicle company for the purpose of transportation, such transit to begin immediately upon receipt of such Property by the transporting Employee or such other person, and to end immediately upon the delivery thereof at destination.

FORGERY OR ALTERATION

(D) Any loss through forgery or alteration of, on, or in any instrument.

FRAUD

(E) Any loss of Property through any other form of fraud or dishonesty by any person or persons, whether Employees or not.

GUARANTEEING OR WITNESSING OF SIGNATURES

(F) Any loss through guaranteeing in writing or witnessing any signatures, whether for valuable consideration or not, and whether or not such guaranteeing or witnessing is ultra vires the Insured, upon any transfers, assignments, bills of sale, powers of attorney, guarantees, endorsements, or other documents upon or in connection with any securities.

REDEMPTION OF UNITED STATES SAVINGS BONDS

(G) Any loss through paying or redeeming any United States Savings Bonds, Series A to E, inclusive, or Armed Forces Leave Bonds, which shall have been forged, counterfeited, raised or otherwise altered, or lost or stolen.

COUNTERFEIT CURRENCY

(H) Any loss through the receipt by the Insured in good faith, of any counterfeited or altered paper currencies or coin of the United States of America issued or purporting to have been issued by the United States of America or issued pursuant to a United States of America Statute for use as currency.

SAFE DEPOSIT BOX LEGAL LIABILITY

(I) Any loss as a result of legal liability for loss or destruction of or damage to any property contained in customers' safe deposit boxes in the vault or vaults located within the premises of the Insured or within that part of the premises occupied by the Insured in conducting a safe deposit business, or contained in vaults and for which customers have been issued storage receipts.

GENERAL AGREEMENTS

ADDITIONAL OFFICES OR EMPLOYEES—CONSOLIDATION OR MERGER

A. The Insured shall be at liberty to change the situation of any of its business premises or to open new premises or to increase the number of persons employed by it. No notice to the Underwriter of an increase during any premium period in the number of its offices or employees need be given and no additional premium need be paid for the remainder of such premium period, unless such increase shall result from the consolidation or merger with, or purchase of assets of, some other institution.

WARRANTY

B. No statement made by or on behalf of the Insured, whether contained in the application or otherwise, shall be deemed to be a warranty of anything except that it is true to the best of the knowledge and belief of the person making the statement.

PRIORITY

C. This bond gives coverage primarily with respect to the Property of the Insured and only secondarily with respect to any other Property, so that the Insured shall not be obligated to share any recovery thereunder with others to whom the Insured is not legally liable, to its own prejudice, but the Underwriter will not enforce its right of subrogation in any case solely on account of the fact that the Insured was not legally liable.

COURT COSTS AND ATTORNEYS' FEES

(Applicable to all Insuring Agreements now or hereafter forming part of this bond)

D. The Underwriter will indemnify the Insured against court costs and reasonable attorneys' fees incurred and paid by the Insured in defending any suit or legal proceeding brought against the Insured to enforce the Insured's liability or alleged liability on account of any loss, claim or damage which, if established against the Insured, would constitute a valid and collectible loss sustained by the Insured under the terms of this bond. Such indemnity shall be in addition to the amount of this bond. In consideration of such indemnity, the Insured shall promptly give notice to the Underwriter of the institution of any such suit or legal proceeding; at the request of the Underwriter shall furnish it with copies of all pleadings and other papers therein; and at the Underwriter's election shall permit the Underwriter to conduct the defense of such suit or legal proceeding, in the Insured's name, through attorneys of the Underwriter's own selection. In the event of such election by the Underwriter, the Insured shall give all reasonable information and assistance, other than pecuniary, which the Underwriter shall deem necessary to the proper defense of such suit or legal proceeding.

THE FOREGOING INSURING AGREEMENTS AND GENERAL AGREEMENTS ARE SUBJECT TO THE FOLLOWING CONDITIONS AND LIMITATIONS:

DEFINITIONS

Section 1. The following terms, as used in this bond, shall have the respective meanings stated in this Section:

(a) "Employee" means:

(1) any officer or employee of the Insured;

(2) any employee of an executive officer of the Insured;

(3) any duly elected or appointed attorney of the Insured or any employee of such attorney;

(4) any natural person (sometimes known as conveyancer) duly elected or appointed by the Insured to draw deeds of conveyances of lands, to investigate titles of real property or otherwise to assist the Insured in the making (as distinguished from the servicing or collection) of mortgage loans, while performing such services;

(5) any natural person duly elected or appointed by the Insured to collect rents for the account of the Insured while collecting or having possession of such rents; and

(6) any natural person appointed by or with the approval of the Insured to make collection of savings from persons who compose, or purport to compose, a group making systematic deposits with the Insured while collecting or having possession of any such savings and such savings, while upon the premises where collected and in the possession or custody of the said person collecting them, shall be deemed to be in the possession of the Insured.

(b) "Property" means money, currency, coin, bank notes, Federal Reserve notes, postage and revenue stamps, U. S. Savings Stamps, bullion, precious metals of all kinds and in any form and articles made therefrom, jewelry, watches, necklaces, bracelets, gems, precious and semi-precious stones, bonds, securities, evidences of debts, debentures, scrip, passbooks held as collateral, certificates, income shares, prepaid shares, full paid shares, matured shares, receipts, warrants, rights, transfers, coupons, drafts, bills of exchange, acceptances, notes, checks, money orders, travelers' letters of credit, warehouse receipts, bills of lading, withdrawal orders, abstracts of title, insurance policies, deeds, mortgages upon real estate and/or upon chattels and upon interests therein, and assignments of such policies, mortgages and instruments, and other valuable papers and documents, and all other instruments similar to or in the nature of the foregoing, in which the Insured has an interest or which are held by the Insured for any purpose or in any capacity and whether so held gratuitously or not and whether or not the Insured is liable therefor.

EXCLUSIONS

Section 2. This Bond Does Not Cover:

(a) Any loss due to military, naval or usurped power, war or insurrection unless such loss occurs in transit, in the circumstances recited in Insuring Agreement (C), and unless, when such transit was initiated, there was no knowledge of such military, naval or usurped power, war or insurrection on the part of any person acting for the Insured in initiating such transit; or any loss due to hurricane, cyclone, tornado, earthquake, volcanic eruption or similar disturbance of nature.

(b) Any loss, in time of peace or war, directly or indirectly caused by or resulting from the effects of nuclear fission or fusion or radioactivity; provided, however, that this paragraph shall not apply to loss resulting from industrial uses of nuclear energy.

(c) Any loss resulting wholly or partly from the wrongful act or default of any of the directors or trustees of the Insured who are not employed by the Insured at a salary, except when performing acts coming within the scope of the usual duties of an Employee, or while acting as a member of any committee duly elected or appointed by resolution of the board of directors or trustees of the Insured to perform specific, as distinguished from general, directorial acts on behalf of the Insured.

(d) Any loss the result of the complete or partial non-payment of or default upon any loan made by or obtained from the Insured, whether procured in good faith or through trick, artifice, fraud or dishonesty, except when covered by Insuring Agreement (A) or (D).

(e) Any loss of property contained in customers' safe deposit boxes except when covered by Insuring Agreement (I) or the second paragraph of Insuring Agreement (B).

(f) Any loss of Property or any loss of privileges through the misplacement or loss of Property as set forth in Insuring Agreement (C) while the Property is in transit in the custody of any armored motor vehicle company unless such loss of Property or such loss of privileges shall be in excess of the amount recovered or received by the Insured under (a) the Insured's contract with said armored motor vehicle company, (b) insurance carried by said armored motor vehicle company for the benefit of users of its service, and (c) all other insurance and indemnity in force in whatsoever form carried by or for the benefit of users of said armored motor vehicle company's service, and then this bond shall cover only such excess.

(g) Any loss of unsold travelers' checks placed in the custody of the Insured with authority to sell, where no fraud or dishonesty on the part of any of the Employees is involved, unless (a) the Insured is legally liable for such loss of such checks and (b) such checks are later paid or honored by the drawer thereof.

(h) Any expense incurred by the Insured for any audit or examination whether conducted by the Insured, by independent accountants or by State or Federal supervisory authorities and whether or not conducted by reason of the discovery of loss sustained by the Insured through dishonest, fraudulent or criminal acts of any of the Employees except when covered under the second paragraph of Insuring Agreement (A).

LOSS—NOTICE—PROOF—LEGAL PROCEEDINGS

Section 3. At the earliest practicable moment after discovery of any loss hereunder the Insured shall give the Underwriter written notice thereof and shall also within six months after such discovery furnish to the Underwriter affirmative proof of loss with full particulars. Legal proceedings for recovery of any loss hereunder shall not be brought prior to the expiration of sixty days after such proof of loss is filed with the Underwriter nor after the expiration of twenty-four months from the discovery of such loss, except that any action or proceeding to recover hereunder on account of any judgment against the Insured in any suit mentioned in General Agreement D or to recover attorneys' fees paid in any such suit, shall be begun within twenty-four months from the date upon which the judgment in such suit shall become final. If the Insured be a Federal Savings and Loan Association or a state-chartered association insured by the Federal Savings and Loan Insurance Corporation, but not subject to state supervisory authority, it is understood and agreed that in case of any loss hereunder discovered either by the Insured or the Federal Home Loan Bank of which the Insured is a member, the said Federal Home Loan Bank is empowered to give notice thereof to the Underwriter within the period limited therefor. If any limitation embodied in this bond is prohibited by any law controlling the construction hereof, such limitation shall be deemed to be amended so as to be equal to the minimum period of limitation permitted by such law.

VALUATION

Securities

Section 4. The Underwriter shall settle in kind its liability under this bond on account of a loss of any securities, or at the option of the Insured shall pay to the Insured the cost of replacing such securities, determined by the average market value thereof on the day preceding discovery of such loss by the Insured. In case of a loss of subscription, conversion, redemption or deposit privileges, as above set forth, the amount of such loss shall be the value of such privileges immediately preceding the expiration thereof. If such securities cannot be replaced or have no quoted market value, or if such privileges have no quoted market value, their value shall be determined by agreement or arbitration. Any loss under this bond of money, currency or funds of any country shall be paid in the money, currency or funds of such country or, at the option of the Insured, in the United States of America dollar equivalent thereof determined by the rate of exchange at the time of the payment of such loss. Any other loss sustained at any of the Insured's offices and payable in money shall be paid in the money, currency or funds of the country in which such office is located or at the option of the Insured, in the United States of America dollar equivalent thereof determined by the rate of exchange at the time of the payment of such loss.

BOOKS OF ACCOUNTS AND OTHER RECORDS

In case of any loss of or damage to Property consisting of books of accounts or other records used by the Insured in the conduct of its business, the Underwriter shall be liable under this bond only if such books or records are actually reproduced and then for not more than the cost of the blank books, blank pages or other materials plus the cost of labor for the actual transcription or copying of data which shall have been furnished by the Insured in order to reproduce such books and other records.

PROPERTY OTHER THAN SECURITIES OR RECORDS

In case of any loss of or damage to any Property other than securities, books of accounts or other records as aforesaid or damage to the Insured's offices covered under this bond, or loss of or damage to the furnishings, fixtures, stationery, supplies and equipment therein, the Underwriter shall not be liable for more than the actual cash value of such Property, or of such furnishings, fixtures, stationery, supplies and equipment, or for more than the actual cost of repairing such Property or offices, furnishings, fixtures, stationery, supplies and equipment, or of replacing same with property or material of like quality and value. The Underwriter may, at its election, pay such actual cash value, or make such repairs or replacements.

SALVAGE

Section 5. If the Insured shall sustain any loss covered by this bond which exceeds the amount of coverage provided by this bond plus the Deductible Amount, if any, applicable to such loss, the Insured shall be entitled to all recoveries made after payment by the Underwriter of loss covered by this bond, except from suretyship, insurance, reinsurance, security and indemnity taken by or for the benefit of the Underwriter, by whomsoever made, less the actual cost of effecting such recoveries, until reimbursed for such excess loss; and any remainder, or, if there be no such excess loss, any such recoveries shall be applied first in reimbursement of the Underwriter and thereafter in reimbursement of the Insured for that part of such loss within such Deductible Amount. The Insured shall execute all necessary papers to secure to the Underwriter the rights herein provided for.

NON-REDUCTION OF LIABILITY

Section 6. Payment of loss under this bond shall not reduce the liability of the Underwriter under this bond for other losses whenever sustained, PROVIDED, however, that the total liability of the Underwriter under this bond on account of (a) any loss caused by any one act of burglary, robbery or hold-up, or attempt thereat, in which no Employee is concerned or implicated, or (b) any loss with respect to any one unintentional or negligent act or omission on the part of any person (whether one of the Employees or not) resulting in damage to or destruction or misplacement of Property, or (c) any loss other than those specified in (a) and (b) preceding, caused by acts or omissions of any one person (whether one of the Employees or not) or acts or omissions in which such person is concerned or implicated, or (d) any loss with respect to any one casualty or event, is limited to the Limit of Liability stated in Item 3 of the Declarations of this bond, irrespective of the total amount of such loss.

NON-ACCUMULATION OF LIABILITY

Section 7. Regardless of the number of years this bond shall continue in force and the number of premiums which shall be payable or paid, the liability of the Underwriter under this bond with respect to any loss specified in the PROVIDED clause of Section 6 of this bond shall not be cumulative in amounts from year to year or from period to period.

LIABILITY UNDER THIS BOND AND PRIOR INSURANCE

Section 8. With respect to any loss set forth in sub-section (c) of the PROVIDED clause of Section 6 of this bond which is recoverable or recovered in whole or in part under any other bonds or policies issued by the Underwriter to the Insured or to any predecessor in interest of the Insured and terminated or canceled or allowed to expire and in which the period for discovery has not expired at the time any such loss thereunder is discovered, the total liability of the Underwriter under this bond and under such other bonds or policies shall not exceed, in the aggregate, the amount carried hereunder on such loss or the amount available to the Insured under such other bonds or policies, as limited by the terms and conditions thereof, for such loss if the latter amount be larger.

If the coverage of this bond supersedes in whole or in part the coverage of any other bond or policy of insurance issued by an Insurer other than the Underwriter and terminated, canceled or allowed to expire, the Underwriter, with respect to any loss sustained prior to such termination, cancelation or expiration and discovered within the period permitted under such other bond or policy for the discovery of loss thereunder, shall be liable under this bond only for that part of such loss covered by this bond as is in excess of the amount recoverable or recovered on account of such loss under such other bond or policy, anything to the contrary in such other bond or policy notwithstanding.

OTHER INSURANCE OR INDEMNITY

Section 9. If the Insured carries or holds any other insurance or indemnity covering any loss covered by this bond, the Underwriter shall be liable hereunder only for that part of such loss which is in excess of the amount recoverable or recovered from such other insurance or indemnity. In no event shall the Underwriter be liable for more than the amount of the coverage of this bond applicable to such loss; subject, nevertheless, to Section 6 of this bond.

TERMINATION

Section 10. This bond shall terminate in its entirety—(a) thirty days after the receipt by the Insured of a written notice from the Underwriter of its desire to terminate this bond, or (b) immediately upon the receipt by the Underwriter of a written request from the Insured to terminate this bond, or (c) immediately upon the taking over of the Insured by a receiver or other liquidator or by State or Federal officials, or (d) immediately upon the taking over of the Insured by another institution. The Underwriter shall, on request, refund to the Insured the unearned premium computed pro rata if this bond be terminated or reduced by notice from or at the instance of the Underwriter, or if terminated as provided in subsection (c) or (d) of this paragraph. The Underwriter, shall refund to the Insured the unearned premium computed at short rates if this bond be terminated or reduced by notice from or at the instance of the Insured. If the Insured be a Federal Savings and Loan Association or a state-chartered association insured by the Federal Savings and Loan Insurance Corporation, no termination of this bond in its entirety, whether by the Insured or the Underwriter, shall take effect prior to the expiration of ten days from the receipt by the Federal Home Loan Bank of which the Insured is a member of written notice of such termination unless an earlier date of termination is approved by said Federal Home Loan Bank.

This bond shall terminate as to any Employee—(a) immediately upon discovery by the Insured of any dishonest or fraudulent act on the part of such Employee, without prejudice to the loss of any Property then in transit in the custody of such Employee, or (b) fifteen days after the receipt by the Insured of a written notice from the Underwriter of its desire to terminate this bond as to such Employee.

RIGHTS AFTER TERMINATION

Section 11. At any time prior to the termination of this bond as an entirety, whether by the Insured or the Underwriter, the Insured may give to the Underwriter notice that it desires under this bond an additional period of twelve months within which to discover loss sustained by the Insured prior to the effective date of such termination and shall pay an additional premium therefor. If this bond is terminated as an entirety by reason of the taking over of the Insured by a receiver or other liquidator or by State or Federal officials, such receiver or other liquidator or State or Federal officials shall have the rights of the Insured and be subject to the same limitations as set forth in this paragraph provided that such rights are exercised by notice to the Underwriter within thirty days after such Insured is taken over by such receiver or other liquidator or State or Federal officials and provided, further, that such Insured has not previously exercised such rights. Upon receipt of such notice from the Insured or from such receiver or other liquidator or State or Federal officials the Underwriter shall give its written consent thereto; provided, however, that such additional period of time shall terminate forthwith on the effective date of any other insurance obtained by the Insured, its successors in business or such receiver or other liquidator or State or Federal officials replacing in whole or in part the insurance afforded by this bond whether or not such other insurance provides coverage for loss sustained prior to the effective date of such other insurance, and in such event the Underwriter shall refund any unearned premium.

In witness whereof, the Underwriter has caused this bond to be executed on the Declarations page.

ANALYSIS OF CHANGES IN SAVINGS AND LOAN BLANKET BOND, STANDARD FORM NO. 22 REVISED TO SEPTEMBER, 1960

The Surety Association of America in collaboration with the United States Savings and Loan League has revised to September, 1960 Savings and Loan Blanket Bond, Standard Form No. 22. The format of the bond has been changed to a "Declarations" page basis so that all typing will be done on the Declarations page.

Other than editorial amendments, the changes are as follows:

DECLARATIONS PAGE

1. Limit of Liability—Item 3 of the Declarations page sets forth the amount of coverage given under the bond applicable to all Insuring Agreements except Audit Expense Coverage which is now made a part of the Fidelity Insuring Agreement.
2. Riders—Provision is made in Item 4 for the listing of riders attached to the bond at the time it is issued. This provision corresponds to Section 13 of the prior edition of this bond.
3. Cancelation of Prior Bonds or Policies—Provision is made under Item 5 for cancelation of prior bonds or policies. This is similar to the corresponding provision at the end of the prior edition of this bond.

GENERAL COMMENT

The following riders have been included in the various provisions of this bond.

1. SR 5081 —Conveyancers Rider
2. SR 5407 —Counterfeit Currency Rider
3. SR 5415 —Safe Deposit Box Legal Liability Rider
4. SR 5463 —Books and Records Rider
5. SR 5478 —Premises Rider—Customers
6. SR 5512b—Nuclear Exclusion Rider
7. SR 5506 —Discovery Rider including the provision on Rights After Termination.

INSURING AGREEMENTS

In the prior edition of this bond there were separate Insuring Clauses for the collectors of rents and collectors of group deposits. This coverage is now given by means of an amendment to the definition of the word "Employee" to include such collectors. Accordingly, the separate Insuring Clauses giving coverage on these collectors have been eliminated.

In order to promote uniformity with other types of Bankers Blanket Bonds, the prior designation of Insuring Clauses as 1, 2, 3 etc. has been changed to (A), (B), (C), and (D) etc. and in this connection the Forgery Insuring Clause has been changed from Insuring Clause 2 to Insuring Agreement (D).

Fidelity Insuring Agreement

The definition of the word "Employees" previously included as a part of the Fidelity Insuring Agreement has been taken out of the Agreement and inserted as one of the Conditions and Limitations of the bond.

Since it appears that there has been some confusion by reason of the prior provision in the Fidelity Insuring Clause reading "including loss of Property by reason of any such act of any such Employee whether acting alone or in collusion with others", this provision has been amended in an effort to clarify its intent i.e. to cover loss, through employee dishonesty, of Property held by the Insured for any purpose or in any capacity, whether or not the Insured is legally liable therefor.

Audit Expense

This is a new provision reading as follows:

"Any expense incurred by the Insured for that part of the cost of audits or examinations required by State or Federal supervisory authorities to be conducted either by such authorities or by independent accountants by reason of the discovery of loss sustained by the Insured through dishonest, fraudulent or criminal acts of any of the Employees. The total liability of the Underwriter for such expense by reason of such acts of any Employee or in which such Employee is concerned or implicated or with respect to any one audit or examination is limited to the amount stated opposite 'Audit Expense Coverage' in Item 3 of the Declarations it being understood, however, that such expense shall be deemed to be loss sustained by the Insured through dishonest, fraudulent or criminal acts of one or more of the Employees and the liability of the Underwriter under this paragraph of Insuring Agreement (A) shall be a part of and not in addition to the Limit of Liability stated in Item 3 of the Declarations".

In view of the inclusion of Audit Expense Coverage, as above specified, there has been added to the bond an exclusion that the bond does not cover:

"Any expense incurred by the Insured for any audit or examination whether conducted by the Insured, by independent accountants or by State or Federal supervisory authorities and whether or not conducted by reason of the discovery of loss sustained by the Insured through dishonest, fraudulent or criminal acts of any of the Employees except when covered under the second paragraph of Insuring Agreement (A)".

On Premises Insuring Agreement

The second paragraph of this Insuring Agreement has been changed to follow the "Premises Rider—Customers" designated SR 5478 and the officers and equipment paragraph has been amended in accordance with the "Books and Records Rider" designated SR 5463.

Other Insuring Agreements

As stated above the Counterfeit Currency Insuring Agreement and the Safe Deposit Box Legal Liability Insuring Agreement previously available by rider, have now been included in the basic bond form as Insuring Agreements (H) and (I), respectively. Except for changes in designation, the other Insuring Agreements remain the same.

GENERAL AGREEMENTS

To conform to the format of more recently revised coverages, General Agreements have been included as follows:

A. Additional Offices or Employees—Consolidation or Merger—"Purchase of assets" of some other institution has been added. This provision was formerly a part of the Conditions and Limitations.

B. Warranty—This provision was formerly a part of the Conditions and Limitations.

C. Priority—This provision was formerly a part of the Conditions and Limitations.

D. Court Costs and Attorneys' Fees—This provision was formerly a part of the Insuring Clauses. It is now included as a General Agreement because the indemnity provided by this paragraph is in addition to the amount of the bond.

CONDITIONS AND LIMITATIONS

Definitions—The Conditions and Limitations include, in Section 1, the definition of "Employee" which was formerly included in the Fidelity Insuring Agreement and a definition of the word "Property" which was formerly the second paragraph of the bond.

As above mentioned, conveyancers have been included as Employees and collectors of rents and of group deposits are also included as Employees.

Exclusions (Section 2)—The Nuclear exclusion formerly added to the bond by rider designated SR 5512b has been included in the bond in sub-section (b) and since Savings and Loan Associations may now issue travelers' checks, a travelers' check exclusion has been added in sub-section (g). The other exclusions correspond to those contained in the prior edition of this bond.

Valuation—This provision has been amended in accordance with the Books and Records Rider designated SR 5463.

Salvage—This provision has been revised so that a deductible may be used on the bond, if desired, without the necessity of amending the Salvage Clause.

Liability Under This Bond and Prior Insurance—A part from some editorial changes, this provision is the same as that contained in the prior edition of this bond as amended by the provision included in the Discovery Rider designates SR 5506.

Termination—This section has been revised to follow the more recently adopted termination provisions included in other forms of Bankers or Brokers Blanket Bonds.

Rights After Termination—This section follows the paragraph included in the Discovery Rider designates SR 5506 except that there has also been included a provision giving a receiver or other liquidator or State or Federal officials certain rights upon taking over the Insured. In addition, in the event that the Insured or its receiver or other liquidator or State or Federal officials, upon termination of the bond, obtains an additional period of twelve months within which to discover loss sustained by the Insured prior to the effective date of such termination and such Insured, its successors, or such receiver, liquidator, State or Federal official shall obtain other insurance replacing in whole or in part the insurance afforded by the bond, the intent that such additional period of time shall terminate forthwith on the effective date of any such other insurance so obtained is clarified by the addition of the phrase "whether or not such other insurance provides coverage for loss sustained prior to the effective date of such other insurance".

THIS ANALYSIS IS INTENDED TO BE INFORMATIVE ONLY. THE TERMS AND PROVISIONS OF THE BOND AND RIDERS WILL GOVERN ANY QUESTION ARISING IN CONNECTION THEREWITH.

SR 5751 Printed in U.S.A.

Revision of May 17, 1948.

FI-76

BLANKET BONDS—FINANCIAL INSTITUTIONS

Clearing Houses

★1. For coverage of less than $100,000. compute the premium in exactly the same manner as though issued for $100,000. The following percentages of the premium so determined shall be charged for the amounts of coverage set forth below:

Amounts of Coverage	Percentage to be Charged
$25,000.	35%
50,000.	60%
75,000.	80%

All premiums are subject to experience rating.

Revision of May 17, 1948.

FI-77

BLANKET BONDS—FINANCIAL INSTITUTIONS

Savings Building and Loan Associations

Institutions Eligible.

Savings, Building and Loan Associations and Cooperative Banks in Massachusetts and Homestead Ass'ns in Louisiana.

Bond Form Available.

Standard Form 22.

Standard Form 16 Revised—may be continued for Insureds now carrying this form. Not permissible for new Insureds.

Coverage.

Standard Form 16 contains—

Fidelity, Premises and In Transit Insuring Clauses.

Premises Insuring Clause—may be extended by rider for an additional premium to cover misplacement and mysterious unexplainable disappearance.

Form 22 contains—

Fidelity Insuring Clause—extended to cover fraudulent or criminal as well as dishonest acts.

Premises Insuring Clause—extended to cover misplacement, mysterious unexplainable disappearance, abstraction or removal from the possession, custody or control of the Insured while lodged or deposited anywhere in the ordinary course of business.

In Transit Insuring Clause—extended to cover misappropriation, misplacement, mysterious unexplainable disappearance, being lost, stolen or otherwise made away with.

Forgery Insuring Clause—extended to cover loss by reason of the forgery or alteration of any instrument.

Insuring Clause covering any other form of fraud or dishonesty by any person or persons.

Insuring Clause covering collectors of rents as employees.

Insuring Clause covering deposits by school children.

Insuring Clause covering damage except by fire to Insured's offices, furnishings, fixtures, equipment, safes and vaults from specified causes.

Insuring Clause providing indemnity against certain court costs and attorneys' fees.

Revision of June 13, 1962

FI-78

BLANKET BONDS—FINANCIAL INSTITUTIONS

Savings, Bldg. and Loan Associations

Rules.

1. *Deductible Rider.*

See p. FI-79(a).

Credit for Underlying Fidelity.

(a) If non-statutory Underlying Fidelity coverage is carried, credit is allowed at the rate of **$1.50** per M, or if Underlying Fidelity coverage is statutory, allow credit of 50% of the premium paid for such statutory Fidelity coverage, except as to Savings, Building and Loan Associations in Ohio for which credit allowance is **$1.50** per M, subject to the following conditions:

(b) For bonds less than $25,000., net premium shall not be less than 75% of the Primary Blanket Bond premium.

(c) For bonds of $25,000. or more, net premium shall not be less than 50% of the Primary Blanket Bond premium.

(d) Credit for Underlying Fidelity Coverage set forth above is allowed on the Primary Blanket Bond premium after including the statutory surcharge of 25%, if applicable, and in the case of Form 16 Revised after discount has been applied.

3. *Closed Associations.*

When Forms 16 Revised and 22 are issued in favor of Receivers or Liquidators of closed Savings, Building and Loan Associations, charge the same premium as for a solvent Association for the first year of receivership or liquidation. On second and subsequent years, the premium is computed as for a solvent Association except that the premium for such bonds is subject to a discount of 30%.

Revision of June 13, 1962

FI-79

BLANKET BONDS—FINANCIAL INSTITUTIONS

Savings, Bldg. and Loan Associations

1. *Statutory Bankers Blanket Bonds.*

Faithful Performance of Duty may be required on officers, employees, or designated positions by Statute or Departmental ruling of certain States. *Not* applicable to Federal Savings and Loan Associations in any State.

As this Statutory requirement may be read into Blanket Bonds for Associations in such States, Standard Form of Rider providing for Statutory coverage for use in such States should be attached. Premium for Class A and B Associations is computed as for a Non-Statutory bond and the final premium surcharged twenty-five per cent (25%). This surcharge is applied on Form 22 exclusive of the Forgery charge and on Form 16 with or without Misplacement after the discount has been applied.

2. *Optional Riders.*

(a) Rider covering Bankers Servicing Contractors, see page FI-88.

(b) Rider covering Agents (excluding Bankers Servicing Contractors). For each Agent covered by the rider, charge an additional annual premium of $10.00 on the primary bond. Each partnership or corporation covered by the rider shall be considered as one Agent.

★ (c) Fraudulent Real Property Mortgages Rider, see p. FI-92.

(d) Savings Deposits by School Children. Rider for Form 16 Revised when issued to Savings, Bldg. and Loan Associations providing coverage on Savings Deposits by School Children—charge $3.00 for *each* School covered regardless of bond penalty.

★ (e) Rider to convert Form 22 Discovery Form to Loss Sustained Form, see p. FI-80.

★New Page September 21, 1960

TEMPORARY PAGE FI-79(b)

BLANKET BONDS—FINANCIAL INSTITUTIONS

Savings, Building and Loan Associations

Audit Expense Coverage—All Associations

Standard Form 22 as revised to September, 1960 includes Audit Expense Coverage for which there is an additional premium charge based upon the assets of an association in accordance with the following schedule of rates. Audit Expense Coverage may be written in the minimum amount of $1,000 and in multiples of $1,000 up to a maximum of $10,000.

†Assets of the Association as of the end of the latest fiscal year	Annual Additional Premium First $1,000 of Audit Expense Coverage	Each additional $1,000 of Coverage
Up to -$ 100,000.	$10.00	$ 2.00
$ 100,001.- 200,000.	11.00	2.50
200,001.- 300,000.	12.00	3.00
300,001.- 600,000.	13.50	4.00
600,001.- 1,000,000.	15.00	5.00
1,000,001.- 2,000,000.	17.50	6.00
2,000,001.- 3,000,000.	20.00	7.00
3,000,001.- 4,000,000.	22.50	8.00
4,000,001.- 5,000,000.	24.00	8.50
5,000,001.- 10,000,000.	30.00	10.00
10,000,001.- 15,000,000.	35.00	11.00
15,000,001.- 20,000,000.	40.00	12.00
All over 20,000,000.	50.00	15.00

†When separate Savings, Building and Loan Associations are covered as the Insured the aggregate amount of assets of such Associations determines the "Asset Group". The "Asset Group" so determined is applicable in arriving at the additional premium charge for Audit Expense Coverage.

New Associations see p. FI-82.

Code 190 — Form 22 — All Associations — Audit Expense Coverage.

* Revision of June 13, 1962

FI-80

BLANKET BONDS—FINANCIAL INSTITUTIONS

Savings, Building and Loan Associations

Discovery Coverage

Form 22 revised to September 1960 provides coverage against loss, whenever sustained, discovered while such bond is in effect.

This bond does not provide for a period after cancelation in which to discover losses. There is however, a provision under which the Insured, or receiver or liquidator may obtain an additional period of twelve months within which to discover losses sustained prior to cancelation for an additional premium charge. This additional period is available only if the coverage of the bond is not replaced in whole or in part.

ADDITIONAL PREMIUM CHARGE FOR DISCOVERY PERIOD AFTER CANCELATION OF A "DISCOVERY BOND".

When an additional period of twelve months is desired after cancelation in which to discover losses sustained prior to cancelation, charge an additional premium of 25% of the last annual premium. The last annual premium shall be computed on the basis of the amount of coverage in force at the time of cancelation and on the assets or the number of officers and employees, locations, etc., on which the premium for such coverage was based.

Concurrent Bonds.

Bonds on a "discovery" basis may not be written as concurrent with any bond on a "loss sustained" basis.

Excess Bonds—Discovery.

Rider SR-5742 is to be attached to bonds which are written excess over any underlying bond as the rider provides that the coverage is subject to a "Deductible Amount."

LOSS SUSTAINED COVERAGE

Savings and Loan Blanket Bond, Standard Form No. 22 as revised to September, 1960 is on a "discovery" basis, i.e. it covers loss, in accordance with the Agreements, Limitations and Conditions thereof, sustained by the Insured at any time but discovered during the bond period. This bond may be converted to a "Loss Sustained" Form by Rider SR 5760.

Regular Manual rates apply when such bond is converted to a "Loss Sustained" Form.

Revision of June 6, 1956

FI-82

BLANKET BONDS—FINANCIAL INSTITUTIONS

Savings, Bldg. and Loan Associations

★ *Assets—New Associations*

(a) Whenever a blanket bond is issued in favor of a new Savings, Building and Loan Association its "Assets" are determined by the amount of dollar capital requirement stipulated by the appropriate supervisory agency (Federal or State).

(b) At the end of the first fiscal year of the Insured's operation, the "Assets" are to be determined by the actual amount reported at that time.

(c) Premium adjustment, if the bond is written for a three-year term, an adjustment in premium is to be made for the second and third years based upon the assets as reported at the end of the first fiscal year.

Minimum Bond Amounts

Assets of Association as of the end of the latest fiscal year	Minimum Bond
Up to $ 200,000.	$ 2,500.
200,001. to 300,000.	5,000.
300,001. to 600,000.	10,000.
600,001. to 1,000,000.	12,500.
1,000,001. to 2,000,000.	15,000.
2,000,001. to 3,000,000.	20,000.
over 3,000,000.	25,000.

Forgery or Alteration Coverage—All Associations.

Form 22 includes Forgery or Alteration coverage for which there is an additional charge of 10% of the computed premium, exclusive of the charge for optional riders as given at sec. 2, p. FI-79. If Forgery or Alteration coverage is excluded by approved rider, the charge for such coverage is omitted.

Forgery or Alteration Coverage for Less Than the Bond Amount on Form 22 By Permissive Rider.

The minimum amount of Forgery or Alteration coverage shall not be less than the minimum amount of bond required, based on the Association's assets. Premium is computed in the regular manner treating that portion of the bond to which the Rider is applicable as Primary and the remainder as Excess.

Code 655—Savings, Building and Loan Associations—Form 22 Forgery or Alteration coverage only—Class A and B Associations.

Revision of June 13, 1962

FI-83

BLANKET BONDS—FINANCIAL INSTITUTIONS

Savings, Building and Loan Associations

Excess Liability Discounts

1. For premium computation purposes Savings, Building and Loan Associations are classified as to size based upon the total amount of assets as of the end of the latest fiscal year. For each such "Asset Group" a "Basic Unit of Coverage" has been established.
2. Regular manual rates shall apply for aggregate protection for one Insured up to and including the amount of the "Basic Unit of Coverage". For aggregate protection in excess of the "Basic Unit of Coverage" for one Insured the premiums for Coverage exceeding such "Basic Unit of Coverage" are subject to a graduated scale of discounts based upon the amount of coverage carried in relation to the applicable "Basic Unit of Coverage".

Group No.	†Assets of the Association as of the end of the latest fiscal year	Basic Unit of coverage
1	Up to $ 100,000.	$25,000.
2	$100,001 to 200,000.	37,500.
3	200,001 to 300,000.	50,000.
4	300,001 to 600,000.	75,000.
5	600,001 to 1,000,000.	100,000.
6	1,000,001 to 2,000,000.	125,000.
7	2,000,001 to 3,000,000.	150,000.
8	3,000,001 to 4,000,000.	175,000.
9	4,000,001 to 5,000,000.	200,000.
10	5,000,001 to 10,000,000.	275,000.
11	10,000,001 to 15,000,000.	350,000.
12	15,000,001 to 20,000,000.	425,000.
	All over $20,000,000.	500,000.

Where aggregate protection for the Insured exceeds the "Basic Unit of Coverage" given above, the premium for each unit of such additional coverage or part thereof, is subject to the following discounts.

Unit of Coverage	Discount Computed Premium for Excess Liability
"Basic Unit of Coverage"	0
Next multiple or part thereaf	25%
" " " " "	40%
" " " " "	55%
" " " " "	70%
Each Add'l. multiple or part thereof	90%

† When separate Savings, Building and Loan Associations are covered as the Insured the aggregate amount of assets of such Associations determines the "Asset Group". The "Asset Group" so determined is applicable to any additional coverage for one or more of such Associations.

New Associations see p. FI-82.

Revision of June 13, 1962

FI-83(a)

BLANKET BONDS—FINANCIAL INSTITUTIONS

Savings, Bldg. and Loan Associations

1. ***Class A Associations.***

All Associations whose assets do not exceed $4,000,000. as evidenced by the statement published at the end of the latest fiscal year.

2. ***Form 22—Without Forgery or Alteration Coverage, Rate Table for Class A Associations.***

Assets as of the latest fiscal year	AMOUNT OF BOND $25,000	$20,000	$15,000	$12,500	$10,000	$5,000	$2,500
Up to $ 50,000	$78.08	$67.84	$57.60	$52.48	$47.36	$37.12	$32.00
$ 50,001 to 100,000	85.76	75.52	65.28	60.16	55.04	44.80	39.68
100,001 to 200,000	93.44	83.20	72.96	67.84	62.72	52.48	47.36
200,001 to 300,000	102.40	92.16	81.92	76.80	71.68	61.44	
300,001 to 600,000	122.88	112.64	102.40	97.28	92.16		
600,001 to 1,000,000	148.48	138.24	128.00	122.88			
1,000,001 to 2,000,000	174.08	163.84	153.60				
2,000,001 to 3,000,000	194.56	184.32					
3,000,001 to 4,000,000	199.68						

Over $4,000,000 see p. FI-83(b).

Coverage over $25,000.

First $25,000 over	$25,000	$51.20
Next 25,000 "	50,000	44.80
" 25,000 "	75,000	38.40
Each 25,000 "	100,000	32.00

(b) ADD for each Branch Office the same premium as charged for the Head Office. Maximum premium $80.00 per Branch.

3. ***Form 16 Revised.*** See p. FI-83(c).

4. ***New Associations.*** See p. FI-82.

5. ***Forgery and Alteration Coverage.*** See p. FI-82.

6. ***Excess Liability Discounts.*** See p. FI-83

Codes: Form 22—Savings, Building and Loan Associations Without Forgery or Alteration Coverage.

Class A Associations: Loss Sustained 653; Discovery 039.

Revision of June 13, 1962

FI-83(b)

BLANKET BONDS—FINANCIAL INSTITUTIONS

Savings, Bldg. and Loan Associations

1. *Class B Associations. All Associations Having Assets in Excess of $4,000,000.*

2. *Form 22—Without Forgery or Alteration Coverage, Rate Table for Class B Associations. Minimum Bond $25,000.*

First 10 or less employees—H. O. Annual Premium $199.68.

Next 15 employees	$3.84 each
Next 25 employees	3.32 each
Over 50 employees	3.07 each

(a) Include as an employee in premium computation each natural person, (other than an Agent or Servicing Contractor covered by optional rider) who is duly elected or appointed by the Insured to collect rents for the account of the Insured. Include also as an employee each duly elected or appointed attorney of the Insured, and each person appointed to make collections of savings from pupils.

3. *Coverage Over $25,000.*

First	$25,000	over	$ 25,000	$61.44
Next	25,000	"	50,000	61.44
"	25,000	"	75,000	53.24
Each	25,000	"	100,000	45.05

4. *Branches.*

For each Branch add $80.00.

5. *Form 16 Revised.* See p. FI-83(c).

6. *New Associations.* See p. FI-82.

7. *Forgery and Alteration Coverage.* See p. FI-82.

8. *Excess Liability Discounts.* See p. FI-83

Codes: Form 22—Savings, Building and Loan Associations Without Forgery or Alteration Coverage.

Class B Associations: Loss Sustained 654; Discovery 040.

Revised September 21, 1960

FI-83(c)

BLANKET BONDS—FINANCIAL INSTITUTIONS

Savings, Bldg. and Loan Associations

1. *Form 16 Revised. Class A and Class B Associations.*

(a) Form 16 Revised may be continued for Insureds now carrying this form. Not permissible for new Insureds.

(b) For Form 16 Revised with Misplacement Rider compute premium as for Form 22 without charge for Forgery or Alteration coverage and discount premium 10%.

(c) For Form 16 Revised without Misplacement Rider compute premium as for Form 22 without charge for Forgery or Alteration coverage and discount premium 20%.

(d) Form 16 Revised only—Class B Associations which do not meet daily or are not open daily may include as a location either the Secretary's office or Treasurer's office without additional premium charge for such location. Where the Secretary's and the Treasurer's offices are both covered, there is charged an additional total premium of $40.00 for both offices.

* 2. *Deductible Rider—*

See p. FI-79(a).

3 *Credit for Underlying Fidelity—*

See p. FI-78.

* Code 189—Savings, Building and Loan Associations—Form 16 Revised—Class A & B Associations.

DEFALCATIONS IN INSTITUTIONS INSURED
by Federal Savings and Loan Insurance Corporation
By Year Discovered

Year	No. Institutions	By Year Defalcations No.	Amount	Restitution or Recovery	Settlement by Surety	Loss to Institutions
1958	71	72	$ 290,026	$ 82,616	$ 205,690	$ 1,720
1959	79	80	590,510	182,528	398,844	9,138
1960	83	88	478,537	114,365	360,228	3,944
1961	93	102	1,707,227 (1)	257,210	580,591	869,426 (1)
1962	90	93	1,139,574 (2)	164,963	540,170 (3)	288,654 (2)
First Six Months 1963	61	64	389,421	90,673[p]	247,863[p] (3)	3,676[p]
5½-Year Total	477	499	$4,595,295	$892,355	$2,333,386	$1,176,558

NOTES:

(1) Includes 1 defalcation of $1,119,098; excess of loss to institution over its reserves borne by Federal Savings and Loan Insurance Corporation.

(2) Includes 1 defalcation of $445,141; excess of loss to institution over its reserves borne by Federal Savings and Loan Insurance Corporation.

(3) Does not include the following amounts where surety companies have been notified of the defalcations, but settlement had not been made: 1962 - $145,787 (3 cases); 1st 6 mos. 1963 - $47,209 (6 cases). In the event settlements by surety companies are for amounts less than reported defalcations, losses to the institutions would be increased.

[p] Preliminary

February 5, 1964

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
January 30, 1964.

Mr. J. DEANE GANNON,
Director, Bureau of Federal Credit Unions, Department of Health, Education, and Welfare, Washington, D.C.

DEAR MR. GANNON: During the recent out-of-town hearings held by the Production and Stabilization Subcommittee of the Senate Banking and Currency Committee on S. 750, the truth-in-lending bill, a number of questions arose in regard to the bonding of individuals handling funds in credit unions, commercial banks, and savings and loan associations.

During these hearings it was agreed the chairman of the subcommittee would address letters to the respective Federal agencies requesting information about the bonding coverage required under the various laws or rules and regulations applying to these financial institutions. It would be most helpful to the subcommittee if you would submit to us information on the following aspects of bonds required of credit union officers as well as bonding experience:

1. A description of the bonding coverage required by law including the number of persons required to be covered as well as extent of loss covered;
2. Information as to rates charged by commercial companies offering this bonding coverage;
3. Statistics on losses incurred by bonding companies covering Federal credit unions.

It woud be very helpful if you were able to provide this information not only for Federal credit unions but also for State-chartered credit unions as well. Of course, I realize that you have no direct responsibility for the operation of State-chartered credit unions; however, any information you may have on State bonding programs will be helpful to the subcommittee.

If possible, we would like to have this information by February 10, 1964.

Sincerely,

PAUL H. DOUGLAS,
Chairman, Subcommittee on Production and Stabilization.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
SOCIAL SECURITY ADMINISTRATION,
Washington, D.C., February 10, 1964.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Production and Stabilization, Committee on Banking and Currency, U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: This letter is in response to your request of January 30, 1964, for certain information relating to the bonding of individuals handling funds in credit unions.

I regret that we are not able to furnish any information with respect to the State-chartered credit unions other than to indicate our willingness to supply you with the names and addresses of those State supervisory agencies which have this responsibility. I can give you information which relates to Federal credit unions.

Requirements

The Federal Credit Union Act (12 U.S.C.) and more specifically section 21(h) provides as follows:

"The Director is authorized, empowered, and directed to require that every person appointed or elected by any Federal credit union to any position requiring the receipt, payment, or custody of money or other personal property owned by a Federal credit union, or in its custody or control as collateral or otherwise, give bond in a corporate surety company holding a certificate of authority from the Secretary of the Treasury under the Act approved July 30, 1947 (6 U.S.C., secs. 6–13), as an acceptable surety on Federal bonds. Any such bond or bonds shall be in a form approved by the Director with a view to providing surety coverage to the Federal credit union with reference to loss by reason of acts of fraud or dishonesty including forgery, theft, embezzlement, wrongful abstraction, or misapplication on the part of the person, directly or through connivance with others, and such other surety coverages as the Director may determine to be reasonably appropriate or as elsewhere required by this Act. Any such bond or bonds shall be in such an amount in relation to the money or other personal property involved or in relation to the assets of the Federal credit union as the Director may from time to time prescribe by regulation for the purpose of requiring reasonable coverage. In lieu of individual bonds the Director may approve the use of a form of schedule or blanket bond which covers all of the officers and employees of a Federal credit union whose duties include the receipt, payment, or custody of money or other personal property for or on behalf of the Federal credit union. The Director may also approve the use of a form of excess coverage bond whereby a Federal credit union may obtain an amount of coverage in excess of the basic surety coverage."

Pursuant to this authority the Director has issued rules and regulations establishing the minimum standard of form and amount. They are published in title 45 of the Code of Federal Regulations and are as follows:

"301.20 Surety bond coverage for Federal credit unions

"(a) The board of directors of each Federal credit union shall, at least semi-annually, carefully review the bond coverage in force in order to ascertain its adequacy in relation to the exposure and to the minimum requirements fixed from time to time by the Director.

"(b) All surety bonds must provide for faithful-performance-of-duty coverage for any officer or employee while performing any of the duties of the treasurer as prescribed in the Act, the bylaws, or rules and regulations of the Bureau.

"(c) No form of surety bond shall be used except as is approved by the Director. Credit Union Blanket Bond, Standard Form No. 23 of the Surety Association of America (revised to May 1950), plus Faithful Performance Rider (for use with this form to broaden Insuring Clause (A), Revised to May 1950) shall be considered as the minimum coverage required and is hereby approved. Credit Union Blanket Bond—BFCU Optional Form No. 576 plus Faithful Performance of Duty Rider—Form BFCU 576F is also approved. No other bond form may be used unless specifically approved in writing by the Director. No form of surety bond is approved for use by a Federal credit union having its office outside of the continental United States unless by the terms of the bond or by an appropriate rider attached thereto the provisions of the bond are made applicable within the jurisdiction in which the office of such Federal credit union is located.

"(d) All sureties writing Federal credit union bonds must hold a certificate of authority from the Secretary of the Treasury under the act of Congress approved July 30, 1947 (6 U.S.C., secs. 6–13) as an acceptable surety on Federal bonds in the State or jurisdiction concerned.

"(e) The schedule of coverage set forth in paragraph (f) of this section shall not be deemed to cover cash funds of $1,000 or more. In cases where the cash fund (either temporary or permanent) is $1,000 or more, additional coverage to the full extent of the change fund shall be required.

"(f) The following schedule shall be deemed as the minimum requirements only:

Assets:	*Minimum coverage*
0 to $5,000	$1,000
$5,001 to $10,000	2,000
$10,001 to $20,000	4,000
$20,001 to $30,000	6,000
$30,001 to $40,000	8,000
$40,001 to $50,000	10,000
$50,001 to $75,000	15,000
$75,001 to $100,000	20,000
$100,001 to $150,000	30,000
$150,001 to $200,000	40,000
$200,001 to $300,000	50,000
$300,001 to $400,000	60,000
$400,001 to $500,000	70,000
$500,001 to $750,000	85,000
$750,001 to $1,000,000	100,000
Over $1,000,000	[1]

[1] $100,000 plus $50,000 for each additional million or fraction thereof of assets.

"It shall be the duty of the board of directors of each Federal credit union to provide proper protection to meet any circumstance by obtaining adequate bond (and insurance) coverage in excess of the above minimum schedule.

"(g) The Director may require additional coverage for any Federal credit union when, in his opinion, the surety bonds in force are insufficient to provide adequate surety coverage and it shall be the duty of the board of directors of the Federal credit union to obtain such additional coverage within thirty days after the date of written notice."

You will note that the rules and regulations establish standard form No. 23 of the Surety Association of America and optional form No. 576 as the two presently approved forms. Form 576 offers considerably more comprehensive coverages such as outside forgery, misplacement, mysterious disappearance and excess coverages to $1 or $2 million and consequently the rates differ from those for blanket bond No. 23. The Bureau does not have specific information as to bond premium rates.

Form 576 is written only by Employers Mutual Liability Insurance Co. of Wausau, Wis., while form 23 which was devised by the Surety Association of America is written by all stock companies who are members of the association and others. Rate information for form 23 is available from the Surety Association of America, 110 William Street, New York 38, N.Y. We would be glad to contact both sources for you if you so desire.

Statistics on losses

In the light of your request for this information by February 10, we have been able to assemble only the data for the period 1959 through 1963 in the attached schedule. I believe that the footnotes will provide an adequate explanation of the data. If, however, you should have any questions concerning the schedule or any part of this letter, please contact us.

Sincerely yours,

J. DEANE GANNON, *Director*.

Losses incurred by Federal credit unions paid by bonding companies, 1959–63

Year	New cases			Breakdown in amount of cases closed			
	Number	Amount	Average	Restitution	Paid by surety	Loss absorbed by credit union	Total
1959	92	$397,289.68	$4,318.36	$38,604.98	$97,005.39	$3,142.08	$138 752.45
1960	93	343,298.72	3,691.38	36,896.59	244,233.34	6,103.53	287,233.46
1961	77	324.031.06	4,208.19	52.749.72	196,976.72	9,633.98	259 390.42
1962	98	402 345.15	4,105.56	64.378.96	339,738.63	23,818.07	427,935.66
1963	91	294,303.27	3,234.10	39,696.52	187,636.68	32,415.15	259,748.35
Total	451	1,761,267.88	3,905.25	232,326.77	1,065,590.76	75,112.81	1,373,030.34

According to the information reported to us by the Federal credit unions, the amount of bond coverage was, in each case, sufficient to cover the amount of the defalcation or embezzlement.

Those losses absorbed by the Federal credit unions were either not covered by the surety bond or were claims, or portion of claims, which were denied by the surety company.

The "Breakdown in Amount of Cases Closed" section of the schedule pertains only to cases discovered during the period from January 1, 1959, through December 31, 1963. The amounts in the total column of this section represent losses brought to a conclusion during each of the years listed. Therefore, the difference between the total of new cases opened during the 5-year period and the total of the cases closed for the same period represents those that had not been brought to a conclusion as of December 31, 1963. There were 37 such cases, totaling $388,237.54.

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
January 30, 1964.

MR. MORTIMER M. CAPLIN,
Director, Internal Revenue Service,
Washington, D.C.

DEAR MR. CAPLIN: At hearings on S. 750 by the Production and Stabilization Subcommittee of the Senate Banking and Currency Committee last August a witness cited a case of a person who was disallowed $600 interest charge on a debt because it was apparently exorbitant. Will you please advise me as to regulations, if any, whereby the IRS disallows interest on the ground that the interest charge is exorbitant? Is there a maximum rate which the IRS allows?

In addition to a specific answer to this matter, will you please advise me whether and under what circumstances interest payments are not deductible for income tax purposes?

Sincerely,

PAUL H. DOUGLAS,
Chairman, Subcommittee on Production and Stabilization.

U.S. TREASURY DEPARTMENT,
INTERNAL REVENUE SERVICE,
Washington, D.C., February 7, 1964.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Production and Stabilization, Committee on Banking and Currency, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is to let you know that I have your recent letter, received in the Service on February 3, in which you inquired about the circumstances under which interest payments are limited, or nondeductible, for Federal income tax purposes.

I will gladly write to you further in the matter as soon as possible.

With kind regards,

Sincerely,

MORTIMER M. CAPLIN,
Commissioner.

CONSUMER LEGISLATIVE PROGRAM OF THE KANSAS HOME ECONOMICS ASSOCIATION, 1964

The Kansas Home Economics Association proposes a four-point consumer legislative program pertaining to trading stamps, packaging, consumer credit, and deceptive trade practices.

Trading stamps.—The KHEA opposes trading stamps because they increase the cost of marketing and contribute only confusion for the smart shopper who compares prices and quality. Stamps tell nothing about quality and introduce a complicated two-price system.

Packaging.—Comparison shopping for packaged goods is frustrating for anyone who has searched package labels for net contents and useful information, and then tried to figure the price per ounce. Oversized packages are expensive and deceptive. The association commends Senator Hart for his leadership in promoting "truth in packaging."

Consumer credit.—Easy credit, misleading advertising of interest rates, and failure to disclose credit terms in standard simple terms prohibits efficient shopping for credit. "Truth-in-lending" legislation to require disclosure of credit costs both in dollars and in simple percentage rates is essential for efficient education for wise use of credit. Present methods of quoting credit are no longer suitable for the rapid pace of today's credit living.

Fictitious pricing, misleading advertising, and other deceptive trade practices.—Kansas citizens should not be dependent solely on Washington for protection from deceptive trade practices in the State. Existing State law is almost nonexistent, and the consumer is left to his private remedy or rely on the Federal Trade Commission. Only 17 words need to be added to Kansas statutes to give Kansas authorities power to act: "Unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are hereby declared unlawful." These 17 words from section 5 of the FTC Act would give Kansans the benefit of 50 years of legal experience of the FTC. Such a bargain in legal protection need not be denied Kansas citizens any longer.

The KHEA recognizes the need for consumer education and protection. The legislation proposed will strengthen the position of legitimate businesses in our competitive economy; free enterprise does not recognize the right to deceive. The proposals will help those consumers who take pride in being smart shoppers: Kansas consumers have a right to be informed. Consumers cannot perform their great responsibility as efficient buyers without facts or if confused and besieged by deceptive practices.

Approved: Executive committee, KHEA, January 26, 1964.

CREDIT UNION NATIONAL ASSOCIATION, INC.,
Washington, D.C., February 17, 1964.

Hon. PAUL DOUGLAS,
Chairman, Subcommittee on Production and Stabilization, Senate Committee on Banking and Currency, Washington, D.C.

DEAR SENATOR DOUGLAS: The following information is furnished in response to questions posed by Senator Bennett and you during hearings held by your Subcommittee on Production and Stabilization in Louisville, Ky., in August 1963.

Senator Bennett asked Mr. Kenneth Marin, president of CUNA Supply Cooperative, to supply the subcommittee with a tabulation of credit union losses due to embezzlement during the past 5 years over and above bonding coverage. Following this, you requested Mr. Marin to furnish information on the coverage and rates of credit union bonds as compared to those of commercial banks.

The bonding program for credit unions is carried on primarily by Employers Mutuals of Wausau, Wis., with the cooperation of CUNA. Such records on losses due to embezzlement as are available are kept by the carrier. CUNA, itself, maintains no records which would supply the information requested above.

Employers Mutuals does not have the information requested by Senator Bennett with respect to losses State by State not covered by the bond during the past 5 years. Employers Mutuals maintains records on loss records and loss experience only to the extent covered under the bond. However, this information would not appear to answer Senator Bennett's question.

The insurance services department can supply an analysis of the cost and coverage of the credit union bonds and is in a position to furnish a comparison of the coverage of the credit union bonds with those of commercial bank bonds, based on a 1959 survey. It cannot, however, furnish a comparison of rates with bonds offered by other financial institutions.

CUNA is extremely proud of the so-called 576 blanket bond with a $1 million limits of coverage which was developed jointly with Employers Mutuals and is now without peer in the surety-bond field. Its coverage has been contantly improved and broadened to minimize, insofar as possible, unrecoverable losses due to embezzlement, theft, fraud, forgery, and other forms of dishonesty. Confirmation of the esteem in which the bond is held is a fact that 19,000 of approximately 21,500 credit unions in the United States carry the 576 bond with the $1 million feature, another 671 with $2 million coverage, and another 497 with the minimum coverage.

It is also worthy of note that credit unions, to our knowledge, are the only financial institutions required by law to obtain a bond. Federal credit unions and most State-chartered credit unions, for example, must bond not only their chief money-handling position but also all employees and officers handling or having custody of funds. The 576 blanket bond accomplishes this purpose admirably. In addition, through a rider, it also complies with an additional requirement that all Federal credit unions (as well as many State chartered) supply a bond for the "faithful performance" of their duties by officers and employees.

Credit unions, as you know, start with minimum capital, and can grow quite large. As a result the rates for coverage must be tailored to this growth pattern. A new Federal credit union, for example, may purchase the 576 blanket bond with the faithful-performance rider and $1 million coverage for an annual premium of $10. Once it has passed assets of $5,000, the premium becomes $29. A credit union with assets in excess of $900,000 would be charged $707 annually; upon reaching the million-dollar mark, it could switch to a $2 million limit of coverage at an increase of only $53.

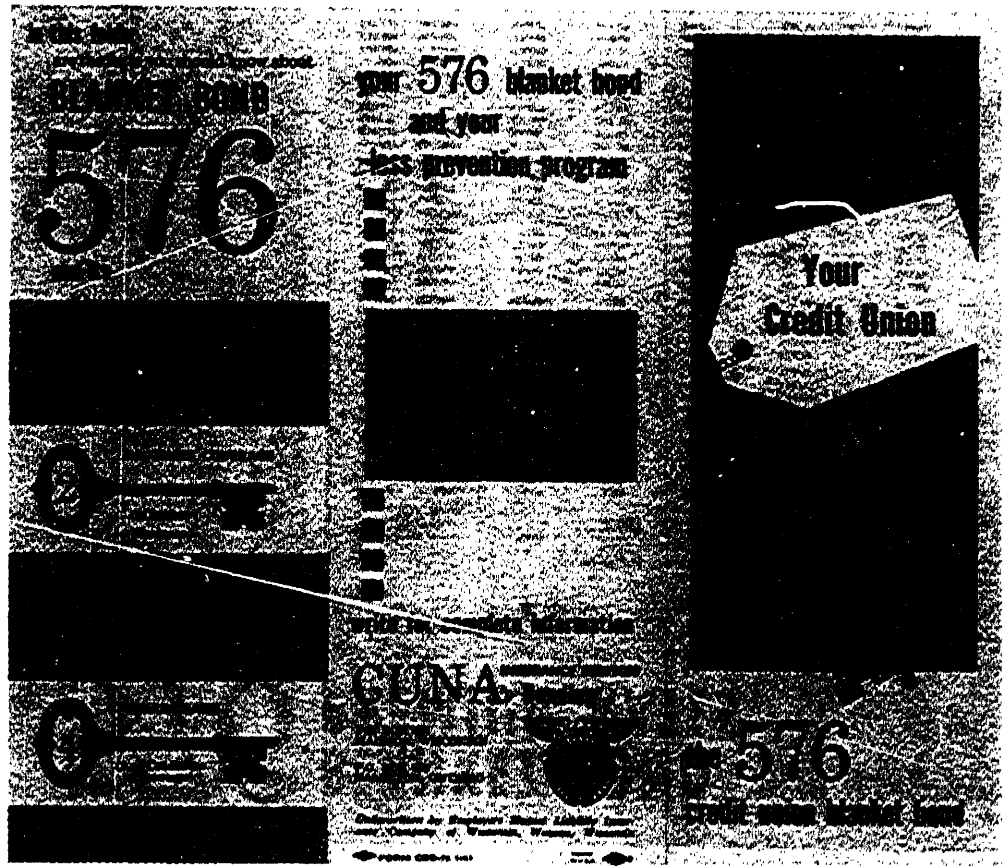
This rate structure, CUNA feels, is unparalleled among bonds offered to financial institutions. For further information on rates, you are referred to the folder on 576 blanket bonds furnished with this letter. Although CUNA does not have information on the rates of the bonds in other financial fields, we feel sure the 576 bond is without parallel.

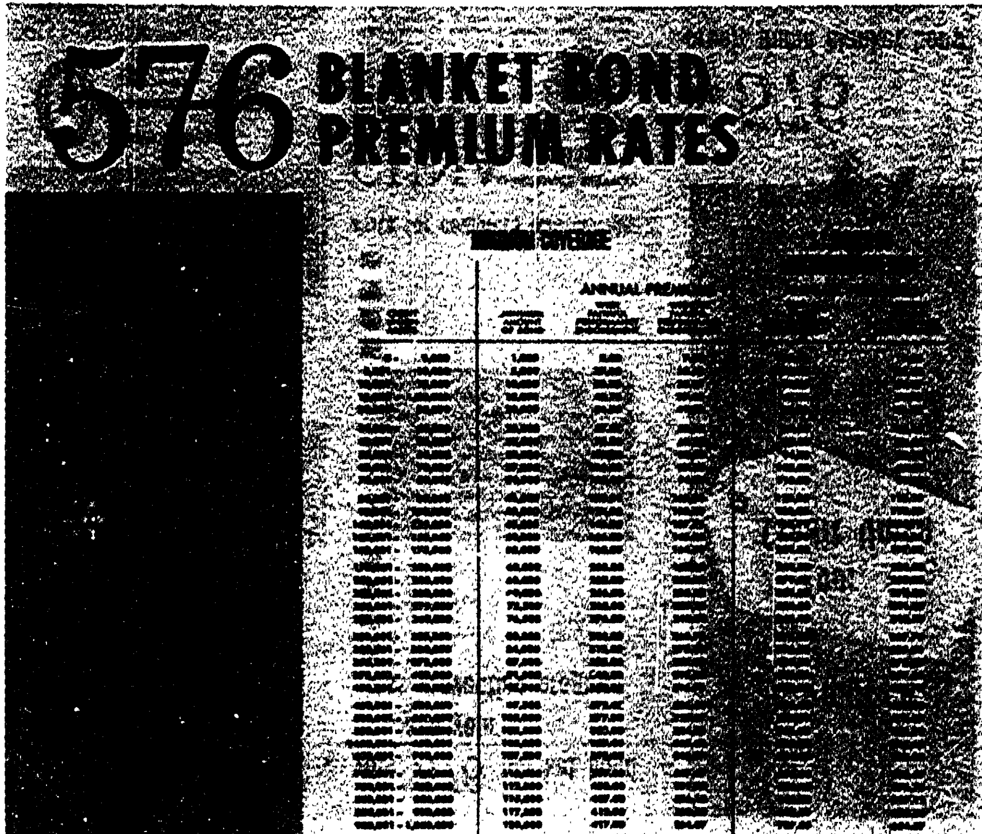
As to comparison of coverage, the insurance services department has the information developed in 1959, previously noted, which is included on the large charts accompanying this letter. The chart compares the 576 blanket bond with the Bankers Blanket Bond No. 24, the Bankers H.A.N.C., the Savings and Loan Blanket Bond Form No. 22, and the Special Credit Union Blanket Bond Form No. 23. The latter is used by comparatively few credit unions in the United States.

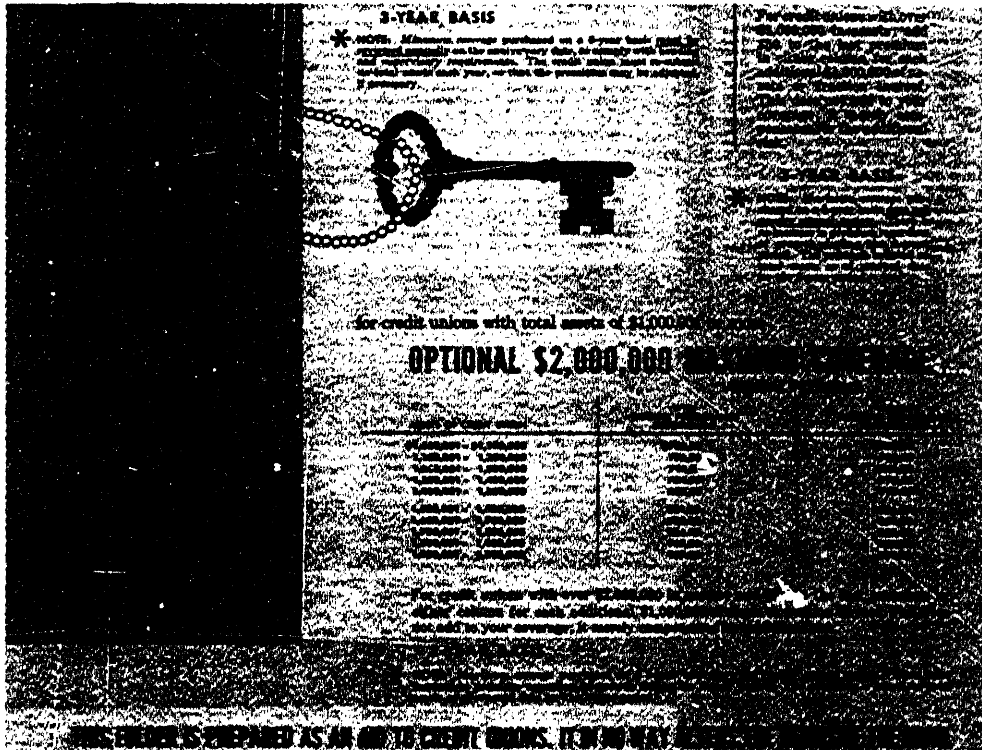
Since the time of the survey, a number of endorsements have been added, including discovery coverage endorsement, proof of claim-audit expense coverage endorsements, employees and members property endorsement, and (at an additional $100 annual premium) the electronic data processing rider. These are all contained in the specimen 576 blanket bond attached. [Filed with committee.] Additionally, Employers Mutuals has interpreted certain definitions to afford broader coverage. For example, loss due to acceptance of counterfeit money is covered under the forgery clause by interpretation.

Sincerely,

DAVID R. WEINBERG,
Director, Legal and Legislative Department.


576
your 576 blanket bond
and your
loss prevention program
CUNA
Your
Credit Union
576


576
BLANKET BOND
PREMIUM RATES


3-YEAR BASIS
OPTIONAL $2,000,000

576

[redacted]

Comparisons of blanket bond coverage, 1959

	Present credit union blanket bond No. 576	Bankers blanket bond No. 24	HANC	Savings and loan blanket bond form No. 22	Special credit union blanket bond form No. 23
Beneficiary	Named insured.	Named insured and nominee.	Named insured and nominee.	Named insured.	Named insured.
Principals	Officers, clerks, collectors, messengers, persons in similar positions, members of the credit, supervising, and similar committees, all other persons in your immediate employ and directors while acting within the scope of their duties as such, and attorneys at law elected, appointed or retained by you. "Employee" shall include any person within the foregoing definition even though not under a contract of hire.	Officers, clerks, and other employees employed in, at, or by any of your offices; attorneys and their employees who are performing legal services for you; guest students pursuing their studies or duties in any offices.	Officers, clerks, servants, guest students and other employees, attorneys and their employees who are retained for legal services.	Officers, employees, elected or appointed attorney and his employees, employees of any executive officers.	Attorneys retained by by you; members of the credit, supervising, and similar committees; members of the credit union while acting as collectors; officers and clerks, directors, and all others in immediate employ of the credit union while acting within the scope of usual duties of an officer, clerk, or messenger of a credit union.
	All former employees covered for 15 days subsequent to termination of employment; 35 days after notice of termination. 10-day notice to Bureaus.	15 days after receipt of notice of desire to terminate cover on employee. 30 days after notification.	30 days after notification.	30 days after notification; 35 days if mailed; 10 days' notice to Bureaus.	30 days after notification; 35 days if mailed; 10-day notice to Bureaus.
Losses covered	Direct loss of property while contract is in force.	Any losses; not limited to direct losses while contract is in force.	Any losses; not limited to direct losses while contract is in force.	Any losses; not limited to direct losses while contract is in force.	Direct loss of property while contract is in force.
Property covered	Money, securities, bullion, gold, gold dust and nuggets, platinum, silver and other precious metals and articles made therefrom, jewelry, necklaces, bracelets, watches, gems, precious and semiprecious stones in which you have a pecuniary interest or held by you in any capacity. Money is defined as currency, coin, bank notes, Federal Reserve notes, revenue stamps and postage stamps. Securities are defined as mortgages, on real estate or chattels and on interest therein and assignments of such mortgages, and instruments, and abstract of titles held in connection with such mortgages and instruments, money orders, bonds, U.S. savings stamps, debentures, script,	Money, currency, coins, bank notes, Federal Reserve notes, postage and revenue stamps, U.S. savings stamps, bullion, precious metals of all kinds and in any form and articles made therefrom, jewelry, watches, necklaces, bracelets, gems, precious and semiprecious stones, bonds, securities, evidences of debts, debentures, script, certificates, receipts, warrants, rights, transfer coupons, travelers' letters of credit, bills of lading, abstracts of titles, insurance policies, deeds, mortgages upon real estate and/or chattels and your interests therein and assignment of such and other valuable papers and documents, and all other instruments similar to or in the nature of the foregoing	Similar to No. 24. Similar to No. 24, adding "valuables and the like."	Similar to HANC plus income shares, prepaid shares, full paid shares, matured shares. Similar to HANC, adding "valuables and the like."	Similar to No. 576 but no definition of money or securities.

	Present credit union blanket bond No. 576	Bankers blanket bond No. 24	HANC	Savings and loan blanket bond form No. 22	Special credit union blanket bond form No. 23
	warrants, checks, coupons, drafts, bills of exchange, acceptances, promissory notes, pass books held as collateral, certificates of deposits, certificates of stock, warehouse receipts, bills of lading, interim receipts and all other instruments similar to or within the nature of the foregoing.	in which you have an interest or hold in any capacity whether gratuitously or not or whether liable therefor. Chattels not enumerated but for which legally liable until other insurance is obtained but not for more than 60 days.	Similar to No. 24 but without the 60-day restriction.	No provision.	
	Loss or damage to your premises, furniture, fixtures, and equipment, resulting from burglary, robbery, larceny, theft, holdup, VMM or attempt thereat, except by fire, provided you are owner or are liable.	Similar to No. 576 but inserts "supplies."	Similar to No. 24 but includes damage to building in which office may be.	Similar to No. 576.	Similar to No. 576.
Insured perils, fidelity.	Fraudulent or dishonest act or acts committed by any Principal whether acting alone or in collusion. Not a Faithful Performance Bond.	Similar to No. 576 but includes "criminal acts" and includes, but not limited to, loss of property.	Similar to No. 24.	Similar to No. 24.	Dishonest act or acts of any Principal committed anywhere, wheter alone or in collusion.
Robbery, larceny, theft, burglary; on premises.	Direct loss of any property, as defined above, through burglary, robbery, larceny (common law or statutory), theft, holdup, misplacement, mysterious unexplainable disappearance, damage or destruction including fire.	Any loss of property (similar to No. 576) plus false pretenses, with or without violence including loss of subscription, commission, redemption, or deposit privileges through misplacement or loss—anywhere except in excluded offices or mail or carrier for hire except armored motor vehicle company. Also in possession of customers within premises through robbery or holdup at outside tellers' windows, driveways, parking lots, or similar facilities.	Similar to No. 24.	Any loss of property (similar to No. 24) except false pretenses is omitted and "abstraction or removed from the possession, custody, or control of insured" is added	Similar to No. 576, United States only, except no reference to "direct" loss.
	Premises defined: Offices and other places for conducting your business operations, offices of attorney at law of yours, any recognized place of safe deposit, offices of your depository banks, transfer or registration agent within United States and Canada.		Any premises anywhere except in mail, railway express, or air express carriers. Similar to No. 24.	Customer or his representatives cover only while within offices of insured.	
In transit	Direct loss of any property, as defined above (same perils as previous) within United States and Canada while in custody of an employee or any other acting messengers including armored car service. In the case of U.S. savings bonds series A to E (or similar issues which credit unions	Any loss (same perils as previous except no false pretenses) plus being lost, and any loss of subscription, conversion, redemption, or deposit privileges through misplacement in custody of employees or partners or by others acting as messengers or with carrier for hire other than armored	Similar to No. 24. Anywhere except while in mail, railway express, air express.	Any loss of property. Similar to No. 24.	Similar to No. 576. Does not refer to direct loss. Armored vehicle must have armed guard. Anywhere. No cover for U.S. savings bonds, etc. as in No. 576.

	may issue or redeem) or Armed Forces leave bonds, or U.S. savings stamps, paid or redeemed by you while in transit for payment or redemption by the United States by any means.	motor vehicles company—anywhere.			
Forgery	Direct loss due to forgery of any instrument, negotiable or otherwise.	Forgery D applies to forgery or alteration of checks, drafts, and similar papers for withdrawal of funds or property. Forgery E applies to securities issued or held in any fiduciary, agency, or other capacity which have been forged or counterfeited but excludes checks, drafts, and instruments covered in D. D and E are optional covers; either can be deleted by policyholders.	Same as No. 24 for forgery D only.	Any loss through forgery or alteration of, on, or in any instrument.	Cover only in Fidelity cover plus U.S. savings bonds.
Fraud	Included in Fidelity.	Included in Fidelity.	Included in Fidelity.	Loss of property through any other form of fraud or dishonesty whether employees or not.	Silent.
Redemption of U.S. savings bonds.	No cover unless forgery involved.	Any loss for paying or redeeming or guaranteeing or witnessing any signature upon U.S. savings bonds A to E or Armed Forces leave bonds which shall have been forged, counterfeited, raised, or otherwise altered, or lost or stolen, or on which the signature to the request for payment has been forged.	Similar to No. 24.	Similar to No. 24. (See clause 6 in No. 22.) This is a plus.	Similar to No. 24.
Acceptance of counterfeit currency.	No coverage.	Any losses through receipt of counterfeit or altered paper currencies or coin of the United States.	Similar to No. 24 plus same for Canada.	No coverage.	No coverage.
Court costs and attorneys' fees.	Indemnity for court costs and attorneys' fees in defense of any action brought against you to enforce your liability for loss or damage of an exposure insured by the bond.	Similar to No. 576.	Similar to No. 576.	Similar to No. 576.	Similar to No. 576.
Nonassumption of liability.	Regardless of the number of years this bond shall continue in force and the number of premiums which shall be paid, the liability of the company with respect to any one loss shall not be more in the aggregate than the amount stated in the declarations on the limit of the company's liability subject to provisions of nonreduction-of-liability clause.	Regardless of the number of years this bond shall continue in force and the number of premiums which shall be paid, the liability of the underwriter with respect to any loss of losses specified in nonreduction-of-liability clause shall not be cumulative in amounts from year to year or period to period.	Similar to No. 24.	Similar to No. 24.	Similar to No. 24.

	Present credit union blanket bond No. 576	Bankers blanket bond No. 24	HANC	Savings and loan blanket bond form No. 22	Special credit union blanke bond form No. 23
Nonreduction of liability.	Payment of loss under this bond shall not reduce the liability of the company under this bond for other losses whenever sustained, provided, however, that the total liability of the company under this bond on account of (a) any loss caused by any one act of burglary, robbery, or holdup, or (b) any loss with respect to any one unintentional or negligent act or omission on the part of any person, whether an employee or not, resulting in damage to or destruction of property, or (c) any loss other than those specified in (a) or (b) caused by acts of omissions of any person, whether an employee or not, or acts or omissions in which such person is involved, or (d) any loss or losses with respect to any one casualty or event, is limited to the sum stated in the declarations as the limit of the company's liability, irrespective of the total amount of such loss or losses.	Similar to No. 576. Misplacement (added)?	Similar to No. 576. Misplacement and mysterious disappearance (added).	Similar to No. 24.	Similar to No. 576.
Notice of proof of loss.	As soon as possible and in any event not more than 20 days after the insured shall learn of such loss, provided that in the event the failure to give such notice within such 20-day period does not prejudice the company, you may give such notice to the company within a reasonable time after you learn of the loss. Proof of loss within 90 days after notice.	Earliest practical moment after discovery. Proof of loss 6 months after discovery.	Within a reasonable time. Proof not specified.	Similar to No. 24 but with added special conditions for Federal Savings & Loan Association and Federal Home Loan Bank.	As soon as possible. Proof of loss 90 days from discovery.
Legal proceedings	Within 12 months from discovery of loss.	Within 24 months from discovery of loss.	No limitation specified.	Similar to No. 24.	Within 12 months of discovery.
Discovery period after termination.	24 months after expiration of bond.	12 months after expiration of bond.	24 months at your request for additional premium, if coverage is not replaced in whole or in part.	Similar to No. 24.	12 months after expiration of bond.

23-902—64—61

Exclusions:					
Hurricane, earthquake, tornado, or similar disturbances of nature.	Not covered.	Not covered.	Similar, but hurricane exclusion not present.	Similar to No 576.	Similar to No. 576.
War, riot, or civil commotion.	Not covered on premises but are in transit if no knowledge of an initiating transit of military, naval, usurped power, insurrection, riot, or civil commotion.	Similar to No. 576 except riot and civil commotion are not excluded in United States and Canada.	Similar to No. 24.	Similar to No. 24.	Similar to No. 576.
Nuclear fission	No exclusion.	Not covered unless loss results from industrial use of nuclear energy.	No exclusion.		
Directors' acts	Not covered unless on officers unless acting within the scope of usual duties of an employee.	Not covered except acts of salaried pensioned or elected officers or an employee or who is appointed to perform specific acts.	Similar to No. 24.	Similar to No. 24 but not including pensioners.	Similar to No. 576.
Property not owned.	Not covered after 3 days from receipt unless examined and a record made or verified except through fraud or dishonesty or employee fails to make or verify a record.	No exclusion.	Similar to No. 24.	Similar to No. 24.	Similar to No. 576.
Loans	Not covered unless fidelity cover involved or forgery or altertaion of instrument is involved.	Similar to No. 576 as to fidelity and forgery as defined.	Similar to No. 24.	Similar to No. 24.	Similar to No. 576. (See "Forgery" of this bond.)
Armored car	Covered if not recoverable from armored car company, its insurer, or other insurance and then as excess.	Same.	Policy in excess.	Similar to No. 576.	Similar to No. 576.
Forgery	No exclusion.	Covered only if by employees or redemption of U.S. savings bonds unless optional clauses D and E obtained.	Similar to No. 24.	No exclusion.	Similar to No. 24.
Continuity of prior coverage.	Covers loss under prior bond provided prior bonds not terminated before effective date of this bond, discovery period of prior bond has elapsed, such loss falls within cover of this bond, subject to the lesser limit of the prior bond or this bond.	Similar to No. 576.	Covers in excess losses discovered within discovery period of prior bond and only for amounts not recoverable under prior bond.	Similar to No. 576.	Similar to No. 576.

Form 24 $250,000	
Coverage Charge	$525.00
37 Employees @ 25.00	925.00
Inc. on Empl. chg 80%	740.00
Basic Annual Prem.	2,190.00
Modification for	
Form 95%	2,080.00
2 Branches @ $250.	500.00
Clause D	1,093.00
Clause E	529.00
	$4,202.50
X 2.7	$11,346.75

Clause D $250,000	
1900 Reg.a/cs @ 35¢ -	665.
2900 Spec.a/cs @ 7¢ -	203.
First $25,000	$868.
Next $75,000 @ 1.50	112.50
" 150,000 @ .75	112.50
$250,000 Clause D	$1,093.00

Clause E $50,000	
1st $25,000 -	$330.00
L & D Charge-	30.00
Next $25,000-	169.00
$50,000 Cl E	529.00

Experience Modification .939 - $10,654.60 Three Year Term Premium

(The following material was submitted for the record:)

[From the Congressional Record, Apr. 3, 1963]

MORE SUPPORT FOR TRUTH IN LENDING

Extension of Remarks of Hon. Paul H. Douglas, of Illinois, in the Senate of the United States, Wednesday, April 3, 1963

Mr. DOUGLAS. Mr. President, the Chicago Daily Defender recently ran an editorial in support of the principal of full and clear disclosure of credit costs to consumers which S. 750, the truth in leanding bill, would require. I am pleased that this outstanding newspaper which has national circulation has come out for this principle and I ask unanimous consent that the editorial of March 26 be printed in the Appendix of the Record.

There being no objection, the editorial was ordered to be printed in the Record, as follows:

[From the Daily Defender, Mar. 26, 1963]

INSTALLMENT CREDIT

"Interest is the rent you pay for the use of borrowed money." This, in effect, is the way some of the writers on economics puts the subject.

A few years ago many people in America did not seem to care how much interest they were paying so long as they could get a car, a television, a fur coat, or a trip to Europe on time. They wanted only to know the amount of the down-payment and the monthly installments.

Today that mood seems to be changing. In addition to ordinary installment purchases and finance company personal loans there have come revolving credit plans, budget accounts, and other innovations. Faced with these, the consumer begins to wonder just how much he is paying for credit.

The Federal Reserve Board has endorsed the general policy of a bill in Congress by our Senator Paul Douglas to require full and clear disclosure of consumer credit costs.

If a loan rate is 2 percent a month, not every borrower stops to think that this amounts to 24 percent a year. The most effective legislation probably would be to require interest charges to be stated as an annual rate on unpaid balances. In fact, some States have such laws.

[From the Congressional Record, Aug. 20, 1963]

TRUTH IN LENDING

Mr. DOUGLAS. Mr. President, on the 17th of August the Chicago Daily News, one of the most distinguished newspapers in the country printed a long article on "Truth in Lending," written by its very able Washington correspondent, Mr. James McCartney. The article gives an excellent explanation of the arguments for the bill, together with some consideration of the objections to the bill.

In this connection it should be noted that the Chicago Daily News, by reporting the tragic suicide of Mr. William Rodriquez in 1960—who was in the hands of the installment "sharks"—also played a great part in developing the public sentiment swelling up all over the country in support of the bill.

I ask unanimous consent that this article, together with other articles on the same subject, from the Chicago Daily News of August 17, may be printed in the Record.

(There being no objection, the articles were ordered to be printed in the Record, as follows:)

TRUTH IN LENDING SHOWDOWN LIKELY IN 1963—CREDIT CARD LIVING POINTS UP THE ISSUES

(By James McCartney)

WASHINGTON.—Hold on to your credit cards. A new battle over truth in lending is about to erupt in Congress and across the Nation.

The fight has been going on for 4 years and at times has been as bitter as any in Washington.

But this may be the year for the inevitable showdown.

Senate liberals have just won a victory in a power struggle in the heretofore conservatively controlled Banking and Currency Committee.

They won a fight to hold public hearings on truth-in-lending legislation in communities scattered across the land—and thus a chance to kindle new fires of public favor for the bill.

Truth in lending is an issue that is all wound up with the Nation's galloping, credit card economy—an economy in which debt has become an accepted way of life.

It's a question that advocates have made to sound quite simple, but opponents say isn't simple at all.

It's as close to you as the monthly payment on your car—or maybe on your wedding ring.

The question is: When you borrow money, should the lender have to tell you exactly how much he is charging you for extending credit?

In other words, does he have to tell you how much interest you're paying, in a simple way that anybody can understand?

At first glance, such a proposal would seem to be pretty close to noncontroversial, in the category of asking a merchant to post his prices.

But even the suggestion of simplicity is deceptive when it comes to credit—for with credit things aren't always what they seem.

According to testimony before the Banking and Currency Subcommittee on Production and Stabilization, merchants and lenders have historically had an aversion to using figures larger than 6 percent when mentioning credit costs.

Thus figures often quoted by lenders are likely to sound low—but under examination turn out to be much higher, if computed at simple, annual interest rates.

Senator Paul Douglas, Democrat, of Illinois, chief sponsor of the truth in lending bill, cites many examples:

A small service charge of 1½ percent per month on a department store charge account is often a true annual interest rate of 18 percent.

A 3-percent per month plan often used by small loan companies is actually 36 percent for a year.

New car financing plans used by commercial banks and advertised as 4½-percent plans are often 9 percent per year.

An advertised 5-percent rate on home improvement loans is often nearly twice as much, or about 10 percent per year.

The so-called 6-percent rate for financing used cars offered by some dealers is at least 12 percent per year and sometimes very much higher—18 to 25 percent per year or more.

The cost of teenage credit promoted by some retailers as only pennies per week is sometimes as high as 80 percent per year.

SOMETIMES SOAR ABOVE 100 PERCENT

Forty percent interest rates have not been uncommon in case histories unfolded at hearings before the subcommittee and in some cases rates have soared to 50, 60, 70, or even more than 100 percent.

But they are rarely, if ever, billed that way to borrowers.

The world of credit, as one subcommittee witness put it—a credit manager with years of experience in lending—is a wonderland.

"It's a land," he said, "where percentages are divided and multiplied at will, where finance charges materialize on command and fees are collected on the way out."

It's a land where sharp practices and rackets not only inflate the cost of credit but also impose enormous financial hardships on the debtor, particularly those who can least afford it.

He was far from alone in feeling that the wonderland of credit is confusing. Many experts testified that it is confusing to them, too.

One, William McChesney Martin, Chairman of the Federal Reserve Board and a well-known financial conservative, admitted during public hearings that he was confused by the practices now used by lenders and vendors in stating their interest or financial rates on consumer credit transactions.

And Martin is a former Assistant Secretary of the Treasury and former president of the New York Stock Exchange.

Theodore O. Yntema, vice president in charge of finance of the Ford Motor Co., discussing automobile financing, declared:

"The variety and complexity of finance and insurance arrangements and the charges for them are such as almost to defy comprehension.

"It is impossible for the average buyer to appraise the rates for the finance and insurances services offered, as compared with alternatives available elsewhere."

Says Senator Douglas:

"The average consumer is often either unaware of or badly misinformed about the credit charges and interest rates he pays for various types of credit."

FEAR TO TAMPER WITH BOOM

The implicit suggestion of many who oppose the legislation is that any serious tampering with the Nation's credit boom, somehow, might cause the credit structure to tremble.

For credit is now a way of life in the United States, a rock upon which postwar abundance has been built.

In 1945, consumer debt in the Nation as a whole totaled less than $6 billion. Today it is more than 10 times that—something over $63 billion, and still growing.

It has increased by more than $2 billion a year, for example, since 1960.

This figure covers what are usually known as short and intermediate-term debts.

Says Douglas: "Consumers paid approximately $5 billion more last year for their personal debt than the whole Nation paid in carrying charges on the national debt."

LENDING BILLS GOT DAILY NEWS PUSH

Federal truth-in-lending legislation got its first big push in Illinois from the Daily News.

Early in January of 1960, Senator Paul Douglas, Democrat, of Illinois, introduced a truth-in-lending bill in the Senate, but it fell with a dull thud, attracting little attention.

But just a few weeks later an obscure, 24-year-old Puerto Rican in Chicago, who was deeply in debt, took his own life with rat poison. He was William Rodriquez, a father of four.

A coroner's jury ruled that he killed himself because of despondency over pressures from creditors.

The Daily News first recognized the social implications of the case and told the Rodriquez story in detail.

A newcomer to Chicago, he had more than $800 in debts. He couldn't seem to resist the lure of installment buying.'

One result was reform of Illinois' wage seizure laws, which had plagued Rodriquez. Another was to dramatize the case for truth-in-lending legislation

Says a Douglas aid: "The Rodriquez case brought the truth-in-lending problem home to many people for the first time."

Out of every $100 of after-tax income, the American family pays out about $13 to meet short-term installment debts.

Yet the consumer, according to the argument furnished by those who favor the truth-in-lending bill, rarely knows what this mammoth amount of credit is costing him.

Many buying on the installment plan are aware of the size of their down payments and of their monthly payments. But they may never know what they're paying for the privilege of credit.

Senator Douglas says that a consumer who desires to obtain credit for a $100 purchase to be repaid in monthly installments is usually confronted with one of the following alternatives:

Example 1—no rate is quoted:

The borrower is told that the charges will be $10 down and $10 a month. Neither the total finance charges nor the finance rate is disclosed.

Example 2—the add-on rate:

The borrower is told that the finance charges will be $6 on the $100 loan. The lender represents this to the borrower as being a 6-percent rate. This quoted rate is a play on the digit 6.

The actual rate is almost 12 percent, or nearly double the stated rate, because a borrower over a period of the year only have the use of approximately $50 credit rather than the $100 face amount.

In other words, the interest rate is quoted on the original amount of the debt and not on the declining or unpaid balance as is the custom in business credit, government loans, or consumer mortgage transactions.

Example 3—the discount rate:

This is a variation on the add-on rate. In the case of the addon the borrower receives $100 in cash or goods and must pay back $106. In the case of the discount technique the borrower receives $94, but repays $100.

The finance charge again is $6 and is often represented as being 6 percent. Again, the actual rate is almost 12 percent, or twice the quoted rate because the borrower is periodically repaying the loan.

Example 4—a simple monthly rate:

This rate statement method is usually quoted by small loan companies and by retailers using revolving credit plans. The finance rate is represented as being 1, 2, 3, or 4 percent per month.

The simple annual rate in this case is 12 times the quoted figure, or 12, 24, 36, or 48 percent per year.

Example 5—the add-on or discount-plus-fee system:

Sometimes lenders compound the camouflaging of credit by loading on all sort of extraneous fees, such as exorbitant fees for credit life insurance, excessive fees for credit investigation, and loan processing fees that rightfully should be included in the percentage rate statement so that any percentage rate quoted is completely meaningless and deceptive.

SENATOR DOUGLAS OFFERS A SOLUTION

Senator Douglas' answer to this sort of thing is a bill requiring that all lenders and credit sellers fully disclose to the consumer the costs of using credit in what he calls an accurate and uniform manner.

"Anyone engaged in the business of extending credit at the retail level would have to fully disclose in writing the costs of credit to the borrower before the credit transaction is signed," Douglas says.

"This written statement would include the total mount of the finance charge expressed in dollars and cents and the percentage that this charge bears to the total amount financed expressed as a simple annual rate on the unpaid balance."

Though it has been before the Senate for a long time, the Douglas bill has never been in serious danger of becoming law.

First of all, a great lobbying campaign against the bill was started soon after it was first introduced in 1960, and has never abated when the chips were down.

The principal opponents have been small loan companies, automobile dealers—particularly those in the used-car business—furniture dealers and retail merchants in general.

They have successfully enlisted the support of such major lobbying powers as the U.S. Chamber of Commerce, the American Bankers Association, and the American Bar Association.

Recently the Department Store Journal characterized the battle this way: "Of all legislation actively pending in Congress, none has caused so much excitement, strident opposition, or downright anguish as the so-called truth-in-lending bill."

But the lobbying campaign has been aided and abetted by the fact that the Senate Banking and Currency Committee has been controlled largely by conservatives.

Southern Democrats, led by the committee chairman, Senator A. Willis Robertson, Democrat, of Virginia, have worked with Republicans to retain effective control, which, until recently, had not been seriously threatened.

At the same time, until this year a 5-to-5 deadlock existed on the 10-member Douglas subcommittee, keeping the truth-in-landing bill bottled up.

The Senate, however, is slowly changing. Bit by bit liberals are gaining power as old-line Southern conservatives pass out of the picture and Northern States continue to send liberal Democrats to Washington.

Small Democratic gains at the polls in the 1962 off-year congressional elections resulted in a slight shift in power on the Douglas subcommittee—but it was a vitally important shift.

The membership of the Douglas subcommittee was cut to nine after the elections and the liberals have taken it over, with a 5-to-4 majority.

The fruits of this victory are now apparent in the truth-in-lending picture.

ALLOW HEARINGS IN THREE CITIES

Douglas, after a tough battle with Senator Robertson, has won permission to hold public hearings on his truth-in-lending bill in three cities—New York, Pittsburgh, and Louisville.

It is the first time that hearings have been scheduled outside Washington. Robertson and the conservatives were soundly beaten and they know it.

The hearings are scheduled during the last 2 weeks in August. At the same time, discussions are underway to bring the House into the act.

Representative Leonor K. Sullivan, Democrat, of Missouri, chairman of a House Subcommittee on Consumer Affairs, is trying to set up hearings in other cities, perhaps Chicago.

The political problem of the truth-in-lending advocates lies in the full Banking and Currency Committee in the Senate.

It is generally acknowledged that if the bill could be brought to a vote on the Senate floor, it would pass. Few Senators would want to take the risk of voting against what many consumers believe are consumer interests.

But the Banking and Currency Committee appears to be relatively evenly divided on the issue. Key figures now are Senators Jacob Javits, Republican, of New York; John Sparkman, Democrat, of Alabama; Edward V. Long, Democrat, of Missouri; and Thomas J. McIntyre, Democrat, of New Hampshire.

THE LABRYRINTH OF UNCONTROLLED CREDIT

THESE FOLKS PAID AND PAID BUT THEIR BILL GOT BIGGER

WASHINGTON.—In the wonderland of uncontrolled credit a man can pay and pay—and when he's paid for months, find that he owes more than when he started.

That's what happened to one man who bought a used car in a deal exposed during Senate hearings on the truth-in-lending bill.

The sucker in this case borrowed $300 to buy a car from an unfranchised dealer.

For 11 months he paid $15 each month.

Then he got billed for the final payment. The bill was for $322.65.

The total cost of borrowing the $300 came to $187.65.

According to calculations by Senator Paul Douglas, Democrat, of Illinois, sponsor of the truth-in-lending bill, that amounts to a simple annual interest rate of 62½ percent—a figure the lender neglected to mention.

This is just one of many examples of what Senator Douglas calls harsh practices in the lending field.

Hearings before Douglas' Senate Banking and Currency Subcommittee have been studded with many others.

They have involved purchases of everything from autos and TV sets to home improvements and—in one case—a $1,800 accordion.

TV BUYER PAYS 33-PERCENT INTEREST

One fellow bought a TV set for a list price of $285.55. He was supposed to pay for it at a rate of "about $14 a month" but there was no mention, either verbally or in writing, of interest or finance charges.

Even the number of months he was supposed to pay was not mentioned in the contract.

He made payments for more than 10 months to a total of $147.30 and didn't start to wise up until he discovered that he still owed $206.22.

His $285.55 TV set cost him $353.52—a total of $67.97 in credit charges.

This works out to more than 33 percent per year in simple interest although the borrower had no way of knowing it.

Then there was the sad story of the mother of four who fell for an appeal to her parental pride and bought her daughter a $600 accordion "on time."

She was earning only $44 a week, but someone had told her that the daughter had talent. Then she was told that the talent was even more impressive than originally believed—and that a $1,800 accordion would be necessary.

Before she was through she paid carrying charges of $400, billed at a simple interest rate of 20 percent. It cost her $383 to learn the lesson.

TYPIST FOUNDERS IN LOAN MAZE

A typist in the Justice Department became deeply involved with personal loans from bank and finance companies. Before long she was at the end of her economic rope.

She began to review all the special loan charges, the refinancing costs, the required insurance, and the original high—but unstated—finance charges.

She found, to her amazement, that she had been paying more than 40 percent simple interest.

A 67-year-old Floridian couldn't afford to retire because he was faced with 17 more years of payments to finance a home improvement bill.

The cost of the improvements: $2,650. The total cost, including the financing, $5,482.50.

One witness before the subcommittee, Richard L. D. Morse, a professor of family economics at Kansas State University, presented a survey showing credit charges and interest rates of various lending institutions in the university area.

Each lender was asked what the monthly payment would be on a $200 loan to purchase a $300 used car, to be repaid in 12 monthly installments, and what the annual interest rate on the loan would be.

Here are some of the answers he was given:

Five lenders said that the monthly payment for 12 months would be $18.67. However, the same lenders quoted these annual rates: 12 percent, 9 percent, 6 percent, and 8 percent.

Four other lenders said that they would charge $18.33 per month. The annual interest rates that these four lenders quoted were: 7.5 percent, 10 percent, 13 percent, and 9 percent.

None of the rates quoted by these lenders is the true annual interest rate, according to Professor Morse.

The true annual rate on the $18.67 monthly payment is approximately 22 percent, he says, and the true annual rate on the $18.33 monthly payment is approximately 18 percent.

[From the Louisville Courier-Journal, Aug. 27, 1963]

THE CREDIT HEARING WAS VALUABLE

The hearing on credit practices conducted here over the weekend by a subcommittee of the U.S. Senate was colorful and valuable to the extent that it focused attention on a facet of the economy that should be of vital concern to the general public. We are, after all, a nation of installment buyers, and personal credit of all kinds reaches new heights every passing year.

Specifically, the hearing was on a truth-in-lending bill sponsored by Senator Paul Douglas, of Illinois. It would require all firms and institutions dealing in consumer credit to disclose how much this credit is costing in both dollars and cents and the simple annual rate on the unpaid balance. The bill has nothing to do with regulating the charges; its objective is to inform the consuming public how much it is paying for credit, thus enabling the consumer to shop for credit in the same way he shops for merchandise. Credit abuses exist. The victims are all too often the poor and the uninformed. The Douglas bill would not guarantee these people protection from sharp practices. It would make it more difficult, however, for those extending credit to conceal its real cost to the consumer.

The opposition to the bill—retail merchants, commercial banks, and some other lending institutions—contend that it is impossible to express the cost of credit in terms of a simple annual percentage charge on certain kinds of loans and on revolving credit accounts. Senator Douglas and those who support his bill maintain that it can be done.

It may be that the Douglas bill, as presently drafted, is not the answer for certain types of installment credit. The Senator said he was willing to consider revisions. But it was clear from the testimony of opposition witnesses at the hearing that it is not compromise but the death of the Douglas bill that they desire. They want no part of Federal legislation in this field. The States, they argue, should do the job. But the question is, Will they? Kentucky has made some progress. The 1962 general assembly enacted a watered-down version of the Douglas bill, which requires that the cost of credit, including installment credit, be stated in dollars and cents. This legislation was drafted in large part by representatives of retail merchants, who came forward with it as a substitute for a stronger bill that was first submitted. This legislation undoubtedly was a net gain. But is it enough? Some witnesses testified that it isn't. One of them was a Louisville attorney who has conducted a comprehensive study of credit practices in Kentucky for the health and welfare council of the community chest.

In any event, even if the Kentucky legislation is adequate, a need remains for some version of the Douglas bill on the national level, for many States do not have legislation like Kentucky's. Perhaps eventually they will, but meanwhile the consumer is at a disadvantage.

[From the Louisville Times, Aug. 27, 1963]

The Informed Buyer Has a Choice

Opponents of the truth-in-lending bill sponsored by U.S. Senator Paul H. Douglas insist that the name is unfair. The implication, they point out with some reason, is that anyone who is against it must be for falsehood in lending (or in charges for retail credit, which the bill also would cover).

The opposing witnesses who appeared before Senator Douglas' subcommittee here Saturday were unanimous in denying that they approve of misrepresentation or concealment of the true cost of credit. They said that what they object to is a provision in the proposed law which would require a statement of total cost of credit in terms of simple annual percentage of the principal sum involved. They don't like the term "simple annual interest" because they insist that more than interest is often involved—items like service charges, insurance of the borrower, or perhaps searching titles.

What concerns the borrower, or the buyer on a time payment plan, is the cost of using credit. It makes no difference to him whether the cost is called interest, insurance, or a service charge. Kentucky has a State law that requires the seller or the lender to inform the buyer or the borrower what credit will cost him in dollars and cents. It does not require a statement of the cost in annual percentage rate.

Thus, if he buys a refrigerator on a 24-month time payment plan, he can read his whole contract and find out how much more he will pay than if he were paying cash. The difference may seem fairly larger, but if he can manage the monthly payments he will be disinclined to work out the percentage rate, even if he knows how.

Generally, opponents of the Douglas bill say they approve of Kentucky's credit law that requires a statement of credit cost in dollars and cents. Most of them, in fact, suported that law—as an alternative to one which would have required a statement of cost in annual percentage rate.

Their opposition to the Douglas bill is pitched primarily on the annual percentage rate requirement, but they further oppose it on the ground that credit regulation of this sort should be a State responsibility. Since American banking is based on Federal law, this contention seems somewhat ingenuous.

The argument is advanced with conviction by opponents of the Douglas bill that it is impossible to state the simple annual cost rate on revolving credit accounts in stores, and on certain "skip payment" loans by banks. Bankers and merchants whose judgment we trust have advanced this argument.

Yet we find it hard to believe that it is impossible to establish a statement of simple annual percentage while it is perfectly feasible to state costs in dollars and cents.

One revealing exchange took place between Senator Douglas and a local department store executive. The department store treasurer said it would be impossible to include the annual rate in monthly statements to customers because "there is no time limit involved." Senator Douglas said the annual rate could be expressed simply at 12 times the monthly rate or service charge (which in most systems of revolving credit is 1½ percent). The annual percentage rate in such an instance, Senator Douglas pointed out, would be 18.

"Where's the justice," demanded the witness, "in forcing us to state 18 percent when the credit unions can state 12 percent? We're not in the moneylending business."

The justice, as Senator Douglas quickly pointed out, is that a statement of the cost of credit is due the buyer—which is what the Douglas bill is about.

It is quite true that the merchant offering revolving credit accounts may borrow from banks, paying their interest rate, to finance his own time payment operation. He must collect enough over and above cash price of his sales to pay the bank interest and to carry the overhead of his credit operation. It may be reasonable to argue that he should be able to realize something from the transaction for his own trouble; he is not in business for philanthropy.

But the whole point of the debate is that the buyer or borrower should know what he is being asked to pay for the use of credit. Then, if he wants to, he may borrow the cash price at a lower "simple annual rate," pay the merchant at once, and bypass a middleman creditor.

Senator Douglas said in Louisville that he "is ready to confer with the retail merchants of the State and the Nation to iron out details and language of the bill." If the only objection (aside from the Federal law aspect) is to the difficulty of computing simple annual percentage rates, this should not be an insurmountable barrier—given the will to surmount.

[From the Congressional Record, Oct. 9, 1963]

TESTIMONY BY VALACHI ADDED EVIDENCE OF NEED FOR TRUTH-IN-LENDING BILL

Mr. DOUGLAS. Mr. President, the recent testimony of the criminal mobster, Valachi, has given added evidence of the need for our truth-in-lending bill, S. 750. Valachi's testimony indicated that moneylending, next to gambling, was the most profitable source of income to the criminal syndicate. His testimony indicated that on personal loans he was able to get 20 percent interest for 12 weeks. On a loan of $1,000 for 12 weeks, $1,200 would be repaid at $100 per week. The real annual rate of interest was therefore over 150 percent, and on renewals, the real estate of interest was even higher. I am informed that this practice is true of the criminal syndicates in other cities, as well as New York.

The passage of the truth-in-lending bill, S. 750, would bring these activities out in the open and would require these loans "sharks" to furnish borrowers with information as to what they were actually charging. Furthermore, any willful violation of the law by the syndicate would make them subject to Federal criminal prosecution and sentence, and thus give the Justice Department an added handle by which they could put these men where they belong. This would serve in much the same fashion in these matters as do the internal revenue laws.

Mr. PROXMIRE. Mr. President, will the Senator yield for a brief colloquy?

Mr. DOUGLAS. I am glad to yield.

Mr. PROXMIRE. I commend the Senator from Illinois for making such a marvelous fight for the truth-in-lending bill and for his alertness in taking advantage of the notorious national statement. What struck me about the statement was that the Valachi rate of interest of about 150 percent is not unusual. Many people who listened to that testimony would say, "Only a member of Cosa Nostra would think of charging that." The Senator will recall that the testimony before the committee for the past several years, culminating in the testimony in New York, has shown that this is a typical interest rate. In some cases, as I recall, the rate of interest was 300 percent.

Mr. DOUGLAS. 340 percent in one case.

Mr. PROXMIRE. That is correct. In many cases it has been above 200 percent, and often above 100 percent. It is really a great national shame. It could well be corrected by the legislation proposed by the Senator from Illinois. As the Senator says so well, if Congress can enact Federal legislation affecting this situation, there will be Federal enforcement agencies at work. That is the kind of thing which will really bring Valachi—and others who are a little more legal in their actions—to account, because the Federal Government will enforce its laws.

Mr. DOUGLAS. I thank the Senator from Wisconsin. He has been a mighty reinforcement in this battle. I hope that many of the responsible opponents of the bill will wish to dissociate themselves from certain others of the opponents.

Mr. MORSE. Mr. President, I commend both the Senator from Illinois and the Senator from Wisconsin for their comments on the bill about which the Senator from Illinois has spoken. I did not know the Senator intended to speak on that subject, but as he was speaking there came to my mind an interesting conversation I had with my wife the other day, when I said, "I do not see any monthly bills coming in from such-and-such a department store in the District of Columbia." She enlightened me as to why there were no bills coming from that department store.

Do Senators know what I learned? I learned that the store charges 6-percent interest per month on unpaid accounts.

Mr. DOUGLAS. That is almost incredible.

Mr. MORSE. Six percent a month. She said, "Of course, I have stopped doing business with them."

Last night I conducted public hearings on a minimum wage bill for the District of Columbia. The great Washington Board of Trade provided a long chain of nonsequiturs typical of its lack of social conscience in opposition to a fair minimum wage bill for the District of Columbia. They not only presented an executive vice president but also as a second witness, a young lady connected with one of the large department stores.

I sat there appalled that in 1963 an official representative of the Washington Board of Trade and an official representative of a great department store in the District of Columbia were opposing $1.25 an hour as a minimum wage for breadwinners in the District of Columbia.

I thought of the conversation with my wife and the usurious interest rates which are being charged, apparently quite commonly, in the District of Columbia on credit accounts. Of course, it is said, "If you do not want to pay it, you do not have to take credit." That is exactly what we are doing. We can do that.

Mr. DOUGLAS. Six percent a month is seventy-two percent a year.

Mr. MORSE. Certainly.

I suggest to the Washington Board of Trade that they need a little housekeeping in regard to sweeping out some of the improper business practices which prevail in the District of Columbia.

I will tell the Senator my response to those two witnesses when they got through. It was, "No questions." I would not think of dignifying that kind of testimony by wasting any time questioning such testimony.

This situation is related to the Alliance for Progress. We are hammering away at Latin America—and rightly so—saying, "We cannot be of assistance in Latin America unless you do something about your usurious interest rates." We think they are shocking. I think so. Interest rates of 13 to 30 percent are legal in many Latin American countries.

We had better take a look at some of our own. Exploitation of the poor is not limited to Latin America. It is common in the United States, to our everlasting shame.

This is an example of what I mean.

I did not mean to discuss this matter, but that is what the Senator from Illinois always does to me. He always opens up a new vista because of his great wealth of understanding in many fields. I am very glad he has made the comment he has made, in the hope that the bill can be passed.

Mr. DOUGLAS. I appreciate the comment of the Senator from Oregon, who always speaks on the side of the people.

I see present in the Chamber the great junior Senator from New York, Mr. Keating. I know he will be pleased that the attorney general of New York, a member of his great party, Mr. Louis Lefkowitz, has endorsed the truth-in-lending bill. So we have been finding support in what hitherto have been unlikely places. I know that my friend from New York, who has as high an estimation of Mr. Lefkowitz as I do, will be deeply impressed by the support of the attorney general of New York.

Mr. KEATING. Mr. President, will the Senator yield?

Mr. DOUGLAS. I yield.

Mr. KEATING. I thank the Senator for his tribute to our great attorney general, who has been in the forefront of the fight for the protection of the consumer in the conduct of his office and has taken a leading role in that direction. I am glad to know from the Senator of his support of this specific legislation. I can assure the Senator the views of Mr. Lefkowitz will carry great weight with the Senator from New York when he reaches the point of studying the legislation, which I assume the Senator from Illinois will shortly report from his committee.

Mr. DOUGLAS. I wish I could say that, but inside the committee we are running into the usual bipartisan alliance against progress which impedes us very much; but we are hoping this ice jam may break under the rays of truth.

Mr. KEATING. I was not sure of the legislative situation.

Mr. DOUGLAS. It is true that thus far we have been unable to get the bill out of committee because of the bipartisan alliance against progress.

Mr. KEATING. Would the Senator's bill take care of the difficulties cited by the Senator from Oregon? Would it require that the interest rates may be made clear?

Mr. DOUGLAS. It would require that the interest rate be stated, not in monthly terms, but in annual terms. So it would be stated as 72 percent.

Mr. KEATING. In other words, a bill from a department store instead of showing the interest as 6 percent, would have to show it is at the rate of 72 percent a year?

Mr. DOUGLAS. Yes. That would have a wholesome effect.

Mr. KEATING. I am glad to be helpful to the Senator from Oregon in any of his domestic problems.

Mr. MORSE. Does the Senator have his checkbook with him?

Mr. KEATING. Except that I would not want to pay his bills.

[From the Congressional Record, Oct. 28, 1963]

VALACHI TESTIMONY SHOWS NEED FOR TRUTH-IN-LENDING LEGISLATION

Mr. DOUGLAS. Mr. President, recent testimony before the Senate Permanent Investigations Subcommittee has shown that the criminal syndicate is financed in significant part by enormous—you might even say murderous—interest charges on underworld loans.

In his widely read column in the Washington Post, "The District Line," Columnist Bill Gold recently commented on the widespread moneylending activities of criminal leaders who charge 200 percent or more a year with persuasive penalties for the delinquent borrower. Mr. Gold concludes that this testimony has "demonstrated the need for truth-in-lending legislation in dramatic fashion."

While S. 750, my truth-in-lending bill is not, of course, primarily designed to combat the criminal syndicate, nonetheless, it would provide a means by which the Federal Government could restrict the power of the syndicate. The main point is, as Mr. Gold suggests, that the underworld practice of usurious charges on loans is not so far divorced from the high and concealed interest rate practices commonly affecting the ordinary consumer. The consumer, in my opinion, is entitled to know the rate he is paying.

I ask unanimous consent that Mr. Gold's column of October 24 be printed in the Congressional Record.

(There being no objection, the column was ordered to be printed in the Record, as follows:)

THIS KIND OF FRIEND YOU DON'T NEED

(By Bill Gold)

The news stories about Joe Valachi's moneylending activities mentioned an interest rate of 20 percent, but left me unclear as to details. The full text of Valachi's testimony is now available, and it spells out the enormity of this unsavory business with shocking clarity. Valachi would lend $1,000, for example, with the stipulation that it be repaid at the rate of $100 a week for 12 weeks.

The interest can therefore be stated as 20 percent of the amount loaned. But this is quite misleading because interest terms are not usually stated in this manner. When we speak of 6 percent, it is understood that 6 percent per year is meant. And Valachi's loans had to be repaid in only 12 weeks. So the true interest rate was far in excess of 20 percent.

Calculating rapidly in his head, Senator Paul Douglas, Democrat, of Illinois, figured the true interest rate charged by loan-shark Valachi as over 150 percent. With a pencil, I figure it at 160 percent. (If you're checking on us, keep in mind that the borrower does not keep the entire amount of the loan for the full term; he repays it in installments.)

But whatever the exact figure, it is clearly a horrendous price to pay for borrowing.

What's worse, other testimony presented to the committee dealt with loan sharks who charged 200 percent or more per year, and in one case 340 percent. They demonstrated the need for truth-in-lending legislation in dramatic fashion.

Almost everybody borrows money at one time or another, whether to buy something like a house or a car or to raise cash for other purposes. So we're all affected by interest rates, whether or not we realize it. And very often we don't realize it.

Shortly after Valachi told of his loan shark business, I was discussing his testimony with a man I know. I expressed wonder that anybody could be desperate or stupid enough to pay interest rates of that kind.

"Yeah," my friend said. "You'd think a guy would realize he was being taken to the cleaners. Why, you'd never get out of debt that way. When I run short, I just go to a friend who works in my shop and he lends me $10 until payday. I pay him back $11, and I'm finished with him."

I tried to explain that this was 10 percent per week, or 520 percent per year, but I don't think the message got through. The last I heard, the man was still borrowing from his friend in the shop. I shudder to think of what interest rate his enemies would charge him.

[From the Congressional Record, Oct. 31, 1963]

BUSINESSMAN URGES TRUTH-IN-LENDING BILL

Mr. DOUGLAS. Mr. President, the November issue of Harper's magazine contains a most interesting article entitled "How Businessmen Can Fight 'Big Government' —and Win," by Mr. David G. Wood, who until now, at least, has been a public relations man for the steel industry. Mr. Wood suggests that it is about time that businessmen stop complaining about the Government and take some practical direct steps on their own initiative to cure some of the shortcomings in our society and economic system. One of these major abuses Mr. Wood discusses in our present system is credit gouging. A major part of his article entitled "Why Hide the Cost of Credit?" is devoted to discussing hidden credit costs and the need for the truth-in-lending bill. Mr. Wood asks the businessman: "What honest reason could there possibly be for not informing buyers exactly, in a percentage figure and in dollars and cents, what buying on time is going to cost them?"

Mr. Wood continues by lamenting that—"Maybe passage of another law is undesirable—but retailers themselves have shown no inclination to police the situation. Their attitude appears to be, as usual, to get whatever the traffic will bear, which is a remarkable amount if the facts can be disguised well enough."

Mr. Wood urges that honest and ethical businsessmen undertake a self-policing effort to disown those guilty of outrageous and hidden credit charges, and he concludes that if they cannot solve the situation themselves—and I might add they have not at least during the past several years—"honest businessmen should support rather than oppose Senator Douglas' bill."

I am glad to see one representative of the business community speak out so boldly for the truth-in-lending bill and state publicly what so many other ethical businessmen have told me privately—that remedial legislation is needed to correct the present widespread abuses in hiding the costs of credit.

I have never been able to understand why honest and ethical businessmen so often go to such pains to protect the unethical elements in their industry. The truth-in-lending bill will only help the ethical, efficient, and low-cost lender. I hope Mr. Wood's plea for more positive business leadership, particularly the leadership which would help enact the truth-in-lending bill, will not go unnoticed.

Mr. President, I ask unanimous consent that Mr. Wood's article be printed in the Record.

(There being no objection, the article was ordered to be printed in the Record, as follows:)

HOW BUSINESSMEN CAN FIGHT BIG GOVERNMENT—AND WIN

(By David G. Wood)

(A steel man suggests that it's time for them to stop bellyaching about creeping socialism and to take some practical, direct steps to fix the weak spots in our society—before Washington has to do it.)

I am weary of hearing fellow businesmen attack big government. I'm even more bored with platitudes about defending the free enterprise system. And the charge that nobody understands the role of profits is just as tiresome.

The latter was the theme of yet another speech I sat through at a major college campus last June. It was the annual awards banquet of the school of business administration. The speaker was the director of corporate and public affairs, whatever that means, of a major home-appliance manufacturer in the Midwest. He was out to convince is listeners that profits are the cornerstone of our society. Why senior students and faculty members in business administration, and businessmen from the surrounding communities, should need convincing is a point that escaped me. I guess he was really trying to tell the graduating students to go forth and save our system. The "how" was totally missing, an all too common aspect of these polished, inspirational free enterprise speeches.

I happen to believe so strongly in our free enterprise system and in the importance of profits to that system that I'm convinced they don't need defending. To do so is to state the obvious. That's why the speeches and the advertisements and the commercials and the house-organ articles are so boring.

Our economic system is, after all, a human institution. And no human institution I know of has ever achieved perfection. Improvement should be a goal of all businesmen truly intent on preserving the free enterprise system. But we never seem to talk about improvement when we make speeches. This would involve "how?" It would force us to consider methods and programs and objectives. It would be controversial, and businessmen try never to be controversial. Hence, we are boring.

The director of corporate and public affairs, in his speech at the banquet, cited a typical statistic from Opinion Research, Inc. Sixty-two percent, or something like that, of all Americans think profits are too high. Does this mean profits are too high? "Emphatically no," said our speaker, "profits are dwindling every year." I work for the steel industry and I wholeheartedly endorse that part of his talk. Does it mean that the American people are being misled by educators and journalists into the belief that profits are too high? Despite the fact he was speaking before a considerable number of educators, our speaker implied that this was the case. He managed by a "we know you're with us" gesture to exclude the business administration professors from the leftist teachers who some businessmen are convinced dominate our campuses today.

At any rate, we were told, we businessmen must somehow overcome the power of the press and the schools and tell the people the truth—that profits are not too high. They are too low. I don't believe the director of corporate and public affairs actually expects us to succeed. Who would invest their money in our corporations if the people did become convinced that profits are too low?

MARXISM; HIGH SCHOOL STYLE

But let's use a little common horsesense. It is ridiculous that any businessman should become concerned for our free enterprise system just because most Americans think profits are too high. Nearly all Americans are consumers first and investors second, if at all. There would be something wrong with human nature if we didn't believe that anyone trying to sell us something is making too much money.

Businessmen also get excited around graduation time every spring because public-opinion surveyors measure the attitudes of high school kids and decide that they don't know much about economics, and what they do know is all wrong. How many times have you heard in a speech or read in some company magazine that high school students somewhere have Communist tendencies? A majority had approved of "from each according to his ability, to each according to his needs." Shocking? Well, the speaker or house-organ editor obviously intends it to be, but I somehow never get very disturbed.

When you stop to think of it, that's a rather practical philosophy for a high school student. After all, his earning ability is very small and—from what parents of teenagers tell me—his needs are very great. If he's smart he's been try to sell his father on the equity of this doctrine for years. Just before the son of our ex-next-door neighbors in Seattle was graduated from Shoreline High School there, we got a letter from his mother. She reported that he and his senior prom date were "planning a big time with dinner at Canlis if you please." She added, significantly, "We haven't even been there." Seattleites regard Canlis as their more elegant and expensive restaurant, catering chiefly to the expense-account crowd and, apparently, to high school boys wishing to impress their girls. Here is a high school senior willing to spend his father's money in a restaurant his father has always regarded as too expensive to take his mother to. Why should he question a neat idea like "from each according to his ability, to each according to his needs"?

One might argue it is the job of the schools to teach our children that this is a Marxist doctrine and therefore bad. I would answer that we can't teach them to think for themselves by hanging labels on ideas. It's better to let them figure out for themselves that this idea simply won't work in a free society. If a majority of them haven't figured it out by the time they are high school seniors, it is perhaps because teen-agers are what they are—a confusing mixture of selfishness and idealism. I think I like them that way.

Permit me to proceed, then, on the assumption that businessmen are wasting their time and energies, to say nothing of their money, on defending profits and the free enterprise system. This is really not such an original idea. On the same subject more than a dozen years ago, Fortune magazine asked "Is Anybody Listening?" and concluded that no one was. Fortune went a step further by suggesting that businessmen were making people wonder what was wrong with the system that it constantly required so much defending.

Improvement, as I have already suggested, is the best defense. Instead of talking so much, businessmen ought to do more. If they did enough, they could quit worrying about big Government. For the past 30 years most of the improvements—if you choose to call them that—in our free enterprise system have been made by the Federal Government. During most of that period Government has drawn its leadership from areas other than the business community. Our governmental leaders have been pragmatists. If a problem existed in our society, they wanted to find a way to solve it without regard for labels or doctrines.

What I'm urging upon my fellow businessmen is to outgovern government. Let's identify problems and bring about solutions before Government is forced to act. Every citizen of a free society possesses this privilege and responsibility. The leaders of a community are especially obligated to act. And businessmen are leaders—or should be. Lincoln was right. Government should do only what citizens cannot do for themselves.

One reason Government has been doing so much is that businessmen have been doing so little. Perhaps we forgot how, during the tremendous scare of the great depression. But that has been over for a long time, and the Roosevelt reforms have not so changed our society that we are incapable of effective action.

What action? That question ought to be answered with a review of all the problems facing our country today and a discussion of what businessmen can do about them. That obviously is impossible here because: (*a*) I lack the space and (*b*) I lack the knowledge. I'll just have to satisfy myself that any suggestions made here will be more than the director of corporate and public affairs gave us in his speech.

WHO OUGHT TO PROVIDE JOBS?

One obvious criterion of a successful economic system is its ability to provide enough jobs. Ours is not doing as well as it should. Let's look at my young ex-next-door neighbor once again, the one whose tastes already run to Seattle's most expensive restaurant. As a high school graduate this year he is joining a growing army of young men who are finding it increasingly hard to get work. California's youth-employment supervisor, Robert Hill, called jobless young people "social dynamite." He said in this decade 26 million youths will seek jobs, twice as many as in the 1950's.

Businessmen are going to have to assume more responsibility in getting these young people started on useful careers, especially with on-the-job training. We are demanding too high a skill from beginning workers. The kids complain that no one will hire them because they have no experience and then ask, with undeniable logic: How are we supposed to get experience?

Mr. Hill suggested that some companies might do better to hire fewer engineers, who are in short supply anyway and sometimes become bored with jobs that don't really require their full professional skills. Engineers' aids, who could be trained on the job, might make more sense.

The Peace Corps is a marvelous idea, perhaps the best of the Kennedy administration so far, but the young people we send overseas must have skills if they are to be of any service. We businessmen ought to promote and favor any programs which will enhance human skills, even Government programs. Our businesses will benefit eventually, just as they benefit from public education. Providing all the employment and on-the-job training we possibly can, consistent with efficient operating practices, should be the No. 1 goal of our private economy. Then, if we still are unable to absorb the 26 million young people in this decade that Mr. Hill talks about, we must stop opposing Federal and State programs. Serving in a Government-sponsored civilian service corps, foreign or domestic, is infinitely preferable to joblessness. Business opposition to a domestic Peace Corps is the type of irresponsible negativism that causes our fellow citizens to dislike us, ignore us, or both.

Employment opportunities are not the only kind denied many Americans. Negroes lack so many opportunities that theirs has been a second-class citizenship in a society based on equal citizenship for all. This is wrong, and at long last two branches of the Federal Government—the judicial and executive—are taking meaningful action to assure equal rights for everyone.

There appear to be a considerable number of business executives willing to condemn such use of Federal power. Many others (or perhaps they are the same ones) join and finance anti-Communist crusades. Using comparable energy and most likely less money, these same businessmen—through the power they possess in the American economy—could render Government action unnecessary and deliver worldwide communism a staggering blow. Equal status for the American Negro would undermine Communist strategy and propaganda everywhere. This one improvement in our own society could well be enough to turn the tid overwhelmingly in our favor throughout the world. I often wonder why the anti-Communist crusaders don't change into pro-Negro crusaders. They would achieve their goal far sooner than with their present methods.

I would expect the truly responsible leaders of business and industry, however, to work toward equality for Negroes simply because it is right. I wish there were more evidence that they are so working. Undoubtedly, more is being done than the public generally realizes. Because the problems involved are potentially explosive, and because they are not concerned with winning votes, businessmen generally shun publicity in endeavors of this kind. All but one of the white business leaders of Birmingham who served on the biracial committee seeking a solution to the city's conflict, before the bombings this fall, refused even to be identified. They feared economic reprisals, a universal concern of businessmen. "What will my customers think?" is a question usually considered carefully prior to political or social activity. It's a shame Mr. Welch didn't ponder it more seriously before he founded the John Birch Society. If he had run true to business form, he might have decided to refrain for fear of offending all the country's Communist candy consumers.

INVITATIONS TO GOVERNMENT MEDDLING

Even if we were free to publicize our bosses' actions to our hearts' content, it would be most difficult for industrial publicists like myself to convince anyone that everything possible is being done. The results just aren't there. I would welcome, for example, a steel industry report on what it has done to prepare Birmingham for its inevitable compliance with court rulings granting its Negro citizens equal status. After years of enlightened industrial influence, we might logically expect Birmingham to be more advanced in its social attitudes than it apparently is. It simply has to be more enlightened than the surrounding rural areas of Alabama. Yet its recent tragic history (not to mention its international press notices) raises serious doubts.

United States Steel is Birmingham's largest employer and therefore a powerful economic force there. It is faint praise to point out that under United States Steel's quiet leadership and influence Birmingham is a better city than it would otherwise be. A question that repeatedly has been asked, usually by indignant liberals, is, "Why hasn't John F. Kennedy done more about Birmingham?" Conservatives who truly believe what they preach ought to respond with, "Why hasn't Roger Blough done more about Birmingham?"

Industrial leaders may have an excuse in the Deep South, where long-established customs, to say nothing of statutes, have precluded any dramatic moves by them toward equality for all. But neither law nor custom exists to discourage action in such enlightened cities as San Francisco.

Sunday, May 26, 1963, was proclaimed Human Rights Day by Mayor Christopher of San Francisco. Some 12,000 citizens paraded up Market Street and held a rally at the civic center to protest racial oppression and demand universal equality. The newspapers described it as San Francisco's ringing answer to Birmingham. Significantly enough for the point I have been trying to make, the march was organized by the San Francisco Church-Labor Conference. Advance stories promoting the observance of Human Rights Day quoted ministers and labor leaders. Business leaders remain silent. Sponsorship did not include the chamber of commerce, or any other business organization.

The parade itself was a responsible, dignified demonstration. The chief of police called it "a heartwarming spectacle." In the words of the San Francisco Chronicle, "They were of all races, but the major races were white and Negro, about 50–50. They were of all faiths—rabbis, Protestant ministers of the Council of Churches, Maryknoll nuns, Christian Brothers, a Jesuit priest. They were of all classes, but predominantly labor."

Are we businessmen too stuffy and self-satisfied to associate ourselves with a gesture of this kind? If we fail to be counted as for anything as basic as equal citizenship for fellow Americans, how can we expect anyone to become excited about Government's intrusion in business affairs? The freedom to raise steel prices would seem of small consequence compared with the freedom to vote, to work, to live (or even dine) anywhere the price is right, to assemble peaceably, or to enroll in the State university.

Instead of seizing the initiative—which is after all one prerequisite of leadership—businessmen permit the Government to lead the way. I work in a major San Francisco office building where the tenant on one floor is a Federal agency. The only Negro white-collar workers in the building—stenographers, clerks, and supervisors—are employed on that floor. The few non-Government Negroes in the buildings are janitors, cafeteria busboys, and messengers. If Government agencies can find qualified Negro workers, so can we. And we can easily get them because we pay more. But we are not doing so, and we are thereby inviting Government interference into the conduct of our business in a situation where it is right and we are wrong. This is the worst possible position in which to be to carry on a fight against Government regulation, the welfare state, or creeping socialism. Scarce phrases help but little if our policies are wrong to begin with.

WHY HIDE THE COST OF CREDIT?

Also as a matter of right, credit buyers are entitled to fair and honest treatment. Public reports as well as personal experience lead me to the conclusion that they are not getting it. For several years, Senator Paul Douglas of Illinois has been trying, in vain, to obtain passage of a truth-in-lending bill. A similar bill at the State level died in committee at Sacramento recently. According to Reporter Jack Miller of the San Francisco News Call Bulletin, "the cost-of-credit measure, opposed by a powerful alliance of business interests, was shunted to the oblivion of the assembly rules committee."

What honest reason could there possibly be for not informing buyers exactly, in a percentage figure and in dollars and cents, what buying on time is going to cost them? Maybe the passage of another law is undesirable—but retailers themselves have shown no inclination to police the situation. Their attitude appears to be, as usual, to get whatever the traffic will bear, which is a remarkable amount if the facts can be disguised well enough.

To purchase a few dresses for our daughters at Christmastime, 1961, my wife opened an account at a Seattle store of a well-known national chain. The unitemized statement we received about the first of February was larger than my wife could remember having charged. Investigation showed that $6.09 had been added to purchases totaling $31.64 on an account, mind you, to be paid within 90 days. I wrote a stinging letter to the credit manager in Seattle, which was answered within a week by the credit controller at the firm's executive offices in New York. In it I said the additional charge amounted to 77 percent annual interest, although I'll admit I was a little unsure of my ability to compute it accurately. But the credit controller didn't question that at all. He objected only to my use of the word "interest." He called it a "service charge to partially compensate us for the expense of having a credit office in the store." He would have us believe that his firm is losing money on its credit operation. A "service charge" of 77 percent is merely partial compensation. He added that he disliked having a dissatisfied customer so would settle for our payment minus the $6.09 service charge. In the future, he trusted, we would not want to use his credit facilities. What an understatement.

Legitimate businesses, more interested in selling products than credit, ought to oppose this kind of retailing with all the vigor they can muster. Newspapers and radio stations ought to refuse the sleazy advertising that sustains it. The better business bureau—which, incidentally, received a copy of my letter and made no response at all—ought to disown firms guilty of outrageous and hidden credit charges. If they cannot solve the situation themselves, honest businessmen should support rather than oppose Senator Douglas' bill. Neither the Senator nor anyone else can prevent gullible persons from squandering money, but they can be given all the facts on which to base their decisions. The cost of credit is a fact that should be made crystal clear.

By and large, Government has stayed out of those areas where private citizens, businessmen mostly, have done the job. Cultural activities of all kinds are generously supported by the business community. Federal aid for the arts has been suggested occasionally, but not taken too seriously. Most people probably regard it as unnecessary if not unwise. Higher education—especially the private colleges and universities—has received massive financial support from industry. I suppose educators will never regard it as sufficient, but the corporation (or its executives) is rare that doesn't maintain a generous program of support for higher education. United funds—conceived, promoted, and conducted by businessmen throughout the country—have provided the money to keep much welfare and social work in private hands. No tax money is used and contributions remain voluntary, more or less. It seems unlikely that Government financing of election campaigns will ever be adopted in this country. Businessmen and others, notably labor unions, have been willing enough to contribute the money for this activity so essential to a democracy. Medical insurance for employees has become a widespread fringe benefit provided by corporations. The only serious talk of Government-sponsored medical care is for retired persons. Which brings up medicare, an extension of social security to include a most obvious need of old age. When industry furthers a lie of the American Medical Association by calling medicare socialism, it offers no solution. Let's find a better one than medicare if we can.

Undoubtedly many business leaders will object to what I have said. Full employment, job training, fair employment practices, equal rights for all our citizens, consumer protection, medical care for retired men and women. I can hear the response of businessmen I know: "None of these things is our concern. Our job is to make a respectable profit for our shareholders."

To them I say, "Then stop raving about big government." If private citizens with power and influence refuse to concern themselves with improving our society beyond offering new and better products, they have only themselves to blame if their power atrophies. Negativism is not leadership. And that is what the business community all too often exerts.

Until we businessmen demonstrate some positive leadership in the solution of social and economic problems, I'm afraid the country is better off in the hands of the politicians and their allies, the labor leaders and the intellectuals.

[From the Congressional Record, Oct. 31, 1963]

TRUTH IN LENDING

Extension of Remarks of Hon. Maurine B. Neuberger, of Oregon, in the Senate of the United States, Thursday, October 31, 1963

Mrs. NEUBERGER. Mr. President, the American consumer deserves to know just how much he is paying for the goods he buys. The distinguished senior Senator from Illinois, Mr. Douglas, continues to present to Congress and the American public evidence of the need for legislation requiring disclosure of the true cost of goods purchased on credit.

Just 3 days ago, Senator Douglas brought to our attention another example of the flagrant trespass of consumer rights, this time in Nebraska, where the Supreme Court held that installment loans amounting to an estimated $1 billion, had been usurious.

I want to join the distinguished senior Senator from Illinois, as I have joined him in cosponsorship, in urging immediate and favorable action on S. 750, the truth-in-lending bill, and at this time commend to the Senate an article by Senator Douglas, "Who's Afraid of the Truth?" in the October issue of the Carpenter, which once again clearly demonstrates why S. 750 is must legislation. I ask unanimous consent that the article be printed in the Appendix of the Record.

(There being no objection, the article was ordered to be printed in the Record, as follows:)

THE REAL COST OF CREDIT: WHO'S AFRAID OF THE TRUTH?

(By Paul H. Douglas, U.S. Senator, from Illinois)

Are we Americans who borrow and buy on credit entitled to know the truth about the cost of consumer credit? Those of us in Congress who have sponsored the truth-in-lending bill—which would require full disclosure of the true costs of consumer credit—believe that the borrower has the right to know what credit is costing him. So do thousands of citizens who have written to us expressing their strong support for this proposed legislation.

The truth-in-lending bill would simply require that all lenders or sellers on credit such as small loan companies, automobile dealers, commercial banks, and department stores tell the customer—before the contract is signed—and tell him in writing—just how much the credit is really costing.

This written statement must include the number of months the contract runs, the amount of the monthly payment and—most important—the total amount of the finance charge expressed in dollars and cents and the simple or true annual interest rate on the debt actually owed.

Thus, if you wanted to finance a used car for 18 months, the dealer would be required to tell you that on your unpaid balance of $700 with monthly payments of $46.11, the finance charge would be $129.98 and the true annual interest rate would be 22 percent.

Or if you were buying goods on a department store or mail-order house revolving credit account, the store would be required not only to send a regular monthly bill identifying the dollars-and-cents charge for credit but also to tell you that the "small service charge" of 1½ percent per month really amounted to 18 percent per year.

Under the truth-in-lending legislation every borrower would know in advance—before signing on the dotted line—of the price of credit in two ways, the dollar cost and the true finance or interest rate on the unpaid balance. This would enable the wage earner and housewife to compare accurately the costs of different credit plans offered by lenders and sellers and to shop as carefully for credit as for other items in the family budget.

For the past 3 years my subcommittee of the Senate Banking Committee has held extensive hearings on the truth-in-lending bill. The record of this congressional investigation of consumer credit practices demonstrates over and over again that many, if not most, consumers are either unaware, confused, or badly misinformed about the true interest rates and charges they pay for various types of credit.

In New York one witness testified that he bought furniture from a local furniture store for $389. Later he received in the mail a statement showing that he owed $588, to be repaid in monthly installments over 24 months. In other words, he was charged $199 for credit for 24 months.

We were shocked to learn that this amounted to an interest rate of 49 percent. If this witness had known that an interest rate of 49 percent was being charged him, I doubt that he would have purchased the furniture from this store.

Another witness bought a bed for $200 from another store. He was told that he would be charged an additional $76 for interest. However, his contract required him to pay back $23 per month for 2 years. We figured the true interest in this case was 168 percent.

A third witness bought a television set on credit for 30 months. We figured out the interest rate on this transaction, and it turned out to be 143 percent. We asked the witness whether, had she known the interest rate which she was being charged, she would have signed the contract. The witness replied: "Never in my life."

In Pittsburgh a witness testified that he borrowed $900 from a small loan company and was told that his monthly payments would be $58.10 for 24 months. We figured the interest rate in this case, and it turned out to be 52 percent. Would you have signed this contract if you had known that you were being charged 52 percent interest?

Of course, some of these are unusual cases, but it could happen to you. Why don't you test yourself about true interest rates and credit charges? I doubt that many wage earners are aware that:

The small monthly service charge of 1½ percent on department store charge accounts is usually a true annual interest rate of 18 percent.

The 3-percent-per-month plan of small loan companies is really 36 percent per year.

The advertised 5-percent rate on home improvement loans is not less than a 6-percent home mortgage but nearly twice as much.

The so-called 6-percent rate offered by some used car dealers is always 12 percent per year and sometimes very much higher—as much as an 18- to 25-percent interest rate per year.

The 4½-percent new car financing plan of some commercial banks is really 9 percent per year.

Credit plans for teenagers now being promoted by some retailers as only pennies per year sometimes amount to 80 percent interest per year.

These are not unusual cases but merely a few common practices involving inaccurate or misleading interest rate information. Test yourself.

Do you know what the finance charge and the true annual interest rate were the last time you borrowed money or bought on credit?

In the spring of 1962, President Kennedy sent a special message to Congress proposing a new program for consumer protection, including a basic "bill of rights" for the American consumer. These rights of the individual include, the President said, "the right to be informed—to be protected against fraudulent, deceitful, or grossly misleading information, advertising, labeling, or other practices—and to be given the facts he needs to make an informed choice."

To help guarantee this right, the President urged Congress to pass the truth-in-lending bill. Public support is widespread, but opposition in the Senate has prevented enactment of the bill. To overcome this opposition will require determinded support for truth in lending by the individual borrower and buyer.

This should not be a partisan matter. Consumers who are Republicans need protection just as much as consumers who are Democrats.

All we who advocate truth-in-lending legislation are asking is that the consumer be told the truth, the whole truth, and nothing but the truth—in advance—about the interest rates and finance charges he is asked to pay when he borrows money or buys an article on the installment plan.

[From Federal Bar Journal, Spring 1963]

NOTES AND DEVELOPMENTS—FULL DISCLOSURE OF CREDIT CHARGES

(By Scott Hodes and Richard N. Flint)

How many Americans are aware that the small service charge of 1½ percent per month on department store charge accounts is often a true annual interest rate of 18 percent, or that the so-called 6-percent rate offered by some dealers for financing used cars is at least 12 percent and sometimes much higher when computed on the average outstanding balance? Studies reveal that the average consumer is aware only of the monthly cost to finance a new car or television set, for example, and seldom calculates the total annual interest rate on his repayment schedule. Paradoxically, he is extremely interested in annual interest rates prescribed for funds deposited in saving accounts.

Moreover, lending and borrowing is big business in the United States today. Studies by the Senate Banking and Currency Committee reveal that personal debt in the United States now totals over $230 billion, and the yearly interest and finance charges paid on this sum is $15 billion,[1] or 50 percent more than the carrying charges paid by the Federal Government on the national debt. Clearly, Americans have come to accept credit as a way of life, without concerning themselves with the staggering cost of such credit. This apathy may be traced in part to methods successfully used by many creditors to conceal the actual credit charges and interest rates. An experienced credit union manager described the dilemma of the average borrower today as follows:

"He is caught in a wonderland of credit where percentages multiply and divide at will, where finance charges materialize on command and fees are collected on the way out; where sharp practices and rackets not only inflate the costs of credit, but also impose enormous financial hardships on the debtor, particularly those who can least afford it."[2]

Senator Paul H. Douglas, of Illinois, contends that the simple annual interest rate on the outstanding unpaid and declining balance of the debtor's obligation is the only meaningful standard of comparison available to evaluate credit costs. He has introduced a truth-in-lending bill[3] to provide machinery to aid the consumer in making intelligent comparisons with respect to alternative methods of financing. In the President's message to Congress, relating to his consumers' protection and interest program, President Kennedy urged the enactment of this bill. He emphasized that:

"Excessive and untimely use of credit arising out of ignorance of its true cost is harmful both to the stability of the economy and to the welfare of the public. Legislation should therefore be enacted requiring lenders and vendors to disclose to borrowers in advance the actual amounts and rates which they will be paying for credit."[4]

SUBSTANCE OF THE BILL

The truth-in-lending bill is intended to require full disclosure of finance charges in connection with extensions of credit; it does not regulate interest rates or other conditions of credit. Section 4, the operative section of the bill, provides that "prior to the consummation of the transaction," the creditor must furnish to the prospective borrower a clear statement in writing setting forth certain information, including the following:

"(1) The total 'finance charge' expressed in dollars and cents; and

"(2) The percentage that the 'finance charge' bears to the 'total amount to be financed,' expressed as a simple annual rate on the average outstanding unpaid balance of the obligation."

This written statement must also specify the cash price of the property or services being purchased, individual charges which are to be paid by the borrower but which are "not incident to the extension of credit," and the sum of the foregoing which, less the downpayment, is the "total amount to be financed." Detailed rules and regulations for the disclosure of such information and for implementing the other provisions of the act are to be prescribed by the Board of Governors of the Federal Reserve System.

Complications arise in the so-called revolving credit arrangements operated by numerous retail establishments. Under these arrangements, a credit account is opened for the customer, various items may be charged to this account during

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[1] 109 Congressional Record 1921 (1963).
[2] Id.
[3] S. 750, 88th Cong., 1st sess. (1963).
[4] Mar. 15. 1962.

the month, and a monthly credit charge is levied based upon the balance in the account. The written statement discussed in the foregoing paragraphs is clearly inapplicable to these revolving credit accounts because the total amount of credit to be financed, and therefore the total credit charge, is unknown at the time the account is opened. Accordingly, section 4(b) of the bill provides that before opening a revolving or open-end credit account, the creditor must furnish the borrower a statement clearly setting forth the simple annual percentage rate or rates at which the finance charge will be imposed. At the end of each monthly period (which need not be a calendar month), the creditor must furnish the borrower a statement containing certain information, including the dollar-and-cent finance charge for that month, and the monthly finance charge expressed in terms of a simple annual percentage rate.

The primary means of enforcing compliance is through civil suits in State and Federal courts of competent jurisdiction. Section 7(a) of the bill provides that any creditor who, in connection with any credit transaction, fails to disclose to any person any information in violation of the act or regulations thereunder shall be liable to such person in the amount of $100 or an amount equal to twice the finance charge levied in connection with the transaction, whichever is greater, but the maximum liability shall not exceed $2,000 per transaction. The creditor is also liable for reasonable attorneys' fees and court costs, but in the bill as presently drafted, it is not entirely clear whether these fees and costs are also included within the $2,000 maximum. In contrast to these civil penalties which do not require that the violation be willful, section 7(c) provides a fine of not more than $5,000 or imprisonment for not more than 1 year, or both, in case of willful violations.

THE CONSTITUTIONAL ISSUE

The constitutionality of S. 750 and its predecessor legislation has been discussed by a number of interested parties. The American Bar Association in an able opinion [5] concludes that while the issue is not entirely free from doubt, "the arguments against the constitutionality of this legislation * * * appear to us to have more weight." The Department of Justice, in an advisory opinion signed by Deputy Attorney General Katzenbach, concludes that the bill is constitutional.[6] In these opinions, three possible constitutional grounds are discussed: the commerce power, the money power, and the broad Federal power over finance.

In the truth-in-lending bill as presently before Congress, there is no attempt to limit its application to those credit transactions which are directly involved in interstate commerce, and section 3(2) contains an extremely broad definition of "credit." On occasion the Supreme Court has ruled that any transaction, however local, which affects interstate commerce is subject to Federal regulation under the commerce power.[7] However, as the ABA opinion suggests there are numerious cases limiting the "lengths to which courts will go in finding that a transaction has aspects of interstate commerce." And on reflection it is difficult to conceive of every credit transaction, no matter how local in character, as having sufficient effect on interstate commerce to bring it within the scope of Federal power.

The second possible constitutional basis for S. 750 is the "money power," the narrow power "to coin money" and "to regulate the value thereof." Testimony before the Douglas subcommittee indicates that the value of money is influenced by the use of credit because the excessive use of credit, as much as the overabundance of paper currency, tends to cause inflation and therefore lower the purchasing power of the dollar. Supporters of the truth-in-lending bill believe that in periods of inflation, when interests rates are rising, the higher cost of credit—if disclosed—will deter its use, whereas in periods of decline, when interest rates are depressed, the lower interest charges will encourage consumer spending and therefore stimulate the economy. While not necessarily in disagreement with the foregoing conclusion, the ABA opinion contends that the "money power" has been limited to regulating the metallic content of currency, and not its purchasing power.

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[5] "Hearings on S. 1740 Before the Subcommittee on Production and Stabilization of the Senate Committee on Banking and Currency," 87th Cong., 1st sess. (1961), pp. 822–826. Comparable legislation has been introduced by Senator Paul Douglas, of Illinois, in previous congressional sessions, and lengthy committee hearings were held in 1961 and 1962.

[6] "Hearings on S. 1740 Before the Subcommittee on Production and Stabilization of the Senate Committee on Banking and Currency," 87th Cong., 2d sess. (1962), pp. 112–115.

[7] *Wickard* v. *Filburn*, 317 U.S. 111 (1942).

The broad Federal power over finance, a power much broader than the simple "money power," is the third suggested constitutional basis for S. 750. The Justice Department opinion, quoting from an opinion of the U.S. Supreme Court, defines this power as follows.

"The broad and comprehensive national authority over the subjects of revenue, finance, and currency is derived from the aggregate of the powers granted to the Congress, embracing the powers to lay and collect taxes, to borrow money, to regulate commerce with foreign nations and among the several States, to coin money, regulate the value thereof, and of foreign coin, and fix the standards of weights and measures, and the added express power 'to make all laws which shall be necessary and proper for carrying into execution' the other enumerated powers."[8]

This is the same aggregate of powers which permitted Congress to establish a national bank, a national monetary system, and the Federal Reserve System to meet previous deficiencies in the economy. These same powers should be equally available to control and mitigate harmful economic fluctuations which result in part from the uninformed use of credit.

As stated in section 2 of the bill, S. 750 is a legislative effort to curb the cyclical fluctuations in the national economy by requiring the complete disclosure of credit charges. Whether or not this legislation will solve the problem is a question of policy which the Congress alone is competent to resolve. Constitutionally, however, the power would appear to be present.

THE PROPER SCOPE OF STATE AND FEDERAL REGULATION

From a policy standpoint, it has been argued that the subject matter of the Douglas bill is not an appropriate area for legislation by the Federal Government, and that the entire field should be left to the States. An ironic note was added to this argument in 1961 when a truth in lending bill was introduced before the Massachusetts Legislature. At that time the chief objection voiced by opponents of the bill in Massachusetts was that this is something that should not be handled at the State level but at the Federal level.[9]

State common law relating to fraud has proven inadequate to protect the borrower due to the numerous technical legal elements which must be proven to establish an allegation of fraud. This is particularly difficult where the lender makes no actual misstatement, but merely remains silent regarding particular aspects of the transaction.

Traditionally, of course, the States have regulated credit by means of usury laws which prohibit interest charges beyond a certain rate, usually about 6 percent. For the most part, these State usury laws have been ineffective in dealing with small loans and installment credit, the main reason being that the maximum legal interest rate under the traditional usury law was insufficient to allow the creditor a reasonable return because of the relatively high administrative costs and greater risks involved in small loans and installment credit. Thus, creditors who sought to comply with the law were not able to earn a reasonable profit and were displaced by disreputable lenders operating outside the law. Secondly, the so-called time-sale doctrine was used to exempt sales of goods on credit from the usury laws. According to this doctrine when the merchant charges a greater amount for a sale on time than he would for a cash sale, the difference in price if properly handled is considered a part of the time purchase price, and not an interest payment subject to the usury laws.

As a consequence of the failure of existing usury laws, there has been a great variety of legislation promulgated by State legislatures to control various aspects of the small loan and installment sales industry.[10] This legislation varies considerably from State to State, and even within a given State, different branches of the consumer credit industry are typically regulated by different, and often inconsistent, statutes. For example, the following legislation has been passed in one or more States to regulate various segments of the industry: Small loan acts; retail installment sales acts, regulating credit offered by dealer to purchaser; installment loan acts, regulating loans made by a third person to finance

[8] Note 6, supra, p. 114.
[9] Note 6, supra, p. 204.
[10] In an article of this length, it is not possible to discuss in detail the laws of the various States, or even the laws of a particular State relating to small loans and consumer credit. For more detailed coverage, the reader is directed to the following additional source and the sources cited therein: "Consumer Credit Symposium: Developments in the Law," 55 NW. U. L. Rev. 303 (1960), particularly pts. I, II, III, and VII.

consumer spending; revolving credit legislation; pawnbroker acts; acts chartering and regulating credit unions; and acts regulating industrial loan companies, also known as Morris Plan banks.

For the most part, disclosure requirements under these exisitng State laws are inadequate. Some State statutes require that the total financing charge in dollars and cents be disclosed and a few specify that the monthly interest rate be stated. But the requirement that the interest be stated as a simple annual percentage on the unpaid balance is conspicuous by its absence, appearing only in a few State small loan acts. Thus, the consumer is deprived of that one fact which will allow him to compare the credit terms offered by his local bank, for example, with the terms offered by the used car dealer or by the small loan company down the street. The truth-in-lending bill would make possible such a comparison by even the most unsophisticated borrower, and would therefore fulfill a need which is not presently being met by State law.

Moreover, as has been previously stated, the purpose of the truth-in-lending bill is not to preempt State regulation of credit transactions. Section 6(a) expressly provides that the bill does not excuse any creditor from complying with the provisions of State law unless the disclosure requirements of such State laws are directly inconsistent with Federal law. Section 6(b) provides that the Federal Reserve Board shall exempt from the bill's application any credit transaction or class of transactions which is effectively regulated by State law so as to require the disclosure of the same information.

It should also be emphasized that S. 750's requirement of full disclosure in certain transactions is not an innovation to Federal law; disclosure requirements have been the central theme of numerous Federal statutes. To cite a few examples: the Securities Act of 1933, as amended, requires full disclosure of the material facts concerning an issuer of securities to the prospective purchaser;[11] the Federal Food, Drug and Cosmetic Act of 1938, as amended, requires full disclosure of the manufacturer and contents of certain packaged products;[12] and the Automobile Information Disclosure Act of 1958 requires full disclosure to the purchaser of the suggested retail price and other relevant information in conjunction with new car sales.[13]

FLOODING THE COURTS

Critics of S. 750 argue that section 7(a) of the bill, which provides for civil actions in State and Federal courts of competent jurisdiction, will result in numerous lawsuits and, in effect, flood the courts with petty cases. Thus, while Congress in 1958 sought to alleviate the backlog of cases in Federal courts by raising the minimum amount in controversy in certain cases from $3,000 to $10,000, the truth-in-lending bill would produce the opposite result by allowing suits to be brought for amounts from $100 to $2,000. However, this argument ignores the real issue: if there are not sufficient courts to dispense justice, the remedy is to increase the number of courts, and not to lessen the quality of justice. It should also be emphasized that there are numerous other Federal statutes, including the Securities Act, for example, which provide for Federal jurisdiction where the amount in controversy is less than $10,000.

Moreover, the purpose of the civil and criminal penalty provisions is to deter prospective violations. As one witness before the committee stated: "We want the minimum of litigation arising out of this. We want the maximum of voluntary compliance with the bill."[14] Indeed, to argue that the civil litigation arising from penalties provided in S. 750 will flood the courts is to argue that credit institutions will not voluntarily comply with the provisions of Federal law.

CONCLUSION

The bill in its present form may not be perfect. For example, the American Bar Association has pointed out that the definition of "credit" in section 3(2) of the bill is extremely broad, and some tightening up in the drafting may be necessary here and elsewhere. But despite these minor defects in the bill as presently drafted, the bill is basically a noble one. It would appear that there is a need for fuller disclosure of finance rates and charges in the United States today—a need that is not being fulfilled by traditional State legislation. Senator

[11] 48 Stat. 78 (1933), 15 U.S.C. 77g (1958).
[12] 52 Stat. 1042 (1938), 21 U.S.C. 331(b) (1958).
[13] 72 Stat. 326 (1958), 15 U.S.C. 1232 (1958).
[14] Note 5, supra, p. 870.

Douglas and his cosponsors have brought this problem to the public forum and have suggested a legislative solution within the framework of existing Federal disclosure legislation.

NEW YORK STOCK EXCHANGE,
New York, N.Y., January 13, 1964.

Hon. PAUL H. DOUGLAS,
U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: Until recently, we were unaware that securities transactions might be within the purview of Senate bill No. 750. While the bill as a whole reads as if it were intended to cover only sales of consumer goods, it appears on further study that "cerdit" and "revolving or open-end credit plan" as defined might be construed to cover securities transactions.

Section 3(2) of the bill defines "cerdit" to include "* * * any contract to sell, or sale * * * under which part or all of the price is payable subsequent to the making of such sale or contract * * *." Under the Exchange's 4-day settlement rule, and as practiced in the over-the-counter market, purchases and sales of securities are normally consummated by making payment for and delivery of the securities involved within 4 business days after the date upon which the order is executed. Consequently, the term "credit" as defined in the bill might be construed to include these transactions.

On the other hand, the broker would not normally be a "creditor" as defined by section 3(4) of the bill because no financial charge is imposed upon the customer for making payment on settlement date rather than the transaction date. If the customer fails to make payment by settlement date, however, the broker might then charge interest on the late payment and by so doing might become a "creditor" as defined by the bill and subject to the requirements of section 4(a). But, the broker could not meet the requirement of subdivision 6 of section 4(a) because he would have no way of knowing prior to the consummation of the transaction what the interest charge, if any, would be in terms of dollars and cents.

Even if section 4 is not intended to apply to securities transactions settled in the normal 4-day period, section 4(b) might be construed to cover the purchase of securities on margin.

If so, broker-dealers would presumably have to furnish their margin customers with the written statement described in section 4(b). As a general rule, broker-dealers do furnish such customers with written statements on a monthly basis containing the information called for by subdivision (2) A–E of section 4(b). However, it would be impossible for brokers to meet the requirement of subdivision (1) of section 4(b)—that the written statements identify the "simple annual percentage rate"—because the rate charged frequently fluctuates with the prevailing call money rates on loans to brokers.

I believe it is evident that financing the purchase of securities presents an entirely different situation from purchasing consumer goods such as automobiles and refrigerators on time. Perhaps S. 750 was never intended to cover securities transactions. In any event, it would not seem necessary to apply this bill to the securities industry which, as you know, is already closely regulated by the rules and regulations of the self-regulatory authorities, the so-called blue-sky laws which most of our States have and the Federal securities laws under which the Federal Reserve Board has promulgated regulation T specifically covering extension of credit by broker-dealers.

Presumably the Federal Reserve Board could exempt securities transactions under section 5(a) of the bill although this is not entirely clear. Nevertheless, we believe it would be more appropriate to state clearly the exemption in the bill itself rather than rely on the promulgation of regulations.

Accordingly, we strongly urge it be made clear that the bill does not apply to securities transactions by inserting a specific exemption for such transactions.

Sincerely yours,

G. KEITH FUNSTON.

[From the Wall Street Journal, Mar. 7, 1963]

A STIMULUS TO CONFUSION

With everybody talking about economic stimulants these days, Senator Paul Douglas figures he has a way to pump new life into an old bill. The bill is the Illinois Democrat's so-called truth-in-lending measure, which would require retailers and lenders to spell out for consumers not only the dollar amount of finance charges but what this amounts to in term of "true" annual interest.

Even on its own terms, the bill is pretty dubious. Right now, every ethical lender will carefully spell out interest charges in dollars and cents, and mathematicians are prepared to prove that for most popular types of consumer loans it is impossible to compute the exact true annual rate in percentage terms.

In any case, Mr. Douglas now argues that his bill, by somehow making interest costs more easily comparable, would greatly increase competition among lenders. According to his reasoning, this would force down interest rates in times of slack borrowing demand. Lower financing costs, says the Senator, would spur a flurry of borrowing to buy autos, appliances, and other goods, and thus stimulate the economy.

Well, the higher costs the lenders would incur in trying to cope with the bill's mathematical mysteries surely would not increase their ability to lower finance charges. And since there is now no secret about interest costs in dollars and cents, it is difficult to see what would spur all the increased competition. But even supposing that the bill in some way would accomplish the miracle of lowering interest rates, it is at least questionable that this would draw a lot of eager buyers into auto showrooms and other emporiums.

Suppose the "true" annual interest rate on a $2,000 auto loan fell by 2 percentage points, an unusually sharp decline for any interest rate. If the customer were to repay the loan in 12 monthly installments, his monthly payment would be cut by less than $2. And that's a pretty picayune incentive to push anyone $2,000 into hock.

About all the Douglas bill would actually stimulate would be a a lot of confusion. The fact that it's now being ballyhooed as an economic stimulant may indicate that even its backers mave doubts about its true merits.

[Excerpts from H. Doc. 220, 88th Cong., 2d sess.]

THE AMERICAN CONSUMER

Message From the President of the United States

To the Congress of the United States:

America's economy centers on the consumer:

The consumer buys in the marketplace nearly two-thirds of our Gross National Product—$380 billion out of an output of $600 billion;

To meet consumer needs with an ever-widening range and quality of products is the prime object of American producers;

To increase consumer well-being—both the quality and the comfort of life—is one of the highest purposes of private and public policy.

Yet, for far too long, the consumer has had too little voice and too little weight in government.

As a worker, as a businessman, as a farmer, as a lawyer or doctor, the citizen has been well represented. But as a consumer, he has had to take a back seat.

That situation is changing. The consumer is moving forward. We cannot rest content until he is in the front row—

Not displacing the interest of the producer,

Yet gaining equal rank and representation with that interest.

Federal action in the consumer interest is not new. To protect the consumer, we have Federal laws and regulations—

To eliminate impure and harmful food, drugs, and cosmetics;

To standardize weights and measures, and improve labeling;

To prevent fraud, deception, and false advertising;

To promote fair competition;

To assure fair rates in transportation, power, fuel, communications, and the like;

To avoid abuses in the sale of securities.

What is new is the concern for the total interest of the consumer, the recognition of certain basic consumer rights:

The right to safety.
The right to be informed.
The right to choose.
The right to be heard.

President Kennedy—in his historic consumer message of March 15, 1962—first set forth those rights.

I reaffirm those rights.

What is also new is active representation of the consumer—and a loud, clear-channel voice—at the topmost levels of government:

1. In July 1962, President Kennedy established the Consumer Advisory Council. In its landmark "First Report" of last October, the Council urged stronger and more effective representation at the Presidential level.
2. On January 3, I appointed a new Special Assistant for Consumer Affairs and established the President's Committee on Consumer Interests, composed of—

Representatives of the Federal departments and agencies most concerned with consumer affairs;
Members of the Consumer Advisory Council;
The newly appointed Presidential Assistant, as Chairman.

My Special Assistant and the new Consumer Committee will lead *an intensified campaign:*

To assure that the *best* practice of the great American marketplace—where free men and women buy, sell, and produce—becomes *common* practice.

To fight, side by side with enlightened business leadership and consumer organizations, against the selfish minority who defraud and deceive consumers, charge unfair prices, or engage in other sharp practices.

To identify the gaps in our system of consumer protection, information, and choice that still need to be filled.

RECENT ADVANCES

Since 1962, the consumer's position has been protected and strengthened in several important ways:

1. New drugs must now be approved for effectiveness as well as safety.
2. Beginning in May of this year, all television sets produced and sold in interstate commerce must be able to receive all channels, including the ultra-high-frequency ranges. This will bring to millions of American homes a wider range of noncommercial educational TV, as well as more commercial programing.
3. During the past year, the Federal Trade Commission has intensified its programs to protect consumers against—

False advertising as to the safety and efficacy of nonprescription drug products;
Misrepresentation of savings in the purchase of food-freeze plans;
Deceptive television ratings and demonstrations;
Misbranding of clothing;
Bait-and-switch tactics in the sale of consumer products.

4. Federal Power Commission orders on gas rates have channeled millions of dollars of refunds of past overcharges to American families who use gas for cooking and heating.
5. Remedies have now been provided for air travelers who are victims of "overbooking."

The job ahead. But the road to consumer safety, accurate information, free choice, and an adequate hearing is never ending. In modern society, the consumer is constantly exposed to the winds of change. Countless new products—and new forms of old products—vie for his attention and his dollar. Services take a larger and larger share of the consumer dollar. Yet they are often performed without established standards of safety or values.

The American housewife—the major American consumer—cannot help but feel confused, and too often unheard, as she seeks the best value for the hard-earned dollar she spends.

This Government is pledged to come to her aid with new legislation and new administrative actions.

RECOMMENDED LEGISLATION

* * * * * * *

Truth-in-lending

The consumer credit system has helped the American economy to grow and prosper:

Credit is used to finance the purchase of homes, cars, appliances, education and recreation.

Consumer credit and mortgage debt on urban family homes together total over $250 billion.

The cost of such credit must be made as clear and unambiguous as possible, eliminating all possibility of abuse. The antiquated legal doctrine, "Let the buyer beware," should be superseded by the doctrine, "Let the seller make full disclosure." *Therefore:*

(8) *I recommend enactment of legislation requiring all lenders and exteners of credit to disclose to borrowers in advance the actual amount of their commitment and the annual rate of interest they will be required to pay.*

* * * * * * *

CONCLUSION

All these proposals for consumer protection would cost us as taxpayers only a small fraction of what they would save us as consumers. And there is no measure of what they would prevent in human suffering.

But in the last analysis, the remedy for errors of taste, poor judgment, and disorder in our economic life is not to be found in the legislatures or the courts but in the leadership of those who care:

This is an individual matter.

But it is also a matter for corporations and organizations dedicated to the public interest.

I know that the program outlined here to improve the safety and welfare of our consumers will help all Americans to pursue the *excellent* and reject the *tawdry*—in every phase and in every aspect of American life.

LYNDON B. JOHNSON.

THE WHITE HOUSE, *February 5, 1964.*

(The material requested on p. 1013 follows:)

The Financial Publishing Co. was founded by Mr. Montgomery Rollins, son of a U.S. Senator from New Hampshire, in 1890. The senior Pollins was connected with the famous banking house of that name. For several decades after the 1890's this company published all of the tables of bond values in the United States.

The present president of the company, Mr. Charles Gushee, came to work for Financial Publishing Co. in 1924, after graduating from Harvard College. The company now has approximately 70 employees and does a gross business of over $1,200,000 per year. The company makes charts for sales finance companies, for life insurance companies, computes tables for automobile financing, and the company provides almost all of the tables for small loan companies in the United States with the exception of Household Finance Co. The company computes 1,000 to 1,500 individual mortgage schedules every working day.

The Financial Publishing Co. is the leading financial company in the field of providing rate charts and devices and provides tables for every facet of the consumer credit business. Finally, the company will offer to devise any table that the customer wishes on very short notice for approximately $1.

MODEL ACTS

MODEL RETAIL INSTALMENT SALES ACT

"Consumers, by definition, include us all. They are the largest economic group in the economy, affecting and affected by almost every public and private economic decision. Two-thirds of all spending in the economy is by consumers. But they are the only important group in the economy who are not effectively organized, whose views are often not heard."

President Kennedy in his March 15, 1962 message to Congress requesting legislation to protect consumers. (*N. Y. Times,* March 16, 1962, p. 16 (city ed.)

General Comment

A significant part of the phenomenal growth experienced by the American economy during the last four or five decades can be traced to the equally phenomenal growth of the instalment sale device. It would be interesting to speculate what percentage of the over seven million automobiles produced by Detroit in 1955 would have been sold had buying on time been prohibited by government fiat in 1954. Although instalment buying is indispensable to the continued vitality of the economy, much criticism has been directed as of late to the ineffective regulation of abuses in this area.

In his widely-reported March fifteenth message to Congress requesting consumer oriented legislation, President Kennedy recognized the need of consumers to be protected "against charges of interest rates and fees far higher than apparent without any real knowledge on the part of the borrowers of the true amounts they are being charged." The President strongly urged that federal legislation was both desirable and necessary:

> Excessive and untimely use of credit arising out of ignorance of its true cost is harmful both to the stability of the economy and to the welfare of the public. Legislation should therefore be enacted requiring lenders and vendors to disclose to borrowers in advance the actual amounts and rates they will be paying for credit.

The President stressed, however, that the thrust of any federal legislation would be directed at the disclosure of, rather than the setting of, finance charges. This would mean that existing state legislation setting interest rates and regulating instalment sales in general would remain unaffected.

Thus, assuming the enactment of federal legislation requiring full and complete disclosure of interest rates, the "informed" consumer will still make improvident purchases and be at the mercy of unscrupulous sellers. The "informed" instalment buyer who defaults is inadequately protected by most state retail instalment sales laws.

Reprinted from Boston College Industrial and Commercial Law Review, spring 1962.

The following Model Act attempts to provide the instalment buyer with more information than he has been receiving and also to mitigate some of the consequences resulting when his improvidence overtakes him. No economic or ethical justification for this Model Act will be attempted other than to restate the axiom that predatory practices are economically indefensible.

PAUL G. GARRITY
THOMAS J. GALLAGHER, JR.

SECTION 1. GENERAL DEFINITIONS

Subject to additional definitions contained in the subsequent sections of this Act which are applicable to specific sections, and unless the context otherwise requires, the following words and terms shall have the following meanings in this Act:

(a) "Cash Sale Price" means the amount in dollars for which the instalment seller has sold or agreed to sell goods or services or both to the instalment buyer.

(b) "Finance Charge" means the amount in dollars the instalment buyer agrees to pay to the instalment seller or holder for the privilege of purchasing goods or services or both under a retail instalment sales agreement.

(c) "Goods" mean any chattel personal, including motor vehicles, purchased primarily for personal, family, or household purposes or purchased for commercial use by a small business buyer. "Goods" shall not include money or things in action.

(d) "Holder" means a person entitled to enforce a retail instalment sales agreement against an instalment buyer.

(e) "Instalment Buyer" means a person who purchases goods or services or both under a retail instalment sales agreement or one succeeding to the rights or assuming the obligations of such person.

(f) "Instalment Sales Price" means the sum, expressed in a dollar amount, of the cash price, the finance charge, and any insurance premiums and official fees the instalment buyer agrees to pay under the terms of the retail instalment sales agreement.

(g) "Instalment Seller" means a person who sells or agrees to sell goods or services or both pursuant to a retail instalment sales agreement.

(h) "Motor Vehicles" include passenger cars, trucks, buses, station wagons, motor scooters, motorcycles, and motorized farm equipment.

(i) "Person" includes an individual or an organization.

(j) "Retail Instalment Sales Agreement" means any contract entered into in this state for the retail sale of goods or services or both under which the instalment sale price is payable in more than one payment subsequent to the making of the contract.

(k) "Revolving Account" means a retail instalment sales agreement where an instalment seller extends credit to an instalment buyer upon which and up to a specified amount the instalment buyer may purchase goods whereby the specified amount of credit extended is decreased by each purchase and is increased by each payment up to the original or another specified amount.

(l) "Services" means any labor furnished or agreed to be furnished in the delivery, installation, repair, or improvement of goods or chattels or both or alterations or improvements upon or in connection with real property, such labor being purchased primarily for personal, family, or household purposes or purchased for commercial use by a small business buyer.

(m) "Small Business Buyer" means an instalment buyer of goods or services or both whose net income from his business or profession has averaged $5000 or less over the previous three years as evidenced by Schedule "C" of Federal Income Tax Form 1040.

(n) "Writing" includes printing, typewriting, or any other intentional reduction of language to tangible form.

(o) A person "notifies" another by taking such steps as may be reasonably required to inform the other in ordinary course whether or not such other person actually comes to know of it.

COMMENT

The definitions contained in this section in effect determine the scope of this Act. Thus, instalment sales of realty, i.e., the purchase of single- and multiple-unit dwellings, commercial buildings, parcels of realty, etc., are not regulated by this Act. It is felt that this type of transaction deserves separate statutory treatment due to the many accommodations that would have to be made with existing federal and state legislation.

The "cash sale price" is simply the selling price to the instalment buyer. To define this term as the "retail price" might result in a loophole in the Act where the instalment seller sells to the particular instalment buyer at the "wholesale," "list" price, etc. The "finance charge" is the dollar amount of interest the instalment buyer is charged for purchasing on time.

The "goods" (with exception of those purchased for commercial use by a "small business buyer") within the ambit of this Act are those which are commonly termed "consumer goods." The functional test utilized by UCC section 9-109(1) as to what are consumer goods is adopted. "Goods" specifically include motor vehicles and in this respect this Act departs from the separate statutory treatment afforded motor vehicles by most instalment sales acts. The only justification for separate statutory treatment would seem to be the unexplained policy that different interest rates should apply where there is a motor vehicle instalment sale. Dollar limits on qualifying goods are also dispensed with. There seems to be no compelling reason why the instalment buyer of a cabin cruiser should not be entitled to the same protection the instalment buyer of an outboard motor receives. The regulation of large and small loans unrelated to an instalment sale is left to existing separate state legislation.

"Holder" includes the instalment seller except where the context otherwise requires. The definition of "instalment buyer" reflects the present statutory treatment of that term. "Instalment sale price" simply means the total amount the instalment buyer is obligated to pav under the terms of the contract. "Instalment seller" requires no comment.

23-902 O—64—pt. 2——63

"Motor vehicles" as defined attempts to list as far as possible, but without being all-inclusive, what is generic to that term in view of the many contemporary forms of motorized land transportation. "Person" includes an organization or, as the draftsmen's comment to UCC section 1-201(28) explains, "every type of entity or association excluding an individual acting as such."

The definition of "retail instalment sales agreement," which by direction is definitive of retail instalment sales subject to this Act, departs from existing law by including the unsecured transaction. The unsecured instalment sale is subject to abuses prohibited by Sections 2 and 3, among others, in this Act. The term "revolving account" is merely a designation of those transactions which take different names in many jurisdictions. This term should be construed to include those instalment sale devices which resemble but are not identical to the type of transaction defined such as the "merchandise certificate" regulated by section 402A of the New York Retail Installment Sales Act.

The definition of "services" presents no problem until one is confronted with the situation where services are performed in connection with realty and a mortgage is placed on the realty to secure payment for the services. This is not the typical transaction involving the instalment sale of realty mentioned in the preface to this Comment. The remodeling of a family house, the installation of a furnace, and the landscaping of a lawn are some examples which are of themselves arguably "typical." Such "services in connection with realty" are within the scope of this Act and state law conflicting with provisions of this Act should be superseded. Conflicting federal law, however, should prevail.

The "small business buyer" who purchases on time for commercial purposes should be given the same protection as the luxury cabin cruiser devotee. The student earning his tuition by driving his own taxi, the small independent contractor, the corner grocer, are, to name a few, usually unprovided for in retail instalment sales acts. Instead of placing a dollar limit on the amount of commercial purchases one buys on time as the qualifying factor, a "net profits" test was adopted for two reasons. "Net profits" as set out not only provides a ready reference but also takes care of the common situation where an independent contractor makes many thousands of dollars of instalment commercial purchases but has little earnings.

UCC sections 1-201(25) and (46) are relied on with minor changes for the definitions of "notifies" and "writing."

SECTION 2. FORM OF THE RETAIL INSTALMENT SALES AGREEMENT

(a) Every retail instalment sales agreement shall consist of a single writing signed by the instalment seller and the instalment buyer. The printed terms of the agreement shall be set in ten point standard type. The printed or written terms shall appear on only one side of each page. The agreement shall not be more than three pages in length and the surface of each page shall not be more than 120 square inches in area.

(b) Every retail instalment sales agreement shall include the date when signed, the names and addresses of the instalment seller and the instalment buyer, a description of the goods or services purchased, a description of collateral securing the instalment buyer's obligations under the agreement if any, and, at the top of the first page of the agreement in eighteen point extrabold type, the words "Retail Instalment Sales Agreement—The Terms of this Agreement are Regulated by State Law."

(c) There shall be included on the first page of every retail instalment sales agreement in the following order the dollar amounts of the following items, such items to be so designated:

(1) The cash sale price of the goods or services or both.

(2) The instalment buyer's downpayment in money or goods or both with a description of and the value assigned to the goods by the instalment seller as downpayment.

(3) Any sale, excise, or other taxes not included in the cash sale price.

(4) The charge to the instalment buyer for insurance, if any, with a specification of the coverage and benefits in simple terms. If the goods purchased by the instalment buyer consist of a motor vehicle or vehicles the description of the coverage, if any, shall include in twelve point bold type a statement that the insurance includes or does not include coverage for liability for personal injury or property damage or both caused to others and for property damage caused to the motor vehicle sold as the case may be.

(5) The charge to the instalment buyer for official fees including registration and filing fees.

(6) The finance charge.

(7) The instalment sale price.

(8) The true annual interest rate, as defined and computed in Section 4, charged to the instalment buyer.

(d) The retail instalment sales agreement shall include immediately above the place for the signatures of the instalment seller and the instalment buyer, the following notice to the instalment buyer printed in twelve point bold type:

NOTICE TO BUYER

(1) Do not sign this agreement if it contains any blank spaces.

(2) You have a statutory right to a signed copy of this agreement at the time of signing.

(3) You have a statutory right at any time to pay in advance the unpaid balance due under this agreement and in so doing you will receive a partial rebate of the finance and insurance charges.

(4) You have a statutory right to redeem goods purchased under this agreement when they have been repossessed because of your default and this right to redeem after repossession does not terminate until sixty days after repossession unless the repossessor has disposed of the goods before that time.

(5) The seller has no right to unlawfully enter your premises or commit any breach of peace to repossess goods purchased under this agreement.

(6) You have the right to cancel this agreement by notifying the seller within forty-eight hours after signing, if, but only if,

you have not received before cancelling, a substantial part of the goods or services purchased under this agreement within that forty-eight hour period. If these conditions are met and if you avail yourself of this right to cancel, you are entitled to a refund within ten days, after you so notify the seller of your desire to cancel, of ninety percent of any deposit you have made.

(e) Any violation of this Section shall subject the instalment seller to a penalty to the instalment buyer of an amount equal to the first instalment payment.

COMMENT

Broadly stated, the purpose of this Section is to achieve more equality of bargaining power between the instalment seller and the instalment buyer. The average uninformed instalment buyer rarely has an understanding of the terms of the contract he is entering into, a realization of the true cost of the interest he is paying, or an appreciation of his legal rights. Such uninformed bargaining power is bargaining impotence.

The rationale of subsection (a) is that few buyers read the instalment sale contract they sign. The usual instalment sale contract contains a mass of small print setting out irrelevant terms and conditions on far too many pages with the result that if the instalment buyer suppresses the urge to sign immediately "on the dotted line" he will rarely understand what he reads. The provisions of subsection (a) are designed, metaphorically speaking, to lead the buyer to water. An express requirement that the instalment buyer read the contract and attest to that fact would, however, be senseless. While one cannot be certain the buyer will drink the water after he has been led to it, there should be some assurance the water is not muddied.

Subsection (b) includes provisions normally found in retail instalment sales acts. The instalment seller's address would be that of his business and the instalment buyer's address would usually mean his home address unless he were a "small business buyer" and had a separate business establishment.

Subsections (c) and (d) are explained in other comments to this Act. The requirement that the insurance coverage be described in "simple" terms means just that. The technical description contained in the usual policy would not be sufficient. Any explanation of coverage should be phrased in language the meaning of which the average buyer could easily understand. The federal excise tax and certain state sales and use taxes must by statute be separately stated and subsection (c)(2) provides for this contingency.

SECTION 3. PROHIBITED TERMS IN THE RETAIL INSTALMENT SALES AGREEMENT

(a) There shall be no blank spaces in the retail instalment sales agreement or note executed in connection with a retail instalment sales agreement when the agreement or note is presented to the instalment buyer for his signature. No retail instalment sales agreement or note executed in connection with a retail instalment sales agreement shall contain among its terms the following:

(1) A confession of judgment (or its equivalent) by the instalment buyer upon his default.

(2) A grant of authority to the holder to unlawfully enter the instalment buyer's premises or commit any breach of peace in the repossession of the collateral, if any.

(3) A waiver of right of action against the holder by the instalment buyer for illegality in repossession.

(4) A waiver of any rights or remedies by the instalment buyer which he may have against the holder.

(5) A provision allowing the holder to repossess the collateral, if any, for default in payments other than as provided in Section 12(a).

(6) A provision allowing the holder to repossess for non-substantial defaults.

(7) A provision allowing the holder to accelerate payments before repossession.

(8) An assignment of any part of the instalment buyer's wages.

(9) A provision limiting, modifying, or excluding an express or implied warranty made by the instalment seller in connection with the sale or a provision so integrating the retail instalment sales agreement so as to limit, modify, or exclude such a warranty.

(b) Any violation of this Section shall subject the instalment seller to a penalty to the instalment buyer of an amount equal to the first instalment payment.

COMMENT

Because of the possibility of abuse, no exception is made to the provision that blank spaces are prohibited in the retail instalment sales agreement or note when signed. If an instalment buyer contracts to buy an automobile and it is to be factory delivered, a description of the automobile as required by Section 2 of this Act need not include an undetermined serial number.

The various subsections are included to prevent even the insertion of *in terrorem* terms into the agreement. Such terms have no place in a retail instalment sales agreement. Subsection (9) restricts by implication the integration effect of the required "single writing" of Section 2(a) as to warranties made by the instalment seller.

SECTION 4. FINANCE CHARGE

(a) Except as provided in Section 9, a finance charge an instalment buyer agrees to pay for goods or services or both purchased under a retail instalment sales agreement shall be the exclusive finance charge to the instalment buyer for such a purchase under such an agreement.

(b) The finance charge for goods or services or both purchased under a retail instalment sales agreement shall not exceed a true annual interest rate of __%. The true annual interest rate, which shall always be expressed by percent, shall be computed by the following formula:

$$R = \frac{2PC}{A(N+1)}$$

R = the true annual interest rate.
P = the number of payment periods in one year exclusive of the downpayment. (Always 12 if monthly payments are made, 4 if quarterly payments, and 52 if weekly payments.)
C = the finance charge.
A = the amount borrowed.
N = the number of installment payments in the whole contract period exclusive of the downpayment.

(c) Any violation of this Section shall subject the instalment seller to a penalty to the instalment buyer of an amount equal to the first instalment payment.

COMMENT

This Section deviates from existing law by providing a uniform interest rate for the instalment purchase of new and used motor vehicles as well as other consumer goods. The particular rate adopted by a state will necessarily have to be set higher than those contained in present regulatory statutes but this higher rate more accurately reflects the true interest the instalment buyer pays.

The following example demonstrates the application of the true annual interest formula to a typical instalment transaction. Assume consumer purchases an automobile for $2000. His down payment is $500. The dealer computes the finance charge at $150. Consumer agrees to pay the sum owed in 24 equal monthly instalments.

P = 12 (the number of payment periods in one year).
C = $150 (the finance charge).
A = $1500 (the amount borrowed assuming no other charges such as insurance fees, etc.).
N = 24 (the number of instalment periods).

$$R = \frac{2 \times 12 \times \$150}{\$1500 \times 25} = 9.6\%.$$

SECTION 5. COPY TO BUYER

(a) The instalment seller shall give at the time of signing a copy, signed by both him and the instalment buyer, of the retail instalment sales agreement to the instalment buyer who shall acknowledge at such time its receipt in handwriting on both his and the instalment seller's copy.

(b) A violation of this Section shall subject the instalment seller to a penalty to the instalment buyer of an amount equal to the first instalment payment.

COMMENT

This Section has its counterpart in nearly all retail instalment sales acts although the requirement that the instalment buyer attest to the fact of receipt on his and the instalment seller's copy is unique and should simplify evidentiary problems. This Section presupposes that memories are short and provides the instalment buyer with a ready reference to his rights and obligations under the agreement.

SECTION 6. PAYMENTS AND PREPAYMENTS

(a) Where there is an assignment of the retail instalment sales agreement or a note given by the instalment buyer to secure his obligations under the agreement, until the instalment buyer is notified in writing of such assignment, the payment by him of any instalment to the last known holder of such agreement or note shall discharge the instalment buyer from his obligation on the instalment so paid.

(b) The instalment buyer shall receive, without request, a receipt for each instalment paid. Where the instalment buyer has completed his instalment payments, the holder shall give, without request, to the instalment buyer, a signed cancellation of the instalment buyer's obligations under the retail instalment sales agreement and shall take those steps necessary to release the security interest in any collateral.

(c) The dollar amount of any single instalment shall not exceed the dollar amount of any other single instalment by more than ten percent.

(d) The instalment buyer shall have the right at any time to prepay the entire unpaid balance due under the retail instalment sales agreement. If the instalment buyer so prepays he shall be tendered without request a partial refund of the finance charge such refund to be computed in the following manner. The finance charge shall be divided by the number of instalments originally provided for, which figure shall then be multiplied by the number of instalments by which payment has been anticipated by the instalment buyer and the result so obtained shall be the amount of the refund to which the instalment buyer shall be entitled. Upon prepayment the instalment buyer shall also be tendered without request a refund of insurance charges allocable, as far as possible, to the amount prepaid, by reference to the insurer's refund tables.

(e) A violation of subsections (b), (c), and (d) of this Section shall subject the holder to a penalty to the instalment buyer of an amount equal to the first instalment payment.

COMMENT

While subsection (a) in general reflects existing law in this area, subsection (b) contains some rather novel provisions. Under subsection (b), the instalment buyer is entitled to a receipt for an instalment paid *without* request. Also, there is an express provision requiring the holder to release a security interest held in any collateral.

Subsection (c) in effect prohibits "balloon payments." The undesirable consequences resulting from the balloon payment device more than offsets any apparent advantage to the instalment buyer. If an instalment buyer supposedly can pay most of the cash sale price in a few instalments, with proper timing he should be able to tender a large downpayment and accordingly reduce the amount of each instalment. This would be "ballooning" in reverse and the large deficiency judgments resulting from a default in the usual balloon payment plan would be avoided.

Subsection (d) rejects the so-called "Rule of 78" in computing the refund the instalment buyer is allowed when he prepays. This subsection does not require strict allocation of the finance charge to the amount prepaid to be determinative of the refund amount. Thus, if an instalment buyer prepays in the middle of an instalment period, the finance charge allocable to that whole instalment period may be retained by the holder. No provision is made as to partial prepayment which may be negotiated between the parties.

The last sentence of subsection (d) recognizes that refund of insurance charges are generally paid according to "refund tables" and provision is made for such practice assuming, of course, that the tables used are not unrealistic.

SECTION 7. RIGHT TO CANCEL

The instalment buyer shall have the right to cancel the retail instalment sales agreement for other than the instalment seller's breach where:

(a) the instalment buyer has not received or been tendered a substantial part of the goods or services or both, and

(b) the instalment buyer notifies the instalment seller of his desire to cancel before receipt or tender of a substantial part of the goods or services or both and within forty-eight hours after signing the agreement.

A cancellation by the instalment buyer of the retail instalment sales agreement pursuant to this Section shall entitle him, without request, to a refund by the instalment seller within ten days after such cancellation of at least ninety percent of all deposits, including any downpayment, made under the agreement. The instalment buyer shall incur no additional liability for a cancellation pursuant to this Section.

COMMENT

The purpose of this unique Section is to give the weak-willed instalment buyer, who succumbs to a "sales pitch" at the showroom or front door, an opportunity to reconsider and, if certain conditions are met, to cancel the agreement. This Section in effect gives to the instalment buyer a "remedy" without breach by the seller and in no way impairs any other remedy the buyer may have. The buyer may exercise this "remedy" for good reason or even capriciously. If an instalment buyer capriciously cancels a number of agreements with a particular seller the inference that the buyer is maliciously interfering with the seller's business may be suggested. Such an inference, however, is absurd as a seller would be ill-advised to contract with a buyer who has previously cancelled several agreements under this Section.

Whether an instalment buyer has received or been tendered a "substantial" portion of what he has purchased is a question of fact. Where the instalment buyer purchases a bedroom set, receipt of the bed would usually be "substantial" receipt. The draftsmen express no preference as to what would be an adequate test in determining "substantial" receipt or tender. A test based on the percentage of the cash sale price of what is received over the cash sale price of what is purchased under the agreement may not be appropriate in all situations.

Subsection (b) also includes the possibility where the instalment buyer cancels a few hours after signing and the instalment seller rushes delivery. Such a tactic is expressly precluded.

SECTION 8. COLLATERAL, ADD-ONS, AND AFTER-ACQUIRED COLLATERAL

(a) Where under a retail instalment sales agreement a security intere in collateral is taken to secure performance of the obligations of the insta ment buyer under the agreement, the then fair market value of such collateral shall not exceed the cash sale price of the goods or services or both purchased by the instalment buyer.

(b) Where a security interest in the goods purchased under a retail instalment sales agreement by an instalment buyer is retained by the instalment seller to secure the instalment buyer's obligations under the agreement, no other collateral shall be taken to secure the obligations of the instalment buyer unless the cash sale price of services performed in connection with the goods exceeds one-third of the cash sale price of the goods.

(c) Where an instalment buyer makes a purchase at a different time or an unrelated purchase at the same time from the same instalment seller, each purchase shall be subject to a separate retail instalment sales agreement. The security of each agreement shall secure only the obligations of that agreement and default in one agreement shall not constitute default in the other.

(d) Collateral securing the performance of the obligations of the instalment buyer under a retail instalment sales agreement shall not include the instalment buyer's interest in after-acquired property other than accessions.

(e) Any violation of this Section shall subject the holder to a penalty to the instalment buyer of an amount equal to the first instalment payment.

COMMENT

The provisions of this Section are directed against the not uncommon situation where, for example, the instalment buyer of a television set secures his obligations under the agreement with the living room furniture. This Section does not include within its scope the regulation of "over-security" in the small loan area.

Subsections (a) and (b) are interrelated and must be read as a logical whole. If, under subsection (b), the cash sale price of services performed in connection with the goods exceeds one-third of the cash sale price of the goods, the fair market value of the collateral, if any, securing the payment for the services cannot exceed the cash sale price of the services according to subsection (a). Where the cash sale price of the services is less than the cash sale price of the goods, the seller has two choices, i.e., he can retain a security interest in the goods sold as the only collateral or he can require the buyer to furnish other collateral the fair market value of which does not exceed the cash sale price of the goods and services. The cash sale price rather than the instalment sale price is determinative of the amount of the collateral allowed as there is no reason why the payment of the finance and insurance charges should be secured in view of Section 12 of this Act which requires a refund of finance and insurance charges accruing after repossession.

Subsection (c) specifically prohibits "add-ons" and "disguised" add-ons. Thus, if an instalment buyer purchases from an instalment seller a television set on Monday and a television antenna from the same seller on Tuesday, the instalment seller cannot avoid the operation of this subsection by having the instalment buyer cancel the first contract and combine the two purchases into one agreement. Whether a purchase is "unrelated" is a question of fact.

Subsection (d), unlike UCC section 9-204(4)(b) which allows a ten day period of grace, completely prohibits after-acquired collateral clauses in a retail instalment sales agreement.

SECTION 9. REFINANCING AND EXTENSIONS

(a) An agreement between the instalment buyer and holder refinancing the payment of amounts unpaid by an instalment buyer under a retail instalment sales agreement shall be subject to the provisions and penalties of this Act. The refinance charge shall not exceed a true annual interest rate, as defined and computed in Section 4, of __%. The base to which the refinance charge shall be applied shall be computed according to the following formula:

$$B = (P) - (F + I + A)$$

B = the base to which the refinance charge shall be applied.
P = the instalment sale price.
F = the finance charge allocable as in Section 12(d) to the part of the instalment sale price refinanced.
I = the insurance charges allocable as in Section 6(d) to the part of the instalment sale price refinanced.
A = amounts the instalment buyer has already paid under the agreement.

(b) An agreement between the instalment buyer and holder extending the time for payment of amounts unpaid by the instalment buyer under a retail instalment sales agreement shall be subject to the provisions and penalties of this Act. The holder may charge the instalment buyer a fee equal to __% of the original sale price for the privilege of extending payments under the agreement, such fee to be paid by the instalment buyer at the time the holder grants the extension.

COMMENT

Refinancing, which includes renewals, usually occurs where the instalment buyer has either originally overestimated his ability to pay instalments of a certain amount or where some subsequent event has occurred making payment of these instalments economically impossible. Although it is arguable that refinancing is in the holder's best interest, the draftsmen recognize that refinancing is preferable to repossession and recommend that, as an incentive or reward of sorts to the holder who refinances, an interest rate of one or two percent higher than that set in Section 4 be allowed.

An extension does not presuppose as drastic a reappraisal of the instalment buyer's ability to pay as does refinancing. The line between the two occasionally becomes blurred but the essential difference is that while refinancing involves setting up different instalment amounts to run a longer period, extension involves only allowing the instalment buyer more time for making payment or payments. A fee for each payment extended is allowed.

SECTION 10. STATEMENTS

(a) Within the sixth month after the execution of the retail instalment sales agreement and within every sixth month thereafter until the instalment buyer has discharged all his obligations under the agreement, th holder shall send to the instalment buyer without request a statement of account which shall list the following designated as such:

(1) The total dollar amount paid by the instalment buyer, including downpayments and delinquency charges, to the date of the statement of account.

(2) Instalment payments due but not paid, if any, and any delinquency charges assessed thereon.

(3) The number of instalment payments and the dollar amount of each not due but still to be paid and the remaining period the agreement is to run.

(4) The finance charges paid, if any, during the prior calendar year and the finance charges to be paid during the current calendar year.

(b) Violations of this Section shall subject the holder to a penalty to the instalment buyer equal to the highest finance charge for one instalment period.

COMMENT

The purpose of this Section is to enable the instalment buyer to make an informed judgment as to the possibility of his prepaying or perhaps his requesting an extension or refinancing of his payments. Subsection (4) is inserted for personal income tax deduction purposes.

SECTION 11. DELINQUENCY CHARGES

Where the instalment buyer is in default by reason of nonpayment of an instalment and has continued in default for five days, the holder may charge and collect from the instalment buyer a single delinquency charge of not more than five percent of the amount of the overdue instalment, but such delinquency charge shall not be imposed the first time the instalment buyer is in such default unless the instalment buyer fails to pay the amount by or on the tenth day after the instalment was due.

COMMENT

This Section is similar to provisions contained in existing retail instalment sales acts with two exceptions, i.e., the period of grace allowed is somewhat shorter than usual and a different grace period is set up for the first time the instalment buyer fails to pay an instalment on time. By implication this Section prohibits delinquency charges for all other defaults including "substantial" defaults.

SECTION 12. DEFAULT, REPOSSESSION, AND REDEMPTION

(a) After an instalment buyer has been in default for ten days by reason of non-payment of an instalment, the holder shall be entitled to repossess the collateral, if any, securing the instalment buyer's obligations under the retail instalment sales agreement. When the holder is so entitled to repossess and if he decides to do so he must notify the instalment buyer by registered or certified mail of an "intent to repossess" the collateral and may repossess on or after the tenth day from the receipt by the instalment buyer of the notice of "intent to repossess." If, however, the instalment buyer pays charges assessed to him within eight days from the receipt by him of the holder's notice of "intent to repossess," the holder's right to so repossess shall terminate. The holder's notice of "intent to repossess" to the instalment buyer shall apprise him of his aforementioned right to pay and prevent repossession.

(b) Where an instalment buyer is in default for other than nonpayment of an instalment, the holder shall not repossess until he has secured a court order allowing him to do so. A court shall not issue an order allowing a holder to repossess for such a default unless it finds that the instalment buyer's default has been substantial.

(c) No default by the instalment buyer shall entitle the holder prior to repossession to accelerate payments to be made by the instalment buyer.

(d) Within sixty days after repossession by the holder and before the collateral has been disposed of or a contract for its disposition has been made in good faith, the instalment buyer may redeem the collateral by payment of all the unpaid instalments, delinquency charges, and any reasonable expenses incurred by the holder in repossessing, holding, and preparing the collateral for the disposition or resale, but less the insurance premiums allocable to instalments not due at the time of repossession, as determined in Section 6(d), and the finance charges allocable to instalments not due at the time of repossession.

(e) Where collateral securing the instalment buyer's obligations under the agreement has been repossessed by the holder but not redeemed by the instalment buyer, the holder must sell or dispose of the collateral in a commercially reasonable manner within sixty days from the date of repossession or forfeit any claim for a deficiency assessment against the instalment buyer and the holder shall refund to the instalment buyer, without request, any excess of the fair market value of the collateral determined as of the date of repossession over the instalment sale price to be paid.

(f) After default and repossession of the collateral and subject to subsections (d) and (e) of this Section, the holder may sell or otherwise dispose of the collateral, such sale or disposition to be carried out in a commercially reasonable manner. The proceeds of any disposition shall be applied in the following order:

(1) Reasonable expenses of the disposition.

(2) Reasonable expenses of repossession, holding, and preparation of the collateral for disposition including reasonable attorney's fees where the attorney is not employed regularly by the holder.

(3) Satisfaction of the unpaid instalment sale price and delinquency charges less finance charges and insurance premiums allocable to instalments due after repossession as determined in subsection (d) of this Section.

(4) Surplus, if any, to the instalment buyer without request.

(g) No court shall enter a deficiency judgment against an instalment buyer which includes the finance charge and insurance premiums allocable to instalments due after repossession as determined in subsection (d) of this Section.

(h) (1) Repossession without complying with subsections (a) and (b) of this Section shall subject the holder to a penalty to the instalment buyer of an amount equal to fifty percent of the fair market value of the collateral at time of repossession and in addition the instalment buyer may sue the holder for conversion of the collateral.

(2) Failure of the holder to comply with Section 12(d) above shall subject the holder to liability for conversion.

(3) A violation of Section 12(f) shall subject the holder to a penalty to the instalment buyer of five hundred dollars.

COMMENT

The holder's remedy of repossession is rather drastic and has too often been attended with abuses. Strict regulation is necessary and to this end this Section was drafted.

Subsection (a) sets out the conditions precedent that must be met and the steps the holder must take before he may repossess. It is obvious that "redemption" prior to repossession is encouraged. A problem may arise, however, where the instalment buyer has been continually late in making payments or has been in default for a number of instalments and the holder has neglected to notify the buyer of an "intent to repossess." A sudden assertion of his rights under subsection (a) by the holder should not create an estoppel situation although the buyer would be perhaps hard pressed to pay the instalments then due and prevent repossession. Courts deciding that an estoppel existed where the holder had "sat on his rights" were interpreting a statute which did not contain an eight day grace period.

A definition and listing of "substantial" defaults could not possibly be all-inclusive. Thus, whether a default for other than nonpayment of an instalment is or is not "substantial" should be a question of fact. The draftsmen recommend that "Consumer Courts" be established in the various states to adjudicate this and other questions of fact posed in this Act. Unlike subsection (a), subsection (b) makes no provision for "redemption" before repossession but leaves open possible adjustments (unlikely since the holder has gone to the trouble of securing a court order) between the parties.

Subsection (c) prohibits acceleration by the holder of instalment payments in any case of default prior to repossession and is contra to UCC section 3-109 which broadly validates acceleration clauses. Acceleration is, of course, available to the buyer by virtue of Section 6(d).

Subsection (d) in effect permits acceleration by the holder after repossession. Unlike Section 6(d), there must be strict allocation of finance and insurance charges accruing to instalments not due at the time of repossession. The instalment buyer has sixty days after repossession to redeem unless the holder disposes of the collateral before that time.

Subsection (e) modifies UCC section 9-505 to conform to the scheme of this Act. This subsection does not require the holder to dispose of the collateral repossessed but if he keeps such collateral as his own (and it is assumed the holder has so retained the collateral if he has not sold or disposed of it within sixty days after repossession) he forfeits any deficiency claim against the instalment buyer. Where the holder so retains the collateral and its fair market value at repossession is more than the amount of the instalment sale price the instalment buyer is to pay, the holder must refund the excess to the instalment buyer. This is to provide for the case where it would be to the advantage of the holder to retain repossessed collateral and fall outside the operation of subsection (f)(4).

The provisions in subsection (f), with the exception of provision (4), integrate existing law in this area. The draftsmen urge that the test contained in UCC section 9-507(2) as to when a sale or disposition is made in a "commercially reasonable manner" be utilized. Subsection (g) is inserted to obviate the holding of *Pacific Discount Co. v. Powell*, 174 A.2d 440 (Md. 1961).

SECTION 13. SEPARATE NOTES

If, as part of any instalment sales transaction, a note is taken evidencing the instalment buyer's obligations under a retail instalment sales agreement, such note shall refer to the retail instalment sales transaction out of which it arose and any holder of such note shall be subject to all defenses which the instalment buyer may assert against the instalment seller. Provisions in the note excluding or modifying warranties made by the instalment seller in connection with the retail instalment sale to the instalment buyer and provisions in the note inconsistent with the provisions of this Act shall be unenforceable.

COMMENT

This Section does not destroy the negotiability of notes executed by an instalment buyer in connection with a retail instalment sales agreement and applies either where the instalment seller assigns the note to a holder or where the instalment buyer executes a note directly to a holder as part of the sales transaction. The holder of such a note in effect cannot be a holder in due course.

SECTION 14. REVOLVING CREDIT AGREEMENTS

(a) Any agreement creating a revolving credit account shall be subject to all the provisions and penalties of this Act except the phrase "a description of the goods or services purchased" in Section 2(b), Sections 2(c), 4, and 6, the first sentence in Section 8(c), and Section 10.

(b) The instalment seller may assess a finance charge upon the instalment buyer which shall not exceed __% per month computed upon the outstanding unpaid balance at the end of the monthly period.

(c) The instalment seller under this Section shall furnish the instalment buyer a monthly statement of account which shall include:

(1) The oustanding unpaid balance at the end of the current monthly period.

(2) The finance charge thereon in both dollars and percent.

(3) The amount of payments made during this period.

(4) A description and the cash price of goods purchased during the current period.

(5) An enumeration of any other charges.

COMMENT

The purpose of this Section is to include within most of the provisions of this Act the various "credit for purchases" devices used by commercial establishments alone or in conjunction with lending institutions. Under subsection (b) a method different than that required by Section 4 is devised to compute the allowable interest rate. The true annual interest formula of Section 4 would be unwieldy in the typical revolving credit situation.

SECTION 15. ADVERTISING

(a) No instalment seller shall in any advertisement, publication, solicitation, or representation, make any misleading statements in relation to a finance charge. Any advertisement, publication, solicitation, or representation, in relation to a percentage finance charge is presumed to be misleading if expressed otherwise than in terms of true annual interest as defined in Section 4.

(b) A violation of this Section shall be presumptively wilful.

COMMENT

Section 15 does not prohibit the advertising of the dollar cost of finance charges but does apply to the advertisement of revolving account credit percentage rates. This Section, however, leaves to other regulatory legislation the advertising of interest rates by finance companies and banks.

SECTION 16. VIOLATIONS AND PENALTIES

Any instalment seller or holder who wilfully violates any Section of this Act shall be guilty of a misdemeanor and shall be liable to a fine of not less than $100 and not more than $500 for each offense.

COMMENT

A violation of any provision of this Act subjects the offender to criminal liability and fine. It is incumbent upon state authorities to prosecute such offenders to further the protection of the consumer, especially where a violation of Section 15 is involved.

SECTION 17. WAIVER

(a) Any waiver of any provisions of this Act by the instalment buyer shall be unenforceable.

(b) Any provision in any retail instalment sales agreement or in any note executed in connection with such an agreement that conflicts with any Section of this Act shall be unenforceable.

COMMENT

Subsection (a) refers to waivers contained in both the retail instalment sales agreement and a note executed by the instalment buyer evidencing his obligations under the agreement. A retail instalment sales agreement or a note executed in connection with such an agreement containing unenforceable terms shall be enforced as far as possible and consistent with the provisions of this Act.

SECTION 18. HOLDER

Any holder of a retail instalment sales agreement, or of a note evidencing indebtedness arising out of such agreement, shall be subject to the provisions of this Act.

SECTION 19. SEVERABILITY

If any section or part thereof of this Act shall be declared invalid, such invalidity shall not affect the remainder of this Act.

SELECTED REFERENCES

The amount of literature focusing on the instalment sale transaction has become rather voluminous in the last decade and to attempt a typical bibliography would be usurping the function of the *Index to Legal Periodicals*. Such proliferation of source material is attributable to the increased use of the instalment sale device by consumers, the outcry directed against abuses surrrounding it, and the often sketchy efforts at regulation by the states. The most progressive legislation in this area seems to be that adopted by Maryland. The New York and California acts are also noteworthy although defective in some respects as pointed out in Willier, *Protection Installment Buyers Didn't Get,* 2 B.C. Ind. and Com. L. Rev. 287 (1961).

In the law review area, Professor Hogan of Cornell Law School in two comparatively recent articles has, so to speak, covered the field—*Retail Installment Sales Legislation,* 58 Colum. L. Rev. 854 (1958), and *A Survey of State Retail Installment Sales Legislation,* 44 Cornell L.Q. 38 (1958). Also deserving of mention are Warren, *Regulation of Finance Charges in Retail Installment Sales,* 68 Yale L.J. 839 (1959), and the *Consumer Credit Symposium: Developments in the Law,* 55 Nw. U.L. Rev. 301 (1960).

The abuses prevalent in the instalment sales area, as traced for the layman in Black, *Buy Now, Pay Later,* New York: William Morrow and Company, 1961, are by no means confined to the United States. In 650 H.C. Deb. 1716-1809 (1961), the history of instalment sales in Great Britain is discussed in connection with a proposed amendment to the British Hire-Purchase Act. The fancied sedate English temperament was not in evidence when the pros and cons of the somewhat novel proposals of W. T. Williams, M.P., were discussed. The draftsmen of this Model Act welcome any unsettling of American temperaments in the hope that in the not too distant future an article entitled, *The Excellent Protection Installment Buyers Are Getting,* will be written.

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