

CONSUMER  
CREDIT  
PUBLIC  
HEARING

STATE FINANCE COMMISSION

PUBLIC HEARING ON CONSUMER CREDIT

DALLAS, TEXAS — SEPTEMBER 22, 1966

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# State Of Texas



STATE FINANCE COMMISSION



CONSUMER CREDIT STUDY COMMITTEE

## Public Hearing at Dallas, Texas

September 22, 1966

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1 THE STATE OF TEXAS  
2 BEFORE THE STATE FINANCE COMMISSION  
3 CONSUMER CREDIT STUDY COMMITTEE  
4 PUBLIC HEARING

5 DALLAS, TEXAS  
6 SEPTEMBER 22, 1966

7 BE IT REMEMBERED that on the 22nd day of  
8 September, 1966, beginning at 9:10 a.m., in the Baker  
9 Hotel, Dallas, Texas, the above entitled matter, pursuant  
10 to notice, came on for public hearing before the  
11 CONSUMER CREDIT STUDY COMMITTEE of the State Finance  
12 Commission, those present being:

13 MR. FRANCIS A. MISKELL, Chairman, Regulatory  
14 Loan Commissioner;

15 MR. PAUL D. LINDSEY, Member, State Finance  
16 Commission;

17 MR. H. L. LATHAM, Member, State Finance  
18 Commission.

19  
20 The following proceedings were reported by  
21 Walter H. Hickman, a Notary Public in and for Travis  
22 County, Texas.  
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PROCEEDINGS

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(The hearing was called to order by the  
Chairman at 9:15 a.m.)

MR. MISKELL: I would like to call this  
meeting to order and to welcome you all to this hearing.

As you know, this is the Dallas public hearing  
of the State Finance Commission's Study Committee on  
Consumer Credit.

I would like to introduce you to the other  
gentlemen up here on the platform. Mr. Paul Lindsey,  
a member of the State Finance Commission from Dallas,  
and Mr. H. T. Latham, another member of the State  
Finance Commission from Stephenville.

Other members of the Committee, Mr. Gerst and  
Mr. Falkner will not be with us today, and there is  
a possibility that Mr. Baker will not be with us, but  
as you know we are having our testimony transcribed and  
it will be in their hands within a matter of days.

It may be repetitious to some of you, but I  
would like to take a few moments to tell you why we are  
here and what we are trying to accomplish.

As you probably know, this Study Committee  
was created in response to a request formulated by  
Governor Connally last year. The Governor asked the  
State Finance Commission to study the entire field of

1 consumer credit in order to determine if there was a  
2 need for a comprehensive codal legislation which would  
3 assure adequate rates, and the right of competition and  
4 also protect the public interest in various consumer  
5 credit transactions. This State Finance Commission has  
6 appointed a committee, and the committee has been at  
7 work on this study for a year. These hearings are a  
8 part of the study.

9 We have gone to San Antonio, to Houston, and  
10 now are here in Dallas. We will go to Austin. We have  
11 sent out invitations to the public at large, interested  
12 social organizations who are working on this problem  
13 and various representatives of the consumer finance  
14 industry to come and testify and make any position that  
15 they want to make in regard to the problems in this area,  
16 and any possible solutions to the problems.

17 The Committee, would like to assure you, has  
18 no preconceptions as to conditions in the field of  
19 consumer credit. This is the purpose of the hearing,  
20 to find out actually, to get some sort of public response  
21 as to the possible problems, possible solutions and  
22 possible needs.

23 We have an invitation roster or registration  
24 roster at the entrance, in case some of you may not  
25 have registered. If you care to testify at this point,



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would you please sign that roster so we may know about it and may call upon you. If you decide at a later point, if you have heard testimony from some witness, you may feel you would then like to testify, we can't assure you of immediate hearing, but if you will sign the roster we will try to get you in.

Now, in addition, if you feel that you are not accustomed to public speaking with the mike and so-forth, and you would rather just put your comments down on paper and send them to us, this will be fine. The record of this hearing will be open and the Commission, the Study Committee, would be very happy to have your comments at any time you would care to make them. So we would leave that alternative open to you.

I would like, for some who may not know it, and the point we would like to make is that this is a study committee, it is not an investigating committee in the traditional sense. It is not an adjudicatory body that it is set up to judge in a particular area. The Committee has been assigned the problem of studying the consumer credit problem and trying to formulate recommendations to the Governor for his use in the next legislative session.

It is not our purpose, nor do we have the

1 authority, to sit up here and render judgment on a  
2 particular transaction or series of transactions. We  
3 would like to call that to your attention.

4 I would also like to note for some of you who  
5 may be interested, that this hearing is being transcribed  
6 by Mr. Walter Hickman, who is a court reporter in Austin.  
7 Mr. Hickman will have available copies of the transcript  
8 of the hearing, and also he has a procedure for making  
9 tapes of the testimony at the hearing. If any of you  
10 are interested in the transcript or any tape of the  
11 hearing, you may contact Mr. Hickman. He is the  
12 gentleman right in front of me on the stenotype, and  
13 whatever arrangements you make with him are your  
14 business with Mr. Hickman. We did want to call that  
15 to your attention.

16 With this in mind, I would like to call our  
17 first witness, Mr. Duffield Smith of the Better Business  
18 Bureau of Dallas. Mr. Smith.

19 By the way, to any of the witnesses, if you  
20 are making a presentation from a written paper, our  
21 reporter would like to have a copy of that presentation  
22 so he can include it in the record. If you don't have  
23 a copy available, you can mail it to him at a later  
24 date.

25

MR. G. DUFFIELD SMITH  
BETTER BUSINESS BUREAU  
DALLAS, TEXAS

was called as a witness and testified as follows:

MR. SMITH: My name is G. Duffield Smith. I am Vice President and General Manager of the Better Business Bureau of Dallas.

Your notice of September 7 lists what is identified as four principal components of installment credit, these being personal loans, automobile paper, home repair and modernization loans and other consumer goods paper.

I would like to refer to each in the light of our general experience, based on complaints and reports received from the general public. I might say that we receive over a period of a year some ten to twelve thousand complaints on all types of business transactions.

First, as to personal loans:

Complaints to the Better Business Bureau of Dallas from borrowers resulting from excessive and unconscionable interest charged by lenders formally constituted a very real and serious problem because of their large number and the seriousness of the personal situations that were involved in so many of them.

However, since passage of the Regulatory

Smith

1  
2 Loan Act, this situation has very greatly changed for  
3 the better. During recent months particularly such  
4 complaints have been rare, to such an extent that the  
5 problems which may still exist in this field would seem  
6 to us to be minimum. I might say that during the month  
7 of September I had the office isolate any complaints  
8 that came in involving personal loans, and during  
9 September we did not receive any of them.

10 Secondly, as to automobile paper;

11 Inadequate disclosure of terms, rates and  
12 conditions of contracts and overcharging or overloading  
13 of borrowers or purchases with side charges are principal  
14 causes of complaints received from members of the public  
15 involving the financing of automobile purchases. Many  
16 of these complaints result from the practice of having  
17 purchasers sign contracts "in blank" to be filled in at  
18 some later date with the purchaser subsequently learning  
19 that his payments substantially exceed what he was led  
20 to believe they would be. I am not able to give a  
21 comparative statistical report on the number of such  
22 complaints received over any given period of time compared  
23 with some previous period. We just don't keep our  
24 statistics that way. But I can say that such complaints  
25 frequently disclose that balances financed have included

1 Smith

2 charges for items which the purchaser had no advanced  
3 knowledge he was buying. In one typical case, such a  
4 purchaser complained when he subsequently learned that  
5 the amount of his note exceeded the amount to be  
6 financed by \$505.53, the unpaid balance due on his car  
7 at the time the transaction was made, being \$1,245.  
8 He sought an explanation for the amount of this  
9 difference. A breakdown of the charges obtained from  
10 the finance company disclosed, in addition to a finance  
11 charge of \$166.50, such other charges as the premium  
12 on personal effects insurance, life insurance, health  
13 and accident insurance, personal liability and property  
14 damage, and \$50 deductible fire and theft damage for  
15 a total of \$339.03, none of which items he realized he  
16 was buying.

17 Third, home repair and modernization loans:

18 While complaints from the general public  
19 involving the financing of home repair and moderniza-  
20 tion loans have not been numerically important, so far  
21 as financing is concerned, there has been a widespread  
22 practice of loaning money to home owners for purposes  
23 other than home repairs and modernization and obtaining  
24 a mechanic's lien obtained through the device of having  
25 the grantor-home owner execute a false statement to the

Smith

1 effect that the money was used for home improvements  
2 when such was not the case. These are the so-called  
3 "second mortgage brokers," as they are referred to in  
4 some states.  
5

6 Frequently such advertising appears in the  
7 classified columns of newspapers directed to home  
8 owners and offering money for debt consolidation purposes,  
9 "with small home repair." In the case of one such  
10 company in Dallas, the Better Business Bureau found  
11 that of a long list of mechanic's liens filed of record,  
12 only a very small percentage actually involved any home  
13 improvements or repairs at all. In all other instances  
14 the funds borrowed have been used for other and  
15 different purposes.

16 Fourth, other consumer goods paper:

17 Credit extended for the purchase of such items  
18 as home appliances, furniture, clothing and jewelry  
19 very rarely results in complaint from consumers to the  
20 Better Business Bureau involving the financing of these  
21 items.

22 It may be appropriate here to mention the  
23 financing of tuition contracts for instruction to be  
24 received from trade schools. I don't know what  
25 classification this would fall under, but it does

Smith

1  
2 represent something of a problem. It may be noted that  
3 numerous private trade schools offer various types of  
4 both resident and/or correspondence courses of instruc-  
5 tion in the field of electronics, office and business  
6 machines, and so on. Many such schools employ sales  
7 people who travel over the United States recruiting  
8 students. Such prospective students are frequently  
9 advised that the school will find them employment in  
10 Dallas so that they might earn while they learn. Often,  
11 prospective students are led to believe that such  
12 employment will be in the same field in which they will  
13 receive instruction. Many students sign contracts for  
14 such instruction, providing for the payment of several  
15 hundreds of dollars tuition over a period of time. Such  
16 contracts then may be sold to finance companies. In  
17 some instances, these companies appear to be owned by  
18 the same people that operate the school. Frequently,  
19 such students arrive in Dallas to begin their courses  
20 and find that their employment will be in some field  
21 completely unrelated to the field of instruction; in  
22 some instances, they are merely referred to the Texas  
23 Employment Service and through that obtain a job as a  
24 service station attendant or some other minor job not  
25 related to what he is going to study. They may learn

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Smith

that the equipment of the school does not fulfill expectations. Upon trying to discontinue such instructions, they find that their notes have been sold to some finance company which, as purchaser in due course, demands fulfillment of their payment as contracted.

The Better Business Bureaus have, over the years, recommended to consumers that they obtain detailed information in advance as to what they are buying and the price of same. This, in order to promote a better relationship between business and the public. This has not always been possible for the consumer to do since, more often than not, particularly in the financing of automobiles, a full breakdown of information has not been available even to the dealer.

It would appear, therefore, that such regulations as have been put into effect in Texas in the recent past have substantially diminished the causes of public complaint and it would appear that some type of disclosure requirements as to terms, rates and conditions might go far in eliminating much of the public complaint of today. Rates of interest which are fair and reasonable to both borrowers and lenders would, of course, be desirable. It is probable that these objectives can be achieved only by licensing provisions with regulations or



1 Smith

2 supervision by some State authority certainly this  
3 would be preferable than to have some regulation at the  
4 federal level.

5 With respect to notes given for courses of  
6 instruction, some states are understood to have regula-  
7 tions which provide relief to students who, for cause,  
8 find it necessary or desirable to discontinue such  
9 courses of instruction, thereby affording them some  
10 relief on the unpaid balances which may remain to be  
11 paid under their tuition notes.

12 That is my statement, Mr. Chairman.

13 MR. MISKELL: Thank you very much, Mr. Smith.

14 BY MR. MISKELL:

15 Q Mr. Smith, you brought out that the complaints  
16 have greatly diminished since the passage of the  
17 Regulatory Loan Act. You are probably referring to  
18 complaints about consumer finance companies. Let me  
19 ask you this so we could have it in the record.

20 Has the Better Business Bureau received any  
21 complaints concerning banks?

22 A No, sir.

23 Q Lending practices of banks.

24 A No, sir.

25 Q What about savings and loan associations?

Smith

1 A No, sir.

2 Q Are there any complaints there?

3 A No, sir.

4 Q What about credit unions? Do you get any  
5 complaints concerning consumer credit?

6 A Very rarely.

7 Q Very rarely.

8 A Once in awhile.

9 Q All right. I wanted to add that to the  
10 record so we could have it on this.

11 One other group. In terms of retail sales,  
12 do you get complaints concerning revolving credit?

13 A No.

14 Q No complaints there?

15 A No.

16 Q What about appliance credit and other long-  
17 term credit from your retail establishments? I am  
18 thinking of the merchants we all know, let's say  
19 Penney's and Neiman-Marcus and Titcher's, Sanger-Harris,  
20 Sears, Montgomery Wards. Do they constitute problems  
21 for you?

22 A No.

23 Q All right. Thank you very much, Mr. Smith.  
24 We appreciate your coming before the Committee and  
25

Hill

giving us this statement.

MR. MISKELL: I would like to call Mr. Roland H. Hill, Assistant District Attorney, Tarrant County. Mr. Hill, will you come up?

MR. ROLAND H. HILL  
ASSISTANT DISTRICT ATTORNEY OF TARRANT COUNTY  
FORT WORTH, TEXAS

was called as a witness and testified as follows:

MR. HILL: Mr. Chairman, members of the Committee, ladies and gentlemen. I would like to preface my remarks, first, with the following observation.

We realize that the problems we may present to this Commission are not new. We also realize that not only the consumer may be involved, but many times the lending agent as well as the consumer. However, since all of our complaints in the past, over the past eight years, have been from the consumer, we will confine what remarks we have to make to the complaints that we have received from the consumer.

The most common complaint that we have is paper which has been negotiated to a finance company or some other agency after charges have been added above

Hill

1 and beyond the agreed price, and very often the interest  
2 itself on these notes would be reasonable and fair,  
3 that is, if we had only the interest itself to con-  
4 sider. It is a very common abuse and practice in our  
5 county among the automobile dealers. We have had many  
6 complaints with the agents representing the creditors.  
7 Our biggest problem recently, and one that we have had  
8 increasing on a number of occasions, is the collecting  
9 agent coming to the home of the borrower and sitting  
10 down and not leaving the house. We have had several  
11 occasions, on one occasion where this man came to the  
12 house and seated himself in the living room and refused  
13 to leave, at which time the lady and the children were  
14 in the home, and he pulled the phone from the wall  
15 and refused to leave for some time, and she was finally  
16 successful in getting out the back door and calling the  
17 police and he left. Of course, in that particular  
18 instance, we had a remedy in the criminal code which  
19 we could take care of it. After consulting with his  
20 company, why, we did have him in and he apparently  
21 wasn't acting as an agent for the company in that  
22 particular capacity. He shouldn't have gone that far.  
23 But we have had several complaints of sit-ins by the  
24 collector.  
25

Hill

1  
2 And we have also had a number of complaints  
3 of collectors leaving large pasteboard signs in the  
4 windows and in the screens of a debtors house at times  
5 when they were gone in an apparent hope to humiliate  
6 the debtor before the neighbors in the area.

7 One of our biggest problems, if not our  
8 largest problem over there, is automobile dealers who  
9 are taking their vehicles of purchasers who come in.  
10 A purchaser will come in and the dealer will tell him  
11 that he will get him a certain type of car within a  
12 prescribed period for a given price. He then talks  
13 the man into leaving his car and title with him. The  
14 automobile dealer then takes his title, of the man's  
15 car that was brought in, to a lending agency where he  
16 floorplans the vehicle. He then sells the vehicle to  
17 someone else and finances the car for them through a  
18 different lending agency. We then have the title with  
19 one lending agent, the paper on the car with another  
20 lending agent and the vehicle with an individual, and  
21 then we have the individual who originally lost the  
22 vehicle and doesn't have anything. This has been an  
23 increasing problem in our area. We feel that they are  
24 failing to follow the certificate of title act in their  
25 credit dealings in this respect.

Hill

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 2 We have, of course, the old problem of  
 3 divorce in which the lending agents have a loan or a  
 4 lien against the household furnishings and the collection  
 5 agent finds the place of the former wife and continues  
 6 to harass her with her employer and her place of  
 7 employment.

8 And as the Better Business Bureau described,  
 9 we have had a lot of trouble with so-called trade  
 10 schools or colleges in which the personnel, prospective  
 11 students, come into the school. They are told that  
 12 their tuition will be a certain amount and that the  
 13 books will be a certain amount. Then, the student is  
 14 given his registration papers and among the registra-  
 15 tion papers seem to be papers for financing this  
 16 education that he is going to get. He fills out these  
 17 papers under an agreement to pay so much a month  
 18 tuition and books, and he only has to pay a hundred or  
 19 dollars down, or a varying amount. Invariably, after  
 20 the loan has been applied for, the student discovers  
 21 that his tuition is twice what it was supposed to have  
 22 been. The paper has been negotiated to a financial  
 23 institution and we get the people at the time he drops  
 24 out of school a month later, or six months later, when  
 25 he finds that his tuition exceeds by several hundred

Hill

dollars the amount that he thought it would be.

We have had many cases where an auto repair agent is advertising for one hundred dollars to overhaul an engine in a vehicle. I will cite you an example which may be stranger than fiction, which has happened within the past week there in Fort Worth. That is, the man took his vehicle in; they disassembled the engine and laid it all over the garage floor and called him in four days later. They informed him at that time that his repair bill was going to exceed much what they expected it to be; that it was going to be in the neighborhood of \$350 or \$400. After thinking it over, he left the vehicle with them to be repaired. He was called in on the following week and told that he would have—he had agreed to pay one hundred dollars down. He was told then that he could finance the rest through them and they would carry the paper. When he got in he then signed a note for \$500. By the time he got to us, the lending institution, a finance company, he brought in his payments and we figured them up and it was in a total amount of \$960 which was to be paid over a period of time. These problems, I know, are not new to you, but we felt perhaps they would be interesting to the Commission.

Hill

I believe that is all.

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

BY MR. MISKELL:

Q Mr. Hill, let me ask you a question, and we are framing a record here. Has the district attorney's office received complaints about lending practices of any of your banks in Tarrant County?

A No, sir, we have not.

Q What about your savings and loan associations in Tarrant County?

A No, sir, we have not.

Q And credit unions in Tarrant County?

A No, sir.

Q All right. Thank you. One other point I might make, we didn't clarify, but I think it is important. These lenders, are these problems that you have cited, these are mostly lenders who are not subject to any regulation by the State. Is that correct?

A That is correct, sir.

Q What about lenders who are under the Texas Regulatory Loan Act? Do you have major problems there?

A No major problems that I am aware of.

MR. MISKELL: All right. Thank you very much.



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Mr. Hill. We appreciate your coming over here and taking your time.

I might make for the record, Mr. Hill is busily engaged in a murder trial in Fort Worth and he still has rushed over here this morning and has to return this afternoon, and probably continue with his work there. But we appreciate very much your coming and want to express our thanks to District Attorney Doug Crouch for allowing you to take the time to help the Committee in its work.

MR. HILL: Thank you, Mr. Commissioner.

MR. MISKELL: Mrs. Peggy Huffman. Mrs. Huffman is Executive Director of the Legal Aid Clinic here in Dallas County.

MRS. PEGGY HUFFMAN  
EXECUTIVE DIRECTOR, LEGAL AID CLINIC  
DALLAS, TEXAS

was called as a witness and testified as follows:

MRS. HUFFMAN: You called me a little early; I wasn't supposed to come on until eleven. I got here early. I have to try and collect my thought.

Basically, I can go over the same thing that Mr. Hill mentioned. We do have a lot of complaints

Huffman

1 recently from the trade schools, and so-called business  
 2 colleges, particularly one that operates in Fort Worth  
 3 holds itself out to be a specialist in the area of  
 4 drafting and IBM techniques. Their ads in the paper,  
 5 of course, suggests that there will be work while in  
 6 training. The work turns out to be not even related  
 7 to the field; either clerks or mechanics or station  
 8 helpers at garages, which do not provide for adequate  
 9 income to train or go to school, if the facilities of  
 10 the school were adequate, which they usually are not.  
 11 The instruction is not adequate nor are the facilities  
 12 of the school with their business machines or anything  
 13 of the nature. The people that we have come in contact  
 14 with have made the mistake of borrowing the money  
 15 separate and apart from the school of contracts, either  
 16 having their parents borrow the money and then turn  
 17 the cash over to the school, and their recourse is  
 18 slight because the school is usually already so stacked  
 19 up with judgments that they do not pay, that the most  
 20 the student could get would be a paper judgment, which  
 21 they would not be able to collect.

22  
 23 This has been a problem that we have had  
 24 just recently, quite frequently. We didn't have it  
 25 too much in the past. We also have problems with the

Huffman

1  
2 automobile dealers who are rather harsh in their re-  
3 possession tactics of letting people pay until they get,  
4 oh, two-thirds of the amount of the car paid for and  
5 then with the slightest little delay in payment they  
6 repossess by going out in the middle of the night and  
7 hauling the car off or taking it off the parking lot  
8 where the employee works.

9 We have also had problems in the repair of  
10 automobiles where a large amount is being charged for  
11 the repair and it takes two or three weeks to get the  
12 repairs done. The person gets their automobile and  
13 finds that it is not repaired properly—at least it  
14 doesn't run right; something is the matter with it some-  
15 where. They take it back and they keep it another two  
16 or three weeks. They get their car again and it still  
17 is not functioning in a way that an automobile should  
18 function. They take it back again; they go through the  
19 same routine of repairs, take it back, and it will stay  
20 two weeks and take it back again until finally they  
21 are so disgusted with the people that they wonder what  
22 is the matter. So far the repairmen are always willing  
23 to do the repair or to keep it until it gets to a point then  
24 say, "Well, we have done what we've done and now something's  
25 else is the matter with your car and it will take another sum

Huffman

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2 of money in order to get it in running condition. It  
3 wasn't our fault that you had a busted block or that  
4 your engine was going out just at this time. These  
5 things happen."

6 Usually it involves several hundreds of  
7 dollars in these repairs, three to four hundred dollars.

8 We have had problems with the harassment of  
9 individuals where they have mortgaged their furniture,  
10 things of this nature, for just cash money to use and  
11 then they get behind in their payments and they are  
12 constantly harassed at work or at home at all hours of  
13 the day or night; threatened by letters to be put in  
14 jail; things of this nature that they don't know what  
15 can be done about and, therefore, are scared and are  
16 upset. The harassment that we have run into has never  
17 got to the extent that the people are physically damaged  
18 or harmed, but they are constantly harassed and I  
19 imagine would continue to be until they make some little  
20 payment, which they do make and then the harassment  
21 starts over.

22 Our other main problem that we have run into  
23 is in the home repair line, which has sort of slacked  
24 off within the last year, luckily. It's liable to  
25 start up again if there isn't some kind of regulation

Huffman

1  
2 done, but the home repair would be repairing someone's  
3 home and doing a slipshod job in some areas and in some  
4 areas do a good job, and yet the price that was charged  
5 would be excessive for the whole job, maybe twice the  
6 value of the actual work and repair that was done to  
7 the home. Of course, after six months or two years  
8 the work has been there and then the roof begins to  
9 leak or falls in in a certain area. That is when we  
10 hear the complaint and get it that far later. Of  
11 course, I feel that the basic problem that we have in  
12 any of these complaints is that it's tragic that it is  
13 always the people without the education to know to  
14 consult someone before they get this far into a thing  
15 before they invest two or three hundred dollars or  
16 a thousand or two in something without even counseling  
17 with anyone. Of course, we know that they have high-  
18 pressured tactics to sign people up on any kind of  
19 repair or anything that will improve their life, as  
20 well as these— These are the same people that could  
21 not get credit from any reputable institution or from  
22 any reputable repairman, and that is why they are  
23 extended the credit here.

24 These are the only ones that I have noted,  
25 and the only ones that are pressing at this time, in

Huffman

the Fort Worth area.

BY MR. MISKELL:

Q Mrs. Huffman?

A Yes, sir.

Q Let me correct the record so to speak. I notice you are Executive Director of Legal Aid Clinic, and I just saw on your record, 254 Civil Courts Building, and that's in Fort Worth. And so you are the director of the Legal Aid in Fort Worth. I would just like to clarify that. So we have another representative of Fort Worth. I would just like to make that for the record.

Mrs. Huffman, let me ask you this, and it is a question because we are trying to survey the entire field: Have you had complaints about banks?

A Never about banks.

Q Never about banks. What about savings and loan associations?

A Not that I can recall, ever.

Q All right. What about credit unions?

A No.

Q Any complaints there?

A Not on credit unions.

Q And then, of course, in the cash loan field,

Huffman

1  
2 we have lenders or who are licensed under the Texas  
3 Regulatory Loan Act. Do you have complaints there?

4 A Off the top of my head, I really don't know who  
5 is licensed under that. The only complaints that we have  
6 had about the small loans would be in the harrassment area.

7 Q In the harrassment area there. Do you have  
8 very many complaints there?

9 A Oh, not as many as I feel probably exist, if  
10 they knew to call and tell us.

11 Q I think that is a question. I was going to  
12 come to that. Do you think in terms of the scope and  
13 the seriousness of the problem that the public is  
14 aware there are remedies on this? In other words, the  
15 complaints you receive, are they representative of the  
16 depth of the problem or is it just a small percentage  
17 of the public that knows they can get some assistance  
18 from your office?

19 A I think it is a small percentage, because most  
20 people will continue to take it because they are thinking  
21 they are in the wrong, not paying on time, and they will  
22 take as much as they can, and finally, when they get to  
23 us, they will be beat down and don't have anything else to  
24 do.

25 Q Or, in turn, we will just say, "Well, I've been  
been stuck; that's my own fault. I'll pay it out and

Huffman

1 never go there again."

2 A I think that's the majority.

3 Q There is one other group. We have talked about  
4 lending institutions. What about retailers? Do you  
5 have complaints there involving credit practices?  
6

7 A No. The only one instance that I can think  
8 about is where someone didn't back up their warranty.

9 Q That didn't apply to consumer credit?

10 A No.

11 Q Things like revolving credit, nobody comes  
12 in and says, "I didn't know what was happening to me"?

13 A We have had no complaints in that area.

14 Q No complaints in that area there.

15 Well, let me push on and phrase this question  
16 to you: Do you feel that there would be need for  
17 legislation in these areas that are not subject to  
18 regulation now?

19 A I definitely feel there is need for regulation,  
20 mainly because quite often—well, I know our legal aid  
21 is limited in our scope and our money of what we can  
22 do to help these people and if they fall right out of  
23 our category, which many of them do, there is nothing  
24 they can do. If we don't have some kind of legislation  
25 and regulation this way, these people aren't going to



1 Huffman

2 be helped by me or anyone else.

3 Q Anyone else. Do you feel that if we had in  
4 legislation, if we had, let's say, disclosure provisions  
5 as to terms and rates and the conditions of the con-  
6 tract and the requirement the borrower receive a written  
7 contract and there would be no blank spaces, none of  
8 this thing of a contract taking one day and sent to him  
9 a few days later, do you think that might improve the  
10 situation?

11 A I think that would greatly help!

12 Q What about education? Do you think there is  
13 a need for education in this area?

14 A I definitely feel there is a need for educa-  
15 tion. I am strong in that belief because I feel without  
16 it these things will continue to happen, even if we have  
17 full disclosure and things for people that are not  
18 educated enough to know what this full disclosure is,  
19 it is not going to help them.

20 Q Basically, the Legal Aid Clinic is in the  
21 educational field.

22 A Yes.

23 Q In essence, it is. If somebody were to come  
24 in and show you a contract, you could, in effect, in-  
25 terpret it for them, if they would only know enough to

Huffman

come in to you?

A If they would know enough to come to us.  
Right.

Q All right. Thank you very much, Mrs. Huffman.  
We appreciate your coming over today to see us.

A Thank you very much.

MR. MISKELL: I would like to call Mrs. Mable  
Spillman Barber, Legal Aid attorney here in Dallas  
County. So we have equal time for the two groups.

MRS. MABLE SPILLMAN BARBER  
LEGAL AID  
DALLAS, TEXAS

was called as a witness and testified as follows:

MRS. BARBER: Mr. Chairman, for some years I  
have been in charge of the Legal Aid Bureau here in  
Dallas. This office here in Dallas, the one I am  
connected with, is financed by the City of Dallas and  
we are housed in the County Welfare Building, which was  
built by the city and county funds. I am physically  
close to the County Welfare Office and by reason of  
long association am close to their operation. I talked  
with Mr. Glen Coker, the director of the County Welfare

Barber

1  
2 Department, before coming over here, and he estimated  
3 that between ten and fifteen per cent of their intake  
4 would involve people who had had consumer finance  
5 problems. Of course, their eligibility requirements  
6 for assistance are low income people and usually people  
7 with no income, so there would be a lot of people that  
8 they would never contact because of their eligibility  
9 requirement. Now, of course, when they do get a  
10 situation where a client has been mistreated or is in  
11 trouble, why, they refer them to our office.

12 The lady that preceded me well covered the  
13 types of cases we get. I can only spell out a little  
14 more specifically what we have had recently. Not  
15 long ago one of the case workers referred an elderly  
16 lady to me who was drawing social security. She had  
17 been in the hospital some years ago and for some reason  
18 that we didn't go into, the insurance didn't  
19 cover the operation and other expenses.—some finance  
20 company had taken the paper and now were trying to  
21 collect it, and they threatened to garnishee her social  
22 security check, and of course, it was a very hard thing  
23 to allay her fears about this, because this was the  
24 only thing she had, and she was very upset about it.

25 Then, of course, we can't handle all the cases

1 Barber

2 that we get. If we feel they are over income, or the  
3 people can afford a private attorney, of course, we  
4 refer them. But as was mentioned earlier, there is  
5 an educational process that we do try to go through  
6 with and tell these people what did happen to them so  
7 that maybe it won't happen to them again.

8 One thing that hasn't been mentioned, I don't  
9 believe, is the magazine subscriptions that so many of  
10 these housewives take. Most of the ones that we have  
11 had are ones where they are supposed to be parent  
12 magazines that give you instructions on rearing children  
13 and diet and that sort of thing. They are supposed to  
14 pay a minimum amount each month. It is about five  
15 months before they ever get a magazine and they haven't  
16 paid anything in the meantime, haven't been contacted,  
17 and they are then given a full bill for the whole sub-  
18 scription, and then when they can't pay that, why, they  
19 are threatened that their husband will be bothered on  
20 his job and that they will go to the school and tell  
21 them that they haven't paid for their magazines, and  
22 all sorts of things to try to coerce them into making  
23 their payments. So many of these people, of course,  
24 they don't realize that the note, the money is going to  
25 be discounted and sold to some finance company. They

Barber

1 are not sophisticated enough in money matters. They  
2 have no idea that they are going to get a letter from  
3 somebody in Kansas City or Chicago threatening to sue  
4 them and take all kinds of judgments against them.  
5 Then, a lot of these contracts that I have seen are  
6 in such small print that it is difficult to read them,  
7 even with a good magnifying glass. I had a young  
8 woman in a week or two ago who was going to summer  
9 school, and I suppose she was thinking about getting  
10 married. She had bought a cutlery set that was supposed  
11 to be about \$75. She thought she was going to get a  
12 set of crystal free. Well, when she got the long  
13 contract, it showed in it that she would get the crystal  
14 at a reduced price, and altogether she owed about three  
15 times what she had thought she was going to have to  
16 pay. She was a college girl, but this contract was so  
17 involved and in such tiny print that she certainly  
18 succumbed to it.

19  
20 As previous speakers have mentioned, this  
21 automobile repair business— I had a man and his wife  
22 in last week. He was drawing social security dis-  
23 ability. They had taken their car, which he had bought  
24 when he got his lump sum social security, to some place.  
25 For \$69.50 they were supposed to replace the transmission,

Barber

so when they went back to get the car, they had taken the transmission out and put it in the trunk; they had taken the drive shaft out and put it in the back of the car and told them that it would cost about \$199.50, and they wouldn't go ahead until they had at least brought them about fifty dollars. This goes on and on.

The people signed these contracts and yet, they invariably tell me that at the time they signed it the salesman told them they could stop any time on the subscription, when the contract plainly states they can't stop. And this occurred in a dance studio proposition. A young man signed up for some dancing lessons. He was told that he could stop taking the dancing lessons any time he wanted to. He took and paid for two or three months, and then terminated. Then, he got a long letter from Kansas City that he owed them about two hundred dollars more.

Too, another thing that I have been observing is a lot of these finance companies have the word "credit" in their name, and the person is constantly pressed with the idea that this is all exhaustive; that an exhaustive search has been made of his credit and this will hound him to his dying days if he doesn't pay for these dancing lessons, or for the transmission that

1 Barber

2 he didn't get fixed, or for the magazines that came  
3 five months after they were ordered. I would think it  
4 would be excellent to have big print and to have, as  
5 you mentioned, full disclosure; and of course, I  
6 understand there is a certain amount of window dressing  
7 and salesmanship is permissible, but it seems so often  
8 a salesman says absolutely the opposite of what is in  
9 the contract, and a lot of these people, frankly, can't  
10 read well. They can sign their name and they know  
11 certain figures and certainly they can drive; they have  
12 learned driving signals, but it is amazing the number of  
13 people yet who can't read and write adequately.

14 Of course, the general educational programs,  
15 as they come along would be most helpful. That is the  
16 main thing that we have tried to do, is to tell them  
17 what happens to people and hope that next time they  
18 wouldn't be hurt.

19 That's all that I have, Mr. Chairman.

20 MR. MISKELL: Thank you very much, Mrs.  
21 Barber. Would you mind a few questions?

22 MRS. BARBER: Surely.

23 BY MR. MISKELL:

24 Q At the Legal Aid Clinic, do you have any  
25 complaints about banks here in Dallas County?

1 Barber

2 A No, sir. I don't recall any.

3 Q What about savings and loan associations?

4 A No, sir. Our clients don't have any contact  
5 with them as a general rule.

6 Q Any credit unions?

7 A Well, we have had a few credit unions.

8 Q You do?

9 A Yes.

10 Q What is the nature of the complaints on credit  
11 unions?

12 A Well, they are a little surprised at the  
13 amount of interest that they pay. And there has been  
14 some, rather brutal repossessions in credit union  
15 practices.

16 Q Right. Have you found credit unions charging  
17 you serious interest?

18 A No. I think in these cases that we have had,  
19 we haven't had too many; that the interest rate wasn't  
20 fully explained to the person and it was a lot more than  
21 they thought it would be, of course.

22 Q . But it was still a legal rate?

23 A It was still a legal rate, but it was excessive  
24 in the way it had been explained to them, or the way  
25 they understood it.



Barber

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Q Right.

A I think it was really a lack of communication. They didn't sit down and really talk it over and say, "You are going to pay this much more."

Q Right. What about retailers? Have you had complaints about them?

A We have had a few on these revolving accounts in town. Again, people are surprised. You know, \$6 a month they've got on their bill for a revolving account.

Q This is in essence a surprise?

A Uh-huh.

Q They don't comprehend?

A They don't comprehend it. When it is explained to them, why, they can adjust to it, and say, "Well, maybe next time they will just pay cash," or they will know what they are involving themselves in.

Q Right. When you come into complaints of that nature, do you find that the retailer extending the credit has given full disclosure to the borrower?

A Yes. They usually find with the retailer, it has been disclosed.

Q In other words, the retailer has shown it to the borrower, but the borrower has not comprehended that

Barber

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he is going to pay that amount?

A No, it hasn't been—they are not conscious of it. It is just something that they don't—they don't understand.

Q I think you may have put this out. Are most of the people that come to you, would you say they are uneducated or lower income groups?

A Well, most of them have finished three or four grades. Oh, I would say about twenty-five per cent the tenth or eleventh grade, and very rarely—I have gotten in the habit of asking them how far they have gone in school, because it is really indicative of how much you can counsel with them and how much they can understand about it. But we don't get too many high school graduates.

Q Right. This point has been raised in San Antonio when we talked about education in the field of consumer credit in the schools.

A Yes.

Q And the point has been made that many of the people that need this education in the schools will probably have dropped out of school before you can even reach him with education.

A That is quite interesting. It is.

Barber

1  
2 Q Let me raise this other point. At the Legal  
3 Aid, have you come upon or have people come in that  
4 you might call overloaded borrowers? In other words,  
5 people that have overextended themselves in credit?

6 A Oh, yes. Yes, we certainly do. I have had  
7 them figure up within two dollars of their income  
8 payments they are supposed to make every month.

9 Q Have you been able in your work with these  
10 people, have you been able to determine what accounts  
11 for this factor, what puts people in this position?

12 A Usually at the time they make the accounts  
13 they can handle it, but any disaster, anything that  
14 happens is disastrous. It is usually both husband  
15 and wife are working and usually one child is working.  
16 Well, something happens to the husband or something  
17 happens to the wife, or even if the eighteen year old  
18 boy doesn't work any more—suppose he gets married and  
19 leaves the home— Anything like that will upset the  
20 whole credit schedule. They don't see that far. They  
21 see right then that they can pay it, but they don't  
22 anticipate any sort of thing happening to them, as a  
23 rule. They don't leave any margin of safety at all.

24 Q Have you had any of these compulsive borrowers,  
25 people who just can't resist walking down the street?

1 Barber

2 A Yes. Uh-huh.

3 Q As they walk down the street and see something  
4 shiney in a window they have to have it?

5 A Yes, sir.

6 Q What solution is there for these people?

7 A Well, I even attempted one time to have a  
8 guardian appointed—to have a wife appointed a man'  
9 guardian because he bought so lavishly, but I didn't  
10 quite pull that off. (Laughter)

11 Q Well, now, actually, the Legal Aid Clinic  
12 really—these people probably need to be helped by  
13 economic counseling rather than legal assistance?

14 A Frequently. Frequently they do.

15 Q Right. Do we have any social agencies here  
16 in Dallas County that service that need?

17 A I understand that Family Service do that sort  
18 of thing. I am not really well acquainted with their  
19 in-take policies or their procedures, but I understand  
20 that they do counsel with families about budget matters  
21 and try to budget their income.

22 MR. MISKELL: Thank you very much, Mrs. Barber.  
23 We do appreciate your coming and giving the Committee  
24 this assistance.

25 A I am happy to be here. Thank you very much.

1           MR. MISKELL: Before we proceed to the next  
2 witness, I would just like to pause for a minute and  
3 make note on the record at the time we held these  
4 hearings we extended an invitation to various members  
5 of the legislature in Dallas and Tarrant County, and  
6 also to all the nominees, Democratic and Republican,  
7 to attend this hearing if their schedules would permit  
8 in order that they might have some recognition of the  
9 problems they may face in this area in the next legis-  
10 lative session. We have received a very good response  
11 to that. I would like to recognize some of the nominees  
12 who are present here today.

13           Mr. Oscar Mauzy, Democratic nominee for  
14 State Senator, 23rd District. We are glad to have you  
15 with us, Mr. Mauzy.

16           Mr. James W. Stroud, State Representative.  
17 Mr. Stroud is here with us today, too. Thank you, Mr.  
18 Stroud.

19           And Mr. Jim Clark, Democratic nominee, District  
20 33, Place 12. Good to have you with us, Jim.

21           I would like to make known for the record, we  
22 have received a number of communications from other  
23 members of the legislature. Senator Parkhouse said he  
24 was going to try and be here if his schedule would  
25 permit, but that he was very interested in the work of

1 the Committee and, of course, Senator Parkhouse was the  
2 leader in the passing of the Texas Regulatory Loan Act,  
3 so I feel sure that if he can make it he will make it.

4 I would like to call Mr. Vincent Rohloff. He  
5 is program director of Dallas Legal Services Project.  
6 Mr. Rohloff.

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1 Vincent Rohloff

2 MR. VINCENT ROHLOFF, DIRECTOR  
3 DALLAS LEGAL SERVICES PROJECT  
4 DALLAS, TEXAS

5 was called as a witness and testified as follows:

6 MR. ROHLOFF: Our program is supported largely  
7 by a grant from the OEO, and the local contributions in  
8 the form of rent and voluntary attorneys time. We are  
9 under the supervision of the SMU School of Law. We have  
10 only been open a little over a month, so our history is  
11 not too definitive yet. However, we have had a very  
12 heavy work load. The cases are coming in faster than  
13 we can process them.

14 At this time about eleven per cent of the  
15 cases involve consumer financing. We think that this  
16 percentage will increase as we go along because up to  
17 the present time our clients have come largely from the  
18 Republic Housing Projects. As we get out into the areas  
19 of home ownership, home repairs, we think that we are  
20 going to get into considerable more of that. And also  
21 in automobile financing, we think we will run into this  
22 problem.

23 At this time we have encountered considerable  
24 fear on the part of the indigent. Just the night before  
25 last, one woman in a home came up to me after the  
meeting and said that she and her husband had discussed

Vincent Rohloff

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the matter of coming in and talking to us about several instances where they had been cheated, but they were fearful that the persons of whom they were complaining would resort to retaliatory measures, such as harming their children or burning down their house. She was afraid that it might lead to racial tension.

Another part of our program is research and education. Some of the member of the SMU Law School are developing educational materials for use by social workers where there are overlapping legal problems, and also we are going to have educational meetings in the indigent areas wherein we described certain preventive measures that they can take, such as reading contracts before they sign them. Also we are programming the results of our cases and hoping that we'll come up with some helpful information as to the impact of legal problems upon the economic and social welfare of the community as a whole.

Our Chief Counsel, Mr. Walter Steele, who is also here, and in the interest of time, I would suggest that the questions be held until after he has appeared.

MR. MISKELL: Very well. Thank you very much, Mr. Rohloff.

I would like to call now Mr. Walter Steele,



1 Walter Steele

2 Chief Counsel, Dallas Legal Services Project.

3  
4 MR. WALTER STEELE, CHIEF COUNSEL  
5 DALLAS LEGAL SERVICES PROJECT  
6 DALLAS, TEXAS

7 was called as a witness and testified as follows:

8 MR. STEELE: Thank you, Mr. Chairman. As  
9 Mr. Rohloff mentioned, our experience to date in this  
10 field is somewhat limited. However, the prime purpose  
11 of our project being to reach some conclusions in the  
12 field of legal aid in the metropolitan area we did  
13 immediately upon inception commence to think in terms  
14 of conclusions and possible solutions to some of the  
15 problems that have been faced for years in the field  
16 of assistance to the people, the low income people.  
17 In that connection, if you will permit me, I would like  
18 to suggest a few possible areas of solution which have  
19 occurred to us in some of the fields of consumer finance.  
20 First, with reference to the home improvement problem:  
21 Article 5460 of the Texas Civil Statutes is a statute  
22 providing briefly that prior to a home improvement where-  
23 in we have what is called a "marriage homestead" or what  
24 we call a "marriage homestead", a husband and wife living  
25 in a homestead. Prior to the improvement of such a  
place, there must be a contract signed by the contractor,

Walter Steele

1  
2 the husband and the wife, separately acknowledged by the  
3 wife before a Notary. This contract has to state all  
4 the terms and shall be filed with the County Clerk. If  
5 that contract is not so entered into prior to the  
6 furnishing of any materials, then the lien on the home-  
7 stead is invalid. It seems to us that a married female  
8 has that protection to her homestead when a widow has  
9 no protection, or no similar protection. The lady who  
10 needs the most protection, seemingly the widow, is sub-  
11 ject to the general lien laws contained in the McGregor  
12 Act, or Hardyman Act, whichever may apply.

13 So, it initially seems to us that we need  
14 to have some expansion of Article 5460 to have this  
15 pre-contract requirement apply to widows, as well as  
16 married women. Obviously, you can't have a separate  
17 and a part acknowledgment for the widow, but you can  
18 have the requirement of pre-contract, and in that  
19 connection with reference to the contracts, not only in  
20 home financing but in all phases of financing, I agree  
21 with Mrs. Barber that the fine print is a problem. The  
22 Uniform Commercial Code which was recently enacted in  
23 Texas pertains to a concept called, "Conspicuous language"  
24 which, roughly, as I understand it, means all capital  
25 letters. There is some question in my mind as to how

Walter Steele

effective this is with a number of the low income people. No matter how big the print, they may not read it. But at least it would be a step forward to adopt this "Conspicuous requirement" in certain area of the consumer financing field.

Further, in reference to the home improvement area, the Notary requirement. It seems to us that the Notary requirements in this State are honored more in the breach than in the actuality, and we have had thoughts towards suggesting at one time or another that perhaps the entire concept of Notary should be re-examined, so that it is no longer necessary to have a Notary for every possible transaction, which is the stage that we seem to be reaching. Why should we have the necessity of a Notary just to have some sworn document? Why not have a statute which says that certain documents wherein you state, "I swear to this" and sign it that it becomes perjury if it is a misstatement.

In the area of the Notary taking the jurat or separate and a part acknowledgment, however, this area is very important. It does provide a protection for wives. It could provide a protection for widows if it was a professional operation. If a Notary were someone who had passed certain requirements, who had taken a

1                               Walter Steele

2       test, who was under a bond in excess of a \$1,000 bond  
3       presently required, who perhaps had certain fee schedules  
4       to make it a significant, not profession, but at least  
5       avocation, which had some meaning rather than what seems  
6       to be the time honored concept of the secretary in the  
7       office who never really saw the people anyway and the  
8       boss just said, "Notarize that form for me."

9                       In the area of "holder in due course", the  
10       history of the "holder in due course" law indicates that  
11       it was meant to facilitate commerce and not to allow  
12       credit operators to take advantage of low income groups,  
13       certainly. It seems to us that this is really a pro-  
14       blem for the banking industry more than perhaps for the  
15       lawyers. We recognize the necessities for the "holder  
16       in due course." The abuse of the holder in due course  
17       law reflects upon the banker, really, but not upon the  
18       lawyers. The holder in due course law is for the benefit  
19       of the bankers and it is a legitimate benefit, so per-  
20       haps it should be left to the bankers to solve the problem  
21       of the abuse of the holder in due course law without  
22       lawyers being so presumptuous.

23                       I might confess that sometimes I wonder if  
24       some of the problems are not created by a little laxity  
25       on the part of the lawyers, particularly with the new

Walter Steele

1  
2 Uniform Commercial Code. There is a provision now --  
3 I brought a copy with me -- Article 3, Section 305. We  
4 now have a provision which at least on the face of it,  
5 allows misrepresentation and fraud to be used as a de-  
6 fense to a holder in due course. There are no Texas  
7 cases construing the meaning of the provision that I  
8 am aware of. I am aware of a Pennsylvania, I believe it  
9 is, which takes all of the meaning away, as far as con-  
10 sumer credit. It was a case involving a classical  
11 aluminum siding fraud situation and the court said, "Well,  
12 it didn't apply and the holder in due course law did  
13 apply." I don't know if that will be followed in Texas  
14 or not. No one knows. But we have some opportunities  
15 sometimes, I feel, as lawyers to challenge a purported  
16 holder in due course and we don't just because it is  
17 difficult. Particularly legal aid people. We have more  
18 cases than we can handle and to challenge a holder in  
19 due course takes a great deal of time. You have to go  
20 through a lot of discovery procedure, and it is just too  
21 time consuming to allow us to do it. So, you have a  
22 great body of people that I think the lady from Fort  
23 Worth mentioned, who maybe they qualify for legal aid  
24 and the legal aid lawyer can't get to it, or they just  
25 don't quite qualify and it is so time consuming it is too

1                                 Walter Steele

2       expensive for them to hire a lawyer to do it. So, the  
3       holder in due course law even gets extended further than  
4       the law allows just from inaction on the part of the  
5       borrower perhaps in certain cases.

6                                 In the area of repossession, it seems strange to  
7       us -- in my opinion at least -- if a man comes to your  
8       home at midnight and removes every stick of furniture that  
9       you have, you are effectively dispossessed from that home  
10      as if the landlord had set you on the curb. Isn't it  
11      strange, then, that for years in Texas we have had a  
12      law which say in order to dispossess someone physically  
13      from a home, you must go through a certain court procedure  
14      with a notice requirements, and yet for years, repossession  
15      of chattels of furniture has been accomplished in the  
16      dark hours of the night in many cases without any parti-  
17      cular legal recourse because it is written in the con-  
18      tract. Once again the Uniform Commercial Code may affect  
19      this practice a little bit. I am personally not sure yet  
20      whether it will or not.

21                                 With reference to the types of cases, I think  
22      it would practically be a waste of time for me to tell  
23      you of our experience of the cases. They are the same  
24      as everyone else's experience. There is one area, at  
25      least to us, came as a surprise. The furniture area.

Walter Steele

1

2 We don't understand how certain furniture

3 dealers are able to extend unlimited credit that no

4 bank, no savings and loan institution, no what we would

5 normally consider a legitimate lending institution,

6 would extend to people, apparently without ever even

7 checking a person's credit, without even checking his

8 employment record. We don't know how they can afford to

9 do it, but it is obvious that they can, and it is

10 creating an undue hardship on these people.

11 I think in conclusion, I might say, generally,

12 that I personally do not subscribe to the theory that

13 you will be successful in educating to any significant

14 degree these low income people on this particular pro-

15 blem. You can have all kinds of requirements about what

16 shall be in the contracts and it can be in small print

17 or in big print, but the problem is, will they read it?

18 particularly when they are subjected to sharp salesmen.

19 In my personal opinion, the solution has to come from

20 some source of licensing and regulatory procedure

21 enforced by people who have the education and the ability

22 to think in the protective terms, because these people

23 live day by day and not, as Mrs. Barber pointed out,

24 they don't think in the future.

25 That is all I have, Mr. Chairman. Thank you.

1 Walter Steele

2 BY MR. MISKELL:

3 Q Thank you very much, Mr. Steele. Mr. Steele,  
4 for the record again, in your work there at the Legal Ser-  
5 vices Project, have you had problems in connection with  
6 consumer credit practices of banks?

7 A No, sir. I don't believe these people would  
8 qualify for bank loans.

9 Q I see. Well, this would also be true of  
10 savings and loan associations?

11 A In my opinion. As best I can, they don't  
12 even attempt to go to a bank or a savings and loan  
13 institution. It is possible that some of them would  
14 actually qualify and don't realize it.

15 Q I see. Well, do you feel there is need more  
16 for legal education in addition to legal assistance?

17 A Yes, very definitely, there is a need for  
18 more legal education, which I feel is primarily the  
19 responsibility of the Bar and perhaps something we have  
20 been lax in. This is a very significant part of our  
21 program. It is set into the contract under a definite  
22 plan and foremat.

23 Q All right. Do you feel then that if you  
24 had legislation, if you had legislation, say, of full  
25 disclosure in terms of the rate, terms and conditions of



1 Walter Steele

2 the contract and conspicuous language that would be an  
3 appreciable help to the public?

4 A Mr. Chairman, it is a matter of the degree.  
5 Certainly it would help some of them. In considering  
6 the relative ease in such a requirement for the financing  
7 institutions, I definitely think it is worthwhile, but  
8 as an overall solution, I don't think it will work.

9 Q All right. In other words, are you saying  
10 that education won't work or education by itself?

11 A No. Education will work, but the point is  
12 that people have to be educated to read before they  
13 sign. The conspicuous language is meaningless if the  
14 people haven't read it, or if they are so under educated  
15 that they are subject to the dominance of the fast  
16 talking salesman.

17 MR. MISKELL: All right. Thank you very  
18 much, Mr. Steele.

19 I would like to call Mr. Spencer Mitchlin,  
20 Public Education Director, Dallas County Community Action  
21 Committee.  
22  
23  
24  
25

1 Spencer Mitchlin

2 SPENCER MITCHLIN  
3 PUBLIC EDUCATION DIRECTOR  
4 DALLAS COUNTY COMMUNITY ACTION COMMITTEE  
5 DALLAS, TEXAS

6 was called as a witness and testified as follows:

7 MR. MITCHLIN: The Dallas County Community  
8 Action Committee is the local non-profit corporation that  
9 runs the war on poverty here. I have been told of the  
10 excellent presentation made by the people in Harris  
11 County of their war on poverty program.

12 In the interest of time I won't try to duplicate  
13 what they said, only to say that the problems faced by  
14 people in poverty areas are not restricted to Harris  
15 County by any means. These exist here, and doubtless  
16 in every urban center. The loan companies with high  
17 interest rates, unscrupulous door to door salesmen, all  
18 are a part of this. What we are basically trying to  
19 accomplish in Dallas, from our end of it, and I think it  
20 ties in with what Mr. Steele was saying, is that a pro-  
21 gram of education in the poverty neighborhood where  
22 a relatively new Community Action group are in the  
23 process now of setting up a series of neighborhood  
24 centers in poverty areas. As we get them developed,  
25 we are operating now, or planning our first three, and  
as they develop surely one service that we will offer  
in these centers will be consumer education, designed to

## Spencer Mitchlin

1  
2 enable the consumers in poverty neighborhoods to be  
3 better prepared to live on the little amount of money  
4 they have. This will probably, or possibly take the  
5 form of a program that has been operated most successfully  
6 in St. Louis for the last two years, of classes for  
7 primarily women in the neighborhood. They attend class  
8 three days a week. They learn about how to buy, what to  
9 buy, how to save money in every way they can, and then  
10 also these Centers in St. Louis are a focal point for  
11 distribution of educational literature, pamphlets and so  
12 forth for the poor.

13 As one of our programs that is in operation  
14 already, Mr. Rohloff and Mr. Steele gave an excellent  
15 presentation of the Legal Services program which we  
16 coordinated the setting up of and the funding.

17 The problems of the consumer in poverty neigh-  
18 borhoods definitely, I believe, lie in education and I  
19 believe that they lie in strict enforcement of State  
20 laws to protect the consumer.

21 We are in kind of an uncomfortable position  
22 right now, with the laws that exist. In many areas of  
23 the country, quite frankly, we feel that poverty agencies  
24 have really over-stepped their bounds to the degree that  
25 the war on poverty has actually become a war on business,

1 Spencer Mitchlin

2 legitimate honest business, and we don't intend to do this.  
3 On the other hand, some measure of protection must be  
4 given to all consumers, especially those in poverty  
5 neighborhoods.

6 Now, specific recommendations that we would  
7 suggest to you would be a lower maximum interest rate,  
8 full disclosure provisions, regulation and licensing of  
9 all door to door salesmen, and a provision for State aid  
10 to neighborhood consumer groups, to neighborhood centers  
11 and to war on poverty agencies all over the State. This  
12 aid could take the form of speakers, materials, program  
13 assistants made available to us to coordinate our activi-  
14 ties with those of the State of Texas. And needlessly to  
15 say, we would like to see strict enforcement of all laws  
16 designed to protect the consumer.

17 MR. STEELE: Thank you very much, Mr. Mitchlin.

18 Do you have any questions?

19 Thank you very much, Mr. Mitchlin.

20 I see that we have had some coffee brought into  
21 us, so I say we have it here, let's take a short break.  
22 and then, we will resume with our testimony.

23 (Brief recess.)

24 I would like to call Mr. John T. Ingle, Oakcliff  
25 Savings and Loan Association here in Dallas.

1 John T. Ingle

2 MR. JOHN T. INGLE  
3 OAK CLIFF SAVINGS AND LOAN ASSOCIATION  
4 DALLAS, TEXAS

5 was called as a witness and testified as following:

6 MR. INGLE: Mr. Miskell and gentlemen, I am  
7 here representing Oak Cliff Savings and Loan Association  
8 whose main office is here in Dallas. We have offices  
9 in Dallas and Tarrant County.

10 Oak Cliff Savings, along with all the other state  
11 chartered savings and loan associations in Texas, were  
12 given authority by the Finance Commission in 1964 to  
13 enter the consumer lending field, and Oak Cliff Savings  
14 entered it formally in January of 1965. Since that time,  
15 or during 1965, we made about 1800 loans in this parti-  
16 cular category under the authority and rules promulgated  
17 by the Building and Loan Section of the Finance Commission.  
18 However, our rules and regulations differ considerably  
19 from the small loan rules and regulations and it is my  
20 purpose in testifying here today to urge that savings  
21 and loan associations be given broader authority in this  
22 area, because we are not able to serve a segment of the  
23 public that finance companies and other types of lenders  
24 are able to serve because of the limitations presently  
25 under which we must operate.

Our rules and regulations are fairly restrictive  
in this matter, and it is our thinking that we could

1 John T. Ingle

2 render a public service to these people that the other  
3 companies are serving, particularly our own customers,  
4 were we granted a broader authority in this field. This  
5 is my purpose in coming here today.

6 We think that the Savings and Loan Associations  
7 that has not entered this consumer lending field would  
8 enter it if broader authority was granted to them.

9 Actually, in Dallas, there are only two associations  
10 that are actively in this field at the present time, out  
11 of the some twenty odd associations that are here. Over  
12 the State there are not more than forty or fifty associa-  
13 tions out of the nearly three hundred that are in the  
14 State that are operating in the consumer lending field  
15 under our present rules and regulations because of the  
16 restrictions that are placed upon them.

17 I will be glad to try to answer any questions  
18 that you have.

19 BY MR. MISKELL

20 Q Mr. Ingle, who are your borrowers? Are they  
21 people also who have accounts outstanding at Oakcliff  
22 Savings?

23 A Not necessarily. Of course, a good number  
24 of them are. These are the people that we have the  
25 easist contact with and they are the people that we

1 John T. Ingle

2 can solicit business from the east, so of course we  
3 do this. We advertise to the public generally and try to  
4 serve the broad spectrum of the public where we can.

5 Q Do members come in and seek to borrow on an  
6 unsolicited basis? What I mean, you may advertise or  
7 you may send direct mail to your depositors saying that  
8 you do have this service, but do you also get members  
9 of the public coming in -- they didn't know that you  
10 had the service but they were seeking the credit?

11 A Yes, sir, they certainly do.

12 Q Right. What is your average loan to your  
13 borrowers?

14 A The average loan on the type that we make is  
15 slightly over a thousand dollars.

16 Q Slightly over a thousand dollars?

17 A Yes.

18 Q Do you find that it is more expensive for  
19 your association to make these type loans than, say, your  
20 home loans?

21 A Oh, absolutely. Your servicing costs and the  
22 origination costs are much higher in proportion to the  
23 dollar amount of the loan than on your home loans.

24 Q Right. Well, do you feel that if your authority  
25 were broadened, if you had a realistic rate, do you feel

1 John T. Ingle

2 that you could offer a broader service to the public?

3 A Without any question.

4 Q All right. Would you be concerned if you had  
5 to meet the competition for these loans?

6 A No, sir.

7 Q In other words, if you had to compete with  
8 banks or finance companies, or other vendors or people  
9 in the field of consumer credit, you are prepared to  
10 meet that?

11 A Yes, sir.

12 Q Right. If you have a realistic rate which  
13 will allow you to operate at a fair profit?

14 A Yes, sir.

15 BY MR. LINDSEY

16 Q Mr. Ingle, do you feel that if the Legislature  
17 should permit savings and loan associations to charge  
18 the same rate that finance companies are now permitted  
19 to charge under the Regulatory Act in the truly small  
20 loan field, do you feel that the savings and loan  
21 industry would strongly enter this field in competition  
22 with banks and finance companies?

23 A I personally believe that they would, from  
24 my discussions with the savings and loan people over  
25 the State. I really believe that they would enter this



1 John T. Ingle

2 field strongly.

3 Q Well, if the savings and loan associations  
4 with their branches got into this field very strongly,  
5 would that not tend to bring competition which would  
6 hold these rates down below the maximum even, perhaps.

7 A This is always a possibility. Yes.

8 Q And would require all segments to operate  
9 more efficiently in order to meet the competition?

10 A That is normally the case. Yes, sir.

11 MR. LINDSEY: Thank you.

12 MR. MISKELL: Thank you very much, Mr. Ingle.

13 A Thank you.

14  
15 MR. MISKELL: I would like to call Mr. John  
16 Curran, Vice President of the First National Bank in  
17 Dallas.

18  
19 MR. JOHN F. CURRAN, VICE PRESIDENT  
20 FIRST NATIONAL BANK  
DALLAS, TEXAS

21 was called as a witness and testified as follows:

22 MR. CURRAN: Thank you, Mr. Miskell. I  
23 appreciate the opportunity to appear before this Com-  
24 mittee this morning.

25 My name is John F. Curran. I am Vice President

John F. Curran

in charge of the Installment Finance Division of the First National Bank in Dallas, and also Chairman of the Installment Credit Section of the Texas Bankers Association. After World War II I was employed by one of the major sales finance company. In 1950 I joined the Dallas National Bank, which merged in 1954 with the First National Bank in Dallas. Most of my lending experience has been in the field of installment credit.

In response to your recent request, a survey was made last week by the Dallas Clearing House Association to determine the volume of consumer lending in Dallas County and the number of borrowers served. Fifty-three of the sixty-eight banks reporting have a total of 255,985 accounts totalling \$419,433,777 as of August 31, 1966, for an average of \$1,6638.50 per loan outstanding.

I might add at this time that this dollar volume represent 17 per cent overall bank loans in Dallas County.

It is my understanding that Governor Connally has requested that you gentlemen make a study for the need of a comprehensive code for consumer credit operations in our State. This study is of vital significance to the people of Texas who, I am confident, will be the beneficiaries of your efforts.

John F. Curran

Under such a code, providing among other things, for realistic rates of interest, all lending institutions would be afforded the opportunity to compete for the prospective borrower's credit on a substantially equal basis. The code for this reason and for other reasons, seems to be in the public's best interest.

Far from seeking a legal shield to hide behind, banks merely ask for the opportunity to compete. They have always responded well, with the public being the beneficiary, when the legal rules governing the forces of competition accorded them substantial equal treatment. If banks should be compelled, by high cost factors, to play a diminishing role in this area, the borrowing public would suffer. A reasonable rate would afford safe guard against this contingency and insure continued bank participation on a sound basis. It would also offer proper assurances to the borrowing public that it will have available multiple sources of credit from which it may choose. The competitive atmosphere thus generated and preserved will have a wholesome effect, not only for the public, but for all segments of the lending industry as well.

The automobile finance field is a good example of what competition does to rates. Since 1946,

1 John F. Curran

2 when commercial banks begin actively to solicit loans  
3 on automobiles, the rate trend has moved steadily down-  
4 ward. Only recently, in the face of a tight money  
5 market and after three increases in the prime rate,  
6 have interest rates on automobile loans moved slightly  
7 upward. However, in spite of these circumstances, rates  
8 in many areas of our State are still below the 1946  
9 level.

10 In closing, let me urge you to give due  
11 consideration to the cost of consumer credit both from  
12 the standpoint of the borrower and the lender. Fair  
13 rates of interest on consumer loans, where acquisition  
14 and liquidation costs are somewhat higher as compared to  
15 those on other loans, will allow all legitimate lenders  
16 to compete on a substantially equal basis. This will  
17 not only increase the sources of consumer credit but,  
18 even more important, it should also reduce the dollar  
19 costs to the borrower.

20 I thank you.

21 BY MR. MISKELL

22 Q Mr. Curran, may I ask you a few questions in  
23 regards to consumer credit?

24 A Yes, sir.

25 Q This is a subject that many people talk about

1 John F. Curran

2 but few people know much about, and that is probably  
3 true of the people here on the platform and in the  
4 audience, I would imagine, but I recall some years ago  
5 I was doing a study of what was called the small loan  
6 industry in Texas,,and I learned rather rapidly that the  
7 small loan was in the neighborhood of six or seven  
8 hundred dollars. Here, you are talking about consumer  
9 loans and your average loan is \$1638, I think the  
10 figure was given. What is the ceiling on consumer  
11 loans? What do you consider consumer loans? How high  
12 do they go?

13 A Well, we make all types of loans, from a  
14 hundred dollar personal loan up to five thousand, ten  
15 thousand. On college education loans we go up to ten  
16 thousand dollars. On airplane financing we go up as  
17 high as a hundred thousand dollars on consumer loans,  
18 and I am sure that this is true with other banks in the  
19 State.

20 Q Do you finance these people riding around  
21 on Lake Dallas?

22 A Yes, sir.

23 Q On their sail boats, motor boats, and whatnot  
24 not?

25 A Yes, sir, we sure do.

1 John F. Curran

2 Q That gets pretty expensive to somebody.

3 A These cruisers, some of them, are up to  
4 \$80,000 and higher.

5 Q You do finance that as part of consumer  
6 credit?

7 A Yes, sir.

8 Q So there is a demand for loans that high?

9 A Right. Yes, sir.

10 Q Your educational loans, do you have much  
11 demand there?

12 A The demand is heavy in the Dallas area for  
13 education loans.

14 Q Right. And this is, you regard, an integral  
15 part of consumer credit?

16 A It certainly is, and becoming more so every  
17 day.

18 Q Right. You mentioned, I think, you have  
19 255,000 accounts. This is the banks in Dallas, and in  
20 all probability you can speak only for your First  
21 National in Dallas, do you have members of the general  
22 public coming to you that may not be depositors? What  
23 I am thinking about is unsolicited accounts, people that  
24 need money. Do you get them coming into your bank each  
25 day?

1 John F. Curran

2 A Yes, we do.

3 Q Do you try to service as many of those  
4 accounts? I notice that you have made some hundred  
5 dollar loans. Now, we have been studying this for a  
6 year, and I think that I could say that you have made  
7 that loan at a loss.

8 A Well, --

9 Q And is that correct?

10 A Well, in some cases, that is right. However,  
11 we do a lot of advertising for loans outside of our  
12 own customers, and a lot of the loans that we make that  
13 are under a hundred dollars are what you might say  
14 riding piggy bank on another loan that they may have in  
15 the bank.

16 Q I see. Within in your consumer credit loan  
17 lending section is really a method by which you can  
18 service your depositors in the bank, service all of  
19 their credit needs. Is that correct?

20 A Our depositors in the bank and all other  
21 people in Dallas.

22 Q Right. Well, this is a question that I posed  
23 to the people in the savings and loan associations. Do  
24 you have any fear of a competitive situation if you have  
25 to compete with savings and loan associations for

1 John F. Curran

2 business?

3 A No. We will welcome the savings and loans  
4 to compete against.

5 Q You are willing to compete with anybody,  
6 Right?

7 A Yes, sir.

8 Q So long as you have a rate that you can make  
9 a fair and equitable, reasonable profit on?

10 A As long as it is on an equal basis. Yes, sir.

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

12 Curran.

13  
14 I would like to call Professor Bolton from  
15 the SMU Legal Aid Clinic.

16  
17 PROFESSOR BOLTON  
18 SMU LEGAL AID CLINIC  
DALLAS, TEXAS

19 was called as a witness and testified as follows:

20 PROFESSOR BOLTON: Good morning, Mr. Commissioner,  
21 gentlemen. I would like to preface my remarks with the  
22 fact that any opinions I express do not reflect any  
23 opinions necessarily of SMU but are only my own in-  
24 dividual experience, opinions as a Director of the  
25 SMU Legal Aid Clinic.



1 Professor Bolton

2 And my comments are based primarily on  
3 individual cases that have been processed through our  
4 legal clinic and, of course, upon my own experience as  
5 an attorney with many years of practice; and in part,  
6 perhaps, with my contact with the Dallas Legal Services  
7 Project which SMU was largely instrumental in bringing  
8 into fruition.

9 I feel compelled to open my remarks with the  
10 observation that the extent to which the indigent have  
11 been victimized -- and I mean the indigent and also the  
12 uneducated and the illiterate -- have been victimized  
13 by economic sharp shooters is a shocking and an appalling  
14 thing. Speaking of cases examined in our own Clinic,  
15 I don't believe any reasonably fair minded individual  
16 can be aware of some of the cases and the practices  
17 without having a sense of revulsion against those persons  
18 who have perforated them, and without a sense of real  
19 distress and concern that the laws of this State have not  
20 been effective to eliminate such dire abuses. Social  
21 unrest follows social injustice, and the degree to which  
22 the economic security of individuals and families are  
23 jeopardized or destroyed. To that same degree we can  
24 expect social unrest and the concomitant results. So  
25 I believe that a potential results of effective effective

1 Professor Bolton

2 legislation in this area goes far beyond the limitations  
3 of an economic solution to problems where individuals  
4 are concerned. It is a matter of great concern to the  
5 entire community.

6 I don't mean to imply by anything that I say  
7 that there is any laxity on the part of the District  
8 Attorney's office or the law enforcement people here.  
9 I am sure that they are competent, effective, and within  
10 the limitations of the law and within the limitations  
11 of the situations as they exist. The maximum efforts  
12 are being made by them to protect people from being  
13 defrauded and to protect people from violations of the  
14 law. But just as in the civil courts, the protection  
15 afforded individuals from usurious rates of interest,  
16 deceptive contract practices and harsh or unjust con-  
17 tract provisions are subject to the limitations of the  
18 law so that the people who try to enforce the criminal  
19 statutes and the civil protections are also limited.

20 I want to speak primarily about problems that  
21 relate to the indigent, but to a large degree these  
22 same problems relate to those who are uneducated or to  
23 those who are susceptible to being victimized by other  
24 groups.

25 I would like to talk perhaps of two types of

## Professor Bolton

1 cases, and I think that they raise in my mind at least  
2 some areas of critical need for legislative help and for  
3 concern for the community. I would like to recite one  
4 incident that occurred in West Dallas in which I was  
5 called upon to attend a meeting that had been arranged  
6 by one of our students between an aged negro couple that  
7 had been persuaded to sign a home repair contract and the  
8 salesman who had sold them this contract. This meeting  
9 had been arranged because on the previous day he had  
10 come hard on the heels, I might add, of the rehabilitation  
11 Urban Rehabilitation and renewal people -- and hard on  
12 the heels of the inspectors who had issued violations  
13 against the negro home for fire and health hazards. He  
14 had come upon them and he had persuaded them to sign a  
15 contract for home repair, but he had not covered the  
16 violations involved. He had sold them a contract for  
17 stainless steel siding on their house, explaining to  
18 them that this would keep the house cool in the summer-  
19 time and hot in the winter time and reduce their bills.  
20 And he had told them that this would cost them approxi-  
21 mately \$2200, but that in fact it would cost them no-  
22 thing, and he had a rather interesting innovation on  
23 the ordinary sales pitch because he proceeded to tell  
24 them that although they would sign this paper saying  
25

1 Professor Bolton

2 that it was \$2200 and they would sign these other pieces  
3 of paper that were necessary in the transaction to make  
4 it legal, that he would give them an opportunity, if they  
5 would use their house as a model house, to have \$150 paid  
6 to them everytime someone to whom they recommended the  
7 model house and the construction contract, every time  
8 one of these people would sign a similar contract; so  
9 in effect they would never have to pay anything on these  
10 notes.

11 This old negro couple's life savings were  
12 invested in this meger shack, that was probably alto-  
13 gether was not worth \$2500, they were persuaded to sign  
14 a contract for \$2200 for structural steel siding -- for  
15 stainless steel siding.

16 When I was called into the picture and came  
17 into the room, where they were seated. I asked to see the  
18 documents involved, and I was shown a promissory note  
19 and I was shown a mortgage agreement. I looked at the  
20 promissory note and I put it aside and said, "This isn't  
21 worth anything because it is signed but it has not yet  
22 been filled out. So we will just put this aside, because  
23 obviously a note that has been signed in blank has no  
24 validity." And I was able to do the same thing with the  
25 mortgage, and this too had been signed in blank. "So, we

Professor Bolton

1 will put this aside." And then I said, "Let me look at  
2 the contract." And so they showed me this document  
3 which had some hand written portions in it, which indicated  
4 that they would put up this stainless steel siding on  
5 the house for this sum of money. There was no indication  
6 of specifications, no indication of terms or anything  
7 else, and these people had been persuaded to sign that  
8 document.  
9

10 To shorten the story, I might point out that  
11 all the usual tricks of salesmanship were used. I looked  
12 at the contract and I said to them, "Now, this doesn't  
13 say anything about this \$150." He said, "Well, let me  
14 show you this additional document," and he pulled out  
15 of his brief case a large thing that looked like a  
16 diploma and there on a gold background, in very small  
17 black print that was almost invisible, was a statement  
18 on the bottom line that for everyone of these contracts  
19 that was signed, they would get \$150. And there was  
20 also on this document a tremendous gold seal. It must  
21 have been five inches in diameter and it had not one  
22 imprint upon it nor a word upon it. It was just a big  
23 beautiful gold seal, and he said to the ladies there,  
24 he said, "Now, didn't I show you this document and  
25 doesn't it say right here, '\$150'?" I said to him, "Well,

1 Professor Bolton

2 I can hardly see that document." I said, "I can put my  
3 glasses on and when I put my glasses on I can barely  
4 discern what it says, and I am sure that this woman had  
5 some difficulty." Then, he turned to them with a jester  
6 of successful rebuttal and he said, as he took off his  
7 glasses, "Didn't I lend you my glasses to read that  
8 document?"

9 And this was the epitomy of the type of  
10 situation involved. I did manage to persuade them, I  
11 might say, to tear up all the documents involved on the  
12 theory that there had been no meeting of the minds and  
13 obviously there was no (valid) contract, and he was  
14 very fortunate perhaps to get off that easily.

15 But the incidence does, I think, emphasize  
16 the critical thing which I am sure has been repeated time  
17 and time again before this Body, and that is the tre-  
18 mendous need for consumer education. And I would like,  
19 when I sum up, to give some ideas about the areas in  
20 which consumer education is necessary.

21 A similar type of problem that occurs almost  
22 as frequently, perhaps in some areas and much more  
23 frequently in others than the home repair contract -- and  
24 I might add that while I speak of one individual case,  
25 we have had several and I understand that the Business

1 Professor Bolton

2 Bureau has a tremendous file of these cases.

3 But an additional case that might merit some  
4 comment, is the case that involved a woman who had been  
5 paying time and time again a weekly amount of four or  
6 five dollars into a small store, a store from which she  
7 had received credit for things she had bought from this  
8 store previously. Now, here is the note. We are not  
9 getting into the consumer credit that runs into the \$1600  
10 level or the bank operating level. We are dealing here  
11 with what to the indigent at least is the common and  
12 widespread scale of abuse and widescale problem and  
13 therefore, to my mind, perhaps a more important function  
14 even perhaps than the functions involved in the regulation  
15 of the larger loans that are being given to consumers.

16 The thing that was critical in this case, was  
17 that this woman had been paying this money and she had  
18 no concept of how much she accurately or actually owed  
19 these people. They would give her a slip of paper, and  
20 I have one here, for example, a receipt which barely says  
21 upon it -- and I won't reveal the name of the company or  
22 the person, but it says, "Paid on account, \$4.00." She  
23 had no way of knowing, and she had no records to keep  
24 on how much she actually owed these people. They would  
25 just brush her aside and tell her what the situation was.

1 Professor Bolton

2 When we tried to get into the case -- and there were  
3 complications in this case which eventually resulted in  
4 a criminal prosecution against the client whom we were  
5 representing. When we got into the case we tried to  
6 obtain the records of this store and their ledgers with  
7 relation to this woman's account, and they suddenly  
8 disappeared. They did not have the account and they  
9 could not find the records. And because of that, the  
10 case was able to be settled at a very nominal amount.  
11 But this too brings up certain critical areas I think  
12 of concern. One is to which extent people are ignorant  
13 and illiterate are being victimized by these running open  
14 accounts where they do not get proper receipts for their  
15 purchases and for the amount of money that they pay, and  
16 there are no proper records kept in connection with them.

17 I could go on with other individual incidences,  
18 but I don't want to presume upon the Board's time, but I  
19 would like to draw from these incidences some idea that I  
20 have that might merit your consideration.

21 In the field of consumer education, I think  
22 that perhaps that this is the most critical area in which  
23 the community can be assisted. Community education,  
24 consumer education, has to cover not only the over-  
25 loading of individuals -- that is how much can you actually



1 Professor Bolton

2 pay on things that you are buying and still maintain  
3 life and reasonable sense of security for yourself and  
4 your family? This is critical for our people who are  
5 in the marginal areas and for people who are in the  
6 indigent areas.

7 In addition, there has to be consumer edu-  
8 cation as to what interest rates are, what they mean  
9 and what the different types of interest rates actually  
10 result in.

11 Perhaps as equally significant, the effect of  
12 mortgages and the effect of mortgages on homes or on  
13 personal property are critical in this area, and this  
14 couple that had risked their entire life savings, every-  
15 thing that they had earned in an entire life time, had  
16 no concept of what they had signed, was a document which,  
17 in fact, would jeopardize their home. ~~their home.~~

18 One-fourth, and perhaps equally as a critical  
19 area of importance in consumer education, is the educa-  
20 tion as to the availability of lawyers and the availabil-  
21 ity of other community services and resources to advise  
22 people as to economic and legal consequences before they  
23 involve themselves in these contracts and in these critical  
24 situations.

25 So I think that any legislation that is forth-

1 Professor Bolton

2 coming and that will be effective must necessarily carry  
3 with it a very strong element of consumer education.

4 I recommend that this be done in the Legislation at a  
5 State level. I do not believe that local impetuous is  
6 sufficient in various communities to carry out the  
7 necessary types of consumer education. I believe the  
8 resistance of invested interest and of particular groups  
9 may make such a venture unsuccessful in many communities  
10 at least unless it is governed and developed in the  
11 legislation basically on the statewide level.

12 I think that legislation must come forth  
13 requiring full disclosure of contract provisions where  
14 credit is involved. This involves in my opinion dis-  
15 closure, not only of the cash price that is involved,  
16 and not only the disclosure of the actual amount of  
17 money that would be involved in buying the same thing  
18 on credit, but also independently in connection  
19 with that insurance costs and all the other repossession,  
20 collection costs, attorney's fees and also the liability  
21 for deficiency judgment. This is all part of one phase  
22 of it.

23 In addition, as a second phase, I think that  
24 it should definitely require a statement of the per-  
25 centage of interest on a monthly basis. Without that

1 Professor Bolton

2 there are so many ways in which, by adjusting the period  
3 of the loan, the practice becomes so difficult for the  
4 ordinary person to understand that they cannot compare  
5 the values of one type of loan operation versus another,  
6 or one type of credit versus another.

7 I think also we should have legislation which  
8 requires some mandatory provision that would protect  
9 people who go into these individual stores to some  
10 greater degree than they are now protected, requiring  
11 not only that these stores keep ledgers and books of  
12 accounts as to the amount that is outstanding, but also  
13 that they give receipts which show the balance that is  
14 due prior to the payment, the amount of payment received  
15 and the balance remaining after the payment is given,  
16 so that the person has a contemporaneous receipt which  
17 they can carry with them and which can effectively give  
18 them some idea of what is actually owing.

19 I think a third area, an additional area of leg-  
20 islation if required, a fourth area I believe it is, that  
21 there should be some additional legislation with regards  
22 to the "holder-in-due-course" situations. In case of  
23 this un-filled out promissory note and this un-filled  
24 out mortgage, if these had been completed by this com-  
25 pany and had been negotiated, these people would in fact

Professor Bolton

1  
2 have been in serious jeopardy of losing their home. Just  
3 what form should be taken of this type of legislation  
4 to limit or to decrease the protection of holders in  
5 due course, I think is a matter for some concern and some  
6 study. But we should have some limitation of this legal  
7 shield which permits the holder in due course to operate in a  
8 dark room saying, "I will not see what is actually going  
9 on beyond the document and the papers that I have received."  
10 There are ways I know, I am confident that the Committee  
11 is aware of them, by which some of this can be eliminated.

12 In that connection, I think finally that there  
13 certainly should be some standard required clauses in  
14 some of these contracts and certainly there should also  
15 be some required exclusions that should be made mandatory  
16 in contracts of this nature to give people a greater  
17 protection.

18 This, gentlemen, is the substance of what I  
19 would like to present this morning.

20 MR. MISKELL: Thank you very much, Professor  
21 Bolton. We may have some questions for you if you don't  
22 mind staying there for a minute. I do think that I  
23 can speak for the members of the Committee when I say  
24 that we would like to express our thanks and appreciation,  
25 as an agency of the State, to Southern Methodist University

1 Professor Bolton

2 for making you available to us and for the work in this  
3 area. I think it carries on an outstanding example of  
4 public service rendered to the community and to this  
5 State by this great institution.

6 BY MR. LINDSEY

7 Q Professor Bolton, I believe in each of the  
8 examples which you gave us arose from transactions which  
9 are not now regulated by any agency, either State or  
10 local. They do not presently come under the Regulatory  
11 Loan Act. Is it your opinion that these vendors of  
12 merchandise and services who sell on installment contract  
13 basis should be brought under the Regulatory Loan Act  
14 as the cash lenders are?

15 A Either brought under that Act or an equivalent  
16 type of Act which might take into consideration some of  
17 the peculiarities of the business in which they are  
18 involved. They certainly should be regulated and per-  
19 haps they should be licensed as well.

20 Q The revolving credit: You mentioned one  
21 instance of a small store where the borrower or the  
22 customer never really did know what the balance due on  
23 the loan was, or the debt. Have you had any similar  
24 complaints from the larger merchandising, retail mer-  
25 chandising establishments, such as your large department

1 Professor Bolton

2 stores or Montgomery Wards or Sears, on their form of  
3 revolving credit?

4 A We have not in our clinic, but it must be re-  
5 membered that our clinic deals primarily with the in-  
6 digent, and perhaps many of them would not have re-  
7 ceived this same credit arrangement and be involved in  
8 the same problems through such concerns.

9 BY MR. MISKELL

10 Q Professor Bolton, how long have you been  
11 operating the Legal Aid Clinic at SMU?

12 A SMU Legal Aid Clinic has been operating for  
13 nineteen years, sir.

14 Q Let me raise this question. Do you, in your  
15 opinion, the complaints that come to the Clinic and to  
16 these other agencies, are they representative of the  
17 depth of the problem in the field of consumer credit?

18 A Statistically they represent only that area  
19 dealing with the indigent and only a sampling of it.  
20 Until we got the Dallas Legal Services Project in  
21 operation we had no real broad scale type of area in  
22 which we could approach these problems, because these  
23 problems don't lend themselves to the kind of generalized  
24 statistical treatment we can get from banks or from  
25 major institutions. It is only individual complaints

1 Professor Bolton

2 and individual cases, and until we got this Dallas  
3 Legal Services Project and until we developed from it,  
4 as we will, statistics we will have only a limited  
5 knowledge of the scope of this. But I think that we  
6 have a very good sampling, and this gives us a legitimate  
7 basis to project our experience into the Committee problems.

8 Q In other words, the scope of the problem may  
9 be more severe or more widespread than just the number  
10 of cases that might be reflected on your records?

11 A Infinitely greater. We know it is. There is  
12 no question about that.

13 Q I wanted to raise that point.

14 A Yes.

15 Q I think the point that Mr. Lindsey has been  
16 trying to make, or raise with you --, and I raised it  
17 with the other witnesses in regards to complaints with  
18 banks and savings and loan associations -- it seems to  
19 us from our hearings that we have found that the problems  
20 in consumer credit do not revolve, as a general rule --  
21 there are always exceptions -- but they do not revolve  
22 around your regulated institutions or your reputable  
23 institutions, your reputable vendors of credit.

24 A Not to the same degree, but we have had  
25 instances with one particular bank in which we are

1 Professor Bolton

2 greatly concerned about the fact that they utilize their  
3 power to physically repossess property even when there  
4 is no default in installments.

5 BY MR. LINDSEY

6 Q I wish that you would expand on that practice.  
7 I would like to hear a little bit about it.

8 A Well, in this particular instance, a bank  
9 had issued loans on three trucks to a particular gentle-  
10 man. He ran into difficulty and because he defaulted  
11 on two of the trucks they took those two trucks back.  
12 The remaining truck, the installment is not yet due on  
13 that remaining truck. The man was having considerable  
14 difficulties, and I might add without disclosing his  
15 name or that of the bank, that he went to a mental  
16 institution for some assistance. The family sought  
17 desperately to try to keep this third truck so that  
18 when he got out, after his voluntary committment to this  
19 institution, he would be able to resume his business and  
20 his obligations with his family. While this occurred,  
21 the bank proceeded immediately to take possession of  
22 this man's truck, even though there was no default,  
23 even though they had not attempted to enforce any  
24 acceleration clause, and they just physically went and  
25 took possession of the truck. They insisted that they



Professor Bolton

1 had a clause within their agreement which permitted them  
2 when they had doubts as to the security standing of  
3 their debtor that they could come in and take physical  
4 possession of the property without recourse to process  
5 of law, and this was written into their basic agreement.  
6 This they did. And we tried very desperately to get  
7 them to release this truck. Unfortunately, it was a  
8 purchase money type of situation so we could not enforce  
9 the homestead provision, which might have helped us  
10 otherwise. And the situation has resulted in a very  
11 dire situation for the family. That is the background  
12 of that particular incident.  
13

14 It does concern me that we do have clauses  
15 of this nature that permits lending institutions to  
16 step in where there has been no actual default upon a  
17 concern for the standing of the debtor and repossess the  
18 security without going through any formalized process  
19 which would give the individual some protection if he  
20 could bring forth some reasonable assurance that he  
21 could meet the obligation, particularly on this parti-  
22 cular problem.

23 Q Well, many times, you know, we have an old  
24 saying that, "bad facts make bad law".

25 A Yes.

1 Professor Bolton

2 Q The example that you have given is one where  
3 the distress is very evident.

4 A Yes.

5 Q But isn't it a fact that throughout the  
6 financial community where a borrower has more than one  
7 loan in a given institution, that the practice of cross  
8 collateralizing is followed? For instance, if General  
9 Motors borrows 50 million dollars from Metropolitan  
10 Life Insurance Company, and then they come back and  
11 borrow an additional 25 million dollars on something  
12 else, don't you find that you have cross collateraliza-  
13 tion on those two loans just as you do on the three  
14 trucks?

15 A Yes, you do. Yes.

16 MR. LINDSEY: I don't believe I have any  
17 other questions. Thank you.

18 MR. MISKELL: Thank you very much, Professor  
19 Bolton. We appreciate it.

20  
21 I would like to call Mr. "Ned" Fritz, a  
22 practicing attorney here in Dallas.  
23  
24  
25

1 MR. EDWARD C. (NED) FRITZ  
2 ATTORNEY OF LAW  
3 DALLAS, TEXAS

4 MR. FRITZ: Gentlemen, I am Edward C. Fritz.  
5 I have been practicing law in the consumer credit field  
6 on behalf of consumers for more than fifteen years now.  
7 I am temporary chairman of the Texas Consumer Committee,  
8 which is putting on the Texas Consumer Conference on  
9 September 29 at Southern Methodist University, and at  
10 that conference will be many outstanding leaders in the  
11 state and in the nation in the consumer credit field,  
12 and also in the other phases of consumer protection,  
13 but I do not speak today on behalf of the Texas Consumer  
14 Committee, but merely as a private practitioner.

15 I am also a member of the Committee to  
16 Prevent Unreasonable Interest Rates, of which Professor  
17 Harvey Davis is chairman, and he is planning on being  
18 here this afternoon to make a presentation on behalf  
19 of that committee.

20 In my opinion, the primary problem in consumer  
21 credit is high interest rates. It causes most of the  
22 other types of problems that you have heard about. In  
23 the first place, there are some that haven't been  
24 mentioned. High interest rates reduce purchasing power.  
25 The more that a person pays out for interest, the less  
that he has to pay out for the principal, for the

Fritz

1  
2 commodity or for whatever the purpose of the expenditure  
3 is. In the second place, high interest rates' cause  
4 overborrowing because the more heavily indebted a  
5 debtor becomes by not being able to pay the high  
6 interest rates, the more likely he is to go to other  
7 creditors and get more money and get himself into a  
8 "borrowing Peter to pay Paul" syndrome or into an over  
9 borrowing syndrome of various types. And, in the  
10 third place, high interest rates in the consumer field  
11 are inflationary because in the consumer credit field  
12 it is well known that free private competition is not  
13 effective. It does not take place—it does not lower  
14 interest rates. Wherever interest rates are regulated—  
15 and they are all regulated in Texas, if not by special  
16 statute then ultimately by the general usury statute—  
17 but wherever they are regulated by special statute they  
18 are virtually always running at the maximum rates.  
19 Virtually, all lenders on all their loans make them at  
20 the maximum rates fixed by law in the field of the  
21 Regulatory Loan Act and in the field of the Credit  
22 Union Maximum Rate.

23 Now then, let's take first the unregulated  
24 field; that is, the field not regulated by the Regula-  
25 tory Loan Act. There are numerous violations of the

Fritz

1  
2 ten per cent maximum. The time-price devices and  
3 notorious method by which a certain class of lenders  
4 charge more than ten per cent per annum, calling it  
5 a "time-price." Banks very frequently charge more  
6 than ten per cent per annum in their consumer loans,  
7 in the smaller loans, and it is amazing to me that  
8 nobody has told you about that. We get cases regularly  
9 against the banks in which they are charging a purported  
10 ten per cent, but they don't amortize it when they  
11 tell the borrowers ten per cent and it actually comes  
12 to 19.4 per cent on a one year loan on monthly  
13 installments. Or a six per cent loan where it actually  
14 comes to 11.6 per cent, let us say, and so-forth. So  
15 the banks are—and I think a great many of the Dallas  
16 banks—we have had specific complaints, if not all of  
17 them, are violating the law on the maximum interest  
18 rates.

19 Now then, on renewals, the effect of any  
20 type of a violation is extremely aggravating because  
21 then the borrower is paying usurious interest upon  
22 usurious interest, and it compounds the rate and it  
23 slides right on up. The more renewals are made—and  
24 the renewal practice is quite heavy among lenders in  
25 Texas—inducing the borrowers to stay on a loan chain

1 Fritz

2 as long as they can keep him on this series of loans,  
3 which is very hard upon the borrower ordinarily. The  
4 higher the rate becomes the more he is bled.

5 Now, in the regulated field, the Act itself  
6 allows exorbitant rates and should and must be corrected.  
7 In the first place, Section 17(B) of the Act provides  
8 for rates that range as high as 320 per cent per year.  
9 I can give you the documentation on that if you need  
10 it. But I left it at my office. I think almost  
11 everybody that has ever figured it knows this is true,  
12 because I thought I was going to speak at 2:00 and I  
13 was going to bring my documentation then.

14 Another section of the Regulatory Loan Act  
15 that permits exorbitant rates is Sub-section 6 of  
16 Section 17(A) which allows the lender to make a small  
17 refund based on the Rule of 78, based on a pro rata  
18 refund when a renewal is made, and as a result of this  
19 our experience is that the lenders under the Regulatory  
20 Loan Act are virtually all keeping the borrower going  
21 from renewal to renewal to renewal as long as they can  
22 possibly keep him on the hook. And his rate pyramids  
23 the longer this goes on.

24 Now then, the other section of the Act under  
25 which exorbitant rates are obtained is the Insurance

Fritz

1  
2 Section, which is Section 17(A), relating to credit  
3 insurance, and Section 18(B), relating to property  
4 insurance, and insurance under this Act in spite of  
5 the limited limitations upon it is frequently loaded.

6 And this is a result, as I shall go into more  
7 detail later, of the fact that the lender is able to  
8 make money out of the insurance sale. And so the  
9 more he loads the insurance on there the more money  
10 he makes out of it, in spite of the rate that would  
11 seem to be what is the maximum rate fixed by 17(A).

12 Now, regulation is not worth the cost of  
13 regulation if it does not protect the consumer against  
14 exorbitant interest rates. And as long as we have  
15 these provisions that permit exorbitant interest rates,  
16 especially up to 320 per cent which is about as high  
17 as anybody was charging before the Regulatory Loan Act  
18 went into effect, we don't have adequate protection for  
19 the consumer.

20 Now, this 320 per cent division, as I guess  
21 everybody here knows, applies to only loans of one  
22 hundred dollars and less. But this is the field where  
23 the ignorant and indigent borrower is most likely to  
24 be sucked in and to be bled dry and to be weakened and  
25 harmed by exorbitant interest rates. And so it should

Fritz

1  
2 be eliminated, Section 17 (B) from the Act, and the only  
3 rate structure should be one that applies to all on a  
4 graduated basis. Section 17 (A) has the graduated basis,  
5 and another provision for loans of \$100 and less, for  
6 small loans, which is as high as any average borrower  
7 can stand and should be the only maximum allowed; there  
8 should be no special privilege to those who insist  
9 upon indulging upon the poor or the ignorant or the  
10 necessitous.

11 Now, in both the regulated and the unregulated  
12 field, the lack of comparative rate disclosures is one  
13 of the reasons that we have excessively high interest  
14 rates. There is no required disclosure of the rate of  
15 charge in the Regulatory Loan Act. There was one and  
16 in Conference Committee it was obliterated by making  
17 it optional and nobody follows that option. They all  
18 follow the other option of just saying what the price  
19 is, what the amounts are, and the payments and so-forth.  
20 But they don't tell you the rate. In the unregulated  
21 field there is no legal provision whatsoever regarding  
22 disclosure of the rate.

23 Now, this is another reason that in the small  
24 loan field there is no competition in the regulated  
25 loan field at all with possibly on flier exception that



Fritz

1  
2 I heard of once by one regulated loan company as a  
3 "come on" loan, but virtually all loans are at the  
4 maximum rates. There is no substantial price competition.

5 Now, how would the rate be disclosed best?  
6 There has been a tremendous amount of study of this  
7 subject for years because of the proposal in the  
8 United States Congress of the "Truth in Lending" Bill,  
9 which suggests a per cent per year basis, with a  
10 special provision as to revolving credit, which is  
11 difficult to state in per cent per year. And there has  
12 been a great deal of amount of study in the efforts of  
13 the National Commissioners on Uniform State Laws to  
14 prepare a Consumer Credit Code, a first draft of which  
15 has been prepared and is being further considered after  
16 discussion thereof at Montreal in August. And it,  
17 likewise, has in some instances the per cent per year  
18 disclosure, but in other instances it has the dollars  
19 per hundred disclosure at this stage, which may well be  
20 changed by the time the next draft is made late in  
21 November.

22 The per cent per year disclosure is preferable  
23 because it is simpler and easier to use, and if we are  
24 going to have competition in this field we are going to  
25 have to have the rates set out to where somebody can know

Fritz

1  
2 and be easily trained of what is the difference between  
3 this rate and that rate and per cent per year is the  
4 easiest way to tell that difference, and to get an  
5 adequate comparison to all types of loans.

6 You learn per cent per year in grade school,  
7 how to compute it.

8 The bank accounts are paid on the basis of  
9 per cent per year; savings accounts. Likewise, savings  
10 and loan savings accounts. The home mortgages are  
11 computed on the basis of per cent per year, generally.

12 The credit union loans are computed on a  
13 per cent per year. A vast number of Americans know  
14 about per cent per year and can compare, if this loan  
15 is eighteen per cent per year and that loan is sixteen  
16 per cent per year, they can compare it; and it means  
17 something to them, and it has a standard basis of  
18 reference to the other types of loans still available,  
19 like the mortgage loans and so-forth. And we think  
20 that the per cent per year is the way to have the rate  
21 disclosure.

22 But in any event, rate disclosure is absolutely  
23 essential if we are going to bring down interest rates.  
24 We have heard some testimony this morning about compe-  
25 tition. Other people want to get into this field of

Fritz

1 making consumer loans so that they can provide lower  
2 interest rates to the people who borrow in this field.  
3 But I am very much afraid that if we don't have com-  
4 parative rate disclosure on the per cent per annum  
5 basis preferably, that everybody will lend at the  
6 maximum rates. If the banks come in they will lend  
7 at the maximum rates. We won't actually have, the  
8 rate commission, we won't actually have rates being  
9 brought down and we will have continued high interest  
10 rates, with all the evils, unless going with it is  
11 comparative rate disclosure.  
12

13 Now, the poor people do not always know how  
14 to compute per cent per annum or even know what the  
15 rate of dollars per annum is or anything like that.  
16 But they can be taught to compare simple figures, like  
17 here is a loan at eighteen per cent and here is a loan  
18 at twenty per cent per annum. They can be taught to com-  
19 pare that, and this will bring into effect competition  
20 if this type of a simple comparative rate disclosure is  
21 required. However, just putting it into law will not  
22 do the job, in my opinion. There will have to be  
23 education with it. I said they can be taught to compare.  
24 Neither the poor people nor the ignorant or even the  
25 well-educated presently are well-trained in shopping

Fritz

10  
1 for credit. Pamphlets and manuals won't train them,  
2 either. They are good for the educators who will train  
3 them, but it's going to take actual training courses  
4 to teach people of all levels who desire to participate  
5 how to insist upon what the rate is and how to insist  
6 upon comparing with more than one place. They don't  
7 just go into one place and get signed up; but how to  
8 obtain comparative rates, and then how to take the  
9 lower rate so this will have the effect of bringing  
10 prices down, interest rates down.  
11

12 Now, these courses must be paid for, of  
13 course, by the State. There is no private agency that  
14 is now giving such adequate courses, and I think that  
15 one of the best ways to conduct this educational program,  
16 which several of the speakers said is necessary, is by  
17 the Office of Consumer Counsel. I think that the State  
18 should have an independent consumer counsel who will  
19 look after the interests of the consumer, including the  
20 educational field, and also who will receive the complaints  
21 of failure adequately to disclose. Or, of excessive  
22 charges wherever they are made illegal by the amendments  
23 to the law which I hope that this group will come up with.

24 Now then, another way to attack this problem  
25 of high interest rates is, however, by providing adequate

Fritz

1  
2 courses of loans. If every class of lender were making  
3 consumer loans and you did have this disclosure effect-  
4 ively in practice, then we would hope that free private  
5 enterprise in the United States would take effect in  
6 in this field as it has so successfully in most of the  
7 fields of our economy, but never has yet in this field.  
8 And so the way to get all the lenders in is by opening  
9 this field up to where the banks can make consumer  
10 loans all the way; to where savings and loan associations  
11 can make consumer loans all the way, and of course,  
12 every agency which is restricted from making adequate  
13 consumer loans should be encouraged to do so. This  
14 would apply to the sales finance deal as well; all  
15 consumer credit.

16 I am a member of the Advisory Committee of  
17 the Consumer Credit Project of the National Commissioners  
18 on Uniform State Laws, and in the first draft it has  
19 made the approach of opening up the field to all classes  
20 of lenders, along with rate disclosure, so perhaps we  
21 can get competition and can protect the borrower from  
22 these exorbitant interest rates that cause most of the  
23 problems that you have heard about.

24 Now then, one of the problems that has been  
25 mentioned here; that is, a secondary result, a secondary

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1  
2 problem, really, is harrassment. And I say it is secon-  
3 dary because ordinarily in our experience harrassment  
4 has not been done by a person with a legitimate loan,  
5 or a non-usurious rate loan, and if somebody is decent  
6 about his interest rates he seems to be decent about  
7 how he collects them. And somebody who is indecent  
8 about interest rates, whether they are lawful or un-  
9 lawful, then he seems to be indecent about how he  
10 collects them. This doesn't mean all the time. Some-  
11 times they don't harrass even if they are charging high  
12 interest rates. But whenever the harrassment takes  
13 place in our experience it has nearly always been by  
14 somebody charging high interest rates.

15 So I think the harrassment would be vastly  
16 improved, that is reduced, let's say, by bringing in  
17 these other reforms that will help to lower the interest  
18 rates.

19 The number two primary problem that I see  
20 in the consumer credit field is tied in insurance.  
21 This is where the lender, or the owner of the lender,  
22 somehow obtains a profit out of the insurance that is  
23 sold with the loan. The ownership is in—well, this  
24 is done in many ways. Some of them, briefly, is where  
25 the same holding company owns the lending company and

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1  
2 also owns the insurance company. It is also done where  
3 there is not common ownership, but it is group insurance  
4 and the lender gets back dividends.

5 It is also done where there is a loss ratio  
6 rebate. The lower the losses, why, the more rebate the  
7 lender gets. The pre-primary evils of this are, first,  
8 if the lender makes a profit from the insurance he  
9 tends to pile on the insurance to make more of a profit,  
10 unnecessarily.

11 And secondly, if the same people are going to  
12 lose—I mean, let's put it this way: If when a claim  
13 is made, well, it comes out of another profit or reduces  
14 the profit to the lender in some way, it is as if the  
15 common ownership, for example, if I have my insurance  
16 in my left pocket and my loan business in my right  
17 pocket and my borrower has an auto wreck, let's say,  
18 and I have insured it, why, then, if I refuse to pay  
19 him out of my left pocket, I still have that money in  
20 my left pocket. He may pay that indebtedness anyway,  
21 so I try to cut down on how I pay my claims in the hope  
22 that I will get some more out of the borrower. Whereas,  
23 if I pay it to him it is gone from me. I know my  
24 security is a little better but there are a great many  
25 companies now operating on auto loans where it seems

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1  
2 that they would rather have the money than the security,  
3 then to be sure the security is adequately repaired.  
4 After all, he's going to have to repair the security if  
5 he is going to have to drive it off, and so-forth, and  
6 pay for it himself in some way. So it cuts down upon  
7 the payments, and we have seen many instances where that  
8 was true.

9           And then, also, a third evil of this, when  
10 there is a wreck there is a tendency to delay payment  
11 of the claim, or in some instances to refuse payment  
12 of the claim. So that the lender can foreclose on the  
13 car and get a car, especially if it has been paid quite  
14 a ways along or if it is a pretty good automobile at  
15 the beginning and the damages are not too great. Well,  
16 if they can just hold up paying the insurance the  
17 borrower will not be on time in his payments to them  
18 and he will be perhaps not able to get to and from work  
19 or he will be around trying to get money to pay for his  
20 car repairs and won't be able to pay them and then, they  
21 will be able to foreclose.

22           Now then, the number three primary problem,  
23 I think, in this field, is under the general category  
24 of fraud, and you have heard some instances of fraud;  
25 and we have seen most of the kinds of fraud that can



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come.

Now, the common law, theoretically provides for damages for fraud. The reason that this type of protection is not adequate, and there should be additional legislation in the consumer credit code about this, is that the cases are often small, and the relief inadequate for the time and effort involved. If we are really going to try to attack the consumer credit problem, a vast proportion of the loans are too small to allow the ordinary fraud remedies to take place. And, of course, I mean they are primarily loans on commodities; either whether made through the sales finance method or whether direct cash loans in order to purchase the commodity.

Now, we need a class C provision in a statute whereby either the consumer counsel or private counsel, if they get several of these cases, can bring them all at once and be assured that they won't be divided up all into a bunch of separate cases. We need other provisions to ease the procedure for private counsel to handle these small matters, and among them is additional attorney fees in consumer fraud cases, just as in the Regulatory Loan Act, a provision was made which was helpful and remedial to allow attorney fees