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of the House Committee on Banking,  
Finance and Urban Affairs

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I am pleased to appear before this Subcommittee to present the Board's views on the need for simplification of the Truth in Lending Act, which we strongly support.

The basic purpose of Truth in Lending is to provide the consumer with information that indicates how much a particular credit transaction will cost. The consumer benefits by knowing the additional cost of using credit rather than cash and is able to compare and shop credit costs, thus maintaining a competitive discipline in credit pricing.

We believe that Truth in Lending has made great progress toward accomplishing its purpose. The Board commissioned a survey of approximately 2500 households in July 1977 to determine whether consumers have benefited from Truth in Lending. Partial results of the survey were presented in the Board's 1977 Annual Report to Congress on the Truth in Lending Act. Those results demonstrate that there has been a significant increase since the act was passed in consumers' awareness of the annual percentage rates charged in consumer credit transactions. Many more consumers are now aware of the costs involved in borrowing money and purchasing goods and services on credit.

The Board believes, however, that a simplified version of the Truth in Lending Act would operate even more effectively, would result in even greater awareness of credit costs, and would reduce the costs incurred by creditors in

achieving compliance with the act's requirements. Thus, the Board believes that simplified Truth in Lending requirements would better serve the consumer.

Simplification, as recommended by the Board, should result in the improved delivery of information to the consumer. One of the principal improvements would be achieved by reducing the number of items on which the consumer is asked to focus in reviewing a Truth in Lending statement.

The complexity of the many disclosures required under present law is hampering full accomplishment of the purpose of the statute to inform consumers about credit costs. The July 1977 survey indicates that consumers do not read their disclosure statements very carefully. They apparently are neither concerned with many of the items presently disclosed nor are many of the items regarded as particularly useful. But they do rank highly information such as the annual percentage rate, the finance charge, and the size of monthly payments. Survey results indicate, however, less consumer interest in charges imposed for late payment, rebate methods used in the event of prepayment, and descriptions of required security interests.

In the Board's view, improved delivery of disclosures also requires that Truth in Lending information be segregated from other contractual provisions and that it be presented in simple terms. At the present time, the

consumer often receives lengthy and complex Truth in Lending disclosures interspersed among contractual provisions and State law disclosures. We believe that Truth in Lending cannot be truly effective when the consumer is presented with discouragingly detailed and complicated disclosures. Overwhelming the consumer cannot result in a better informed, credit conscious consumer; rather, it will result in a consumer who will often ignore all disclosures and not attempt to digest the information provided.

The information provided in accordance with a simplified Truth in Lending statute would focus on those items necessary for consumers to know the cost of credit. Simplification would not deny needed information. If Truth in Lending continues to be regarded as a vehicle for furnishing the consumer with all information relevant to a credit transaction, it will do no more than repeat large portions of the credit contract, rather than extract and highlight those terms considered most useful in shopping for credit and comparing its cost.

There are terms other than credit cost terms that consumers need to know when entering into credit transactions. However, most of those terms are included in the underlying contract. Efforts are being made in several States -- for example, California and New York -- to require that consumer contracts be written in simplified, understandable language to ensure that those terms not considered relevant to the

cost of credit are presented to the consumer in a coherent manner.

The present lengthy and complex disclosures that overwhelm and confuse the consumer are not the only reason for simplification of the act. Since Truth in Lending's passage approximately ten years ago, a great deal has been learned. The practical application of its requirements to individual credit programs has often proven to be a difficult task. These difficulties have arisen in two basic contexts.

First, several of the statutory directives, although they appear to be simple and straightforward, have proven to be vague and imprecise in their application.

For example, both the Board's staff and the courts have had difficulty in interpreting the broad statutory requirement that default, delinquency, or similar charges payable in the event of late payment be disclosed. The staff and the courts are comfortable in applying this statutory provision to a flat \$3 charge imposed when a consumer is ten days late in making a scheduled payment. However, they have not been as sure about requiring disclosure that interest will continue to accrue in the event of late payment in a simple interest loan, where accrual of interest is an inherent term of the loan. This is only one of many examples.

Second, the Truth in Lending Act also has proven to be difficult to apply to the wide variety of new credit programs developed over the past ten years.

The Board and its staff, in trying to be responsive to questions about the day-to-day application of the act's requirements, have published approximately 1300 informal staff interpretations, 150 official staff interpretations, and 55 Board interpretations. Nor have we been alone in our efforts to provide guidance with regard to Truth in Lending; the courts, too, have issued numerous opinions.

A large amount of Truth in Lending litigation continues to burden the courts. Unfortunately, compliance with a specific Truth in Lending requirement often means different things to different courts. Courts in one district may interpret a statutory requirement differently from those in another. Many creditors operating outside local areas have had to design different disclosure statements for different judicial districts or circuits. Court opinions also occasionally differ from Board or staff opinions on the same issue. The consistent, uniform interpretation of the act has become almost an impossibility. Even though creditors may make every effort to comply with the statute's requirements, multitudinous interpretations of broad statutory language make it impossible for them to know that their disclosure statements comply fully with the act's provisions.

Simplification, aside from its desirable focus on the most important aspects of credit costs, also should result in a savings to consumers. Creditors' costs in complying with Truth in Lending appear to be substantial and must necessarily be borne in large measure by the consumer. Significant costs are incurred in the constant review and redesigning of disclosure forms in order to incorporate statutory amendments, Board and staff interpretations, judicial activity, and State law considerations. The fact that civil liability attaches to violations that are highly technical in nature compels creditors to engage in frequent and costly review procedures. Simplification, in clarifying disclosure responsibilities, should reduce the possibility of inadvertent violations and aid in reducing creditors' compliance costs, thus serving to keep consumers' credit costs down.

The Federal Paperwork Commission indicated in its July 29, 1977, report on Consumer Credit Protection that creditors would save approximately \$600 million if the Board approved creditors' forms for one-year periods. The Commission believed that the use of a form that would not need revision for a year "would save creditors the formidable costs of printing and reprinting forms and, further, would serve to provide some measure of protection to creditors from lawsuits resulting from differences in interpretation rather than intent." Although approval

of individual creditors' forms may not be feasible, the Board could, under a simplified statute, prepare model forms that would provide clear guidance to creditors.

The Board believes that the simplification of Truth in Lending not only will result in a savings to creditors and, thus, in a savings to consumers, but also will improve the focus on credit cost terms and facilitate earlier disclosure. These latter improvements will better ensure that consumers have the opportunity to review and evaluate the information provided. This, in turn, will facilitate comparison credit shopping.

We urge the Congress to enact promptly a simplified Truth in Lending statute that is clear and concise in its requirements.