

## A UNIONIST LOOKS AT CONSUMER CREDIT

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Consumer credit problems are many-fold and in attempting to stay within the time limitations, of necessity we can cover very few of the confusing problems that confront the user of consumer credit. Basically the majority of American people are honest; they meet their obligations and attempt to live within their means. This, previous to World War I, was a responsibility training of the youth of America within the home. The resultant conservation effect was carried over from the home into business and all levels of municipal, state, and government structures as well.

The need to meet emergency conditions created by the entry of the United States of America into world problems in 1914 gave birth to an entirely new philosophy. Professional, skilled, and unskilled workmen; in fact, everyone was introduced into a new phase of life. Monies became available for luxuries never dreamed of by the average person. Conservation on the family basis became a thing of the past. The slogan of the time became "If the Joneses' can do it, so can we." Buying on time payment became the vogue and as the years have past, the same philosophy continues and the ease of credit buying has increased many-fold.

Today, we are truly in an era of waste, and it is well to assume that the tragedy of waste in America has attained a degree of importance that is seriously affecting the financial position of many American families. The increase of individual or family bankruptcies is appalling and, in my opinion, basically the first problem confronting this council is to arrive at a method of solution of how to return our people to a sound program, of bringing the peoples of America to a realistic position of demanding quality merchandise and ignoring the questionable tactics of buying unneeded merchandise.

The average consumer who buys in good faith is often just part of the sucker trade.

The average consumer is in no position to know whether claims made for an automobile, drug, house, synthetic fabric, or prepackaged food are accurate. Even less is there any way for him to know whether the price is right or if credit terms are within the limits of good conscience. At best, he can hope that the description on the package fits the contents and that there has been no price-rigging.

## HOW CAN WE HELP?

Realistically, we must recognize three (3) factors, all three which will demand education on the part of the consumer.

1. More effort must be made to discourage pressure sales' tactics-- the selling of merchandise not truly applicable to the purchaser's need.

2. Discouraging time payment plans extended to the consumer, who, by no stretch of the imagination, can possibly meet the demands of regular payments.

Over the years the growth of installment credit outstanding has considerably increased. January, 1961 showed the first decline in over a two (2) year period according to the March 8th Issue of the Wall Street Journal. The decline was attributed mainly to a January sag in the automobile sales. January was the first month since September, 1958 in which the credit outstanding amount failed to grow.

However, lest the wrong impression be given, let me say it would be unwise to discourage credit for needed items. In many instances numerous American families have attained financial stability through the use of credit and time payment. Especially is this true in the purchase of real estate and large appliances for the home.

3. AND MOST IMPORTANT IN MY OPINION -- the education of the American public is how to figure true interest charged for loan or credit. Many surveys by competent authorities have shown that most people do not understand what interest rate they pay when they borrow money or buy on credit.

Recently, the University of Michigan's Survey Research Center found that two (2) out of five (5) people questioned had no idea what it cost them to buy an automobile on time payment and the others guessed all the way from 6% to 13%. Actually the deceptive way in which finance charges are stated is one of the biggest foolers of the public being practiced today. This deception is practiced by almost all lenders; in fact, even the United States Government participates in the foolery when it tells the public that the finance charges on FHA Home Improvement Loans is "\$5.00 per \$100.00". This appears on the surface to be a 5% interest rate. Factually, it is not. It is a true interest rate of approximately 10%. Moreover, the interest rate deception, instead of being stopped, is increasing. Now educational loans are being offered by large finance companies at rates which are really twice as high as they seem and can seriously fool parents and students they may be led to think that the "4%" charged by Tuition Plans, Inc., a subsidiary of Commercial Investment Trust, or the "5%" charged by Educational Funds, Inc., a new Plan sponsored by Household Finance Corporation, are really close to the 3 and 4% colleges themselves charged students for loans. They are not. The difference is that the college and government sponsored loan funds charge interest only on the remaining balance of the debt; thus their rates are true annual interest rates. But the rates charged by the Commercial Educational Lenders are figured on the original or face amount of the loan.

Since you are paying back every month, you owe on the average, only about half the amount of the original debt. Thus, Tuition Plans purported "4%" rate is actually a true annual rate of about 8%. The "5%" charged by Educational Funds, Inc., is actually a true annual rate of about 10%.

Finance charges are stated in so many different ways that the public confusion shown by the surveys is understandable. That is why Senator Paul Douglas, Democrat of Illinois, has been urging Congress to enact a truth in interest law. It would require lenders and installment sellers to state the actual annual interest rate. Until interest rate deception is outlawed, one needs a little knowledge of how to tell true interest rates to protect one's self and this should be a matter to consider seriously by this Council as to proper methods of educating the public for the safety of consumer credit.