compared to waiting until January 1 to buy.

The result in the view of many economists is that the many equipment industries in this country—representing a great deal of employment and industrial activity—might as well close up shop next fall with a big increase in unemployment. Conceivably such a development could kick off a recession which would not be stemmed by the resumption of the investment credit on January 1. If business conditions are not good at the first of the year, the postponed purchase might never be made.

To meet this problem, Mr. Randall has suggested that the investment credit should be phased in at the rate of 1 percent per month over a period of 7 months.

If this process should begin on June 1, it would mean that the 7-percent credit would be back in full force on January 1, 1968. There would be no disruption of production, and the purpose of the investment credit suspension—to hold down, but not to kill the investment in plant and equipment—would have been adequately served—but without the overkill that is sure to result without some adjustment such as Mr. Randall has suggested.

I hope the Ways and Means Committee in the House, the Finance Committee in the Senate, and the Treasury Department will all give this ingenious suggestion their careful attention. It makes excellent sense.

THE TRUTH-IN-LENDING BILL

Mr. PROXMIRE. Mr. President, on January 11, I introduced S. 5, the truth-in-lending bill. I am pleased that 22 Senators have joined with me in sponsoring this much needed measure to protect the interest of the American consumer. My appreciation is extended to Senators BARTLETT, BREWSTER, CASE, CLARK, DODD, GRUENING, HART, INOUYE, KENNEDY of Massachusetts, KENNEDY of New York, LAUSCHE, MAGNUSON, MCGEE, MONDALE, MORSE, MOSS, NELSON, PELL, RANDOLPH, TYDINGS, YARBOROUGH, and YOUNG of Ohio for cosponsoring this important bill. Today, I want to discuss the basic features of the truth-in-lending bill and to outline the reasons why I believe the bill is in the public interest.

Mr. President, the truth-in-lending bill was originally introduced by our great former colleague, Senator Paul H. Douglas, of Illinois. Paul Douglas fought long and hard for truth in lending as he did for many other causes throughout his distinguished career. We in the Senate owe him a great debt of gratitude for his leadership and efforts on behalf of issues and ideas which many lesser men would have long since abandoned.

And so it is with truth in lending. Paul Douglas saw the need for the full disclosure of consumer credit charges long before any of us. He educated us and the American public and paved the way, not only for truth in lending, but for a heightened awareness of the need for legislation to protect the American consumer on a variety of points. This awareness resulted in many constructive accomplishments by the Congress, including the truth-in-packaging bill on which our able colleague from Michigan [Mr. HART] has exerted such magnificent leadership.

Paul Douglas is a great economist and a great American. He was a great Senator. In all three roles, he truly believed in our free enterprise system and in the ability of the market to insure a more abundant life for all. He did not believe in governmental regulation or control, but rather saw the role of government as removing obstacles to free and open competition.

The truth-in-lending bill is a case in point. The market system requires information in order to function—information on the part of both buyers and sellers. When information channels become clogged, competition breaks down. The essence of the truth-in-lending bill is to restore full information in the consumer credit field—to insure a full disclosure of the cost of credit—and thus to permit the market system to function more effectively.

And so I predict the 90th Congress will enact a truth-in-lending bill, not only as a tribute to our dear former colleague, Paul H. Douglas, but also as a tribute to the American people and to our democratic system where it is possible for good ideas to live on and ultimately realize success.

PRINCIPLES OF TRUTH IN LENDING

Mr. President, a truth-in-lending bill has been before this body since January 7, 1960. Most Senators have an accurate understanding of the objectives and principles of this legislation. Nevertheless, as is frequently true in the case of strongly contested legislation, fictions and myths arise from the contest. Let me first, therefore, enumerate the bill's basic purpose and the principles on which this legislation is based.

The first principle of the bill is to insure that the American consumer is given the whole truth about the price he is asked to pay for credit. The bill would not regulate interest charges, but would rather aim at a full disclosure of the cost of credit so that the consumer can make an intelligent choice in the marketplace. I emphasize that it would not regulate interest charges. It would not set ceilings.

A crucial provision of the bill deals with expressing credit charges as an annual percentage rate. Without the knowledge of an annual rate it is virtually impossible for the ordinary person to shop for the best credit buy. However, in an effort to remove objections to earlier truth-in-lending bills, my new version makes it abundantly clear that lenders need only state an approximate annual rate and would not be held to absolute accuracy down to the last decimal point.

The second principle is that the whole truth about the cost of credit really is not meaningfully available unless it is stated in terms that consumers in our society can understand. Just as the consumer is told the price of milk per quart and the price of gasoline per gallon, so must the buyer of credit be told the "unit price." Historically in our society that unit price for credit has been the annual rate of interest or finance charge applied to the unpaid balance of the debt. Without easy knowledge of this unit price for credit, it is virtually impossible for the ordinary person to shop for the best credit buy. This is true, of course, because different offerings of credit may vary with respect to the amount of debt, the number of payment periods under which it is to be repaid, and the amount to be paid per period.

A third principle is that the definition of finance charge, upon which an annual percentage rate is calculated, needs to be comprehensive and uniform. It needs to be uniform in order to permit a meaningful comparison between alternative sources of credit. Two 12-percent loans are not identical in cost if one requires additional charges for credit investigation, processing fees, and the like. The definition of finance charge also needs to be comprehensive in order to convey the true cost of credit. A 6-percent loan which requires a lot of additional charges is really not 6 percent, but is something higher.

The bill, therefore, states that in calculating the annual percentage rate for a loan all charges incident to the extension of credit are to be included.

The fourth principle of the truth-in-lending bill is that its advocates believe in our modified free enterprise system; that we believe in the benefits of a free market in which people may make their own choices knowledgeably and freely as an enduring and efficient basis for our economy. If we think that the market should be governed by the choices made by people, with a minimum of interference, obstruction, or monopoly, then we must support the right of the consumer to know the full facts so that he can make wise choices.

This principle of the truth-in-lending bill means, therefore, that prices set by American businessmen for interest or credit should not be set arbitrarily by the Federal Government but rather should be determined by the forces of free and open competition. I want to emphasize this point, because I have heard suggestions that the truth in lending bill is the foot in the door to eventual Federal Government determination of allowable rates of interest or finance charge which businessmen may levy on consumer credit.

Nothing could be further from the truth. I repeat again that a basic principle of this bill is that disclosure—just disclosure—of the full cost of credit effectively will protect consumers and businessmen. Full disclosure will restore a more free operation of individual choices in the marketplace.

I state unequivocally that this Senator does not prejudge any reasonable rate of finance charge. I do not argue that 18 percent is too high a rate for revolving credit accounts, nor that 20 percent is too high for some kinds of short-term cash loans of small amount. I merely say that what is a fair and allowable finance charge should be openly determined in the marketplace by informed consumers.

Mr. LAUSCHE. Mr. President, will the Senator yield?

Mr. PROXMIRE. I yield to the Senator from Ohio, who is a cosponsor of the bill.

Mr. LAUSCHE. Mr. President, the Senator from Wisconsin has just stated that on a short-term loan he does not feel that everyone ought to be condemned if the loan carries with it a rate of interest of 18 or 20 percent.

Mr. PROXMIRE. The Senator is correct.

Mr. LAUSCHE. How does the Senator reach that conclusion? The very fact that a rate of 18 or 20 percent interest is charged is shocking and revolting to me.

Mr. PROXMIRE. I understand that. I think, if we look at the total credit charged as containing the elements of interest, investigation for credit risk, the paper work involved in setting up the account we can understand that if the loan is for a short period, for a few weeks, then in order to reclaim the charges incident to providing this credit, it is necessary for the lender to secure more than the 6 or 7 percent which may be the cost of money to him.

The lender has to get more than 6 or 7 percent to cover these other costs. That is the reason why it may be necessary under some circumstances to charge as much as 18 or 20 percent, although it would be possible under this bill for the borrower to shop around and see if he can get money for that short a period of time at more reasonable terms. Or he can go to his own savings account and draw the money down at a cost of 4½ or 5 percent, or extend his mortgage, or use some other means of getting the money.

Mr. LAUSCHE. Mr. President, the Senator has stated that I am a cosponsor of the bill, and I gladly join in supporting it.

I believe that the person who is willing to pay 18 percent interest is a dead duck. He never would agree to pay it if he had any other chance of escaping his economic distress.

When I was serving on the court in Cleveland, I saw individuals who borrowed money on the basis of 3 percent a month. This would mean that in the event of a loan of $300, $9 a month interest would be charged. They never became freed from the chain that was around their neck. The only time they became freed was when they went through bankruptcy.

I merely wish to restate that I join with the Senator from Wisconsin in the proposal that there shall be a complete revelation of all charges involved in making a loan—hidden and open charges involved in making a loan—hidden and open charges—so that the borrower will know exactly how heavy the burden is that he assumes when he borrows the money.

Mr. PROXMIRE. Mr. President, there is no Member of the Senate I would rather have as a cosponsor of this bill than the Senator from Ohio. As everyone knows, the Senator from Ohio is the firmest kind of friend of the free enterprise system, that he is a strong foe of unnecessary Government regulation or unnecessary Government control. He has fought hard to keep the Government as limited as possible.

The Senator from Ohio recognizes, as do I, that this is not a bill to regulate or limit or determine the rate of interest, but simply to provide information to the consumer, so that the consumer, himself, will be in a position to evaluate a loan, to evaluate a financing charge, to know whether or not it is reasonable, and to be in a position to shop around.

I believe that this bill would improve and strengthen the free competitive system that the Senator from Ohio and I support.

Mr. LAUSCHE. I should like to make another comment. I have had the personal experience of going to a bank and borrowing a sum of money. Let us say that I borrowed a thousand dollars. The interest was 6 percent. They gave me $940. The ordinary individual would assume that the interest was 6 percent a year. But when they gave me only $940 on a thousand-dollar promised loan, the interest was much higher, of course.

Mr. PROXMIRE. The Senator is correct. Under some circumstances, the requirement is that the repayment be made at regular intervals, in which case the rate of interest could be double.

Mr. LAUSCHE. I have a bill pending and I respectfully suggest to the Senator from Wisconsin that I should receive some aid from persons who are attempting to protect distressed individuals in economic situations.

A shocking and woeful practice has developed of lenders on a mortgage charging a premium of 10 percent for making the loan. A poor individual borrows $20,000 to buy a house. Instead of receiving the $20,000, he receives $20,000 less 10 percent, which is $18,000. The $2,000 becomes an immediate paper profit to the lender. The borrower also promises to pay a rate of interest of 6 percent—not on the $18,000, but on the $20,000.

Now, what is the gimmick? The Government guarantees that the lender will receive not only the $18,000 which he has laid out, but also the $2,000 that he has charged to make the loan.

I investigated a bankruptcy case in the Federal court of Cleveland. Loans were made to poor Negroes who wanted to buy a house, and they agreed to pay the 10 percent premium, plus the 6 percent interest. The lender made the loan, and he made it in the hope that the poor colored man would not be able to pay in the first year; for, if the borrower did not pay in the first year, the loan would be foreclosed, and the lender would have earned a 10 percent premium and 6 percent interest.

It is a shocking situation, Mr. President, that the bill I have introduced is pending in the Senate, and I cannot get any cosponsorship of it.

These lending practices constitute robbery, and we tolerate them. The Federal Government is daily paying out guarantees not only on the actual money loaned, but also on the exorbitant charge of 10 percent premium. In Chicago, the premium is 15 and 20 percent.

Mr. PROXMIRE. I say to the distinguished Senator from Ohio that he has performed a great service in introducing that bill. As I understand, the bill is pending before the Committee on Banking and Currency, and it will receive my most careful and sympathetic consideration. I have spoken to members of the staff, and I have requested them to give us a report on it.

Mr. LAUSCHE. I commend the Senator from Wisconsin for his assistance.

Mr. PROXMIRE. Mr. President, the fourth principle of truth in lending is that ethical businessmen, those who believe in a competitive free enterprise system, and who work to achieve their profits by offering quality and service—and not deception or confusion—will be aided by full disclosure. Obviously, however, the truth-in-lending bill does not help the unethical businessman who engages in deceiving or confusing or fooling or cheating the credit customer.

I have great respect for and faith in American businessmen. I have, for a number of years, been the chairman of the Small Business Subcommittee in the Senate. I know that the overwhelming body of businessmen want to be competitive. I hope deeply that on reflection they will see that enactment of the truth-in-lending bill is the best way to avoid legislation which would actually have the Government set allowable interest and finance charge rates.

We want to avoid that kind of regulative legislation, and this disclosure legislation would do so. Full disclosure of the cost of credit will also protect the ethical businessman from unfair competition on the part of a few unscrupulous lenders who profit by providing deceptive information to consumers.

The fifth principle of the truth-in-lending bill is that consumer credit, unemcumbered by deception and confusion can be a force for stability in our economy. If consumers understand the price of credit as they understand the price of other articles and services, their choices can help to combat inflation or a recession. When finance charges go up in a period when inflation threatens, the consumers—if they know the cost of credit is going up—will be encouraged to postpone credit purchases; or when recession threatens, the knowledge that finance charges are lower can encourage consumers to buy. Thus, this knowledgeable action by consumers can help to keep the economy on an even keel. But of course, where finance rates are concealed, this mechanism of the marketplace is not permitted to work.

THE GROWTH OF CONSUMER CREDIT

Consumer credit has become a major element of American business and economic activity. I say this in commendation, not in criticism. The development of consumer credit has helped more people enjoy sooner the benefits of our magnificent productive capacity. Millions of people use consumer credit, and I am delighted that they do. I am not at all motivated by an effort to hurt the consumer credit segment of our economy. Quite the contrary. I want it to work better and to help more people to enjoy a better life.

The growth of consumer credit, from any point of view, has been spectacular. Short and intermediate term consumer credit now amount to $92 billion, or 2.2 times the total only 10 years ago.

If we consider also the mortgage debt outstanding on nonfarm homes, which now amounts to $220 billion, then the total of consumer debt has reached $312 billion, only $18 billion less than the entire national debt of the U.S. Government.

It is interesting to note that consumers pay approximately $22 billion in interest or finance charges on their debt, while the Federal Government paid approximately $12 billion in 1966 on the national debt. On short and intermediate term consumer debt, consumers pay about $11 billion in finance charges, or nearly as much as the Federal Government pays in interest on the $330 billion national debt.

The really significant development with respect to consumer credit is not only that it has increased so rapidly and now has attained a huge total, but also in particular, that installment credit has grown so rapidly. According to the Economic Indicators for December 1966, by October of 1966 the total $91.899 billion of consumer credit outstanding was made up of $73.073 billion in installment credit and $18.826 billion in noninstallment credit, consisting of single payment loans, charge accounts, and service credit. Of the installment credit, the largest chunk is $35.82 billion in automobile paper and $19.737 billion in personal loans.

Of course, mainly the widespread use of installment credit has led to the confusion in the minds of consumers about the actual cost of credit. In the case of simple loans—that is, where the principal is paid back in its entirety at the end of the loan period—the rate of interest or finance charge is relatively easy to calculate. The grade school formula, that interest equals principal times the rate times the time, is relatively clear to many people. Thus, a loan of $1,000 for a year at 6 percent requires the borrower to pay a finance charge of $60.

The use of the installment repayment plan, however—in which the borrower immediately begins to repay a portion of the loan at the end of each payment period—brings about difficulties in easily determining the annual rate of interest. In the example of $1,000 borrowed for a year at a finance charge of $60 but repaid in 12 equal monthly installments, the actual rate of interest is not 6 percent, but slightly less than 12 percent—providing the borrower received the full $1,000 and not a "discounted" loan of $940. This difference in the finance charge expressed as an annual rate, of course, is due to the fact that the borrower has had the use, on the average over the course of the year, of only one-half the amount borrowed.

The intricacies of installment credit are explained in many publications, but recently an excellent publication of the National Shawmut Bank of Boston, Mass., has come to my attention, which succinctly and very helpfully explains the peculiarities of installment loans and the resulting actual interest rate.

Mr. President, I ask unanimous consent that this statement by the National Shawmut Bank be printed as an appendix to my remarks.

The PRESIDING OFFICER (Mr. BYRD of Virginia in the chair). Without objection, it is so ordered.

(See exhibit 1.)

Mr. PROXMIRE. Mr. President, I point out two things in connection with this brochure. First, note that this is a publication of a large commercial bank, one of the 70 largest banks in the country. The bank's publication of this brochure may be related to the fact that the legislature and Governor of the Commonwealth of Massachusetts have enacted two truth-in-lending laws requiring the full disclosure of the cost of consumer credit both in dollars and as an annual rate, but the brochure implies no criticism whatsoever of this requirement. Second, I point out that the formula which the brochure explains for determining the "simple annual interest rate" is only one of the possible formulas; namely, the constant ratio formula which the Massachusetts law requires be used. The bill I introduced today assumes the use of the actuarial method which is more precise, though easily implemented through the use of tables issued by financial publishing houses.

NEED FOR TRUTH IN LENDING

Mr. President, I am sure every Senator is aware of many of the abuses of the consumer which take place, whether or not they agree that this legislation is the best way to deal with them. The hearings held by subcommittees of the Senate Committee on Banking and Currency—in 1960, 1961, 1962, 1963, and 1964—the record of which numbers a total of 5,078 printed pages, contains testimony citing numerous examples of confusing and deceptive practices. I point out that these are examples relating only to deception and confusion in connection with disclosing the actual cost of credit. There are many other kinds of abuses in the field, but we have confined ourselves to this area.

In addition, subcommittees of the House Committee on Banking and Currency have also conducted investigations in this field and the records of those hearings contain many additional examples. I dare say, in addition, that every Senator has received letters of complaint from constituents who have felt cheated or deceived in a credit transaction. Also, the records of the bankruptcy courts and of the State courts which handle credit litigation are packed with examples of deceptive and confusing practices. Hardly a month goes by that some personal tragedy directly related to deceptive credit practices is not reported. To move into a singularly shocking area of abuse, Senators have been made aware, by revelations before the McClellan committee and other bodies, of the criminal "juice" racket which illustrates in the extreme the gouging of people desperately in need of funds, through exorbitant rates of finance charges.

There are numerous examples of consumers paying unusually high rates of interest as a result of not disclosing the full cost of credit. One witness before a Senate committee cited installment payments which involved interest computed at the rate of 168 percent a year. Many other examples are contained in the record of hearings conducted by the Senate Banking and Currency Committee. These hearings reveal a bewildering variety of methods for stating financial charges in today's consumer credit industry, so that an informed choice among different credit plans is all but impossible except for a trained mathematician.

Although there are many examples of these practices, I do not charge that even the majority of businessmen willingly engage in these practices. Clearly, most do not, but many are victims of their unethical competitors who force them to use questionable practices if they wish to compete successfully.

All these sources disclose five basic methods of presenting a credit offering to a customer which may conceal the cost of credit or misrepresent it. Let me briefly describe these five practices.

First. Frequently no rate of finance charge or of interest at all is quoted to the consumer. This is the easiest method of obscuring the cost of credit. A customer is told, for example, only that he will pay so much down and so much a month. Thus, neither the total amount of the finance charge in dollars nor the rate of the finance charge is disclosed. Frequently, the number of periodic payments is also left untold, leading to an open-ended series of payments which are continued until the customer finally realizes what has happened and protests. But even if he is told the number of monthly payments he still will not know the real cost of the credit in terms he can understand and compare with other offerings unless he is a skillful mathematician. Not many of us are.

Second. A second frequent method is that the customer is told the finance charge in "dollars per $100," with the debt repayable in equal monthly installments. If, for example, he is told that the charge on a $100 loan is $6, the loan may be represented as a "6-percent loan." But, of course, since he is repaying in installments, the actual rate is almost 12 percent or nearly double the stated rate. Thus, when the interest rate is quoted on the original amount of the debt, and not on the declining or unpaid balance, the true cost of the credit is concealed. This practice has been called the add-on rate.

Third. A third method, a variation of the add-on rate, is the discount rate. Under this method the borrower receives not the full amount of the loan, but that amount minus the finance charge. Using the example just mentioned, under the add-on rate the borrower receives $100 in cash and pays back $106. Under the discount method, he borrows $100 but only receives $94. Again, the finance charge of $6 per $100 may be represented as "6 percent." And again, the actual rate is about 12 percent, actually slightly more than 12 percent, or twice the quoted rate.

Fourth. In the fourth method, small loan companies and retailers frequently state only a simple monthly rate. The customer is told that the finance rate is, for example, 1½ percent per month, or 3 percent per month. The actual annual rate under this circumstance is 12 times the quoted figure, or 18 percent in the first example and 36 percent in the second, if the interest is based on the unpaid balance at the end of each monthly period. But if it is based on the entire original amount of the loan which is gradually being repaid, the approximate annual rate is about 24 times the quoted figure, or in these examples 36 percent and 72 percent. This is so, of course, again because the borrower has only the use of one-half the amount loaned on the average.

Fifth. A fifth method is well documented. In this method lenders confuse customers' understanding of the actual cost of credit—and frequently evade State laws regulating credit—by loading on all sorts of extra charges. These may include wholly extraneous charges, for services not actually performed or for alleged expenses not actually incurred by the lender, such as credit investigation, processing and handling fees, and finders fees. Or they may include excessive charges for such services as credit life insurance or credit investigation.

If these charges are a cost to the borrower incident to the extension of the credit, they should rightfully be included in the finance charge. But by excluding them in a separate list the finance charge can be made to appear to be lower. If these charges incident to the extension of credit are not included in the list of the finance charges, then it is impossible for the borrower to compare the cost of one credit offering with another credit offering.

Examples disclosed by the sources I have mentioned have been frequently cited. Mr. President, I ask unanimous consent to have printed as an appendix to my remarks a statement of such examples.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 2.)

Mr. PROXMIRE. Mr. President, recently, the office of the chief judge of the circuit court of Cook County, Ill., issued a remarkable report on an investigation of credit practices which it conducted. Some of the results of this study were reported in the Chicago Tribune for December 16, 1966, but I have obtained a copy of the report of the study written by Mr. Jerome Schur, special assistant to the Honorable John S. Boyle, chief judge of the circuit court of Cook County.

In this study, Mr. Schur examined every confession of judgment complaint filed in the municipal or the circuit court of Cook County for the 2-week period from June 20, 1966, through July 1, 1966, inclusive. This period was chosen at random and was an average period. The total number of suits studied was 1,305.

There are many shocking disclosures in this report, but I will comment here only on what it shows about the finance charges involved in these cases. Finance charges as high as 283.9 percent were found in the case of used car contracts. In the case of radio, television and hi-fi sets, finance charges of 235 percent per year were found. In the case of clothing, rates of 199.6 percent, and for furniture, rates of 105.2 percent were found.

In all the suits studied—and remember that many of them arise out of other difficulties than high or concealed finance charges—the average rate of finance charge seems so exceptional that it would be difficult to explain how anyone would have accepted them if they had realized how high the charges were. In the case of used cars, the average finance rate for all cases studied was 30.7 percent, in the case of radio, television, and hi-fi sets 37.1 percent, for furniture 36 percent, for furniture covers 31.2 percent, and for other appliances 26 percent. I emphasize that these were the averages from all the cases studied.

WHAT THE BILL DOES

The truth-in-lending bill is written, not to regulate interest or finance charges, but to require simply that people be told what they are. Its provisions are intended to eliminate substantially the methods of deceiving or confusing customers which I have cited.

Mr. President, rather than take the time of the Senate now for a technical discussion, I ask unanimous consent that a commentary and digest of the bill be printed as an appendix to my remarks. For those who wish to read it, this will help to clarify the details of the disclosure requirement.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 3.)

Mr. PROXMIRE. Mr. President, the bill would cover all forms of consumer credit transactions including installment purchases, home mortgages, small loans, and department store revolving charge accounts. Those who lend or extend credit would be required to reveal the total finance charge, both in dollars and cents and as an annual percentage rate. Consumer debt now totals $312 billion and the annual interest payments alone amount to $22 billion.

Basically, this bill makes three important requirements. The first is that the seller or lender must disclose and itemize all the components of the debt so that the borrower will know how the total debt is arrived at and whether the contract represents the verbal explanation.

Second. The bill requires the seller or lender to give the total of the finance charges in dollars and cents, and this total of the finance charge must include all the charges incurred by the borrower for the extension or use of credit. The total finance charge must include loan fees, service and carrying charges, discounts, interest, time price differentials, investigators' fees, and all other charges incident to the use of credit. However, with respect to real estate transactions the definition of finance charges would not include such charges as title examination and insurance, preparation of deed and settlement statement, recording of deed, taxes and assessments, fire and casualty insurance, local transfer or ad valorem taxes, notarizing deed, and revenue stamps as such charges are clearly not incident to the extension of credit. Those charges are paid whether one borrows or not.

Third. This finance charge must be stated as an annual percentage rate.

There are other related requirements, and, of course, the necessary authority for the responsible administrative agency to carry out the act, allowance for certain exceptions, definitions, and provisions for civil and criminal penalties. But these disclosure requirements are the heart of the truth-in-lending bill and they constitute protection for the consumer and the ethical businessman against the deceptive practices I have cited.

PREVIOUS OBJECTIONS TO TRUTH-IN-LENDING LEGISLATION

Mr. President, I should mention some of the criticisms that have been made of this legislation in the past.

It was charged that an annual interest rate is too difficult to compute. In the many years—I should say several years, but it seems as if it has been many years—that I have been sitting on the Committee on Banking and Currency, and attending hearings in connection with this bill, the complaint has been that it is impractical and that it is too hard to compute.

This may have been true years ago, but the development of computers has made it possible for interest or finance charges to be stated as an annual percentage rate simply and quickly by computer written tables. Financial publishing houses are able to publish simple tables giving all the information required by the Truth in Lending Act and which can be used for nearly every conceivable lending situation.

The complaint that disclosure of the annual rate would be a burden on the sales clerk has been set to rest by the testimony given to our subcommittee by Under Secretary of Commerce Edward Gudeman. Mr. Gudeman, who had years of experience as a retailing executive with Sears, Roebuck said:

> We must realize that consumer credit extenders begin by setting all their charges individually and in total on an annual rate basis. This means that the businessman in setting his charges works backward from an annual rate determined in light of his own financing costs and the behavior of his competitors. This being so it is difficult to understand why the average businessman cannot easily state the annual rate implicit in his total rate charges.

So the point is that most businessmen already start with rate tables which tell them the terms which will yield the return they desire.

I also point out in this connection that this bill does not require an exact statement of the annual rate accurate to several decimal places. We changed the bill in this respect from the bill last year and the year before. We seek a statement of the approximate rate. The bill explicitly provides in section 5 that the administering agency may "prescribe reasonable tolerances of accuracy."

Second. The complaint was sometimes made that the annual percentage rate requirement cannot "be anticipated." Last March, for example, in the CBS report program on consumer credit, a spokesman for the opposition to the bill made the following argument:

> It is difficult to comply with the law by reason of the fact that the transactions are not as simple as the law anticipates they would be. For example, if you were to come in and borrow a thousand dollars and tell me that you were going to repay it over a period of twelve months and that you wanted to make your payment on the 15th

of each month and that the rate was six dollars per one hundred dollars face amount of loan, I could very easily compute what the simple interest equivalent would be.

However, suppose the first month you were late five days. I can't anticipate that in advance. The second month you're early three days. The third month you're late eleven days. You can see how impossible it would be for me to tell you at that very first instance when you were signing the note what the simple interest equivalent would be.

Mr. President, the truth-in-lending bill does not require disclosure of the annual rate in the circumstances this spokesman described. Nonthreshold questions, that is those applying to circumstances not anticipated in the contract, would be left to the State law under my bill, although I do include a requirement that the borrower be told the penalties for prepayment or late payment or other violations of the contract. In other words, this frequently cited objection to truth in lending is wholly irrelevant. The bill's requirements apply to the agreement made in circumstances like that of which the spokesman said:

I could very easily compute what the simple interest equivalent would be.

Third. It has been argued that sellers, if they are required to state the annual percentage rate, will conceal the finance charge by increasing the cost of the product or services. Of course, the first thing to be said about this is that it is no argument against truth in lending with respect to cash loans. But even with respect to the sale of products and services, this would be a self-defeating practice. The seller who tries to do this will simply price his goods out of the market.

A witness before our subcommittee, when pressed with this objection—and he was a businessman—retorted that the businessman who resorts to this tactic is "precisely the man against whom I want to compete." In other words, the ethical competitors could advertise and offer a lower price for merchandise and the consumer who wants to shop for the best buy will give the seller his business. Of course, this bill is not intended to protect the consumer against his will. The consumer who is not interested in making his money go further will retain his "right" to be fooled by the unethical businessman.

I point out also, that the present system penalizes the ethical businessman. If the unethical seller can advertise rediculously low prices but make huge profits through hidden finance charges, then his ethical brother either must adopt his tactics or lose business. As I have often said, the truth-in-lending bill is intended to help the businessman as well as the consumer.

Fourth. Some have objected to the bill on the ground that consumers "do not care what they pay in finance charges." The evidence overwhelmingly refutes this absurd charge. I know very few people who do not want to make their money go as far as possible and who do not try to shop for at least a "good buy."

Moreover, I point out that the truth-in-lending bill will be an important educational tool as well as a protective tool. Once the confusion with respect to finance charges is dispelled, people will not find it so forbidding a task to ask and determine what they are being asked to pay for credit. I have never claimed that the truth-in-lending bill will solve this problem for the poor and uneducated. But it will be an important foundation for consumer education and will at least afford an opportunity to help those of limited education to understand finance charges. Obviously, they are prevented from understanding them now.

Moreover, these arguments of disinterest in truth in lending on the part of consumers have finally been put to rest. Whenever the principle of truth in lending has been submitted to the people, it has been endorsed by an overwhelming margin. Polls have been conducted by eight Congressmen from all parts of the United States in which support for truth in lending varied from 88 to 95 percent.

These polls were conducted in Republican districts, Democratic districts and in well-to-do districts, as well as in districts in which income was low. The American consumer needs truth in lending—the American consumer wants truth in lending, and I intend to do all in my power to see that this bill passes the Congress.

Some of the congressional districts previously mentioned were predominantly lower income and Democratic, but several were relatively wealthy and predominantly Republican districts. Let me just give the percentage in each case indicating the proportion that approved enactment of truth in lending, along with the name of the Congressman whose district was polled.

In Congressman DONALD RUMSFELD's Illinois district, 91 percent were in favor of truth in lending; Congresswoman FLORENCE P. DWYER's New Jersey district, 92.5 percent; Congressman DONALD M. FRASER's Minnesota district, 86 percent; Congressman RICHARD L. OTTINGER's New York district, 95 percent; Congressman JEFFERY COHELAN's California district, 89.5 percent; Congressman LEE H. HAMILTON's Indiana district, 88 percent; Congressman JOHN CONYER's Michigan district, 89 percent, and Congressman Ken W. Dyal's California district, 92.4 percent. The facts seem to show that this is the most popular proposal pending in the Congress.

Fifth. It has been charged that disclosure of the annual percentage rate will retard sales. Absolutely no evidence has been given to support this allegation. In fact, I think it much more logical that the bill will stimulate even greater use of consumer credit because people will no longer be frightened by its mysteries. Moreover, many consumers are likely to shift their borrowing from high cost rates to low cost rates. Thus, they will have additional purchasing power with which to buy more. It is certainly my intent—and I am confident that it will be the effect of the truth-in-lending bill—that businessmen will be helped by its provisions.

Sixth. There have been objections to including revolving charge accounts under the annual rate requirement. My revised formulation of this requirement, in my opinion, has solved these objections very simply. All my bill will require is that the contract and the periodic statements must indicate an annual percentage rate determined simply by multiplying the periodic rate—for example, a monthly rate—by the number of periods per year. In other words, for revolving credit, the disclosure is not of the precise annual rate which was applied, but of the annual rate which forms the basis for the periodic rate which is to be applied. If the finance charge is 1½ percent per month, the bill simply requires that the statement indicate the annual percentage rate as 18 percent. This is a sufficiently close approximation to protect the consumer.

ADMINISTRATION SUPPORT

President Lyndon B. Johnson most succinctly stated the case for the truth-in-lending bill in his 1964 consumer message in which he said:

The antiquated legal doctrine, "let the buyer beware," should be superseded by the doctrine, "let the seller make full disclosure."

In that message President Johnson recommended enactment of the truth-in-lending bill, just as had President John F. Kennedy in his March 1962 consumer message.

In 1966, President Johnson urged the Congress to pass truth-in-lending legislation in three messages: namely, in his state of the Union address, in his Economic Report to the Congress, and in his message on consumer interests. In the latter message he said:

I, therefore, renew my recommendation for legislation requiring retailers to state the full cost of credit, simply and clearly, and to state it before any credit contract is signed.

Mr. President, President Johnson's message so well states the need for and the intent of this legislation, that I ask unanimous consent that the relevant portions of this message be printed as an appendix to my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 4.)

Mr. PROXMIRE. Mr. President, President Johnson once again reaffirmed his endorsement of truth in lending in his 1967 state of the Union message. The President said:

We should do more to protect the consumer. We should demand that the cost of credit be clearly and honestly expressed.

RECENT DEVELOPMENTS

Mr. President, there have been a number of very hopeful developments with respect to truth in lending in recent months.

A significant advance in protecting consumers occurred last July 1, when the Department of Defense put into effect their truth-in-lending directive. This directive, in essence, provides truth-in-lending protection for servicemen and their families. It does so by saying to lenders and credit sellers that if they expect to use military channels to collect debts owed to them by servicemen and their families, they must make truth-in-lending disclosure. This full disclosure would include both the total dollars charge for credit and a statement of this charge as an annual rate.

The establishment of this protection for servicemen was a needed and just step. The subcommittee of the House Banking and Currency Committee has revealed devastating evidence that our servicemen are among the chief victims of unscrupulous lenders. Moreover, the implementation of this directive has shown that the annual rate requirement is not all that difficult to meet. The method for determining the approximate annual rate under this directive is the same as I have postulated as a basis for the truth-in-lending bill. The Department of Defense directive includes a table for determining the annual rate which has been constructed by the actuarial method. No undue difficulties have been reported in the implementation of this directive or in the use of these tables.

Mr. President, one of the most encouraging developments in the last year has been the action of the State of Massachusetts to enact and to put into effect the full protections of truth in lending for the people of that State. The Legislature of the State of Massachusetts passed and the Governor signed into law two truth-in-lending bills.

I might add that the distinguished junior Senator from Massachusetts [Mr. BROOKE] was a leading force in securing the enactment of these bills and he has been a great champion of truth in lending. The first, an "act requiring the disclosure of finance charges in connection with extensions of credit" requires, among other things, the disclosure of the cost of consumer loans both in dollars and as an annual rate. The second act, the Retail Installment Sales Act, gives similar protection to retail installment sales.

These bills were overwhelmingly passed by the Legislature of the State of Massachusetts and the country owes them a great debt for their magnificent leadership.

A very interesting and precedent setting development occurred only last December 18. On that date, the four Government agencies that regulate banks and savings and loan associations announced a new standard to be followed by banks and other lending agencies. This standard, intended to outlaw misleading claims about the rates of interest paid to depositors, has as a principal requirement that the interest rate paid to borrowers or shareholders must be stated in terms of the simple annual rate of interest. That is precisely the point behind my assertion that the consumer has the right to know the cost of credit as an annual rate. When we lend money to a financial institution there is usually no complaint about telling us the annual rate. They do not say such a requirement is unworkable. But when we borrow money, then we are denied this simple statement of fact.

I ask this question: Why is it workable to tell the annual rate to depositors, but unworkable to tell the annual rate to borrowers?

Mr. President, in conclusion, I cite again as a hopeful development the new evidence of extremely hot pursuit by the American public of this legislation. The congressional polls which I have cited show that this is one of the most highly desired, if not the most highly desired, reforms before the American Congress.

I do not believe that Congress can keep faith with the American people and at the same time refuse to explore thoroughly this question in the coming weeks.

I wish to make it very clear that I make no across-the-board charges against American businessmen and that I am not seeking regulation of interest rates. My motivation is quite the contrary in both cases as I have already disclosed. I ask now that hearings on my bill be authorized to be held as soon as it is feasible. The evidence is overwhelming, but I think all members of the Banking and Currency Committee will be willing to look anew at all evidence that may be presented to us. I think the members of the committee will want exhaustive testimony and staff investigation. We do not intend to act hastily, but we do intend to act promptly, equipped with the facts.

In conclusion, I wish to call to the attention of the Senate, the new report to the President from the Consumer Advisory Council entitled "Consumer Issues, 1966." Mr. President, I ask unanimous consent that the following portions of this report to the President dated June 12, 1966, be printed in the RECORD at the close of my remarks. First, the list of members of the Consumer Advisory Council; and second, the statement of credit which appears on pages 29 through 32.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 5.)

Mr. PROXMIRE. Mr. President, in their summary of resolutions and recommendations, the Consumer Advisory Council "again emphasizes the necessity of legislation to require truth in lending as a part of any effort to correct the Nation's credit ills."

I join with the Consumer Advisory Council in this emphasis. I believe enactment of this legislation is clearly a necessity. I hope that its introduction today by my colleagues and me will prove to be the beginning of the final effort to provide this necessary protection to consumers which was so nobly initiated by our dear former colleague, Paul H. Douglas.

EXHIBIT 1

HOW MUCH DO YOU PAY FOR THE MONEY YOU BORROW?

FOREWORD

In the days ahead the term "Simple Annual Interest Rate" will come into common use in connection with installment loans and credit transactions of various types. This booklet has been designed to provide a better understanding of the term and what it means to you as a borrower. While simple annual interest rate in many instances reflects a change in the manner of expressing a price for a loan it does not follow that you will be paying more in dollars and cents than you have been accustomed to paying in the past. We hope you find the explanations in the booklet informative and helpful.

INTEREST AND THE COST OF A LOAN

When you borrow money there are two factors in the cost that are important to you. One is the simple annual rate of interest and the other is the cost of the loan in terms of dollars and cents. Many people believe that the simple annual rate of interest and the charge expressed in terms of dollars per $100 per year are identical, and in certain instances they are, but in many more they are not and have to be considered separately.

Whether you borrow from a bank or finance company, or arrange financing with a retailer of goods or services, find out both the simple annual interest rate and the dollar cost of the loan. A bank must make many kinds of loans to serve widely differing needs. Charges are commensurate with the kind of loan you need and should have.

EXAMPLES

If the finance or credit charge is added to the beginning amount owed and is included in the 12 equal monthly payments, commonly referred to as the "add on" method, the simple annual interest rate is:

If charged:	*Percent*
$4.50 per $100	8.31
$5 per $100	9.23
$5.50 per $100	10.15
$6 per $100	11.08

If charged only on the unpaid amount owed: ¾% per month, 9%; 1% per month, 12%; 1½% per month, 18%; 2% per month, 24%.

Let's take three types of bank loans and see how this works out:

SINGLE PAYMENT LOAN

This type of loan is generally written for large amounts and is usually identified with business loans, but it is the one type loan where the simple annual rate of interest and the annual dollars and cents charge for each $100 borrowed are identical so we use it for comparison purposes.

Let's suppose you could borrow $1,200 for a year at 6% interest to be paid in a single payment at year's end: Amount of loan, $1,200.00; term of loan, 1 year; charge for loan, $72.00; simple annual interest rate, 6%; dollars per $100 per year, $6.00.

INSTALLMENT LOAN

Here we take a $1,200 loan at a charge of $6.00 per $100 per year, but instead of a single payment at year end, the loan is to be paid off in 12 equal monthly instalments. Now we find, that although the dollars and cents charge for the loan is the same, namely $72.00, the simple annual interest rate is not 6% but figures out to 11.08% based on the premise that you have had the use of approximately only half the original amount for the full year: Amount of loan, $1,200.00; term of loan, 1 year; charge for loan, $72.00; simple annual interest rate, 11.08%; dollars per $100 per year, $6.00; monthly payments 12 at $106.00.

FORMULA FOR SIMPLE ANNUAL INTEREST RATE

The formula for calculating the simple annual interest rate is defined by state law and is as follows:

$$\text{Rate} = \frac{2\ PC}{A(N+1)}$$

Legend:

P=Payment periods in one year
C=Finance Charges
A=Loan Principal
N=Number of Instalments

Using the previous instalment loan example of $1,200 borrowed for one year at $6.00 per $100, the loan to be paid off in 12 equal monthly instalments, the annual rate of interest as determined by the formula would be:

$$\text{Annual interest rate} = \frac{2\times12\times72}{1{,}200\,(12+1)} = \frac{24\times72}{1{,}200\times13} = \frac{1{,}728}{15{,}600} = 11.08\%$$

REVOLVING CREDIT OR CASH RESERVE LOAN

Of course you know about revolving credit. You can get it at some banks and it is popular at some of the stores. Briefly, a line of credit is agreed upon and you can borrow money or buy things as needed without applying for the credit each time. The interest or carrying charges on accounts like these are usually stated as a monthly percentage on the unpaid balance. So, if the rate is 1% per month it means that you pay a simple annual interest rate of 12% for the service. A nice thing about these accounts is the reserve feature which makes credit available without charge, and their flexibility. You can pay the whole thing off whenever you like. This cuts down your interest cost. For example: If you used $100 worth of credit for one week, the charge would be 23¢; one month $1.00—six months $3.50—but, as previously stated, the simple annual interest rate is 12%.

WHY DO INTEREST RATES VARY?

At this point it is certainly fair to ask why there are different charges for different kinds of loans.

To start with a very simple definition of interest:—"The rent one pays for hiring someone else's money." In the first place, the bank as the lender has to rent the money it lends and pays a price in the form of service or interest or both. In addition to the rental charge paid by the bank, the principal factors affecting the different loan charges to the borrower are: the size of the loan; the type of loan—secured, unsecured, partially secured, and the risk involved; the amount of employee time and paper work.

THE SIZE OF THE LOAN

Small loans command a higher interest rate than large ones, just as you must pay a higher price for anything you buy in small quantities. It is particularly true in lending money. One borrower may negotiate a loan for $100,000 and the transaction may not require as much handling expense or risk as another borrower who might want $1000. Obviously, processing one hundred loans of $1000 each is far more costly for the bank.

THE RISK INVOLVED

In general, installment loans fall into two classifications—unsecured and secured. The latter are sometimes referred to as collateral loans. In unsecured loans the lender's risk depends upon the character, earning ability and financial condition of the borrower; in collateral loans the marketable assets the borrower assigns reduce the lender's risk. Single payment loans may be unsecured or secured by such highly liquid assets as life insurance cash value and readily marketable securities. Installment loans may be unsecured or secured. When the loan is secured with an asset such as a chattel mortgage—frequent in the case of auto loans—the loan is more costly to handle than one secured with readily marketable securities. Revolving credit loans are usually unsecured.

EMPLOYEE TIME AND PAPER WORK

The amount of administrative work entailed also has an influence on the charge. A single payment loan represents a minimum of administrative work for the bank. An installment loan, requiring monthly notification of payments due, keeping a running balance of the payments, more comprehensive audit controls, issuing coupon books or other convenient payment forms, and posting payments—separating interest and principal—each month, is obviously more expensive. Also, installment loan borrowers usually like to have life insurance covering their unpaid loan balance (a feature not included in single payment loans).

The revolving credit loan is even more expensive to administer because of its flexibility. It can be paid in monthly installments or in a lump sum at any time at borrower's option. It can be paid in part and then at the borrower's option can be increased to the full extent of borrower's reserve. It would be possible to have daily transactions involving small amounts of money which obviously are very expensive to administer.

USE YOUR CREDIT WISELY

For many years people have made wise use of their credit to borrow money and to buy goods and services. Installment credit has proven to be a sound and sensible way to meet these needs.

One thing you can be sure of if you are going to borrow money is that it will pay you to shop. Any kind of installment buying involves borrowing money, and in most cases the important information is how much is the loan costing you. The simple annual interest rate will help you determine this cost when you are shopping.

In the final analysis, your best protection on any kind of loan is to do business with people you know and trust.

EXHIBIT 2

CASES FROM THE HEARINGS ON THE TRUTH-IN-LENDING BILL

1. A woman with four children to support on $44 a week, was persuaded through appeal to parental pride to purchase, on time, a $600 accordion for her daughter, whom the local "conservatory" of music insisted had great talent. Within months, the conservatory reported the daughter had "such exceptional talent" an $1,800 instrument would be necessary. The carrying charges alone came to $400, *a simple interest rate of 20 percent per year.* When finally the poor woman reached the edge of bankruptcy, she discovered she could have bought the $1,800 instrument elsewhere for only $400, and at half the rate of interest. She finally settled for a loss of $383.

2. A typist in the Justice Department, Washington, D.C., who became deeply involved with personal loans from bank and finance companies because of family illness, ultimately reached the end of her ability to pay. In reviewing all the special loan charges, the refinancing costs, the required insurance, and the original high—but unstated—finance charges, the young lady found she had been paying more than *40 percent per year in simple interest.*

3. A credit union manager recounted the case of an experienced FBI agent in Washington, D.C., who was certain the proposed financing of his automobile would cost him 4 percent. On carefully rechecking the figures, he was amazed to find the true interest rate was *more than 20 percent* per year.

4. Still another documented case was presented to the subcommittee in which a customer had purchased a television set for $285.55, to be paid at the rate of "about $14 per month." No mention of the interest or finance charge was made, either verbally or in writing, and even the number of months the customer would have to pay was not mentioned in the contract. After faithfully paying, on time, a total of $147.30, the customer discovered that to pay off the balance would cost him $206.22. So he actually paid $67.97 in credit charges, or more than 33 percent per annum simple interest.

5. 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* per year. 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.

6. Another witness in New York bought a bed for $200 from a furniture 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* per year.

7. A third witness in New York 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* per year. 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."

8. 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* per year. Would you have signed this contract if you had known that you were being charged 52 percent interest?

EXHIBIT 3

COMMENTARY ON PROXMIRE TRUTH-IN-LENDING BILL

TITLE

Section 1 provides that the Act shall be cited as the "Truth in Lending Act."

PURPOSE

Section 2 declares the purpose of the bill as follows:

"The Congress finds and declares that economic stabilization would be enhanced and that competition among the various financial institutions and other firms engaged in lending or the extension of credit would be strengthened by the informed use of credit for the acquisition of property and services. The informed use of credit results from an awareness of the cost thereof to the user. It is the purpose of this Act to assure a full disclosure of such cost with a view to promoting the informed use of credit to the benefit of the national economy."

DEFINITIONS

Section 3 defines the necessary words and terms. The important definitions are as follows:

"Credit." Note that section 8 of the bill excludes two categories of credit transactions from coverage, namely, the extension of credit to business firms as such, governments, governmental agencies or instrumentalities; and secondly, transactions in securities or commodities in accounts by a broker-dealer registered with the Securities and Exchange Commission. Otherwise, "credit" is defined so as to include all forms of consumer credit including loans of cash and the time sale of goods and services, under both installment and noninstallment repayment plans. Automobile sales and revolving credit accounts are covered.

"Finance charge," which means the sum of all the charegs incurred by the borrower for the extension or use of credit and shall include, but not by way of limitation, loan fees, service and carrying charges, discounts, interest, time price differentials, and investigators' fees.

"Total amount to be financed," which means the total credit extended excluding the finance charge.

"Annual percentage rate," which means the percentage rate per period expressed as a percent per annum. It shall be equal to the percentage rate per period multiplied by the number of periods per year.

"Percentage rate per period," which means the percentage ratio of the finance charge for the period for which the charge is made to the unpaid balance of the total amount to be financed.

"Period," which means the time interval between the payments specified in the credit agreement for repayment of the total amount to be financed.

"Creditor." This definition is broadly inclusive like that of "credit." It is intended to include any person engaged in the business of extending credit to consumers regardless of the form of the credit, i.e., the bill applies to consumer loans as well as to the sale or rental of goods or services on a time, credit or installment basis.

"Person." Note again the exceptions in section 8. The definitions of "finance charge," "total amount to be financed," "annual percentage rate" "percentage rate per

period," and "period," are (in conjunction with the requirement of section 4) a new formulation of the annual rate requirement. This memorandum will discuss this requirement under its treatment of section 4.

DISCLOSURE REQUIREMENTS

Section 4 is the heart of the bill. Subsection (a) states the disclosure requirements for cash loans and for installment sales other than revolving or open-end credit plans. Subsection (b) states the disclosure requirements for revolving credit plans. Subsection (c) makes it clear that the disclosure requirements apply only to the terms of the contract as written (i.e., only to "threshold" disclosure). If the annual percentage rate disclosed under the Act is subsequently rendered inaccurate as the result of a prepayment, late payment, or other adjustment in the agreement mutually agreed upon by the parties, the inaccuracy is not a violation under section 4.

Lender must itemize all components of the debt

Subsection (a) basically makes three important requirements. First, the person extending credit must disclose all the separate components of the debt being incurred by the borrower. In other words, he must itemize: the cash price or delivered price of the property or service; any amounts to be credited as downpayment or trade-in; each of the charges to be paid by the borrower which are *not* incident to the extension of credit (for example, the cost of "extras" such as snow tires or a wax job on an automobile); and the total of the cash price minus any credits plus other charges, in other words the total amount to be financed. Second, he must clearly state the amount of the finance charge in dollars and cents. Third, he must clearly state the finance charge expressed as an annual percentage rate which shall not be less than the annual percentage rate computed by the actuarial method. He must also disclose the time and amount of payments scheduled to repay the indebtedness and the terms (penalties) applicable in event of payments advanced or delayed from those specified in the contract. (Disclosures of the time and amount of payments, and of the penalties for early or late payment, were not explicitly covered by earlier bills.)

Section 4 substitutes the term "annual percentage rate" for the term "simple annual rate" used in S. 2275. The annual percentage rate is arrived at by multiplying the "percentage rate per period" times the number of periods in a year. The percentage rate per period thus becomes the basic building block from which the annual rate is determined. This annual percentage rate is the rate to be applied to the unpaid balance of the total amount to be financed.

The use of a percentage rate per period to arrive at the annual percentage rate follows the formula of the acturial method and eliminates the need to describe the percentage rate of finance charge as a "simple," "effective," "true," "compound," or "nominal" rate. Each of these terms has a slightly different meaning to experts in finance. It also eliminates the need to refer to "actual," "add-on," "discount" and other rate expressions. Avoiding the use of the term "simple" or any other descriptive term avoids semantic disputes and possible difficulties in the administration of the law. The use of such a descriptive term as "simple" also might lead to widespread practices of avoidance by lenders and vendors.

Nevertheless, there is no change in concept and the "annual percentage rate" follows the two basic characteristics of the "simple annual rate": (1) use of the year as the common time unit denominator, and (2) expression as a percentage rate per period of the ratio that the finance charge bears to the money actually used during the period.

In the course of the hearings held in earlier years on the truth in lending bill, experts of various kinds proposed several formulas either to support disclosure of the "simple annual rate" or to show that such a requirement is "unworkable." The constant ratio, direct ratio, simple-discount, actuarial, simple-loan, residuary, and Merchants' Rule formulas have been considered as methods to disclose an annual rate of finance charge. The basic differences among these formulas are in the assumptions made: (1) regarding the amount to be financed as against the amount to be repaid as the base upon which interest is figured, and (2) regarding the assignment of periodic payments to principal or to interest.

The use of the term "annual percentage rate," based on the periodic rate, will result in the kind of disclosure that the sponsors of the bill have always intended by the term "simple annual rate." The language used in the Proxmire draft of the bill will: (1) permit fairly simple calculations by lenders and vendors, (2) allow the administering agency (or financial publishing houses) to issue easy-to-follow rate tables, and (3) enable consumers to check the charges quoted. This formulation of the annual rate conforms to the rate actually used when finance companies compute their yield on various forms of installment contracts and loans. Instead of asking "How do you figure the rate, given the finance charge and a set of payments?" both the lender and the borrower will ask and easily determine "What are the amounts of the finance charge and payments, given the rate?"

The administrative agency can establish procedures for handling irregularly scheduled payments.

The lender or borrower will easily be able to read out the percentage rate of finance charge from actuarial tables, given the amount of the finance charges in dollars and the number of payments scheduled, running out to any loan duration. And just as easily, the tables can be consulted to read out the amount of the periodic payments, given the percentage rate, the time and the principal.

Even the most complicated payment scheme can be handled. For instance, tables can be worked out for the following type of situation: A buyer of consumer goods wishes to delay payments for 30 days, avoid payments around income tax and vacation time and wishes to enlarge payments when dividends or bonus compensations are expected. In such a chaotic situation a daily rate may be selected, and a schedule of payments developed applying the rate to the outstanding balances for the days between payments. With the assistance of the consumer finance industry, the Board can develop uniform methods to provide for unusual situations and to establish tolerances of accuracy in stating the information required to be disclosed.

It should also be noted that both the term "annual percentage rate," based on a periodic rate, and tables using the actuarial method are consistent with the Instant Rate Converter Wheel put out by CUNA, and with the Household Finance Corporation's "Consumer Credit Cost Calculator." The actuarial method, which the sponsor and finance experts consider to be the best method of calculating annual percentage rates of finance charges, is itself grounded in the so-called "United States Rule." This rule requires that each periodic payment is to be applied first to the interest for the period, with the remainder of the payment applied to reduce the principal outstanding. (See *Story* v. *Livingston*, 38 U.S. 359 (1839).)

Revolving credit accounts

Section 4(b) provides a simplified way to handle revolving or open-end credit accounts (in which commonly a department store permits a customer to charge purchases up to a specified maximum amount, repaying an agreed upon minimum each billing period—usually a month—with a "service charge" applied periodically to the amount owed). Persons extending such credit would be required to disclose the periodic percentage rate of finance or service charge, the periodic date when a finance charge will be imposed, and the annual percentage rate of the finance charge. The complaints voiced earlier about the unworkability of requiring such disclosure for revolving credit are eliminated by providing that the annual percentage rate for the purpose of this requirement is determined simply by multiplying the periodic rate by the number of periods per year. "Period" is used rather than "month" to give maximum flexibility to businessmen in their determination of the way they construct their revolving credit plans. This manner of determining what is called the "annual percentage rate" in connection with revolving credit avoids the difficulties which would arise in determining an exact rate of finance charge under varying amounts of debt, varying payments schedules, and varying methods of applying the charge to the debt.

This subsection also requires the creditor to furnish to the borrower, as of the end of each period: a clear statement in writing of the outstanding balance; any additions to the debt; the total received in payments; the outstanding unpaid balance of the account as of the end of the period; the annual percentage rate used to compute the finance charge for such period; the balance on which the periodic finance charge was computed; and the finance charge, stated in dollars and cents, imposed for the period.

While many stores provide a periodic and itemized statement of some of this information, it is clear from testimony and information received that none disclose an annual percentage rate of finance charge and some fail to make clear what balance the finance charge is applied to and even what periodic rate of finance charge is used.

Only threshold disclosure is covered

Section 4(c) is important and should be read in connection with the penalties in section 7. Section 7 provides that no person shall be entitled to recover civil penalties "solely as a result of the erroneous computation" of the annual percentage rate if the percentage disclosed "was in fact greater than the percentage required" by section 4 or the regulations prescribed by the Board.

In a CBS television documentary program on consumer interest last year, a spokesman for opponents of the bill said the truth in lending bill was unworkable because of the impossibility of stating an accurate annual percentage rate when the borrower repays earlier than scheduled or misses payments, etc. But this is a wholly inapplicable criticism, because S. 2275 and this bill specifically provide that the disclosure of an annual rate applies to the agreed upon terms of the contract, not to violations or irregular payments not anticipated by the contract.

FEDERAL RESERVE BOARD REGULATIONS

Section 5(a) provides that the Federal Reserve Board, as the administering agency, shall prescribe the rules and regulations necessary to carry out the Act. Among these would be the methods which may be used in determining the annual percentage rate in ordinary cases and in irregular payment situations. It would have been possible, of course, to establish in the Act the formulae or methods which are to be used. The Massachusetts' Legislature did this in their truth in lending bills by specifying that the "constant ratio" formula, which the State Act specifically spells out, be used.

But, as discussed above under section 4, the sponsor believes that the actuarial method is the best method for computing the annual percentage rate. This method is commonly recognized in the home mortgage, service and investment fields where the actually expressed rate is applied to the unpaid balance. Since it is now possible to rapidly develop and reproduce tables to cover any given set of credit terms, it is expected that the Board will publish or authorize the financial publishing houses to publish official tables which would be used by lenders to conform with the Act. The Board would prescribe reasonable tolerance of accuracy with respect to disclosing information under section 4. Despite charges made against the bill, it clearly is intended to require only a fair and *approximate* statement of the annual rate. It does not require the statement of an annual rate exact to several decimal places.

The Board also is to establish rules to insure that the information disclosed under the Act is prominently disclosed so that it will not be overlooked.

Section 5(b) would have the Board request the views of other agencies and (c) authorizes the establishment of an advisory committee.

STATE LAWS

Section 6 provides that the 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 credit information, "except to the extent that such laws are thoroughly inconsistent with the provisions of this Act in regulations issued thereunder." Under subparagraph (b) the Board may exempt credit transactions or classes of credit 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.

CIVIL AND CRIMINAL PENALTIES

Section 7(a) provides for civil penalties and (b) for criminal penalties for violations of the Act. The sponsor expects that once instituted the Act will be "self enforcing," mainly, under the civil penalties section.

EXEMPTIONS

Section 8 exempts from the provisions of the Act credit extended to business firms and governments, and securities transactions. The exemption of coverage for business credit raises some difficulties. How shall a farmer be treated, for example? It would be possible to: (1.) exclude protection for him completely; (2.) identify the classes of credit which are "consumer credit" and to be covered (for example, a passenger automobile, even though used partially for business purposes, would be covered, while a milking machine would not); or (3.) attempt to determine on an item by item basis if the loan, article or service is a consumer item and therefore covered. Also, there are those who believe that the owner-operator of a small business ought to have this protection and that, therefore, businesses with a gross income or investment under a specified amount should be covered.

EFFECTIVE DATE

Section 9 provides that the Act shall take effect 180 days after enactment (6 months), except that the Board would prescribe the rules, request the views of other agencies and establish the advisory committee immediately under section 5.

EXHIBIT 4

EXCERPT FROM THE PRESIDENT'S 1966 MESSAGE ON CONSUMER INTERESTS

TRUTH IN LENDING

Every consumer and every business in America benefits from our system of consumer credit. Credit and the economy have grown together. Last year merchants, lending companies, and financial institutions extended about $75 billion in new installment credit to consumers.

Consumer credit:

Permits purchase of many of the goods and services which enrich the quality of American life—the homes, the automobiles, and household appliances we buy.

Finances the costs of higher education, travel, and other activities which broaden and develop the human spirit.

Relieves suffering and distress by spreading major medical expenses over a period of time.

Enables our young families to acquire and furnish homes early in life when good housing is most needed and best enjoyed.

Over the years, this system has worked well. Lenders charge reasonable rates. Borrowers repay their debts promptly. But a minority of unscrupulous operators charge all that the traffic will bear. They wring from the unwary purchaser a price far higher than the credit market requires.

The right of the consumer to know the actual cost of his credit has been ignored for too long. Credit is a commodity. The consumer has just as much right to know the cost of borrowing money as to know the price of any other article he buys.

Credit charges are a key item in the consumer budget. They totaled $25 billion last year. It is important that consumers be able to plan their budgets wisely—and prudently—in this important area.

Yet, many consumers had no information on how these credit costs relate to the cost of the article being financed.

They were confused by statements of credit rates described in unusual or even misleading terms.

They unknowingly paid higher prices for credit than reputable lenders were charging.

We must protect and inform the consumer in his use of the consumer credit system. Our credit structure will be sounder when the consumer has this information.

I therefore renew my recommendation for legislation requiring lenders to state the full cost of credit, simply and clearly, and to state it before any credit contract is signed.

This legislation will help consumers:

Budget their incomes more intelligently, because they will know the price of credit in the same clear terms as the price of milk or gasoline.

Compare credit costs so they shop for the best combination of quality and price including *all* of the charges involved.

Avoid unscrupulous lenders who use excessive credit charges and other sharp practices.

This legislation will also help the legitimate lender by offering protection against any competitor who seeks to gain business by misrepresenting credit costs. It will insure the fair and effective competition that legitimate lenders desire.

It will *not* regulate the cost of credit itself, or interfere with existing laws.

It will *not* reduce the volume of credit.

It will *not* dampen the vigor of consumer buying.

This legislation will right the balance of legal protection between lenders and borrowers.

I urge the Congress to act to insure that the American consumer is given a clear price tag when he shops for credit.

EXHIBIT 5

MEMBERS OF THE CONSUMER ADVISORY COUNCIL

Chairman: Richard H. Holton, Professor of Business Administration, University of California, Berkeley, California.

Mr. David W. Angevine, Public Relations Director, Cooperative League of the U.S.A., Washington, D.C.

Miss Genevieve Blatt, Secretary of Internal Affairs, State of Pennsylvania, Harrisburg, Pennsylvania.

Dr. Dorothy Brady, Professor of Economics, University of Pennsylvania, Philadelphia, Pennsylvania.

Dr. W. Palmer Dearing, Executive Director, Group Health Association of America, Washington, D.C.

Honorable Bronson C. La Follette, Attorney General, State of Wisconsin, Madison, Wisconsin.

Mrs. Florence Low, Assistant Director for Extension Home Economics, Texas A&M University, College Station, Texas.

Mr. Sidney Margolius, Columnist, Port Washington, New York.

Mr. Kenneth J. Marin, Chairman, Department of Economics and Business, Aquinas College, Grand Rapids, Michigan.

Rev. Robert J. McEwen, S.J., Chairman, Department of Economics, Boston College, Boston, Massachusetts.

Mrs. Helen Nelson, Consumer Counsel, State of California, Sacramento, California.

Miss Mattie Waymer, Chairman, Department of Home Economics, Morris Brown College, Atlanta, Georgia.

CREDIT

In 1945 consumer debt was less than $6 billion, one-fortieth the size of the Federal debt. High incomes during the war years, combined with shortages of consumer goods, had led consumers to reduce their debt to a very low level. Last year, consumer debt stood at $86 billion [17] and one-third the size of the Federal debt. As a share of disposable income, consumer credit rose from 10 percent in 1950 to 18 percent in 1965.

While many families use credit wisely, too many must wage a continuous, uphill battle to keep on top of their debts. While most of them do not go bankrupt, last year, nine of 10 bankruptcies—170,000—were incurred by families and individuals. The number of persons who are overextended cannot be accurately measured, but the bankruptcy statistics suggest a problem that cannot be ignored.

For the wary and well-to-do as well as the unsophisticated and economically despairing, present-day practices make it almost impossible to make intelligent decisions about credit. Various methods of stating consumer credit costs confuse, confound, and often mask the true financing cost. In an ideal credit transaction, the debtor is told the accurate price of credit and the charges are stated as an annual rate. More frequently, instead of the ideal, the following practices are employed:

The price of credit is given as a simple monthly rate which on a true annual basis amounts to 12 times the monthly rate.

The borrower is quoted an add-on or discount percentage rate. That is, he is quoted a rate on the original amount of credit rather than on the periodic declining balance. The true interest rate is approximately twice the so-called add-on or discount rate.

The consumer is quoted an add-on or discount rate plus numerous extra fees. In this case, the true annual rate is considerably more than twice the quoted rate.

No rate is quoted; the borrower is only told the amount down and the amount due each month.

TRUTH IN LENDING

The Truth-in-Lending Bill (S. 2275) reintroduced by Senator Paul H. Douglas (D-Ill.) on July 12, 1965, would require creditors to state the total finance charge both in dollars and cents and as a true annual percentage rate due on the outstanding unpaid balance.

S. 2275 protects the businessman as well as the consumer. Certainly, the public benefits when public policy provides rules which enhance vigorous price competition. The

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[17] Excluding mortgage debt for 1- to 4-family houses of $213 billion.

disclosure of true costs of credit will give the ethical lender a strong competitive position against sharp operators who make misleading claims. Under the Douglas bill, lenders would have to compete on the basis of fully disclosed rates.[18]

Recognizing that consumers are beset with many problems in the credit area, in addition to those covered by the Truth-in-Lending Bill, the Council adopted the following resolution:

Whereas, Every Consumer Advisory Council since 1962 has strongly endorsed truth-in-lending legislation; and

Whereas, Widespread misrepresentation of interest rates, vaguely worded credit contracts, unscrupulous repossession methods, trick balloon payment clauses, high pressure door-to-door selling tactics, unconscionably high rates for credit, unregulated services by debt consolidation companies, and severe garnishment laws, to name but a few, all can and do work severe hardships on consumers;

Therefore, be it resolved that, the Consumer Advisory Council again emphasize the necessity of legislation to require Truth in Lending as a part of any effort to correct the Nation's credit ills;

Be it further resolved that, The Consumer Advisory Council recommend that each State review its existing laws in these areas to determine their adequacy in protecting consumers;

Be it further resolved, That the Administration and the Congress begin concurrently with the States to explore the feasibility of regulating these activities.

The National Conference of Commissioners on Uniform State Laws is studying and developing a uniform code governing consumer credit transactions. The Council awaits the results with great interest, for this presents an opportunity to cure many serious ills in consumer credit.

LOOKING AHEAD

The credit situation in America today demands a study in depth of all problems, and on the broadest scale practicable, from the viewpoint of the consumer. It should cover the following:

Examination and evaluation of the work of the National Conference of Commissioners on Uniform State Laws regarding consumer credit;

Attitudes towards credit, such as consumer concepts of usury; credit for the poor; the "6 percent myth" and its implication; and, the position of the cash buyer in the credit market;

Problems surrounding the extension of credit, with a comprehensive review of the relations between creditor and prospective debtor prior to execution of the contract; ways of improving the tone and appeals of inducements to borrow—advisability of minimum standards for advertising which solicits the use of consumer credit; considerations involved in permitting the financing of the whole debt vis-a-vis establishing minimum down payments.

The special credit problems of the poor;

The degree and method of regulation by Government (Federal, State or local), whether there is need for a universal (Federal) approach or for differing regulations by States.

Whether licensing is necessary for all credit and lending; what standards would be most meaningful and how to enforce them, especially disenfranchisement of firms that fail to comply with the standards; the degree to which the lending rates and charges should be controlled, including ceilings, if any, to be established.

The need for and feasibility of local credit bureaus where the consumer can get information helpful to him in choosing a creditor;

Development of a model credit contract and the drafting of general rules governing its use, including recordation;

Methods to improve debtor remedies and defenses against sellers and creditors; the creation of uniform penalty provisions with consideration to punitive damages for intentional fraud; the feasibility of class suits and the group practice of law;

Enforcement posture of the government in all of the above relationships as an effective third party, including remedies as well as sanctions;

Credit counseling, debt pooling, debt adjustment, and safeguards necessary to eliminate conflict of interest in these areas.

[18] With a bill enacted in the spring of 1966 and due to become effective November 1, 1966, Massachusetts took the lead among the States in effective credit legislation. The bill requires full disclosure in all installment transactions, and dollars-and-cents disclosure in revolving credit sales. In addition, it limits interest rates, gives buyers a full business day to change their minds about purchases from door-to-door salesmen, requires buyers' rights to be spelled out on the credit contract, tightens repossession procedures, prohibits advertising of percentage finance charges in other than true annual interest and establishes enforcement procedures (Acts 1966, Ch. 284).

BANKER'S SUPPORT FOR TRUTH IN LENDING

Mr. PROXMIRE. Mr. President, since I have introduced the truth in lending bill, the response on the part of the general public has been overwhelmingly in favor of the bill. However, I have also received a letter from Mr. Fortney H. Stark, Jr., president of the Security National Bank of Walnut Creek, Calif. Mr. Stark supports the truth in lending bill and believes that banks will benefit from the enactment of this bill.

I agree with Mr. Stark and would commend his position to the American Bankers Association. Certainly the full disclosure of the cost of credit would enable the vast majority of banks to compete more effectively with high-cost lenders, who, through one device or another, manage to conceal the true cost of their credit.

Mr. President, I ask unanimous consent to have inserted in the RECORD, Mr. Stark's letter together with an excellent pamphlet published by the Security National Bank entitled "What Every Customer Should Know About Borrowing."

There being no objection, the letter and pamphlet were ordered to be printed in the RECORD, as follows:

SECURITY NATIONAL BANK,
Walnut Creek, Calif., January 23, 1967.

Hon. WILLIAM PROXMIRE,
Senate of the United States, Senate Office Building, Washington, D.C.

DEAR BILL: I hope you won't think it presumptuous of a former constituent and present admirer to submit that the enclosed brochure comes close to what you and Mr. Douglas have in mind.

While I am not sure any of my peers would elect me president of the ABA on this platform, I think banks are in a position to get a positive benefit from your truth-in-lending legislation, and you have my support and encouragement in your efforts. If there is anything I can do in my small way, let me know.

Sincerely,

FORTNEY H. STARK, JR.

WHAT EVERY CUSTOMER SHOULD KNOW ABOUT BORROWING!

INTEREST OR FINANCE CHARGE?

How much do you know about interest, which of course is the "rent" you pay for borrowing money? Did you know that the exact amount you pay depends not only on the rate but also on the way the interest is figured? Often the cost of handling a transaction far exceeds any reasonable interest rate. This is true in our charge card system. Here the account is for your convenience and the merchant makes no charge if you pay promptly. If you wish to extend payments a "fee" is charged—usually 1½% per month. This is 18% per year. However, when you realize that the cost of bookkeeping and postage on a $5 item can exceed the entire value of the item, the charge of 7½c for 60 days shouldn't seem too much for the convenience involved. On an auto loan of $3,000, however, $45 per month interest would be staggering!

The purpose of this brochure is to explain the manner in which interest is figured in your dealings with Security National Bank.

INSTALLMENT LOANS

This is the most common type of bank loan and is used for personal needs, purchases of automobiles, home improvements, vacations, etc. Here interest is added to the amount of the loan and the total figure is divided by the number of months in your repayment schedule. The result is your monthly payment. You should realize this "add-on" interest is about double the simple interest rate. Interest is figured on the total amount of the loan despite the fact you are periodically reducing it by making monthly payments. Therefore, you do not have the full use of the money for the entire term of the loan.

What do you, the customer, get for this added cost? First, the convenience of making a monthly payment even on relatively small amounts. Next, the right to pay off the loan in advance without penalty, plus the ability to adjust payments, increase the loan, skip a payment, have it automatically deducted from your checking account, as well as having a "line of credit" waiting for your use at a moment's notice! The accounting, billing, credit reviews and personal services necessary to offer these loans is costly—therefore, we charge more than for "commercial" loans.

SIMPLE INTEREST

This is the way the interest is figured on real estate, business (commercial) and some personal loans secured by stocks, life insurance or savings accounts. Typically, these are large loans and, with the exception of real estate loans, must be repaid in less than one year. The usual period is 90 days which is suited to the requirements of our business customers. Businesses use this type of loan to buy inventory, finance seasonal cash needs, and usually the "net worth" of the borrower is many times the amount of the loan—often the cash in the business account is equal to the loan amount. The rate on this type of loan averages about 3% over the current savings rate or 7% to 8% on an annual basis.

COST OF CREDIT

You should be aware of the true cost of credit and shop for it just as you would for any major item. Lenders sometimes disguise costs by stating them as "pennies a day" or "2½% a month" or "low terms."

Here is the true story—if finance charges are "added-on" to the purchase price and the total is repaid in twelve equal monthly payments:

When they say 4 percent per year you pay 7.4 percent per year; when they say 6 percent per year you pay 11.1 percent per year; when they say 8 percent per year you pay 14.8 percent per year; when they say 10 percent per year you pay 18.5 percent per year; when they say 12 percent per year you pay 22.5 percent per year.

If charges are made "only on the unpaid balance":

When they say three-fourths of 1 percent per month you pay 9 percent per year; when they say five-sixths of 1 percent per month you pay 10 percent per year; when they say 1 percent per month you pay 12 percent per year; when they say 1¼ percent per month you pay 15 percent per year; when they say 1½ percent per month you pay 18 percent per year; when they say 2½ percent per month you pay 30 percent per year.

By making a large down payment and paying off the balance as quickly as you can, you keep interest charges to a minimum. The best basis of comparison between alternate financing methods is to compare the actual dollar and cents cost of financing your purchase. It goes without saying, never sign a contract until you know what the exact interest and extra charges will be!

Whenever you are in doubt, get the agreement in writing and then stop by the bank to get a comparison with a Security National Bank loan. Remember, our officers are always available for financial counseling.

Mr. YARBOROUGH. Mr. President, will the Senator from Wisconsin yield?

Mr. PROXMIRE. I am happy to yield to the Senator from Texas.

Mr. YARBOROUGH. I thank the distinguished Senator from Wisconsin for yielding to me. I want to commend him on his very fine statement concerning truth in lending.

I was a cosponsor of the bill introduced by the former Senator from Illinois, Mr. Douglas, when he was the principal sponsor of this legislation. Of course, it was cosponsored by the Senator from Wisconsin. I wish to commend the Senator for his leadership.

Mr. PROXMIRE. I thank the distinguished Senator from Texas. I certainly welcome him as a cosponsor of this bill. I do not know of anyone in the Senate who has worked harder for the workingman, the farmer, the small businessman, and all the other people who are, in many cases, debtors and would be greatly benefited by the opportunity to have the full facts of any loans disclosed to them before they make them.

The Senator from Texas has always been in the forefront of the fight for full disclosure and full information to be made available to the American consumer.

Mr. YARBOROUGH. I thank the distinguished Senator from Wisconsin for his remarks, which are more generous by far than I deserve. I am grateful that he has made them.

Mr. CLARK. Mr. President, will the Senator from Wisconsin yield?

Mr. PROXMIRE. I yield.

Mr. CLARK. I should like to commend the Senator from Wisconsin for the splendid speech he completed a few moments ago on his truth-in-lending legislation.

I am happy to be a cosponsor of that legislation and to have been a cosponsor for a good many years of prior legislation introduced by our great colleague, whom we all miss so much, Senator Paul Douglas, of Illinois.

For a good many years I served on the Banking and Currency Committee and was delighted to have the opportunity to support Senator Douglas in his sponsorship of this legislation at a time when there were not many Senators who agreed with it.

It was like a breath of fresh air when the Senator from Wisconsin came on the Banking and Currency Committee, picked up the torch, and supported Senator Douglas as strongly as several of us had. I am delighted that he has taken over his mantle with, I hope, a substantially better chance of success than was the case in the earlier years when we were trying to develop strong public opinion in favor of this much-needed legislation.

It is always interesting to me that for so many years there was not a feeling of strong popular support for this legislation, because so many millions of people did not realize they were, in a real sense, being defrauded. I think it was largely as a result of the public's education by the Senator from Wisconsin and Senator Douglas which resulted in so many people supporting this kind of legislation.

Mr. PROXMIRE. I am very flattered that the Senator has put it that way. However, I am convinced that it was the then Senator from Illinois, Senator Douglas, who really popularized this bill. He was chairman of the subcommittee which held hearings in many cities throughout the country, and brought the matter to the attention of the American people, and secured overwhelming support for it, as shown by every poll taken. Eight Members of Congress took polls showing that somewhere between 88 to 95 percent of the people were for it, in Democratic and Republican districts. It is because of Senator Douglas' wonderful, bulldog tenacity, with the aid of the Senator from Pennsylvania and others on the committee, that it is possible this year to pass it.

Mr. CLARK. I think the Senator from Wisconsin is entirely correct. I join him in his commendation of Senator Douglas for his years of effort, at a time when the bill was not very popular.

It is interesting to me, as I am sure it is to the Senator from Wisconsin as his service in this body grows year by year, that a proposal like that of Senator Douglas took so many years to receive support. It is now supported by the President, who for a long time did not support it. I commend President Johnson for his support of it both in his state of the Union message and in the Economic Report.

I think the Senator from Wisconsin is to be congratulated on the amendments in this particular bill, which make it far less complicated than it might have been to determine the interest rate. The Senator can remember the roadblocks which were thrown in our way for many years by those who insisted the bill was quite impractical because one could not figure out the various complicated methods which showed what the real interest rate was. The Senator from Wisconsin has cut through those arguments and has given us a feasible, practical definition of what a proper interest rate is, which is going to be difficult for anybody to controvert.

Again let me say I am happy to cosponsor the legislation. Again I want to commend the past efforts of Senator Douglas, and to commend the Senator from Wisconsin [Mr. PROXMIRE] for the splendid leadership he is showing, which will bring this cause to fruition after almost, if not more than, 10 years from the time when Senator Douglas first undertook to sponsor the legislation.

Mr. PROXMIRE. I certainly thank the Senator from Pennsylvania, who is as doughty and hearty a battler for liberal causes as there is in the Senate.

I should like to make one concluding statement, and then I shall yield the floor; and that is to say that I have talked with a number of members of the Banking and Currency Committee and I am now convinced that a strong and practicable bill will be reported this spring by the committee. The President supports it. It has been tried out by the Department of Defense and found to be workable. It has been tried out by the State of Massachusetts. There is a growing awareness of the desirability and need for this legislation throughout America.

Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. MORTON. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

THE UNITED STATES-SOVIET CONSULAR CONVENTION

Mr. MORTON. Mr. President, in the coming days, the Senate will consider ratification of a Consular Convention between the United States and the Soviet Union. Two years ago, the same consular agreement was favorably reported out of committee only to die of fear and misgiving.

It is open to question whether the responsibility for killing this forward-looking proposal in the 89th Congress rests with the administration which had misgivings about securing the necessary two-thirds vote—or with the extremist fringe groups in our society who fear Polish hams as much as they fear any new gesture toward world peace.

Unfortunately, Mr. President, the same fears and misgivings today threaten to frustrate this historic first attempt at a bilateral United States-Soviet agreement. Unfortunately, timidity of purpose on one hand, and hysterical opposition on the other, may once again thwart the efforts of those who see in this Consular Convention a safe and sound approach toward better relations between the world's two mightiest powers.

It is interesting and significant to note that a start toward improved United States-Soviet relations was urged by President Eisenhower on April 16, 1953. With America committed in Korea to the defense of freedom, the President declared:

> Every gun that is fired, every warship launched, every rocket fired signifies a *theft* from those who hunger and are not fed, those who are cold and are not clothed . . .
>
> The cost of one heavy bomber is this: a modern brick school in more than thirty cities . . . We pay for a single fighter plane with a half million bushels of wheat. We pay for a single destroyer with new homes