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objectively by honestly recognizing the fact that users of second class mail—by which newspapers are distributed—receive preferential rates from their postal service.

Equally refreshing was Mr. Friedman's assertion that publishers of periodicals and newspapers are in a situation in which they would be forced to defend the subsidy they receive directly and openly. Such factual statements are commendable.

Mr. Speaker, for the information of all the Members of the House, I include a part of Mr. Friedman's column at this point in the Record:

> THE POST OFFICE
>
> (By Milton Friedman)
>
> "... The tyranny of the status quo leads most of us to take for granted the government monopoly. The facts are very different. There have been many private ventures—including the storied Pony Express, which failed when the telegraph was introduced into California and maintained an even faster service. Many others succeeded—what led postal officials to order and closed their own efforts, as Congress declined to outlaw private delivery. "It would be objected that private firms would skid the cream by concentrating on first-class mail and feed the rest, on which the Post Office makes a substantial profit—while the Post Office mail on which it loses money. "This is an argument for, not against, competition. Users of first-class mail are now the word we use in other contexts to subsidize the distribution of newspapers and junk mail. Similarly, local delivery mail for remote areas.

"If we want to subsidize the distribution of such material, we should do so openly and directly—by giving the mail a subsidy and letting them buy the services of distributing more cheaply. And we should finance the service, not by a special levy on first-class mail. "Nonetheless, the argument is powerful. It explains why many a newspaper and periodical is so shamefacedly embarrassed when it finds itself owned by a free market in other connections—will defend the Post Office monopoly. They will defend it because they cherish the distribution of their news, a political matter—but doubt its fairness and so lobby for it. "In any event, I see no reason why readers of newspapers and periodicals, and distributors of junk mail, should not bear the full cost of distribution, whatever it may turn out to be—and I, for one, hope that it does not turn out to be so low as to encourage still more junk mail."

**ACTIONS BY THE SUBCOMMITTEE ON CONSUMER AFFAIRS ON H.R. 11601, THE CONSUMER CREDIT PROTECTION ACT**

Mr. Speaker: Mr. Barr stated:

> I wish, therefore, to repeat and re-emphasize the position that all creditors, without exception, should be required to disclose the cost of credit on an annual rate basis if there is to be effective truth-in-lending legislation, which is so badly needed.

The full text of Under Secretary Barr's letter to me last night is as follows:

> THE UNDER SECRETARY OF THE TREASURY,
> Hon. LEBRON K. SULLIVAN,
> Chairman, Consumer Affairs Subcommittee, Committee on Banking and Currency, House of Representatives, Washington, D.C.

DEAR MADAM CHAIRMAN: Your Subcommittee on Consumer Affairs of the House Banking and Currency Committee has under consideration H.R. 11601 which would require lenders and credit sellers to disclose the true cost of credit to potential customers. The provisions of that bill are applicable both to installment credit sales and to revolving credit transactions.

In my testimony before your Subcommittee on August 7, 1967, I expressed the Administration's strong support for the inclusion of revolving credit in the requirement that the cost of credit be disclosed. In testimony, the annual percentage rate of finance charge be disclosed. Since that testimony, it has become increasingly clear that the exclusion of revolving credit in the bill as passed by the Senate would unfairly discriminate against those lenders and credit sellers who rely primarily on installment contracts in their credit sales or lending transactions.

Also the average consumer can only make a sound decision about incurring debt by comparing the varying costs of credit available from different sources when all of the rates are quoted on a comparable basis. If annual rates are not disclosed across the board, there can be no meaningful basis for general credit cost comparison by the consumer.

I wish, therefore, to repeat and re-emphasize the position that all creditors, without exception, should be required to disclose the cost of credit on an annual rate basis if there is to be effective truth-in-lending legislation, which is so badly needed.

Sincerely yours,

JOSEPH W. BARR.

Obviously, this issue eventually is going to have to be resolved in the full Committee on Banking and Currency and on the House floor. The subcommittee, as I said, seems to be deadlocked on the question of amending my bill to exempt revolving credit from an annual rate disclosure requirement, as was done in S. 5 as it passed the Senate. Therefore, I think it is extremely important that all Members of the full committee and of the House be fully apprised of the issue.

In the meantime, a number of tentative decisions were made in the subcommittee on H.R. 11601, and we will continue working on the bill a week from today at our next meeting.

**AMENDMENTS ADOPTED IN SUBCOMMITTEE**

Mr. Speaker, when the subcommittee met this morning we took the following tentative actions:

On my motion, we deleted from H.R. 11601 four controversial sections. These included section 202, which would have set a maximum figure of 18 percent for any finance charge in connection with the extension of consumer credit;
section 203(m) to outlaw confession of judgment notes; section 207 providing for regulation of margins in commodity futures trading; and section 208 providing authority on a standby basis for the regulation of credit terms for consumer purchase money loans made to consumers for their personal, family, or household use. It was obvious that they would not be approved at this time, particularly as part of a bill directed primarily toward full disclosure of credit costs. I think it was worthwhile including these provisions in the bill for the purpose of sending a message to Congress, and it was not a matter of whether they would be removed when the time came to reduce the bill to workable proportions.

Numerous technical amendments which I offered were tentatively approved. In the subsequent amendment by the New York State Bankers Association dealing with the treatment of fees for insurance, comparable to filing fees in filing a security interest. Another perfecting amendment, suggested by the National Automobile Dealers Association, modifies the civil penalties provided in the bill, but only as these penalties relate to violations involving the advertising of credit terms. The criminal penalties would not be affected, however, by this change.

Bingham Amendment on Revolving Credit

A significant amendment offered by the gentleman from New York [Mr. Bingham], was approved, requiring that in open-end credit transactions, popularly known as revolving charge, the creditor must disclose, for each billing period at the end of which there is an outstanding balance on which a finance charge is to be made, the balance on which the finance charge was computed, and a statement of how the balance was determined. It is not to be deducted without first deducting all payments during the period, that fact and the amount of such payments shall also be disclosed.

This amendment strikes at one of the main sources of consumer complaint about the practices of some retailers, particularly some of the large chains, in basing the 1% percent monthly service charge not on the overdue balance but on the balance at the start of the billing cycle, disregarding any payments made during the month unless the entire balance is paid off during the month. Thus, if the debt is $100 at the start of the month, and every cent of it is not paid off during the month, the service charge would be $1.50 regardless of whether the customer paid $10 or $90 on the account during the month.

H.R. 11601 Still a Strong and Effective Bill

I have listed the major deletions which we tentatively made this morning, on my motion, in H.R. 11601. I do not want to leave the impression that by my amendments the bill was in any way seriously weakened. The provisions which were tentatively deleted went far beyond disclosure requirements. At the time I introduced the bill, I made it clear that this bill was intended as a basis for hearings, and I said I would not permit controversy over them to prevent action on basic "truth-in-lending" legislation.

This bill, even with these proposed changes agreed to this morning, H.R. 11601 is a very strong bill which goes well beyond S. 5, the bill which passed the Senate.

It includes revolving credit on an annual rate basis, which the Senate bill does not.

It includes first mortgages, which the Senate bill does not.

It requires an annual rate disclosure on all consumer credit transactions, and does not exempt, as the Senate bill does, those on which the credit charge is less than $10.

It applies "truth" requirements to the advertising of credit terms, which the Senate bill does not.

It sets an effective date of July 1, 1968, compared to July 1, 1969, in the Senate bill, and eliminates a provision of the Senate bill which permits sellers or vendors of credit to express a rate in terms of dollars per hundred per year until January 1, 1972.

It provides for administrative enforcement, which the Senate bill does not.

It prohibits the garnishment of wages for salary due an employee and, in an amendment this morning, extends this protection also to those whose compensation is in the form of commission or bonus. The Senate bill has no provisions dealing with garnishment.

It established a new Consumer Finance Commission on Consumer Finance to investigate consumer credit practices, etc. There is no comparable provision in the Senate bill.

In other words, H.R. 11601 still remains strong and effective legislation in its basic objectives.

Washington Post Series Continues to Document Mortgage Irregularities

Mr. Speaker, on Monday, I placed in the Congressional Record, as part of my remarks on the floor, the first three articles in a series by Washington Post reporters Leonard Downie Jr., and David A. Jewell, on the victimization of many low-income homeowners in Washington by schemes involving the extension of credit ending with the surreptitious placement of mortgages against the properties. These articles underscore the need for effective truth-in-lending legislation such as H.R. 11601, including coverage of first mortgages. First mortgages are exempt from the credit disclosure requirements of S. 5 and of the companion bills introduced by six of the 12 members of the Subcommittee on Consumer Affairs—the six who are not sponsors of H.R. 11601.

I think it is urgent that first mortgages be covered by the legislation because, in numerous instances, what we generally regard as second mortgages are, in fact, first mortgages if there is no existing mortgage on the property. This occurs particularly in those instances where an elderly couple or a widow owns a home free and clear but the home needs extensive or expensive repairs.

Today's article in the Downie-Jewell series in the Washington Post discusses the well-known referral device in which customers are promised substantial or complete rebates of the cost of the work if they demonstrate the product to friends and neighbors or refer possible customers. The frightening thing brought to light in this article is the manner in which certain firms obtained mortgages on the properties without the customers' knowledge or understanding. This must be stopped. Following my remarks today, I will place an article, "Intercom Buyers Expected Prizes, but Got Mortgages," in the Record.

Comparative Analysis of Consumer Credit Bills

First, however, I want to share with the Members a comprehensive staff analysis prepared in the Subcommittee on Consumer Affairs of the three different approaches in legislation introduced in the House. This analysis does not show the disposition of amendments offered in the subcommittee this morning since, of course, all decisions this morning were tentative. From the report I have given of the amendments which were adopted, it is not too difficult to see how H.R. 11601, the bill on which we are working, would be changed by the amendments so far adopted.

More importantly, the analysis shows the major points of difference between H.R. 11601, and S. 5 as it passed the Senate—introduced by the gentleman from New Jersey [Mr. Widnall] and other Republican Members of H.R. 12904—and as it would be modified by H.R. 12904, by the gentleman from California [Mr. Hanna] who was recognized this morning to offer his bill as a substitute for H.R. 11601. Mr. Hanna is planning to revise his bill but I think the basic provisions will not be different.

The analysis follows:
Economic stabilization and competition among financial institutions will be improved and strengthened by the informed use of consumer credit. Consumers are misled by the manner in which credit is offered and advertised. This failure of adequate disclosure leads to the uninformed use of credit "adversely affecting economic stabilization, increasing inflationary pressures, and decreasing the stability of the value of our currency." The purpose of this title is to assure full disclosure of credit terms to permit consumer to compare credit terms available and avoid uninformed use of credit.

(b) Stabilization of consumer prices would be enhanced through the regulation of commodity futures contracts and establishment of standby emergency control over consumer credit.

(a) Board. "Board" refers to the Board of Governors of the Federal Reserve System.

(b) Credit. "Credit" is defined as "The right granted by a creditor to defer payment of debt or to incur debt and defer its payment."

(c) Consumer Credit Sales. "Consumer credit sales" defines consumer credit purchases as opposed to consumer loans.

(d) Finance Charge. "Finance charge" is defined as the sum of all the charges imposed by a creditor and payable by the debtor as incident to the extension of credit. However, official fees and taxes are not included in the definition under H.R. 11601.

(e) Creditor. "Creditor" is defined as an individual or other legal entity regularly engaged in credit transactions.

(f) Annual Percentage Rate. "Annual percentage rate" is defined as the nominal percentage rate determined by the actuarial method.

(g) Open-End Credit Plan. "Open-end credit plan" or revolving credit plan defines plans permitting credit transactions from time to time, such as charge accounts and credit card accounts.

(h) Organization. "Organization" is defined as a corporation, government or governmental subdivision or agency, business or other trust, estate, partnership, or association. (The extension of credit to an "organization" is exempt from the provisions of Title I of this bill.)

(i) Advertisement in Interstate Commerce or Affecting Interstate Commerce. "Advertisement" is defined as including the advertising of goods, services, loans, or open-end credit plans.

(j) State. "State" is defined as any State, the Commonwealth of Puerto Rico, or the District of Columbia.

Sec. 203. Disclosure of Finance Charges; Advertising.
(a) Establishes basic principle that disclosure must be made to persons "upon whom a finance charge is or may be imposed pursuant to regulations prescribed by the Board."

Sec. 204. Disclosure of Finance Charges.
(a) (Identical)
(b) Establishes the disclosure requirements for a consumer credit sale, other than sales under an open-end credit plan. It requires the disclosure of:
1. The cash price.
2. Amounts credited as downpayments.
3. The difference between (1) and (2).
4. Itemization of all charges included in the amount of credit extended but not part of the finance charge.
5. The total amount to be financed.
6. The amount of the finance charge.
7. The finance charge expressed as an annual percentage rate.
8. The payment schedule.
9. Default or delinquency charges.

(c) Establishes disclosure requirements for other transactions by financial institutions, such as banks, credit unions, savings banks, savings and loan institutions, industrial banks, and consumer finance companies.

(d) Prior to opening an account under an open-end credit plan, the creditor must disclose:
1. The conditions under which a finance charge may be imposed.
2. The method of determining the balance upon which a finance charge will be imposed.
3. The method of determining the amount of the finance charge and the annual percentage rate of the finance charge.
4. The conditions under which other charges may be imposed.

(e) Acknowledgment of disclosure.

(f) Method of Disclosure. Specific provision is made in this subsection to permit the creditor to provide any additional information or explanation as he may choose in addition to the information for which disclosure is required.

(g) Compliance with comparable State law constitutes compliance with this title.

(h) Adjustments in payment after the contract will not constitute violation of law.

(c) This section is the same as the provisions of H.R. 11601, except that the Senate bill contains an exemption of the disclosure of the finance charge as an annual percentage rate where the finance charge is less than $10.

(d) This subsection of the Senate bill is the same as H.R. 11601 except that it does not require the disclosure of the finance charge expressed as an annual percentage rate.

(e) Identical

(f) Identical

(g) Identical

(h) Identical
(1) After June 30, 1968, all rates required to be disclosed pursuant to this section must be expressed as percentage rates.

(1) (1) Truth-in-credit Advertising Provision. This subsection requires that where specific credit terms are advertised, the advertisement must set forth the cash sale price, the payment schedule, the downpayment, if any, the time balance price, and the finance charge expressed as an annual percentage rate.

(2) Specific periodic credit amounts or installment amounts cannot be advertised unless the creditor usually and customarily arranges credit payments or installments for such periods or amounts.

(3) Specific downpayment requirements may not be advertised unless the creditor usually and customarily arranges downpayments in such amounts.

(k) Advertisement of credit terms under an open-end credit plan.

(1) 18 percent maximum finance charge in extension of consumer credit.

(m) Prohibition of the use of confession of judgment notes.

(n) Exemptions to disclosure requirements of Section 293.
(1) Extension of credit for business or commercial purposes, to government or governmental agencies or instrumentalities or to organizations;
(2) Transactions in securities and commodities in accounts by a broker-dealer registered with the SEC, or
Sec. 204. Regulations.
(a)(1) The Board of Governors of the Federal Reserve System are given authority to prescribe regulations concerning disclosure requirements under the Act. Section 204(a)(1) deals specifically with the prescription of regulations concerning the methods for determining the annual percentage rate.
(a)(2) This subsection is concerned with the prescription of procedures concerning the disclosure of information.
(a)(3) This subsection gives the Board authority to prescribe reasonable tolerances.
(b) Provides the Board with guidelines in the establishing of reasonable tolerances concerning disclosure.
(c) AUTHORIZES THE BOARD BY REGULATION TO PRESCRIBE "CLASSIFICATIONS, DIFFERENTIATIONS AND . . . ADJUSTMENTS AND EXCEPTIONS,"
(d) AUTHORIZES THE BOARD TO CONSULT WITH OTHER AGENCIES CONCERNING PARTICULAR CLASSES OF CREDITORS.
(3) Requires the Board to establish an advisory committee to advise and consult in the exercise of its responsibilities under the disclosure provisions of the Act.
Sec. 205. Effect on State Laws.
(a) This section states that the disclosure requirements of the Act shall not be construed "to annul, alter or affect, or to exempt any creditor from complying with the laws of any State relating to the disclosure information in connection with credit transactions, except to the extent that such laws are inconsistent" with the disclosure requirements of the Act.
(b) Requires the Board to exempt any class of credit transactions from the requirements of the Federal law which it determines are subject to State law or regulation.
Sec. 206. Civil and Criminal Penalties.
(a) Civil Penalties. This section sets forth the civil penalties for violation of the finance charge, with a minimum of $100 and a maximum of $1,000. It provides that a creditor, as a defense to a civil action, may prove that the failure to disclose was unintentional.
(b) Criminal Penalties. Criminal Penalties of $5,000 or one year imprisonment or both, are called for. Responsibility for enforcing this section is given to the Attorney General.
(c) Exempts the Federal Government and State and local governments from civil and criminal liabilities.
(d) Exempts creditors from civil or criminal penalties by reason of overstating the annual percentage rate.
Sec. 207. Regulation of Credit Commodity Futures Trading.
This section authorizes the Board of Governors to prescribe regulations governing the amount of credit that may be extended or maintained in the use of credit for the creation, carrying or trading in commodity futures contracts.
Sec. 208. Emergency Control of Consumer Credit.
Sec. 5. Regulations.
(Identical except for minor technical differences.)
Sec. 6. Effect on State Laws.
(Identical except for minor technical differences.)
Sec. 7. Civil and Criminal Penalties.
(Identical except for minor technical differences.)
(No comparable provision.)
(No comparable provision.)
(No comparable provision.)
(No comparable provision.)
(No comparable provision.)
(No comparable provision.)
This section authorizes the Board to issue regulations with regard to the extension of consumer credit controls whenever the President determines that a national emergency exists requiring such action.

Sec. 208. Administrative Enforcement.
This section authorizes the Board to institute administrative proceedings against any person who is engaged or is about to engage in a violation of the disclosure provisions of the Act and to issue such orders as the Board deems necessary to stop such violation. The section provides for judicial review of administrative orders so issued by the Board.

(See Section 203(n)).

Sec. 210. Reports.
This section requires the Board and the Attorney General to make annual reports to the Congress concerning their respective functions under the Act. The Board is further required to report on the extent to which compliance with the Act and regulations are being misused.

Sec. 211. Effective Date.
The provisions of Title I of H.R. 11601 take effect on July 1, 1968.

Title II. Prohibition of garnishment of wages.
Sec. 201. This section expresses the Congressional findings that the "garnishment of wages is frequently an essential element in predatory extensions of credit and that the resulting disruptions of employment, production, and consumption constitutes a substantial burden upon interstate commerce."

(a) Prohibits the garnishment of wages for salary due an employee.

(b) Provides a criminal penalty of a maximum of $1,000 or one year in jail, or both, for violation of Section 202(a).

Sec. 210. Reports.
Sec. 211. Effective Date.
The provisions of S. 5 take effect on July 1, 1969, except that Section 5 takes effect upon enactment.

(No comparable provision.)

Sec. 8. Exceptions.
This section provides for exceptions from the coverage of the Act to:

(1) credit transactions involving business or commercial purposes, government or governmental agencies or organizations;
(2) transactions in securities or commodities in accounts by a broker-dealer registered with the SEC;
(3) credit transactions, other than real property, in which the amount financed exceeds $25,000; or
(4) transactions involving extensions of credit secured by first mortgages.

Sec. 9. Reports.
(Identical)

Sec. 10. Effective Date.
The provisions of S. 5 take effect on July 1, 1969, except that Section 5 takes effect upon enactment.

(No comparable provision.)

Sec. 11. Commission on Consumer Finance.
Sec. 301. This section establishes a bipartisan National Commission on Consumer Finance.
Sec. 302. Membership for the Commission.
This section provides for the establishment of a 9-member Commission—3 members of the Senate, 3 members of the House, and 3 public members.
Sec. 303. This section provides for the compensation of members of the Commission.
Sec. 304. This section provides that the "Commission shall study and appraise the functioning and structure of the consumer finance industry", reporting its findings and recommendations to the President and to Congress by December 31, 1969.
Sec. 305. This section describes the powers of the Commission.
Sec. 306. This section describes the administrative arrangements under which the Commission may operate.
Sec. 307. This section authorizes the appropriation of $1.5 million for the Commission.

(No comparable provision.)

Sec. 401. This section provides that the judicial finding that any provision of the Act is invalid shall not affect the validity of any other provision of the Act.

(No comparable provision.)
found earlier this year that "few, if any" of Allied's customers received "enough referral commissions to obtain their intercom at little or no cost," thereby breaking the "false, misleading and deceptive" statement claims the FTC examiner ruled.

And, he added, Allied's salesmen, "for the purpose of inducing the sale" of its product, failed to tell customers who were signing a second mortgage on their home:

The FTC examiner ordered Allied, and its president, William R. Marion Sr., to "cease and desist from making false or misleading advertising statements or any "false, misleading or deceptive" statements in trying to get names of more prospective customers.

At about this time, when the FTC order was issued last January, Allied went out of business. It left behind more than 200 homeowners with nearly $800,000 worth of second mortgages, according to District real estate records.

Five homeowners have brought suit against Allied in U.S. District Court in favor of the firm defrauding them through misleading chain referral sales schemes, and obtained their signatures on second mortgages without their knowledge.

Marion, who lives at 211 Dorset Rd., Laurel, Md., could not be reached for comment yesterday. Mrs. Marion told a reporter that her husband had appeared before a notary public and signed for a product.

One homeowner who has filed suit against Allied on a second mortgage was Malcolm Norton, 2242 Humbird pl., ne., said in her suit that an Allied salesman, Samuel C. Cratch Jr., persuaded her to buy an intercom after he explained the sales referral plan.

After the intercom was installed, she said, Cratch returned with more papers to sign. "You need to make it legal," Mrs. Talbert quoted Cratch in her court complaint. She signed again.

She said she did not realize that she must have a second mortgage on the house. "At that time she got a letter from the Atlas Credit Corp. in Philadelphia informing her that it had bought her mortgage, she explained the sales referral plan.

"What that note was for $1389, the price of the intercom plus financing charges," Cederloff said in his answer to Mrs. Talbert's complaint. She asked for $16,000, and the defendant answered that it bought the note "without knowledge of any fraud. Allied has not yet answered the suit." Mrs. Talbert also charged that no notary public was present when she signed the papers in her home. The other four homeowners who sued Allied also said that they never appeared before a notary public during their dealings with Allied.

Yet in all cases, the name and seal of the county notary of Prince George's County, Md., appears on second mortgage in favor of Allied filed in the D.C. Recorder of Deeds office.

Several Allied customers interviewed by reporters said they would not have bought the intercoms if they had realized they were signing second mortgages to secure the notes for them. They also said they would have rejected the deal if they had known they would not get any referral "prizes." The Washington Post.