CONGRESSIONAL RECORD — SENATE

Mr. BYRD of West Virginia, Mr. President, I ask unanimous consent that the Senate proceed to the consideration of Calendar Order No. 378, S. 5, the unfinished business.

The PRESIDING OFFICER. The bill will be referred by title.

The Assistant Legislative Clerk. A bill (S. 5) to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extension of credit.

The PRESIDING OFFICER. Is there objection to the present consideration of the bill?

Mr. BYRD of West Virginia, Mr. President, I suggest the absence of a quorum.

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

The bill is open to amendment.

Mr. PROXMIRE, Mr. President, after 7 years of consideration, the Committee on Banking and Currency has recommended a truth-in-lending bill to the Senate.

The Committee on Banking and Currency, Mr. President, for the idea of truth in lending, it is our great former colleague, Senator Paul H. Douglas of Illinois. Paul Douglas introduced this issue in 1960 and kept it alive for 6 long years while support for the measure gradually developed.

I believe the committee has recommended a bill which retains the essential objectives for which Senator Douglas fought so long and hard. It requires creditors to disclose to consumers the full cost of credit. This would be expressed in terms of dollars and cents, and, for most forms of credit, as an annual percentage rate.

The committee has also recommended a number of changes in the original bill, which I introduced last January 11, which I believe will go a long way toward making it more workable to the credit industry. In developing these changes, I believe the ranking Republican of the Committee, Senator Bennett, deserves a considerable amount of credit. It is true that from the outset, all members of the committee agreed upon the central objective of truth in lending. No one seriously contested the fact that the consumer is entitled to as much information as possible regarding consumer credit. No one has argued that the facts should not be disclosed to the consumer.

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creditors make full disclosure when extending credit to servicemen.

The credit industry was also helpful in suggesting technical changes which will improve the workability of the committee's bill from the standpoint of the average creditor.

Finally, the leadership of the Senator from Alabama [Mr. SPARKMAN] was most influential in developing a bill which every member of the committee could support. There is no Senator who is more expert in this entire area than the distinguished Senator from Alabama, who is not only extraordinarily competent in the field of banking and currency, but is recognized as the congressional expert on housing, but a man also who has a wonderful knack for persuading people to iron out their differences and work out constructive compromises and effective legislation.

I believe this bill will represent a significant advance for the American consumer. It will provide the average person with the information he needs to use credit and to shop wisely for credit. It will end the present system of confusing credit practice and credit terminology which requires a trained mathematician to understand. It will disclose the cost of credit in clear and simple terms to the average consumer so that he can understand fully the extent of the credit and how it compares to rates being charged by their lenders. I believe this bill will save the American consumer millions of dollars a year in credit charges and will prevent millions of families from being saddled down with excessive debt.

WHAT THE BILL DOES

Mr. President, this is the most simple piece of legislation. It is a disclosure bill and not a regulation bill. It does not regulate the credit industry. It does not prescribe detailed credit practices. It does not dictate the terms of credit contracts. It does not coin any new words on credit. It merely requires the full facts to be disclosed to the consumer.

The bill would permit the consumer to be the judge and let the effective forces of information work their way out in the marketplace.

The facts to be disclosed are basically twofold. First of all, creditors would disclose the cost of credit in dollars and cents. For example, it would require a creditor to disclose the zero plus the interest charges which is payable in 12 monthly installments of $32 each month involves a credit charge of $36.

Second, the bill would require in most forms of credit the creditor would disclose the annual percentage rate. This is the universal common denominator by which the cost of money is measured. It permits a consumer to readily compare the cost of credit among different lenders regardless of the length of the contract or the amount of the down payment. In effect, the annual percentage rate is a price tag for the use of money. Just as the grocer quotes the price of milk by the quart or the gallon, so the price of meat by the pound, so the creditor would quote the cost of money in terms of an annual rate.

When all creditors quote the cost of credit in the terms of an annual rate which is computed in the same fashion the consumer can quickly determine which form of credit is the best buy.

Another important innovation of the committee bill is that creditors would be required to include all costs incident to the credit transaction regardless of whether it was termed to be interest, loan fees, credit investigations, or the like. This will end a present confusing practice of quoting deceivingly low rates while actually charging much higher rates by tacking on additional fees.

Under the legislation recommended by the credit industry, all lenders would compute annual percentage rates and effective legislation which every member of the committee indicated that this is by no means a unique or rare occurrence.

I recall a hearing we had a couple of years ago on New Year's Eve when the case after case was documented by witnesses who came in and testified. We computed the amount they were paying and the rates in virtually all cases exceeded 100 percent and often exceeded 200 percent. Frequently, these high rates are levied upon the low-income groups who can least afford to pay the exorbitant sums.

I hasten to add that these high rates are not a respecter of high income or education. College graduates, college students, professors, and others are as frequently the victims of this kind of overcharge and these very high rates as people who are in the low-income brackets. However, in some cases people with higher education can afford it better than those people who are tragically exploited in the very low income area.

But it is not the low-income groups who are victimized by the hidden cost of credit. The well educated and wealthy are also taken in. For example, one of the most popular credit plans sponsored by consumer finance companies involve rates of interest as high as 54 percent. This is for higher education. In fact, most people seriously underestimate the cost of their credit. In a recent survey they asked a sample of 800 families to estimate the rate they were paying on their debts. The average estimate was 8 percent. The actual rate turned out to be the 12 percent. I believe this indicates that most people truly do not know the cost of credit and the need for disclosure legislation is abundantly evident. In many cases it would be far greater than 9 percent because in these cases there is a factor involved for everyone who purchases revolving credit under almost any of the plans which we had an opportunity to review.

SIZE OF CONSUMER CREDIT

The growth of consumer credit since 1945 has been at a rate of 4 times greater than the rate of growth of our economy as a whole. At the end of 1945 consumer credit amounted to $6.6 billion.

advertising the cost of a loaf of bread for 3 cents while in the fine print indicating the wrapper will cost 2 cents, distribution 5 cents, processing 7 cents, and handling charges 4 cents. Other creditors will merely disclose the amount of the weekly or monthly payments without indicating the total financial charge or any rate whatsoever.

A creditor might indicate, for example, $20 down and $45 for a week for a hi-fi set. This leaves the consumer gets outs pencil and paper and figures it out for himself, he has absolutely no idea of the cost of the credit either in dollars or as an annual rate.

As a result of these confusing practices, some segments of the credit industry have been able to charge truly exorbitant rates with relative impunity. Recent cases from the files of the Cook County Bankruptcy Court indicated, for example, that some finance companies involved the rate of 3 percent per month amounts to 36 percent per year. Other creditors will merely disclose the annual percentage rate whatsoever.

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whereas in March of 1967 the total amount had climbed to $92.5 billion. Thus, the size of total consumer debt is nearly 17 times as great as it was in 1945. Of this $92.5 billion, $73.6 billion is represented by installment credit. The largest single element consists of over $30 billion in automobile paper, which accounts for over 30 percent of consumer credit.

Another rapidly growing form of credit consists of open-end or revolving credit. Approximately $5 billion in revolving credit was outstanding in March of 1967. The great bulk of this is represented by department store revolving credit charge accounts, although recently a number of commercial banks have moved into the revolving credit field.

Currently, American families are paying approximately $12.5 billion a year in interest and service charges for consumer credit. That is about as great as the Federal Government pays itself for the national debt.

From these figures it can be seen that the potential savings which can arise from more effective price competition in the consumer credit industry are truly enormous. If, as a result of full disclosure, price competition in the consumer credit field were to reduce the rate consumers pay by 1 percentage point, the American consumer would save over $1 billion a year. Thus, the potential for increased consumer purchasing power is truly substantial. Consumers would have more to spend on goods and merchandise and, in turn, a more healthy rate of recovery on the economy, the bill should be helpful to business.

**PROVISIONS OF THE BILL**

Mr. President, I ask unanimous consent to have printed in the Record at the end of my remarks a complete section by section analysis of the bill.

The PRESIDING OFFICER. Without objection, it is so ordered. (See exhibit 1.)

Mr. PROXMIRE. Mr. President, I should now like to outline briefly the most important elements of the bill:

Section 3 of the bill provides for definitions. The definition of credit would apply to all forms of consumer credit including loans, retail installment contracts, retail revolving charge accounts, second mortgages, and other forms of credit. The bill would cover credit extended to consumers but would not cover credit extended to organizations or credit extended primarily for business or commercial purposes. In addition to consumer credit, the bill would also cover agricultural credit when the credit was extended to a person as opposed to a corporation or other organization.

By limiting the bill to the field of consumer credit, the committee believes it is providing disclosure requirements in the area where it is most essential. Most businesses or corporations are in a good position to judge the relative worth of alternative credit charges. By limiting the bill to the area of consumer credit, the committee believes it is possible so that the Federal law will no longer be necessary.

Section 4 contains the principal elements of the bill and sets forth the various disclosure requirements on consumer credit transactions. The disclosure would have to be made before the credit is extended. In most cases it would amount to providing the required information on the installment contract or other evidence of indebtedness which would complete the transaction. A creditor could also furnish the information on a separate document, providing the information was given before the consumer actually signed for the credit transaction.

All installment creditors would be required to disclose the interest rate, the finance charge, the total payment required, and the amount of credit actually in use. In addition, all other charges incident to the credit transaction would be required to be set forth, such as taxes, official fees, or insurance.

The annual percentage rate would be determined on the declining balance of the obligation. For example, assume a person borrowed $6, repaid the total indebtedness of $106 in 12 equal monthly installments. Since the debt would have been repaid over a 12-month period, the consumer would actually have used $6 over the period, or approximately one-half of the original amount of credit. Therefore, the annual percentage rate would be measured not against the original amount of credit but against the amount of credit actually in use over the period. The calculated annual percentage rate can be expressed in terms of an annual percentage rate.

Under section 5, the administering agency, which is the Federal Reserve Board, would be given the authority to provide for rate tables, charts, or other methods to assist creditors in compliance with this provision. Many creditors already use rate charts in the ordinary course of business in order to compute the amount of the finance charge and the size of the periodic payments for a given credit transaction. In such cases, the additional requirements to disclose the annual percentage rate can be complied with by merely adding one additional column to the rate charts now in use.

Under section 5, the Federal Reserve Board would also be given the authority to prescribe a built-in tolerance for such rate charts. The bill would provide for tolerances of about 1 percentage point if the cost of credit was at the rate of 12 percent a year. Correspondingly greater and lesser tolerances would be provided if the rate were higher or lower. This provision should simplify compliance with the bill and avoid the necessity of using cumbersome and excessive rate charts.

Section 6 of the bill clarifies the relationship between State and Federal law. The committee has made a considerable effort to indicate its intent is not to preempt the entire field of consumer credit, but rather to encourage as much uniformity of approach in this area as possible so that the Federal law will no longer be necessary.

Section 6(a) would establish the basic congressional policy that the bill does not preempt State consumer credit legislation unless the State provision was inconsistent with the Federal law, and then only to the extent of the inconsistency. Language has also been included to make it clear that the annual percentage rate required to be disclosed under section 3 is not an equivalent to the legal definition of interest rate.

In many States the legal definition of interest may be substantially less extensive than the definition of finance charge under section 3 of the bill. The committee, therefore, wishes to make it abundantly clear that the annual percentage rate is not equivalent to the legal definition of an interest rate, but is instead a composite rate which includes all charges incident to credit including interest.

The committee also wishes to make it clear that nothing in this act shall be construed to alter the judicial interpretation of the time-price doctrine, which most consumer retail credit is determined by. The committee is hopeful that the provision under section 6(a) will serve as an incentive to the States to act favorably in adopting a uniform consumer credit code. Although this bill would be limited to the disclosure aspects of consumer credit, the proposed consumer credit code goes considerably beyond disclosure and, in fact, proposes a variety of beneficial changes which were not covered in the credit area. The committee is hopeful that these worthwhile efforts will not be hampered by the passage of the Federal truth in lending law. The committee is also hopeful that the provision under section 6(b) which exempts creditors from complying with all or parts of the bill if substantially similar disclosure provisions were contained in State law. The committee is hopeful that the provision under section 6(b) will serve as an incentive to the States to act favorably in adopting a uniform consumer credit code. The committee has made a considerable effort to indicate its intent is not to preempt the entire field of consumer credit, but rather to encourage as much uniformity of approach in this area as possible so that the Federal law will no longer be necessary.

Section 6(b) of the act would give the Federal Reserve Board the authority to exempt creditors from complying with all or parts of the bill if substantially similar disclosure provisions were contained in State law. The committee is hopeful that the provision under section 6(b) will serve as an incentive to the States to act favorably in adopting a uniform consumer credit code. Although this bill would be limited to the disclosure aspects of consumer credit, the proposed consumer credit code goes considerably beyond disclosure and, in fact, proposes a variety of beneficial changes which were not covered in the credit area. The committee is hopeful that these worthwhile efforts will not be hampered by the passage of the Federal truth in lending law. The committee is also hopeful that the provision under section 6(b) will serve as an incentive to the States to act favorably in adopting a uniform consumer credit code. The committee has made a considerable effort to indicate its intent is not to preempt the entire field of consumer credit, but rather to encourage as much uniformity of approach in this area as possible so that the Federal law will no longer be necessary.

The enforcement of the bill would be
accomplished largely through the institution of civil actions authorized under section 7 of the bill. Any creditor who fails to disclose adequate regulations would be subject to a civil action with a penalty of twice the finance charge. However, the minimum penalty would be $100 and the maximum penalty would be $1,000. The committee has recommended investigative or enforcement machinery at the Federal level, largely on the assumption that the civil penalty section will secure substantial compliance with the act. If, in the course of the administration of the act, it becomes evident that additional steps need to be taken to bring about enforcement, the committee will consider additional legislation. In the meantime, the Federal Reserve Board would be required to report to the Congress annually as to the extent to which the disclosure provisions are being complied with.

Although the provision for civil penalties under section 7(a) would authorize a penalty of twice the finance charge, a successful civil action against the creditor would not be possible without first complying with the terms of the contract as required by State law. In other words, if a creditor failed to disclose the annual percentage rate on a loan where the finance charge was $400, the creditor would not face a $800 penalty. However, the consumer would still be required to repay the indebtedness including the $400 finance charge, in accordance with the original agreement and applicable State law.

The committee provided in the section on civil penalties that a creditor could defend against a civil action by proving that the failure to comply was the result of a bona fide error. However, the burden of proof would be on the creditor to prove that the failure was in fact unintentional. Section 7(a) on civil penalties also provides that a creditor would be liable for reasonable attorney fees and court costs in the event the suit were decided in favor of the plaintiff.

Second, stockbroker margin loans to investors would be exempt from the disclosure requirements of the bill. The committee has been informed by the Securities and Exchange Commission that the credit extension has been approved by the authority under the Securities Exchange Act of 1934 to require adequate disclosure of the cost of such credit. The committee has also been informed in a letter from the Securities and Exchange Commission. I prepared to adopt its own rules to whatever extent may be necessary."

In recommending an exemption for stockbroker margin loans in the bill, the committee intends for the SEC to require such disclosures as are appropriate as soon as it is possible to issue such regulations.

Third, the bill would exempt credit transactions when the amount to be financed exceeds $25,000. In such cases the committee feels that the transaction would be considerably above the average consumer credit transaction and that the protection afforded by the disclosure requirements is not necessary. The $25,000 cutoff also provides an objective test between consumer credit and business credit which can be used to facilitate compliance with the act.

Fourth, the bill would exempt real estate first mortgage credit. The committee felt that adequate disclosure was already being made in this area of credit, however, second or third mortgages would still be subject to the disclosure provisions of the bill. Most of the abuses encountered by the committee with respect to real estate transactions were in the second mortgage area rather than in first mortgages.

The committee also intends that the disclosure requirement not apply to life insurance policy loans which are merely component features of an over-all contractual arrangement.

**Revolving Credit**

The most widely discussed subject under consideration by the committee was the problem of disclosing the actual cost of credit in a revolving credit plan. For example, a consumer would have to pay a service charge of $50 per month for a revolving credit plan which they commonly use to finance large ticket items such as furniture, TV sets, and large appliances.

If it were unfair to permit these stores to quote a monthly rate of 1 1/2 percent while the small independent furniture store down the street, who financed his sales through installment contracts, would be required to disclose 18 percent. In such a case, the cost of credit would be identical. However, the credit offered by the furniture dealer would sound much higher.

For these reasons, the committee adopted a compromise which would exempt ordinary revolving credit plans from disclosing the annual percentage rate but which would require installment-type revolving credit plans to disclose the annual rate. The installment-type revolving plan would be defined on the basis of whether the creditor maintained a security interest in the property, whether the payment plan was extended. An extended payment plan would be defined as one in which less than 60 percent of the obligation was payable in 1 year. This would govern transactions which would be paid out over a period of 19 months or longer.

To my way of thinking, this argument missed the essential point of disclosure. From the standpoint of the consumer, it is not really relevant to measure the rate from the time of the purchase but from the time the credit charge actually begins. The customer does not really have to make up his mind to use revolving credit when he buys the goods from the store. He generally has, as I say, a "free ride" from 30 to 60 days before the credit charge will begin. From the consumers' standpoint, the relevant decision point is just before the credit charge is to begin. At this time he must make up his mind as to whether he wants the service charge, or forgo it and borrow from another lender to pay off the store. If the credit is measured from this point, it would work out to be exactly 18 percent, or 12 times the monthly rate, and such a rate would be the more meaningful rate to the consumer.

Nevertheless, there were serious and, I should say, very competent and sincere objections to the committee in this line of thinking. Miss [Mabel] M. Bradley, member of the Senate serve on this committee and they felt strongly that it would be a miscarriage of justice if this were imposed on the industry because it would not be accurate and often flagrant. In response to this point, the committee was convinced that if revolving credit were to be disclosed from the annual rate, safeguards should be included to ensure that existing forms of installment credit would not be induced to convert to revolving credit in order to escape an annual rate disclosure. The committee also felt that in cases where revolving credit was commonly used to finance large purchases, this form of credit should not be given a competitive advantage over creditors who finance similar items on an installment contract basis. For example, some department stores have avoided annual rate disclosure on revolving credit plans which they commonly use to finance large ticket items such as furniture, TV sets, and large appliances.

If it were unfair to permit these stores to quote a monthly rate of 1 1/2 percent while the small independent furniture store down the street, who financed his sales through installment contracts, would be required to disclose 18 percent. In such a case, the cost of credit would be identical. However, the credit offered by the furniture dealer would sound much higher.

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I believe that this committee compromise will provide some deterrent to a creditor switching from installment credit to revolving credit in order to escape annual rate disclosure. It does, however, still permit the sale of many large ticket items under ordinary revolving credit plans which would not disclose the annual percentage rate.

Despite these imperfections, I believe that the bill recommended by the committee is the best possible bill we could report. It will provide the American consumer with substantially more information and protection than the present law provides. Even on revolving credit which would not disclose the annual percentage rate, substantially more information would be included. For example, many department stores do not indicate on their monthly statement that a service charge of 1 1/2 percent will be levied if the account is not paid by the due date.
in 30 days. Under the bill, this information would have to be disclosed. Department stores would also have to disclose their system by which the service charge is determined. Some stores give credit for part of the balance, while others do not. At the present time the consumer has no way of knowing the actual method followed by the store. Under the bill, department stores would be required to disclose their method of billing.

For all other forms of credit, including small loans, bank installment loans, installation contracts, and second mortgages, the consumer would be provided with a complete disclosure of credit in terms of annual rates.

I believe this bill will help the American consumer, but it will also help business. Although the Massachusetts truth-in-lending law was originally opposed by the business community, testimony before our committee revealed that it has been not only accepted by the industry but is enthusiastically supported by industry. Massachusetts automobile dealers, for example, believe the disclosure provisions will protect the average businessman from unethical competition based upon deceptive credit practices. I believe this bill will also restore confidence in the consumer credit industry and take the mystery out of credit. Just as the Securities Act of 1933 led to the elimination of securities industry, so the Truth-in-Lending Act of 1967 will lead to a strengthened consumer credit industry.

Part of our free enterprise system is to disclose the facts to the consumer. When the consumers have the facts they can make up their minds on whether to buy or not. This is the heart of our free enterprise system. It is in the final analysis business is responsive to the needs of the consumer. Thus, disclosure is necessary to our economic system. I recommend this bill to every Senator as a reasonable bill, a sound bill, a bill which protects both the consumer and the business, and a bill which is in accord with our free enterprise system. I recommend its adoption to the Senate, and I am hopeful that every Member of the Senate can support this measure. Every member of the committee did, and a bill was reported from the full committee without objection. The victory for truth in lending is not only a victory for the consumer, it will also be a tribute to our great former colleague, Paul H. Douglas, who was EII~~ tribute to our great former colleague, Paul H. Douglas, who was EII~~ tribute to our great former colleague, Paul H. Douglas, who was EII~~ tribute to our great former colleague, Paul H. Douglas, who was EII~~
interest in the merchandise. Such plans would add a percent or less of any amount of credit was payable in 1 year, or if the seller maintained a security interest, or if accelerated payments are applied to future payments.

Section 4(i)-Definition of "first mortgage credit."—This is also a new definition made necessary to provide a basis for a determination that first mortgage credit be exempted from the bill. Such exemption is included under section 8. The committee felt that it was necessary to define the term to provide information. In this area, second or higher mortgages would be covered under the bill.

Section 4(d)—Disclosure in the event of an organization as a corporation, government or governmental subdivision or agency, business or other trust, estate, partnership, or association. Credit to such entities would be excluded from the provisions of the bill.

SECTION 4. DISCLOSURE OF FINANCE CHARGES

Section 4(a)—Requirement to disclose.—This is a prefatory section setting forth the basic concept of disclosure. It is similar to the original S. 5, except that it makes clear that disclosure need only be made to persons "up-front," that is, prior to the origination of the finance charge. The act makes it clear that a creditor can disclose in whatever manner is most convenient to comply with the act by disclosing prior to the origination of the finance charge. The committee bill substitutes "before the credit is extended," with a stipulation that the disclosure be made to persons "in ordinary revolving credit by the extended period of time permitted for repayment and therefore be in agreement with the original of S. 5 required disclosure "prior to lending the complete immediacy of the disclosure of the transaction." The original S. 5 substituted "prior to the origination of the credit, or if less than 60 percent of any amount of credit was payable in 1 year, or if the seller maintained a security interest, or if accelerated payments are applied to future payments.

The purpose of this disclosure is to eliminate, or at least to convert closed-end installments to revolving credit merely to escape annual rate disclosure. The amendment also provides greater comparability between retail credit, which are not commonly thought of as credit transactions, and trade credit plans. This section outlines the method of determining the finance charge.

Section 4(d) (D)—Disclosure of the complete payment schedule. The original S. 5 required disclosure of the "time and amount of payments." The committee bill requires the "number, amount, and time of payments." This makes it clear that a creditor can disclose "30 monthly payments of $30 due on the 15th of each month." The bill provides that such statements may be presented in any manner, without actually listing the date of each individual payment.

Section 4(b)—Requirement to disclose.—The original of S. 5 required disclosure "prior to the consummation of the transaction." The committee bill substitutes "before the credit is extended," with a stipulation that the disclosure be made to persons "in ordinary revolving credit by the extended period of time permitted for repayment and therefore be in agreement with the original of S. 5 required disclosure "prior to lending the complete immediacy of the disclosure of the transaction." The original S. 5 substituted "prior to the origination of the credit, or if less than 60 percent of any amount of credit was payable in 1 year, or if the seller maintained a security interest, or if accelerated payments are applied to future payments.

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Section 4(b)—Requirement to disclose.—The original of S. 5 required disclosure "prior to the consummation of the transaction." The committee bill substitutes "before the credit is extended," with a stipulation that the disclosure be made to persons "in ordinary revolving credit by the extended period of time permitted for repayment and therefore be in agreement with the original of S. 5 required disclosure "prior to lending the complete immediacy of the disclosure of the transaction." The original S. 5 substituted "prior to the origination of the credit, or if less than 60 percent of any amount of credit was payable in 1 year, or if the seller maintained a security interest, or if accelerated payments are applied to future payments.

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Section 4(d)(3) - Disclosure of the rate of finance charge. The committee's recommendation to partially exempt open-end credit from the annual rate is also implemented under this section. The committee recommended that open-end credit plans would disclose a periodic (monthly) rate on the periodic statements. In addition, installment open-end credit plans would be required to disclose the reasons outlined under Section 4(d)(2)(C). The original S. 5 would have required all open-end credit plans to disclose an annual rate.

Section 4(d)(3)(G) - Disclosure of closing balance. Requires disclosure of closing balance is similar to the original S. 5.

Section 4(d)(3)(H) - Disclosure of the time for avoiding a finance charge. This is a new provision. The creditor would indicate for example: "You may pay your bill within 35 days and avoid the 3% finance charge." The purpose of this change was to minimize any possible conflict with State usury laws in those States where the percentage form of rate expression might cause a legal reduction of the actual rate. The new section would require that all credit cards be required to use the percentage form of expressing the rate.

Section 5(a) - Prescribing methods for determining the rate. This section requires the Board to establish "reasonable" tolerances. However, the new section would require that all rates be expressed in a single disclosure statement.

Section 5(b) - Tolerance on single rate situations. This paragraph covers simple situations where the creditor determines the finance charge in a more complicated manner, such as a combination of monthly rates (e.g., 1 percent on the first $300; 2 percent on the next $200, and 1 percent on the excess). It is expected, for example, that the Board will permit creditors to disregard a certain number of skip payments in computing the rate. The provision would require that the rate be disclosed as though the contract were a level payment contract, and that such contracts would vary 2 or 3 percentage points from the actual rate.

Section 5(c) - Authority to prescribe adjustments and exceptions. This section gives the Board authority to prescribe adjustments and exceptions. The current version adds: "as Governor Robertson recommended, again largely to emphasize the high importance Congress attaches to consultation with individual agencies." The phase "or any State law or regulations under either" has also been added.

Section 6 - Effect on State laws.

Section 5(a) - Relationship of Federal law to State law. This section sets forth the basic policy that the Federal statute may not preclude State legislation. Governor Robertson's argument that the Board not be allowed to prescribe other reasonable tolerances for creditors who do not wish to use the Board's method has been dropped. Congress attaches to consultation with individual agencies.

July 11, 1967
CONGRESSIONAL RECORD — SENATE
1 ½ percent of your opening balance less any payments and returns during the month.

Stores which use the opening balance method might test for 1 ½ percent of your opening balance unless paid in full within the month.

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that S. 5 does not preempt an entire body of State law should an inconsistency arise in some cases.

A new sentence was added at the end of the section 8(a) to make the intent of Congress clear that it does not regulate the annual percentage rate as an interest rate within the meaning of the usury statutes or the judicial interpretations of the time price doctrine. This change should be helpful in making it difficult for anyone to cite S. 5 as evidence in any legal proceeding challenging a credit transaction under the usury statutes or challenging any interpretation of the time price doctrine. The language was supplied by the General Counsel of the Department of Commerce who recommended such a change in the Department's report on the bill.

Section 8(b)—Exception when State laws are similar.—This section permits the Board to exempt creditors from the Federal law if State law requires similar disclosures.

This section is similar to the original S. 5 except that the Board can exempt creditors covered by a State law which is "substantially similar" to the Federal law. The original version of S. 5 only authorized exemptions if the State law required the "same information" as the Board provided. The provision was worded to make it clear the Board is only responsible for reviewing the law and not the effectiveness of the administration of the laws. These provisions are in line with Governor Robertson's suggestions.

A new provision was also added requiring the Board to make a determination that the State law has adequate provisions for enforcement.

SECTION 7. CIVIL AND CRIMINAL PENALTIES

Section 7(a)—Civil penalties.—This section sets forth civil penalties of double the finance charge or $250, whichever is greater, and a maximum of $1,000. This section was amended by the committee to permit a creditor to defend against a civil action by proving that the finance charge was an unintentional error. However, the burden of proof would be on the creditor, and he would have to establish, by a preponderance of evidence, that it was an error. The amendment also permits a creditor to escape liability for an error if the creditor discovers it first and makes whatever adjustments he believes are necessary to correct the error, and must also refund any amount or percentage rate actually disclosed which was greater than the maximum permitted by law.

Section 7(b)—Criminal penalties.—Criminal penalties of $5,000 or 1 year imprisonment or both are specified. These are identical to the original S. 5. However, the words "willfully and knowingly" were added as a condition for giving false or inaccurate information. Also, the section now makes it clear that the Attorney General will enforce the criminal penalties section. This is in keeping with Governor Robertson's testimony that the Board did not have any trained investigators or law enforcement officials.

Section 7(c)—Exemption for government.—This section exempts the Federal Government and State and local governments from civil and criminal liabilities. Similar provisions were contained in the original S. 5.

Section 7(d)—Exemption for overstated time price.—This section exempts creditors from civil or criminal penalty by overstating the annual percentage rate. The original bill provided for such an exemption from civil penalties by overstating the rate due to an "error in computation." There was some doubt about the meaning of this phrase. The original bill also had no such exemption under the criminal penalties section.

SECTION 8. EXCEPTIONS

Section 8(a)—Business credit.—The section contains an exception from the act of credit for "business or commercial purposes" or to governments. The original S. 5 would have exempted all businesses for the terms in such. This left an element of doubt with respect to credit granted to farmers, nonprofit organizations, or by the States or by the Federal Government, or agricultural purposes." Credit for business or commercial purposes is exempted.

Section 8(b)—Marginal loans.—This section continues the original S. 5 exemption for marginal loans made by stockbrokers. SEC already has the power to require such disclosures under the Federal Securities Act.

Section 8(c)—Credit in excess of $25,000.—This is a new provision included on the recommendation of Governor Robertson. The exemption would not apply to real estate credit transactions. The purpose is to provide an objective test between consumer credit and business credit so as not to require the creditor to inquire continuously as to the purpose of the credit. If a credit transaction is under $25,000 and the creditor believes it is consumer credit, he will tend to assume it to be a consumer transaction to avoid violation. If it is over $25,000, he can safely assume it to be a business transaction without worrying about violation.

Section 8(d)—First mortgages.—The committee amended the original S. 5 by exempting first mortgage credit. The committee felt that consumers were already receiving adequate information in this area.

SECTION 9. REPORTS

Section 9—Reports.—This is a new section added by the committee requiring annual reports from the Federal Reserve Board and the Attorney General on the administration of their functions. In addition, the Board would estimate the extent to which compliance was being achieved.

SECTION 10. EFFECTIVE DATE

Section 10—Effective date.—The original S. 5 would have been effective upon 6 months of enactment.

The effective date of the bill was postponed by the committee to July 1, 1969. The purpose of the change is to permit the States to amend their usury statutes in those cases where the increase of an annual percentage rate might possibly cause a legal problem. In addition, the late date permits the States to pass similar disclosure legislation, then by securing an exemption from the Federal law.

Mr. BENNETT. Mr. President, as the ranking Republican member of the Committee on Banking and Currency, I am happy to join the Senator from Wisconsin [Mr. Proxmire], who has been managing the bill in the subcommittee and the full committee, in urging its passage by the Senate. No Member of the Senate will find greater satisfaction in the passage of this bill than I will, because for me it could, hopefully, mark the end of more than 6 long years spent in search of a workable pattern of consumer credit cost disclosure.

From the beginning of the consideration of the bill by the Committee on Banking and Currency back in 1961, I have hoped for a solution that would be as fair as possible, both to the borrower or buyer and to the lender or seller. I will agree, Mr. Senator from Wisconsin that the bill is not perfect; but, in my opinion, it more nearly meets the needs both of borrowers and lenders than any other proposal that we have been able to devise. For this reason, I hope the Senate will pass the bill.

On July 17, 1961, the very first day of hearings on the first consumer credit disclosure bill, I said—and I quote from the record of those hearings—"I feel that there should be full disclosure of the dollar costs and under some circumstances, where it is appropriate, a percentage, whether it is state or by the States, or by the Federal Government, or agricultural purposes." Credit for business or commercial purposes is exempted.

One of the first problems that came to my attention during those first hearings involved the application of a minimum dollar charge, which while reasonable in terms of dollars, became ridiculous when translated into an annual rate.

To illustrate the problem, let me tell the story of a man who went into a gas station one morning. His car battery was dead. He had no money in his pocket, so he could not make a downpayment.

The service station operator said, "The battery costs $20. I will make a credit sale and you can pay $2. You can pay every payday until you pay off the amount."

Those figures are small enough so that everybody can understand them. When I tried to figure out the annual rate of interest on that simple transaction, I believed it would be 6 percent, but I thought I would be right. I wound up, however, with a rate of 600 percent.

The rate statement on such purchases may appear unreasonably high yet when one talks about paying $2 for the privilege of having credit, under those circumstances, it does not seem to be too bad.

Fortunately, the bill takes care of such a case, because it exempts all installment transactions in which the charge for credit is more than $10. If paid off in 1 year, even at an annual rate of 18 percent, and the value of the purchase could go higher at lower percentage rates or a more rapid payoff. The committee agreed that this exemption was necessary to protect the poor because rather than to state an extremely high rate like that in the battery case, sellers would simply dry up the credit on small loans or sales of minor importance.

I soon discovered the annual rate requirement had a natural relationship to installment contracts, which required payments of equal size spaced into equal time periods, but would not fit situations in which the borrower could pay off in a shorter period of time than the original term, or anytime, or at the end of the term, or at the end of the contract.
be done for normal installment accounts, because no one knows in advance how the customer is going to use the revolving charge, because the car they own or the house they live in is bound to be different every month; in order to be accurate, it has to be calculated after the month’s record has been made; and the charge can be as low as zero. The cost that this would be as ar- ticated unless the revolving charge system is further complicated by the so-called free time which applies to every purchase, and can range between a minimum of 21 and a maximum of 59 days. In contrast, there is no free time allowed in a typical installment contract. In addition, though, this was not enough to make the accurate prestatment with annual rate, there is still a third major factor that would have this same effect. In some revolving charge systems, the monthly charge is applied to the balance at the beginning of the period, while other sellers first subtract all credits from the beginning balance, including payments on account or returns or other allowances. Thus, depending on the system used, different monthly charges inevitably would be developed from accounts that were actually identical.

In the original bill which would have required a statement of revolving account charges as a simple annual return, it was proposed that this would be ar- rived at simply by multiplying the monthly return by 12. This was a very serious oversimplification, and this process always produced an overstatement of the rate which in some cases could have been as high as 40 percent. The existence and amount of the overstatement could always be demonstrated by calculating the actual finance charge developed by the account after the transactions had occurred, but it could never be calculated in advance. Thus, instead of producing trust, this oversimplification would always have given the buyer a false picture; and since it was always an overstatement, it would have been competitive in going to the customer.

It was this head-on collision over the method of stating the cost of revolving credit which defeated the three earlier bills, and it was only this year, after the committee sought to make a workable adjustment for practical factors which I have described, that this bill could win the unanimous support of the committee.

In brief, these are the adjustments we have made:

First, the requirement that revolving dollars must be stated in advance has been dropped because, as I have said, the figure could not be calculated.

Second, the complication caused by “free time” and the unpredictable pattern of charges in closed-end accounts and in amount have been bypassed by eliminating the requirement for stating an annual rate and permitting the statement of the monthly charge while at the same time requiring a showing of the basis on which the charge is calculated.

Third, because the annual rate on revolving or open-end credit can only be figured after the transactions have occurred, and because the committee feels that customers using this type of credit are entitled to know approximately what the credit costs—and the sellers should be permitted to give this information to the customers—the bill permits, but does not require, the seller to print on his statement a figure representing the average annual effective rate based on all the transac- tions of the previous year. This is the rate that he, in my opinion, should be responsible for, for it more nearly matches the experience of any single cus- tomer; but it is a pretty good measure.

Those selling on the typical installment plan are required by this bill to state an annual rate in advance, and that annual rate is not the revolving rate, because the carrying charge is applied to the balance at the end of the month. The committee realized that there might be an attempt on the part of some to label their installment credit with the name of revolving credit in the hope of avoiding the bill’s requirement. So it closed this door by setting up three conditions which are typical of installment credit, but not of revolving, and requiring that an annual rate be stated when any one of these three conditions was present.

The Senator from Wisconsin [Mr. Proxmire] has explained them in greater detail. I shall just mention them in passing: First, the retention of a security interest.

Second, the provision which permitted the payment in 1 year of less than 60 percent of the amount due.

Third, Provisions which permitted the buyer to skip the payment of some monthly installments by prepaying them in advance.

The fact the committee has approved this bill with a method of disclosure for open-end or revolving credit which is dif- ferent from that of installment-type credit, does not, in my opinion, deprive the consumer of true information about the cost of credit or put him at the mercy of unscrupulous or lenders. The open-end credit as a whole is serving consumers, deliberately attempts to mislead, misinform, and give false information to customers is, of course, simply not a fact.

There will always be some who build their hope for business on the false assump- tion that they can fool their cus- tomers. But everyone who has had any experience in business knows that a business can grow only if its customers keep coming back. These customers are not as stupid as some of their would-be, self-appointed guardians would like to have us believe, and if they are not satisfied with either the merchandise, the credit, or the service which they can find plenty of other places for their patronage.

Nor do the terms of the present bill prevent a meaningful comparison of credit costs. Credit cost comparisons are necessary and naturally made between credit sources of the same type and existing practices which have developed over the years have already established more or less identical disclosure methods for the basis of the cost. The method of searching for mortgage credit finds all mortgage lenders quoting costs in the same way, and this is largely true of oth- er groups, retail establishments or small loan offices. Conversely, a man who has to decide between buying an automobile or a home makes that decision for many other reasons of convenience and necessity which are far more important than the different methods of stating credit in the two fields.

No one expects to pay as low a rate on a small short-term purchase as he does on a big long-term purchase. Many retail sales are so small that the granting of credit is not a sufficient motive. In this connection, for instance, than that offered on a mortgage actually results in a loss to the seller compared with the profit he could have made had he sold for cash. In fact, every impartial study of the costs of retail credit systems has shown that large retailers are not meeting their costs of extending credit with the charges they now make.

They absorb this loss because their competitors offer credit, and because they are convinced that by making credit available they can increase their busi- ness.

Mr. HOLLAND. Mr. President, will the Senator yield at some convenient time?

Mr. BENNETT. I am happy to yield to the Senator from Florida.

Mr. HOLLAND. I thank the distin- guished Senator for yielding. Mr. President, of course I presume all Senators received, as I did, many com- plaints as to the original bill that was pending in the Senate for several ses- sions prior to this one. I have had very few complaints on the pending bill. I am sure the committee must have made many changes that are helpful, and that have tended to clear up the difficulties in the old bill.

I have received only one recent com- plaint, and that is about which I wish to question the distinguished Senator. It has come from small merchants who do business by way of installment sales, and then have to be financed by selling that paper to small finance companies, local finance companies. I should say, though they are not large concerns— and from some of the small finance companies.

They say the pending bill would make it immensely difficult for small mer- chants who do that type of business, and small finance companies which finance that type of business, to stay in opera- tion, because of the fact that the large concerns which have their own finance companies are able to distribute their profits between the selling operation and the financing operation in a way which will be hurtful to the small merchant and the small finance company.

I confess that I am not fully conver- sant with the problem. I am sure that the Senator from Utah must have heard simi- lar complaints, and I should like to have any comment that he cares to make on the problem. I address the same ques- tion to the distinguished Senator from Wisconsin, because, as I have already stated, the number of complaints I have received, and the nature of those com- plaints with respect to the amended, changed, or rewritten bill, whatever it is, have been so small as compared with those I received during earlier sessions that I am satisfied the bill is much nearer approval. In general, than was the case heretofore.
If the Senator from Utah cares to comment on that situation, I shall appreciate it.

Mr. BENNETT. Mr. President, I would like to make that comment: It seems to me that the problem the Senator from Florida has described existed before any truth-in-lending bill was considered. It will exist no matter what bill we pass. It grows out of the fact, which is axiomatic in our present enterprise system, that people with large distributive capacity can offer services at lower prices. The people to whom the Senator refers have been competing with that ability all along.

The pending bill will require them, if they are selling on the installment plan—and I assume they are—to translate their rates to an annual rate. It will also require the big man to translate his rate to an annual rate.

In order to help the little man, there has been written into the bill a system or opportunity for tolerances, so that the Senator refers have been written into the bill a system or opportunity to determine whether or not it would adversely affect small business. The testimony did not indicate that small business was inhibited in the sale of paper or in any other way by that law which is more extensive law than the pending bill.

I think that that practical experience of several months at a time when the law would have run into its initial and main difficulties does suggest that the bill will not visit undue difficulties on small businessmen.

Mr. HOLLAND. Mr. President, if the Senator will yield for a specific question, is it the opinion of the distinguished Senator from Utah that the law as it is written in the bill that will make it more difficult than it already is for small Independent businesses or small financing companies to survive and profit and prosper?

Mr. PROXMIIE. There is nothing in the bill which would make it more difficult for them to survive and profit and prosper.

It is true that all businesses will have to compute the annual rate. As the Senator from Utah has pointed out, they will have to make it easier for them to do it.

This is perhaps more of a burden on a small businessman than on a large established firm in some ways, but the protection and safeguards are put in for the consumer—unanimous judgment of the subcommittee was that this should not be a significant burden in any way.

They can survive and profit and prosper.

Mr. HOLLAND. Is it true that this particular point, the application of the law to small businesses and small financing companies, was of concern to the committee?

Mr. PROXMIIE. Yes. It gave us the deepest concern.

The Senator from Alabama is the Senate’s outstanding man in the small business field. For years he has been chairman of the Select Committee on Small Business. I have been chairman of the Subcommittee on Small Business of the Committee on Banking and Currency. We have been both deeply concerned, and other Senators have been very concerned, that we do all we could to help the small and safeguard small businesses.

That is the reason that the $10 provision was written in. We scrutinized every part of the bill, explicitly with reference to the particular point which the Senator from Florida is so right in raising.

If the bill were badly drafted and written, it could make it difficult for small business, but we are convinced that the pending bill will not make it difficult for small business.

Mr. HOLLAND. Was it considered by the committee as to whether a limit of more than $10 might be more helpful to the small business people and small finance companies?

Mr. PROXMIIE. Yes. There was some consideration given to that, although, frankly, the bill originally had no provision for any exemption of this kind. The Massachusetts law has no exemption. The Washington State law has no exemption. The Nova Scotia law has no such exemption.

There was some suggestion by consumer groups that we were going too far and that we should limit it to $5.

We think we went as far as we could without weakening the bill.

Mr. HOLLAND. Mr. President, I thank all three of my distinguished friends, who are all known to be friends of small business and to be anxious about the problems of small business and the continued existence and prosperity of the small businessmen.

Their answers have gone far to clear up the question for me. I thank them all.

Mr. BENNETT. Mr. President, I thank the Senator.
this bill, then, has been this recognition of the necessity for tolerances. The pending bill will permit a variation of 8 percent from the true mathematical rate, both under and over that figure.

Let me make it clear what this variance means. In referring to a rate of 10 percent, I am not saying that it can vary from 18 percent up, to 2 percent down. However, I am saying that it can vary eight-tenths of 10 percent. So it can vary down to 9.2 percent.

There is no limit on the variation that can occur on the actual mathematical figure since obviously this rate figured on that basis would be detrimental to the seller, not to the buyer. Because we have written the tolerance into the bill, it is going to be possible for the sellers to use periodical rate tables prepared and published in advance, and the seller can refer to these quickly and get a figure which he can use safely within the tolerances of the bill.

I used a case of the original bill that if it were enacted it could neither be complied with or enforced.

Such a charge cannot be made against this bill. It is not perfect, but I think it meets the practical criterion of the greatest satisfaction to the majority of both consumers and creditors. I am sure it can be put into force without creating a major wrench in the economy or requiring any severe readjustment of book-keeping systems, monthly statement forms, or payment patterns. In fact, one of its great virtues is that it can become virtually self-enforcing, and this is backed further by a provision in the bill.

One of my objections to the original bill grew out of the fact that I felt the whole problem belonged at the State level, I am now supporting a bill at the Federal level.

One of the main features of the bill is that it contains the provisions that I am about to read. It begins by saying:

The Board—

And that word refers to the Federal Reserve Board which, under the bill, will have the responsibility of writing the regulations under which this would operate.

The provision in the bill reads:

The Board shall by regulation exempt from the requirements of this act any class of credit transactions which it determines are subject to any state law or regulation which requires obligations substantially similar to those required by Section 4 and contains adequate provisions for enforcement.

The bill, in other words, provides that if the States enact legislation which accomplishes the same purpose, and which satisfies the Board as to its efficacy, the Board can then withdraw from enforcement of this act as to those laws, and the State and the State authorities can take over the enforcement of their local laws in place of the act.

We have had a group known as the National Commissioners on Uniform State Laws, appointed by State Governors. That group has been working for a number of years on this and other consumer problems.

We expect that shortly they will present us and the United States with proposed uniform State legislation. By adopting and enacting some guidelines for men who are working on the proposed uniform State laws, they can have hope that when their uniform laws have in fact been adopted, their State enforcement agencies can take over the job of enforcing legislation of this type, and that is where I believe it belongs. So I am delighted that this provision is in the bill.

This provision not only eliminates any need for a new, vast Federal establishment to police the law, but it also preserves in a unique and practical way my original position that this law should be administered at the State level rather than at the Federal level.

Finally, as is to be expected under the circumstances, this bill represents great accommodations between once antagonistic ideas. Its passage will not be a victory for anyone or anyone very one. It does provide meaningful and practical patterns for effective consumer credit cost disclosure, which after all should be our ultimate objective.

Therefore, as at the beginning of my remarks, Mr. President, I am very happy that after 6½ years of opposition to bills earlier introduced, I can join the Senator from Wisconsin and stand before my colleagues, earnestly urging the support of the committee and the passage of the bill.

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

Mr. BENNETT. I yield.

Mr. JAVITS. First, I should like to say to the Senator from Wisconsin, as a former member of the Committee on Banking and Currency, that I believe it is a great tribute to him that he is able to stand before the Senate and agree to the bill, because to me the most eloquent words in the English language that reflect the greatest character on those who utter them are "I am persuaded." I know that the Senator has had much to do with developing the phrase which he could support and, without him, it could never have happened.

Although many of us felt that Paul Douglas could have done it if he had only moved an inch or two, the fact that it has been done must still be regarded as a very important tribute to his service in the Senate. Senator PROXMIRE picked up the torch for Senator Douglas, but we should not forget Senator Douglas' great role in authoring this idea.

I had a similar experience with Senator Lehrman, of New York, who was a devotee of developing power at Niagara. But he did move an inch or two, and hence it never got done until Senator Ives and I did what Senator PROXMIRE and Senator BENNETT have done in this matter.

So we should remember those who wore the progenitors, like Senator Douglas, but we should also pay great tribute to the Senator from Utah and the Senator from Wisconsin, who worked this matter out.

If I may have the attention of the chairman of the committee and the ranking minority member, the New York banks have presented two questions to me which I should like to present to both Senators, so that at least the Record might indicate that the questions were asked and answered; because I intend to support the bill, and I realize the interdependent character of the compromise which is involved.

The first question is this: Whether or not, if we should desire to ask the Federal Reserve Board to have the right to determine, based upon experience with the bill in the 3 years from 1969 to 1972, whether or not it should thereafter require disclosure on the dollar-per-hundred option, or whether or not to continue the alternate form even for a 3-year period beyond that, again giving the Federal Reserve Board that discretion. Was that question considered by the committee, and what do the Senator from Utah and the Senator from Wisconsin think about it?

Mr. PROXMIRE. The effective dollar-per-hundred basis would be the same thing. In other words, if it were $18 per hundred, it would be a true 18 percent. It would not be a discount or an add-on for anything of that nature.

This question was considered, because, frankly, there was a strong feeling on the part of competent people in the banking industry that if you did not have a dollar-per-hundred option, you might have a much more inflationary type of laws. We do everything we can in the bill to provide that the finance charge is not interest, but it could be misjudged in court. Therefore, we provided that there would be a limit on the dollar-per-hundred option until at least between now and then it would be possible for State legislatures to change their usury laws or, as a matter of fact, if it was embedded in their constitution, to change the usury laws by having two successive sessions of the legislatures change them.

If we find that we should continue this option beyond 1972, it seems to me that Congress has ample time to do so. But the feeling of the committee was that we should make a strong attempt to get this on a comparable basis, on a percentage basis, and not on a dollar-per-hundred basis, eventually, and 1972 would be going quite a distance into the future.

Mr. JAVITS. And the committee did not believe that discretion should be given to the Federal Reserve Board to handle it, but, rather, the committee believes that Congress itself should handle it?

Mr. PROXMIRE. That is correct. The Federal Reserve Board, which was very helpful on this bill, and was forceful and unanimous in approving the bill and saying they wanted it, indicated to us in general that they wanted as definitive a bill as possible, and at no time indicated they wanted discretion in this particular area.

Mr. JAVITS. Is it fair to say that, as a part of the legislative history, the banks can and are doing what they are doing in Congress, and that the reason the 1972 date is set—and that it might even be extended—is to see whether pragmatically this can be worked out, so that by 1972 legal inhibitions and policy inhibitions are gone, and if they are not, at
least consideration can be given to continuing this practice. 
Mr. PROXMI'RE. Yes. But there is one 
delicate and difficult caveat here. 
The purpose of the date was to per- 
suade legislatures to modify their usury 
laws in an appropriate manner. 
Obviously, if we have an open end situation or if it is clear that Congress is going to continue to extend this indefinitely, there would not be the same kind of pressure on the State to modify the usury statute.
Mr. JAVITS. May I say that with the 
law on the books and the need for another 
law to undo it, I do not believe that anybody can have any illusions about the fact that it is an open-end situation. I believe it is important for those who feel strongly about the subject that inherent in passing the statute, Congress was conscious of the fact that 1972 might be an unfair limitation and that it might very well have to be extended.
Mr. BENNETT. I would like to comment on that aspect: 1972 is 5 years away, and this time gives ample opportunity for us to measure the speed with which the States correct the usury problem, and the committee can act again in time.
We have a very real example. We have had an experience in the State of Ne- rasca which shows what happens when a judge decides that a bill throws all credit transactions outside or within the 
usury statute, and invalidates them all. 
So we are very much aware of the prob- 
lem.
Mr. President, I have a statement on the possible effect of the bill on usury statutes or vice versa. I ask unanimous consent that the statement be printed in the Record.

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

A statement ordered to be printed in the Record is as follows:

All but four States have usury statutes limiting the maximum rate of interest that may be charged. The following is a compilation of State usury laws and the maximum usury rates in each State:

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<tr>
<th>State</th>
<th>Maximum Usury Rate</th>
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There is also a festival in the New York 
banking community—not universal, but 
I believe it deserves a reply on the record—that it would be more fair and less discriminatory, and that greater comparability would be introduced into the revolving credit composition, if the 60 percent repayment test—that is, 60 percent repayment within 12 months—were to be amended to require annual disclosure only if less than 45 percent of the unpaid balance, on an experience basis, were paid off within a 12 month period.
Mr. PROXMI'RE. The committee did consider this aspect explicitly. As a matter of fact, this 45 percent amendment was offered in the full committee, and then it was offered on the 50 percent basis. So the committee went into this feature in some detail.

When one considers what we do with a 60 percent limitation, it means 60 per- cent should be paid off within 1 year. This means, on the average, our staff people compute it, that the balance would be paid off within 19 months.

This is an extended period. The pur- pose of the limitation was to prevent in- 
statement credit, such as credit for auto-
mobiles and big appliances, from moving into retail credit.
When we get to 45 percent, and where 
we have more than a 2-year period, it 
would open the door so wide that whereas now there are 3 percent or 4 percent ex- cluded from the annual requirement, it is conceivable that there would be a larger element and greater injustice.
Mr. JAVITS. In any case, the commit- 
tee was decidedly against it and the com- 
promise is based on that.
Mr. FROXMIRE. The Senator is cor- 
rect.

Mr. JAVITS. I thank the Senator.
Mr. BENNETT. Mr. President, if there are no further questions I would be happy to yield the floor.

The PRESIDING OFFICER. The Sena- 
tor from Alabama is recognized.


Mr. SPARKMAN. Mr. President, the truth-in-lending bill has been before the Senate Banking and Currency Commit- 
tee for 7 years. On June 27, the commis- 
itee met and for the first time recom- 
mended a bill. The bill as indicated, would be workable to the industry while 
still providing the essential disclosure in- 
f ormation to the consumer.
I believe Senator Proxmire has per- 
formed an outstanding task in piloting this long-delayed measure through the 
Committee on Banking and Currency. 
Although there are still elements of the
Another Senator, impressed by the magnitude of the problem, moved that the committee on banking and currency continue its investigation. He pointed out that the credit industry, which controls the nation's economic destiny, demands constant attention in the Congress. Mr. Proxmire, who chairs the panel, believes that a bill to control it is long overdue. He has been working on such legislation for several years, and he is convinced that a bill will be passed this year.

Mr. Proxmire's bill would place strict controls on the nation's credit industry. It would require all banks and other financial institutions to disclose their financial condition and operations. It would also require all banks to maintain adequate reserves to meet the demands of their customers. The bill would also prohibit banks from engaging in activities that are not related to their core business.

Mr. Proxmire has been working on this bill for several years, and he is convinced that it is long overdue. He believes that a bill to control the credit industry is necessary to protect the nation's economic stability.

The Senate Committee on Banking and Currency has begun hearings on Mr. Proxmire's bill. The hearings are expected to continue for several months, and it is hoped that a bill will be passed by the end of the year.
Mr. BENNETT. I am very honored to have them included in the Record.

There being no objection, the individual views were ordered to be printed in the Record, as follows:

**INDIVIDUAL VIEWS BY MR. BENNETT**

I have given my support to this measure providing standards of disclosure for consumer credit bills because I think that we have been able to work out over the past 7 years.

This bill bear little resemblance to that introduced last year, and even less resemblance to the original bill of several years ago. We have come a long way in making the bill more workable while preserving the major goal of comparability as much as possible.

I feel that the consumer credit industry, bankers, retailers, and other lenders deserve a great deal of credit for making a workable bill possible. I believe that I am safe in saying that none of them are completely satisfied with this bill, but they have given, of their time; and their suggestions based on actual practical operating experience have been invaluable to the committee.

From the very beginning I have subscribed to the principle of full and meaningful disclosure of credit costs. I don't believe that any responsible person could favor misrepresentation of information which could be reasonably disclosed and which would make it possible for the consumer to compare the various sources of goods and services. This is the basis on which our market system is built and has become so successful. On the other hand, one cannot avoid requirements which cannot be complied with easily by credit grantees or the result is an increase in the cost of credit which is ultimately passed on to the consumer.

Because there are many sources of credit both from lenders and sellers and credit is granted for a variety of purposes and under varied circumstances, it is completely natural that programs for granting credit developed along different lines and that credit costs were environment ways. The objective of the original "truth-in-lending" proposal was to replace the many different and varied provisions in State laws pertaining to usury with a uniform statement as a simple annual rate.

A careful consideration of credit plans available led to the conclusion that all cannot be forced into one pattern of a simple annual rate statement in advance of the transaction without serious inconveniences and inaccuracies. I am sure on the other hand, that any uniform statement made in the act would be a useful reference to the consumer in making a rational decision.

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have tried to take care of small business and the different viewpoints as between disclosing dollars and cents and annual percentage rates; and we tried to take care of differing views of revolving credit. I worked it into the present bill that can be worked out and, as I have said, a finely balanced bill.

Mr. President, I hope the bill will be accepted without amendment because I believe it is just that finely balanced.

Mr. President, I would like to pay my respects and tribute to the able leadership given in connection with this legislation by the distinguished Senator from Wisconsin (Mr. Proxmire) and the distinguished Senator from Utah (Mr. Bennett).

A year ago I believe that no one would have been willing to predict there would ever come before the Senate a truth-in-lending bill by unanimous vote. However, that is the situation today, and I hope that the Senate will not prove to be a body of the full Committee on Banking and Currency.

Mr. McIntyre, Mr. President, it is with a mixed feeling of relief and unhappiness that I wish to make a few comments on the details of the bill, before the Senate, the truth-in-lending bill.

I say relief because this particular piece of legislation has taken up a great deal of my time and attention since I first arrived in the Senate. In practically every year I have served in the House of Representatives and now in the Senate, the Banking and Currency Committee has agonized over the basic decisions which had to be made before this bill could be reported to the floor. Those of us who have tried to make this a workable piece of legislation have been subjected to criticism from all sides.

It is a real relief to be done with truth in lending for the time being.

I would like to point out that the full credit for making it possible for the Banking and Currency Committee to report this bill out after 7 long years goes to the bill's principal sponsor and manager, the distinguished Senator from Wisconsin. His complete grasp of all of the details of our consumer credit economy, his parliamentary skill, and his ability to negotiate, have uniquely made it possible for the Senate to be considering truth in lending today. Building upon the ideas of our former colleague, Senator Paul Douglas, Senator Proxmire has done what many of us had considered almost impossible. He deserves the full gratitude, not only of the consumer public, but also of the various segments of the lending industries. The Banking and Currency Committee is in my debt.

At the same time, I must admit to a feeling of unhappiness with the pending legislation. It is not all that I had hoped it could be. It is still subject to many of the objections which we have had to this type of legislation for several years.

Before the Senate votes on truth in lending, I would like to take a few minutes to set out, for the record, precisely those parts of the bill which make me find myself in disagreement with. I would then like to cover a few of the improvements in the present bill which made it possible for me to vote to report it out of committee. Even as I say these words, I still have not decided whether I shall vote for passage of this bill.

The major objection which I have to truth in lending, and this objection goes right to the heart of any form of truth in-lending that I ever envisaged is the probable adverse effect which it will have on very small, poorly capitalized, businesses in competition with larger businesses.

Truth in lending was designed to improve competition among all classes of creditors. The reason is that there is the probable adverse effect which it will have on very small, poorly capitalized, businesses in competition with larger businesses.

In a newly balanced bill, the adverse effect which will have on very small, poorly capitalized, businesses in competition with larger businesses.

Perhaps, from the viewpoint of the consumer, such competition will continue to be desirable. But, Mr. President, we are legislating for an entire Nation, not just a nation of consumers, but a nation of merchants, of small business men, of corner grocers and small automobile dealers. And I believe that the present bill may tend to injure these men and women.

Another objection which I have to this bill, and many of its predecessors, goes to the appropriateness of congressional action in what has traditionally been an area subject to State regulation. Practically every State in the Union already has consumer credit legislation on the books, but in one fell swoop the Congress is preparing to enter, and practically preempt the field.

I must point out that my colleagues on the Banking and Currency Committee are aware that the primary responsibility of consumer credit legislation should lie with the States. Section 6 of the bill before us provides for those circumstances under which State law and State administration will preempt the operation of the Federal law.

I might point out that my preference for State, as opposed to Federal legislation in this area is not based upon any reliance on the old cliche of "States rights." Rather, it is based upon two practical results of the historic regulation of consumer credit by the States themselves. First, the States have already created and funded the administrative structure and will administer consumer credit laws. The Federal Government has no such administrative machinery, and its creation would add to the taxpayers expenses only to duplicate existing State agencies.

In addition, consumer credit legislation is intertwined with a whole network of related State legislation. The pending bill deals only with disclosure, and, although this may require the consideration of any conflicts with other State laws, we do not know how well we have succeeded. What, for example, will be the effect of this bill on existing State usury laws? We hope that disclosure under this bill will have no relevance to State usury laws, but only a State legislature, and not the Congress, is competent to devote the two different kinds of regulation.

Yet another objection with the present bill goes to the basic premise which made it possible for the bill to be reported out of committee, the language in section 3(h) designed to separate the sheep from the goats, or rather, to separate those creditors who must disclose in another manner those disclosing in monthly terms. This is a technical difference, for almost every witness before the committee indicated that creditors disclosing in monthly terms will be given a competitive advantage over the others.

If the Congress is to permit any creditors to disclose in monthly terms, and I believe certain creditors should be so authorized, then obviously some line, some distinction between creditors will have to be drawn. In the process of drawing this line, I am afraid we have gone too far, and the way may receive very different treatment under that section. If we have to generalize about the distinctions under 3(h), however, I think that it is unfortunate that those merchants generally able to compete with the large, well financed, enterprises who will be directly competing, in some product lines, with the small, poorly financed, local small business such as furniture stores, auto accessory dealers, and others who will be required to disclose in annual terms. I think that this is a truly unfortunate consequence of the present bill.

Finally, I am not entirely happy with the penalty section of the bill, section 7. Mr. President, while I believe for a merchant who makes a wholly unintentional, bona fide error, to be subject to a penalty. But I must say that this section has been vastly improved over its original language. It is only fair, after mentioning all of the reasons for my unhappiness with this bill, to point out a few of the reasons why I did vote to report it out of subcommittee and out of the full committee.

As I mentioned before, the Senator from Wisconsin has displayed great understanding of the problems which this bill will cause the credit industry. He has been willing to negotiate on the details of the bill, to the extent that he has had to do this, of course, maintaining the basic principle of full and comparable disclosure of the cost of borrowing money. Under his leadership, the Subcommittee on Financial Institutions was able to reach agreement with which, I think, in some respects, represents the very best possible compromise which I believe the Senate can accept.

The major attraction of the present version of the bill, as a recognition of the difficulty of requiring annual rate disclosure across the board for all classes of creditors. The revolving credit provisions of this bill represent a major victory for the honest, responsible retailers.
of our Nation, and for those of us who believe that periodic disclosure of revolving credit is the most meaningful type of disclosure at this time, the provisions in the committee's report and the emphasis placed on the idea of attempting to impose an annual rate disclosure requirement on revolving credit.

The change from a "simple annual rate" to an "annual percentage rate," while decreasing in terms of the numbers involved, is a vast improvement in terms of simplicity of administration.

The provisions for complete exemption of certain types of transactions remove a wholly unnecessary burden on large segments of the lending industry.

The complete bill, as it now stands, does, in my opinion, give the consumers of this Nation a meaningful way of comparing the entire cost of credit. It deserves the full support of consumers.

Mr. President, I have indicated that I am still uncertain about the way that I will vote on final passage of this bill. I am not at all uncertain about the way that I will vote on any substantive amendments which may be presented. I believe that this bill, as it now stands, represents the best possible compromise of which the Senate is capable. I intend to oppose any and all substantive amendments to this bill, because of my own experience that amendments to this type of legislation have been complicated in situations where we are able to check out all of the effects of proposed changes to this highly technical legislation. This subject of truth in lending is much more complex than it appears at first glance, and I hope that my colleagues will accept or reject the entire bill which has been reported out, without trying to change it here on the floor.

Mr. MONDALE. Mr. President, I wonder if this bill would add a few questions to the distinguished senior Senator from Wisconsin and chief author of the truth-in-lending bill.

Mr. PROXMIRE. I am happy to yield. Mr. MONDALE, I would like to ask a few questions to straighten out my understanding of the proposal that is before us.

As I understand it, most department stores with revolving credit plans charge 1.5 percent a month. Is that correct?

Mr. PROXMIRE. Most do. This is not universal. As the Senator knows, in the hearings the representative of one department store testified that, instead of charging 1.5 percent a month, it would charge 1.5 percent for a 35-day period. But 1.5 percent a month is the usual charge.

Mr. MONDALE. At any rate, under this bill the stores would not have to translate the monthly rate of 1.5 percent into an annual rate. Would that be correct?

Mr. PROXMIRE. Unless the plan met certain conditions; that is correct. The conditions, we feel, would prevent the kind of abuses which might have developed without these conditions.

I might point out that 4 or 5 years ago the subcommittee reported a bill to the full committee which simply exempted all revolving credit from disclosing an annual rate. That bill was killed in full committee. So this bill is much more careful than the one reported out of sub-committee before.

Mr. MONDALE. The original measure which the Senator from Wisconsin introduced included individuals and the prohibition of attempting to impose an annual rate disclosure requirement on revolving credit.

Mr. PROXMIRE. Yes.

Mr. MONDALE. Why should not a housewife know that her revolving credit is costing her? Mr. PROXMIRE. That is a good question. It is a question we asked again and again in the committee. I share the view of the Senator from Minnesota that a housewife should know. There were others in the committee who had a different point of view. Say that the housewife buys something on the 10th of the month and buys it on credit. In effect, at that time the store owner is giving her a loan, but she does not pay a service charge until the 11th of the next month and the time the bill is sent, and, indeed, from the time of the bill for another 30 days. So, in effect, she gets a free ride for that period of time. At the end of that time, if she has not paid it yet, she pays a 1.5 percent charge for the subsequent month. Calculating the interest from the 10th of the month, when she made the purchase, it would be between 6 and 9 percent. It would be far below 18 percent.

I share the view of the Senator from Minnesota, but a majority of the committee disagreed with that view. Their view was that under the circumstances the 18 percent would be a distortion and would be inaccurate. Our view was that it could be made perfectly clear to the housewife that the 18 percent only ran when the credit charge was assessed. Only at the point did the 1½ percent become effective. Only at that point did the 18 percent become effective.

Mr. MONDALE. So, under your original bill, they had a majority of the committee disagreed with that view. Their view was that under the circumstances the 18 percent would be a distortion and would be inaccurate. Our view was that it could be made perfectly clear to the housewife that the 18 percent only ran when the credit charge was assessed. Only at the point did the 1½ percent become effective. Only at that point did the 18 percent become effective.

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Mr. PROXMIRE. Yes. A good case could be made that this would be unfair to the store, and some of the committee members made that case with persuasiveness. But it is possible that, if they made it on the floor, they might convince a majority of the committee—that it was not requiring truth in lending to say it was not requiring truth in lending. On the free period during which the loan was outstanding was ignored, a free period that, with the average department store sometimes results in a charge of 8 or 9 percent—and not 18 percent.

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Mr. MONDALE. So I think working out this compromise does make a great deal of difference in this particular area, although I agree with the Senator from Minnesota. It would be far better to tell the housewife she is getting a free ride and at the end of the free ride she could take money out of a savings account, if she had one, or sell bonds, and use that money, instead of paying 1½ percent a month, up to 18 percent a year, to assess against the charge rate.

Mr. MONDALE. What is the size of revolving credit today in terms of billions of dollars?

Mr. PROXMIRE. The sum of revolving credit, based on the estimates we have been able to get, is $3.5 billion. This is only 3 percent of consumer credit, plus second mortgages, which we have included. This would include only $3 out of every $100 of consumer credit. So it does not represent a figure like 40 or 50 percent, but only 3 percent of consumer credit.

Mr. MONDALE. Of that $3.5 billion, how much of that credit would be exempt from disclosure of an annual rate?

Mr. PROXMIRE. That is a good question. In answering the previous question, I might have indicated that a larger amount would be exempted than actually would be. When I say 3 percent, I am referring to a large amount of the revolving credit, but it would be about 3 percent or 5 percent, but of the revolving credit most, not all, probably about 80 or 90 percent, would be excluded because of our definition.

Mr. MONDALE. So that of that credit extended, the revolving credit extends about $3 billion, makes up about 3 percent of the credit extended, and of that amount between 80 and 90 percent would be exempted?

Mr. PROXMIRE. We did exclude first mortgages, but they are excluded because they always specify the annual rate. Therefore, if we take only consumer credit, I think it would be less than 3 percent, but in the 3-percent area.

Mr. MONDALE. How significant is this exemption in terms of future trends in the industry?

Mr. PROXMIRE. I would hope this exemption would not become very significant. Some say as much as 50 percent of consumer credit will go into revolving credit, but I think that overlooks the fact that the public always specifies the annual rate. Therefore, if we take only consumer credit, I think it would be less than 3 percent, but in the 3-percent area.

Mr. MONDALE. Would it not be wiser to have these sales on revolving credit without disclosing this exemption, or does the Senator think it would be wiser to wait?

Mr. PROXMIRE. I would like to change the law. We tried to do that in committee, but we did not have the votes either in the subcommittee or in the full committee. We worked out what I think is a reasonable compromise.

First, only 3 percent is being excluded from annual rate disclosure, but 97 percent is covered. Second, we have written into the law safeguards to guard against the possibility that we have opened up a large loophole. Third, if this practice does widen greatly, we can take a look at it in the future, and consider additional legislation.

So I think this was a reasonable compromise when we did not have the votes.

Mr. MONDALE. The last point, I think, is particularly impressive.

Would it not be possible to have large sales on revolving credit without disclosing the annual rate; and if so, would not that destroy true comparability?
Mr. PROXMIRE. There are two reasons why we should not have to worry about that. First, the bill requires that the creditor must not require a security interest. This means that the buyer of an automobile, a refrigerator, or any other product must be in the hands of the buyer to get the exclusion. The creditor cannot hold on to it until he is paid off. This, all by itself, is a real protection. The creditor will sell an automobile, a refrigerator, or anything else that is very large, to any consumer who walks into his store, give him title, and then hope he will pay. So this is some protection.

There is another important provision—there are three, but I shall discuss only two, because only two are of significance. The first is the security interest, that I have just discussed. The second is the security interest in title, and the hope he will pay. So the annual rate. In effect, this means a short period; and even for the purchase of an automobile is paid for the way Americans buy them now, 19 months is a pretty short period; and even for the purchase of appliances it is a relatively short period—the seller would not fail to disclose his annual rate.

I might also add that our discussion so far implies that revolving credit is exempt over the whole period. If I have given a bill that is five per cent interest on his mortgage when in reality, he is paying much more when considering a mortgage rate, we should allow the consumer to know the annual rate of the lender. The seller definitely should have to specify the annual rate.

Mr. MONDALE. I commend the distinguished Senator from Wisconsin for what I regard to be a remarkable legislative accomplishment. Everyone here respects the magnificent leadership which Senator Douglas provided on this truth-in-lending issue over the years. I must say that the Senator from Wisconsin learned well, and has become not only a great spokesman for truth in lending, but one of the leading spokesmen for the consumer protection movement in this country.

Without his understanding and his sophisticated grasp of the practical business problems which must be dealt with in working toward this objective: without his sensitive and thoughtful handling of the measure in the committee and here on the Senate floor, we would not have this bill. I am sure many of us are grateful to him for what he says is that truth in lending, which has long been sought as a key objective of the consumer protection movement, is at last within grasp. I think the majority of this year, the Senator from Minnesota will be the best champion, that I have ever seen, because the Senator from Minnesota has long been identified—when he was attorney general of the State of Minnesota and when he was on the President's Committee on Consumer Interests, and certainly ever since then—as a great champion of the consumer, and one who early recognized the great importance of protecting the consumer in our laws, and the administration of law.

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

Mr. PROXMIRE. I yield.

Mr. MUSKIE. I should like to take just a moment to add my statement of gratitude to the Senator from Wisconsin. He and I have been members of the committee from the moment that Senator Douglas first introduced a truth-in-lending bill several years ago. Together, we have struggled with this problem, with somewhat different points of view from time to time.

I share the view the distinguished chairman of the full committee (Mr. Sparkman) expressed a few minutes ago when he said that a year ago it seemed very doubtful that this bill could have progressed to the point where it appears to be at this moment. I think it is a remarkable fact that the bill be the verge of passage with scarcely a dissenting voice.

I believe that the change in its prospects is largely attributable to the efforts of the distinguished Senator from Wisconsin. He and I have had differences of opinion at times, but I am glad to see a truth-in-lending bill finally reaching the enactment stage in the Senate. I am glad to see that it has been modified in ways which, to me, are more realistic than some forms of the bill in past years may have been. But I simply cannot resist taking the opportunity to say for the Record, that in my judgment, the distinguished Senator from Wisconsin, by building upon the great contribution of Senator Douglas, is largely responsible for bringing this bill to this point in the legislative process. I think he has reason to be proud of his work, as I am sure he has worked under him, differing as we have, from time to time.

Mr. PROXMIRE. Mr. President, I say to the Senator from Maine that I have referred several times to the ability and vigor of members of the committee who disagreed with us on some of the elements of this bill. I have even said to the Senator from Maine that I have referred particularly to the Senator from Maine. I think he did a most workmanlike and constructive job in developing a compromise that he was able to accept and we were able to accept, and which won the unanimous support of the committee. Believe me, this was not the idea, the brainchild, or the work of the Senator from Wisconsin. It was the result of the work of the Senator from Utah (Mr. Bennett) and the Senator from Maine, who hammered away, not in working out a compromise, but in establishing a record in the questioning of witnesses during the hearings and the work of the Senator from Maine, and was so persuasive that, although we had a lot of force on our side—everybody is for the consumer, of course—I think the Senator from Maine deserves much credit for working out a practicable and workable bill.

Mr. MUSKIE. Mr. President, the bill in its present form is a compromise. I am sure there are aspects of it, as revealed in the colloquy between the Senator from Wisconsin and the Senator from Minnesota, they would like to see changed. There are things in the bill that I would like to see changed. But after 6 or 7 years of labor on this bill, I think, in all its aspects, it represents a compromise which I would consider in its totality. Although I would like to see some changes made in it, which I think would improve it, I support it in its present form, because I believe it reaches the best consensus which could be developed after long, hard, and careful work by Senators over a period of several years.

Again I congratulate the Senator from Wisconsin.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. PROXMIRE. I yield to the Senator from Delaware.

Mr. WILLIAMS of Delaware. I join in complimenting the Senator from Wisconsin and the Senator from Maine for having worked out a compromise which appears to be acceptable to most Senators.

However, on examining the bill one or two questions came to my mind.

The basic purpose of the bill is we all understand, it is to make sure that the borrower that he will be told the truth as to the rate of interest he will have to pay over the term of the borrowing. That is the basic objective of the bill, as we all admit.

However, I am somewhat puzzled or at a loss to understand why the Johnson administration, which claims to be so strong for this bill and its principles, exempted itself from the provisions of this bill.

I refer particularly to the FHA, which finances mortgages for home buyers. I have raised this point many times heretofore. They tell the home buyer that under the existing setup he will pay 6 percent interest on his mortgage when in reality, he is paying much more when the loading charges and discounts are considered.

We all know that if the home buyer is buying a home for $10,000 he must give an $11,000 mortgage in order to get the $10,000 home paid for. Under the point system he actually gets only about 90 percent of the face value of the home. In other words, he has to discount his mortgage.
The net effect mathematically is that, instead of paying 6 percent for his mortgage over the 30- or 35-year period, whatever the maturity of the mortgage might be, he is in reality paying 7 percent to 7.5 percent and in some instances even a higher percentage.

Would it not be reasonable to include that type of mortgage in the provisions of the pending bill so that in any case where the mortgage is guaranteed by the Federal Government it would have to tell the borrower the exact rate of interest as it would be annualized over the life of the mortgage? If the Government really favors truth in lending why does it not set the example?

Mr. PROXMIRE. The Senator from Delaware makes a very good point. The bill as originally drafted included all mortgages. There were no exclusions. It included first, second, and third mortgages, or any other mortgages. However, the feeling was that, of the mortgage bankers and others that we talked to in this case, the Federal Government should put a ceiling on any type of mortgage, the annual rate and that the annual rate is well known and well accepted.

There is no variation from this practice in mortgages. When somebody goes to buy a house and takes a mortgage, he has the annual rate and that the annual rate is well known and well accepted.

Because of this fact and because of the dollar financing charge—in many cases will exceed the cost of the home—and because of the fact that the average person only continues to pay for a home for 9 or 10 years and then sells it, or takes another mortgage, the finance charge would tend to be deceptive and give him a false picture of how much he would pay. In doing this, it would tend to discourage him from buying.

It was felt that it was unnecessary to include first mortgages under the provisions of the pending bill. We do, however, include second mortgages.

I know what the Senator from Delaware is getting at, because he was most courteous. He did talk to me and to other members of the committee about what he has in mind.

We recognize that there is a real abuse of people, as the Senator implies, who they get a false notion of the rate. Many of them undoubtedly feel that they are paying less.

The committee recognized this. The Senator from Alabama [Mr. Sparkman] has been particularly active in trying to develop some way of coping with this matter and eliminating the point system because it is subject to abuse. However, our feeling is that if we did provide for ending the exception for first mortgages on VA and FHA loans, we would be discriminating against those mortgages and forcing the people into the conventional mortgage area and we would thus open up a most serious problem that we would have to consider in the committee. We have not completed our hearings. We have not had any opportunity to discuss the matter in executive session.

We would be legislating on the floor in a way that might create very serious problems, and it might well be in a most unfortunate difficulty.

We would hope, therefore, that the Senator from Delaware—who has the sympathy, I am sure, of virtually every member of this committee on both sides of the aisle—would not press an amendment to include any first mortgages, because if we were to agree to such an amendment, as I say, this whole carefully thought out effort of the Senator from Alabama has put it, finely balanced bill, would encounter most serious difficulty that we think would be unfortunate.

Mr. WILLIAMS of Delaware. I appreciate the position of the committee, and as the Senator mentioned, I have discussed this with them before. However, over the months I have been very much disturbed over this situation, and particularly over the complete lack of cooperation by the administration. As far as the Senator knows, we have not a single member of the committee trying out a problem. I have cited cases to the administration in which the lenders have refused to allow the home buyer, after he had defaulted a couple of months, any chance to make his back payments and even an advance payment. The opportunity to pay was denied because the lender wanted the mortgage to be defaulted. If the mortgage were defaulted he could cash in the face value of the mortgage.

Many of the institutions will admit that they make more money on the bad credit risks than they do on the good credit risks. They can go to bed at night and almost pray that the borrowers will default on their mortgages so that they can demand payment and make a lot of money on the Government.

This is an absurd practice which the Johnson administration set up and fostered. Yes, the administration encourages the practice whereby a lender can make more money on a bad credit risk than on a good credit risk.

It is pure hypocrisy for an administration which has made such stirring political stump speeches for truth in lending. However, the administration has exempted itself from the provisions of this bill. It gives lip service to truth in lending, but it will not tell the American people the truth about its own operations.

Mr. PROXMIRE. Mr. President, I say to the Senator from Delaware, in fairness to the administration, that the administration bill as originally drafted which required all mortgages to specify the annual rate and full finance cost. We sent a copy to the appropriate administrative agency. They were not very eager. As far as they were concerned, they would have been happy to have first mortgages included. They have made no objection to that.
Mr. WILLIAMS of Delaware. Do I correctly understand that the administration would like to have this amendment included in the bill? If so, we can soon settle this.

Mr. PROXMIRE. The administration has no knowledge of this particular amendment, but the administration did take the position that the bill in its original form was fine with them. They made no effort, to my knowledge, to have first mortgages excluded.

Mr. BENNETT. Mr. President, will the Senate yield?

Mr. PROXMIRE. I yield.

Mr. BENNETT. If my memory is correct, the Federal Reserve Board recommended that first mortgages be eliminated.

Mr. PROXMIRE. I believe that is correct. The Federal Reserve Board is independent of Congress and not of the executive branch.

Mr. BENNETT. That is correct. And it has to administer the bill.

Mr. PROXMIRE. The Senate is correct.

Mr. BENNETT. Mr. President, will the Senate yield to me?

Mr. WILLIAMS of Delaware. The Senate does not yield to the Chair. The Senate is correct.

Mr. BENNETT. Part of the problem in which the point system is involved grows out of the States' usury laws, because in some States with usury laws the limit is so low that nobody could borrow mortgage money during tight-money periods if it were not for the point system.

So this is another problem we must work out before we can hope to completely eliminate for credit the use of device. To me, this indicates the inherent weakness of putting a lid or a ceiling on anything when the actual operation of the normal economic forces can go to hell. I think it is smarter to remove the lid than to try to use things like the point system to seem to be living under the limitation, when, as a matter of fact, you cannot live under the limitation.

Mr. WILLIAMS of Delaware. The Senator is correct.

No doubt, some State laws need to be corrected. But primarily the problem which I am discussing is a Federal problem, and it is brought about because the Federal Government insists on maintaining an artificial ceiling or the interest that will be allowed on home mortgages. As I pointed out the other day, it is still operating under the illusion that it can fix a fair ceiling that the Federal Government will be in a position to keep above 4½ percent on long-term bonds. It does not sell any long-term bonds; and if it does sell a 4½-percent long-term Government bond today it could be bought at around 4½ percent of par. In other words, with the discount they yield a little more than 5 percent interest over the life of the bond.

I realize the situation in which the committee finds itself, and I will not press this matter at this time. I withdraw the amendment (Mr. Proxmire and the able leadership of the Senator from Wisconsin [Mr. Proxmire], along with the able leadership of my distinguished colleague, the Senator from Utah [Mr. Bennett], who has provided us with the proper emphasis that should be placed on a price of legislation of this type, on supporting and protecting the consumer, because ours is a consumer economy. The committee has worked diligently to shape a truth-in-lending bill which would help consumers become more informed in their choice of credit plans.

I supported the bill in committee, and I intend to support passage of the bill in the Senate today.

But this bill is a compromise in many respects, and it will not fulfill every expectation of former Senator Douglas. It also provides a basis for some criticism by those who still believe that the compromise has not fully taken into account their problems. The problems that they face as distributors of merchandise in the marketplace.

Although the committee attempted to make the bill equitable to all sellers who are covered, some retailers find themselves at a competitive disadvantage under this compromise bill.

Basically, the bill defines two separate types of credit: revolving credit, commonly used by department stores; and installment credit, typically used for the so-called big ticket purchases. Under the committee bill, sellers who use revolving credit are required to state their finance charge as a monthly percentage rate, while sellers who use installment credit are required to state their finance charge as an annual percentage rate.

The discrimination in the bill that is most apparent, however, is not that between revolving credit and installment credit but that the most apparent discrimination is the discrimination within revolving credit, and I call attention to it here in the hope that some solution will ultimately be worked out, as the bill proceeds through the legislative process.

I was pointed out at the hearings that the bill defines two different types of revolving credit—revolving credit plans in which the title to the merchandise passes to the buyer at the time of the purchase, and installment credit plans in which the seller retains title to the merchandise until the customer has made the final payment for it. The seller using a revolving plan without title retention will be permitted to disclose a monthly percentage rate, while in an installment plan under the same repayment terms, the seller using a revolving plan with title retention will have to disclose an annual percentage rate.

This is an area in which the customer will not be helped by trying to compare credit charges. On one side of the street, for example, a department store could state that the finance charge on a
$300 sofa would be 1 1/2 percent per month, and across the street a furniture store selling the same $300 sofa on the same repayment terms with the identical finance charge would have to tell the customer the finance charge would be 18 percent a year.

The two disclosure requirements result from the fact that in one case the seller retains title to the merchandise until it is paid for and in the other case he does not. This kind of discrimination is regrettable but the fact that the committee worked diligently to find a way to work out the most equitable answer to a truth-in-lending bill that is aimed at giving consumers the kind of protection that experience has found is required in our present economy. However, as I have said, despite the difficulties that I see in the bill, I certainly do recognize that in the spirit of compromise we have seen the best of leadership exercised in putting together this bill, and I do support the work of the committee and I shall support the bill today.

Mr. DODD. Mr. President, finally, after at least 7 years of frustration and disappointment, we in the Senate will have the opportunity to vote on truth-in-lending.

The bill we are debating today falls far short of perfection.

Indeed, it is a compromise which does not completely satisfy those of us who have wanted lending disclosure standards for years.

And it does not really satisfy the opponents of truth in lending. They have fought fiercely against this legislation through many sessions of Congress and even today only support, and not too enthusiastically at that, a modest step toward the full disclosure that is needed to provide full protection to the average consumer.

American families pay about $12.5 billion a year in interest and service charges on their consumer credit arrangements.

Surely this is a reasonable step for the Senate to undertake, and I am confident that S. 5 will be approved by an overwhelming majority later this afternoon.

Regrettably, some urgent business, requiring that I leave shortly, has come up and I will have to miss the final vote. One vote, one way or another, will not matter on this issue, at this time, but we may be able to say a few words because of the great interest I have had in this legislation, as a cosponsor and supporter, ever since I entered the Senate.

Were there any chance that the vote would be close, I certainly would make a point of waiting. But happily, after all these years, there does not seem to be any problem.

Mr. BREWSTER. Mr. President, I should like to associate myself with the remarks of my distinguished colleague, the distinguished Senator from Wisconsin (Mr. PROXMIRE).

Last December, he wrote me that many people think this is the year for enactment of a truth-in-credit bill. I certainly hope this prediction proves accurate in the Senate today, for the legislation that our great former colleague, Senator Douglas, and Senator Proxmire, and others have worked on since the passage of the bill will substantially improve the American consumer. Senator Proxmire deserves the thanks of all of us interested in consumer protection for his initiative and leadership.

Mr. President, there is a related matter I should like to mention briefly. I have just learned that the distinguished Senator from Washington (Mr. McNICHOLS), who is chairman of the Consumer Subcommittee, and of its Consumer Subcommittee, has introduced a bill that will complement the truth-in-lending bill and round out the credit disclosure picture.

This proposal is a Fair Credit Advertising Act that will require a full disclosure of credit information in all credit advertising in any affecting interstate commerce. In the words of Senator McNICHOLS:

"It will enable the consumer to begin his credit shopping when he picks up his paper rather than when he arrives at the store and prepares to sign a contract."

I feel honored to have been asked to cosponsor this measure, and I will certainly do so when it is introduced. I believe it goes hand in hand with truth-in-lending.
legislation, and deserves the support of all those interested in consumer protection.

Mr. YARDBROUGH. Mr. President, the truth-in-lending bill now before us represents a long overdue recognition by the Federal Government that it must act quickly to insure fairness and openness in the fast-growing credit industry so vital to our economy. The complexity of the numerous credit rate schedules and financing plans forms an almost prohibitive obstacle that hampers the consumer who wishes to buy on credit or borrow money intelligently. With credit buying occupying an increasingly important position in the life of American citizens and an increasingly large portion of the gross national product, we need fair standards to guide both consumers and creditors in their transactions.

S. 5, by requiring in all credit transactions the disclosure of interest rates as annual percentage and the total cost of the credit, would bring clarity to the present confusion.

At the present time a credit customer might be paying a specified amount of interest per month, varying with the length of repayment period, in addition to numerous other credit charges, without realizing how high a percentage of the principal he was paying for interest. An add-on rate further confuses the unknowing customer by understating by one-half the simple interest rate. A variation in the method of stating the amount of interest can easily enhance or detract from the attractiveness of a credit plan to an average consumer unacquainted with higher economics. Under the provisions of the truth-in-lending bill, the consumer in making a choice among credit arrangements available to him could be given a percent-per-year figure computed in the approved actuarial method. Using these simple figures, the consumer could then compare the interest rates of various competing credit arrangements before selecting the one with which he would do business. Credit companies would also benefit from the clarification and openness of rate disclosures by having ready access to the rates of competitors in a common form and could then adjust their rates in the resulting competitive credit market.

The lack of uniformity in State lending laws and the resulting confusion and inconvenience to potential customers must and will be adequately remedied by this bill. It is only the few unscrupulous credit companies, whose rates are intentionally ambiguous, not the majority of the credit industry, who gain from the present bewilderment of their consumers as to the amount of interest they must pay.

This bill has finally been reported from the Committee on Banking and Currency after 7 long years. It is a tribute to Senator Paul Douglas that the Senate is taking this historic action today. Senator Douglas was the father of this legislation and fought a courageous battle on its behalf. Although the bill differs in some respects from the original Douglas bill, credit is due the distinguished Senator from Wisconsin [Mr. PROXMIRE] for his successful efforts on behalf of S. 5 in this first session of the 90th Congress.

Senators Douglas and PROXMIRE: Mr. President, the truth-in-lending bill now before the Senate and the House is a milestone for the consumers of America. After 8 years, the truth-in-lending bill is finally before the Senate for debate and vote. This legislative proposal represents a significant advance in furthering the interests of all Americans.

The enactment of this legislative proposal will be a great help in protecting millions of Americans from unscrupulous lenders and creditors. No longer will housewives and family breadwinners be at the mercy of financial wizards who have spent long years in devising means of confusing the public. Under the enactment of this bill the cost of credit will be disclosed fully, simply, and clearly. Borrowers and purchasers will be informed in terms of both actual annual interest rates and in dollars and cents of how much they are paying for a loan. This bill will strengthen the efficiency of our credit markets without restraining them. It will permit the cost of credit to be freely determined by informed borrowers and responsible lenders.

Mr. President, the enactment of the truth-in-lending bill will also be a tribute to another great American and one of the great Senators of all time, former Senator Paul Douglas, of Illinois. Eight years ago the first truth-in-lending bill was introduced by Senator Douglas, who introduced it in every succeeding Congress up to the 90th Congress. It is largely through his efforts that the Senate is considering this bill today. It is another of his many contributions for the welfare of all Americans.

Mr. President, I am hopeful that this beneficent proposal will be passed by the Senate without delay. It is high time for it to be enacted into law and American families given the break they deserve.

Mr. COOPER. Mr. President, the Senate is considering today S. 5, which was reported unanimously by the Banking and Currency Committee on June 29. It is important to note that proposals dealing with the disclosure of the cost of credit have been considered by the committee since 1950 and in the course of that 7-year history S. 5 is the first bill to be reported favorably by the committee.

The bill would require lenders and retail creditors to disclose the full cost of credit extended to consumers. The bill also includes agricultural credit when extended to individuals. I note from the committee's report:

The basic purpose of the truth-in-lending bill is to provide a full disclosure of credit charges to the American consumer. The bill does not impose any new way of regulating the credit industry nor does it prescribe ceilings on credit charges. Instead, it requires that full disclosure of credit charges be so that the consumer can decide for himself whether the charge is reasonable.

By providing full and comparable disclosure of credit information, the bill will permit consumers to compare the cost of credit among different creditors and to shop effectively for the best credit. The committee also believes the bill will promote the wiser use of consumer credit by consumers when they know the full cost of credit.

In the past I have been opposed to bills introduced in the 87th, 88th, and 89th Congresses which have dealt with this important subject because I believe unduly prescribed Federal controls on business and lending institutions and would have resulted in an increase in the cost of credit to the borrower. The committee considered these proposals in extensive hearings during this period and refused to recommend these bills as presented.

I am happy to note that the bill before us today, S. 5, was unanimously reported by the committee and includes a series of committee amendments which make the bill administrable from the point of view of the credit industry and very helpful to consumers by providing them with knowledge of the full cost of the credit arrangements available to them and thus making it possible for them to shop efficiently and to select the credit arrangements best suited to their needs.

I support the bill.

In conclusion, Mr. President, I believe it is appropriate and fitting at this time to take the opportunity to commend the members of the committee for their tireless efforts, hard work, and careful consideration over the years of this important and difficult subject and which have produced the bill before us today.

Mr. MOSS. Mr. President, S. 5 is one of the most important consumer credit bills ever to come before the U.S. Senate. I am proud of the fact that I was one of its sponsors and that I introduced it in the first session of Congress. It was introduced by the distinguished Senator from Illinois, Paul H. Douglas, and that I have been a consistent supporter ever since. I point out that I am no "death-eaters" in this, I do not call for the bankruptcy of other businesses, but I do call for the survival of businesses. I am concerned only that it appears to be on the verge of passage.

Upholding the principles of truth in lending has not always been easy. When the provisions of the first measure became known, I was almost deafened by the hue and cry which came from creditors in finance companies, from banks, and from automobile dealers and others saying that the bill was not needed in Utah, that it was not workable or practical, and that it was passed it
would most certainly put them out of business.

These letters were analyzed with great care. It was clear that the measure was not needed in Utah as much as in many other States, because our State credit laws are among the stricter. Under State laws, consumers must be fully informed on the extra cost of credit in dollars, but they are not given this figure in terms of the annual percentage rate of the finance charge. It was obvious that the cost of credit is more revealing and more fair if the costs were made clear in both ways. So I stood my ground.

I do not know how we can properly pay tribute here today to Senator Douglas for standing his ground. The pressure on him was many times greater than that felt by any individual Member of the Senate, but he insisted that ways must be found to prevent unscrupulous lenders from hiding the price of credit and the total costs of credit, and he continued to study, refine, and perfect his bill. The measure before us today is quiet testimony of his courage and strong will, and of the continuing efforts of the present sponsor, the able senior Senator from Wisconsin. Mr. PROCTOR, who picked up where Senator Douglas left off and brought the bill to the Senate floor, for the first time since it was introduced. The consumers of America owe both Senator Douglas and Senator Proctor a debt of gratitude.

The need for the truth-in-lending bill is far more irresistible now than it was 7 years ago when the bill was first proposed. Living on credit has become even more deeply an American way of life. Since 1960 total consumer credit—exclusive of mortgage debt—has risen by 69 percent. At the end of 1966, it had reached an all-time high of $94.7 billion, or almost $5,000 for every man, woman, and child in the country.

The survey research center of the University of Michigan, 49 percent—almost half of all American families—are making installment payments. Half of these families owe $780 or more. It is certain that almost all of these millions of American families who buy on credit should have fully disclosed to them the cost of their credit charges, not only so that they will know how much they are paying, but so they can compare the cost of credit among different creditors and can shop effectively for the best credit buy.

It should be made very clear, however, that the truth-in-lending bill before us today is aimed only at the unscrupulous lender. Its purpose was to protect not only the consumer who is uneducated in credit, but the ethical businessman who faces unfair competition on the part of those who engage in deceiving or fogging the public. It is a bill which would greatly strengthen the free competitive system.

The best analogy I can make as to what the truth-in-lending bill would do is to the normal process of buying a package of meat at the meat counter in a chainstore. The meat package bears a label telling the shopper what kind of meat it is, how much it costs per pound, how many pounds and ounces there are, and the total price. Some of the packages go even further and advise on how to cook the meat.

But the Truth-in-Lending Act will not require the lender to tell the consumer how to use the credit from any particular lender. It will not require that all payments to the consumer be told the price, the annual rate for the use of the creditor's money, how long the credit will be available, and what the total charge will be. That sort of statement can be made by a bank or a finance company without any difficulties in computation. But there may be other difficulties. It may be a little hard for a creditor to give this statement to his customer, if he has been telling the customer that the rate is 1½ percent and it turns out to be 18 percent per annum on the outstanding credit balance. It may be difficult if he has to tell the customer that the $44 per month payments, which have been the same since the customer obtained the loan, are going to run on for 3 years, that they will result in charges for credit of several hundred dollars and that the annual rate of charge—which is interest to the debtor—is 21 percent.

That may be hard to tell for lenders who have always dodged the problem of disclosing full details about prices and cost of credit. It will be hard, not because of any mathematical problem, but because past deceptions have left consumers unprepared for the truth.

Some of the people who have come to Congress to testify against truth in lending have shown no interest in discussing the bill on its merits, but have attempted to sidetrack it by persuading Congress that there are insurmountable mathematical problems in finding the annual rate of charge for credit. This is not true. The only mathematical problems are for the consumer.

The bill, as reported, contains potential loopholes which will have to be closed in the States to “act favorably upon the proposed consumer credit code” because “in this respect the committee believes the Federal truth-in-lending law and the proposed consumer credit code are supplementary rather than competing alternatives.”

Obviously it is desirable to have the individual States protect the interest of their consumers. The committee report says the committee is “hopeful that with the passage of a Federal truth-in-lending law the States will be prompted to pass substantially similar legislation so that after a period of years the need for any Federal legislation will have been reduced to a minimum.” But such responsibility is enormous, and the incentive may have to be enlarged if the State governments are to know what consumers seek.

The bill, as reported, contains potential loopholes which will have to be watched. For example, should a consumer have to pay a finance charge which was not properly disclosed as required by law? I predict that this section of the bill will be cut. I hope that the people will let their elected representatives know when these headaches occur.

Section 8 of S. 5 lists exceptions to the provisions which the committee recommends to apply to credit transactions exceeding $25,000. The committee felt that the amount is “considerably above” the average consumer credit transaction and “that the
protection afforded by the disclosure requirements would no longer be necessary. "The unanswered question here, of course, is "What is the extent of increasing consumer income and purchasing power?"

The bill exempts real estate first mortgage credit because the committee felt that adequate disclosure was already being made in this area of credit. Second or third mortgages will still be subject to the disclosure provisions of S. 5. One may be concerned with what appears to be a blanket proposal. While the committee recognized the need for complete knowledge so far as first mortgage credit is concerned, it is by no means certain that all persons have a complete knowledge of the intricacies of finance. This section may have to be strengthened.

Revolving and open-end credit have caused many headaches, and yet the committee did not require all revolving credit plans to disclose the annual percentage rate at the time the account was opened and on the periodic statements.

We pass no perfect legislation. That we today are considering truth-in-lending legislation is a tribute to our former colleague Paul Douglas and to the Senator from Wisconsin (Mr. Proxmire), who also saw the desirability in enacting truth-in-lending legislation. Experience should demonstrate to what extent S. 5 protects the consumer.

As a cosponsor of S. 5 as originally introduced, I am pleased that after 7 years of discussion and consideration the Senate has had the opportunity to vote on this legislation.

Buy now, pay later is a phrase fraught with joy and all too often subsequent unhappiness. Young married couples, their parents and grandparents, all citizens, deserve to know the truth. It may, in the classic phrase, "make them free" from unbearable debt. Let us trust we have started down that road.

Mr. Pritchard: The Senate by unanimous consent that the full text of my April 21, 1967, statement before the Banking and Currency Committee appear at the conclusion of my remarks.

There being no objection, the statement was ordered to be printed in the Record, as follows:

STATEMENT OF ERNEST GRUENING, U.S. SENATOR FROM THE STATE OF ALASKA, AT THE SENATE BANKING AND CURRENCY TRUTH IN LENDING HEARING, APRIL 21, 1967

Mr. Chairman: "Buy now and pay later" has become a part of our way of life. I believe it will continue to be so, as we seek to stabilize our resources. Through the years, we have become sensitized and make certain that every installment buying is corrected. "Buy now and pay later" living particularly involves younger Americans. Young couples, aghast in their new-wedded bliss, happy, hopeful, optimistic, no longer want to be peasants, toiling away in dishwashing, dishwashing, and television sets. Nor need they. These are desirable accoutrements in the 20th century.

However, in a "buy now and pay later" world all is not paradise. A young couple laden by credit payments may suddenly be overwhelmed and their marriage may founder or, worse, be washed away on a tidal wave of unpaid balances. I venture to suggest that the continued failure of the Congress to enact the truth in lending act proposed in S. 5 could break up many young marriages. Certainly, gentlemen, we do not wish to be branded as home wreckers.

We do need to correct unnecessary consumer abuses which exist in the field of consumer credit.

Installation buying has become the merchandise of indebtedness. Yet, it need not be so.

President Kennedy supported truth in lending; President Johnson supports truth in lending. The pioneers in this field by former Senator Paul Douglas taught many of us the importance and value of persistence in just causes.

Many on this committee know better than most that the general purpose of S. 5, "To let consumers know both in dollars and in terms of annual interest rate the cost of credit and comparable interest rates, is practical and possible.

The 90th Congress can brighten its image in the eyes of the American consumer by enacting the truth-in-lending bill.

S. 5 proposes long overdue needed reform. I have letters from 1960 from residents of Alaska in support of truth in lending. In one, the Reverend Richard A. Curtis, of Juneau wrote: "It is assumed that a law is needed to enable borrowers to compare costs between competing sellers and lenders. Installation buying has become a regular part of consumer purchasing and the consumer has not used for honest labeling in this area. There is too much room for excessive charges and outright gouging under the general term, 'carrying charges.'"

The Reverend Stussi wrote that letter in 1960. Not much has happened in this field since he expressed his opinion, and it is difficult to understand why truth in lending is not a public law.

I have always supported the proposed legislation. Its purpose is modest. It merely requires a statement of facts so the installment buyer can know what he is up against.

Mr. Chairman, in quoting I would like to place in the hearing record on S. 5 some case studies in credit prepared at my request by the Library of Congress. One demonstrates conclusively that the purchase of a $21,000 house with a minimum down payment and without allowing any real estate tax will cost the buyer a total of $23,993 in interest.

The other examples show what can be purchased with larger down payments or with refinancing with a second mortgage.

I also asked Mr. John C. Jackson, the Library specialist in fiscal and financial economics, to compile credit rates in furnishing a house, buying an automobile, paying for medical care, and in refinancing, and he has supplied several illuminating examples.

I should also like to place in the hearing record an article entitled "Financial Ten Commandments for Young Married Couples," by Dr. Carl F. Huber, professor at the University of Wisconsin's Center for Consumer Affairs in Milwaukee, Wis. You may know Dr. Huber. Mr. Chairman, I might point out that the commandments apply equally to older citizens as well as to the young.


To: The Honorable Ernest Gruening.

From: Economic Division.

Subject: The lure of "easy" credit

A couple with $14,000 gross income—$8,000 received by husband; $6,000 by wife.

1. (a) Buy a house with minimum down payment and without preparation for closing costs:

<table>
<thead>
<tr>
<th>Down</th>
<th>$10,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>Payments</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>Total</td>
<td>$12,000.00</td>
</tr>
</tbody>
</table>

(b) Alternative:

- Buy house 2 years later with no closing costs, $14,000 financed, 20 years @ 6 percent.

<table>
<thead>
<tr>
<th>Down</th>
<th>$9,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>Payments</td>
<td>$2,000.00</td>
</tr>
<tr>
<td>Total</td>
<td>$12,000.00</td>
</tr>
</tbody>
</table>

- Furnish house immediately:

  (a) After down payment, if any...

  (b) Alternative: No second mortgage.

- Furnish house immediately:

  (c) Furnish house immediately:

  (d) Furnish house immediately:

  (e) Furnish house immediately:

  (f) Furnish house immediately:

  (g) Furnish house immediately:

  (h) Furnish house immediately:

  (i) Furnish house immediately:

  (j) Furnish house immediately:

  (k) Furnish house immediately:

  (l) Furnish house immediately:

  (m) Furnish house immediately:

  (n) Furnish house immediately:

  (o) Furnish house immediately:

  (p) Furnish house immediately:

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  (y) Furnish house immediately:

  (z) Furnish house immediately:

  (aa) Furnish house immediately:

  (bb) Furnish house immediately:

  (cc) Furnish house immediately:

  (dd) Furnish house immediately:

  (ee) Furnish house immediately:

  (ff) Furnish house immediately:

  (gg) Furnish house immediately:

  (hh) Furnish house immediately:

  (ii) Furnish house immediately:

  (jj) Furnish house immediately:

  (kk) Furnish house immediately:

  (ll) Furnish house immediately:

  (mm) Furnish house immediately:

  (nn) Furnish house immediately:

  (oo) Furnish house immediately:

  (pp) Furnish house immediately:

  (qq) Furnish house immediately:

  (rr) Furnish house immediately:

  (ss) Furnish house immediately:

  (tt) Furnish house immediately:

  (uu) Furnish house immediately:

  (vv) Furnish house immediately:

  (ww) Furnish house immediately:

  (xx) Furnish house immediately:

  (yy) Furnish house immediately:

  (zz) Furnish house immediately:

  (aaa) Furnish house immediately:

  (bbb) Furnish house immediately:

  (ccc) Furnish house immediately:

  (ddd) Furnish house immediately:

  (eee) Furnish house immediately:

  (fff) Furnish house immediately:

  (ggg) Furnish house immediately:

  (hhh) Furnish house immediately:

  (iii) Furnish house immediately:

  (jjj) Furnish house immediately:

  (kkk) Furnish house immediately:

  (lll) Furnish house immediately:

  (mmm) Furnish house immediately:

  (nnn) Furnish house immediately:

  (ooo) Furnish house immediately:

  (ppp) Furnish house immediately:

  (qqq) Furnish house immediately:

  (rrr) Furnish house immediately:

  (sss) Furnish house immediately:

  (ttt) Furnish house immediately:

  (uuu) Furnish house immediately:

  (vvv) Furnish house immediately:

  (www) Furnish house immediately:

  (xxx) Furnish house immediately:

  (yyy) Furnish house immediately:

  (zzz) Furnish house immediately:

  (aaa) Furnish house immediately:

  (bbb) Furnish house immediately:

  (ccc) Furnish house immediately:

  (ddd) Furnish house immediately:

  (eee) Furnish house immediately:

  (fff) Furnish house immediately:

  (ggg) Furnish house immediately:

  (hhh) Furnish house immediately:

  (iii) Furnish house immediately:

  (jjj) Furnish house immediately:

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  (qqq) Furnish house immediately:

  (rrr) Furnish house immediately:

  (sss) Furnish house immediately:

  (ttt) Furnish house immediately:

  (uuu) Furnish house immediately:

  (vvv) Furnish house immediately:

  (www) Furnish house immediately:

  (xxx) Furnish house immediately:

  (yyy) Furnish house immediately:

  (zzz) Furnish house immediately:
The Truth-in-Lending Act of 1967 provides for the full disclosure of the costs and furniture as you do for food and clothing. Not to do so is to be penny wise and dollar foolish.

vi
You shall not commit yourself to any installment contract without reading it completely. Be sure that all blanks have been filled in and that all verbal agreements have been put in writing.

vii
You should not cheat yourself by securing new loans at high interest to pay off old due bills, charging little or no interest. This is an uncertain way of paying bills. The continued consolidation of your debts can lead to the gradual disintegration of your marriage.

viii
You shall not bear the responsibility of purchasing a car or major appliance on the installment plan without inquiring into the true annual rate of interest, dollar charges, and other special fees. Interest rates vary considerably. Shop them out as you do for food and clothing.

Mr. SPONG. Mr. President, today the Senate is considering the Truth-in-Lending Act of 1967. The history of this legislation is long and controversial. For over 7 years various versions of this bill have been before the Banking and Currency Committee. It is a tribute to the hard work, persistence, and sagacity of the distinguished senior Senator from Wisconsin [Mr. Faozman] that truth in lending is now before the Senate. As chairman of the Financial Institutions Subcommittee of the Banking and Currency Committee, Senator Faozman this year offered a new approach to the major area of contention, revolving credit and guided the bill through various changes to a unanimous endorsement by the subcommittee.

The distinguished chairman of the committee [Mr. Sparkman] also has played an important part in the development of the final version of this legislation and in its being reported by the full committee. As a junior member of the Senate Committee on Banking and Currency I have been deeply impressed by the wise and firm leadership of the chairman, and his part in the development and passage of this legislation has been vital.

The following table illustrates the interest costs on revolving accounts with a $1,500 balance:

<table>
<thead>
<tr>
<th>Monthly payment</th>
<th>$50.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charge for credit</td>
<td>7.50</td>
</tr>
<tr>
<td>Total</td>
<td>57.50</td>
</tr>
<tr>
<td>Payments in year</td>
<td>$600.00</td>
</tr>
<tr>
<td>Charge for credit, year</td>
<td>9.00</td>
</tr>
<tr>
<td>Total</td>
<td>$690.00</td>
</tr>
</tbody>
</table>

Interest cost on revolving account $690.00 (simple annual rate 18 percent).

The following are alternatives:

(a) Charge current purchases and pay out on revolving credit, maintaining $900 balance:

<table>
<thead>
<tr>
<th>Principal</th>
<th>$416.66</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest cost on revolving account</td>
<td>$91.16</td>
</tr>
<tr>
<td>Total</td>
<td>$507.82</td>
</tr>
<tr>
<td>Note</td>
<td>$1,971.00</td>
</tr>
<tr>
<td>Interest (2 years)</td>
<td>244</td>
</tr>
<tr>
<td>Monthly payment, level payment each month</td>
<td>72.67</td>
</tr>
<tr>
<td>Principal</td>
<td>$244</td>
</tr>
<tr>
<td>Interest</td>
<td>244</td>
</tr>
<tr>
<td>Total</td>
<td>$488.00</td>
</tr>
</tbody>
</table>
| Consolidated debts at debt poster or Budget Adviser. Add at least 12 percent to amount of debt; increase payments on debts accordingly.

Add costs 1-7 are for various periods of time, and total would not be appropriate.

John C. Jackson, Specialist in Fiscal and Financial Economics.

[An article from Everybody's Money, 1967 spring issue.]

Financial 10 Commandments for Young Married Couples

(By Dr. Milton Huber)

Early marriages are on the increase again as you see on my chart for a moment. A bill now in the midst of a world of uncertainty. Many more young people and more early marriages spell more broken marriages. Among teenage couples, for example, half of the marriages end in divorce or separation. High on the list of explanations for the failure of these young marriages is the immature use of money.

Young married couples, and those soon to be, might avoid the financial pitfalls of marriage by profiting from the experience of one hundred married couples whose homes were so threatened by the misuse of money early in their marriages that they had to seek professional counsel. In the words of a historian, the fool learns from personal experience; the wise man learns from the experience of others. The troubled couples with severe money problems were interviewed in Detroit. Among the questions directed to them were some inquiring into how they had gotten into trouble.

More impressive than any statistical summation of their answers is this sampling of their comment:

"You have a job and you buy. Then no job for a while and creditors get on you 'cause you want to keep the things you bought."

"It's so easy to borrow money, which is a great inducement to debt. Stay away from small loan companies. The way they appeal to families—just keep sending you letters encouraging you to borrow."

"We would have done all right if he hadn't lost his job for a spell."

"I should have confided in my wife more."

"Don't have kids right away."

"Plan on the unexpected. We didn't plan on sickness or a short week."

"I always thought I would pay but something happened."

"We didn't have emergency money and had to borrow. Set savings aside for emergencies."

Out of the hundreds of hours spent in interviewing these over-indebted couples, a Financial "Ten Commandments" for Young Married Couples evolved. The ten points summarize their advice to others on how to avoid the money problems that almost wrecked their marriages. Post them on the kitchen bulletin board next to the weekly shopping list for periodic consultation:

I
You shall not have more children than your income will permit to maintain the standard of living you desire for them. Do not forget that the older children become, the more expensive they are to raise. Financial planning and family planning must complement one another.

II
You shall not make the mistake of starting your marriage by purchasing all the modern conveniences and comforts that your parents have taken a lifetime to afford and accumulate. Ignore this commandment and you shall be bowed down with debts when the first child comes and the income from the wife's job is no more. Build your budget basically around the income of the husband.

III
You shall not take for granted that your mate has the same ideas about spending money that you have. Many good family names are taken in vain by creditors because couples have not worked out a spending plan together and assigned the responsibilities for shopping, purchasing, and meeting one's obligations to one or the other.

Remember to save for the day the unexpected happens. Plan for the medical emergency, the short week, or the breakdown of the car. Set aside savings, from the top of the paycheck, the equivalent of six months of your labor to care for emergencies.

Honorable credit rating. Pay your debts on time so that installment credit at reasonable rates will always be available when you need it. Beware of those who advertise "easy credit" but specialize in harsh and expensive repayment contracts.

You shall not kill your chances of enjoying the good life by buying impulsively. Especially beware of ood bills. Save some money and have the lure of "something for nothing" however disguised. Do your shopping in showrooms, not your living room. Compare merchandise and prices as carefully for large purchases as you do for food and clothing.
of consumer credit. It is only a disclosure bill and in no way regulates or limits charges for credit. The bill provides that the cost of consumer credit, except for certain classes of revolving credit, be expressed in terms of payments and as an annual percentage rate.

The Truth-In-Lending Act of 1967 is a compromise. It is not a perfect bill, but I believe that it is a workable bill. By providing for disclosure of the cost of credit it will permit consumers a yardstick by which they can compare the full cost of the various types of consumer credit. With this knowledge the consumer can shop for the best buy in credit and protect himself from paying excessive charges for credit. It will also benefit the honest and fair lender in his competition with those who use deceptive practices to charge excessively for credit.

The bill is drafted to encourage State action in this field. In my State, as in many others, the Congress, is a victory for the public interest. The credit industry is a technical field. Practices have grown up in various segments, the vast majority of which are entirely legitimate and adapted to the particular commercial conditions. However, the variety of ways in which they are presented to a buyer have given a picture of confusion to the average person searching for credit.

And, it is the average consumer who is more in need of credit. Between 1945 and 1967, consumer credit grew from $5 billion to $92 billion, or 17 fold. American families are paying $12.5 billion a year in interest and service charges for this credit, which is almost as much as the National Government itself pays on the national debt. However, a recent survey of 800 families found that the average estimate of finance charges on debts by the public was 8.3 percent, while the actual interest rate paid was 24 percent, or nearly threefold.

The development of our credit system has thus enabled American industry and business to increase their sales at a rate 4½ times greater than the growth of our economy as a whole. It has also enabled young families to furnish their homes, acquire cars for transportation to their jobs, and purchase the thousands and one number of years. Our credit system is most in need of credit. Between 1945 and 1967, consumer credit grew from $5 billion to $92 billion, or 17 fold. American families are paying $12.5 billion a year in interest and service charges for this credit, which is almost as much as the National Government itself pays on the national debt. However, a recent survey of 800 families found that the average estimate of finance charges on debts by the public was 8.3 percent, while the actual interest rate paid was 24 percent, or nearly threefold.

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voting, the Senator from New Mexico (Mr. Anderson), the Senator from North Dakota (Mr. Benson), the Senator from Connecticut (Mr. Dodd), the Senator from Tennessee (Mr. Ganz), the Senator from Ohio (Mr. Lausche), the Senator from Louisiana (Mr. Long), the Senator from Montana (Mr. Metcalf), and the Senator from Georgia (Mr. Russell) would each vote "yea."

The result was announced—yeas 92, nays 0, as follows:

[No. 180 Log]

YEAS—92

Aiken
Allott
Baker
Barrett
Bayh
Bennett
Bible
Boggs
Brewer
Brooks
Byrd, W. Va.
Byrd, Va.
Barkley
Carlson
Cette
Church
Clark
Cooper
Cotton
Curtis
Dirksen
Dominick
Esalland
Ellender
Evans
Fannin
Ford
Fudge
Gruening
Haisch

NAYS—0

Anderson
Burdick
Dodd

So the bill (S. 5) was passed.

Mr. PROXMIRe. Mr. President, I move to reconsider the vote by which the bill was passed.

Mr. ALLOTT. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. PROXMIRE, Mr. President, I have one further brief statement.

The passage of this bill by unanimous vote of the Senate was, I believe, in very large part due to the work of two remarkably able staff members—one, Ken McLean, as able, conscientious, and effective a staff member as the Senate has; he did a consistently brilliant, and I mean brilliant job. The other, John Evans, who did a splendid job working for the minority.

Mr. MANSFIELD, Mr. President, efforts to enact a credit disclosure measure have persisted now for nearly 7 years. Long pursued by Senator Paul Douglas, the passage of the Truth in Lending Act of 1967 today is a day long awaited with the indelible stamp of his tireless devotion, his abiding interest.

Taking up the quest for Senator Douglas in this Congress was the distinguished Senator from Wisconsin [Mr. Proxmire]. I join the distinguished chairman of the Committee on Banking and Currency [Mr. Sparkman] in his praise of Senator Proxmire earlier today. Without a doubt, the outstanding talent and dedicated service of Senator Proxmire assured the passage of the measure. Both in committee, and on the floor today, he displayed the keen advocacy and sound judgment that made unanimous Senate approval a certainty. The Senate and the people of the Nation are forever in his debt.

The distinguished chairman of the committee, the Senator from Alabama [Mr. Sparkman] played a vital role in the passage of this measure. Noteworthy was his clear and able direction of the committee's action and his forthright support, even so ably during the discussion today.

The junior Senator from Illinois [Mr. Percy], the senior Senator from New York [Mr. Jarvis] and the Senator from Minnesota [Mr. Mondale] are to be thanked for offering their strong and sincere views and likewise for contributing so ably during the discussion today.

Today the passage of the journey of Senator Proxmire and Senator Proxmire. This success will be a lasting monument to their efforts.

RETIEMENT OF BERNARD BOUTIN FROM SMALL BUSINESS ADMINISTRATION

Mr. MONDALE. Mr. President, I ask unanimous consent that there be printed in the Record an article which appeared in this morning's Washington Post by Drew Pearson concerning the magnificent public service career of Mr. Bernard Boutin, who has resigned as Administrator of the Small Business Administration.

There being no objection, the article was ordered to be printed in the Record, as follows:

[From the Washington Post, July 11, 1967]

HERO WITHOUT HEADDLINES

(By Drew Pearson and Jack Anderson)

This column, which has fingered the inefficient and unscrupulous, today pays tribute to an unheralded bureaucrat now retiring from Government. He is Bernard Boutin, head of the Small Business Administration, who has operated without hatred, without malice, and with a healthy record of promoting cooperation between business and Government.

There was a time when business and the Government considered themselves enemies. But under President Johnson big corporations are cooperating in job training programs, and small-town banks are helping the Small Business Administration with loans.

What happens is that when local banks cannot make a loan they cooperate with the Small Business Administration either in taking part of the loan or getting the SBA to take it all. Administrator Boutin has also retained retired bankers on a per diem allowance to handle this cooperation. When a retired banker approaches a local bank not as a bureaucrat but as a businessman he gets better cooperation.

In addition, Boutin has drafted more than 2000 retired businessmen to work with the recipients of small loans to advise on their accounting systems, their production methods and their general techniques. These retired businessmen have a lot of know-how and Boutin has made good use of it.

Boutin finds that President Johnson takes a very personal interest in small business. Despite the през of the Vietnam war and other major problems, the President confers with Boutin every two weeks on small business progress.

Boutin is now leaving the government for private business. The reason: He has 10 children to support.

Note: Boutin first trained as mayor of Leominster, Mass., a city which has sent such former mayors to Washington as former Rep. Oliva Huot and Sen. Tom McIntyre.