CONSUMER CREDIT PUBLIC HEARING

SAN ANTONIO, TEXAS

STATE FINANCE COMMISSION

PUBLIC HEARING ON CONSUMER CREDIT

SAN ANTONIO, TEXAS — SEPTEMBER 12, 1966

SENATOR DON KENNARD

State Of Texas

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STATE FINANCE COMMISSION

☆

CONSUMER CREDIT STUDY COMMITTEE

Public Hearing at San Antonio, Texas

September 12, 1966

Office of Regulatory Loan Commissioner
P. O. Drawer WW, Capitol Station, Austin, Texas 78711

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THE STATE OF TEXAS
BEFORE THE STATE FINANCE COMMISSION
CONSUMER CREDIT STUDY COMMITTEE
PUBLIC HEARING

SAN ANTONIO, TEXAS
SEPTEMBER 12, 1966

BE IT REMEMBERED that on the 12th day of September 1966, beginning at 9:10 a.m., in the Navarro Room of the St. Anthony Hotel, San Antonio, Texas, the above entitled matter, pursuant to notice, came on for public hearing before the CONSUMER CREDIT STUDY COMMITTEE of the State Finance Commission, those present being:

MR. FRANCIS A. MISKELL, Chairman, Regulatory Commissioner;

MR. J. M. FALKNER, State Banking Commissioner;

MR. JAMES O. GERST, State Savings and Loan Commissioner;

MR. PAUL D. LINDSEY, Member, State Finance Commission; and

MR. JOE BAIN, Member, State Finance Commission.

The following proceedings were reported by Walter H. Hickman, a Notary Public in and for Travis County, Texas.

PROCEEDINGS

MR. MISKELL: I would like to call the meeting to order and welcome you to this San Antonio meeting of the governor's Study Committee on Consumer Credit.

The Committee is composed of members of the State Finance Commission which has supervision over the agencies regulating various aspects of the financial business in the State of Texas.

I would like, if I may, to introduce the members of the Commission, and the various commissioners who are in attendance here at the meeting:

Mr. Paul Lindsey of Dallas, an attorney who is a member of the State Finance Commission.

You all know Mr. J. M. Falkner, the State Banking Commissioner from Austin.

Mr. James O. Gerst, State Savings and Loan Commissioner from Austin.

Mr. Joe Bain, from Stockdale, a member of the State Finance Commission.

And I am Frank Miskell, the Regulatory Loan Commissioner.

Let me point out to you that the Commission is holding this hearing today and its hearings in Houston and San Antonio and Austin, and is engaged in this study at the specific direction of Governor Connally. The Governor, in June of 1965, requested the Commission to make a study of the field of consumer credit, and in the Governor's message to the Commission he pointed out:

> "There is an imperative need for a comprehensive code for consumer credit legislation in the State of Texas. This code should encompass all phases of consumer finance operations in our state. It should provide adequate interest rates, free and fair competition between financial institutions and industries and effective regulations. Under such a code the people of our state would be assured of low competitive interest rates and protection from possible abuse. In addition, the financial institutions and industries of our state should be assured of adequate rates and the right to competition. Such a code will bring stability and progress to this most important segment of our economy."

Now, I would like to clarify, in case there is some of you here, possibly by misdirection, what we mean by consumer credit. This is any form of credit extended for consumer purpose. To our minds, we, in our study, have been looking at the extension of consumer credit by what we might call creditors by industry and by institution. This would include banks, state and national; savings and loan associations, state and national; consumer finance companies, sales finance companies, pawnbrokers, automobile dealers, door to door salesmen — anybody who is extending credit to the public in the State of Texas. This should also include cash loans, credit extended in retail purchases, credit extended in connection with automobile sales, pledges by pawnbrokers, home improvement loans. We have excluded for purposes of our study first mortgage credit on homes and feel that this is not an area, though it is consumer credit, it is not generally considered an area subject to regulation as we generally know of it.

We have, also for practical purposes, though it is included in consumer credit, excluded from consideration single payment loans, such as extension on charge accounts, single payment charge accounts, such as your gasoline credit cards, airline credit cards and the like. That still leaves a large area for us to study and come up with recommendations.

Again, we have sent out notices to all interested parties asking you to testify at the hearing.

We hope that we will be able to reach everybody who is interested in making a statement. We are prepared to stay here as long as possible. There may be some of you here who may feel that you do not wish to come up and stand at the microphone and make a statement, but you would rather have a prepared written statement to submit to the Committee. We would be happy to have those statements from you. You may want to submit a statement at a later date. We would be happy to accept that.

Now, let me point out, and make a statement to you: Each of you was given the opportunity to register. As part of our hearing process in preparing the record for the Governor's consideration, we have employed a Court Reporter, Mr. Hickman, from Austin, Texas. This is Mr. Hickman to my right. Mr. Hickman is taking a verbatim transcript of the testimony in this hearing. Now, he is providing this to us at our cost, but under our arrangement with Mr. Hickman, transcripts of the testimony will be available to anybody who wishes to purchase them. This is an arrangement which must be carried out between you and Mr. Hickman. He will have transcripts available to you, and I understand at the reasonable going cost, so to speak, for transcripts of testimony of this type.

So if anybody is interested in that, you may contact Mr. Hickman. There are order blanks at the registration desk in this regard.

Now, our procedure in the hearing is this: We have a number of people who have registered to testify. We would like them to come up, to give their testimony; quite frankly, we don't know—we are partly in awe and trepidation of what we will hear, so to speak. We would like to make this point clear, though. This is not an investigating committee. We are not seeking sensationalism. It is a study committee. We are trying to learn the facts so we can make a sound recommendation to the Governor.

We would also like to make the point that this Committee is not sitting here as a judgment body or an adjudication agency. If somebody has a complaint about a particular lender or institution or class of loan, we have no authority, no jurisdiction to satisfy or remedy a specific complaint or a specific condition. We are here only to take testimony, to study the transcript of the testimony we receive, formulate recommendations and transmit those recommendations to the Governor. And I don't know, but if it should be that somebody has a specific gripe or grievance—let's put it to you this way—if it falls within the jurisdiction of any of the commissioners here, I think we would be glad to hear you personally, take down your complaint and do what we can. If it is not within our jurisdiction, we have people here, we hope to have people here from Legal Aid, the Junior Bar and the Better Business Bureau. I think somewhere you can get some relief for your problem.

Now, I would like to open with Lt. Colonel Rupert P. Hall, Post Judge Advocate, Headquarters Fort Sam Houston. He will appear for the United States Army and give a presentation of Army Regulation 210-7, "Personal Commercial Affairs." Colonel Hall.

LT. COLONEL RUPERT P. HALL

was called as a witness and presented the following testimony:

COLONEL HALL: Thank you, sir. As indicated, I am the Post Judge Advocate at Fort Sam Houston. My commanding officer is Major General William A. Harris. I appear before this Committee as an invitee. I am not here to endorse or advocate legislation, and please understand that I am not a spokesman for the Department of the Army. Any views that I may express or any interpretations I may give are mine personally.

The policy of the Department of the Army is

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expressed in Army Regulation No. 210-7, dated 10 June, 1966, entitled "Personal Commercial Affairs." This regulation is based upon Department of Defense Directive No. 1344.7, dated 2 May, 1966.

And at this time I would like formally to present to the Committee a copy of this Army Regulation.

(Army Regulation 210-7 was marked "Exhibit 1" for identification and is attached.)

Department of the Army policy, as expressed in this regulation, is that those who sell or lend to military personnel are expected to subscribe to the standards of fairness and to make full disclosure before the loan or credit agreement or contract is executed.

As background material, the Committee should be aware of the following: In the past, creditors made it a practice to write the debtor-soldier's unit commander requesting assistance in the collection of a debt, or maybe even demanding that a soldier pay a certain obligation. Now, the Army will not condone reckless mismanagement of personal commercial affairs. Members of the Army are expected to discharge their private indebtedness and financial obligations in an honorable manner. Yet, the Army cannot act as a collection agency or require a soldier to divert any part of his pay in satisfaction of a private indebtedness.

In the past, as a general rule, there were no established practices, procedures, or guidelines for the commander to use in evaluating the fairness of an indebtedness.

Under this new regulation, Standards of Fairness are set forth. In summary, these Standards cover such items as follows:

A prohibition against usurious interest rates.

No attorney's fees allowed unless suit is filed; then not in excess of ten per cent of the obligation.

Defenses against the original lender shall be good against any subsequent holder.

Debtor shall have the right to remove the security from the state or from the nation if the move is in response to competent military orders.

No late charges in excess of five per cent or five dollars, whichever is lesser.

Permissive accelerated payments with no penalty for pre-payment. Also, unearned interest must be refunded in the event of accelerated payment.

No charges for insurance unless the policy is actually issued.

Equal, or substantially equal, installment payments.

Fairness in repossessions.

Finally, the contract may be terminated before delivery except in the case of specially made products.

Under the Full Disclosure Procedures, persons dealing with military people are expected to make a full, clear and complete disclosure of the charges involved and the amount and number of payments. The regulation provides that a complaint from a creditor who refuses to make full disclosure and abide by the Standards of Fairness will not be processed by the unit commander. Now, this simply means that the unit commander is not required to call in the soldier and discuss the obligation with the soldier if Standards of Fairness of Full Disclosure have not been met.

In no way does the regulation purport to impair contracts. It does, however, withdraw further Army inquiry and action on letters of complaint involving cases not meeting the Full Disclosure and Standard of Fairness tests.

Gentlemen, do you have questions?

BY MR. MISKELL:

Q Colonel Hall, does this policy apply to just Army personnel in the State of Texas or is there similar policy for, let's say, for the Air Force or for the Navy?

A Sir, this regulation, which is a Department of the Army regulation, is based on a Department of Defense directive and the Secretary of Defense, who you might say writes the pay check for all three branches of the service, has directed that the military departments, which will include, of course, all three, that they will promulgate regulations in accordance with his directive, so you can rest assured that something quite similar to this will be found in both colors of the blue, Navy and Air Force.

Q Do you have any idea how many military personnel will be covered by this policy?

A In terms of numbers, sir?

Q In terms of number.

A I would estimate, sir, something like two and a half million.

Q Here in the State of Texas?

A Sir, I am not prepared to give the number of armed forces personnel stationed here in Texas. It is sizeable, I can assure you. As a matter of fact, I believe that the military payroll, the Army payroll I believe it is in San Antonio, runs something like $130 million a year, but I am not totally up on my statistics in that field.

Q Colonel, your section or your division of activities at Fort Sam Houston, you are concerned with the protection of military personnel as consumers per se. Is that right?

A That is correct. Yes, sir.

Q In other words, if there are complaints by military personnel that there is fraud and mistreatment, overcharge or harassment in connection with credit transactions, these complaints would filter into your headquarters eventually? Is that right?

A Yes, sir. You will notice, sir, in reading this regulation one of the powers that the military has is the use of the Armed Forces Disciplinary Control Board. Now, this is an advisory board that has the power to recommend to the unit commander that a business establishment be placed "off-limits" if that business establishment employs deceptive practices or any practice which is contrary to morals or the welfare of our people. So that would be one tool that the military commander would use; that is, place the establishment off-limits. Of course, that merely drives them in another direction.

Q Now, Colonel, in my opening remarks I mentioned in talking about consumer credit here in Texas, or anywhere for that matter, we are covering an enormous range of commercial activity. In other words, there are cash loans, there is credit in connection with the purchase of, let's say, refrigerators, radios, jewelry, a boat, and automobiles; it may even involve the pawn or the pledge of jewelry or radio, again, to a pawnbroker. And as I pointed out, we have some lenders and some transactions subject to regulation here in the State of Texas. Now, there are some that are not. Do you have any idea, if there are abuses— Well, let me ask you that. Do you think there are abuses in consumer credit here in Texas today?

A Yes, sir.

Q Do you think they are serious?

A Well, sir, I will put it this way: They are extremely demoralizing for our troops. They cause the unit commander considerable difficulty in that he has to divert his energy and time from his primary mission, which would be the training of people—he has to divert his energies to answering these letters of complaint. And the purpose of this regulation is to process only those letters where we feel that the debt is fair and that the soldier has received fair treatment.

Q Basically, there are problems in the field of consumer credit. Now, let me move on to the next point.

Without going into detail, let's say, we have some institutions that are regulated. Are the problems with those regulated institutions— Let's say, you are aware of the Texas Regulatory Loan Act, for example.

A Yes, sir.

Q This is the Act I administer. Do you feel this is one of the major areas? Do you feel the Act is sufficient to control the abuses in this type of lending activity?

A At least it gives a state agency that can receive a complaint. I will put it that way. We have received excellent cooperation from the Regulatory Loan Commission. Mr. Duke—I might mention him by name—has been most cooperative and most helpful. Of course, I have been at Fort Sam Houston in my present job since the middle of January, and perhaps that is too short a period of time upon which to give a very deep feeling or opinion in this area.

Q Well, let me go on to that now. Our banks, for example, do the complaints coming up to you indicate that our state and national banks are a source of problem in the field of consumer credit? In other words, do you have many of your servicemen complaining or griping about treatment they have received at banks?

A No, sir.

Q What about the savings and loan institutions?

A No, sir.

Q All right. How about credit unions? They are also subject to regulation?

A No, sir.

Q In other words, you have mentioned that in terms of regulated loan transactions, do you have problems there?

A In terms of finance companies?

Q Yes.

A Yes, sir. That is basically where the problems come from.

Q Do they involve loans that are subject to regulation or do they involve unregulated transactions?

A I am not sure I understand the question, sir.

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Q Your average finance company is engaged in furnishing multiple lines of credit. You see what I mean? Under the Regulatory Loan Act we can regulate a cash loan up to $1500. But now, if it is a $2000 loan it is not subject to regulation by our agency. The same finance company may finance an automobile. Now, that transaction is not subject to regulation by our agency or by any state agency. You see what I mean? When you say "finance company," let me pin it down further. Do they involve the regulated loan transactions or unregulated transactions?

A Mostly the regulated, sir.

Q Mostly the regulated?

A Yes, sir. The smaller loans.

Q The small loans?

A Yes, sir.

Q When you say "smaller loans," what size?

A Oh, well, we are working on a case right now that involved an initial loan of $284.

Q Well, what specifically in this loan, what was the problem?

A Well, it was a paper that was sold from one company to another company and then when the second company received the paper they invited the soldier to

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come in, and before they got through with him his balance had been increased from $199 up to $300 plus they had doubled his payments and spread this out over—well, they doubled his payments and the interest was $120. We are investigating this case right now. So it is a smaller loan.

Q Did this originate as a cash loan?

A No, sir. It was on the purchase of an appliance.

Q Well, now, there we made the point that that was not subject to regulation. You see what I mean? There is no state law regulating a credit transaction on the sale of appliances. This would be an unregulated transaction. When you start saying "finance company," I mean, to the average citizen this applies—you have banks or savings and loan associations, credit unions or finance companies. Now, within the range of finance companies we have some companies that are regulated.

A Yes, sir.

Q And some that are unregulated. So this would be an unregulated transaction, so to speak. I think we need to clarify that point.

But, in terms of regulated transactions, do you feel that the servicemen in the Armed Forces are

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receiving protection here in the State of Texas?

A As far as the Regulatory Loan Act goes, yes, sir, I certainly think so.

Q In other words, if you have received a complaint from the serviceman and you have tendered it to our agency, do you feel there is a public agency which will give remedial action or satisfy, in other words, protect the serviceman from abuse?

A Yes, sir.

Q Then, to narrow it down more specifically, would you say that the problems that you are receiving in the military are primarily in terms of the unregulated consumer credit transactions?

A Yes, sir. I understand your question now. Yes, sir, that is correct.

Q In other words, where you do have regulation you don't have the same range of problems?

A That is correct. Yes, sir.

Q All right. Now, Colonel, let me ask you this: In terms of the Department of Defense directive here, or the directive you have promulgated there, have you found that you have received cooperation from the various institutions and lenders?

A Well, sir, this regulation will require extensive education, both on our side of the fence and then on the commercial side. This regulation is under study. It is fairly recent. As of yet, we have not been in contact with the retail merchants on this regulation. We certainly anticipate cooperation.

Q By the way, let me add that when we talk about complaints or abuses, we do have—when we are talking about cash credit, I think most of the gentlemen at this table are concerned with cash credit questions. But in terms of retail transactions, do you have problems there? I am thinking in terms of—we want to get close now to department stores or retail establishments. Do you find that you have a range of complaints from servicemen is out of credit transactions? ?

A Are you limiting that just to department stores, sir?

Q Well, furniture stores. Let's just take a general line of department stores. Without trying to pin it down, let's say I'm thinking in terms of department stores. We have Frosts, Penney's, Sears, Montgomery Wards, Joske's, Wolford-Marks—that is Joske's now, too. That line. Do you find that you have major complaints from that class of department store?

A No, sir. I don't believe so.

Hall

Q Right. Now, we could turn it around. Furniture dealers, things like that; appliance dealers, or used appliance dealers. Do they create problems for you?

A No, sir. I don't believe so.

Q All right. Now, what about the other broad category that would be in automobile sales finance?

A Yes, sir, we have had some trouble with some of those. Yes, sir.

Q Do they involve new cars or used cars usually?

A Mostly the used cars.

Q What type of problems? What are the complaints you usually receive? What is causing the problems in that area?

A Well, of course, one would be that the merchandise didn't quite live up to the standards as advertised. Another problem is failure to disclose the full terms. In other words, the soldier thinks he is buying or required to pay one price when in reality he is paying much more.

Q All right. And this is why your policy here would call for a full disclosure?

A Yes, sir.

Q Do you know something of the background of that Department of Defense policy statement?

A Well, sir, I understand that it was based on some remarks by President Johnson. The President's message of 21 March, 1966, entitled "Consumer Interest," wherein he encouraged the abandonment of the "caveat emptor" doctrine and encouraged fair dealings. This, in turn, was embodied in the directive which finds its way to your table there in the form of the Army Regulation.

Q Yes. Now, to your knowledge, Colonel, does the disclosure section, the general format of this directive, does it not parallel, for example, the disclosure provisions of the Texas Regulatory Loan Act?

A Yes, sir.

Q They are fairly similar. There might be minor differences, but the principle is the same. The borrower is given a full disclosure of his charges; he is also given a complete copy of the contract. He is fully aware of the terms of the loan, the conditions of the loan, his rights to refund and prepayment and so-forth. He is protected against harassment.

A Yes, sir.

Q Colonel, let me ask you, in terms of the

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military, do you find that there are personnel, do you have people who cannot use credit wisely?

A Yes, sir. That certainly is true. Yes, sir, we do.

Q In other words, let's say the problems of these people, do they flow up to you? In other words, in forms of complaints either from the personnel themselves or from their commanding officers or from the creditors, the merchants and lenders in the community? Do you find that these people can handle credit? Do they create a major problem for the military?

A Yes, sir, they do. Some of these people are youthful, of course; they are away from home and they are awed by the glitter of the goods sometimes, and they are easy victims, perhaps; and then we receive requests in my office from the unit commander or from the soldier himself by way of legal assistance to help the soldier straighten out his problems. We also have problems where individuals have come into the service with considerable debts in that they have had a good job and they were drafted, for instance. Of course, the Soldiers and Sailors Civil Relief Act affords a measure of protection to these people. But they do

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find their way into my office by way of legal assistance. And then, as I indicated if there is a case of gross abuse, then it may find its way into the hands of the Armed Forces Disciplinary Control Board.

Q Do you know, or to your knowledge, do any of the units here in Texas have consumer credit education programs for the personnel? In other words, do you have any programs in effect trying to educate your military men, these young men to use their credit wisely?

A Yes, sir. This subject comes up at the commander's information hour. We use representatives of the credit unions to talk to our people. And of course, the individual soldier receives counseling from his unit commander and if he comes up to my office requesting debt counseling, we have a program for that.

Q This calls for an opinion or a conclusion on your part. Let us presume that as a state we were to take the disclosure manual, or your policy there, for laws based similarly on that. Suppose we were to regulate every form of consumer credit transaction. Do you feel that that would be enough or do you feel that the borrower, the creditor, there needs to be some education or some restraint there?

Hall

A Well, yes, sir. There is no question about it that if the— You are talking about education, the debtor or the creditor?

Q The debtor.

A The debtor. There is no question about the debtor, and that is certainly contemplated under our regulation. You must have a well educated debtor because I don't have as much sympathy for an individual who recklessly goes into a commercial transaction. And you will notice in my opening remarks I indicated that the Army will not tolerate this. But for an individual to avoid this recklessness, he certainly must be educated as to what he can expect and what services are available to him.

Q In other words, if here in the State of Texas we have a series of laws which in effect establish qualifications or standards for lenders, much as we have for regulatory loan lenders, for banks and savings and loan associations and credit unions so to speak, if we establish these standards for all forms of credit, if we have a full disclosure contract—in other words, if before a man enters into a contract he is fully apprised of all the significant facts relating to that transaction, then in terms of public policy or protection of the public, the state has gone as far as it can go, directly, or that it should go?

A That is correct. Yes, sir. I am not a great advocate, sir, of over-regulation.

Q This is right. In other words, there is only so much—this is the point I am trying to make. There is only so much you can do in terms of regulation. At some point, the individual will have to cooperate by acting wisely and prudently in his own interest?

A Absolutely. Yes, sir.

Q But you cannot protect every soldier or every citizen of the state in every transaction he enters into in his every day life.

A That is correct. I concur in that. Yes, sir.

BY MR. GERST:

Q Is this regulation in effect right now?

A Yes, sir. It was effective on 1 July, but the unit commanders, until such time as we actually implement this, are continuing to process these debt complaints.

Q Does it apply to only consumer loans or all types of loans?

A Sir, there are certain exclusions that you will find in the regulation. That is on page 5, sir, subparagraph 10.e, loans having to do with real estate.

Q I see. That would answer that, then.

A Yes, sir.

Q Thank you.

MR. MISKELL: We thank you, Colonel Hall. I don't think we have any other questions. If there are any other remarks that you would like to make or submit for the record at a later date, we wouldbe happy to have you do so.

On behalf of the Committee, I would like to express our appreciation to you for coming forward and making this statement.

A Thank you. Thank you very much.

MR. MISKELL: I would like to call Captain Morton S. Webb. By way of reference, I would like to point out that Captain Webb is stationed at Kelly Air Force Base here in San Antonio; that he is also doing graduate work towards a Masters Degree at Saint Mary's University, and he has taken as his area of study the consumer credit debt problems of civilian employees at Kelly Air Force Base.

Captain, I would just like you to take off.

CAPTAIN MORTON S. WEBB
KELLY AIR FORCE BASE
SAN ANTONIO, TEXAS

was called as a witness and testified as follows:

CAPTAIN WEBB: First of all, I would like to apologize for appearing in my work clothes. I've got to go fly at 1300 take off. That is 1:00 this afternoon.

I am primarily assigned in the Air Force as a pilot, so believe me I am still a layman in this consumer credit business.

However, I have completed my thesis, and my MBA requirements at Saint Mary's. Let me read you the title of this thesis: "An Analysis of Selected Economic and Personal Characteristics of Civilian Employees Who Are Involved in Debt Complaints at Kelly Air Force Base, Texas." Now, you've got to make the titles long so you can limit the study, and this being 105 pages. I could have added on the end of that title, "From May 1, 1965 to 30 April of 1966," as the sampling I took.

I also want to say, as Colonel Hall said, that I do not speak for the Air Force, the Department of Air Force or the Department of Defense. I strictly did this study for my own benefit and also to try and help Kelly Air Force Base with their debt complaint problem.

Let me go back and tell you how I got into this in the first place. At Saint Mary's in the School of Business we like the thesis to be on a problem area, so I went out to Kelly Air Force Base, where I am assigned, and asked them in the civilian personnel office, what is their biggest problem, and I had four different people tell me that debt complaints is one of the their biggest problems at Kelly Air Force Base. Now, this is amongst civilian personnel. I did not go into the military personnel at all. I think Colonel Hall covered that area pretty well. But I have Mr. Flat over on the couch here and Mr. Jiminez from the civilian personnel office at Kelly.

Let me read the Air Force policy from Air Force Regulation 40-711, dated May 7, 1963. This pertains to employee conduct of civilian personnel. I want to keep reiterating that because it does not apply to military personnel. There is a similar regulation that would cover military personnel. I will read the policy, or a part of it:

> "Employees are expected to pay their just debts and maintain a reputation in the community for honoring debts. The reputation

of Air Force employees as good credit risks must be protected against any detrimental effects of the actions of a small minority. Because federal employees salaries are exempt from garnishment, they have an added obligation to maintain a reputation for honoring obligations. The Air Force will not be placed in a position of acting as a collection agency or determining the validity of contested debts. Failure without good reason to honor debts, acknowledged by the employee to be valid, or the validity of which is supported by a court judgment or to make and adhere to satisfactory arrangements for settlement is cause for disciplinary action or removal. In considering the extent of action to be taken by the Air Force in any indebtedness case consideration will be given to the seriousness of the complaint, the good faith or lack of good faith evidenced by the employees concerned and any unusual circumstances involved."

Of course, that is just part of it, but you can see the Air Force is concerned, and at Kelly Air

Webb

Force Base this is the second most prevalent reason for disciplinary action of civilian employees, second behind AWOL, or Absent Without Leave from their jobs.

When I speak of civilian employees at Kelly, I want you all to realize that there are over twenty thousand civilians in headquarters SAAMA, which is San Antonio Air Matriel Area, and if you take the other tenet organizations, there is approaching twenty-three thousand, somewhere around there, roughly.

Now, in my sample I came up with 986 employees-- and what I did in this thesis was to identify what segment of the work force they were from, and to recommend an education program outline of one for them. I strictly looked at this from Kelly Air Force Base point of view. I did not get into the abuses as much as I would have liked to. Of course, like I say, you have to limit these things some way. What I did find in the conclusions, of course, as you would expect, it came mainly from blue collar employees at Kelly, in the lower wage groups. It seems like employees with less than $6000 annual income have a hard time keeping above water these days. Let me just read the last paragraph here, which would probably be best, and then I will be open for questions:

Webb

"The conclusions of this paper point out the type of employee that is most likely to generate debt complaints and the complexity of the problems faced by the American consumer. With the rising costs of living and the general lack of savings of lower -middle and middle income groups there is a definite need for consumer and family budgeting education programs for the civilian employees at Kelly Air Force Base who is most likely to become involved in a debt complaint."

And my recommendations, I will read you the first part of this:

"A consumer education program and family budgeting program is recommended for the civilian employees who are most likely to create debt complaints, and for those employees who create debt complaints. The program could be given one day a month in conjunction with present indoctrination programs for new employees who fit the description of the typical employee who is most likely to create debt complaints and for those employees who created a just and valid debt complaint in the previous months."

I think the best way to handle this now is for questions. I feel like I am qualified to answer any questions on this paper. Now, anything else, I don't feel like I can say I am an authority on.

Are there any questions at this time?

I did leave a copy of this thesis with Mr. Burton, and I want to thank you, Mr. Miskell, again, publicly, and Mr. Burton, for access to your files at Austin. I got a lot of useful information from you.

BY MR. MISKELL:

Q Captain Webb, you have done a detailed study. How long were you involved in this study?

A Well, let me explain. I was under "Operation Boot Strap," which is a full-time education program, and I finished my course work in May, so primarily June, July and August I devoted my full time and effort to this study.

Q In other words, what I am getting at is—

A Three months full time.

Q —three months full time you dug in that?

A Those weren't eight hour days.

Q I would hazard, from speaking to you, and my acquaintanceship, that they weren't less than eight hour days. Correct?

A Right.

Q Now, from your study—and this embraced a work force of some twenty thousand, better than twenty thousand civilians?

A Yes, sir.

Q Now, I might make the point, these civilians are not covered by the military directive that Colonel Hall spoke of. Is that correct?

A That is correct, sir.

Q In other words, what protection they have in consumer credit transactions will flow from the protection afforded by the State. Is this correct?

A That's right. The primary difference there, let me explain, for the civilian employees, a firm cannot be placed off-limits. So that source of control of the problem is not available to these civilian employees.

Q Now, from your study I imagine you had interviews with many of these individuals. Is this correct? Have you interviewed these individuals or have you talked with people who have interviewed these individuals?

Webb

A Well, sir, I did not get into the interview area very extensively at all.

Q This would be a review then?

A Mostly a statistical study of the people and their characteristics as far as age and income. Let me cover those factors that I was able to obtain at Kelly Air Force Base. I did not do any personal interviewing. It is their wage, their income and job; also their age, sex, their education level, and to back up educational level, I used a learning ability test score that most all civilian employees at Kelly have taken. It is a test given by the Air Force on learning ability.

Q Do you have those figures there in a chart form?

A Yes, sir, I do.

Q What age group are involved in these problems?

A Well, in age—of course, my hypothesis was that they would be in the thirty-five years and younger age group. This didn't prove so. The disproportionate share turned out to be in the thirty-six to forty-five year age group at Kelly Air Force Base.

Q Right.

A Now, this is probably due to the fact that

Webb

the work force at Kelly is rather a mature work force. I think only twenty per cent was under thirty-five years of age. Also, I don't know whether you are familiar with the University of Michigan Social Research Center, I believe, or Bureau of Social Research, or something. Mr. Katona does a survey which a lot of people put a lot of faith in, a survey of consumer finances which most of you are probably familiar with. The latest one, in 1964—anyway, he considers people under forty-five as being in the young age group as far as youth of consumer credit and installment buying. So, actually, my hypothesis was not completely wrong because if you consider everybody under forty-five as being in a younger age group, it was proved correct.

I do want to say that I found some interesting studies on consumer bankruptcy. One was done in Michigan and the other in California, where they do have garnishment laws. They found the median age in their studies was around thirty years of age. So this is a problem of the younger people. I think that if the State of Texas wants to do something useful they could make this a required course in the high schools, or part of a course of economics or a civics course. I don't know exactly what they teach in high school any more, it's been a long time, but if they could just make a part of it the use of consumer credit and installment buying.

Q Right. Now, as to income groups, you say the majority of the problems centered in the blue collar worker, with incomes below $6000. Is that correct?

A Yes, sir.

Q What about education? Where would the majority of the problem be?

A Well, now there is a problem. The biggest or a disproportionate share turned out to be, as you might suspect, the people that did not complete high school. So if you had an education program in high school it isn't going to help these people either. That is where the biggest problem was: in the people that had not completed their high school education.

Q Let me ask you this. These were people that had credit problems. Now, this is a jump, and here again, it calls for a conclusion. Do you think that consumer credit has served these civilian employees well? I am talking as a general proposition. Is there a need for consumer credit?

A Yes, sir, there certainly is.

Q In other words, there is no doubt in your mind that wisely utilized, wisely administered, consumer credit is a constructive part of our economy?

A Yes, sir. Definitely.

Q Right. Now, these people that had the problems, what basically caused the problems? If you had to just sit down and say in a few words, why did these people get in trouble?

A Well, mainly, I believe—this amounted to 986 individuals, which is approximately five per cent of the work force, and this is for a one year period, so this isn't the only people involved in debt complaints at Kelly Air Force Base. So you've got five per cent of the large work force that were involved in this problem. I feel like most of these people were in this problem before they realized what hit them, and to me consumer education is the answer, or part of the answer, looking at it from the debtor's point of view to the problem. I am not so sure that further legislation is needed. It is mainly to educate the debtor or the consumer what his rights are in our complex economy.

Q Basically, when you say "rights," basically it seems these problems would stem from what we would call the over-loaded borrower?

A Yes, sir.

Q In other words, the individual has gone out and purchased an item at one place on credit; he's gone somewhere else and purchased something else, and maybe he has made a cash loan. Is this the pattern? In other words, do the complaints, do the individuals get in trouble, let's say, with a particular institution, or on a particular transaction? In other words, was it just, let's say, one loan or the purchase of an automobile or his revolving credit at one retail store? Was that the cause of the situation, or was it rather he had too many loans outstanding at too many places or he was trying to buy too much at one time?

A All right. I see your point. I did not get into the source of the debt complaints as deeply as I should have. However, in this study I found that forty per cent of these practically a thousand people had debt complaints from finance companies, consumer finance companies. And the next highest approximately thirty per cent—of course, these would be some of the same people—had debt complaints from medical services, and in that, I mean hospitals, doctors and dentists. Now, I did not go into it any further than that, but of course, there was, just from memory, there was a lot of easy credit companies on the records as having made debt complaints,

To get back to your question, I think that since the passage in 1963 of the Texas Regulatory Loan Act, you can no longer single out finance companies as being the largest offenders, really. I think there might be some carry-over. For instance, before 1963, there were as many as twelve thousand debt complaints per year at Kelly Air Force Base, and a majority of these were from the finance companies. So we have gone a long ways from that. This past year, 1965, they ran around four thousand. So we have come—we have decreased debt complaints considerably already. I think the finance companies percentages, even though still high, have come down. It was tremendous. In 1954 they had a study in which they blamed entirely the finance companies for the problem at Kelly. So I did not try to single them out. I feel like the Texas Regulatory Loan Act is a good Act and I think it is mainly a problem now of educating the people at Kelly and other places as to what the rates are and what the finance companies can and cannot do under the law.

Q Let me raise that question with you. In terms of education of the borrower, do you feel that if we had legislation here in the State of Texas in these areas— Now, you do know that we have disclosure under the Texas Regulatory Loan Act—

A Yes, sir.

Q —the rates charged on the transaction, the terms of the transaction, the amount of each monthly payment, the number of payments that the borrower must make. They regulate the advertising. Now, do you feel that this is a form of education?

A Yes, sir, I do. I feel like possibly some of the people don't understand it yet, though. If it is just published and handed to them, I don't think that they fully grasp what the interest rates are.

Q Well, now then, you are talking about education in the pure sense. This would have to be something— this would be a function of, let's say, the schools. Do you feel, let's say, in high school or college that there ought to be education along the lines of consumer credit, telling people how to utilize their credit wisely, so to speak, and what the effective rate of interest is?

A Yes, sir, I definitely do. I don't think we should go overboard though. I know I read an article in "Nations Business," a Chamber of Commerce magazine, that got kind of out of hand, I guess, in certain instances. I mean, I don't think we should tell these people where they should buy, mentioning names and this type of thing. But we should try and educate them to use their credit wisely. A lot of them get married in high school and right after high school, and they get in over their heads before they know what's hit them.

Q Well, here again, I would like to make a point that even with educational programs, let's assume that we had it required that you would have consumer education in the high school or in college. Let's presume that you had a public agency which tried to put out on a general basis consumer protective information. Do you believe that you would still have credit problems with individuals?

A Yes, sir. There are people that are not going to pay their bills.

Q All right, sir. In other words, I think it ought to be made, or would you agree with this hypothesis? That if there are problems in the field of consumer credit that these problems are not generated alone by the creditors, the people who are granting credit, the institutions—

A Right.

Q —that the problems are created. I mean, that there is a significant responsibility, those in turn to the borrower?

A Yes, sir. However, let me say one thing on this. I didn't get into the abuses like I would have liked to. But I found as many as, well, employees with a high number of debt complaints for a one-year period that I took was twenty-one debt complaints. To me it is hard to understand how somebody can be—I think the consumer credit industry has a responsibility to keep people from overextending. In other words, they don't only have a responsibility to check the man's credit rating to see if he has paid his bills in the past, but also if he can pay his bills in the present. If he owes more money than he is making per month, you should not lend him money. This is part of the businessman's responsibility. There were as many as eight different finance companies that sent in debt complaints on the same individuals.

Q In other words, then, there is a possibility that there ought to be some limitation or control possibly on the amount of credit that may be extended?

A Yes, sir, I do think so. Yes, sir. I did find from interviewing the manager of the credit bureau, etc., that all these businesses do check credit.

But we understand the credit bureau—you check the man's payment record is one way of doing it; if you want to go into it further, you can check and see how much he owes. In other words, they call this an "in-file" report, I believe, which costs a little more money. But that way you can see if the man is overextended at the present time. If he is, you should not extend more credit to him. There is a means available, and I am not sure you can regulate this personally. I really don't know if it could be done.

Q Well, Captain, do you have any idea or could you guess the number of establishments here in San Antonio that are granting credit?

A You mean the number of different kinds? I know there are—

Q There is a large number of kinds, but we have had—we would have to say practically every service station in San Antonio.

A Right.

Q Practically every doctor and every hospital, every retail store; in addition, every bank, savings and loan association, credit unions, personal finance companies, sales finance companies, automobile dealers. I would hazard that you would probably have from fifty or sixty thousand establishments where a person could get credit in one day?

A Yes, sir.

Q I think if somebody would go out here on Houston Street, if they left the hotel and walked down the street, he probably could get credit, let's say, in fifty different establishments inside of an hour?

A Right.

Q So that even if you do have a credit bureau— in other words, somebody goes out on a Saturday morning, by Saturday evening he may have run up ten or fifteen different credit transactions in that day.

A This is correct.

Q I am trying to make the point that you've got to get backto the responsibility of the individual in all of this.

A Right.

Q I mean, even with our computers we can't keep pace, let's say, with the housewife who is on a shopping spree or the fellow who wants to equip his car.

A Right.

Q We can do so much and then it is up to the individual?

A Right. There are certainly two or more sides to the problem. But also the competition for business, I think probably some people don't check credit as far as they should. That's all. That is the only point I was trying to make.

MR. MISKELL: Any other questions?

We thank you, Captain.

A Yes, sir. Thanks for asking me.

(Brief recess.)

MR. MISKELL: We would like to get started up again because we have a full day.

At the time that we announced the hearings, I sent out a personal invitation to all the members of the Legislative delegation here in Bexar County, the Democratic nominees and the Republican nominees. Now, this is a large order I recognize. We have some members of the Legislature, some members elect or nominees elect, in case we have any Republicans here. In the audience I recognize a few of them. I may not recognize all of them, and for persons in political life that just may be blowing the game. I will take the safe way. I would like for you to all stand up and just announce to the audience who you are so we can recognize you. And, by the way, if any of you would like to make a statement or any remarks, I am sure the Committee would be very glad to hear from you. Why don't we just start over there. I recognize Frank Lombardino.

MR. LOMBARDINO: Frank Lombardino, Democratic nominee, State Legislature; no Republican opponent. (Laughter)

MR. MISKELL: Let me call you Frank.

MR. VALE: Bob Vale, State Representative, re-elected without Republican opposition also. (Laughter)

MR. MISKELL: Thank you, Bob.

MR. PYNDUS: I am the Republican that you are talking about, running for the State Senate. I do have a Democratic opponent.

MR. MISKELL: But you are the good Republican, Phil. You are not opposing Frank or Bob. I will call you Phil. (Laughter.)

I think we have taken care of the equal time. We do have another Legislator here that has asked to make a statement and that is John Alaniz.

MR. ALANIZ: John Alaniz, six year member of the House. I didn't seek re-election and the people returned me to another post.

MR. MISKELL: John, you do wish to make a statement?

MR. ALANIZ: Yes, if it's all right.

<u>THE HONORABLE JOHN ALANIZ</u>

was called as a witness and testified as follows:

MR. ALANIZ: Gentlemen of the Committee, I I have a short statment to make. I know that there will be many other speakers.

I am John C. Alaniz, three-term member of the House. I served since 1961 when the question of "Lone sharks" and consumer credit was first given a pretty good run around in the Legislature.

I am opposed to the high interest rates that are being charged the consuming public in Texas today. I am just afraid -- I hope not, but every time a Legislative body or agency of the State, of this State, goes to studying the interest rates of Texas, the interest rate that the consuming public pays, the interest rates generally go up.

In 1960, the people of Texas were sold the biggest bill of goods in the history of this State when they were brain-washed into voting for the Constitutional amendment allowing the Legislature to set the rates of interest above ten per cent. At that time, as you recall, ten per cent was the legal maximum under the Constitution. I can recall all of the propaganda that the media had with all the help of the lone sharks and money lenders in this State. The propaganda was to vote for the admendment in order to get rid of the lone sharks. So, that was the thing that the people of Texas was generally told. As it turned out, the Legislature instead of getting rid of the lone sharks and the high interest rates passed a law legalizing the lone shark's operations in Texas and high interest rates went up from ten per cent to thirty-six per cent, and any money borrowed over a hundred dollars -- and it is generally under a hundred dollars, as you know, the rates are generally up around three hundred per cent. This was contrary to what was told the people and contrary to the wishes, I feel, of the great majority of the consuming public. This was contrary to what they were led to believe in voting for the Constitutional amendment raising the ten per cent or allowing the Legislature to do so.

We need to get back to the legal ten per cent maximum charges for interest in Texas. And in this regard, we need to repeal the Constitutional amendment that was passed in 1960, in the general election, and we need to put teeth in the law of ten per cent -- it will go back to ten per cent -- if we put teeth in that law and put enough teeth to punish any one charging more than that ten per cent after the maximum ten per cent is restored. In other words, if we repeal the Constitutional authorization and go back to the ten per cent and pass some good laws, putting teeth in it, the ten per cent will be observed, and I think that Texas would be better off. Of course, as you know, gentlemen, being a member of the Government agency of the Commission that is studying this, my record shows that I voted against all the present high interest rates that people are paying today -- over ten per cent.

I feel generally that we can never have true progress in this State unless all of the rates are restored to ten per cent maximum, under the constitutional maximum. That is still the rate of many loans, but not in the installment or consumer credit.

History has shown throughout the world today and in years past that all of the backward countries of all the world today and yesterday, in history, have fallen or for one reason have failed to progress or have slid down, so to speak, like Rome did, because the rates were generally increased throughout the years until the countries failed because of that, because they failed to progress. I feel that one sure way to destroy this State and this Nation is to do nothing about the high interest rates that are being charged in this State, in this field.

I hope that you gentlemen don't have the idea, Mr. Miskell, that some of the questions that were propounded to the Captain here that everybody can lend money, other than those specifically authorized by the Legislature, to charge more than ten per cent. Well, anyone that lends money that is not regulated can charge only ten per cent. So, that means if you were going to bring in more people under the law, you are going to allow them to charge more than ten per cent. I hope that is not the trend of this Commission, because I feel we don't need it. I know that there are a lot of abuses. I know that there is a need for installment credit, but we got along real well for a hundred years in Texas with ten per cent maximum. The matter is that the Legislature refused to put teeth in the laws of usury. That is where the abuses were. I also practice law in San Antonio and I handle a lot of the cases that the Captain mentioned, and people do over extend themselves, many times because credit is too easy. Many times it is because -- I would like to see a central -- Anyone in the lending business should be required -- it would be pretty hard under the law, but nevertheless your Commission should look into this. They ought to require that when the institution lends money they ought to submit a report to a central clearing house. I believe that some states have this. They should submit a report how much this gentleman has borrowed through a central clearing house so next time San Antonio Savings or some other lending institution, automobile financing or what have you, has a borrower, they can check into the central filing place, so to speak, to see if this man is over extended. I generally would like to see it go back to ten per cent. We ought to repeal the Constitutional amendment and then work

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from that. Put some teeth into the law and anyone that charges more than ten per cent, the usury laws and so forth -- they were very inadequate under the old system. I have been involved in lawsuits under usury, harassment suits and all kinds of lawsuits dealing with people's problems generally.

I would like to say one thing to the Captain who said that the Federal installations have this rule where they tried to tell everyone working for the government that they should pay their debts. That's fine, but in many cases they are aiding and abetting the unscrupulous lender who knows that this person who is in the service or works for the Federal Government will be pressured by the employer to pay his debts and that is why they are a little more relaxed. Many of them, probably, if you work for the Government or in the service, they don't even check you. I know that to be a fact. Some of these lending companies don't even call the San Antonio Central Bureau or Retail Merchants now, because they know whatever they lend they are going to have a pretty good ticket with them because the Federaly agency will put pressure on them to pay.

So, this is my statement. I will be glad to answer any questions.

John Alaniz

BY MR. LINDSEY

Q Mr. Alaniz, I understood Captain Webb to tell us that the complaints against the companies, the installation that he represents, prior to the passage of the Regulatory Loan Act, were in excess of 9,000 in one year, and that in the past year complaints against Finance Companies since the Regulatory Act was passed were something less than 1,000. What does that difference mean to you?

A I don't recall the figures. I think that you are mistaken as to the figures. He said 12,000 and then 5,000. I don't know, except that there were many small lenders that were charging more than the 300 per cent we are paying now legally, and those were the ones that were abusing the privilege and calling in and writing into the base. There may be a great majority -- I would like to see a break down as to the amount of loans. If you do anything, I hope that you recommend to the Legislature that you do away with the under a hundred dollar rate and start from there. But I would like to see the figures on how much money originally these people have borrowed, and I'll bet you'll find seventy-five per cent are under a hundred dollars, because he said, "Blue collar workers" and those are the ones that are less educated and they are the ones that get into hot water a whole lot more. At least that is my experience in my law office.

BY MR. MISKELL

Q Mr. Alaniz, let me raise a point to you because I think that it is basic in terms of this hearing. We are surveying the problems of consumer credit, with a view towards trying to derive effective laws. Now in consumer credit, this is an extensive form of business; it is an economic transaction. You will agree with that? In other words, that sometimes you have a buyer and seller and in this transaction you have a lender and a borrower, but it is basically an economic transaction. The person lending money, he's lending money; he is not selling a commodity, but it has a value. Now, the person lending money must recover from the loan of that money, he must recover enough -- not profit but charge -- in which to cover his cost of operations and to make a profit. You would agree to that?

A Yes. If anyone is in business, they are in to make a profit. I agree to that.

Q They are in business; they are in to make a profit. Now, they ought to be allowed to charge enough to make a profit. Would you agree to that?

John Alaniz

A Well, I have to qualify that. Anyone who goes out here and borrows fifty dollars because a little boy got pneumonia that night and he has to take him to the hospital, that person has no bargaining capacity when they go borrow the money. They are in an emergency situation. It is not like going out here and buying furniture, a living room full of furniture and you go out and you bargain for credit and for price. There are many people who borrow money under emergencies who have no bargaining capacity at that time because of an illness or some emergency in the family. Those people do not need credit if they have to borrow under fifty dollars or under a hundred dollars. They probably need charity more than credit. Those are the ones that we ought to try to eliminate.

Now, after a hundred dollars, after we get over a hundred dollars, then I agree that maybe you ought to have a certain system where you allow certain charges that they require for opening up the books, so to speak. I think the Legislature last session said six and a half dollars. I don't know the figure, but I know it costs so much to put a man on the books.

Q This is the basic problem. This is one of the things this Committee is studying. We will be having a hearing in Austin and I hope you will attend because we will be having some rate presentations, but basically in consumer credit or in any other economic transaction, if a man goes into business and he is either selling a product, an automobile or a cake of soap or a loaf of bread, or he is selling a service as a lawyer or as a plumber, or if in effect he is lending money, he still needs basically to get a return on his service or his product, a return that is sufficient that is going to cover the cost of his operations and then enough to provide a reasonable profit, whatever that would be. I raise this point. I don't know what these figures are, but when we take the figure of ten per cent, which it was up until 1960, the Constitutional maximum. This was an arbitrary figure which was put in the Constitution in 1891. Now, this may apply in many transactions, but it won't apply in many other transactions, and that is why the Legislature amended the law. But, do you believe if a lending institution could not lend at ten per cent, do you think they would lend at ten per cent simply by Legislative fiat?

A I don't know. That is a long question, but I do know that the great majority of lending institutions could lend up under ten per cent. They are doing it now, the great majority, except that we opened up the doors, so to speak, to allow thirty-six per cent, plus the insurance rates and all the other things. I feel business in this country, just like any other, generally they will adapt themselves to circumstances, and they will get more efficient. They will buy computers, whatever is necessary, in order to cut down on the cost of initial lending, if the Legislature would keep that ten per cent. Business has adapted themselves to this type of situation throughout the history of this country. If the law says, "This is it," they will adapt.

Q But, if the law says that you must lend money at a loss, do you believe that financial institutions of the country will lend money at a loss?

A Well, the law doesn't say that now. Nobody has to lend money.

Q Let's assume that --

A I mean that no one is obligated to lend me money.

Q Let's presume on a ten per cent interest limitation, if this Committee finds that lending institutions cannot operate at ten per cent, if we find that on the basis of all available information that lending institutions cannot make these particular classes of loans at ten per cent, then do you believe that the

Legislature should insist on a ten per cent rate?

A Well, of course, that is a matter of judgment whether they can or cannot. You all are going to debate that for years over there. Financing is a very complicated business. I, as a lawyer, wouldn't start to begin to know all about it. Even some people in the business don't know everything, except their particular field. Whatever you find is going to be your judgment. Whether you are correct or not, that remains to be seen; but you are going to have a judgment or you are going to have an opinion as to whether or not they can operate on ten per cent. Whether you would be correct or not that would be debatable for years.

Q Let me make this point. I agree that it is a very complex field and I agree there are differences of opinions. There has been a tremendous amount of study on the economics of consumer finance. This study has been conducted by college professors and universities in all sections of the country. The Bureau of Economic Research in New York, the Federal Reserve System has studied the cost of lending in terms of banks. There are independent studies. There is information available. Under the Regulatory Loan Act every licensee must file annually under oath a sworn statement as to the income and expenses of doing

John Alaniz

business. Now, if this statement is false they have violated laws of perjury and they are subjected to having their licenses revoked and being put out of business. Now, this is the type of data that is available. If this data -- let's say not data; that a man says, "Well, I'm in business and I need thirty or forty per cent," let's say that a university professor said, "I have spent a lifetime studying the business and I find that they do need more than ten per cent." Or the information is available that more than ten per cent is required. Then do you believe that the Legislature should set a realistic rate, whatever it might be.

A Well, like I say, university professors and everybody else are human beings, and my experience in six years mean that many people who conduct these studies are usually subsidized by the people who want the rates to be increased. I happen to know when we passed the Uniform Commercial Code last session the professor recommended to the Legislature was on a retainer for some of these factory houses in New York and so forth that wanted this Uniform Commercial Code passed, because there are advantages in it to large lenders. So, I don't put much weight on who -- there are a lot of behind-the-scenes situations, I know as a

Legislator, there are. And sometimes who makes a report, he might have a high sounding name but somebody over here is picking up the tab. I just happen to know that. So, sometimes you have to put a grain of salt on those reports is what I am trying to get at.

Q Do you believe in the law of supply and demand?

A Oh, yes. Certainly.

Q Do you also believe that law applies to the lending of monies as to the sale of goods or products?

A To a certain extent, yes. Like I said, in a certain field here, under a hundred dollars, we ought to do away with that completely in Texas. A man who needs less than a hundred dollars has no business borrowing any money.

BY MR. LINDSEY

Q I don't understand that. Do you mean that the man who needs fifty dollars that you referred to awhile ago because his wife is in the hospital should be prohibited from borrowing at all?

A Yes, because he has no bargaining capacity. It is not like going out here buying a piece of furniture, You look around and see if you like the material, the rate, the store, the manager and everything else. A man's got a kid in the hospital out here, he is not going to be shopping around for interest rates; he's going to get it.

Q Isn't he the fellow that needs it the worst?

A He needs charity, sir; not credit.

BY MR. BAIN:

Q Where will he find that type of charity?

A That is hard to say. That is what he needs. Where he finds it in this country, we are getting away from that angle a little bit, but we do have a County Hospital here for people who are indigent.

BY MR. MISKELL

Q Well, John I would close. I have tried to raise that point about supply and demand that's on rate. Not to have a point of argument with you, but I think being realistic — in other words, there is two sides to the coin, and that is if you are going to provide a regulated loan service, if you are going to say in the public interest, "We are going to regulate by Legislation, we are going to provide you with protection, we are going to give you a full disclosure under the terms and the conditions and the rate of the contract, we are to license people so that the people with bad moral character or the unsavory business reputation or inadequate assets cannot engage in this business and pry upon you; we are going to have examination and inspection. We are going to have control in the public interest." If we do all of this, by the same token, if we believe in the laws of supply and demand the rate must be sufficient to permit these people or to encourage these people to operate. I mean basically I face the thing that I don't see how we can tell any bank or any loan company or any savings and loan association, "You must engage in lending at a loss."

A We are getting back to judgments and opinions there.

Q Well, this is true. But the point that I am making is that I am afraid that it has been assigned to this Committee the responsibility to make a judgment. Now, I think that I am not in position because I am an employee of the Commission, but I think that I know the character of the people that are going to stand up and make the judgment on the basis of all available information. But I do think that it is important that we establish at this point -- and there will be other hearings. We haven't discussed it, but I think that it is important that as you go along in this, we do recognize that one of the basic cornerstones of any adequate effective regulations of Consumer Credit is the rate of charge with which will permit the competition and will encourage people to engage in the business.

A Well, competion is fine, but if you do anything, set a maximum and don't require it.

Q Well, I don't think that we have ever required it. This is the point.

A I understand, but I am just saying hope that you don't do that. Whatever rate you set, don't set a maximum and have everybody charge it, like the insurance companies on these automobile rates. Set a maximum and let them scratch underneath and compete.

Q Well, I think that under the Regulatory Loan Act that is the maximum rate that can be charged, it is not the minumum. In other words, you can charge that.

A I understand that, but I hope that you don't fool with that part of it. Or at least don't reach a judgment on that.

MR. MISKELL: Any other questions?

BY MR. LINDSEY

Q Mr. Alaniz, do you feel that further competition in the field of these small loans would be desirable? I mean for instance, I know some of the savings and loan associations are now getting into this field.

John Alaniz

A They are doing real well, too, under ten per cent and they ought to remain that way.

Q Well, do you feel that it is desirable for savings and loans and banks to get into this field under a $1,000?

A They can now. There is nothing to prohibit them from lending under a $1,000 now, except that they can't charge more than ten; but they can compete under ten, and they are doing it, and they will continue to do it.

MR. MISKELL: Thank you, Mr. Alaniz.

MR. MISKELL: I would like to call Mr. Tom Frost, Jr. Mr. Frost is President of the Frost National Bank; he is President of the San Antonio Clearing House Association. We are glad to have you, Mr. Frost.

<u>MR. TOM FROST, JR.,</u>

was called as a witness and testified as follows:

MR. FROST: Thank you, Mr. Miskell. You have taken the first few words of my statement here. However, I would like to read it in the record.

My name is Tom Frost, Jr., and I am President of the Frost National Bank of San Antonio and currently

Tom Frost, Jr.

President of the San Antonio Clearing House Association, both of which I mention only to identify myself.

I appreciate the opportunity to appear before you today as a private citizen of this State who is interested in Legislation which will help make available to worthy borrowers credit under the best terms and conditions which competive factors will afford.

It is my understanding that Governor Connally has charged you to investigate the need for a comprehensive code for consumer credit legislation. Your task to recommend legislation which will assure the people of Texas low competive interest rates through free and fair competition between financial institutions is a large and important undertaking. You gentlemen are to be commended for spending your time and talents on behalf of the people of our State. I hope that my remarks may serve as some small assistance.

In response to your recent request, a survey was made last week by the San Antonio Clearing House Association to determine the volume of consumer lending by commercial banks in Bexar County and the number of borrowers served. Three of our banks could not provide the desired data on short notice, but responses from 26 of the 29 commercial banks in Bexar County totaled $112,228,365.03 of installment loans outstanding to 98,320 accounts as to the end of August.

All conceivable types of installment loans are being made by the commercial banks of this county, from the smallest signature loan to larger secured transactions. When viewed in the light of slightly more than half a billion in total loans in all Bexar County banks on June 30, 1966, installment lending here is not only significant in absolute dollars outstanding in numbers served but also installment lending represents a significant portion of the total lending activity of the commercial banks in Bexar. It seems to me obviously in the borrowing public's interest to afford the commercial banks full freedom to compete by offering all types of loans at competitive terms and interest rates. This is not the case at present since laws now allow different catagories of lenders to charge different rates of interest on substantially the same size and type of loans. The protection of the borrower against unscrupulous or usury lenders have long been provided by laws setting maximum rates of interest which may be charged. As early as 1917 the Texas Legislature recognized benefits to the public by permitting the charging of higher rates on certain small loans. This principal recognized the higher portion of costs on small loans must be met by legitimate charges and, if allowed, would lead to a larger volume of this credit being made available for the benefit of the credit-worthy public. This prinicpal of the need and justification of higher rates on small loans has been reconfirmed both by popular vote in the Amendment of the Constitution in 1960 and by subsequent Legislation. The unfortunate result has been that the public interest has still not yet been truly and fully served to the greatest degree, since all legitimate lenders are not afforded this needed and proper authority. The borrower will be better served when Legislation is enacted to permit all legitimate lenders to enter the full scope of sizes of small loans at reasonable rates. The best terms, conditions and rates will prevail only after the discrimination against certain important classes of lenders is eliminated. It seems logical that a maximum rate of interest for small loans would be set which would protect the borrower and yet give him the greater benefits, give him greater benefits than are now enjoyed by affording this rate to all legitimate lenders, whether they be commercial banks, savings and

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loan associations, credit unions or regulated finance or loan companies.

There seems to be no logic in protecting the borrower from the different institutions at different rates and under different circumstances that our State laws seem to now operate. It is my opinion that the present statutory maximum of ten per cent per annum under which the commercial banks operate in Texas assures a loss on many smaller installment loans where the cost of handling a loan is considered. Adding the cost of funds -- the cost of money -- there is no profit until a good size installment loan is made and collected. Higher maximum on smaller installment loans would lead to a more aggressive offering of these loans by commercial banks. The results would be lower rates to the borrower on these loans than is now available. As an example, it appears to me that the lowering of rates over recent years for loans to purchase new automobiles is at least partially -- and I would say substantially -- due to the increased offering of this credit by the commercial banks. These loans have had a high enough outstanding balance to permit, up until now, a modest profit at rates less than the present legal maximum. This same result would occur in many

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other catagories of smaller loans, in my opinion, if commercial banks and all other legitimate lenders are are allowed to charge rates which would afford some profit. The steadily increasing costs of labor, supplies, physical facilities and other items, yes, even the pure money costs itself, dictates the need for higher maximum rates on small to moderate size installment loans. Loan rates are an important but not the only area of possible abuse of borrowers. I know of no areas or incidences of such abuse by the commercial banks of the State of Texas. The high ethical conduct of bankers as applied to all of us in the industry, or profession, if I may use that term. It seems that the best route to follow in regulating other lending practices than the rate of interest, so as to adequately and efficiently protect the public would be by use of the State agencies and commissions already established to supervise the various legitimate lenders.

The banks, savings and loan associations, credit unions, loan or finance companies, are already supervized by their respective State entities which already provide the framework for regulating each group lending practices.

In closing let me urge you to recommend

legislation which will set fair maximum rates of interest which may be charged on smaller loans and which maximum rates will apply to all legitimate lenders. This will result in free and fair competition among lenders and will result in the offering of credit in maximum volume by a greater number of lenders and the lowering of costs to borrowers.

Thank you.

MR. MISKELL

Q Mr. Frost, let me just ask one question, open with this question, please. When you say, "Small loans" I wonder -- I may be presuming -- but are you thinking this in a banker connection when you say a consumer loan and smaller than a commercial loan? What I am trying to get at is, what is the average size of your consumer loans?

A Well, may I point out that this survey, to use the figures of the survey -- I think that we could come up quickly with some averages -- these are installment loans. The information was not readily available to go to the purpose of each and every loan and talk about consumer and business. There may be some business loans in here, but I would say that the overwhelming majority of these are consumer loans and installment consumer loans. We had $112,000,000 worth, and 98,000 accounts, so -- I've got a lot of decimals to move back -- that is about $1100, I think it is or almost $1200 as an average outstanding balance, which would indicate a higher balance.

Q Right. In other words, then, we are talking about your average in the banks here in San Antonio, your average consumer loan is, let's say, 12 to 15 hundred dollars.

A These figures would indicate, if we divide 98,320 into $112,228,365.03, as fast as I can say it, it would be about 11, a little over 11 hundred dollars outstanding balance. The original balance would be higher.

Q The original balance would be higher?

A Yes.

Q The point that I am trying to reach, this Committee is also charged -- I mean by term, when you start talking about consumer loans it is much like the term "small loans". It means many things to many people. Traditionally people say, "small loans; that must be $50." But under regulated consumer loan practices the average small loan is about $650. Your consumer loans are in excess of a $1000. What do you

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think is the ceiling for this type loan? Where is the national ceiling? What would you consider to put in your consumer loan portfolio?

A As a maximum size?

Q Maximum size loan.

A Well, I don't know what would be the outside maximum. I know that we have recently agreed to make educational loans which would go into several thousand dollars. Those will be put into the consumer loan department, as far as the larger size, there would be some larger loans. Those are not the ones, I think you can see from these figures, those at present are not the ones that we find a problem on on the present maximums, the very larger ones.

Q Right.

A Obviously, by our outstanding, the smaller loans are those that are not receiving the same attention by the banks. Now, we make smaller loans. We make them all the way down to under a hundred dollars, but as I say, the present law assures that we lose money on that. We do it for a lot of reasons, which I don't know that there is any point of going into it here. But my thesis is, my theory is, that if all legitimate lenders are allowed reasonably compensatory rates for these smaller loans there will be a greater offering of this type credit to credit-worthy borrowers, and, actually, a lowering of that cost over and above what it would be if they weren't allowed to do this.

Q I might inject at this point that Mr. Alaniz made the point about this fellow that needed $50 in an emergency. Do you think he might get a sympathetic audience if he came to your bank?

A Everyone receives a sympathetic audience at the bank. (Laughter.)

Q I think that to be fair to Mr. Alaniz, if the emergency were hard enough or bad enough do you think he might get the $50?

A Would Mr. Alaniz get the $50?

Q No.

A I don't know who the borrower would be. You would have to know a lot about the borrower. I will say this: I heard a $50 loan read out in our discount meeting the other morning.

Q But you will make those? In other words, you are in the market place for business and all that you want people to do is to come in your door and try to set down and talk with you and you will make the loan if it is for a good purpose.

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A That is right. And it is my opinion, that if the commercial banks and the other legitimate lenders knew that they could come out with at least a reasonable profit on a smaller loan then there would be a more aggressive offering of those loans and thereby the public, I feel, would benefit rather than restricting the offering of these loans to only a few.

Q Well, if in turn -- now let us say, this Committee is studying this field; we are studying the economics of the field. If in turn, the Committee comes out and makes a recommendation to the Legislature for realistic rates, yet if you have a situation in the Legislature where, without presuming for the reasons the situation should prevail, that they would say, "no," we need to go back to a ten per cent maximum or a maximum where you could make money, would you serve the public? Could you serve the public at a loss; in other words, if the Legislature put an unrealistic rate of interest on your consumer loans?

A I would say that with the other rising costs and all of our costs in all of our businesses and individually arising, it would in my judgment become increasingly difficult to make even the volume of the small loans that the banks have made in the past, but,

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yes, I think that you would find certainly our bank and many others would make many loans at a loss. Nevertheless, if the banks were allowed a reasonable compensation and a fair compensation and other legitimate lenders the same thing, I think you would find a greater offering of this type of credit from all sources.

MR. BAIN:

Q Let me ask you this, Mr. Frost. Do you know whether your bank has received many complaints involving transactions, or consumer credit transactions?

A I guess that we have been fortunate. I know of no time where we have been attacked or even a complaint on too high a rate.

BY MR. MISKELL:

Q Now, in fact, we have had Colonel Hall here and he has discussed this military directive as to the disclosure to the borrower, a full disclosure so to speak, of the terms and conditions and charges in connection with the loans. We have that under the Regulatory Loan Act. If the Committee were to recommend that in legislation for banks and for savings and Loans, would this create a problem?

A None whatsoever. I think we would be -- we are now anxious that our borrowers understand the terms

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and conditions. We feel that if we don't fully inform them, those could be sources of complaints. So, no, there would be, I would say, there would be no objection on the part of the bank for a full disclosure of the terms and conditions and charges. I think that at the same time it would be interesting if, just as it occurred to me, for you to consider full disclosure on both sides, and that there may or may not be sufficient protection to the borrower of full disclosure on the part of the -- excuse me -- on the part of the lender on account of a full disclosure on the part of the borrower. So, if you are going to write rules that would require the lender to fully disclose, I think that consideration should be given to rules and the attendant penalties to the borrower for not fully disclosing. It would seem to be fair and equitable to me to be able to look at both sides.

Q I propose this. This proposal has been made. I think that Mr. Alaniz made this proposal. We do find in some states and cities that you have credit bureaus which are in business simply providing information with relation to the outstanding debts of borrowers. Do you think this proposition, an institution of this type would help in controlling this thing,

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the borrowers furnishing false information?

A Excuse me. The providing of an institution to a central bureau, a credit bureau?

Q Right.

A Well, of course, we have those now. The only thing that you could speak for would be that they operate in a more efficient, more inclusive manner. I share some of your remarks, that the ultimate to reduce that to perfection is really beyond our reach right now. Maybe it will in the future. It would still have to be the best amount of information available and the best judgment made on the part of the lender and the borrower as to whether the credit transaction could be entered into. I don't see that a law, at least as of this moment, I don't review any law requiring anything in the way of credit bureaus or reporting would be of any service right now. I don't see how that would fit into the legal, into a law that the Legislature might consider.

MR. MISKELL: Any other questions?

Thank you very much, Mr. Frost.

A Thank you.

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MR. MISKELL: Mr. John Woodlief.

MR. JOHN C. WOODLIEF
JEFFERSON STATE BANK, SAN ANTONIO, TEXAS

was called as a witness and testified as follows:

MR. WOODLIEF: Dear Mr. Chairman:

In accordance with your letter of September 7th, I wish to make a statement in my individual capacity as a state banker in a suburban bank located in the northwest section of San Antonio.

My name is John C. Woodlief. I reside in San Antonio, Texas. I have been an officer of the Jefferson State Bank in San Antonio for 15 years; occupying at the present time Senior Loan Officer and in charge of the loan department.

Prior to my joining the Jefferson State Bank in 1951, I was associated with one of the national finance institutions. I was with them for seventeen years. In other words, I have been in the consumer lending business practically all of my adult life.

For a relatively small bank, I consider the Jefferson State Bank as one of the leading consumer lenders amongst the suburban banks of San Antonio. Our installment loan volume at the time exceeds five and a half million dollars.

With the millions of dollars that I have lent, I am proud to say that I have never been accused of usurious rates or conduct, nor have any loans been branded as usury by any of the borrowers. I have dilligently tried always to comply with the laws of the land, including those regarding the rates of interest.

I personally think that the banks of San Antonio and Bexar County are abiding by the existing laws relating to interest rates on loans; and I believe that such banks are taking care of the reasonable needs of their respective customers for consumer credit, even though the smaller loans are being handled at a loss.

If there is to be legislation in Texas in regard to interest rates, it is my belief that such new interest rates should be made applicable to all money lenders, in order to insure fair competition in the field.

Moreover, if such legislation is enacted, I think it is important to avoid creating another or additional supervisory agency to police and enforce such new interest rates, especially where there are existing examining agencies in many fields of financial lending. For example, most banks are already over-examined; such as, in the case of state banks that belong to the federal reserve system, they are examined by the

the state bank examiners and also by the F.D.I.C. examiners and by the Federal Reserve Bank Examiners, any of whom have the qualifications to see that the banks abide by such new interest rate laws. It is my understanding that the savings and loan associations are likewise examined by qualified examiners; and possibly many other lenders. Nothing useful, except added expense and bureaucratic paper work, could be served by vesting examining jurisdiction in another new or other agency insofar as such supervised banks and other financial institutions are concerned.

Thank you very much for the privilege of being able to make this statement.

BY MR. MISKELL:

Q Let me ask you this, Mr. Woodlief. What do you consider the maximum size of a consumer loan?

A Well, I would say this. That on an installment loan, particularly remodeling loan, or something of that nature, $5,000.

Q What about an educational loan?

A It could also run into maybe $7,500.

Q $7,500?

A Depending upon the degree the young man is desiring to obtain.

Q Right. The point I am making is that you are ready and willing and you probably have made some loans up to $5,000 or $7,500?

A That is correct.

Q That is right. And those limitations are internal; that is to say, the policy of your bank?

A That's right.

Q So, conceivably, another institution might make loans of this type in higher amounts?

A That is correct.

Q What is the minimum loan you will make at your bank?

A We don't have a minimum. We have had some $25 loans and $50 loans, but we do that to serve the public.

Q Right. Do you make money on those loans?

A No, sir. We lose money.

Q Where is your break-even point? Do you have any figure on that?

A Well, it depends. I will say this: that on an analysis, it costs about $27.50 to process a loan in our institution, and installment loan.

Q Well, let me ask you this: Costs are rising every day, I mean, especially in your institution. Correct?

A Yes, sir.

Q The amount you are paying for money?
A That is correct.
Q To depositors?
A That is correct.
Q The amount you have to pay to your personnel, the amount that you are paying in various taxes, property taxes, and so forth, advertising costs; all of these are increasing. Is that correct?
A That is correct.
Q But the charges you are making are constant. In other words, you are now making some consumer loans that are at a loss?
A That is correct.
Q And this is based on today's figures. Now, if your costs continue to climb, this means the loss on these loans will increase. Correct?
A That is correct.
Q Will they reach a point where you will have to go to your Board of Directors at some point, unless there is relief given along these lines, will you reach a point where you will have to say, "We can't make these loans any more," or "We have to make less loans"?
A Well, if they got to be too many of them, too abundant a number of them, I think we would have to do so.
Q This is what I mean. You would have to reduce

your lending operations?

A That's right. We couldn't stay in business at a loss.

Q All right.

A If those smaller loans are dragging down the ones that we might make a little break-even or a profit on, well, then we would have to readjust in some manner.

Q Right. In other words, the point I am making is that there has to be a reasonable relationship between the cost of doing business and the income you derive from the business——

A That is correct.

Q ——to engage in it. In other words, you are making these loans, but these are in effect public service loans?

A That is correct.

Q You are not making money on them. You are making them at a loss and you figure this is just a cost of doing business, just like supporting the fiesta here, or your community council of one sort or another.

A That is right.

Q This is a public service that you are engaged in on these type of loans?

A That is correct.

A That is correct.

Q Do you feel that if you had a rate, an adequate rate, that you would be able—the competition would control on the cost of loans to the public?

A Definitely. I don't think if we have a ceiling on rates, I don't think competition would allow us to use that ceiling.

MR. MISKELL: All right. Thank you, Mr. Woodlief.

BY MR. GERST

Q Mr. Woodlief, I wonder if I could ask you this. If we could get a copy of your computation or your formula that you used to arrive at your cost of $27.50 per loan?

A Oh, yes. It is put out by the A.B.A., American Bankers Association is the one I used.

Q In other words, it is not your bank's computation?

A No, sir. No, sir. It is put out by the A.B.A.

MR. GERST: Thank you.

BY MR. BAIN

Q How many loans can you make at a loss and stay in business?

A I don't believe I could answer that.

Q I am impressed with the statements that you and

Mr. Frost make; that you make loans at a loss. I didn't know that a banker would do that.

A Yes, sir. We try to service the public, and in order to service the public, well, there are instances where we make a loan at a loss—courtesy loan.

Thank you very much.

MR. MISKELL: I might say, Mr. Woodlief, Mr. Bain is a banker.

A I expect his bank makes a few of them, too. Thank you very much.

MR. MISKELL: I would like to call Mr. Joe Langridge, Vice President of the San Antonio Savings Association.

MR. JOE A. LANGRIDGE,
VICE PRESIDENT, SAN ANTONIO SAVINGS ASSOCIATION

was called as a witness and testified as follows:

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MR. LANGRIDGE: Thank you, Mr. Miskell. I want to tell the Committee that I am very pleased and gratified to be here and asked to give my opinion. It is strictly extemporaneous.

I can't let Johnny Woodlief get away with bragging about how long he has been in the consumer credit field without a little rebuttal. Back in 1935 I started with G.M.A.C. and worked for them about 11 years before the war broke out. Fifteen years after the war I was with a large mortgage banking firm in their consumer credit division. I am in my seventh year with San Antonio Savings Association as the head of their Consumer Credit operations. So, all in all, I have been in this business about 30 years, the last seven being with the San Antonio Savings Association.

Now, the savings associations are traditionally known as institutions to encourage thrift and to arrange for the financing of homes by our citizens. I am sure that some of you realize, too, that we have been in the consumer credit business although it is not generally known because it hasn't been advertised over the years to a great extent. Our association has been in the consumer credit business for about 20 years. We started out under the facilities of the Federal Housing Administration, Title I, F.H.A. Title I home improvement loans, and that was some 20 years ago. I don't know what the dividend rate was at that time because I didn't have any money to put into a savings association, but I imagine it must have been somewhere around three per cent or maybe two and a half, or in that range, but at any rate, the F.H.A. Title I rate was a five dollar, an average of five dollars per hundred dollars per year, which is the equivalent of about 9.7 per cent. Now, we were very happy with our Title I loans and we made some money off of them. We didn't have any minimum wage laws at that particular time. The cost of stationery and supplies and taxes were down, so the 9.7 on this particular type of loan to home owners was very attractive methods of lending money out to increase the yield of the associations, to make a profit for its depositors.

Now, we left F.H.A. Title I not because of the rate but because of the restrictions that were imposed upon us. We weren't allowed to finance a patio, for instance, and it became quite popular in San Antonio over the years. We weren't allowed to finance guest houses or swimming pools or venetian blinds, and they had quite a list of things that were not considered as home improvements, so we changed over to our own plan, but we used the same rate of around $5 per hundred per year, and right today our average yield is 5.71 per cent on all of our loans. Now, during the last six years, in order to let Mr. Tom Frost know that the banks don't have all of the majority of the loans in San Antonio, we have made a total of about 36 million dollars in consumer loans. At the present time we have approximately 10 million dollars on the books. Now, we continued making home improvement loans primarily as the only type of

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consumer credit loan for year after year, and it was only about three years ago that we sort of backed into the personal loan portion of consumer credit, and that was because our homeowners that were coming to us for home improvement loans couldn't understand why we could lend them money to remodel their kitchen, but we couldn't lend them money to buy a stove. Or, if we loaned them money to remodel their bedroom or to add a bedroom why we couldn't lend them money to buy an air conditioning unit; and so on. Some of them were quite surprised when they came to us to make a home improvement loan that we were unable to make them a personal loan to pay off their back taxes. We didn't have any open end mortgages here, so we weren't able to work out any of the deals through the open end mortgage route, so we just had to turn them down. We had a facility at that time-- I believe Mr. Gerst will concur with me in this-- I believe it was 48 months and $1,500, wasn't it, Mr. Gerst? Years ago, our limit. It has been a regulation for a number of years, but very few of the associations availed themselves of this facility. However, we gradually started availing oursevles of this by allowing the customer to buy a refrigerator or a stove or a window air conditioning unit or a patio, whatever he needed, though we had to classify it as a personal loan, because a combination of things, other than home improvements, has to be considered as a personal loan. You cannot make a home improvement loan and pay for improvements and buy a refrigerator and pay taxes and consolidate debts and whatever else the customer might need. So, whenever a home improvement loan was made, where an additional purchase was to be made, it had to be classified as a personal loan. So, actually, when you look at our personal loan portfolio, I would say that over half of the money outstanding in that portfolio is for home improvements. The other half is for the other necessities; like equipment in the house, the payment of back taxes. This type of procedure, by word of mouth, got around to all of our other customers. We have 110,000 depositors; we have 14,000 mortgages; we have about 12,000 consumer credit customers, so, you add all of those people together and it is a lot of people, and when theystart talking to their neighbors, the men they work by, the word got around that we were in the personal loan business, and in a big way. So, our personal loans have been increasing lately, and they now constitute about 50 per cent of our total loans.

But, remember, about half of those are primarily home improvement loans with the addition of the loan made for the purchase of a refrigerator and consolidation of debts and so on.

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Now, before we got into the personal loan program——and the limits were raised——we were somewhat handicapped as to what we could do for our customers, because the $1,500 limitation wouldn't allow us to do too much beyond the home improvements. Since we have been raised now to a $5,000 maximum on personal loans, we are in a position to be of service to a great number of our customers that do come to us wanting home improvement loans. Now, we have emphasized from the very beginning direct to consumer loans. We do not like to do business through dealers, per se, simply because we want full disclosure and we feel that it is better to get full disclosure by meeting with the prospective customer across the table, asking him questions and then letting him ask us questions, and before the transaction is consummated, both of us know a great deal about what is happening. We know a lot about him and he knows a lot about us; he knows what his rate is and what his payments are, and we know how much money he makes and how many debts he has, how much equity he has in his house, how many children he has, how old he is, and so on.

When the rates were raised, a lot of these people come to us and we like for them to come to us for this reason. They come to our office under their own volition. Their arms haven't been twisted by any highbinding salesmen; they haven't been glamourized into buying a purple roof and green siding with a hundred year guarantee, but they have come there after they have discussed their needs among their family. They need a new bedroom or a new bathroom; the house needs painting or the roof needs fixing or something. So, they have come there wanting a loan. We have half of our battle won because we know that there is no monkey business; there is nothing going on between them and some salesman who is anxious to make a profit off of the deal. Now, in a lot of cases, these people overestimate their ability to handle a home improvement loan. Cost in improvements have gone up considerably in the last six years. Where you used to could add a bedroom for around a thousand dollars, I think it now costs around $2,500 to $3,000. They will come wanting an additional bedroom because their children are growing up, and they tell us they will need $2,500 or $3,000 and they want to pay for it over five years. We take an application from the man and we notice that they are not over-obligated, but they are sufficiently obligated. Their credit record is good, his job experience is good; they live fair, and the equity is good, but we are not going to be placed in a position of placing them in a position of where they are going to get into financial difficulties.

15 So, by the use of the personal loan program, we have, we become financial counselors, so to speak. We check and see what his obligations are, how long they have been on the books, how he has been paying them, what the balances are, how much equity he has in his car, how much furniture, television set and so on. If he has behaved himself and has been a prudent man and is trustworthy, well, then we will consider instead of a $2,500 loan, a $3,000 loan, but under the personal loan program to pay off his television set, his automobile, and his furniture and consolidate in order that he may have his room addition. And, usually in those cases, he walks out of our place of business paying less per month than when he walked in and got his room addition at the same time.

slc Now, these $36 million that we have loaned in the last six years has resulted, as I said, in our portfolio of about $10 million. Our payback amounts to about $600,000 a month, and we have to lend $600,000 a month just to stay still. We can't seem to get over $10 million because we find out we are swimming upstream. Now, the $10 million that are on the books, representing about $600,000 a month in lendings, creates a delinquency of about two per cent on over thirty day items. It also represents a rejection ratio of about 30 to 40 per cent, so one out of every three loans is turned down. That is money lost. We have had to interview them, take application, we have had to order credit reports, we have had to analyze, we have had to have committee meetings, and then the rejection and not a dime has been made. So, a third of our activity is without any income whatsoever, and considerable outgo.

Now, the two per cent delinquency requires a collection department. Fortunately for all of us in the lending business, the average American citizen is an honest trustworthy and individual, and if he weren't I don't think any of us would be in the lending business because of the high cost of collection would just eat us up. The two per cent requires that we have five, ten, eleven people in our collection department to handle two out of every one hundred customers. That is a costly operation. But we don't have a crystal ball. We do make mistakes and people do change. Most of our delinquencies of the two per cent is due to over-obligation, but it is after we have made the loan to them. Something that we have no control over, so I think education of the consumer in one way or another is a very salutary thing.

Now, we do reject a great deal on over-obligation, where we cannot counsel with them and we cannot readjust their budget to fit a new program. There are a lot of people

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who come in that are hopelessly in debt and any adjusting or juggling their figures is not going to help them. They are turned down automatically for over-obligation, regardless of the other factors. Because we are not going to be in position of lending money to a man that is already up to his ears in debt.

Now, the two per cent delinquency results in about one half of one per cent in losses. We feel that that is an excellent record, and it is due primarily to our selection, our 30 to 40 per cent rejection ratio on our loans. Now, that 30 to 40 per cent rejection ratio actually runs from average, the average of 30 to 40 per cent. The average actually runs from 20 to 50 per cent. Now, on home improvements where a customer has his roots down, is buying his home and has been employed for a long period of time, the rejection ratio is anywhere from 15 to 20 per cent.

On the small personal loans, the rejection ratio gets up as high as 50 per cent, simply because some of them do not own their own homes; they are loan shark happy. You can tell by their credit records that they go from one loan company to another, and they cannot manage their own financial affairs, so the rejection ratio there is quite high.

The savings and loan associations naturally were attracted to this particular type of lending first to be of greater service to their industry and to their community, in broadening their base of service, and also in broadening their ability to have a greater yield in order to pay the ever increasing cost of overhead and salaries and dividends. As I said, the five per cent twenty years ago, the five dollar add on which equaled 9.7 per cent, true, looked awfully good. Today it is quite different. However, our average yield on our loans is 9.7 per cent today. And, with the costs as they are, we feel that this is insufficient. We do make a profit, but it is a very, very small one. The margin is so small we feel that unless some relief is given, and if the dividends increase, and when the new minimum wage law goes into effect, we are going to be hard put in making my department produce its share of the profits of our association.

That is about all I have to say, Mr. Chairman.

MR. MISKELL: Any questions?

BY MR. GERST

Q Mr. Langridge, do you have any idea what your per loan cost is? Mr. Woodlief gave us his.

A Yes, sir. I made a cost analysis accounting about a year or two ago. At that time we were paying four per cent dividend, and we figured that since we were using about 4.6 per cent of the money that was on deposit in our association that we should be liable—and when I say "we" I mean our department—that we should be liable for 4.6 per cent of the expenses of attracting those savings and for the bookkeeping of those savings and for the administration of those savings, and that amounted to seven tenths of one point in addition to our regular dividend cost of money. So we figured that it was 4.7 per cent. But now we are paying four and a half per cent, so you add the seven tenths of one per cent overhead, so our cost of money today is about 5.2 per cent. Now, in operating the department, the entire department of 22 people, the interviewers, the investigation clerks, disbursement, the managers, the department heads, the collection activities, it amounts to two and a half per cent of the yield that we receive on this particular department. Our losses are one half of one per cent, so that should be added to the 5.2, the 2.5. We figure that our occupancy cost for the area we use in our building amounts to about two per cent. The two per cent operating costs are direct and indirect expenses. It not only covers all the direct costs that are measurable in our department, but those of the association that are not measurable, such as— I mean not divisable as far as departments are concerned: coffee shop, institutional advertising, directors' fees, depreciation, stationery and supplies, and all that sort of thing. But, at any rate, we have five point two cost of money, 2.5 operating cost, one half of one per cent losses and two tenths of one per cent occupancy, which gives us an 8.4 per cent cost as of today.

Now, we are enjoying a 9.7 per cent yield, so 8.4 from 9.7 leaves 1.3. A year ago that was 1.8, almost a two per cent net profit on these loans, which we were satisfied with and we were happy with, and I believe it was a lot better than our average yield on our mortgage loans. I think almost any savings and loan association mortgage loan department would be real happy with a two per cent net yield. But now, in June of last year we went up to four and a quarter and then in December we went up to four and a half. So that has cut the two down considerably to 1.3. Now, we know that our salary costs are going up; we know that our stationery and supplies are going up, the purchase of equipment is going up, so this margin between what we have to pay for our money and what we have to pay to operate our department is just being nibbled at and nibbled at and nibbled at simply because we are tied to a ten per cent maximum rate. Now, we make loans at a loss, too. Our break-even point used to be, before we had our increase in

21 dividends, a $250 loan. Now I am sure it is somewhere around $350 or $400. Now, we make loans less than that for several reasons. One, the customer may be a mortgagor and we want to be of service to him. Two, we may have had several previous loans with this individual that were profitable, and he comes and all he needs is a hundred dollars for a hot water heater, and he doesn't have a hundred dollars, and we lend it to him. It is a good will gesture, and we know we are losing money. We know we are satisfying this man and we hope when he adds his next bedroom he will come to us. We finance a lot of chain link fences. They average around $.60 to $.70 cents per linear foot. The average yield is about $125 to $175. We have learned that this is usually the first improvement that is made by a man on a new home. That is our loss leader. It's like the grocery store that charges ten cents for a box of Post Toasties that cost him twelve cents to get them into the store so they will buy $20 worth of something else. We finance fences just to get them into the habit of paying us each month and getting to know our name, getting to know our people, and getting to like us. We know that the next improvement that they have in mind they will come to us because we treat them fairly and we charge them a fair rate and treat them with dignity and respect. So, our business

has been built up to the point now where eight per cent of our customers have had previous experience with our association.

I'm sorry I had to give you such a long answer to a very short question.

MR. GERST: Very complete; very good.

BY MR. MISKELL

Q Mr. Langridge, are the expenses per loan of operating a personal loan department of San Antonio Savings larger or smaller, the personal loans or home loans?

A The personal loans are considerably larger, primarily because of our larger rejection ratio. Also, since homeowners as a class of borrower is on a much higher level from a trustworthiness standpoint—that is just a fact of life; let's face it—we don't have to spend as much time and energy in investigating the homeowner, simply because in the past we have learned that ordinarily they pay their bills. Now, on the personal loan, that's a different thing. We found out that such is not the case. We have to be more inquisitive. We have to spend more money on more up-to-date reports. An up-to-date report costs about twice as much as an in-file report. An up-to-date report will show all of the man's obligations which he may not have listed on his

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application, and that is something that we have to know before we can approve a personal loan. Some of our personal loans are collateralized. We have to inspect collateral, and that costs money. So, personal loans are actually costing us a lot more than a home improvement loan. Yet, remember, we got into the personal loan business strictly in order to satisfy and to service our customers that are home owners that were making home improvement loans to us previously.

BY MR. LINDSEY

Q Mr. Langridge, competition for funds in the Dallas area has caused the savings and loan associations to go on a five per cent anticipated dividend rate. If you had to do that in San Antonio, that would run your costs up to where you wouldn't have very much left for the equity owners of your association in your department?

A Well, I said we were making 1.31. If you take another half point off of that, that would leave .81. Eight tenths of one per cent, not considering our increased cost of our share of savings division overhead. Fortunately, San Antonio, Corpus and Austin, I believe, are strongholds for the four and a half, and we are holding on to it desperately. And, if it goes up, we still have that ten per cent ceiling over our head in this particular type of lending, and there is absolutely nothing we can do about making an adjustment to protect ourselves in the event the cost of money does go up. From all indications, it seems to appear to me that it is going up.

BY MR. MISKELL

Q Mr. Langridge, what are the total assets of San Antonio Savings?

A Approximately $230 million.

Q Right. So, your personal loan department is only a small portion——

A Very small.

Q ——of your total efforts. Do you regard yourself as in the personal loan business or in the home loan business with personal loans as an additional service to your borrowers so you can serve your public better?

A We had a long discussion about what we were going to call our loans. For some reason or another, the word personal loan means "loan shark" to most people, and we didn't want to be included in that category because we certainly aren't, and we have an image that we are quite proud of. So, we had almost a contest to find out what in the world we were going to call these loans. So we lumped them all together and call them installment loans. However, we do refer to them as personal loans when they come in to borrow money for a hospital bill or to pay for tuition or to consolidate obligations because they've gotten themselves a little overextended, or to buy an automobile or whatever the purpose might be, other than home improvements, and we actually call them personal loans because we don't know what else to call them. I would like to find a substitute.

Q Well, the point I am getting at is, though, that let's say no matter what legislative authority you have, what rate of interest is set, what is your primary business? Is it home loans or personal loans?

A That is a hard question to answer because of the trend. We have been operating on such a level, so much a plain that has attracted so many people to us because of our experience in the community and our reputation, and the image that we have created that we are being forced more and more into making personal loans, where, in the past we were primarily in the home improvement loan business. I think in the future that the savings and loan associations are going to be forced through the demand of the public to become more and more interested in personal loans, and I believe that it's going to help the associations in their service to the public, in the broadening of their base, to get into this field in a big way, and we anticipate getting into it more and more as the public demands it.

BY MR. GERST:

Q Mr. Langridge, I believe maybe you misunderstood Mr. Miskell. Your small loan department has been in the home improvement business, or end of it, but as a whole the San Antonio Savings and Loan is primarily concerned with making mortgage loans?

A I'm sorry, I misunderstood you. Oh, definitely. The savings and loan association itself, ninety-six per cent of its assets are for the purpose of homes, and four per cent goes into our small loan department.

Q You are further regulated by the definition of a savings and loan association as to the amount of personal loans or consumer loans?

A That's right. We are limited by the Internal Revenue Department definitions and several others, as I understand. We can make only a certain percentage of our assets—I mean, we can only use a certain percentage of our assets in the making of personal loans. There is no limit on home improvement loans and there is no limit on the loans that we can make that are secured by savings accounts. We are limited on personal loans, and there are a number of associations in Texas that would like to get into the personal loan field since it has become something of interest to them lately, but they can't simply because they have used up their limit in commercial loans, and apartment houses with over five units—is that it? I think that is in the definition. I believe the value of the home office building and all of that is in the definition of the percentage that can be allowed to be used for personal loans.

BY MR. BAIN:

Q Could you serve the public better if you had a borrower full disclosure requirement?

A A borrower full disclosure?

Q Yes. Of his debts.

A Well, we almost have that now. Our personal loan application is quite comprehensive, and the people that we use to interview these people, the prospective borrowers, are trained. Some have been with me as much as seventeen years, and they have become rather adapt at questioning, not cross examining, but questioning and counseling with these folks and drawing out the information from them as to who they owe and what they owe and so on. Whether is adapt, why, we get our up-to-date reports and we also make some direct calls to references that they did not list and creditors; and we uncover sometimes fifteen obligations where only five were reported. I don't think a law requiring the borrower to have a full disclosure would be workable. I think that—I don't think it is necessary. The "caveat emptor"—that somebody mentioned—let the buyer beware, I believe should be "let the lender beware," and he should take whatever precaution is necessary to get the information required. We feel we have done a good job in that respect, with our two per cent average delinquency and our half of one per cent losses over six years and $36 million. I don't think a law is necessary. I think just prudency in lending is the answer to that.

BY MR. LINDSEY:

Q Mr. Langridge, if the Legislature should decide to include your industry, the banking industry, on a competitive basis ratewise with the finance companies under the Small Loans Law, would your association be encouraged to compete more vigorously in the smaller loan field?

A Well, I can't speak for my association because I have received no instruction from the powers that be. However, my personal reaction is that we would not want to be included under the Small Loan Law Act or Commission. We would like to have permissive legislation allowing us to go a certain extent beyond the ten per cent ceiling. Now, when I say permissive, I mean we could take advantage of it if it became necessary. Briefly, we are not going to charge the maximum if you decide all of a sudden to let us charge thirty-six per cent. We could not and would not charge thirty-six per cent overnight because we know we wouldn't have anybody at our door the next day. We have gotten the reputation of being fair and square in our dealings and charging reasonable moderate rates. Now, we can explain away a raise in our rates when our dividends are going up and our costs are going up to people who have bought automobiles over the past five years, or furniture or houses or anything else. By the same token, "Money is costing more, Mr. Smith, so you are going to have to pay a little more for it." Now, we can't tell them that. We are at 9.7. We have only three-tenths of one point leeway and I would be afraid to go into that three-tenths. Somebody might start hollering usury and I wouldn't have much margin there to protect myself. But if we did have this permissive legislation where we could anticipate the profit, regardless of the increase of the cost of money and the increase of the cost of operating, then we certainly would go out after the business. And be competitive.

Q Well, if you and the other members of your industry in San Antonio had this permissive legislation and you added your resources competitively to this field of lending, wouldn't this in itself tend to hold the rates down to a reasonable figure?

A Yes, sir. That was my reaction. I feel that if, say, legislation was passed to allow a six per cent add on, which would be pretty close to eleven and a half per cent or twelve per cent true yield, if our dividend rates didn't go up, our rates would remain the same. However, if our dividend rates went up, our salaries became excessive, our costs of operations went up, then, naturally, we would have to make an adjustment. But we have to be competitive. And we are so competitive now that all of the finance companies are screaming bloody murder because we are taking away their best customers. Now, we are paying off a finance company— Are there very many finance companies here today? (Laughter.) Well, maybe I had better just shut up.

BY MR. BAIN:

Q In arriving at your cost of a loan, are you considering the income tax advantage you have over other borrowers?

A This is before income taxes, completely.

Q How would it be?

A These costs here do not take into consideration income taxes of the association.

Q But the other borrowers' cost must do that?

A That's right. We might have a little better advantage, but the costs I gave you were before taxes. Net profit before taxes, and reserves.

MR. MISKELL: Thank you very much, sir.

A Thank you very much. It's been my pleasure.

MR. MISKELL: Mr. H. A. Lindskog.

<u>MR. H. A. LINDSKOG</u>
VICE PRESIDENT OF JOSKE'S
SAN ANTONIO, TEXAS

was called as a witness and testified as follows:

MR. LINDSKOG: Gentlemen, my name is Herbert Lindskog. I am the operating vice president of Joske's of Texas in San Antonio. I am appearing at this hearing as a representative of retailing and of the Texas Retail Federation.

Time has not permitted the preparation of any detailed study and presentation, and my comments are, to a great extent and of necessity, personal observations from my years in retailing and from discussions with other retailers.

To single out one pertinent statistic, in the fiscal year 1965, the average retail store did approximately forty per cent cash business and sixty per cent charge business. This is a nationwide average.

Also, nationwide, the average sale of department store had a slight increase which can be attributed to a desire for better quality and fashion merchandise.

The technological advances of the past decade and more, making available better merchandise at a lesser cost; the desire for a better living standard of many families; and the increasing leisure time to enjoy family life, has increased the potential sale of many classifications of merchandise.

The list of reasons for potential sales increases could be added to; and basically what has resulted is a "new way of life".

To meet this "new way of life" and to fill the needs and desires of its customers, retailing in general was faced with the development of new selling techniques and new methods of merchandising.

This was equally true whether the store was engaged in a mass merchandising program or what is termed in the retail trade a "specialty store".

The extension of credit selling was a natural outgrowth of customer demand. Better quality merchandise was demanded; new and better products were available. However, many families did not have the available cash to pay for their needs and desires and a controlled credit based on ability to pay was the logical answer.

With many families "buy now, pay later" has become a way of life just as much as turkey on Thanksgiving Day.

As a result of the growth of the credit business, more jobs have been created, not only in retailing, but in industry in general. If we were to become a "pay as you go" community, many of us would be without that great necessity of life—and those of you with children know what I mean: television. We would be without transportation and in many, many instances would not have the capability or the capacity to buy homes or other needed items.

The most significant change in credit sales in retailing has been the development of the revolving or flexible account as it is known in some stores.

This, as I am sure you know, is an account designed to fill immediate needs, which would be paid out of future earnings. The average families purchasing back to school needs at the present time is a good example of the use of this type of credit.

A most important consideration in this type account is that a customer, within pre-determined limits, is the one who determines what will be paid monthly. Over and above the required payment, the customer can pay whatever she or he may desire, including payment in full.

In many stores this type credit account exceeds the conventional so-called thirty day account.

Is this proper type credit selling? A store will only be as successful as its customers will permit it to be. Customers dictate our policies. Retailing customers have told us they like this type credit; they want it.

Apparently other industries have also recognized this way of life. I would like to quote from a recently published brochure of a major airline company, and I quote:

> "We'll set up a revolving charge account in your name (the kind you have at department stores) and we'll mail your first statement in a few weeks."

A satisfied credit customer is one of the greatest assets a store can have and we, in retailing, believe that good credit selling will contribute to the continued economic growth of our communities and of our great nation.

In San Antonio, specifically, there are over ten thousand retail credit transactions daily and, considering the lack of complaints, it appears the customer is satisfied.

"In a nutshell", credit is not only a convenience to the customer, but an essential part of the selling technique of the retail trade, a vital factor in today's economy, and just as much a part of the American way of life as ham and eggs.

Thank you.

BY MR. MISKELL:

Q Mr. Lindskog, how many charge accounts do you have at Joske's?

A In—?

Q All right. In round numbers.

A In excess of a hundred thousand.

Q Then, you are probably reaching every family in Bexar County, are you not?

A We would like to think so.

Q What is the average balance? Do you have any idea on that?

A I'm sorry; I can't answer that question.

Q You couldn't answer that. Have you had any complaints at Joske's on your credit?

A Not to my knowledge, no.

Q Well, let's presume that you did have a complaint of one sort or another, what do you think your policy would be? Would you try to give satisfaction to the customers or do you regard it as— In other words, most retailers have this saying: "If you are not satisfied with your merchandise bring it back and we'll make an adjustment." Do you regard your credit in that light also? Is it an adjunct to your retailing of goods to the public?

A I would like to answer that question, speaking generally as a retailer, not specifically as Joske's. I think a retailer who did not give consideration to a customer's complaint, if we term it that, regardless of what phase of the business was involved, would not be in business long.

Q This is another general question, along the lines presented to the savings and loan. You don't regard yourself as a person in the finance business; you regard yourself as a retailer? Would this be true also—Joske's is a retailer of merchandise and not in business to make money from finance charges?

A That is correct. We are fundamentally providing a service to permit our customers to buy merchandise. This is our basic business, the selling of merchandise.

Q But, by the same token, in terms of your credit practices, there needs to be some charge which will provide some relationship to the cost of providing the credit. Correct?

A That is correct. I believe that a presentation of such figures is to be made at the Austin meeting.

MR. MISKELL: Thank you.

A Thank you.

MR. MISKELL: Any other questions?

It is twelve-fifteen now. I think we may take a break until a quarter of two, and we will return at that hour.

(Whereupon, at 12:15 p.m., the luncheon recess was taken.)

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AFTERNOON SESSION

MR. MISKELL: I would like to call the meeting back to order.

If there are any here that are new here this afternnon, I would like to repeat that we do have registration forms if you wish to testify. Or if, after the close of the meeting you desire to submit a written statement, I know some of you may want to present rebuttals to some of the remarks made during the course of the morning. You may feel free to do so. We will hold the record open for several days so you can either file with us at the close of the meeting or mail it to our office, Box WW in Austin, and we assure you we will make copies available for all the members of the study group and give full consideration to what you have to say.

I would like to call Mr. Elzie L. Collins. Mr. Collins is with the Family Welfare Association. He will make a presentation on behalf of this association here in San Antonio.

MR. ELZIE L. COLLINS,
FAMILY WELFARE ASSOCIATION

was called as a witness and testified as follows:

MR. COLLINS: Thank you, Mr. Chairman, gentlemen of the Committee. It's my pleasure to appear before you and give you some information which we believe will help in some way to establish the problem which has been discussed to this point concerning consumer credit by— in this light I received the instructions to study some records that we have in our office to establish whether or not the people who come to us for help are bothered with credit problems.

BY MR. MISKELL

Q Mr. Collins, may I interrupt just a moment?

A Yes, sir.

Q I have introduced you for being from the Family Welfare Association.

A Yes, sir.

Q For the record and for the group here, would you outline briefly how the association is concerned with consumer credit problems. I mean, how do the people come to you and what functions do you play in the social life of the community.

A Yes, sir. Thank you. We are a family agency, doing social work. We are concerned with the family function in the community in connection with how they get along with each other, with the community businesses, with themselves, and we try to help them find a better life for themselves, and in connection with this, we do run into a credit problem where they have overextended c-3

themselves in buying. We do not provide money to pay these debts, but we do have available to us through the United Fund some money which we may be able to use on an emergency basis to help feed them temporarily, pay some utility bills, or something of this nature on a very minimum level until we can work something out for the family that's more satisfactory. That is how we come into contact with them.

Q All right.

A I might say that they are referred to us by many elements of the community, other social work agencies, doctors, lawyers, pastors of churches. Many of the neighbors; sometimes a neighbor will call and report some conditions which they think should be looked into. That's in general how we hear about the cases.

Of course, one other thing, sometimes they walk in the front door of their own accord, as another referral source.

Now, if I may give you the results of these cases that I read, then we will answer any questions that we have on that.. In the cases that I studied, we found that 27 and one half per cent of the families known to the family welfare association present time payment plans as a serious part of the overall family problem which brings them to the associations. Policies of the associations prevent helping with debts contracted before the family becomes our client. Therefore, these people do not come to us for help with payments of their debts, but for help with other problems. In view of these limitations, the number of families known to us who have overextended themselves in consumer credit buying is a serious matter. The 27 and a half per cent figure obtained by reviewing all cases coming to the Family Welfare Association for the first time between January 1 and June 30, 1966. That is the first six months of this year.

A total of 384 cases were reviewed. Of these 384 cases, 96, or 27 and a half per cent, presented problems with consumer credit buying. The Association had 1,224 unduplicated cases in 1965. Using this 27 and a half per cent figure, we estimate that last year 337 families known to us had their other family problems complicated by credit buying problems.

In the 96 cases who presented problems with consumer credit buying, time payments were being made in the following categories of consumer goods:

Automobile financing, 26 families.

Cash loans——I believe this morning this was referred to as personal loans. We call it cash loans in this set up.

Cash loans, 34 families.

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Food bills. This is food that they are making time payments on because they overextended and bought more than they could pay for.

7 families.

Home appliances or furniture, 30 families.

Home and or home improvment payments, 39 families

Jewelry and/or musical instruments, 6 families.

Medical business or bills, 12 families.

Revolving charge accounts, 18 families.

And, taxes, 4 families.

The total number of families making time payments in the 9 categories of consumer goods above is 176. This means that some families who were paying on goods in one category were also paying on goods in one or more of the other categories. Some families were trying to make payments on as many as six different credit accounts. The average for the 96 families was credit accounts with 2.5 creditors per family.

Now, in support of the statistical information I summarized two cases that gives some idea as to what happens to the family that's involved with these bills.

Mrs. X applied for Family Welfare Association financial assistance because Mr. X was ill and unable to support the family. There were seven children in this family, ages 4 to 16. They were buying two small houses.

One of the houses they were trying to rent to supplement the family income. Incidentally, I didn't put it in here, but they weren't very successful in renting this house. The family was living in the other house which was the larger of the two. This house had become too small for the increasing size of the family and the garage had been enclosed increasing the payments on the house.

In addition to these payments on the real estate, they had 16 other outstanding accounts with credit unions, finance companies, revolving charge accounts and medical bills. The total amount of these outstanding accounts was $5,587.35. When this was added to the real estate indebtedness, the family owed $15,500. Mr. X was getting $181 per month take home pay. Before deductions, as I recall, it was just slightly over $200. He was only obligated to pay $317 per month on credit accounts.

The Family Welfare Association gave assistance with utilities and food. Mrs. X and some of the other children found odd jobs. Mr. X is a veteran, so it was suggested that he contact the Veterans Administration to see if he qualified for medical attention through their agency. And, the Welfare Association financial assistance was terminated when Mr. X recovered sufficiently to return to his work. It was suggested that this family contact an attorney, reference possible bankruptcy, which they did, and a state of bankruptcy was declared.

Case Number Two. Mr. and Mrs. Y came to the Family Welfare Association for financial assistance because Mr. Y was ill and unable to support his family. There were four children, ages 1 to 8 years. Mr. Y was thought to have cancer of the larynx and bronchitis. This family was in dire need of immediate help with food and utilities. In addition to this, they were almost distraught with worry about eight outstanding accounts totaling $9,755, on which they had been paying $242.50 per month. Up until Mr. Y became ill, which was about 6 months before applying to our agency for help, Mr. Y had been earning about $400 a month. Payments on his outstanding accounts were for a house and home improvement, cash loans, home appliances, furniture and automobile financing.

Mr. Y did expect a [illegible]ability retirement income and as I recall, had been reasonably well assured that he would be retired because of the possible cancer. This retirement income would equal about $165 a month.

Now, the creditors were pressing them at this point for anything they might be able to pay on the accounts. We provided help with plans concerning the indebtness and gave financial assistance with food and utilities. Mr. Y. was hospitalized in a V.A. Hospital, where medical tests ruled out cancer, but they did establish that he had acute laryngitis. Mr. Y recovered and returned to his job. In view of this, although anxious for payments, the creditors did not repossess their goods but worked out plans with Mr. Y over a long period of time so he may be able to pay his debts.

That is the extent of the readings that I did and the finding. Any questions that you may have?

BY MR. GERST

Q Do you have any solution to those two cases that you gave there, Mr. Collins?

A Well, the solutions that I have pretty much were indicated in that the first case was refered to an attorney for bankruptcy proceedings. The second case, Mr. Y, upon learning that he does not have cancer, I think possibly will pay his debts over a long run, but I do not have a suggestion as to how to avoid Mr. Y getting back into the situation again.

Q Did you determine whose fault if was, whether it was Mr. X's or Mr. Y's or the finance company's?

A In both cases it seemed to me that the families were permitted to overextend themselves. I did not establish that it was any one particular agency or concern's fault. In other words, they bought things as they thought they needed them. It got out of hand and that's the way it was.

BY MR. MISKELL

Q Mr. Collins, these 176 familes, do you feel that this indicates the scope of the problem in San Antonio, or do you think this is just a surface indicator that actually the number of people having credit problems in San Antonio, Bexar County, may represent a much larger total?

A Actually, if I may make a correction, it's 96 familes.

Q Oh. 96 families.

A I feel that this 96 families represents a very very small portion of the overall number of people in San Antonio who have this problem.

Q Basically, your agency might be termed a terminal agency in effect. In other words, when family problems become so severe that it disrupts the normal life of the family, then they are referred to you, or come voluntarily to you. For every one that comes there may be 10 or 20 or 50 that have severe problems that are struggling to find their way out?

A I would say it would be closer in the neighborhood of 50 that do not get to us because the ones that get to us are in destitute circumstances.

Q Now, in terms of the given numbers, in this rundown, are there any particular classes? You have them classified by auto, cash, food, home owners and home appliances. Are there any particular class that problems are found?

A On the basis of my reading of the 300 some odd cases, I could not single out a particular goods or a particular class of goods where this problem exists. Getting away from that and commenting on my own experiences in this field, I would say that cash loans or personal loans seem to get them in quite heavy at times.

Q Right. Mr. Collins, let me ask you— I don't know whether you were in attendance this morning, but Colonel Hall from Fort Sam Houston presented the Department of Defense policy on consumer credit loans, and this policy called for an element of disclosure which would inform the buyer completely about the basic elements of a consumer credit transaction. The cost of the loan, the amount of cash the borrower is to receive, the number of payments he is to make, the amount of each payment, the repayment date, the amount of refund the borrower is entitled to. If we have legislation like that in the field of registered loans, do you feel that the legislation involved in these principles of disclosure setting down what the rate and terms conditions of the loan, do you feel that that would provide any relief or help in these situations? These people that come to you with these complaints, do you think that they would still be with you if they had had full disclosure in all these situations?

A I think most of them would be.

Q All right. Then these are the people that cannot be helped by disclosure or regulations?

A I would say that a large per cent of the people that I am talking about now do not understand the forms, the complicated forms that are presented. A loan explanation to them would just be taking up so much time. I don't think you would be able to pin down individual responsibility in this method.

Q Right. What, then? What solution do we have for people like this?

A I really don't have the solution. I wish that I did have.

I have tried to think of the possiblity of maybe some sort of an education program, but this doesn't do it.

Q Do these people have enough education? Somebody mentioned this morning, at Kelly Field, for example, most of the people there that have credit problems are poorly educated. They have dropped out. They have not completed high school. Are these the same type of people, in other words?

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A This is the area that I am speaking of now. Although many of them with third and fourth grade education, less than high school, definitely.

Q So just by itself if we came out with the recommendation that we ought to have consumer education in the high school or in the colleges, you would not reach these people in these places?

A You would not reach all of them.

Q If you had full disclosure in the legislation, again you wouldn't reach them because the majority of mathematics and the terminology would be too complex to them?

A Yes, sir. Many of the people that I talk with have difficulty sitting down and making a rather simple family budget. If you try to get them to understand a complicated financial arrangement, I rather doubt that you would get through to them. You might. I doubt it.

Q Here again I am calling for a conclusion on your part.

A Yes.

Q But, do many of these people get into these financial problems, what is their attitude? Do you sense in them a feeling that they are trying to beat their obligations or is it just that they don't have the education and comprehend the obligations they are assuming?

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A It's rather difficult to answer that. I would say that for the most part they are trying to live today. Insofar as understanding what this may mean to them next month, next year, most of them are trying to exist and feed their families at the present time. So, I don't think—yes, sir.

Q Let me put another question. How many of these people—what percentage of them would be qualified under our new federal poverty program and economic opportunity, Is this the same range of people or would you put them in that class?

A Well, I think they might get within the range. However, I haven't seen a great deal of change in them, whe you say since all this began. Not yet I haven't.

BY MR. BAIN

Q Does it seem that consumer credit might not be at all at fault but rather income be their chief problem?

A Low income definitely is a factor.

Q Then the villain isn't consumer credit as much as it is low income?

A I would not want to leave the image that consumer credit is taking advantage of these people. However, the problem does exist and as to exactly how, I am not qualified to decide, I don't think.

MR. MISKELL: Thank you very much, Mr. Collins.

A Thank you, sir.

MR. MISKELL: We have greatly appreciated your taking your time to come down here.

I would like to call Mr. P. Otis Hibler President of the San Antonio Junior Bar Association.

MR. P. OTIS HIBLER
SAN ANTONIO JUNIOR BAR ASSOCIATION

was called as a witness and testified as follows:

MR. HIBLER: Yes, sir. Good afternoon. I have not been in attendance today. I do not know exactly what procedure you are desirous of my following. Would you want me to just tell you briefly my experience?

MR. MISKELL: We would like for you to tell us your experience, give us any recommendations or suggestions you might have and then I think the various members of the committee may want to raise some questions on your presentation.

MR. HIBLER: The San Antonio Junior Bar Association has had for many years among other standing committees a committee which we have known as the anti-usury committee. Since the passage of the Texas Regulatory Loan Act this probably is a misnomer at this time, but it's been carried forward, however.

The membership are attorneys of the Junior Bar c-15

Association. They usually serve one year. The purpose of which, of course, is to be available and to investigate complaints by individuals pertaining to small loans and small loan companies.

Now, the Committee does not advertise this service available as such. Consequently we do not have a terrific volume of complaints. Our complaints are derived from, primarily from the San Antonio Bar Association's lawyer referral plan here in San Antonio which provides the service at the courthouse. I'll make an appointment with an attorney for someone who doesn't know an attorney, but nevertheless is to be a fee paying case. The person who screens this applicant at the courthouse, if they see or if they have the opinion that the problem as briefly described by the complainant might involve a question as to whether or not usury is involved or another violation of the Texas Regulatory Loan Act, they will then forward it to the Committee.

As I say, this has been in practice for many years and many years prior to 1963. The most frequent complaint, of course, is excessive charges, either interest or renewal rates, fees, service charges, late charges. We also have frequent complaints concerning excessive insurance, which the complainant usually says that they did not understand that they did not have——that

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they had a choice of whether to buy it or not. And, then, thirdly, but perhaps the most important, the most frequent complaint is collection methods, primarily harrassment. And, again, primarily harrassment through the means of contacting their employer.

In terms of violations that are actually found by our committee, we have found since 1963 no practice on the part of small loan companies to intentionally charge excessive interest rates so that really our question of usury is very very seldom.

We do find, of course, mathematical errors and unintentional rate charges, but in my opinion the rate charges that we find, the rate violation: that we find are unintentional and it's not a part of a wide-spread practice. Perhaps the most serious acts on their parts which may or may not be violations under the act are the methods of contacting employers as a form of harrassment to collect.

About the only other chief or common violation that I believe we have found would be failure to provide copies of all instruments, evidences of indebtedness as insurance policies. But, again, this is usually not our opinion that it's a practice, widespread practice. It may have been intentional not to give this particular person one, perhaps there's just not enough emphasis on it.

Again, though, this is commonly found. Before I would mention any recommendations that our committee might have perhaps I'd like to state that perhaps some suggestions from these people that we talk to. Their complaint, of course, is whether they have been sufficiently informed about all their rights and obligations and duties imposed by this particular lending transaction. I realize there are many ramifications to the merits of this complaint, however, this is a common complaint.

They also would prefer to have known specific and proper means of collection; primarily, "Can they call my boss and get me fired if I don't pay? And such means as this. So, again, secondly, a more detailed or expressed means of collection practices.

Thirdly, I would say that most of the insurance, they would prefer not to buy the insurance, most of the insurance that they do end up buying, because they ask me as an attorney or someone else as an attorney, "When and under what circumstances could I benefit from it?" You explain the circumstances and they see they are ver limited, a great number of times. They say, "Well, if I'd known this I wouldn't have bought it." I don't know whethe they would or not, but any way............ As far as my interest in the consumer finance, it is, it's limited to the experience of our committee, both before and after the passage of the Texas Regulatory Loan Act, and I realize that is only a very small segment of the interest today of this committee. I personally feel—and I think it is the feelings of our committee—that the Texas Regulatory Loan Act was certainly a definite improvement, something that was needed very much. And it is probably very workable. It has probably provided a means whereby people were more sufficiently informed of their obligations. More importantly the licensing, examining and other facets of the Act have been, I think, very useful and have served the purpose. So, in terms of recommendations and suggestions as to the change of this legislation, we really do not suggest any change.

BY MR. LINDSEY

Q Do you have any complaints on retailers who have a revolving credit fund?

A No, sir, we do not.

Q Have you had any complaints arising from loans made by banks or savings and loan associations?

A This has not been within the field of our experience, either.

Q How about automobile dealers?

A We do occasionally come into contact with this area of consumer finance. My remarks stated previously probably do not differ, speaking particularly though about

19 this particular area. It is about the same.

BY MR. MISKELL

Q Let me clarify this. The Junior Bar. The Committee is open to receive complaints. In other words, if somebody were to contact the lawyer and say, "I have a complaint about revolving credit or a loan that I have at the bank," that would be referred to you. So when you say that you haven't received any complaints, that means that no complaints have originated on those particular avenues?

A I think this is probably true. Perhaps I'll prefer to state that at such time that we determine that in our opinion no violation exists in the transaction, we at that point even though the person may still have a legal problem at that point, the function of our committee ceases and the person is then referred back to the lawyer referral service and they are contacted with an attorney and they establish an attorney-client fee pay arrangement, or they do not. We do not at any time accept any fee like we charge for our services nor do we attempt in any way to generally represent these people. It's strictly a question or situation of exploring the transaction for any violations.

Q Well, now, the Junior Bar Association for many years here in the State of Texas has had a great

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concern that the field, -- well, start with small loans, of personal loans?

A Yes.

Q And, the work of your committee evidences that this interest has continued. Have you given any thought to other regulations other than the Texas Regulatory Loan Act of Texas? Do you think, for example, we need an act to regulate sales demands or automobiles demands or revolving credit? Is there a need for such legislation?

A First of all, what I might express would probably be more of a personal opinion than that of the Junior Bar here. In as much as although we have discussed certainly since learning of this investigation, we have discussed the broader field of consumer finance than we have been interested in before and decided that perhaps we should re-examine our function in this area. But, heretofore in the past, I don't know whether any serious thought was given to it, or if it was, it was decided not to broaden our area of interest, so that the Junior Bar itself has not become interested in, as such as a policy matter of other consumer areas.

MR. MISKELL: Any other questions? Thank you very much, Mr. Hibler. We appreciate your coming by.

MR. HIBLER: Thank you.

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MR. MISKELL: I would like to call Father James Brandes, Director of the Catholic Welfare Bureau.

FATHER JAMES M. BRANDES,
DIRECTOR, CATHOLIC WELFARE BUREAU, SAN ANTONIO, TEXAS

was called as a witness and testified as follows:

MR. MISKELL: Father Brandes, our procedure usually consists of allowing you to make a statement, your observations, any suggestions or observations and recommendations, and then members of the committee may want to ask you some questions in regard to your statement.

FATHER BRANDES: Fine. I represent the Catholic Welfare Bureau which is a family and childrens agency, social agency.

In the last several weeks we've gone into this question of the incidence of problem cases that we handle and are called upon to handle involving credit and budgetary problems that hinge around loans, overinvolvment, I might say, with various ways and means of getting credit. We found that perhaps as much as fifteen per cent of the cases coming into our agency directly concern this question of credit. I would not really be able to guess the percentage of cases wherein credit is somehow involv ed here as a secondary problem or as something that we would not be directly concerned with or are not called upon to handle.

One of the difficulties that this 15 per cent runs into time and time again is the fact that the over-involvment in credit situations, the overburdening of family finances very frequently ends up in providing the basis for problems in the family, inter-family discord, break-up of family relations. We find that even in cases where we are asked to place children either in an institution or in a foster home, the basic difficulty comes because the family has become overburdened or overinvolved in credit difficulties.

Now, very frequently we are tempted to think that this happens with only the lowest income families. It's our own observation, and this comes strictly as an observation—I couldn't right here as I stand here document this—that this is not where the problem lay, as you might say, with the poorest of the poor. Certainly you can run into some dreadful problems there. We had one gentlemen who had been paying regularly on a loan, a very small monthly payment. And, after two years of regular monthly payments, he had succeeded in going from $400 indebtedness to $435 indebtedness. This is going to happen and this does happen.

But, the particular difficulty where we find this, is in families who have some kind of an income. They would be more or less adequate to meet the needs that they have. In trying to upgrade their standard of living, upgrade their way of living, they will become involved in somewhere or other either through purchasing goods or through out-and-out securing of a loan in order to repair a house or something of this sort, will become involved and get way over their head. They don't really realize in many instances what's involved in the credit situation, what kind of an obligation they are imposing upon themselves.

We have even had situations where a person will be in financial or budgetary difficulties owing almost as much if not more than their monthly income provides them with simply because they had not understood what they were getting into. They didn't really realize how credit works.

Now, I'm not putting into this type of situation the so-called compulsive buyers. These we have. This is, you might say, a psychological fact, the type of person who just has to go out and buy something and will put this on credit, and really won't care whether the article they possess or purchase is repossessed or not. I'm talking about the median income people who are so-called median income people who don't really realize what is involved in credit and who never have it explained to them. I daresay that an awful lot of people, if you ask them "What is this revolving credit that you can get down at Sears and Roebuck," wouldn't have the slightest idea what you are talking about. I daresay that most people, when they quote an interest rate to you, don't really realize the amount of the side charges that might be involved in this type of situation.

So, one other thing that we would certainly strongly urge and recommend is certainly the idea of a public education program to seek to explain the why's and wherefore's of credit, what it all means, what's involved. But particularly, it would seem that somehow or other the means would have to be provided whereby the people who don't qualify for the so-called inexpensive means of credit would be able to find credit. You can go down to a bank; if you have credit, if you have collateral, you can secure a bank loan at the going interest rate, usually what is five and a half, six and a half per cent, perhaps as high as seven per cent. I'm not that familiar with the thing.

But, still this is a far cry from the small loan company who is dealing and catering to a class of people who would not qualify for a bank loan. I think the

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irony, the tragic irony in this situation is that the people who could qualify for a bank loan would be far more able to afford a higher rate of consumer credit than the people who can't. The people who have to go to a credit company, for instance, to borrow two, three hundred dollars at this time of year to get their kids back in school, the people who have to go to a credit union, perhaps, or lacking that would have to go again to some kind of finance company, and get themselves involved because of illness, because of sickness. They have to tide them over, pay doctor bills, this sort of thing.

This is the general class of the population, I think, that we are dealing with most pathetically. It's the people who would not qualify for inexpensive credit who had to go out for one reason or other, because of family obligations, because of crises that occur in the family, and supplement their income with some kind of additional money, and thereby get themselves involved in paying very high rates of interest and charges and this sort of thing.

And, so, as I say, what the way -- which would be the best way to regulate this, I don't know. But I would certainly think that somehow, ways and means would have to be found to provide an inexpensive credit to this particular class of people.

BY MR. MISKELL

Q In terms of providing the inexpensive credit, do you feel, Father, do you think that a competitive economic situation where banks, savings and loan associations could compete in this area. Do you think that would be a benefit to the borrower, or these type of people?

A It could, but I think only on the supposition that the person, the particular type of people we are talking about realize that they can go shopping around, realize that perhaps this might be open to them. So very frequently we are dealing with people who don't know, first of all, what's available to them, and then particularly, I think we are dealing with people as a group who either have no credit, have gotten involved and overencumbered in the past, had goods repossessed and would be very poor credit risks. We are dealing with people who can be very easily intimidated. And, I'm not altogether sure that just a simple idea of competition in this situation would solve the problem.

Q Then you would say you need education also?

A You certainly need education. This is very true.

Q Do you think if we have education in the schools, at what level would we have it? Economics is a science.

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A There are an awful lot of people you would have to have this kind of education no higher than the third grade because an awful lot of these people drop out of school at the third or fourth grade. I think this is ridiculous to think of that.

Q Then we couldn't do it there. Well, then, the schools can't provide the education.

A I think the schools can certainly provide part of the education. But there has to be far more than just the schools.

Q Well, what other agencies or institutions, then, do you think could serve and give that education?

A This, I think would be a very difficult thing to answer offhand. I think certainly existing agencies either such as ours, Family Welfare Association here in town, your Community Centers, this type of thing. Any kind of an agency that has frequent sustained contact with the general public could be used.

Q Would you say your churches, institutions?

A This is entirely possible, too.

Q Or do you have a program like that here in San Antonio?

A To the best of my knowledge, there is no extensive program like this. No. There are particular credit unions which try to involve themselves in a certain amount

28 of education. It is usually centered around the credit union. But even there you don't necessarily cover the water front there either. I know of one particular situation where someone who had $2,000 in the credit union decided to borrow $500 to buy a car and ended up paying over an 18 month period the going rate back to the credit union, not realizing that this was costing the individual a little over $101 for doing it this way instead of going ahead and using $500 of the $2,000 she had saved up.

So, as I say, I think the general incidence of ignorance about credit is something that nobody quite realizes how extensive it is.

Q Here in Texas, Father, we have, I think probably two classes of disclosure. We have heard this morning from the military under the Department of Defense program. There is a full disclosure in credit transactions with military personnel. Under the Texas Regulatory Loan Act there is full disclosure on cash loaned of $1,500 or less. Now, I think it could be said that banks and savings and loan associations voluntarily give disclosure with their cash loans but there are large areas of credit activity where there is no disclosure, no regulations. Do you feel that legislation which would bring the regulations into these areas and require disclosure, would that help the situation?

A I think it could. I think it could help the situation quite measurably. I think it remains to be seen, depending on what particularly is involved in the legislation, how much the disclosure and how detailed the disclosure has to be. Because I think it remains to be seen precisely what type of disclosure we are talking about.

Q Well, in effect if disclosure conveyed to the borrower the amount of cash he was receiving, the amount of value of the goods he was receiving. If it told him the amount of the charges he was being only obligated for, the amount of each monthly payment, the number of payments, the penalties he would incur for default or late charges, his rights to a refund, his obligations, what would happen if he weren't in default on a loan. If it would show all this information, do you feel that he would have some basis of comparison?

A Oh, I think so. Particularly, if you are able to explain very concretely, not just the idea of how much either rate of interest wise, how much the rate of interest is going to be or how much are the monthly charges going to be, but definitely sit down and explain after you have paid this all back you will have paid us X number of dollars in interest and charges. Because I think that generally speaking this would be a far easier thing for the individual concerned to comprehend and understand.

BY MR. GERST

Q Father Brandes, the people, though, that you have contact with, the people you are talking about, are they actually shopping for the best credit right now?

A No.

Q They are just shopping?

A No. I think they are shopping for somebody that will lend them money. The idea of shopping for credit, I think, is completely beyond them.

BY MR. MISKELL

Q Do they comprehend, Father, that there are institutions that will make loans? We have heard from San Antonio Savings Association. I think they are interested in making a lot of loans.

A Yes.

Q I think a lot of banks would. But do these people actually comprehend that they can walk into the door of an institution like that and stand a good chance of making a good loan?

A No. I don't think they do. I don't think they do. I think it's open to question whether they would stand a chance of making a loan. Because here, what happens in a situation where we have somebody who might have a large family making $300 a month who had a car repossessed last year. You are dealing with a situation where credit wise the person is a very poor risk. I don't think there are an awful lot of banks or what you might call the normal savings and loan companies who would be willing to extend such a person credit, because I think one of the many things we have to recognize in this is that with people who get themselves overburdened this way it might mean an awful lot to you as an individual or to me as an individual to have something repossessed. But, by the same token, this can almost become a way of life. So, it's repossessed. We start all over and try again. So, the person has paid out all this money before and has nothing to show for it and he is forced thereby as a prior credit risk, to seek, as I say, not to shop around for credit, but to shop around for somebody who is willing to give him the money.

Q There again, I think these people that can, Mr. Collins' group that are out of the main stream, so to speak in terms of good credit——

A That is right.

Q ——for the normally established institutions——

A That's right.

Q ——I mean, again going back to San Antonio Savings or the Frost National Bank, those are institutions which are taking depositors' money.

A That's right.

Q In other words, they are custodians of the public funds.

A That's right.

Q Somebody else's money. Now, they have an obligation to be very careful how they spend that. I think much the same way as any normal finance company. It might not be the public's money, but it is somebody's money and they can't afford to make marginal loans.

A That's right. And this is precisely the reason why I mentioned that probably the biggest need is to provide ways and means of furnishing inexpensive credit to this group of people. This they don't have right now. As you say, they can't go to an institution like that.

BY MR. LINDSEY

Q Father, isn't that because historically they have proved themselves to be a bad credit risk?

A In a sense this is true. But now there comes the question, is this person really a bad credit risk who has gone ahead and tried to make a definite positive payment over a long period of time but due to one thing and another either ignorance of the situation, either misunderstanding of the terms of the loan or whatever it was, finds himself under a greater obligation after paying out

33 this money than he was to begin with? This is the type of person we are talking about now. We are not talking about the individual who could walk into a bank and qualify for a loan and choose not to pay off the loan. We are talking about people who do have a sense of responsibility who are trying to pay off this loan but the more they pay it seems to be the deeper in debt they get.

Q Well, this very lack of sophistication in budget and budgeting and borrowing makes that man a more dangerous credit risk than a person who understands thoroughly what his obligations are.

A In a sense this is true, except for one thing. I think a substantial part of the reason why he is a greater credit risk is the fact that he is required to pay a substantially larger amount of interest and it makes an awful lot more difference when you are paying 7 per cent interest on an income of $6,000 a year or whether you are paying 36 per cent, which is still quite legal, as I understand, on an income of perhaps $3,000 a year. There is no parity there. And, these are the people who cannot qualify for the 7 per cent loan who are forced to take a loan at 36 per cent interest plus all the charges that go along with it, and then are forced— I shouldn't say forced—but find that they either default or have to borrow more money to keep up with it.

Q In any field of this kind, in insurance, for instance, you are aware that risks have to be classified and there is a difference in charge that is based on the amount of risk that the insurance company undertakes?

A That's right.

Q This same thing appears to me must also be true in the field of credit, so this finance company or that bank must charge more where the risk is greater. I agree with you that a lot more low interest rate for people in this calssification would be extremely desirable, but where are we going to get it?

A This could well be and I certainly would agree with the idea that if a person is taking a greater risk, they should have some liability to more compensation. Does this mean to say that they should have more than five hundred times—500 per cent rather, the compensation of someone who is taking a lesser risk. A bank, as I say, will charge 7 per cent. Here somebody comes along and charges over 5 times that amount. Is this proper compensation? Or is this exorbitant? It is my contention that this is exorbitant.

Q Well, that bank that takes that risk and charges 7 per cent is dealing, is he not, that banker, with a completely different character of risk than the finance company that charges that 36 per cent?

A Let's say that he is dealing with not so much a difference in character— I'm presuming character of the person, when you say that—

Q Their financial character.

A He is probably dealing with a different financial record, yes. This is true. But as far as the financial reliability of these people, I think this is demonstrated in their attempt to pay off their indebtedness. I think where we too easily take the attitude that a lot of these people who got themselves overinvolved in credit situations don't want to pay off their obligations, or are not able to pay off, or simply would rather have the goods or whatever it is they have purchased and have a lien on, would rather have these goods repossessed. I don't think this is the case at all. I think that as we try and put this into perspective with the general movement afoot to try and establish a floor of wages, the more that we see that money is available to people the more we will see that they will try and utilize that money, which I think will ultimately mean that people will want to upgrade their standard of living, which means that they are going to have to go out and find credit somewhere even over and above the actual income that they are able to utilize.

Q Sort of a vicious circle, isn't it?

A It gets into a vicious circle, very definitely, but I think the basis of this vicious circle is the inability to find reasonably inexpensive credit.

BY MR. BAIN

Q Or a lack of sufficient income to justify the standard of living?

A This is true, too. This is true too. And, of course, this is one thing that permites all of society, not just the lower class people. I think you will probably find just as many Cadillacs repossessed as Chevrolets.

Q Maybe more?

A If anybody can find a solution to that problem, more power to them. But I think really the biggest difficulty that we run up against is the inability of your lower class individual to qualify for inexpensive credit. If that problem can be solved, I think we will have gone a long way to remedying a great deal of the problems that come under the purview of this committee.

BY MR. LINDSEY

Q I take it you are not suggesting some sort of governmental participation in this lending, as to people in this economic level?

A I don't know. I don't know that this would be

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the business of the government or the business or private industry or what. I think we have the situation right now that there is a lack of reasonably inexpensive credit for this class of people. I think this is the direction that any attempt to remedy the situation should take. Because I think you can set up all sorts of regulations that certainly would be good and help, but there still remains the problem, what do you do with the people who are simply in business to make very small loans, to charge a very high rate and then as soon as an individual can not make a full payment, turn around and refinance the thing with all the charges that go along with it. This type of thing, cycle of financing and refinancing. This is the type of thing that I think there should be provision, somehow of inexpensive credit.

BY MR. MISKELL

Q Father, may I make this observation. I don't think it is going to provide the solution. For the last year we have been studying the cost of consumer credit. Just from the economic standpoint. There is, of course, and our findings are that there are no such things as an inexpensive form of consumer credit. As you broaden out now, the banks have a narrow market. Mr. Langridge from San Antonio Savings and Loan has a narrow market so to speak. In other words, they are very selective. They are

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runing down 40 to 50 per cent of the people that are coming in. Just like you say, your people can't come in, but when you start thinking of a particular market or a particular institutional market or take a particular class, and you take the national statistics on a whole, consumer credit is the most expensive form of credit to grant. Now, it has little relationship with the risk. In other words, if you take the element of risk, it is probably one of the smallest items making up the consumer credit. It is tremendously expensive to administer. I have made some studies here by the federal reserve system or banks, which are among the most efficient operators in the country. It costs almost a dollar just to administer—that's the administrative cost of taking the payment. Now, when the payment would be one dollar—it costs a dollar for the bank to check a one dollar payment. It costs them the same thing to accept a hundred dollar payment or a thousand dollar payment. So, this is an expensive form of credit to provide.

A This is true.

Q I mean, if we are going to provide, as you say, even if the situation was to turn, to put these people that you are talking about, having a high form of credit, to put them available in the main stream again, they'd still have to pay a higher rate. They may be paying as much as other people but it would be paying more than other classes of transactions. That doesn't solve anything, but I think it may raise some basic problems there. I mean, there is no such thing as a cheap form of credit here on this.

A This is why I— I hope I didn't make mention of cheap form of credit. This is why I use the expression "less expensive".

Q Well, let's say less expensive.

A Which do make a big difference. It's certainly true that there are expenses involved in the extension of credit. But, by the same token, if the extension of credit would not be such a lucrative business, why are there such a proliferation of sources of credit, charging quite high rates of interest, or rate interests? It is not an easy problem.

BY MR. LINDSEY

Q I don't know, Father. They say the mark up in the grocery business today is about one per cent, and there are new grocery stores opening up every day.

A This is entirely true, but at least there's one thing about it. They don't have to fight the credit business. All they have to do is fight pilfering. I would shudder to think what would happen if the grocery business went into consumer credit.

Q So would I.

BY MR. MISKELL

Q Father, let me ask you over all, do you think consumer credit is good, is providing a service?

A Oh, I think so.

Q Basically we need to face that.

A I think so. I don't think that we could live without consumer credit, because I don't think any of us, at least with the society that we have come to know, would want to go back to the idea where you had to save up something before you would buy something. No, I think society is built upon consumer credit. Very definitely. But I think that in many instances, consumer credit has gotten out of hand and has become a many headed Hydra. Instead of promoting growth of society in certain segments of society, it's contributing to its destruction.

MR. MISKELL: Any other questions? Thank you very much Father.

FATHER BRANDES: Thank you gentlemen.

MR. MISKELL: We appreciate your coming down. Do I have other requests to appear now? As far as San Antonio is concerned, it's your last chance to speak up or forever hold your peace.

Well, we would like to express on behalf of the Committee, we would like to express our appreciation to all of you who have sat here with us through the hearing. I don't think you have been bored; I know the Committee hasn't been bored. I think, speaking for the Committee, we have learned much here that we feel will be of help to us.

We appreciate your coming, and I would like to express again, if at a later date you would likt to file a written statement, observations, comments, suggestions, and criticisms, what you will, we will be very happy to receive them. The record will be held open. The Committee will take it all under consideration before coming up with any final recommendations to the Governor.

Once again, we thank you and we appreciate your interest.

(Whereupon at 2:25 p.m., the hearing was adjourned.)

CERTIFICATE

THE STATE OF TEXAS §
§
COUNTY OF TRAVIS §

I, Walter H. Hickman, A Notary Public in and for Travis County, Texas, do certify that the above entitled matter came on for hearing before the STATE FINANCE COMMISSION and that the foregoing is a true and correct transcript of my stenographic notes taken therein.

GIVEN under my hand and seal of office this 16th day of September, 1966

Walter H. Hickman, Notary Public
in and for Travis County, Texas.

SM Exhibit (1)

ARMY REGULATION
No. 210-7

HEADQUARTERS
DEPARTMENT OF THE ARMY
WASHINGTON, D.C., *10 June 1966*

INSTALLATIONS

PERSONAL COMMERCIAL AFFAIRS

Effective 1 July 1966

EXHIBIT
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1. Purpose This regulation prescribes general policy regarding the solicitation and sale of goods, services, and commodities on military installations by dealers, tradesmen, and their agents; safeguards and promotes the welfare and interests of military personnel as consumers; and sets forth the conditions under which the Department of the Army may extend assistance in the collection of debts, wherever occurred, from members of the Armed Forces.

2. Applicability and scope. *a.* This regulation is applicable to all Army military personnel, to those desiring the privilege of conducting commercial transactions with military personnel on military installations (including controlled housing areas), and to those who seek assistance in the processing of debt complaints against military personnel, particularly those in which consumer credit has been extended.

b. For additional provisions governing on-base solicitation for certain specialized types of commercial enterprises see AR 210-8, AR 608-10, AR 210-24, and AR 60-20. As used in this regulation, credit unions refer to those authorized in AR 210-24.

c. The provisions of this regulation relating to processing of debt complaints involving consumer credit transactions do not apply to companies furnishing utility services, milk, laundry, and related delivery services in which credit is extended solely to facilitate the service, as distinguished from inducing the purchase of the product or service. For additional exceptions, see paragraph 10*e*.

3. Commercial activities conducted on military installations. *a.* The solicitation and transaction of commercial business on military installations with members of the Armed Forces may be permitted at the discretion of installation commanders, provided such solicitations and transactions conform to applicable regulations and do not otherwise interfere with essential military activities. No person has authority to enter upon and transact commercial business as a matter of right. See AR 210-10.

b. Because of his broad responsibilities to maintain discipline, protect property, and safeguard the alth, morale, and welfare of his personnel, the stallation commander may impose reasonable re-:ictions on the character and conduct of com-ercial activities. Of special concern is the need assure that members of the Armed Forces are ıt subject to fraudulent, usurious, or unethical ısiness practices, and that reasonable and con-stent standards are applied to each company and ; agents in conducting commercial transactions on e installation. The word "company" as used in is regulation includes any commercial organiza-on, company, group, or other type of legal entity.

c. Those seeking to transact personal commer-al transactions on military installations in the nited States, its territories, and the Common-ealth of Puerto Rico will be required, upon de-and, to present to the installation commander or s designee, documentary evidence that the com-ıny and its agents meet the licensing requirements the State in which the installation is located, and at they also meet any other applicable regulatory quirements imposed by civil authorities (Federal, ate, county, or municipality). For ease of ad-inistration, the installation commander may issue mporary permit to agents who meet these require-ents and who frequently conduct commercial ac-vities on the military installations. Permanent stallation passes will not be issued for this pur-ose.

d. Those seeking to transact personal commer-al transactions in foreign countries will be re-iired to observe the applicable laws of the host ountry and upon demand to present documentary vidence to the installation commander or his esignee that the company and its agents meet the censing requirements of the host country. If the mpany and its agents also conduct business in e United States, they must also present, upon emand, documentary evidence that they meet the censing requirements of the State in which they nduct their principal business.

e. Army Exchange facilities will be approved as ıthorized by AR 60-20. No other exclusive fran-ise or concession will be awarded for on-base licitation and sale of goods, services, and com-odities to military personnel without the approval the Assistant Secretary of Defense (Manpower). ll existing exclusive franchises or concessions of is nature will be referred through channels to the Assistant Secretary of Defense (Manpower) Washington, D.C., 20301, for review. This limitation will not apply to service and supply contracts related to base operations.

4. Supervision of on-base commercial activities. *a.* The solicitation of military personnel and their dependents will be conducted on an individual basis, preferably by appointment, in such locations and at such hours as the installation commander may designate.

b. A conspicuous notice of installation regulations will be posted in such form and such place as to give notice thereof to all those conducting on-base commercial activities. In so far as practicable as determined by the installation commander, those conducting on-base commercial activities will be presented with a copy of the applicable installation regulations and advised that disregard of the regulations will result in the withdrawal of solicitation privileges.

c. Installation commanders will prohibit the following solicitation practices:

(1) The solicitation of recruits, trainees, "mass" or "captive" audiences, and transient personnel.

(2) Solicitation in areas utilized for processing or housing transient personnel; solicitation in barracks occupied as quarters; or the making of appointments with or soliciting military persons in an "on duty" status.

(3) The use of official identification cards by retired or reserve members of the Armed Forces to gain access to military installations for the purpose of soliciting.

(4) Procuring, or attempting to procure, or supplying roster listings of Department of the Army personnel for solicitation purposes.

(5) The offering of unfair, improper, and deceptive inducements to purchase or deal.

(6) Practices involving rebates to facilitate transactions or to eliminate competition. (Credit union interest refunds to borrowers are not considered a prohibited rebate.)

(7) The use of any manipulative, deceptive or fraudulent device, scheme or artifice, in-

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cluding misleading advertising and sales literature.

(8) Any oral or written representations which suggest or give rise to the appearance that the Department of the Army sponsors or indorses the company, its agents, or the goods, services, and commodities it sells.

5. Denial and revocation of on-base solicitation. *a.* In furtherance of an installation commander's responsibilities, he will deny or revoke permission to a company and its agents to conduct commercial activities on the installation if such action would further the best interests of the command. The grounds for taking this action will include, but not be limited to, the following:

(1) Failure to meet the licensing and other regulatory requirements prescribed by paragraph 3*c* and *d*.

(2) Commission of any of the solicitation practices prohibited by paragraph 4*c*.

(3) Substantiated adverse complaints or reports regarding the quality of the goods, services or commodities solicited, the manner in which they are offered for sale, and the method and terms of financing.

(4) Personal misconduct by companies' agents or representatives while on the military installation.

(5) The possession of or any attempts to obtain allotment forms.

b. The decision as to whether the denial or revocation action will be limited to the agent, or whether it will also be extended to the company he represents, will be dependent upon the circumstances of the particular case, including among others, the nature of the violations, their frequency, the extent to which other agents of the company have engaged in such practices, and any other matters tending to show the company's culpability.

c. Upon denying or revoking solicitation privileges the agent and the company he represents will be promptly notified of the reasons, orally or in writing. If the grounds for the action bear significantly on the eligibility of the agent and the company to hold a State license or to meet other regulatory requirements, the appropriate authorities will be notified. If the grounds for the action are such that the denial or revocation action should be extended to additional military installations, the installation commander will make his recommendations through channels to the Deputy Chief of Staff for Personnel, ATTN: PSD, Department of the Army, Washington, D. C., 20310, after affording the company the opportunity to show cause why it should not be so extended. If so approved, and when appropriate, the order may be extended to the other military departments by the Assistant Secretary of Defense (Manpower), following consultation with Headquarters, Department of the Army.

6. Educational programs and advertising policies. *a.* Information and education programs will be maintained for the purpose of providing military members with information pertaining to the conduct of their personal commercial affairs (consumer credit and financing, insurance, government benefits, savings, and budgeting). The services of commercial agents, including loan or finance companies and their associations, may not be used for this purpose. The services of the representatives of credit unions, including associations of credit unions, may be used for this purpose provided their programs are entirely educational in nature. Educational materials prepared by outside organizations expert in this field may be adapted or used provided such material is entirely educational in nature and does not contain or refer to any particular commercial product, service, or company. In addition, such experts in the field of personal commercial affairs may provide expert advice to those conducting such educational programs, but may not take parts in orientation lectures or individual counseling.

b. Installation commanders will also make qualified personnel and facilities available for individual counseling on loans and consumer credit transactions in order to encourage thrift and financial responsibility and promote a better understanding of the wise use of credit. Legal assistance programs will continue to encourage individual military members to seek advice from the judge advocate or their own lawyer before making substantial loan or credit commitments. The counseling service and the orientation lectures should include information regarding the need for a full disclosure of the terms of the agreement, how finance and interest rates are quoted and computed, the standards of fairness which should be observed, and the material available for this purpose, which may be reproduced locally (para 9 and app I).

c. The Department of the Army expects that commercial enterprises soliciting military personnel through advertisements appearing in unofficial military publications will voluntarily observe, or will be requested by the publisher to observe the highest business ethics in describing goods, services, and commodities and the terms of sale (including guarantees and warranties). If credit terms are offered in such advertisements, a clear statement of the total cash price as well as the total cost of credit, including all charges, should be shown clearly in the company's advertisements. If time payments are shown, the number of payments, the amount of each, and the time period should also be shown in order that the reader can easily compute the dollar cost of the loan.

7. Exercise of "off-limits" authority. *a.* In appropriate cases installation commanders may use the services of the Armed Forces Disciplinary Control Board to investigate reports that cash or consumer credit transactions offered military personnel by a business establishment are usurious, fraudulent, misleading, or deceptive. Should it be determined that the commercial establishment engages in such practices, that it has not taken corrective action upon being duly notified, and that the health, morale, and welfare of military personnel would be served thereby, the Armed Forces Disciplinary Control Board may recommend that the offending business establishment be declared "off-limits" to all military personnel. The procedures for making these determinations are set forth in AR 15–3.

b. The Secretary of the Army, upon receiving information that a company conducting cash or consumer credit transactions with members of the Armed Forces on a nation-wide or international basis is engaged in widespread usurious, fraududent, or deceptive practices, may direct appropriate Armed Forces Disciplinary Control Boards in all geographical areas in which these practices have occurred to investigate the charges and take appropriate action.

8. Indebtedness of military personnel. *a.* A member of the Armed Forces is expected to pay his just financial obligations in a proper and timely manner. A "just financial obligation" means one acknowledged by the military member in which there is no reasonable dispute as to the facts or the law, or one reduced to judgment which conforms to the Soldiers' and Sailors' Civil Relief Act (50 U.S.C., Appendix 501, et seq.), if applicable. "In a proper and timely manner" means a manner which the installation commander concerned determines does not under the circumstances, reflect discredit on the military service.

b. The Department of the Army does not condone an attitude of irresponsibility or evasiveness by its personnel toward their just private indebtedness or financial obligations. However, the Department of the Army has no legal authority to require a military member to pay a private debt, or to divert any part of his pay for the satisfaction thereof even though the indebtedness may have been reduced to judgment by a civil court. The enforcement of the private obligations of a military member is a matter for civil authorities.

c. Creditors desiring to contact a military member concerning his indebtedness will be advised that the member's current address may be obtained by writing to The Adjutant General, ATTN: AGPF, Department of the Army, Washington, D. C. 20310, for officers and warrant officers and to the Commanding Officer, US Army Personnel Services Support Center, Fort Benjamin Harrison, Ind., 46249, for enlisted personnel, and inclosing $1.50 as a fee for the service. See AR 37–30.

9. Standards of fairness and full disclosure by lenders and sellers. *a.* Appendix I describes the principal standards (Part I) which are considered to characterize fair and just dealing with servicemen and itemizes the information (Part II) which the serviceman needs to know in order to be fully informed on the terms of the contract. Adherence to these standards and disclosure of this information in advance places both parties squarely on notice of their respective obligations, discourages improvident loans, and reduces cases of default.

b. Those who sell or loan to military personnel are *expected* to subscribe to the standards of fair-

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ness and to make full disclosure before the loan or credit agreement or contract is executed. Because banks and credit unions operating on military installations owe a special responsibility to deal fairly with those assigned to or employed on the installation, they must conform to the requirements of appendix I *before* executing the loan or credit agreement or contract.

c. The itemized information required in Part II of appendix I may be presented to the serviceman in the form most convenient to the seller or lender, as long as all of the information is disclosed and a copy is provided to the borrower.

10. Processing debt complaints. *a.* With the growth of borrowing opportunities and consumer credit, the Department of the Army has been called upon with increasing frequency to provide assistance in the processing of debt complaints growing out of such transactions. While many of these requests involve loan and credit transactions which are fair and reasonable, others involve transactions in which the full cost of credit has not been stated simply and clearly in advance. Further, some of these transactions levy exorbitant charges and other unreasonable obligations against the military debtor. Under such circumstances the Department of the Army will not use its facilities and personnel in processing such debt complaints through military channels. For the purpose of this regulation, lenders also include all financial institutions (such as centralized charge systems) which, although not a party to the original transaction, seek assistance in the collection of debts.

b. In all loan and credit transactions subject to this regulation, communications charging military members with indebtedness will be referred through channels to the debtor only under the conditions set forth in (1) or (2) below.

(1) Lenders and creditors completing appendix I before executing the loan or credit contract must submit a copy of Part II (Full Disclosure) to the commanding officer of the military member concerned or, if unknown, to the Headquarters, Department of the Army, for forwarding to the military member concerned.

(2) Those not executing appendix I before consummating the loan or credit contract (or who are unable to produce a copy thereof signed by both parties) must submit an executed copy of Part II (Full Disclosure) and Part III (Certificate of Compliance). Requests for assistance which fail to meet these requirements and which are not modified after the sender has been so notified will not be acted upon.

c. Those claims in which there is questionable compliance with these requirements, or in which the cost of the loan or credit including all finance charges, although stated, appear excessive or exorbitant, will be referred to the officer who has been designated by the installation commander as responsible for such consideration and disposition as may be appropriate. Before deciding on a course of action, the designated officer will give the creditor an opportunity to demonstrate that the finance charges conform to the law of the State governing the contract and the extent to which the finance charges and rates conform to the prevailing rates and charges for similar consumer credit transactions.

d. Additionally, the fact that a particular claim is exempt from the requirements of Full Disclosure and Standards of Fairness under *e* below (e.g., an open-end or revolving charge account), does not foreclose the right by the debtor to question service charges and other finance charges and to negotiate a fair and reasonable settlement.

e. The following types of debt complaints are not subject to the processing requirements of *d* above: claims by accommodation endorsers, comakers, or lenders against the party primarily liable on obligations not intended to benefit the accommodating party through payment of interest or otherwise; contracts for the purchase, sale or rental of real estate; claims in which the total unpaid amount does not exceed $50; claims for support of dependents; claims based on a revolving or open-end credit account if the account shows the periodic rate and its annual rate equivalent and the balance to which it is applied to compute the charge; or purchase money liens on real property (this does not include other liens on real property and related obligations such as those which represent obligations for improvement or repair). See also paragraph 36, AR 600–20.

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11. Explanation of terms in appendix I. *a.* "Found due" as used in Part I, paragraph 2, means found due by a judgment of a court of competent jurisdiction.

b. "Reasonable inquiry" as used in Part I, paragraph 3, is dependent upon the facts of each case. In reviewing the claim by a holder of the obligation the office requested to provide assistance will, in determining whether "reasonable inquiry" has been made, take into account such factors as the following:

(1) Whether the claimant has any financial ties with or right of recourse against the seller in event of default.

(2) Whether the claimant regularly engages in the purchase of negotiable instruments from the seller.

(3) Whether the character of the goods sold would reasonably suggest to the subsequent holder of the obligation that the seller had made certain warranties (for example, a new car warranty).

(4) Any other circumstances that would lead a reasonably prudent purchaser to examine into the validity of the transaction before purchasing the obligation (for example, where the note is purchased at a sum substantially below the face value of the note).

c. "Written advance notice of intention to repossess" as used in Part I, paragraph 9, requires, as a general rule, that the defaulting purchaser be given at least 1 full working day's notice of the seller's intention to repossess (Saturdays, Sundays, and holidays excluded).

d. "Right to remove security" as provided in Part I, paragraph 4, once denied by the creditor after proper request by the debtor may not thereafter be consented to by the creditor in order to qualify for processing of the complaint through military channels. If a creditor fails, for a period of 15 days or more, to respond to a written request by the debtor for authority to remove the security, this will be treated as a denial of the request.

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APPENDIX I
FULL DISCLOSURE AND STANDARDS OF FAIRNESS
PART I - STANDARDS OF FAIRNESS

1. No finance charge contracted for, made, or received under any contract shall be in excess of the charge which could be made for such contract under the law of the place in which the contract is signed by the serviceman. In the event a contract is signed with a U. S. company in a foreign country the lowest interest rate of the state or states in which the company is chartered or does business shall apply.

2. No contract or loan agreement shall provide for an attorney's fee in the event of default unless suit is filed in which event the fee provided in the contract shall not exceed 10% of the obligation found due. No attorney fees shall be authorized if he is a salaried employee of the holder.

3. In loan transactions, defenses which the debtor may have against the original lender or its agent shall be good against any subsequent holder of the obligation. In credit transactions, defenses against the seller or its agent shall be good against any subsequent holder of the obligation provided that the holder had actual knowledge of the defense or under conditions where reasonable inquiry would have apprised him of this fact.

4. The debtor shall have the right to remove any security for the obligation beyond state or national boundaries if he or his family moves beyond such boundaries under military orders and notifies the creditor in advance of the removal, of the new address where the security will be located. Removal of the security shall not accelerate payment of the obligation.

5. No late charge shall be made in excess of 5% of the late payment, or $5., whichever is the lesser amount. Only one late charge may be made for any tardy installment.

6. The obligation may be paid in full at any time or through accelerated payments of any amount. There shall be no penalty for prepayment and in the event of prepayment that portion of the finance charges which have inured to the benefit of the seller or creditor shall be prorated on the basis of the charges which would have been ratably payable had finance charges been calculated and payable as equal periodic payments over the terms of the contract and only the prorated amount to the date of prepayment shall be due. As an alternative the "Rule of 78" may be applied, in which case its operation shall be explained in the contract.

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7. No charge shall be made for an insurance premium or for finance charges for such premium unless satisfactory evidence of a policy, or insurance certificate where state insurance laws or regulations permit such certificates to be issued in lieu of a policy, reflecting such coverage has been delivered to the debtor within 30 days after the specified date of delivery of the item purchase or the signing of a cash loan agreement.

8. If the loan or contract agreement provides for payments in installments, each payment, other than the down payment, shall be in equal or substantially equal amounts, and installments shall be successive and of equal or substantially equal duration.

9. If the security for the debt is repossessed and sold in order to satisfy or reduce the debt, the repossession and resale will meet the following conditions: (a) the defaulting purchaser will be given advance written notice of the intention to repossess; (b) following repossession, the defaulting purchaser will be served a complete statement of his obligations and adequate advance notice of the sale; (c) he will be permitted to redeem the item by payment of the amount due before the sale, or in lieu thereof submit a bid at the sale; (d) there will be a solicitation for a minimum of three sealed bids unless sold at auction; (e) the party holding the security, and all agents thereof, are ineligible to bid; (f) the defaulting purchaser will be charged only those charges which are reasonably necessary for storage, reconditioning and resale and (g) he shall be provided a written detailed statement of his obligations, if any, following the resale and promptly refunded any credit balance due him, if any.

10. The contract may be terminated at any time before delivery of the goods or services without charge to the purchaser. However, if goods made to the special order of the purchaser result in pre-production costs, or require preparation for delivery, such additional costs will be listed in the order form or contract. No termination charge will be made in excess of this amount. Contracts for delivery at future intervals may be terminated as to the undelivered portion, and the purchaser shall be chargeable only for that proportion of the total cost which the goods or services delivered bear to the total goods and services called for by the contract.

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PART II - FULL DISCLOSURE

A copy of this form or its equivalent should be provided to the serviceman in advance of executing the contract, and must be submitted with requests for debt processing assistance.

A. IDENTIFICATION

Date:

1. Purpose of loan or purchase	2. Security for loan
3. Borrower's name and address	4. Creditor's name and address
5. Name and address of creditor (if known) to whom the obligation is or will be payable, if other than above.	6. Has creditor any financial ties with, or right of recourse against seller in event of default? Yes ☐ No ☐

B. CONTRACT TERMS

1. Quoted cash price of goods or services, or total amount of cash advanced.	$
2. Ancillary charges from which seller or lender receives no benefit, and which would be paid if this were a cash purchase: taxes; auto license fees; filing or recording fees paid or payable to a public official, etc. a. ___ b. ___ c. ___ Total ancillary charges	 ___ ___ ___ $
3. Total cash delivered price, or total amount of credit extended (1 + 2)	$
4. Less down payment or trade-in allowance.	($)
5. Unpaid cash balance to be financed (3 - 4)	
6. Finance charges which benefit the seller or creditor, or entities in which either has an interest. These are charges which would not be made if this were a cash purchase: a. Official fees for filing or recording credit instrument b. Charges for investigating credit worthiness of borrower c. Insurance premiums (life, disability, accident, health, other) d. All other charges for extending credit Total finance charges	 ___ ___ ___ ___ $
7. Total amount to be repaid, in accordance with terms of agreement (5 + 6)	$
8. To be repaid in ___ monthly installments, of $___ each, with the first payment to be made on ___ (date).	
9. The finance charges expressed in approximate annual percentage rate (see reverse side and Appendix II.) All lenders and all sellers who regularly engage in credit sales must complete this item.	%

* Explain on reverse side if amount is to be repaid in other than level monthly payments.

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PART II - FULL DISCLOSURE (cont'd.)

C. CALCULATION OF APPROXIMATE ANNUAL PERCENTAGE RATE *

1. Total finance charges (B. 6) . . . . $__________

2. Total amount to be financed (B. 5) . . . . $__________

3. Finance charges per $100 financed . . . . $__________
   (Divide 1 above by 2 above and multiply the result by $100).

4. Number of monthly payments (B. 8) . . . . __________

5. Determine annual percentage rate by using either:

   a. DoD Annual Rate Table (Appendix II). This table will give an approximate annual percentage rate based on the actuarial method. These approximate rates will differ from precise calculations by no more than 1/4% at the left end of the table and not more than 1-1/2% at the right end of the table. Read down the left column of the table to the number of monthly payments (4 above). Read across to find between which pair of columns the finance charge per hundred (3 above) falls. Read up and find the approximate annual percentage rate at the head of the pair of columns, . . __________ %

   - or -

   b. A More Precise Actuarial Calculation based on standard annuity tables. . . . . __________ %

* For purposes of this calculation, it is necessary to determine the number of equal monthly payments which would be required during the period of the contract, regardless of the actual repayment terms specified.

REPAYMENT TERMS IF OTHER THAN LEVEL MONTHLY PAYMENTS

____

____

____

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PART III - Certificate of Compliance

(If Part II is executed before the obligation is incurred)

I certify that (1) the Standards of Fairness (Part I) have been applied to the loan or credit obligation to which this form refers, (2) a full disclosure of the terms of the obligation has been made by execution of Part II or its equivalent, and (3) that a copy of this disclosure was furnished to the borrower (or debtor), whose signature is also indicated below, before the obligation was incurred.

Signature of borrower

Signature of creditor

(Date)

(If Part II is not executed before the obligation was incurred)

I certify that (1) the Standards of Fairness (Part I) have been applied to the loan or credit obligation to which this form refers and that the unpaid balance owing has been adjusted in accordance therewith as reflected in an executed copy of Part II, or (2) that the Standards of Fairness were applied at the time the loan was made and no adjustment is required in the transaction as indicated by the executed copy of Part II.

Name of borrower

Signature of creditor

(Date)

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CSPER)

By Order of the Secretary of the Army:

HAROLD K. JOHNSON,
General, United States Army,
Chief of Staff.

ial:
C. LAMBERT,
ajor General, United States Army,
e Adjutant General.

ribution:
To be distributed in accordance with DA Form 12-9 requirements for Military Personnel, General:
Active Army: A. *NG:* None. *USAR:* None.

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EXAMPLE
Finance charge = $38; Total amount to be financed = $250; Number of monthly payments = 24.

SOLUTION
Step 1 - Divide the finance charge by the total amount to be financed and multiply by $100. This gives the finance charge per $100 of amount to be financed. That is, $38 ÷ $250 x $100 = $15.20.
Step 2 - Follow down the left hand column of the table to the line for 24 months. Follow across this line until you find the two numbers between which the finance charge of $15.20 falls. In this example $15.20 falls between $14.66 and $15.80. Reading up between the two columns of figures you will see that the annual percentage rate is 14%. For the purpose of this directive the annual percentage rate is the rate appearing at the head of the two columns between which the finance charge per $100 of total amount to be financed falls. (If the finance charge per hundred falls exactly on a tabular value, the lower percentage rate may be used.)

Number of level monthly payments	Approximate annual rate																								
	5%	5½%	6%	6½%	7%	7½%	8%	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%	22%	24%	26%	28%	30%	33%	36%	
	(Finance charge per $100 of balance to be financed)																								
1	$0.40	$0.44	$0.48	$0.52	$0.56	$0.60	$0.65	$0.71	$0.79	$0.88	$0.96	$1.04	$1.12	$1.21	$1.29	$1.42	$1.58	$1.75	$1.92	$2.08	$2.25	$2.42	$2.62	$2.88	$3.12
2	.59	.66	.72	.78	.84	.91	.97	1.06	1.19	1.31	1.44	1.57	1.69	1.82	1.94	2.13	2.38	2.63	2.88	3.14	3.39	3.64	3.95	4.33	4.71
3	.79	.88	.96	1.04	1.13	1.21	1.29	1.42	1.59	1.76	1.92	2.09	2.26	2.43	2.59	2.85	3.18	3.52	3.86	4.20	4.53	4.87	5.30	5.80	6.31
4	.99	1.10	1.20	1.31	1.41	1.51	1.62	1.78	1.99	2.20	2.41	2.62	2.83	3.04	3.25	3.57	3.99	4.41	4.84	5.26	5.69	6.11	6.65	7.29	7.93
5	1.19	1.32	1.44	1.57	1.69	1.82	1.95	2.13	2.39	2.64	2.89	3.15	3.40	3.65	3.91	4.29	4.80	5.31	5.82	6.34	6.85	7.37	8.01	8.79	9.57
6	1.39	1.54	1.68	1.83	1.98	2.13	2.27	2.49	2.79	3.08	3.38	3.68	3.97	4.27	4.57	5.02	5.61	6.21	6.81	7.42	8.02	8.63	9.39	10.30	11.22
7	1.59	1.76	1.93	2.09	2.26	2.43	2.60	2.85	3.19	3.53	3.87	4.21	4.55	4.89	5.23	5.75	6.43	7.12	7.81	8.51	9.20	9.90	10.77	11.83	12.88
8	1.79	1.98	2.17	2.36	2.55	2.74	2.93	3.21	3.60	3.98	4.36	4.74	5.13	5.51	5.90	6.48	7.26	8.03	8.82	9.60	10.39	11.18	12.17	13.36	14.57
9	1.99	2.20	2.41	2.62	2.83	3.05	3.26	3.57	4.00	4.43	4.85	5.28	5.71	6.14	6.57	7.22	8.08	8.95	9.83	10.70	11.58	12.47	13.58	14.92	16.27
10	2.19	2.42	2.65	2.89	3.12	3.35	3.59	3.94	4.41	4.88	5.35	5.82	6.29	6.77	7.24	7.96	8.91	9.88	10.84	11.81	12.79	13.77	15.00	16.48	17.98
11	2.39	2.64	2.90	3.15	3.41	3.66	3.92	4.30	4.81	5.33	5.84	6.36	6.88	7.40	7.92	8.70	9.75	10.80	11.86	12.93	14.00	15.08	16.43	18.06	19.71
12	2.59	2.87	3.14	3.42	3.69	3.97	4.25	4.66	5.22	5.78	6.34	6.90	7.46	8.03	8.59	9.45	10.59	11.74	12.89	14.05	15.22	16.40	17.87	19.66	21.46
13	2.79	3.09	3.39	3.68	3.98	4.28	4.58	5.03	5.63	6.23	6.84	7.44	8.05	8.66	9.27	10.20	11.43	12.67	13.93	15.18	16.45	17.72	19.33	21.26	23.22
14	2.99	3.31	3.63	3.95	4.27	4.59	4.91	5.39	6.04	6.69	7.34	7.99	8.64	9.30	9.96	10.95	12.28	13.62	14.97	16.32	17.69	19.06	20.79	22.88	25.00
15	3.20	3.54	3.88	4.22	4.56	4.90	5.24	5.76	6.45	7.14	7.84	8.53	9.23	9.94	10.64	11.71	13.13	14.57	16.01	17.47	18.93	20.41	22.27	24.52	26.79
16	3.40	3.76	4.12	4.48	4.85	5.21	5.58	6.13	6.86	7.60	8.34	9.08	9.83	10.58	11.33	12.46	13.99	15.52	17.06	18.62	20.19	21.76	23.75	26.16	28.60
17	3.60	3.98	4.37	4.75	5.14	5.52	5.91	6.49	7.27	8.06	8.84	9.63	10.43	11.22	12.02	13.23	14.85	16.48	18.12	19.78	21.45	23.13	25.25	27.82	30.42
18	3.80	4.21	4.61	5.02	5.43	5.84	6.25	6.86	7.69	8.52	9.35	10.19	11.03	11.87	12.72	13.99	15.71	17.44	19.19	20.95	22.72	24.51	26.76	29.50	32.26
19	4.01	4.43	4.86	5.29	5.72	6.15	6.58	7.23	8.10	8.98	9.86	10.74	11.63	12.52	13.41	14.76	16.58	18.41	20.26	22.12	24.00	25.89	28.28	31.18	34.12
20	4.21	4.66	5.11	5.56	6.01	6.46	6.92	7.60	8.52	9.44	10.37	11.30	12.23	13.17	14.11	15.54	17.45	19.38	21.33	23.30	25.28	27.29	29.81	32.88	35.99
21	4.41	4.88	5.35	5.83	6.30	6.78	7.26	7.97	8.94	9.90	10.88	11.85	12.84	13.82	14.82	16.31	18.33	20.36	22.41	24.49	26.58	28.69	31.36	34.60	37.88
22	4.62	5.11	5.60	6.10	6.60	7.09	7.59	8.35	9.36	10.37	11.39	12.41	13.44	14.48	15.52	17.09	19.21	21.34	23.50	25.68	27.88	30.10	32.91	36.32	39.78
23	4.82	5.33	5.85	6.37	6.89	7.41	7.93	8.72	9.77	10.84	11.90	12.97	14.05	15.14	16.23	17.88	20.09	22.33	24.60	26.88	29.19	31.53	34.48	38.06	41.70
24	5.02	5.56	6.10	6.64	7.18	7.73	8.27	9.09	10.19	11.30	12.42	13.54	14.66	15.80	16.94	18.66	20.98	23.33	25.70	28.09	30.51	32.96	36.05	39.81	43.63
25	5.23	5.79	6.35	6.91	7.48	8.04	8.61	9.47	10.62	11.77	12.93	14.10	15.28	16.46	17.65	19.45	21.87	24.32	26.80	29.31	31.84	34.40	37.64	41.58	45.58
26	5.43	6.01	6.60	7.18	7.77	8.36	8.95	9.84	11.04	12.24	13.45	14.67	15.89	17.13	18.37	20.24	22.77	25.33	27.91	30.53	33.18	35.85	39.23	43.36	47.54
27	5.64	6.24	6.85	7.46	8.07	8.68	9.29	10.22	11.46	12.71	13.97	15.24	16.51	17.80	19.09	21.04	23.67	26.34	29.03	31.76	34.52	37.31	40.84	45.15	49.52
28	5.84	6.47	7.10	7.73	8.36	9.00	9.64	10.60	11.89	13.18	14.49	15.81	17.13	18.47	19.81	21.84	24.58	27.35	30.15	33.00	35.87	38.78	42.46	46.95	51.51
29	6.05	6.70	7.35	8.00	8.66	9.32	9.98	10.97	12.31	13.66	15.01	16.38	17.75	19.14	20.53	22.64	25.49	28.37	31.28	34.24	37.23	40.26	44.09	48.77	53.52
30	6.25	6.92	7.60	8.28	8.96	9.64	10.32	11.35	12.74	14.13	15.54	16.95	18.38	19.81	21.26	23.45	26.40	29.39	32.42	35.49	38.60	41.75	45.73	50.60	55.54
31	6.46	7.15	7.85	8.55	9.25	9.96	10.67	11.73	13.17	14.61	16.06	17.53	19.00	20.49	21.99	24.26	27.32	30.42	33.56	36.75	39.97	43.24	47.38	52.44	57.58
32	6.66	7.38	8.10	8.82	9.55	10.28	11.01	12.11	13.59	15.09	16.59	18.11	19.63	21.17	22.72	25.07	28.24	31.45	34.71	38.01	41.36	44.75	49.05	54.29	59.63
33	6.87	7.61	8.35	9.10	9.85	10.60	11.36	12.49	14.02	15.57	17.12	18.69	20.26	21.85	23.46	25.88	29.16	32.49	35.86	39.28	42.75	46.26	50.72	56.16	61.70
34	7.08	7.84	8.61	9.37	10.15	10.92	11.70	12.88	14.45	16.05	17.65	19.27	20.90	22.54	24.19	26.70	30.09	33.53	37.02	40.56	44.15	47.79	52.40	58.04	63.78
35	7.28	8.07	8.86	9.65	10.45	11.25	12.05	13.26	14.89	16.53	18.18	19.85	21.53	23.23	24.94	27.52	31.02	34.58	38.18	41.84	45.56	49.32	54.09	59.93	65.87
36	7.49	8.30	9.11	9.93	10.75	11.57	12.40	13.64	15.32	17.01	18.71	20.43	22.17	23.92	25.68	28.35	31.96	35.63	39.35	43.14	46.97	50.86	55.80	61.83	67.98
37	7.70	8.53	9.37	10.20	11.05	11.89	12.74	14.03	15.75	17.49	19.25	21.02	22.81	24.61	26.42	29.18	32.90	36.69	40.53	44.43	48.39	52.41	57.51	63.75	70.11
38	7.91	8.76	9.62	10.48	11.35	12.22	13.09	14.41	16.19	17.98	19.78	21.61	23.45	25.30	27.17	30.01	33.85	37.75	41.71	45.74	49.82	53.97	59.24	65.68	72.25
39	8.11	8.99	9.87	10.76	11.65	12.54	13.44	14.80	16.62	18.46	20.32	22.20	24.09	26.00	27.92	30.85	34.80	38.82	42.90	47.05	51.26	55.54	60.97	67.62	74.40
40	8.32	9.22	10.13	11.04	11.95	12.87	13.79	15.19	17.06	18.95	20.86	22.79	24.73	26.70	28.68	31.68	35.75	39.89	44.09	48.37	52.71	57.12	62.72	69.57	76.56
41	8.53	9.45	10.38	11.32	12.25	13.20	14.14	15.57	17.50	19.44	21.40	23.38	25.38	27.40	29.44	32.52	36.71	40.96	45.29	49.69	54.16	58.70	64.47	71.53	78.74
42	8.74	9.69	10.64	11.60	12.56	13.52	14.50	15.96	17.94	19.93	21.94	23.98	26.03	28.10	30.19	33.37	37.67	42.05	46.50	51.03	55.63	60.30	66.24	73.51	80.94
43	8.95	9.92	10.89	11.87	12.86	13.85	14.85	16.35	18.38	20.42	22.49	24.57	26.68	28.81	30.96	34.22	38.63	43.13	47.71	52.36	57.09	61.90	68.01	75.50	83.14
44	9.16	10.15	11.15	12.15	13.16	14.18	15.20	16.74	18.82	20.91	23.03	25.17	27.33	29.52	31.72	35.07	39.60	44.22	48.93	53.71	58.57	63.51	69.80	77.50	85.36
45	9.37	10.38	11.41	12.44	13.47	14.51	15.55	17.13	19.26	21.41	23.58	25.77	27.99	30.23	32.49	35.92	40.58	45.32	50.15	55.06	60.06	65.13	71.60	79.51	87.60
46	9.58	10.62	11.66	12.72	13.77	14.84	15.91	17.53	19.70	21.90	24.13	26.37	28.65	30.94	33.26	36.78	41.55	46.42	51.38	56.42	61.55	66.76	73.40	81.53	89.85
47	9.79	10.85	11.92	13.00	14.08	15.17	16.26	17.92	20.15	22.40	24.68	26.98	29.31	31.66	34.03	37.64	42.54	47.53	52.61	57.78	63.05	68.40	75.22	83.57	92.11
48	10.00	11.09	12.18	13.28	14.39	15.50	16.62	18.31	20.59	22.90	25.23	27.58	29.97	32.37	34.81	38.50	43.52	48.64	53.85	59.15	64.56	70.05	77.04	85.61	94.38
49	10.21	11.32	12.44	13.56	14.69	15.83	16.98	18.71	21.04	23.39	25.78	28.19	30.63	33.09	35.59	39.37	44.51	49.75	55.09	60.53	66.07	71.70	78.88	87.67	96.67
50	10.42	11.55	12.70	13.84	15.00	16.16	17.33	19.10	21.48	23.89	26.33	28.80	31.29	33.82	36.37	40.24	45.50	50.87	56.34	61.92	67.59	73.37	80.72	89.74	98.96
51	10.63	11.79	12.95	14.13	15.31	16.50	17.69	19.50	21.93	24.40	26.89	29.41	31.96	34.54	37.15	41.11	46.50	51.99	57.60	63.31	69.12	75.04	82.58	91.82	101.28
52	10.84	12.02	13.21	14.41	15.62	16.83	18.05	19.89	22.38	24.90	27.45	30.02	32.63	35.27	37.94	41.99	47.50	53.12	58.86	64.70	70.66	76.72	84.44	93.91	103.60
53	11.05	12.26	13.47	14.69	15.92	17.16	18.41	20.29	22.83	25.40	28.00	30.64	33.30	36.00	38.72	42.87	48.50	54.26	60.12	66.11	72.20	78.41	86.31	96.01	105.94
54	11.26	12.49	13.73	14.98	16.23	17.50	18.77	20.69	23.28	25.91	28.56	31.25	33.98	36.73	39.52	43.75	49.51	55.39	61.40	67.52	73.75	80.10	88.19	98.13	108.29
55	11.48	12.73	13.99	15.26	16.54	17.83	19.13	21.09	23.73	26.41	29.13	31.87	34.65	37.46	40.31	44.64	50.52	56.54	62.67	68.93	75.31	81.81	90.09	100.25	110.65
56	11.69	12.97	14.25	15.55	16.85	18.17	19.49	21.49	24.19	26.92	29.69	32.49	35.33	38.20	41.11	45.53	51.54	57.68	63.96	70.36	76.88	83.52	91.99	102.38	113.02
57	11.90	13.20	14.52	15.84	17.17	18.50	19.85	21.89	24.64	27.43	30.25	33.11	36.01	38.94	41.91	46.42	52.56	58.84	65.25	71.78	78.45	85.24	93.90	104.53	115.41
58	12.11	13.44	14.78	16.12	17.48	18.84	20.21	22.29	25.10	27.94	30.82	33.74	36.69	39.68	42.71	47.32	53.58	59.99	66.54	73.22	80.03	86.97	95.82	106.68	117.81
59	12.33	13.68	15.04	16.41	17.79	19.18	20.58	22.70	25.55	28.45	31.39	34.36	37.37	40.42	43.51	48.21	54.61	61.15	67.84	74.66	81.62	88.71	97.75	108.85	120.22
60	12.54	13.92	15.30	16.70	18.10	19.52	20.94	23.10	26.01	28.96	31.96	34.99	38.06	41.17	44.32	49.12	55.64	62.32	69.14	76.11	83.21	90.45	99.68	111.03	122.54

The values in this table have been computed by the actuarial or annuity method which conforms to the United States Rule.