can ignore the medium of television in his campaign, regardless of the cost.

But, I wonder, do we fully recognize the other aspects of television and the impact that it makes upon our minds? If we do not, then I think another finding of the AFL-CIO poll brings this into focus much more sharply than the fine tuner of our TV sets.

This poll reveals that 47% of the union membership looks to television for their most reliable political information. To be more specific, by far the highest percentage of them rely on Walter Cronkite. What I'm afraid this means is that by a mere inflection of his deep baritone voice, or by a lifting of his well-known bushy eyebrows, Cronkite might well change the vote of thousands of people around the country.

I do not in any way question Mr. Cronkite's sincerity or his objectivity as a television news man. But with the vast power that he obviously holds over the nationwide television audience, I hope that he never becomes too unhappy with my candidate.

This business of television news extends far beyond the commentators. This is a time when wars are covered on the scene almost instantaneously. And when parents are seeing their sons shot on the screen before their very eyes. This is a time when a television newsman would ignore a thousand people met in good faith for a good cause to cover two pickets with long hair and long beards who are protesting something. This is a time when the deeds of the Ralph Bunches are being ignored for coverage of the misdeeds of the Rap Browns.

I think I can say tonight with near absolute certainty that the news judgments of the men responsible is not going to change.

It is going to be up to us to change and to change fast to compensate for these many new developments.

And I also can say with absolute certainty that neither Lyndon Johnson nor Hubert Humphrey, nor John Bailey, is going to ride a political dinosaur to defeat in 1968.

I think that one of the highest priorities we have is going to be given to finding a more lucid method of contrasting both achievements and goals of Democrats versus Republicans.

I cannot believe, for example, that the great populace of this country is opposed to progress. Yet it is up to us to devise interesting and imaginary ways to tell the American voters the true story of Republican opposition to virtually all progress. And no more dramatic example of Republican opposition could be found than in the sad events of recent weeks.

Much of the attention and publicity have been focused on the rat control bill, a measure establishing a $40 million Federal grant program to aid localities in controlling and exterminating rats.

And where do most of the estimated 90 million rats live? In the slums and ghettos of our cities.

When this bill came before your Congress in the House of Representatives, 148 out of 160 Republicans recorded cast their votes against it. Four days later, the National Republican Coordinating Committee issued a statement blaming the Administration for the riots.

In all this long statement of charges and accusations, there was not one word suggesting remedies for the cities. The closest they came was in this statement:

"The root causes of discontent are of immediate and continuing concern to us all."

Let me tell you just how concerned they have been: In a sampling of 396 House roll call votes on urban affairs, taken from votes from between 1955 and May of 1967, Republicans voted unfavorably 59.9% of the time.

The Republicans were especially concerned during the 89th Congress.

Ninety-six percent of the House Republicans voted to kill the Department of Housing.

Ninety-seven percent voted to kill the Omnibus Housing Bill.

And ninety-six percent voted to kill the Department of Transportation.

At the press conference where the Republicans statement was read, a reporter asked if that was the first time the riots had been made a partisan issue. I quote the next paragraph in the reporter's story:

"House Minority Leader Gerald Ford (R-Mich.), who shares the spotlight with Senate Minority Leader Everett Dirksen (R-Ill.), said that that was a mistaken conclusion. 'We have a good record on civil rights. . .' he said."

What is the Republican record on civil rights?

Sixty-three percent voted to kill the Civil Rights Act of 1966.

Eighty-five percent voted to kill the Voting Rights Bill.

But as Mary McGrory wrote in the Washington Evening Star, ". . the Republican Coordinating Committee is not interested in what causes riots. It simply insists that they stop. And, to judge from its statement, it wishes to exploit the fear and outrage of the white community while pointing out, as Dirksen said, 'the Negroes are the real victims.' "

In another area I think we must become involved and be very vigorous in our activities where the GOP will be holding Presidential primaries.

The eyes and ears of the nation will be on each of these primaries and the candidates running in them.

The people should know, for example, about George Romney's "pendulum policy" on Viet Nam—his swinging back and forth from one day to the next, according to the way the polls blow.

They should know about all the foolish statements Dick Nixon has made abroad at his country's expense in his quest for publicity.

They should be reminded that Ronald Reagan's right-wing philosophy is only being hidden by a makeup man's powder and paint.

As a matter of fact, I feel rather optimistic about 1968 when I view the broad scope of activities leading up to the Republican National Convention next year.

They have at least six leading men who are going to be cutting and slashing each other from coast to coast between now and then.

And National Chairman Ray Bliss apparently holds no hope his party will have settled on one man by convention time. When he looked over Houston as a possible convention site about six weeks ago, I understand his first requirement was that the city have at least 12 hotels to serve as headquarters for candidates.

Moreover, I think that many of the political pundits have overlooked the power the right-wing forces still hold over the Republican Party.

The right-wingers made substantial gains in statehouses and in Congress in the 1966 elections. While the more liberal glamour boys like Percy and Brooke get the publicity, the Goldwater element has shown itself to be very much in command at the recent national meetings of Young Republicans and the Federation of Republican Women.

And contrary to predictions that the large class of freshmen Republican Congressmen would be progressive, they are as conservative and as negative as any of the old crowd.

All of this leads up to one possibility that is becoming more and more evident every day: That Barry's boy, Ronald Reagan, may well end up as the GOP nominee.

But if we Democrats will mount a united, enthusiastic effort, I am positive that we can defeat any ticket put together by the Republican Party.

We have the great Democratic leadership team of President Lyndon B. Johnson and Vice President Hubert H. Humphrey. Over and over again they have earned the trust the American people placed in them in 1964.

I am also positive that this trust will be renewed when the voters go to the polls in 1968 and we will have another smashing Democratic victory in November 1968.

Thank you.

CONSUMER WRITER SIDNEY MARGOLIUS TRACES THE FORBIDDING JOURNEY OF THE HAPLESS CONSUMER THROUGH THE JUNGLE PATHWAYS OF CONSUMER CREDIT

Mr. PRYOR. Mr. Speaker, I ask unanimous consent that the gentlewoman from Missouri [Mrs. SULLIVAN] may extend her remarks at this point in the RECORD and include extraneous matter.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

Mrs. SULLIVAN. Mr. Speaker, Mr. Sidney Margolius is best known to Members of Congress through his weekly columns on consumer economics published in the prize-winning newspaper of the Machinists Union, and also appearing in many other labor publications and consumer periodicals. He has served as a member of the President's Consumer Advisory Council, and is one of the outstanding experts in the United States on the bread-and-butter issues of consumer budgeting and finance.

From his broad knowledge in this field and his extensive correspondence with the people who read his columns and look to him for advice and guidance, he brought to the hearings of the Subcommittee on Consumer Affairs of the House Committee on Banking and Currency a wealth of information on the subject of consumer credit—its uses and abuses.

Should we ban garnishment as a device for unscrupulous merchants in collecting debts which never should have been contracted for in the first place—for credit extended to people who can repay only at the expense of seizure of most or all of their weekly pay check? Mr. Margolius made a very good case before our subcommittee for enactment of the antigarnishment provision of H.R. 11601, the Consumer Credit Protection Act.

Do consumers, particularly the poor, often become enmeshed in credit deals they do not understand and find themselves hopelessly entrapped in situations from which they cannot escape? Mr. Margolius told us about numerous such cases.

CREDIT NECESSARY AND DESIRABLE BUT SHOULD BE REGULATED FAIRLY

Mr. Speaker, consumer credit is an essential and socially desirable economic tool in this country. It has made possible a vast expansion in purchasing power and thus in employment and in family comfort. The automobile industry would never have grown to its fantastic size in this country if some imaginative dealer long ago had not figured out a method under which the purchaser could pay while enjoying the use of the automobile. Few Americans could have purchased cars or homes if the purchase had to be paid for in cash.

But it is because the consumer credit

industry is now so vast and so important in our day-to-day life that we must make sure it operates for the benefit of the public and not as a form of victimization of the public. Mr. Margolius discussed these factors in his testimony before us on credit disclosure and consumer credit regulation, as called for in my bill, H.R. 11601, and I recommend a reading of his statement, as follows:

STATEMENT BY SIDNEY MARGOLIUS ON H.R. 11601, THE CONSUMER CREDIT PROTECTION ACT, BEFORE THE SUBCOMMITTEE ON CONSUMER AFFAIRS OF THE COMMITTEE ON BANKING AND CURRENCY, AUGUST 14, 1967

My name is Sidney Margolius. I reside at 74 Davis Road, Port Washington, New York. I am a writer specializing in consumer economic problems. In addition to books, pamphlets and magazine articles, I write a syndicated consumer column published by 105 trade-union, consumer co-op, credit-union and other newspapers with a combined circulation of 14 million. I have devoted myself solely to reporting on consumer economic problems for over 30 years.

In the light of this experience, I would say to this committee that family money losses arising from high-pressure credit selling today have become a serious national problem, damaging not only the families themselves, but causing a diversion of family resources that is helping to frustrate vital family and national goals such as advanced education, better housing and the anti-poverty program.

Never before have there been so many pressures on the public to buy on installments and to borrow money; never before have so many families used credit so extensively; never have they paid as high rates for it, and never have they been subjected to as many deceptions stemming from obsolete state credit laws which originally were designed to protect sellers and lenders, not buyers, and which some unscrupulous sellers have learned to use for outright deception.

For this reason, H.R. 11601, the proposed Consumer Credit Protection Act has significance beyond even the urgent need to give consumers honest and reasonably accurate information about installment and loan terms. This is a perceptive, intelligent, practical, public-spirited bill in the best national interest. Your sub-committee is to be congratulated for drafting and offering this bill which is as patriotic and practical as it is humane. This bill as it now stands would benefit America's families, help our national and local economies in a number of ways, and aid reputable businessmen.

This bill would especially benefit small businessmen who now must cope with hard-driving competition on one hand from national chains and mail-order houses who are inexorably pushing their extensive credit plans, and on the other hand, from fringe sellers who divert a surprising volume of sales from scrupulous business through deceptive credit-selling methods. Scrupulous businessmen should welcome this bill. Some leading businessmen themselves have said credit reforms are needed. Any scrupulous business spokesman who fights this bill is fronting—either unwittingly or short-sightedly—for the disreputable fringe sellers.

It has become increasingly difficult for small businessmen to compete with the chains and mail-order sellers who peg their cash prices low, but then drive to get buyers to use their credit plans on which they make an additional profit.

The damage to consumers themselves is greater than many of us may realize. To a large extent—and this may seem a little strong to swallow at first—consumer exploitation has replaced labor exploitation as the real problem of our times. We would not permit the things to be done to people as workers that we allow to be done to them as consumers.

Consider this incident that happened to one working woman. A salesman knocked on her door and showed her a set of stainless steel tableware at a price of $65. He said she didn't have to decide immediately, but after delivery could take a few days to decide whether to keep it. When the tableware arrived, the woman signed what was described as a receipt". But on closer inspection the set did not appear to be the same quality she had been shown. She wrote the seller to take it back. The only answer was a demand for payment.

The "receipt" turned out to be an installment contract. The woman went to the Legal Aid Society, which was willing to intercede. But her employer's personnel office called her in and told her that a garnishee had been filed for $120, including finance charges and legal costs, and that the employer would not tolerate garnishees. To keep her job she had to settle with the seller. She settled for $75 for a set of tableware which another retailer subsequently estimated was worth $15. This woman earns just $60 a week. So she really had worked one week without pay because of the $60 she had overpaid for the tableware.

If an employer had forced her to work a week without pay, we would all cry: "This is peonage". Congressmen would not tolerate labor peonage. But in many cases today we have substituted consumer peonage for labor peonage.

This is not an isolated example. Thousands of such incidents occur each week across the country, often involving much larger amounts. Some families even are forced into bankruptcy or on welfare because they are snared by deceptive sellers who use the coercive levers provided by most state laws to set their traps.

As is well known, there are more consumer bankruptcies today, than in the big depression of the 1930's. Such personal bankruptcies have increased every year for the past 14 years; in fact have jumped 240 per cent in the past ten years.

But even more widespread, though better hidden from public awareness, is the number of people whose wages are attached or garnisheed because of debts. Several million wage-earners a year suffer such garnishees. Various cities such as Chicago, Washington, Birmingham, Detroit, Akron, Portland (Oregon), and others, have reported anywhere from 12,000 to 100,000 garnishees a year each.

Often the debts for which these workers are garnisheed were incurred through deceptive selling tactics as evidenced both by examination of specific cases and because a high percentage of garnishees are filed each year by the same sellers and finance companies in various cities.

Even when families do not reach the bankruptcy or garnishment stage, the habitual installment buying indulged in by about half of all families, causes a steady erosion of family income.

In the ten years from the mid-1950's to the 60's, the country's population increased 18 per cent and disposable income rose 59 per cent. But installment debts jumped 130 per cent. Not only are American families buying more goods on credit, including small items traditionally bought for cash, but they are paying high finance rates and taking longer to pay. A family that usually carries $2000 of installment debts very likely pays in the neighborhood of $300 a year in finance charges, or a total of about $9000 over its major buying years. This family, if it is carrying a $16,000–$17,000 mortgage on its home at 6 per cent for 30 years, will pay an additional $20,000 just in interest fees on the mortgage. Altogether a typical wage-earner today works four or five years of his life just to pay interest fees on installment debts and mortgages.

I want to address myself particularly to two sections of the bill—the inclusion of revolving credit in the requirement that true annual interest rates be disclosed, and the prohibition on garnishment of wages.

There is real danger in omitting revolving credit from coverage. It is true that revolving credit represents only 5 per cent of all consumer credit. But it is the fastest-growing kind.

Sears Roebuck, one of the earlier and most active promoters of revolving credit, now does approximately as much business on revolving credit as on the traditonal installment contracts. Sears now sells almost $4 billion worth of good on credit (about 58 per cent of all its sales). About 40 per cent is for "soft goods" like clothing and domestic textiles which families traditionally bought for cash, but now often buy on revolving credit.

Spiegel's, a mail-order house owned by Beneficial Finance Company, actually does 90 per cent of its business on various types of credit plans including revolving credit.

Too, even though the Senate bill provides some safeguards against conversion of installment accounts to revolving accounts, more retailers are expected to shift over to revolving credit if they don't have to tell the true interest rates. The president of one retail furniture merchandising group already has advised his stores to set up revolving plans in view of the passage of truth-in-lending laws in several states, and the proposed federal law.

Some of America's largest merchandisers and manufacturers in effect have become combination stores and finance companies, including many who until a few years ago sold very little on credit.

Sears, Montgomery Ward, Penney's (traditionally a cash store and the last large holdout from credit), W. T. Grant, City Stores, Alden's, Gamble-Skogmo, and other large chains and catalog houses, now all own their own finance companies.

In reverse, some loan companies have been buying control of chains of stores which generate credit accounts for them. Beneficial Finance Co. now owns Western Auto Supply Stores as well as Spiegel's. Household Finance Company now owns the White Stores, Coast-to-Coast Stores, Ben Franklin stores and the Colby Furniture stores in Illinois—a total of over 4,500 stores.

Most of these large retailers now are promoting revolving credit especially hard. Montgomery Ward, for example, devotes more than twice as much space in its catalog to its revolving credit plan than to its three traditional installment plans put together. I have no breakdown on the proportion of its credit business Ward now does through revolving credit, but Ward now makes 47 per cent of all its sales on credit even though it was a relatively late starter in pushing revolving credit. Even a variety chain like W. T. Grant which has broadened into a junior department store type of operation now does 25 per cent of its business on credit, especially pushing a type of revolving credit called coupon books for small purchases. The true annual rate on coupon books—which you spend like cash in the store—can amount to as much as 31 per cent for the smaller denominations.

You almost have to specify that you don't want to use a fee-charging revolving credit account when you seek to open an ordinary charge account these days. One alert woman told a New York department store credit clerk, "I want to pay my bills monthly. I don't want a revolving charge account." The clerk responded, "It's a good thing you told me, because we automatically put you on revolving credit unless you ask for a regular charge account."

In another case, a woman bought a $9 bedspread from one of the large mail-order houses. When the bill arrived it gave her a choice of paying the $9 in 20 days or paying it on revolving credit—$5 now and $4 next month.

An Akron family who had made purchases

of a number of small items on a revolving credit account from Alden's found themselves behind in payments because of a work cutback. One day a letter arrived from the mail-order house warning that they would have to go to the man's employer. While the family was worrying because they knew that the employer fires for a garnishee, in the next mail another letter arrived from the same retailer urging them to make more purchases on their revolving credit account.

Now I would like to mention just a few incidents to show the effect of this heavy promotion of revolving credit on American families.

A college-educated Atlanta housewife wrote me: "As we added up the interest we paid last year we found we were paying 18 per cent, and had been persuaded into extended payments by phrases in the catalog like 'No lump sum interest charge, only a small 1½ per cent a month service charge with each payment.'"

A Portland mother of 26, who has three little girls, wrote that she has gone back to work to help pay off accumulated debts of $4721. Her husband's take-home pay is $420 a month. They have 20 debts, including obligations to six department stores.

A Haverhill, Massachusetts couple with only $300 a month income obligated themselves for monthly payments of $224 for bank notes and a revolving charge account, bank loans, plus accumulated bills for oil, insurance and other needs. "The creditors are getting hard to handle," the wife wrote me. "I am ready to jump in the river if I don't find a solution soon."

For the many young families who are led into serious overindebtedness, the effect often is a sense of despair and a shattering loss of self-confidence.

"Panic accompanies the writing of every check," the wife of a Lansing, Michigan, school teacher wrote me. "After two and a half years of marriage and two babies, we are paying 20 percent of our income on our debts. But what happens when the house needs repair, the transmission in your car collapses and your child is hospitalized—all in one month?"

A young wife in Phoenix with two small children, still in her early twenties looks forward only to a lifetime of debt: "It has finally hit us hard enough so that we have to face the fact that no matter what, we will never get out of debt."

She and her husband married right out of high school. They were active and confident consumers. They bought so much on credit that she ended up going to work as a secretary, for a finance company, appropriately enough. "With my working, we decided we could get out of debt easily. But due to always seeing things we wanted, and with our 'good' credit, we got in deeper. With the second baby I lost my job. Now my husband is working only part time. We are constantly hounded by bill collectors."

Now there are additional pressures to buy on revolving credit through the bank credit-card plans being promoted extensively. Obviously, excusing revolving credit from disclosing the true annual interest rate would leave a very large loophole.

Of course young families will still buy on credit, and some will overbuy. But at least the Atlanta housewife and others would know beforehand what annual interest rate they will have to pay, and decide whether it is better to leave funds in a bank earning 4 or 5 percent while they pay a presumed 18 percent for revolving credit; whether it is preferable to pay 18 percent for a credit card plan when they could take out a personal loan from the same bank for a true annual 10 or 12 percent, or put more down, or pay moderate balances immediately, or use cash to buy small items instead of coupons "which you spend like cash,"—almost like play money.

Many excuses are being advanced for seeking exemption of revolving credit. Some of these seem to be a little academic. There would be nothing wrong with stating that there are free days and variations in billing as long as the seller complies with the requirement to state that when he does start charging for the credit, the rate is 1½ per cent a month or *approximately* 18 per cent a year. The seller would be able to make it clear that if the buyer pays up in one month, for example, there is no charge.

The bill as written provides for reasonable tolerances and also permits the proposed administering agency to make adjustments and exceptions for any class of transactions if the agency finds this necessary to secure compliance. If a revolving credit seller maintains that his charge of 1½ per cent a month is actually lower in terms of simple annual interest, because of his method of calculating these charges, then as I read this bill—he can make a showing of why his annual rate differs (if 12 x 1½ actually can differ from 18) and what tolerances, adjustments and exceptions may be fair and reasonable.

After the seller states the required formula he still has the right to make a reasonable and accurate explanation of why one plan may have advantages over another even though both charge the same periodic rate.

Another useful addition in the House bill is the inclusion of debts on which the finance charge is $10 or less. Otherwise not only many of the high-rate "payday loans," but such fees as an extra charge if you arrange to pay part of your auto insurance later, would not be covered. The insurance company would not have to tell you that a charge of $2 of repaying, say, $40 three months later, is really the equivalent of a true annual interest rate of 20 per cent.

Another danger is that the practice of loan companies in some areas, of making several small loans rather than one loan, will spread. Selma Cash Paty, a Chattanooga lawyer reported a $39 loan renewed 18 times. The borrower got a total of $443 and repaid $653 including $63.88 in "investigation fees."

With regard to the proposed ban on garnishments, this ban would do more to eliminate many of the credit deceptions now used on working people than any other action Congress or the individual states might take. There are a number of potential tools of deception written into most state laws which high-pressure sellers use. These include the right to repossess and also get a deficiency judgment; the confession of judgment note which waives any defenses the buyer may have and the "holder in due course" provision which absolves the finance company or bank of any responsibility for the seller's lack of performance or even outright verbal misrepresentation, even though the finance company may be perfectly aware of what is going on.

But the garnishment is the lever of final coercion that makes most of these other tools of deception work. Often an unscrupulous seller does not even have to get a garnishee. He can merely threaten it and the victim often is frightened into paying even an unfair bill for fear of job loss. Often even the actual threat is not necessary when the victim knows that his employer fires for a garnishee, or at best condones only two or three.

Here is the kind of awful incident that has been repeated actually hundreds of thousands of times in recent years in referral selling schemes, food freezer plans, carpet selling schemes, overpriced home improvement jobs, fake correspondence schools and so on, with no way to stop these schemes as long as the garnishee law exists. A woman in Kansas City, Mo., wrote me:

"A salesman came to my house with a camera. The setup was like this. You pay $20 for the camera and that is all you have to pay. Then you send the company customers and the camera is supposed to be yours. I sent the company over 20 customers and received no credit. Now they say I must pay for the camera because I signed the paper. I have a witness that I told the man if there was any more money involved I could not take the camera. These people sold the papers to a finance company. They have come four times to the company where I work, to garnishee my wages. I sent the camera back because I told them I could not afford to pay such a price—over $400.

"The company has the camera but they say I still have to pay. I have talked to three lawyers and I get no help. They say I still have to pay. So far I have lost four days work over this matter, with all kinds of trouble at work. I am a woman of 50 with a 12-year-old child to support. I need the little bit I make for living expenses."

This woman is caught like a mouse in a trap. The trap is the state credit laws—stacked on the side of the seller and the finance company.

She has no place to turn. She went, not only to the lawyers, but to the Better Business Bureau and the Legal Aid. "No one seems to be able to help me," she says.

Many times working people return partly paid for goods in the belief that this will square off the debt, or because the machine does not work, or because they really did not save money on food by having a freezer. They found they still have to pay the whole bill though they no longer have the goods. Sometimes people signed contracts for lessons or gymnasium courses, and even though a health reason may require them to drop out, even though the gym or judo club closed up, they still had to pay for all the lessons plus the finance charge. The things that go on are really incredible. Florence Rice, a New York antipoverty worker, tells about a woman who bought a TV set. It turned out to be for DC current. She had AC in her apartment. The seller refused to take it back. She threw it out. The seller simply threatened to get a garnishee. The woman now is paying off a total of $516, at $7 a week, even though she has nothing to show for it. Can you believe consumer peonage?

Another woman bought a watch priced for $59. When she fell behind in payments she was garnished for $113 including finance charges and legal fees. Another jeweler valued the watch at $19. Is it any wonder that in riots in Detroit and other cities, rioters also destroyed installment records in local credit stores?

One can say that these people should be more careful, and should buy from reputable merchants. Without doubt such buyers are innocent and trusting. But the question before this country today, is whether we should permit laws that enable unscrupulous sellers to take advantage of innocence and trust.

It is noticeable that the states with the toughest garishment laws have the highest bankruptcy rates including California, Ohio, Virginia, Michigan and Minnesota. Colorado, with much less population had about 4300 bankruptcies and wage-earner plans in one recent year, compared to only about 1000 in Texas and Pennsylvania which do not permit garnishees. Virginia, with less population than Florida which does not permit garnishees, has eight times as many bankruptcies. Ohio, with about the same population as Texas, has about 50 times the bankruptcies.

Certain installment dealers and finance companies in various cities alone produce hundreds of garnishees. A study reported by Dr. Milton Huber, of the University of Wisconsin, found that in Milwaukee County, of 6744 garnishees in one year, 805 of them were by one finance and loan company; 783 were by one credit clothing and jewelry store; 640 came from one furniture and appliance store.

Jasper Rowland, Manager of the Akron Better Business reports: "We have two retail establishments and two used-car dealers who entice poor credit risks into further debts

and then use the garnishee route to enforce their collections."

In one recent year just one Akron retailer filed 1500 garnishments. This and another store accounted for almost 20 per cent of all garnishments in Akron.

In Detroit, where 52,000 garnishments were filed in 1965, Jerry Dale reported in the United Auto Workers *Solidarity*, that the top filers included five leading small-loan chains and a group of large credit clothiers, credit jewelers, furniture and television stores.

The New York City Labor Commissioner in 1966 said that some installment sellers deliberately run their businesses on the basis of getting garnishes if a buyer misses just one payment.

If businessmen are against government intervention in their affairs, and in dealings between buyer and seller, then they should absolutely agree to eliminate garnishments. For garnishments are state intervention in its most drastic and naked form. This is government intervention on behalf of the seller and lender to compel a debtor virtually forcibly, to pay debt, without his agreement, often without even a fair trial by court, without usually a genuine examination of the seller's claims.

There just is no need at all for garnishments, from any point of view—that of legitimate business as well as consumers. Sellers and lenders in the few states which do not permit garnishees do not suffer any greater losses than those in others. Garnishees are not permitted in Texas. I have a letter on file from the Fort Worth Credit Bureau stating that Texas merchants have no greater credit losses than those elsewhere.

Nor does the credit business really suffer. Berkeley Municipal Judge George Brunn points out that the ratio of installment credit to total sales varies little among hard-garnishee law California, Colorado and Alabama; mild-law New York, and no-garnishee Texas, Florida and North Carolina.

H.R. 11601, the consumer credit protection bill your subcommittee has produced, is the real bill of rights for consumers, and equally of benefit to business and the nation itself. Its passage would be the first real step yet taken toward eliminating some of the worst and most unnecessary evils that have plagued American families in modern times.

LOOPHOLES IN "TRUTH IN LENDING" DESCRIBED BY ROBERT J. KLEIN, ECONOMICS EDITOR OF CONSUMERS UNION MAGAZINE, CONSUMER REPORTS

Mr. PRYOR. Mr. Speaker, I ask unanimous consent that the gentlewoman from Missouri [Mrs. SULLIVAN] may extend her remarks at this point in the RECORD and include extraneous matter.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

Mrs. SULLIVAN. Mr. Speaker, Consumer Reports magazine, published by Consumers Union of U.S., Inc., Mount Vernon, N.Y., has been waging for many years an active and effective battle on behalf of the right of consumers to know the full and accurate cost of credit, particularly since the Honorable Paul H. Douglas introduced the first truth-in-lending bill in the Senate of the United States 7 years ago. Consequently, the Subcommittee on Consumer Affairs was most anxious to hear the testimony of the economics editor of that publication, Mr. Robert J. Klein, as a witness on H.R. 11601, the Consumer Credit Protection Act, and on related bills dealing with the disclosure of credit costs or the regulation of credit transactions.

Consumer Reports, in its latest issue, has an extensive article on the Senate-passed truth-in-lending bill, S. 5, which discusses the gaps in that bill as they relate to department store revolving charges and to the exemption from annual rate disclosure of transactions in which the credit charge is less than $10. Mr. Klein, in his testimony before us, elaborated on these points and provided us with a substantial amount of additional information and material which I know will be of great interest to every Member of Congress who has been weighing the arguments pro and con on the type of consumer credit and credit disclosure law we should pass.

His statement, on August 14, follows:

STATEMENT BY ROBERT J. KLEIN, ECONOMICS EDITOR OF CONSUMER REPORTS, AT THE HEARINGS BEFORE THE HOUSE OF REPRESENTATIVES SUBCOMMITTEE ON CONSUMER AFFAIRS ON S. 5 AND H.R. 11601, BILLS GENERALLY ENTITLED "TRUTH-IN-LENDING"

My name is Robert J. Klein. I am economics editor of Consumer Reports, a monthly publication of Consumers Union of the U.S., Inc., located at 256 Washington Street, Mount Vernon, New York. Consumers Union is a nonprofit membership organization chartered in 1936 under the laws of the State of New York for the purpose of providing information and counsel to consumers about goods and services and about the management of family expenditures. The financial support of the organization comes from its more than one million members, subscribers and newsstand buyers of its publications. Consumers Union accepts no support from any commercial organization. Consumer Reports carries no advertising.

In addition to testing and reporting test results on products Consumer Reports provides information on other aspects of the consumers' problems. Nearly every issue contains articles on economic matters as they affect the market place, and legislative and other governmental developments which consumers ought to know about for their own protection and welfare.

Consumers Union's close attention to the current obstacles to rational use of credit date back to 1957, when the late Mildred Edie Brady, an eminent member of our staff, wrote the first of several pioneering articles on the subject. It was CU's judgment then, as it is now, that full disclosure of interest costs held out by far the best promise for stabilization of the national economy, which, then as now, suffered erratic growth partly because of the use of installment credit to hypo sales in periods of surplus inventories. For example, in several recent years the consumer debt has expanded most steeply in the late months of the auto model year, July through September, as dealers frantically attempted to dispose of their heavily floor planned new car quotas. The sales tactics are familiar—slashing of the quoted prices, with the dealer's profit retrieved through high credit charges concealed in easy (so-called) monthly payments.

Mrs. Brady reported on the failure of Federal consumer credit controls under Regulation W during the Korean conflict. There were simply too many ingenious ways of concealing credit in other costs. Let the market have a chance to work, she said. Give the consumer the information he needs in order to borrow rationally, and he will help the credit economy to regulate itself.

The readers of Consumer Reports are not a typical cross-section of consumers. By their very interest in our publication, they show a special interest in managing their income wisely and a consciousness of the difficulties involved. They are, as you might imagine, better educated and better paid than the average American. It's no surprise, either, that they rely on the installment plan less frequently and less heavily than most consumers do.

Yet they do use credit. Response to our Annual Questionnaire for 1965 showed that 25% of the respondents were paying off automobile loans. Most noteworthy to these proceedings, 58% of our questionnaire respondents in 1965 used 30-day charge accounts and 29% used revolving credit charge accounts. A steady stream of letters to the editor recited complaints against these accounts, indicating glimmerings of awareness that the service charges are not as small as the buyer was led to think. Several such letters have been appended to this testimony. They reveal a state of serious confusion—serious for the credit merchant and serious for a consumer-oriented economy. If this elite group of consumers is confused, we would think the vast majority are hopelessly confused.

Senate passage of the Truth-In-Lending Bill last month represented a 92-to-0 vote of confidence in the ability of consumers to shop wisely for credit when given the essential facts. Those facts concern the true price of money, whether borrowed directly from a lending institution or indirectly through the purchase of goods and services on the installment plan.

Except in the realm of consumer credit, the price of money is everywhere expressed as an annual interest rate—the percentage of principal the borrower must pay for a year's use of someone else's money. Truth-In-Lending legislation would simply give consumers the same information that has always formed the basis for nonconsumer borrowing. For the first time in the history of this buy-now-pay-later economy, consumers would be able to make accurate price comparisons in shopping for most types of credit. The one major exception—and it could easily become a gaping hole in the dike—is revolving credit.

Fortunately, the House of Representatives still has an opportunity to repair the leak. H.R. 11601 already goes part of the way toward requiring the type of annual rate disclosure that would most help consumers to compare revolving credit costs with those of credit from other sources. Serious problems would nevertheless continue to confront the consumer, in his attempt to compare the costs of competing revolving credit contracts. As you know, charge accounts have long been a promotional tool of competing department stores and mail-order houses. The contest for revolving credit business has recently been much intensified by the large-scale promotion of bank revolving credit cards and revolving credit checking account schemes. Later in this testimony, we will attempt to show that accurate cost comparisons among the various, often-competing, revolving credit plans will require more information than merely the equivalent annual rate derived from a stated monthly or other periodic rate.

It is a great virtue of H.R. 11601 that it opens fresh avenues of approach to problems of installment-credit users scarcely touched on in the six years of Senate hearings and debate. Highly praiseworthy, for instance, are the bill's proposed remedies for the consumer who faces high-handed collection and repossession methods; it is time to raise serious questions about the workings of legal mills grinding out judgments, repossessions, garnishments and wage assignments, for which state, county and local taxpayer must foot the administrative bill.

Some excellent studies have been made into the social ills and the rank inequities visited especially on the underprivileged consumer by these collection methods. I would call the committee's attention especially to a report to the Mayor of Chicago, the Hon. Richard J. Daley, by Jerome Schur, special assistant to Chief Judge Boyle for Consumer Credit.

The report released on December 15, 1966, examines confession of judgment complaints filed in the Municipal Division of the Circuit Court of Cook County during two weeks in June 1966. The study uncovered interest rates for used cars as high as 283%. Finance charges on money advanced to pay insurance premiums ranged up to 97%. The premiums themselves were found to be as high as $794 for 12 months' accident, credit life and health coverage. The study found that the courts had routinely processed judgments based on improperly drawn, incomplete or otherwise illegal credit contracts.

If Mr. Schur's report is not yet a part of your record, it should be, albeit that record is already rich with evidence. I refer especially to the 1965 Hearings of the Subcommittee on Domestic Finance into servicemen's credit problems. One outgrowth of these hearings was the Department of Defense directives on standards of fairness and full disclosure of credit terms offered to members of the Armed Forces. The directives represent a very big step toward a Truth-in-Lending Bill. House Banking and Currency Subcommittees are thus performing indispensable work toward the achievement of truth and equity in lending.

THE ECONOMIC GOALS

The strengths and weaknesses of the bill as it shapes up thus far can be properly understood only in terms of the purposes underlying it. Behind the progress of the Truth-in-Lending Bill is a vital need for marketing tools to help stabilize a most turbulent sector of the national economy.

Total short-term consumer debt has been growing at a furious pace. In the past 15 years, it has quadrupled to a present level of around $95 billion. About $75 billion is installment debt, on which repayments last year were $73 billion. By comparison, total personal income has only a little more than doubled in the same 15 years, and now stands at about $505 billion, after taxes. Plain arithmetic thus says that about every seventh dollar in the average pay envelope is spent before it's earned.

And plain arithmetic understates the case. You must add interest charges of about $12.5 billion per year. You must also take into account that only about half of the nation's wage earners have short-term installment debts. Installment debt alone, plus its interest, is generally estimated as laying prior claim to one dollar of every four in an *average debtor's* pay.

Some observers of the economy fear that, with so large a part of future income committed in advance, any serious rise in unemployment or drop in wages would snowball into a major recession. For many people would have all they could do to make their payments; they would be in no position to increase their debts, and their cash buying power would be harshly curtailed. Nevertheless, the present long-term economic boom has been stimulated by the huge and expanding wave of consumer credit. It is therefore understandable that nobody in the Government has come out against the fast-growing consumer installment debt as such.

It's the turbulent fluctuations in credit expansions that cause official concern. Like Robert Louis Stevenson's little shadow, the rate of increase in consumer credit sometimes shoots up taller like an India-rubber ball, and sometimes gets so little that there's none of it at all. The pattern of sharp rises and falls over the past 15 years is shown in the accompanying graph. It traces three periods of extraordinary credit growth. After the first two peaks, in 1955 and 1959, the rate of borrowing fell to around the break-even point, where, over a year's time, the total of new borrowing very nearly equaled the total of repayments.

Do purchasing intentions normally fluctuate so wildly? Or does some outside force radically change them?

Looking back from the vantage point of the recession year 1958, CU saw signs of the lender's hand at work. "Seven million high-priced autos were moved out of dealers' inventories [in 1955] in one of the biggest sales blitzes of all time," we noted, "and some 60% or better of those cars were sold on the cuff. Moreover, one of the tools of the blitz was an extension of installment contracts to 36 months. Other sellers, competing with autos for their share of the consumer dollars, also offered terms of nothing down and 36 months to pay for rugs, furniture, etc."

The chief symptom of recession is a slackening of economic growth. Thus, in 1958 there was no increase in the Gross National Product. Credit expansion hit another new high in 1959, followed by almost no credit expansion in 1961. Again, the trough on the graph was accompanied by a sharp tapering off of economic growth. To put it mildly, more orderly use of credit might have a less unsettling effect on the general economy.

The Truth-in-Lending Bills make no bones about it. Their first-mentioned purpose is "economic stabilization." Underlying full disclosure of credit costs is a two-part theory to which CU has long subscribed. First, disclosure of true annual interest rates will make people more sensitive to the high price they pay for most installment loans. When 800 CU members reported a few years ago to the National Bureau of Economic Research on recent credit deals ("Consumer Sensitivity to Finance Rates: an Empirical and Analytical Investigation" by F. Thomas Juster and Robert P. Shay, NBER, 1964), only a minority of them said they had any idea of the interest rate they had paid. Within that minority, the average rate they *thought* they had paid was about 8%. The rate they had actually paid averaged about 23%.

The second part of the theory holds that people who are conscious of the price of credit will shop, compare and buy that credit at as low a rate as they can find. Again, the data obtained from CU members accords with the theory. Those who were able to report the true rate of interest on their loans paid an average, for loans of under $500, of about 12%. Those who had no idea of the rate paid a startling average of about 37%.

In its report on the Truth-in-Lending Bill, the Senate Banking and Currency Committee took cognizance of that and other evidence. The Senate's vote of confidence in the consumer says, in so many words, "Here is the information you need. Now don't make waves."

SPECIAL TREATMENT FOR REVOLVING CREDIT

The Senate bill falls short, however, of requiring all the information consumers will need if they are to compare credit costs.

At Senate hearings last spring, a number of opponents of the bill concentrated their fire on one provision in particular. They sought to knock out any requirement for annual rate disclosure on revolving credit charge accounts. And they largely succeeded. Under the Senate bill, revolving credit as applied to most department store accounts and most of the new wave of revolving bank credit cards would continue to be labeled, as it usually is now, with a deceptively low monthly percentage figure.

Revolving credit is one kind of consumer credit most people are familiar with, whether or not they make a practice of buying on time. People who buy at all regularly in most department stores or from big mail order houses usually open charge accounts. It's convenient to pay the bill once a month, and, besides, there's usually no credit charge if you pay the bill within 30 days. Every customer, whether he pays cash over the counter or says charge it, foots the costs of 30-day credit as part of the overhead built into the price of the goods.

Of course, most stores offer a choice of paying in full or making a payment of, usually 10% per month. It's what's called a "line of credit" or an "open-end" credit account. Each new purchase is added to the bill, and 10% of the total balance at the end of each billing period is all you have to pay ad infinitum—all, that is, except for a "small" monthly service charge. Many states set a service charge ceiling of 1½% per month, and stores almost invariably charge the maximum. A rate of 1½% a month equals an annual interest of 1½ times 12, or 18%.

The balance due on the nation's charge accounts has been running at $10.5 billion. About $3.5 billion is revolving credit. That's not much next to the total installment credit outstanding. But it is probably not an accurate figure at present, and it certainly won't be an accurate one in the future, because it omits, among other things, the revolving credit schemes now being heavily merchandised by banks. Until last year, bank revolving credit was probably not a major factor, although it has been on the scene at least since 1950. But in only the past year or two, according to the Federal Reserve Board, the number of banks issuing credit cards or operating open-end credit plans reached 627, plus several hundred local banks acting as agents for large city banks' credit plans.

"The enthusiasm with which the supposedly conservative banking profession has greeted this relatively new consumer service is unparalleled in the pages of modern banking history," the American Bankers Association was told by a Chicago banker. And he explained why: "We are beginning with this first step to recapture a larger share of the credit business which heretofore conceivably could have fallen into nonbanking hands by default."

The bank credit card, unlike the department store card, can be used to charge purchases at many different stores—as many as can be recruited by the sponsoring bank. It is the poor man's version of the American Express or Diners' Club card. As The Wall Street Journal has reported, "Bank cards are issued largely to lower-income consumers. . . ."

A number of Midwest banks, operating jointly, "mailed mounds of credit cards unsolicited to each other's customers and former customers, some 4 million families in all," the Journal said. C. A. Agemian, executive vice president of the Chase Manhattan Bank, told why in a recent speech:

"If you want to get cardholders, your card has to have value. The cardholder needs stores to use it at. If you want to attract merchants, you have to be able to show or promise them a healthy looking number of cardholding shoppers. What comes first, the chicken or the egg? To choke off competition, you must flood the market with cards. Everybody gets cards from every bank he does or does not do business with. People who may have a capacity to repay $500 may have received cards from various banks that could permit them to charge up to $3000 or $4000!"

Were the final Truth-in-Lending law to exempt bank, department store and mail-order charge accounts from annual rate disclosure, it would quite obviously withhold from the consumer an important tool he needs to shop wisely for credit. Yet the Senate bill exempts those accounts, in most instances.

If the exemption is allowed to stand, only the monthly rate will be disclosed on most revolving credit deals. To compare the price of revolving credit with that of other forms of credit you would have to convert the monthly rate to an annual rate by multiplying it by 12. Many people don't know that, however, and they might assume that a 1½% service charge is lower than, say, the 12% annual rate generally charged by credit unions. There is thus some likelihood that the exemption would help accelerate the growth of revolving credit.

To escape annual rate disclosure for revolving credit, merchants and bankers used

a shrewd argument on the Senate subcommittee considering Truth-in-Lending and you will doubtless hear it repeated. A charge account customer, they said, often gets the use of their money at 1½% for more than one month. Someone who buys something shortly after his monthly bill has been made out, for instance, would have as long as 59 days of free time before incurring a service charge, because he would not receive his next bill, with the new item posted on it, for up to 29 days and would have 30 additional days after that to pay it. Therefore, the argument goes, a 1½% service charge does not accurately translate as 18% per annum and is usually lower.

The argument has a cute premise: Up to 59 days of credit time are available interest-free, but only on condition that the bill is paid in full on the 59th day. If you don't pay in full, time runs backward to the date of purchase.

Well, maybe an accountant can really make the calendar run in reverse. But one name for that sort of magic is account juggling.

The only reason for mentioning it here is that there are many different sets of rules for juggling revolving credit. Different stores use different rules, and they are not just playing games. A revolving charge account can cost considerably more at one store or bank than another, though both seem to be charging 18% annual interest.

Professor Richard L. D. Morse of Kansas State University has illustrated the situation dramatically in a recent pamphlet (see Appendix A). He demonstrates six different revolving credit billing systems, all of them examples of systems in use, and he showed how service charges can run more than twice as high in some stores as in others.

The drafters of the Senate Truth-in-Lending Bill recognized this obstacle to credit price comparisons. Their solution is to require each revolving credit contract and monthly statement to explain its billing system. The Federal Reserve Board which will have to write the necessary regulations, has its work cut out. Here are excerpts from the contract applications of three mail-order houses explaining their billing systems:

Sears, Roebuck and Co.: "an amount of time price differential computed at 1½% of balance at the beginning of each monthly billing period until the full amount of all purchases and time price differential thereon are paid in full."

Montgomery Ward: "a time price differential or service charge of 1½% per month on the opening monthly balance of any account on amounts up to $500 and 1% per month on amounts in excess of $500."

J. C. Penney Co.: "a time price differential ('service charge') computed by applying the rate of 1½% to the unpaid balance of the cash sale price and any unpaid service charge on each of any monthly billing dates (pursuant to your then current billing schedule) commencing with the second monthly billing date following the date of purchase . . ."

Professor Morse, being an expert on such things, was able to show that a certain six-month series of transactions costing $2.28 in service charges at Penneys could cost $2.74 at Sears or Wards and upwards of $5 at some other stores. Most people wouldn't get the message right away. A number of them, including a professor of economics and a professor of philosophy, have written to CU within the past year or so. One person wrote: "I hate to admit after many years of using my Sears account that I was never aware of paying such a high rate of interest."

One of the main areas of confusion plaguing consumers has to do with the amount of his balance due to which the revolving credit service charge rate is being applied. The following letter from a Consumer Reports reader eloquently expresses the confusion, which in this instance led to an unfair but nonetheless understandable presumption of unethical treatment:

"I have recently been the victim of unethical practices and I think your other readers might appreciate a [illegible]rning in your magazine.

"As you know, Sears, Roebuck & Company charges an announced rate of 1½% interest a month on the unpaid balance. I discovered recently that the credit department in our local store was only applying a portion of the money I paid them and giving me credit for the balance. For example (and this is exactly what they did to me), I had an unpaid balance of $80.00 and made a payment of $50.00. This left me a balance of $30.00—the interest on which should have been 45¢. When I got my monthly statement, however, I found my service charge was 3 times as much as it should have been.

"When I complained to the credit manager, he first lied to me and then explained that he had done me the service of crediting my account with only $10.00 of the amount I had paid. The balance was applied as credit that I could use later. This unethical practice meant in my case that they were, in effect, charging me an interest rate of over 5% a month or 60% a year.

"I have noticed that other chain stores (like W. T. Grant) will do this if they can get away with it. I certainly hope you will find some way of drawing this dishonest policy to the attention of your readers.

"BOWLING GREEN, KY.

"R. N."

A number of similar letters are appended to this testimony. They keep coming in quite regularly, and in our opinion they should be a cause for concern both to the retail community and to this subcommittee.

The point, of course, is that hardly anyone can fathom the billing methods of revolving charge accounts. Help is needed, and the need will become more and more pressing as banks and stores, spurred on by the availability of computerized billing systems, contend for revolving credit business. H.R. 11601 would put revolving credit back under full-disclosure provisions. With slight amending, it could assign the Federal Reserve Board to tackle the billing problem.

We recognize that it would be no simple problem in rules making. But it must be solved. J. C. Penney, now claims, in a suit aimed against the Massachusetts rate disclosure law, that "Despite the difference in actual finance charge rates charged by the Plaintiff [Penneys] and certain of its major competitors, all are required to state the identical 'simple interest per annum rate.' The Plaintiff thereby suffers substantial injury to its business by reason of the misleading and distorted rate which results from the use of the statutory formula, the statement of which misleads Plaintiff's customers and prevents them from being informed as to the substantial savings to be gained by Plaintiff's regular charge account plan."

It would seem to be in Penney's best interest as well as its customers' to have some simple yardstick for pricing the revolving credit at competing stores and banks. Consumers Union is convinced that a satisfactory way can be found to solve the problem. Several come to mind: a single standardized billing system for all revolving credit accounts would be one approach, though certainly not the most desirable from the standpoint of innovation. Another approach might be a thorough statistical analysis of the various billing methods, with an eye to establishing their relative cost to the borrower. Perhaps the most logical avenue of attack, however, would be to view the matter the same way any well-managed retail business must already be viewing it—in terms of its yield. Testimony by retail executives at the Senate hearings leaves no doubt that they know approximately how much of their charge account volume consists of purchases on revolving credit. To that volume they can apply an annual rate to project their gross service charge revenues. If, as appears to be the case, the actual cost of revolving credit varies significantly from store to store, then there must be different rates of yield. Each store presumably has a fair idea of its own yield, and probably shares with others in the trade a good understanding of how various billing methods would affect that yield.

May I quote an excerpt from the "Financial Rate Translater and Guide to Legal Installment Sales Rates," published by the Financial Publishing Company of Boston for their use by the credit industry:

"Traditionally the return on money invested is stated as annual interest rate on the funds actually in use. For monthly payment loans the interest rate per month is 1/12 of the annual interest rate. In these tables we shall call this *annual* interest rate the actuarial rate . . . The *actuarial* rate expresses the true return on investment."

Gentlemen, we submit that the consumer shopping for revolving credit, or any kind of credit, should be allowed to share the knowledge belonging to those doing the lending. As so often is true, the consumer is the only participant in the transaction who is deprived of full information. He very badly needs that information. One unwise deal, after all, means little to a business conducting transactions by the thousands. But one unwise credit deal can be ruinous to the individual across the counter.

Plainly, if the present Congress does not set the Federal Reserve Board to work on the problem of differentiating amount actual revolving credit rates, you will be leaving unfinished business for some future Congress—business that needs attending to right away.

CLOSING OTHER LOOPHOLES

Consumers Union is especially pleased to see that H.R. 11601 closes other loopholes left in the Senate bill as it treats rate disclosure. We will mention here a few of the failings of S. 5.

First mortgages on houses are exempt from disclosure regulations. It is true that mortgage interest is already stated as a true annual rate. But certain fees are usually left out of the rate picture—such as mortgage placement and appraisal fees, credit report fees and points, or discounts, paid by the purchaser. According to recent figures from the Federal Home Loan Bank Board, just the placement fees and points on conventional new-home mortgages are now averaging almost 1% of the amount of the loan. In effect, the interest rate is higher than it looks. It should be fully disclosed. H.R. 11601 only partly remedies the situation. In our opinion, it should count appraisal fees and credit reports as part of the finance charge on a mortgage.

Premiums for credit life insurance would not be considered as finance charges or included in the annual interest rate. Yet many lenders and credit merchants require you to buy insurance for their protection. Unless the option to buy is the borrower's, credit life insurance premiums should be counted as part of the interest rate. H.R. 11601 does the job.

Insurance commissions earned by used car dealers when they sell an accident policy as part of the credit package on a car sale would not be counted in the interest rate. Some dealers have close ties with insurance agencies and pad the price of car financing with overpriced premiums. If accident insurance is part of a car deal, the dealer's take should be included in the interest rate. H.R. 11601 does not include it.

There is no regulation of credit advertising. Familiar and phony slogans like "low bank rates" and "no money down—easy monthly payments" would continue to gull the unwary. Massachusetts law requires

credit merchants to post the true annual interest rate in any advertisement making reference to credit terms. Federal law should follow suit. H.R. 11601 does the job quite admirably.

If the finance charge is $10 or less, the lender doesn't have to disclose his annual interest rate. Example: A vacuum cleaner salesman knocks on the door with an offer of an $80 machine for $10 down and 12 monthly payments of $6.65. The payments total $89.80. The finance charge is $9.80 for $70 for one-year installment credit. The well-concealed true annual interest is 25%. Truth-in-Lending should apply to small deals as well as big ones. H.R. 11601 does the job.

The Senate bill would not go into effect until July 1, 1969. There is no reason, according to testimony at the Senate hearings, why the effective date could not be set much sooner after enactment. H.R. 11601's effective date of July 1, 1968 seems quite reasonable for most provisions of the bill.

Credit sellers could judge their rate disclosure by stating it as dollars per hundred rather than as a percentage until January 1, 1972. H.R. 11601 dispenses with such nonsense as this.

Confidence in the consumer will be rewarded best if he is given a good yardstick, if *all* credit sellers must adhere to its standard of measurement, and if the standard is invoked as soon as possible. This requires a Federal Truth-in-Lending Bill without holes.

APPENDIX A

REVOLVING CREDIT BILLING SYSTEMS

Service charges on revolving credit accounts vary widely from store to store and from bank to bank, even though the stated interest rate is usually the same. The explanation for this apparent contradiction is fairly simple. The service charge is the product of the balance due times the monthly interest rate. But different department stores, mail-order houses and credit-card banks have different methods of determining the part of your monthly balance against which a service charge is assessed.

A recent survey conducted by Richard L. D. Morse, professor of family economics at Kansas State University* make two things quite clear. First, it is next to impossible to tell which revolving credit account offers the best deal. "Methods of figuring service charges were too complex not only for the local management to understand and relay to customers who wanted to know how it would work in practice, but for national [store chain] offices to interpret in terms of an annual percentage rate of service charge," Professor Morse wrote.

Second, store-to-store differences in credit costs can be quite significant. The Morse survey isolated six billing methods, each arriving at a different total of service charges for a given series of hypothetical transactions. The customer began with a clean slate—no balance due—on the first of the year. He then did business with the store as follows:

	Purchases	Returns	Payments
January	$30	$10	
February	170	30	$70
March	90	40	80
April	10		10
May	10		10
June	10		10

Here, from lowest to highest, is the total of service charges, at 1½% per month, depending on which of the six billing methods is applied:

Method: Option to pay in full within 30 days of the billing date without incurring any service charge. Interest rate is applied to the previous month's closing balance, less any payment and returns. Total service charge—$2.28.

Method: Same as preceding except returns are not credited before the interest rate is applied. Total service charge—$2.43.

Method: Same as preceding except neither returns nor a payment is credited before interest rate is applied, unless the total of returns and payment equals or is higher than the previous month's closing balance. Total service charge—$2.74.

Method: Same as preceding except returns are never credited to the previous month's closing balance. Total service charge—$4.16.

Method: No 30-day option to pay in full without incurring a service charge. Interest rate is applied to the previous month's closing balance. Total service charge—$4.47.

Method: Same as preceding, except interest rate is applied to the balance at the end of the current month. Total service charge—$5.44.

Although typical, the six billing methods by no means exhaust the possibilities. And all variations, with the possible exception of return credits, are open to bank revolving credit plans. Obviously, you can't make the most economic use of a charge account unless you understand its billing system thoroughly. But, as Professor Morse found, the essential facts cannot readily be obtained.

*"Truth in Lending," the Council on Consumer Information, 15 Gwynn Hall, University of Missouri, Columbia, Mo. 65201.

APPENDIX B

The following is a selection of letters written to Consumers Union by readers in 1966 and 1967, all complaining about revolving credit billing methods.

Reading your magazine has made us increasingly aware of deceptive practices such as the one mentioned in the following letter.

MACY'S,
Customer Relations,
Herald Square, New York, N.Y.

DEAR SIR: Your letter of 1/21/67 confirmed the fact that your service charge of 1½% per month is applied to items at their initial billing. This in fact means that, on the initial billing, customers having a C–T type account are actually paying up to 45% per month service charge depending on the date they charge items in relation to your billing date.

I can only assume that some loophole in New York law permits this seemingly usurious practice as this is not true of *any* of the several extended payment plan accounts which I hold in New Jersey, e.g. Sears, Bambergers, Chase. *All* the other accounts charge a 1½% per month service charge on the unpaid balance from the previous billing.

Accordingly, I am herewith returning my Macy's charge plate together with a check for $57.87 to cover the balance due on my account. Please close my account immediately. I realize that this misunderstanding is most likely my own fault as I should have read the *fine print* more carefully. However, I wonder how many of your C–T account customers realize the true amount of service charge they are paying. Let the buyer beware!

SUMMIT, N.J.

P. G.

In your May [1967] issue a reader brought to your attention confusing statements issued by Sears Roebuck & Co. in regards to interest charges.

I was recently surprised to learn that the Sears method of charging interest on 30-day or revolving accounts is not what it appears to be. Most customers and most Sears employees, including those in the credit department, assume that the method used by Sears is the same as that used by other department stores and by oil company credit card systems. This is not true. Sears does not charge 1½% per month on the unpaid balance. It charges interest on the total amount of the previous billing, regardless of the size of payment made, exclusive of a full payment.

As an example: a purchase of $100 is made and a billing is sent to the customer. The customer then pays $50. The next billing shows a $50 balance due plus $1.50 (1½% x $100) service charge, not $0.75 (1½% x $50) as one would expect. Thus, it is theoretically possible for a customer to pay the full $100 and then receive a billing with a balance of $0.00 but an interest charge of $1.50. Fortunately, Sears does not go that far in this unscrupulous practice.

I hate to admit that after many years of using my Sears account I was never aware that I was paying such a high rate of interest. How many of your readers are aware of this?

NORWALK, CALIF.

W. L.

To add more fuel to your truth in lending campaign, it may be of interest to your readers that even such an otherwise reputable store as Sears may charge interest rates as high as *72 percent* per annum. Sears basic rate of interest on a revolving charge is 18 per cent per annum (1½% per month) but it is based on the end of month balance. If a customer bought a $200 item on January 23 and was billed for this on January 30, and he paid $100 on the same day, he would pay 1½ per cent on $200 or $3, the equivalent of 72 per cent simple interest per annum.

If this is what reputable stores are charging, what are the less reputable doing?

PITTSBURGH, PA.

R. T.

Enclosed is a copy of my letter to Klein's Department Store requesting that they close my account and stating the reason therefore. I am confident that Klein's will not give me much trouble over this, but it occurred to me that thousands of customers accept these charges without realizing the true interest, especially if the "minimum" service charge is applied where the time payment plan is actually being used.

(The enclosed letter follows:)

PRESIDENT,
S. Klein on the Square,
Stamford, Conn.

SIR: The enclosed statement reflects a balance which is comprised entirely of service charges. Since I pay my entire purchase invoices due on the 15th day of every month, I do not pay or honor service charges. Unfortunately, I am quite busy and I must select one monthly remitting date for all accounts (this is the 15th.). If your organization finds it convenient to choose the 15th, or 17th, as a billing date that is your concern. However, I will not honor erroneous service charges arising from this practice.

The enclosed statement contains a service charge of $0.50 on a balance of $4.25, all of which consists of previous erroneous service charges. This comes to interest *annual* of *141.7%* charged on prior interest. This usurious practice of Klein's is by far the worst I have encountered in all my experience with department stores, discount stores, credit cards, etc. You are competing successfully with the loan sharks if this type of item is generally collectable in your experience.

I am destroying my charge card. Please close my account and I refuse to be responsible for any charges after the above date. (End of enclosed letter.)

Another practice that I have noticed, is that some stores will compute the service charge on the entire balance carried forward from the previous month, even though they may have entered a credit for a substantial payment. Thus charges are made on the amount remitted which obviously should not be included in the time balance.

PHILADELPHIA, PA.

S. W.

I had a revealing experience with the Sears Roebuck credit system recently. It involved the purchase of two chairs on January 12th, and the monthly statement on the 18th that listed them accurately at $175. We were temporarily short, so I figured that a check for $100 would leave only $75 which at 1½% for a month would cost me about $1.13. So on February 2nd we mailed a check for $100. Imagine our surprise when the statement arrived on February 18th. It showed a balance owed of $75 which was correct, and a service charge for $2.63!

Inquiries at the local store established that the charge was figured on the previous month's balance, that is 1½% on $175. I protested that the initial $100 had been paid well within the 30-day limit for cash-charge conditions but the only response was that the system was set up on the previous month's balance. I finally reached one official who read a regulation to the effect that since this was my first experience with their system, they would refund the fee charged on the $100 that I had paid, but they could not be this generous the next time.

After reaching the hierarchy in the Chicago office, I established that my first payment was unusually large and thus the system slipped and charged me what seemed too much. They would be glad to adjust this, and if ever this occurred again, just call. I was left with the impression that if we had paid just $20, they would have assessed me for 1½% of $175 and I would not have noticed the difference, in the February billing.

Upon reading the fine print in the catalog, it is clear that Sears does indeed charge 1½% on the previous month's billing without adjusting for what was paid by the customer on that statement. The balance, however, on the next statement reflects what is truly owed—not the basis for calculating the service charge. It appears that Sears actually does much better than 1½% on service charges. Had we not complained, we would have paid 3½% for $75 for a month.

By contrast Penney's catalog says 1½% of the unpaid balance. Is Sears openly conducting a deception about their true service charge percentage, or is this just called sharp business? After doing our buying there for 30 years, we are not so sure about our Sears charge card. Have you any comments on this unusual way to do business?

MOUNT PROSPECT, ILL.

R. L.

Although aware of the exorbitant interest rates charged by department stores, I purchased a new house and needed about $1,500 worth of odds and ends to make it livable. I compared the interest rates of several companies and noted the following in a Ward's catalog: "I will pay . . . charge of 1½% per month on the opening monthly balance of my account on amounts up to $500 and ¾% per month on amounts in excess of $500." This made sense—much like the all-electric home does—the rates decrease as increased use is made of the service. I assumed that the cost of carrying an account was absorbed in the higher rate for the first $500 and then reasonably expected the lower interest as an expression of their lower costs. Thus, I placed all $1500 in purchases with Ward's rather than seeking to divide the purchases among several stores.

When the bill came I found that I was charged interest at the full 1½%. Upon inquiry, I was told that the figures in the catalog pertain only to people who live in Missouri. I insisted that their catalogs (which arrived via mails unsolicited at my home) induced me to make the indicated purchases. Their reply was that when I first made a catalog order I was handed a small card to sign which had different interest figures on it—namely that I would pay 1½% of the unpaid balance regardless of how high it went.

Letters to Ward's are rewarded by condescending letters which refuse to even consider the possibility of misleading. In recent months I purchased another $2500 worth of merchandise, nothing to be sure from Ward's.

Having long been a reader of Consumer Reports I should not have permitted myself to be trapped into these high interests. But, I had assumed my investigation of the rates as printed on the back of the contracts attached to the catalog was adequate. Apparently not.

EDMOND, OKLA.

G. M.

I would like to call your attention to what appears to be usury practiced by Montgomery Ward in their billing system. This company adds interest at the rate of 1½% per month to the unpaid balance existing at the beginning of a billing period without deducting payments made during the billing period. In effect they are charging interest on money which has already been paid on the account during the billing period and prior to the billing date. Why don't they calculate interest on the balance remaining on the account at the end of the billing date?

As an example, the following is my bill dated 5-25-67.

Last month's balance	$157.82
Service charge added	2.37
Payments and credits	118.82
New balance	41.37

The $118.82 was paid on the account during the billing period yet interest is still charged to it. The actual interest rate charged on this bill is almost 6% per month calculated on the balance remaining at the end of the month.

I have already written Montgomery Ward regarding this practice but, as expected, I have received no reply. I am sure that Montgomery Ward would be among the first to state that government controls are not needed in this area, but I would advise them to institute fair practices prior to such a statement.

ANN ARBOR, MICH.

R. M.

Have any of the readers experienced Sears Roebuck's latest trick to increase their carrying charge?—Simple—just don't bother to post credits to your account until after the billing date. In this way they can collect your money and charge you interest on it also. It must be very prevalent as I caught it 3 times in 1 year on my account. Needless to say it's now closed.

GLENVIEW, ILL.

W. S.

Why don't you mention the deceptive billing practices currently used by such large companies as Sears. Not only can't you read their statements (unless you look VERY closely) but they add their "carrying charges" whether or not the bill is paid in 30 days!

I have already returned one credit card from a local chain (Valu-Mart) because they added carrying charges upon carrying charges, and I no longer shop at their local outlet.

Currently (due to a change in billing practice from local to Los Angeles) I am fighting the same battle with Sears. At present I "owe" them $1.28 in carrying charges over the past two months although I paid the bills within 10 days of receiving them. Although I have written two letters, with a third to go out with this mail, I have yet to see the courtesy of an answer. I may miss the convenience of shopping by phone, but Sears will probably get their credit card back too! The convenience is the only reason why I have a card anyway.

Incidentally, I do not have a Montgomery Ward credit card. Their latest practice is to add carrying charges immediately. There is another local outfit that charges *you* for the dubious "pleasure," before you even buy, of having their credit card!

Maybe I'm naive, but have 30 day charge accounts gone out of style? I may become a cash customer completely, and forget about writing checks! I just don't like being taken.

FEDERAL WAY, WASH.

M. C.

BORDERS WITHOUT A WALL—A CENTURY OF FRIENDSHIP

Mr. PRYOR. Mr. Speaker, I ask unanimous consent that the gentleman from New Jersey [Mr. GALLAGHER] may extend his remarks at this point in the RECORD and include extraneous matter.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

Mr. GALLAGHER. Mr. Speaker, I have recently had the pleasure of serving as a judge in an essay contest conducted in 22 District of Columbia schools, honoring Canada's centennial of confederation. As cochairman of the U.S. delegation to the United States-Canadian interparliamentary group, I have long been interested in increasing knowledge of Canada here in the United States. Canada's very similarity to the United States, as well as the ease of travel between the two countries, has caused many American to regard our neighbor to the north as a reflection of American society.

This essay contest, sponsored by the Canadian Centennial Commission in cooperation with PACE project 370 and approved by the District of Columbia board of education, gave hundreds of District youngsters an opportunity to dispel their own preconceptions about Canada. I would hope that those who read the four winning essays will benefit from the talent, imagination, and research of Sarah Jane Taylor, 11; Robert B. Giffin, 12; Sterling A. Green, 18; and Marvin DeWitt Williams, 18. These District of Columbia students have just returned from a tour of Canada as guests of the Canadian Centennial Commission.

Mr. Speaker, I would hope that this year's program will become a part of many school districts around the country. Any project designed to promote, stimulate, and strengthen communication between nations, particularly at the student level, should be strongly encouraged. It has also come to my attention that this project has had an affect on the current curriculum of District of Columbia schools. I quote here briefly from a letter from the exceptionally able supervising director of PACE project 370, a special communicative skills program in the District of Columbia schools:

> All facets of the essay contest have made their mark on the participants. One fact we discovered was quite revealing. Students were suddenly confronted with the realization that their knowledge of Canada was, in most instances, sketchy at best. As a staff, we studied the time allotted to the study of Canada and concluded that it did not provide sufficiently for in-depth concentration. As a result, we have made recommendations for curriculum area changes to the Department of Social Studies of the D.C. Board of Education. These recommendations are being favorably received and we hope to introduce this change in our schools in the fall.