

**For Release on Delivery**

**Statement by**

**Philip C. Jackson, Jr., Governor**

**Board of Governors of the Federal Reserve System**

**before the**

**Consumer Affairs Subcommittee  
of the Committee on Banking, Finance and Urban Affairs**

**United States Senate**

**July 11, 1977**

The Board wishes to commend this Committee for considering this very complex consumer issue, and wants to affirm its wholehearted support for simplification of the Truth in Lending Act. Furthermore, the Board commends the sponsors of S. 1213, S. 1653 and S. 1501 and endorses in principle the simplification aspects of those measures. Certain features in these bills would implement some of the earlier recommendations from the Board. I will be commenting on the specifics of those proposals later on in this testimony.

Simplification has several dimensions. To some people, it means a reduction in the number of disclosures, or the combining of many items of information into a few. To others, it means a reduction in a creditor's exposure to civil liability. To still others, it means a reduction in the number of court decisions and administrative interpretations of the statute. To many consumers, it means an easier to read, more usable Truth in Lending statement.

The Board has been working on simplification for some time. In order to attack the problem at a fundamental level, however, the Board retained several outside consultants to work with the staff and the Board on how the statute might be revised in order to remedy some of the complexities that have become evident in the closed end provisions of the Act.

With me today as consultants to the Board are Professor Jonathan Landers of the University of Illinois School of Law, an acknowledged expert in Truth in Lending; Professor Ralph Rohner of the Columbus School of Law of The Catholic University of America, who recently completed a term as counsel to your subcommittee; and Professor Steven Permut of the

School of Organization and Management of Yale University who has specialized in how consumers process and use information. They are available should you have questions.

The initial product of the task force's efforts on Truth in Lending simplification was a comprehensive draft statute raising several different issues and approaches to simplification. That draft has been considered and commented upon by the Board's Consumer Advisory Council, other Truth in Lending regulatory agencies, and interested members of the public. I am happy to submit this draft bill, and an explanatory memorandum, as attachments to this testimony.

The basic thrust of the Board's proposal is to improve the delivery of information to the consumer, emphasize the most significant disclosures, and clear up ambiguities and uncertainties. Thus, our draft bill reduces required disclosures to: (1) the identity of the creditor; (2) the amount financed; (3) the total finance charge; (4) the annual percentage rate; (5) the schedule of payments; (6) the total of payments; and (7) in the case of credit sales, the total sales price including any downpayment.

In addition, the Board recommends that certain important terms continue to be disclosed--terms which are less directly related to cost and credit shopping, and more related to the consumer's rights on default or prepayment. The Board recommends that a summary statement with respect to late payment charges, security interests and prepayment penalties or rebates be made along with a reference to the actual contract for details. There is no question that these are important terms and that the consumer should be aware of them. However, a complete disclosure describing these

these terms in utter detail is lengthy, legalistic, and of doubtful value in that form. On the other hand, any summary of the terms can be insufficiently informative. As a middle position, the Board recommends requiring a brief summary of certain terms plus a cross-reference to the contract for further details. Under our proposal the consumer would know, for example, that there may be a rebate of finance charges on refinancing. For a fuller explanation of when such a rebate will arise and how it is computed, the customer would need to review the terms of the contract. Similar short-form disclosures would be used for security interests and for late payments, and there would be a general reference to the contract for provisions dealing with the consequences of default.

I want to emphasize that the Board is not recommending that important information now being given be taken away from the consumer. Instead, we believe that clarity is better served if only the most important terms are emphasized on the disclosure statement. The rest will be in the contract, just as they are now. In making these recommendations to reduce disclosures, we are quite aware that reasonable persons may have different opinions on how much information is important enough to be retained on the disclosure statement. We believe that reaching a consensus on this question is the most critical step toward Truth in Lending simplification.

The Board would like to endorse proposed provisions directing the issuance of model forms. To the extent that the number of disclosures is limited and the term disclosures summarized, the board is confident that it can fulfill these statutory mandates. However, if a

complete explanation of particular contract terms is required, drafting model forms becomes complicated and perhaps fruitless because provisions may vary from transaction to transaction and from State to State. The prepayment provision in Attachment A is an example of how complicated a detailed disclosure may be.

S. 1312 and S. 1501 would retain the basic disclosure requirements of present law, but limit the penalties to certain important disclosures. The Board supports this approach. But in our opinion, the total present disclosure requirements are simply too extensive to permit effective use by the vast majority of consumers. This view is based in part upon Professor Permut's advice that the mass of information now provided may produce a kind of "information overload" that overpowers many consumers and renders the entire disclosure statement a forbidding and incomprehensible document. Indeed, behavioral research suggests that when confronted with more than a few "bits" of information, consumers cease to read or retain any of the material offered.

Exhibits A and B attached offer some graphic evidence of what I am talking about. Exhibit A is part of a combination contract-disclosure statement currently in use in Maryland. The required Truth in Lending disclosures are boxed, and you can see how they produce a long and cluttered form. Exhibit B is a form designed by a trade association of small creditors. It is a general purpose form for both loans and credit sales, and consists exclusively of Truth in Lending disclosures. Looking at these forms, it is hard to avoid the impression of information overload. There is more information than most consumers can digest. By reducing the

number of items of information disclosed as under the Board's proposal, the important ones will receive a greater emphasis and there will be a greater likelihood of affecting consumer behavior. Stated another way, if consumers' attention is focused on essential information, it is more likely that they will use it to become more aware of credit costs and in time, through experience, to shop more wisely for credit.

Not only does the Board believe that the effectiveness of Truth in Lending will be increased by limiting the number of items disclosed, but, in addition, it recommends two changes in how the information is delivered. Under the existing law creditors are allowed to integrate the disclosure statement with the terms of the note and security agreement. As evidenced in Exhibit A, this makes the disclosed items difficult to find and understand. Instead of allowing this integration, the Board recommends that the disclosure be made either on a separate piece of paper with no other information, or on the contract, but in a way which clearly identifies the disclosures and segregates them from the other information.

We would also recommend that the items to be disclosed contain brief explanations in everyday language. Exhibit C is an example of how the principal cost terms might be described. Although these explanations add to the length of the disclosure statement, the board believes that the benefits derived from these simple explanations, particularly by less sophisticated consumers, outweigh the costs involved in adding information to the disclosure statement.

In summary, the Board believes that by reducing the number of items emphasized, improving the manner in which the information is delivered, and explaining in everyday language the meaning of the terms, the effectiveness of the Act could be substantially improved.

Another major issue raised in our draft bill is the treatment of credit insurance--an issue that has been controversial since the inception of Truth in Lending. The general rule of the Act is that all charges which are incident to or a condition of the extension of credit are finance charges. On the one hand, credit insurance would not exist but for the credit transaction. On the other hand, such insurance is a product separate from the credit with a separate price. Under the existing law, credit insurance is excluded from the finance charge only if it is voluntary and the consumer elects to purchase such insurance after the additional cost has been disclosed. There has been some concern that, at least in some markets, credit insurance has been forced upon unwilling consumers. Although it has been suggested that insurance be a part of the finance charge in all cases, the Board believes that this would lead to compulsory insurance in some markets and would complicate shopping for credit between transactions in which insurance is offered and transactions in which it is not offered. Therefore, the board recommends that the voluntary nature of the insurance purchase be buttressed further by requiring that the creditor give the consumer 30 days to cancel the insurance, if the premiums are to be excluded from the finance charge.

The Board has several recommendations with respect to real estate credit. In purchase money situations, the Board recommends early

disclosure of Truth in Lending information, at the same time and along with the estimate of closing costs required by the Real Estate Settlement Procedures Act. We believe that consumers would be better served by receiving estimates of credit costs at an early point in the negotiations, while the consumer still has an effective option to shop for credit. Purchasing a home is the transaction in which a consumer is most likely to shop from creditor to creditor for the best financing. Truth in Lending should encourage such behavior.

The Board recommends that the general rule on what charges must be included in the finance charge be applied to real estate. This means eliminating some special exceptions in the present law. Such exceptions now permit certain charges which are analytically part of the cost of credit to be excluded from the finance charge--such as credit investigation fees, appraisal fees, creditor title insurance, and other costs associated with the mortgage. We believe that in addition to cleaning up the disclosure statement, simplification is best achieved by doing away with as many special rules and exceptions as possible. If the cost is one that would not be incurred by a prudent cash buyer, it should be part of the finance charge and the annual percentage rate.

The Board also believes that real estate creditors should be required to disclose the total finance charge and the total of payments as is done in all other consumer credit transactions. These exceptions were originally permitted for real estate creditors because of concern that consumers would be discouraged from purchasing homes if told how much the credit would cost over the full term of the mortgage. Certain States

do require that these items be disclosed in real estate transactions, and we know of no evidence from them which indicates that consumers are frightened away by this information. The value of these disclosures is that a consumer's ability to assess the dollar difference between different annual percentage rates is improved. A 1/4% difference in the Annual Percentage Rate will take on greater significance when the dollar difference it makes over the life of the loan is disclosed.

Finally, with respect to real estate, the Board recommends disclosure whether a loan may be assumed on the original terms and conditions and disclosure if there may be a prepayment penalty. Since most real estate loans are paid off before maturity of the loan, the right of a subsequent purchaser to assume the loan and the existence of a prepayment penalty are matters for which a consumer might wisely shop.

The Board is concerned with rescission rights which are exercised long after a proper rescission notice has been given. Present law permits this when there has been a technical error in the disclosure statement. The Board would recommend that the rescission right terminate three days after the creditor furnishes notice of the right and a Truth in Lending disclosure statement accurate in its Annual Percentage Rate which discloses the existence of a security interest in the consumer's home, and is otherwise completed in good faith.

One issue that has spawned extensive litigation is who must make the disclosures if there is more than one creditor in the transaction. The Board recommends that only one disclosure statement be required and that the obligation to disclose be placed upon the creditor to whom



the obligation is made payable on its face. This provides a simple mechanical rule for creditors to follow and should insure that consumers get the required disclosures.

As I have noted, our draft bill and this summary of the Board's recommendations for simplifying Truth in Lending apply primarily to closed end credit transactions. The Board expects to turn its attention shortly to the area of open end credit. We will report promptly to this Committee on the results of our efforts when completed.

Now I would like to discuss some specific aspects of the three bills already before the Committee.

S. 1653 is directed principally at strengthening the authority of the Federal Trade Commission, which is responsible for Truth in Lending supervision of over a million creditors, to enforce the Act. The Board believes it is particularly desirable to strengthen the powers of administrative agencies in the light of proposals to limit consumer actions for redress to the substantive disclosures and to leave enforcement of the balance of the Act to the administrative agencies. S. 1653 also gives thoughtful attention to clarifying certain difficult areas involving assignee liability and the consumer's right to rescission. The Board agrees that these questions deserve careful reconsideration in connection with this major review of Truth in Lending.

The Board is pleased to see that both S. 1312 and S. 1501 incorporate many of the simplification recommendations made previously by the Board. Briefly, both bills, as well as the Board's draft bill, would:

1. Eliminate those sections of the Act which permit the use of the comparative index of credit costs.

2. Eliminate the right of rescission in the sale of vacant lots--transactions often subject to the Interstate Land Sales Disclosure Act.

3. Permit a single annual report by the Board to Congress for the Truth in Lending, Equal Credit Opportunity, and Federal Trade Commission Improvement Acts.

4. Eliminate the requirement that certain charges listed in section 106(d) be itemized in order to exclude them from the finance charge. The Board's proposal goes further by including credit-related costs, such as filing fees and nonfiling insurance premiums, in the finance charge in all cases, while eliminating any charges payable in both cash and credit transactions from the finance charge, regardless of itemization.

Both bills, and the Board's draft, exempt agricultural credit from the Act's coverage. The Board believes that the inclusion of agricultural credit under Truth in Lending has caused complexity in the disclosure requirements and difficulties for creditors in making disclosures.

In connection with the exemption for agricultural credit transactions, section 2(c) of S. 1501 would exempt from the Act's coverage "credit transactions of borrower-owned Federal instrumentalities which extend credit under the supervision of an agent of the United States." The suggested purpose of this section is to exempt Farm Credit System

loans. The Board believes that the exemption for agricultural transactions should provide the necessary relief to agricultural lenders. A general exemption for certain types of creditors from the disclosure requirements is neither warranted nor equitable. Consumer loans to farmers for nonagricultural purposes should be subject to the Act, regardless of the type of creditor granting that loan. Furthermore, the Board is concerned that the broad sweep of the exemption as written may well exempt credit unions from coverage as well.

Both bills would amend the Act's current provisions regarding the disclosure of the type of security interest taken and an identification of the property taken as security. The Board's draft also would eliminate disclosure of the type of security interest, but would require identification only of collateral which was not the subject of the transaction.

The Board believes that the bank enforcement agencies now have ample powers to perform their responsibilities under the statute including requiring restitution of overcharges, notification of consumers, public exposure of violations, and cease and desist power over repeated offenses. Furthermore, the Board feels that selective application of these powers to individual violations is preferable to the requirements proposed in S. 1312.

S. 1312 would eliminate the requirement to disclose monetary charges payable upon default but would retain the disclosure for late payment charges. This is essentially the same provision as recommended by the Board in 1976 and contained in the Board's draft. Contrary to the

provisions in S. 1501 which would remove the disclosure requirement, the Board believes this late payment charge disclosure is an important one and should be continued.

Section 15 of S. 1501 would substantially amend the Act's provisions regarding its relationship to State laws. The general impact would be to expand the Act's preemptive effect. The Board supports the thrust of this provision which responds to some of the concerns I commented on in testimony before the Consumer Affairs Subcommittee of the House Committee on Banking, Housing and Urban Affairs on February 9, 1977. We are concerned, however, that the provisions of subparagraphs (2) and (3) may be so sweeping as to preempt all State laws regarding consumer credit, including laws which regulate interest rates and the terms of credit transactions. In considering this issue, Congress should bear in mind that the appropriate degree of preemption of State law is related to the amount of information that will be required to be disclosed.

The Board supports the broad objective of helping consumers to develop their credit shopping skills. But it strongly questions whether a massive survey of the scope contemplated in S. 1312 would best meet that objective. The exclusive focus on annual percentage rates, for example, tends to de-emphasize other important credit information. On the other hand, the intended coverage of all loan categories at all creditors--even if only in large SMSAs--seems overly broad. Though limited to one substantive credit term (annual percentage rate), the survey could still prove so formidable in the volume of its numerical data that it would produce its own "information overload." Coupled with the delays

inevitable in assembling, editing, publishing and disseminating the information required by the bill, the end product could be of very limited use to most consumers engaged in shopping for credit.

The magnitude of the semiannual survey proposed in the bill raises additional issues. One would be the difficulty of identifying such creditors. Obviously, commercial banks and finance companies would be surveyed. Not only would hundreds of thousands of retail outlets be involved, but retailers may have credit arrangements with more than one lender. That could mean that more than one possible rate per loan type would have to be disclosed for certain retailers.

Even if retailers were to be excluded, scores of banks, finance companies, credit unions, and savings and loans would be covered in a large SMSA. For example, Chicago includes approximately 1800, Dallas, over 600, New York, over 800, and Milwaukee, more than 300. These figures do not include branch offices.

Not only would many creditors be involved in each area, but the bill also specifies that all types of loans, excluding open end credit, be surveyed. As many as 25 possible loan types may prevail at some institutions, and at least 10 at most creditors. If the proposed survey were to distinguish among loans of the same type but differing by maturity or downpayment requirements, the volume of published data would be still more cumbersome. And while 75 SMSAs would now be covered, no information would be available for residents of smaller localities, where nearly half of our total population lives.

The reduction of the Act's restrictions on credit advertising, proposed by the bills, is intended to encourage the greater use of this method to inform the public of comparative costs. Advertising is more effective than any surveys in that it is usually directly related to the product or service which is the primary object of the consumer's buying interest and reflects current credit cost information.

We are sympathetic to the cost burdens of creditors which section 6 of S. 1501 seeks to reduce. At times, we have considered delaying regulatory changes so that they could be bunched. However, most of the changes promulgated up to now have been either in response to court decisions or to creditor requests. If legislative emphasis is needed, a requirement that the Board give consideration to creditor costs as well as consumer benefits would be preferable to the mandated delay in changes.

Section 7 of S. 1501 contains several provisions relating to the right of rescission in certain credit transactions. The first would extend from 10 to 20 days the time frame in which creditors must return to customers property received in the transactions and terminate security interests. It would also extend to 20 days the time the creditor has to take possession of property tendered by the customer in a rescinded transaction. While the Board has no particular information indicating that the 10-day period is not sufficient, it would not oppose an extension to 20 days.

More importantly, however, the Act would be amended to provide that, with respect to transactions rescinded after the third business day, the customer could not rescind the transaction unless the customer also

tenders the property, principal amount of the loan, or other consideration received from the creditor. Currently, the Act requires the creditor, within 10 days of receipt of notification of rescission, to cancel any lien and to return to the customer any money or property received from the customer. Once the creditor has performed, the customer must then tender to the creditor the property it has received as part of the transaction. Requiring the customer to tender the property before the creditor acts could seriously inhibit any customer from rescinding.

A third major rescission provision is to provide a definition of "material disclosures" as applicable to certain disclosures. The Board has addressed this same issue in its draft, providing that the rescission information and annual percentage rate must be stated accurately and that the other elements of the disclosure must be completed in good faith.

Section 8 of S. 1501 would eliminate the requirement of section 126 of the Act that creditors who choose to send periodic billing statements in connection with credit other than open end include certain disclosures on those billing statements. Since there are no requirements that creditors send such periodic statements, it does not seem necessary to impose requirements on those creditors who do. The Board supports this deletion.

Section 9(c) of S. 1501 would permit creditors to send the notice of fair credit billing rights to customers annually rather than semiannually as is currently required. The Board believes that an annual notice is sufficient and supports this relaxation.

The Board concurs that the type of tolerance in long-term credit proposed in section 10(d) and (e) of S. 1501 would aid in the administrative aspects of this type of credit.

Section 13 of S. 1501 changes the advertising provisions of the current Act to permit the advertising of the periodic rate and the annual percentage rate alone in open end credit, without including other credit terms. In closed end credit advertising, section 13 would eliminate the requirement that the cash price or the amount of the loan and the downpayment must be disclosed if specific terms are mentioned in the advertisement. The Board would support the concept of limiting restrictions on advertising of terms, but thinks that a final resolution should await a decision on possible changes in the disclosure requirements. Because of the multitude of ways of computing the finance charges in open end credit accounts, the annual percentage rate standing alone is not a meaningful disclosure and, in fact, may be misleading in some cases.

I am attaching to this testimony a technical analysis of the open end and advertising provisions of three bills that have been introduced, as well as some technical comments on these bills.

**READ ALL INSTRUCTIONS BEFORE USING THIS DOCUMENT**

1. The white page when completed should be delivered to Union Trust Company of Maryland; the yellow page must be completed, signed by you and delivered to the customer before the customer signs any other pages. The pink page is to be retained in your files.
2. If the customer desires CREDIT LIFE and/or ACCIDENT AND HEALTH INSURANCE, please have the customer date, sign and indicate such choice before any other signatures are affixed to the white page.
3. TYPE OR PRINT FIRMLY, USE BLACK INK ONLY. you are making several copies, all of which must be clear and legible.
4. The white page requires ORIGINAL INK SIGNATURES.

**SECURITY AGREEMENT**

**(CONDITIONAL SALES AGREEMENT)**

**SALE.** Subject to a purchase money security interest hereby granted by Buyer to Seller, Seller hereby sells and the Buyer (meaning the undersigned Buyer and Co-buyer (if any) jointly and severally) hereby purchase on a deferred payment price basis, upon the terms and conditions set forth below and upon the reverse side hereof, the property described below, herein collectively called the "goods".

**SECURITY.** Buyer hereby grants to Seller a purchase money security interest in the goods and proceeds thereof until all amounts due hereunder are fully paid in cash. If the Guaranty on the reverse side is completed, such Guaranty constitutes a security. Buyer also hereby grants to Seller a security interest in the proceeds of any insurance covering the goods to the extent of the unpaid balance due hereunder. In the event of default, Seller or Assignee may set-off and apply to any payment due hereunder all monies, bank or other deposits or credits of Buyer in its possession.

**BUYER and ADDRESS** (include City or County of residence of individual or actual place of business for corporation, partnership, or sole proprietor):

**SELLER:**

**ADDRESS:**

**CITY, COUNTY, STATE:**

**ASSIGNEE OF SELLER:** Union Trust Company of Maryland, 210 Guilford Avenue, Baltimore, Maryland 21202

**GOODS:** The "goods" referred to above includes the following property and all accessories, appliances, equipment and parts now or hereafter attached to or used in connection with the property:

Type of Goods (Auto, etc.)	New or Used	Make	Cyl	Model	Year	Serial No.
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CHECK ALL SPEC. EQUIP.  RADIO  AUTO TRANS.  POWER STEERING  POWER BRAKES  POWER WINDOWS  POWER SEATS  AIR CONDITION. DESCRIBE OTHER

Buyer represents that the purchase of said goods is primarily for the following purpose (check one):  personal, family or household  agricultural  business or commercial (other than agricultural).

**CREDIT LIFE AND/OR CREDIT ACCIDENT AND HEALTH INSURANCE COVERAGE IS NOT REQUIRED.**

Buyer by signing below affirms his election for and notice of Credit Life Insurance and/or Credit Accident and Health Insurance. Subject to exclusions and/or any waiting period in the applicable policy, the initial coverage for Credit Life Insurance is \$\_\_\_\_\_ for a total premium of \$\_\_\_\_\_ and the monthly disability benefit for Credit Accident and Health Insurance is \$\_\_\_\_\_ for a total premium of \$\_\_\_\_\_.

Buyer elects to purchase such insurance to cover the Buyer as indicated below, according to the terms and conditions set forth in a policy or certificate of insurance issued by the insurer as checked below.  
 Volunteer State Life Insurance Company, Chattanooga, Tennessee, under Group Life Insurance Policy No. 4141

\_\_\_\_\_ (If Other Policy, Name Insurer)

(Home Office Address)

With respect to Credit Life Insurance, benefits are payable to Seller or Assignee in payment of or reduction of the Total of Payments (Item 9) and, where Union Trust Company of Maryland is the Assignee of Seller, such benefits are limited to \$25,000 total for this and all other obligations of the insured Buyer to Union Trust Company of Maryland under Volunteer State Life Policy No. 4141. With respect to Credit Accident and Health Insurance, benefits are payable for total disability (as defined in the certificate of insurance) in amounts equal to or proportional to the monthly installment payments shown in the payment schedule.

Subject to acceptance by the above-named insurance company, the term of all insurance commences on the date this document is executed. Such insurance expires on maturity of this Agreement, and is subject to termination in the event of default in installment payments. Such insurance is available only to a Buyer under 65 years of age on the date hereof. A certificate of insurance describing the coverage afforded in greater detail will be furnished to the Buyer within 25 days after execution of this Agreement.

Credit Life Insurance (C.L.) and/or Credit Accident and Health Insurance (A & H) as above is (are) desired on the undersigned Buyer as indicated.

Date _____	Buyer's Signature _____	<input type="checkbox"/>	<input type="checkbox"/>
Date _____	Buyer's Signature _____	<input type="checkbox"/>	<input type="checkbox"/>

1. Basic Cash Price .....\$\_\_\_\_\_
2. Delivery, Installation, etc. ....\$\_\_\_\_\_
3. Cash Price (Add 1 & 2) .....\$\_\_\_\_\_
4. Down Payment

Trade-in: \_\_\_\_\_  
(Year, Make, Model)

Gross .....\$\_\_\_\_\_

Less Owning .....\$\_\_\_\_\_

- (a) Net Trade-in .....\$\_\_\_\_\_
- (b) Cash down payment \$\_\_\_\_\_
- (c) Deferred Down Payment \$\_\_\_\_\_ (Due \_\_\_/\_\_\_/\_\_\_)

Total Down Payment (a), (b) & (c) ....\$\_\_\_\_\_

5. Unpaid Balance of Cash Price (Item 3 less Item 4) \$\_\_\_\_\_
6. Other Charges
  - (a) Taxes (not included in basic cash price) ..\$\_\_\_\_\_
  - (b) License, Title and Registration fee .....\$\_\_\_\_\_
  - (c) Property Insurance

No insurance coverage is financed hereby unless coverage is checked below. BUYER MAY CHOOSE THE PERSON THROUGH WHOM THIS INSURANCE IS WRITTEN. Insurance is payable to the Seller and Buyer, as interest may appear (except that coverage vi. is payable only to Seller).

Expiration date: \_\_\_\_/\_\_\_\_/\_\_\_\_

Type of Coverage:

- Fire & Broad Form Theft \$\_\_\_\_\_
- Comprehensive \$\_\_\_\_\_
- \$\_\_\_\_\_ Ded. Collision \$\_\_\_\_\_
- Combined Add'l Coverage \$\_\_\_\_\_
- Towing (passenger cars only) \$\_\_\_\_\_
- Supplemental Property Insurance (Borrower's Contingent Insurance) \$\_\_\_\_\_

Physical Damage Insurance Premium (i thru vi) .....\$\_\_\_\_\_

As to transactions in which the Cash Price (Item 3) is \$12,500.00 or less, if any installment is more than double the average of all other installments or if the interval between any consecutive installments is less than one-half the average of all other intervals, the Buyer has the right upon default in any such excess or irregular installment to have the schedule of unpaid installments (including that in default) revised to conform in both amounts and intervals to the average of all preceding installments and intervals.

**Delinquency Charges:** If any installment is not paid within 10 days after it is due, Buyer shall pay a charge equal to 5% of the unpaid installment, except that if the Cash Price (Item 3) does not exceed \$12,500.00 the charge shall be the lesser of 5% of the unpaid installment or \$5.00.  
**Prepayment Rebate:** As to transactions in which the Cash Price (Item 3) is \$12,500.00 or less, upon prepayment in full, Buyer shall be entitled to a rebate of the FINANCE CHARGE (Item 8) computed in accordance with the Rule of 78's, but no rebate less than \$1.00 will be paid. In any event, the Seller shall be entitled to retain a minimum FINANCE CHARGE of \$6.00. As to transactions in which the Cash Price (Item 3) is more than \$12,500.00, upon prepayment in full, Buyer shall be entitled to rebate of the FINANCE CHARGE (Item 8) computed in accordance with the Actuarial Method as of the monthly anniversary of this Agreement next following prepayment.

THE TERMS AND CONDITIONS ON THE REVERSE SIDE OF THIS PAGE ARE EXPRESSLY MADE A PART OF THIS AGREEMENT.

**NOTICE: ANY HOLDER OF THIS CONSUMER CREDIT CONTRACT IS SUBJECT TO ALL CLAIMS AND DEFENSES WHICH THE DEBTOR COULD ASSERT AGAINST THE SELLER OF GOODS OR SERVICES OBTAINED PURSUANT HERETO OR WITH THE PROCEEDS HEREOF. RECOVERY HEREUNDER BY THE DEBTOR SHALL NOT EXCEED AMOUNTS PAID BY THE DEBTOR HEREUNDER.**

If the Cash Price (Item 3) does not exceed \$12,500.00, the following notice is applicable:

**NOTICE TO BUYER—1. YOU ARE ENTITLED TO A COPY OF THIS AGREEMENT AT THE TIME YOU SIGN IT. 2. UNDER THE STATE LAW REGULATING INSTALLMENT SALES, YOU HAVE CERTAIN RIGHTS, AMONG OTHERS: (1) TO PAY OFF THE FULL AMOUNT DUE IN ADVANCE AND OBTAIN A PARTIAL REBATE OF THE FINANCE CHARGE; (2) TO REDEEM THE PROPERTY, IF REPOSSESSED FOR A DEFAULT; (3) TO REQUIRE, UNDER CERTAIN CONDITIONS, A RESALE OF THE PROPERTY, IF REPOSSESSED.**

**personal liability and property damage to others (unless checked below).**

Coverage of such insurance, if any, is as follows:  
 vii.  Bodily injury \$ \_\_\_\_\_  
 viii.  property damage \$ \_\_\_\_\_  
 ix.  medical payments \$ \_\_\_\_\_  
 term \_\_\_\_\_ months

Liability Ins. Prem. (vii thru ix) .. \$ \_\_\_\_\_  
 Total Property Insurance Premium (Item 6(c)) \$ \_\_\_\_\_  
 (d) Credit Life Insurance .. \$ \_\_\_\_\_  
 (e) Credit Accident & Health Insurance .. \$ \_\_\_\_\_  
 (f) Official Fees or Non-Filing Insurance .. \$ \_\_\_\_\_  
 (g) Other (Describe) .. \$ \_\_\_\_\_  
 Total of Other Charges (Item 8) .. \$ \_\_\_\_\_

7. Amount Financed (Unpaid Balance) (Add Nos. 5 & 8) .. \$ \_\_\_\_\_  
 8. FINANCE CHARGE .. \$ \_\_\_\_\_  
 9. Total of Payments (Add Nos. 7 & 8) .. \$ \_\_\_\_\_  
 10. Deferred Payment Price (Add Nos. 3, 6 & 8) .. \$ \_\_\_\_\_  
 11. ANNUAL PERCENTAGE RATE .. %

**PAYMENT SCHEDULE:** Buyer agrees to pay the Total of Payments (Item 9) at Union Trust Company of Maryland, 210 Guilford Avenue, Baltimore, Md. 21202, in \_\_\_\_\_ installments consisting of \_\_\_\_\_ consecutive monthly installments of \$ \_\_\_\_\_ each and a final installment of \$ \_\_\_\_\_, beginning on \_\_\_\_\_, 19\_\_\_\_, and continuing thereafter on the same date of each subsequent month; or as indicated in the schedule below:

If scheduled above, the final installment in the amount of \$ \_\_\_\_\_ is a "Balloon Payment" which may be extended or refinanced under credit terms no less favorable than those then permitted under the Maryland Retail Installment Sales Act, provided Buyer is not then in default as defined herein.

This Agreement is accepted by Seller and hereby assigned to Union Trust Company of Maryland in accordance with the terms of the assignment on the reverse side hereof, subject to full recourse guaranty unless otherwise indicated on reverse side.

\_\_\_\_\_  
 Buyer's Signature

\_\_\_\_\_  
 Print or type name of Seller-Assignor

\_\_\_\_\_  
 Co-Buyer's Signature

By: \_\_\_\_\_ Title \_\_\_\_\_

Date: \_\_\_\_\_  
 NOTICE: TYPE OR PRINT PERSONS' NAMES UNDER ALL SIGNATURES.

**BUYER ACKNOWLEDGES THAT BEFORE SIGNING THIS CONTRACT, SELLER SUBMITTED THE CONTRACT TO BUYER WITH ALL BLANK SPACES FILLED IN, THAT BUYER HAD A REASONABLE OPPORTUNITY TO EXAMINE IT, AND THAT THEREAFTER A LEGIBLE, EXECUTED AND COMPLETED COPY THEREOF WAS DELIVERED TO BUYER.**

012-1722-0020-2 (8-78) \_\_\_\_\_  
 Buyer's Signature

\_\_\_\_\_  
 Co-Buyer's Signature

WHITE - ORIGINAL

CANARY - CUSTOMER'S COPY

PINK - SELLER'S COPY

**Federal Truth in Lending Instalment Credit Disclosure Statement**

**CUSTOMERS** (Names and Addresses):

**CREDITORS** (Names and Addresses):

\_\_\_\_\_

\_\_\_\_\_

Transaction Date \_\_\_\_\_ No \_\_\_\_\_  
 This disclosure relates to a:  
 Credit Sale  Loan  \_\_\_\_\_  
 New Transaction  Add-On  Refinancing

**DISCLOSURES FOR CREDIT SALES ONLY:**

- 1. Cash Price ..... \$ \_\_\_\_\_
- 2. Less: Cash Downpayment ..... \$ \_\_\_\_\_
- 3. Trade-In ..... \$ \_\_\_\_\_
- 4. Total Downpayment (2+3) ..... \$ \_\_\_\_\_
- 5. Unpaid Balance of Cash Price ..... \$ \_\_\_\_\_
- 6. Unpaid Balance ..... \$ \_\_\_\_\_  
 (Sum of Items 5+8+9+10+11+12)
- 7. Deferred Payment Price ..... \$ \_\_\_\_\_  
 (Sum of Items 1+8+9+10+11+12+17)

**NOTE:** Appropriate portions of remainder of statement must be filled in for credit sales.

**DISCLOSURES FOR ALL TRANSACTIONS:**

- 8. Credit Life Insurance Charge ..... \$ \_\_\_\_\_
- 9. Disability Insurance Charge ..... \$ \_\_\_\_\_
- 10. Property Insurance Charge ..... \$ \_\_\_\_\_
- 11. Recording Fee(s) ..... \$ \_\_\_\_\_
- 12. Other Charges ..... \$ \_\_\_\_\_
- 13. Amount Financed ..... \$ \_\_\_\_\_
- 14. Prepaid Finance Charge ..... \$ \_\_\_\_\_
- 15. Required Deposit Balance ..... \$ \_\_\_\_\_
- 16. Total Prepaid Finance Charge and Required Deposit Balance (14+15) ..... \$ \_\_\_\_\_
- 17. FINANCE CHARGE ..... \$ \_\_\_\_\_
- 18. Total of Payments ..... \$ \_\_\_\_\_
- 19. ANNUAL PERCENTAGE RATE ..... % \_\_\_\_\_

**ADDITIONAL DISCLOSURES REQUIRED IN ALL TRANSACTIONS**

This transaction is payable in \_\_\_\_\_ consecutive monthly instalments. The due date of the first payment is \_\_\_\_\_  
 Other payments are due the \_\_\_\_\_ day of each month. The final payment is due on or before \_\_\_\_\_ Amount of first payment \$ \_\_\_\_\_ Others \$ \_\_\_\_\_  
 The amount of the final payment is \$ \_\_\_\_\_ and  IS NOT a BALLOON PAYMENT. If the final payment is a balloon amount and is not paid when due, it may be refinanced as follows:

**DELAYED FINANCE CHARGE:** Unless another date is specified in the space immediately following, the finance charge is imposed of the date of the transaction. Delayed date: \_\_\_\_\_

**REBATE FOR PREPAYMENT IN FULL:** If this transaction is prepaid in full by cash, an add-on purchase, new loan, refinancing or other before the final instalment date, the customer shall receive a rebate of the finance charge computed as follows (e.g., Rule of 78's): \_\_\_\_\_

**DEFAULT CHARGE(S):** The amount, or method of computing the amount, of any default, delinquency or similar charges payable in event of late payments is as follows: \_\_\_\_\_

**PROPERTY INSURANCE,** if written in connection with this transaction, extends to \_\_\_\_\_  
 The cost is shown in Item 10 and customer is hereby advised of his right to obtain this insurance from any other person or source

**CREDIT LIFE AND DISABILITY INSURANCE** or an extra charge is not required in order for credit to be extended. If provided by the creditor the charge for credit life insurance is shown in Item 8 and the charge for disability insurance is shown in Item 9.

I desire Credit Life and Disability Insurance. _____ (Date)                      (Signature)	I desire Credit Life Insurance only. _____ (Date)                      (Signature)	I DO NOT want Credit Life or Disability Insurance. _____ (Date)                      (Signature)
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**SECURITY AGREEMENT:**  This transaction is unsecured  This transaction is secured by (specify type of security interest, i.e. purchase money security agreement, chattel mortgage, conditional sale, etc.): \_\_\_\_\_  
 of even date, covering (give description, including make and serial number for motor vehicles) \_\_\_\_\_

The security agreement will secure future or other indebtedness and will cover after-acquired property.

I ACKNOWLEDGE RECEIPT OF THIS STATEMENT and I further understand that the disclosures herein are made solely for the purpose of compliance by the creditor with the Federal Truth in Lending Act and regulations issued thereunder. In addition, I acknowledge that disclosures may be inconsistent with other disclosures required by state law in the contract or agreement to which these disclosures apply, and I agree that disclosures relating to the FINANCE CHARGE and the ANNUAL PERCENTAGE RATE are in no way considered as part of the agreement or contract identified herein.

Witness \_\_\_\_\_ Customer \_\_\_\_\_ Date \_\_\_\_\_

ABC SALES COMPANY  
 ONE ILLINOIS STREET  
 WASHINGTON, D. C. 20000  
 (202) 463-2800

Exhibit C

AMOUNT FINANCED (this is the amount of credit you will receive) \$ \_\_\_\_\_

FINANCE CHARGE (this is the amount the credit will cost you) \$ \_\_\_\_\_

TOTAL OF PAYMENTS (when you make all payments, this is how much you will pay) \$ \_\_\_\_\_

The total of payments will be paid in \_\_\_\_\_ monthly installments of \$ \_\_\_\_\_ which are due on the \_\_\_\_\_ day of each month. The first payment is due on \_\_\_\_\_ and the last payment on \_\_\_\_\_

TOTAL SALE PRICE (this is the total cost of your purchase on credit, including your downpayment of \$ \_\_\_\_\_.) \$ \_\_\_\_\_

ANNUAL PERCENTAGE RATE \_\_\_\_\_ %

**CREDIT LIFE INSURANCE AND CREDIT DISABILITY INSURANCE:**  
 Credit Life and Credit Disability Insurance are not required to obtain this credit. If you take the insurance, the cost disclosed below will be included in the amount financed.

You may cancel this insurance by notifying us within thirty days of the transaction. If you cancel, you will receive a full refund of any premiums paid, and your future payments will be reduced.

	<u>Initial if Desired</u>	<u>Cost</u>
Credit Life (for term of credit)	_____	\$ _____
Credit Disability (for term of credit)	_____	\$ _____

**LATE PAYMENTS:** If you delay any payment by more than \_\_\_\_\_ days after the due date, you will be charged \_\_\_\_\_.

**SECURITY INTEREST:** Your \_\_\_\_\_ is pledged as collateral to secure the payment of this debt in addition to the property purchased as part of this transaction.

**PREPAYMENT:** If you refinance or prepay in full the amount you owe, you may be entitled to get back a portion of the finance charge.

YOU SHOULD READ YOUR CONTRACT FOR OTHER INFORMATION INCLUDING OUR RIGHT TO DECLARE THE FULL BALANCE DUE IN THE EVENT OF NONPAYMENT OR OTHER DEFAULT, AND PREPAYMENT REBATES AND PENALTIES.

I have received a copy of this statement:

\_\_\_\_\_ (name)

\_\_\_\_\_ (date)

XYZ SAVINGS & LOAN ASSOCIATION  
ONE NORTH LINCOLN STREET  
WASHINGTON, D. C. 20000

(202) 444-4400

AMOUNT FINANCED (this is the amount of credit you will receive) \$ \_\_\_\_\_

FINANCE CHARGE (this is the amount the credit will cost you) \$ \_\_\_\_\_

TOTAL OF PAYMENTS (when you make all payments, this is how much you will pay)

The total of payments will be paid in \_\_\_\_\_ monthly installments of \$ \_\_\_\_\_ which are due on the \_\_\_\_\_ day of each month. The first payment is due on \_\_\_\_\_ and the last payment on \_\_\_\_\_.

ANNUAL PERCENTAGE RATE \_\_\_\_\_ %

LATE PAYMENTS: If you delay any payment by more than \_\_\_\_\_ days after the due date, you will be charged \_\_\_\_\_.

PREPAYMENT PENALTY: If the loan is prepaid in full, the creditor may impose a prepayment penalty.

SECURITY INTEREST: The property purchased as part of this transaction is pledged as collateral to secure the payment of this debt.

ASSUMPTION: A subsequent purchaser or assignee of the debtor may assume this mortgage on the conditions stated in the mortgage.

I have received a copy of this statement:

\_\_\_\_\_  
(name)

\_\_\_\_\_  
(date)