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EFFECT OF DEPARTMENT OF DEFENSE DIRECTIVE NUMBER 1344.7
ON CREDITORS BORDERING FORT RILEY

by

LOUISE MARIE LEONARD

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Approved by:


Major Professor

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BACKGROUND

Introduction

In 1945 consumer debt was less than six billion dollars, which was one-fortieth the size of the Federal debt. During the war years consumers reduced their debt to a low level because of high income and shortages of consumer goods. However, in 1965 the consumer debt was 86 billion dollars, which was one-third the size of the Federal debt. Consumer credit rose from ten per cent in 1950 to eighteen per cent in 1965. In 1965, nine of ten bankruptcies (170,000) were incurred by families and individuals (Consumer Issues, 1966, p. 29).

A "Resolution of the Kansas Home Economics Association for Standardizing and Simplifying Charges for Credit and Loans" was adopted by the Executive Committee of the Association in 1959, and by the body of the Association March 25, 1960. The Resolution as entered into Congressional Record (1960 Hearings on S. 2755, p. 634) is on page two.

January 7, 1960 during the first session of the 87th Congress, Senator Paul H. Douglas introduced the Consumer Credit Labeling Bill S. 2755 before a subcommittee of the Committee on Banking and Currency. The bill was revised and reintroduced in 1961 during the first session of the 88th

"RESOLUTION OF THE KANSAS HOME ECONOMICS ASSOCIATION FOR STANDARDIZING
AND SIMPLIFYING CHARGES FOR CREDIT AND LOANS

"A resolution to encourage comparative shopping by consumers for loans and for credit, and to thereby sharpen competition by requiring that the cost of the loan or credit be stated explicitly, and also that this cost be computed as an effective simple rate per annum and so quoted; be it

"Resolved, That in all lending situations involving cash loans, in all situations involving revolving credit and similar deferred payment plans, and in those buying-selling situations in which the buyer of goods or services is provided the opportunity or option to secure title to, to gain possession of, or to enjoy the use of the goods and services without making full payment in cash at such time, but arranging payments for the future in sufficient amounts to satisfy the seller completely, then such contract, note, agreement, or other instrument that may be drawn up to bind the buyer or borrower to the future payments shall state clearly in figures equal in size to all other figures used on the instruments two facts, the credit cost and the credit rate, as herein defined:

"Credit cost shall be the difference between the cash obtained in the case of a cash loan, or the cash price in the case of a purchase agreement (that is, the amount that would have satisfied the vendor at the time the sale was initiated), and the total amount of the contracted payments (for the same goods or services), such difference to be expressed in dollars and cents.

"Credit rate shall be the ratio times 100 of the credit cost to the amount of cash required throughout the life of the contract to satisfy the transaction or the loan. The credit rate shall be expressed as a rate per centum per annum. It shall be a 'simple' and 'effective' rate, applicable throughout the contract. (That is, the credit cost for a loan or an item financed if paid for in cash at the end of the first month would be one-twelfth the credit rate times the cash price.)

"Furthermore, the intent of the resolution is that it apply to all consumer credit transactions. Failure to state credit cost and credit rate shall be understood to mean that none exists, thus relieving the buyer or borrower from any implied or otherwise stated obligation to pay in total more than the amount required to settle the transaction or loan for cash. Furthermore, the effective simple rate per annum shall appear in all advertisements or circulars which suggest, imply, or state that 'credit terms' could be arranged."

[Adopted unanimously, March 25, 1960.]

Congress as the Truth in Lending Bill S. 1740. This bill has since undergone several revisions, and it is still (May 11, 1967) before the Congress as Truth in Lending Bill S. 5.

The purpose of the Truth in Lending Bill is two-fold: (1) To prevent excessive and untimely use of credit by consumers, which arises out of ignorance of the cost of credit; and (2) to enable the consumer and borrower to get comparison of the different costs of obtaining credit so that he may make informed decisions about the use of credit (1961 Hearings of S. 1740, p. 2). According to Senator Douglas this simply requires that the two indispensable measures of the price of credit be fully disclosed, namely, the total cost of the credit transaction and the annual rate on the unpaid balance. This would enable every borrower to shop around and compare alternative credit prices.

In a letter to Senator Paul Douglas August 9, 1961, Dr. Dorothy S. Lyle, President of the American Home Economics Association (AHEA) expressed the support of the AHEA for the Truth in Lending Bill. The letter as entered into Congressional Record (1961 Hearings of S. 1740, p. 1021 is on page four.

On March 14, 1962 President John F. Kennedy issued a special message on consumer protection (Document 364). This message was the first ever delivered by a President on this topic. President Kennedy noted the important role played by consumers in the American economy and the challenging problems

AMERICAN HOME ECONOMICS ASSOCIATION,
Washington, D.C., August 9, 1961.

Hon. PAUL DOUGLAS,
Chairman, Subcommittee on Production and Stabilization,
Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR SIR: The American Home Economic Association wishes to go on record in support of S. 1740 introduced by you and known as the truth in lending bill which asks that truth replace confusion in the credit field so that consumers know exactly how much they are paying for credit and, therefore, are able to make better purchases and adequately budget expenses.

The primary purpose of this national professional association of 26,700 members is to promote the well-being of families in all aspects of family living. One of its sections, the one most concerned with consumer problems and economic aspects of the family, is the family economic-home management section. At the annual meeting of the association held recently in Cleveland, the assembly of delegates unanimously approved the following:

Whereas there is no common legal requirement that consumers be informed of the true costs of credit and many consumers are unaware of such costs: Therefore be it

Resolved, That AHEA support Federal legislation to require full disclosure for the consumer of credit costs and standardized terms; that these credit costs be expressed in dollars and cents, and in terms of a simple annual rate on the outstanding balance or obligation due.

One of the basic points about credit is that families need to investigate the cost. Even the most conscientious consumer is apt to be confused about the actual costs of credit. This confusion stems from several sources:

- (1) The different ways of stating the credit rate.
- (2) The different bases to which the rate may be applied as between the original amount of debt or the unpaid balance.
- (3) The uneven length in time over which the contract runs.
- (4) The vocabulary used in credit transactions, such as add in, discount, rebate, etc.
- (5) The lack of information about specific charges made in connection with the transactions aside from the true annual rate, i.e., insurance, credit, search, etc.

As a result of these and other factors, families tend not to know what they are paying for credit and to be misinformed about the true annual rate of interest.

To make intelligent choices the consumer-buyer must have full information on costs and both prices and costs of purchasing on a delayed payment plan.

We urge the Senate Subcommittee on Production and Stabilization, Committee on Banking and Currency, upon consideration, to report favorably S. 1740.

The American Home Economics Association wishes this statement to be included in the record of the hearings on this bill.

Sincerely,

DOROTHY S. LYLE, Ph. D., President.

which confront them. He pointed to the potential of improving the well-being of American families by increasing the size of their incomes and by helping them make the best possible use of their incomes as a consumer. Specifically concerning credit President Kennedy said:

Excessive and untimely use of credit arising out of ignorance of its true cost is harmful both to the stability of the economy and to the welfare of the public. Legislation should therefore be enacted requiring lenders and vendors to disclose to borrowers in advance the actual amounts and rates which they will be paying for credit.

He called attention to the complex, rapidly changing nature of consumer problems, and stressed the long established role of the Federal Government in promoting consumer interest. However, he said, if the Federal Government was to meet its responsibility to consumers in the exercise of their rights, additional legislative and administrative action was required. The rights described by President Kennedy include:

The Right to Safety--to be protected against the marketing of goods which are hazardous to health or life.

The Right to be Informed--to be protected against fraudulent, deceitful, or grossly misleading information, advertising, labeling, or other practices, and to be given the facts he needs to make an informed choice.

The Right to Choose--to be assured, wherever possible, access to a variety of products and services at competitive prices and in those industries in which competition is not workable and Government regulation is substituted, to be assured satisfactory quality and service at fair prices.

The Right to be Heard--to be assured that consumer interests will receive full and sympathetic consideration in the formulation of Government policy, and fair and expeditious treatment in its administrative tribunals.

President Kennedy, in the same message, directed the Council of Economic advisors to create a Consumer Advisory Council:

To examine and provide advice to the Government on issues of broad economic policy, on Governmental programs protecting consumer needs, and on needed improvements in the flow of consumer research materials to the public.

In July, 1962 Walter W. Heller, Chairman of the Council of Economic Advisors, appointed the first Consumer Advisory Council. The Council, guided by the terms in the President's consumer message, developed its own work program. The Council established four committees. The committee on Consumer Credit and Economic Welfare, of which Dr. Richard L. D. Morse was chairman, was responsible for studying the effect of consumer credit on the family and for studying the effect of consumer credit on the national economy. They also were to evaluate consumer credit terms as they facilitate or inhibit efficient and intelligent use of credit and to appraise the procedures used in cases where consumers had made excessive use of credit (Consumer Advisory Council First Report, 1963, pp. 6-7, 62-63).

The Consumer Advisory Council recommended (First Report, 1963, p. 13) that the principles and purposes of the Douglas Truth in Lending Bill S. 750 be supported to:

Promote the right of consumers to have the facts they need to make rational, informed choices regarding credit usage;

Protect the ethical and efficient businessman who wishes to fully disclose credit charges from those competitors whose charges are deceptively concealed;

Reinvigorate price competition in the consumer credit market, and thereby contribute to the free enterprise system;

Introduce a stabilizing, countercyclical element into the Nation's economy by making consumers aware of rising credit costs in boom times and declining credit costs during recessions; and

Encourage consumers to shop for cheaper credit, thereby releasing funds for purchasing goods and services, thus buttressing the economy and consumer purchasing power.

The committee also defined the phrase "Full Disclosure of Credit". In Pamphlet Number 17, Truth in Lending, the Council's recommendations pertaining to contract credit are contrasted with Section 4 (a) of the Douglas Truth in Lending Bills S. 750 and S. 2275 (Morse, 1966, pp. 14-15). He also contrasted the Council's recommendations pertaining to revolving credit with Section 4 (b) of the Douglas Truth in Lending Bills S. 750 and S. 2275 (Morse, 1966, pp. 18-19). The comparison revealed certain limitations in the legislative action proposed relative to the recommendations of the Consumer Advisory Council. These are remedied in the Bill S. 5, which Senator Proxmire introduced in the 90th Congress January 11, 1967, and in the Department of Defense Directive Number 1344.7. Both utilize the actuarial rate concept in contract credit and the annual equivalent expression of the periodic charge in revolving credit.

On January 3, 1964 President Lyndon B. Johnson established the President's Committee on Consumer Interests (PCCI) and reappointed the Consumer Advisory Council (Executive Order 11136). Also on January 3, 1964 he established the

office of Special Assistant to the President on Consumer Affairs and appointed Esther Peterson to this office. The PCCI was composed of representatives of federal departments and private citizens who were also members of the Consumer Advisory Council. Esther Peterson was appointed Chairman (Congressional Quarterly, 1964, p. 253).

February 5, 1964 President Johnson sent to Congress a special message supporting a variety of legislative and administrative actions by the Federal Government to protect consumers. The message indicated continued support of policies President Kennedy set forth March 14, 1962 in his message to Congress on consumer problems. Concerning credit President Johnson said:

I recommend enactment of legislation requiring all lenders and extenders of credit to disclose to borrowers in advance the actual amount of their commitment and the annual rate of interest they will be required to pay.

A second Consumer Advisory Council was appointed June 12, 1965 (Consumer Reports, September, 1965, p. 456). This Council recommended: (1) Legislative action to require truth in lending to help correct credit ills; and (2) each state review its existing laws to determine their adequacy in protecting consumers (Consumer Issues, 1966, p. 30-31).

President Kennedy, who initiated the Consumer Advisory Council, was interested in protecting the Consumer. The recommendations of President Kennedy and the first Advisory Council have been supported by President Johnson in his

consumer messages. President Johnson has continued to support full disclosure of credit, but has not consistently included the annual percentage rate in his messages. In his consumer message of 1964, as previously quoted, he favored rate disclosure. President Johnson did not give a consumer message in 1965, but he included the consumer in "The Economic Report of the President" of January 28, 1965 (Public Papers of the President, 1965, p. 115). He did not specify he favored rate disclosure, but said:

Informed consumer choice among increasingly varied and complex products requires frank, honest information concerning quantity, quality and price. Truth in Packaging will help to protect consumers against product misrepresentation. Truth in Lending will help consumers more easily to compare the cost of alternative credit sources.

In the "Economic Report of the President" (January, 1966, p. 19), President Johnson again said the annual rate should be disclosed:

Truth in lending legislation would provide customers the necessary information by requiring a clear statement of the cost of credit and the annual rate of interest.

However, in the President's "Message on Consumer Interests" of March 21, 1966 he did not specify the rate:

I therefore renew my recommendation for legislation requiring lenders to state the full cost of credit, simply and clearly, and to state it before any credit contract is signed.

President Johnson's continued support for consumer protection and the disclosure of the annual percentage rate was evident in his consumer message, "Recommendations for

Consumer Protection," to the 90th Congress February 16, 1967:

I recommend the Truth in Lending Act of 1967 to assure that when the consumer shops for credit he will be presented with a price tag that will tell him the percentage rate per year that is being charged on his borrowing.

Department of Defense

In 1965 the Domestic Finance Subcommittee of the Committee on Banking and Currency, House of Representatives, began investigating servicemen's purchasing and financing problems. Hearings were held by the Subcommittee. On September 23, 1965 before the House of Representatives, Honorable Frank Annunzio, member of the subcommittee investigating servicemens' financing problems, asked "Does the Department of Defense Really Care?" (Congressional Record, 1965, pp. 24098-24010). Annunzio pointed out some of the findings of the subcommittee's investigations.

For a long time the serviceman has been a second and third class citizen in the area of consumer finance as can be observed in the type of establishments that thrive at entrances to military bases in the United States and overseas. Usually there is a pawnshop, finance company or small loan operations, insurance office, and an assortment of used car lots. Enormous interest rates are charged the servicemen by these front-gate operators. These creditors pad the contract with unnecessary extras and move with unusual quickness at repossessing goods purchased on an instalment basis if the borrower falls behind in his payments. Not all operations

that are interested in getting as much from the serviceman as quickly as possible are lodged at the entrance to military installations. Many function in respectable business districts and have prominent figures and retired high-ranking military officers on their board of directors.

Some of the unethical practices which were uncovered during the investigations were:

(1) Creditors charged interest rates that amounted to 100 per cent of a two-year loan;

(2) Creditors charged military customers for automobile insurance without notifying the serviceman that the insurance had been purchased;

(3) Some creditors charged for insurance, but none was actually issued;

(4) When quoted price was paid off, servicemen were notified that they owed additional funds in many cases amounting to several hundred dollars. The extra charges were never fully explained to the servicemen.

(5) Irregular repossession procedures were found that included deficiency judgement after repossession and inadequacy of sales after repossession; and

(6) Creditors failed to credit borrowers with payments made.

In September, 1965, complaints had been lodged against eleven finance companies with Federal Services Finance Corporation being the worst offender.

During 1964, according to Honorable Annunizio, there were 28,399 letters received in the office of the Adjutant General of the Army, Washington, D. C., dealing with credit problems of military personnel, and nearly 50 per cent of the letters were from lending institutions.

Honorable Annunizio in his address before the House charged the Department of Defense with reluctance to take action to protect the consumer, and said it is time for the Department of Defense to take a position:

It must decide if it is primarily interested in the morale and well-being of its soldiers or dedicated to helping finance companies show a profit. If the Department of Defense allows companies to continue practices described, there can be no doubt as to which interest the Department is seeking to protect (Congressional Record, 1965, pp. 24098-24010).

The Department of Defense was not totally unaware of the dissatisfaction of which Senator Annunzio spoke. It issued a directive on August 27, 1965 endorsing credit unions for military establishments in the United States (Congressional Record, 1965, pp. 22820-22822). And on September 29, 1965, it issued a directive aimed at curbing unrestrained collection and repossession tactics of loan sharks and sharp practice finance companies. The Directive Number 1344.7 was philosophically based on President Kennedy's "Rights of Consumers" and had a positive approach. The stated purpose of the Directive as issued September 29, 1965 was to:

Prescribe uniform defense policy governing commercial transactions and related matters involving members of the Armed Forces; to safeguard and promote the welfare and interests of such personnel as consumers; and

to observe the policies stated in reference (a) with special emphasis to be given to the serviceman in his '. . . rights to safety . . . to be informed . . . to choose, and . . . to be informed' (Department of Defense Directive, 1965).

Department of Defense Directive--
Revised and Reissued

The Directive was to have become effective on November 5, 1965, but for reasons unknown it was not implemented in this form; it was revised and reissued May 2, 1966. The complete Directive as issued September 29, 1965 was published in the Consumer Finance News (December, 1965, pp. 3, 23-30). Dr. Richard L. D. Morse, Professor of Family Economics at Kansas State University, noted the omission of the annual percentage rate in the Directive despite its stated purpose to fulfill the right of the consumer to be informed. He wrote the Deputy Secretary of Defense on December 28, 1965 regarding this omission. Letter follows on page 14.

On February 14, 1966 Dr. Morse was appointed as consultant to the United States Treasury Department to assist the Treasury in implementing the President's expressed interest on Truth in Lending (Economic Report, 1966, p. 19). On April 28 and 29, 1966, he was in Washington to attend a meeting called by Esther Peterson to discuss consumer credit and to work with the Treasury Department. April 29, 1966 the Department of Defense contacted the Treasury Department seeking their assistance on the method of disclosing the annual percentage rate and simplifying the Full Disclosure Contract.

Kansas State University

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Manhattan, Kansas 66502

Department of Family Economics
Justin Hall

December 28, 1967

Mr. Cyrus Vance
Deputy Secretary of Defense
Department of Defense
Washington, D. C.

Re: DoD Directive #1344.7

Dear Mr. Vance:

I am greatly heartened by your directive and pleased that you have taken leadership in regularizing consumer credit practices as they affect members of the armed forces.

I am concerned, however, that some of the words used in the doctrine, "Let the seller make full disclosure" are not fully implemented. It seems somewhat indiscrete to use such language as "Full disclosure is intended to insure truth-in-lending practice..." when in fact such practices are not required.

"Truth-in-Lending" originated with Senator Douglass and is identified with his efforts to obtain full disclosure information. The most critical feature of his proposal is disclosure of the simple annual rate. Yet I do not find such disclosure to be required. If it is, I should like to be corrected.

Undoubtedly, you have unknowingly misconstrued the Senator's concept of Truth-in-Lending. Or perhaps, you are convinced that you have stayed within limits of practicality and have attained as much of the full disclosure concept as is possible. In any case, I am not convinced that you have fully implemented the full disclosure concept. I do believe it entirely practical to insist on disclosure of the simple nominal annual rate. The omission is serious.

My convictions about this are based on an extensive study of consumer credit as chairman of the Consumer Credit Committee of President Kennedy's Consumer Advisory Council. Our concept of full disclosure is given on pages 63-64 of the "First Report" issued October, 1963.

I trust it will be possible for you to amend this directive to include insertion of the simple nominal annual rate as an aspect of full disclosure.

Sincerely yours,

Richard L. D. Mose
Professor and Head

RLDM:js
CC: Senator Paul Douglas

They were in the process of revising the Directive. Assistance was given through May 1, 1967, and the revised Directive Number 1344.7 was issued May 2, 1966. It became effective July 1, 1966.

This Directive is in effect at the present time (May 11, 1967). It's stated purpose is:

To reissued DoD Directive Number 1344.7 and in furtherance of the President's message of March 21, 1966, "Consumer Interests," to prescribe general Department of Defense policy regarding the solicitation and sale of goods, services and commodities on military installations by dealers, tradesmen and their agents, to safeguard and promote the welfare and interests of military personnel as consumers, and to set forth the conditions under which Department of Defense may extend assistance in the collection of debts, wherever incurred from members of the armed forces (Department of Defense Directive 1344.7, 1966).

Department of Defense Directive

Dr. Morse conceived the idea of doing a research project on the impact of the Department of Defense Directive on creditors at the local level. He wrote (May 19, 1966) of the possibility to Senator Paul Douglas and to Thomas Morris, Assistant Secretary of Defense. Senator Douglas said (June 2, 1966) that he would endorse such a study; there was no response from Mr. Morris. Dr. Morse wrote again (July 15, 1966) to the Assistant Secretary of Defense, inquiring if he had given further thought to the possibility of conducting such a study. Again no response.

It was apparent that the Department of Defense was not interested in conducting such a study, and the Department

of Family Economics at Kansas State University was not in a financial position to underwrite it. The only way it could be done, therefore, was through the services of a graduate student who would be interested in conducting the study in partial fulfillment of the requirements for a Master's Degree. A graduate student, interested in conducting this type of survey, arrived in Manhattan, Kansas, September 5, 1966 and began work on the interview schedule two days later.

The success of the study was aided by the interest and cooperation of Colonel John Jay Douglass, Staff Judge Advocate at Fort Riley. He had made his interest evident by his speeches to the creditors in Junction City and Manhattan explaining the Directive to them. Colonel Douglass' interest and support in helping the consumer (military and non-military) was again evident when he participated in a consumer education program for the low income people in Manhattan, which was directed by another Family Economics graduate student, in the fall of 1966.

SURVEY

Complete results of this study have been published. The publication is available on loan from Farrell Library, Kansas State University, Manhattan, Kansas and other libraries. Also copies may be purchased for \$1.00 each from the Department of Family Economics, Kansas State University. The following is a comprehensive summary.

Objectives

The objectives of the study were:

1. To study the reception of the Department of Defense Directive Number 1344.7 at the local level.
 - a. To study the effect of the Department of Defense Directive on creditors presumed doing business with servicemen.
 - b. To gain insight into the aforementioned creditors' understanding of the Directive.
2. To assess the severity of any problems encountered.

Procedure

All creditors presumed doing business with military personnel in Manhattan and Junction City were contacted. These creditors were classified according to the type of business in which they were engaged: Banks, finance companies, new and used car dealers, furniture and appliance dealers, department stores, and mobile home dealers. The pawnshop brokers were interviewed in Manhattan, but not in Junction City. In Manhattan a total of 43 creditors were approached and 39 (90%) responded. In Junction City a total of 47 creditors were approached and 42 (89%) responded. (See Appendix A for Interview Schedule).

The study was conducted in two phases: Manhattan--Phase I, September 20 to October 24, 1966, and Junction City--Phase II, December 13, 1966 to January 19, 1967, both phases

being completed within seven months after the implementation of the Directive. No appointments were made. If a creditor was busy or unavailable at the time called upon, the interviewer called back. In all cases the manager or person considered to be best informed was interviewed. A copy of the Standards of Fairness and the Full Disclosure Contract was given the creditor at the beginning of the interview. (See Appendix B).

When interviews were completed in Manhattan, the investigator coded, tabulated, and summarized the data. Findings of Phase I were published in November. Phase II interviews began in Junction City December 13, 1966, and the data were treated in the same manner as data from Phase I. A combined report was issued in April, 1967.

Results

A larger proportion of the Junction City creditors (90%) than the Manhattan creditors (60%) had seen and were familiar with the Directive. They expressed some degree of understanding: "Completely" (44%), "Generally" (17%) and "Somewhat" (17%). The other creditors (28%) had their first contact with the Directive through this interview.

Most creditors (93%) in Junction City and 76 per cent in Manhattan did business with servicemen. Approximately two-thirds of the credit extended was instalment, including automobile papers, consumer goods loans, repair and modernizing loans, and personal loans. The non-instalment credit

included single payment credit, revolving charge accounts, and 30, 60, 90-day charge accounts.

Effects of Standards of Fairness

All creditors were asked to respond on a three-point scale of "no effect," "some effect," or "major effect" how each standard would effect their way of doing business with servicemen. Standards One, Two and Three had little effect. Standard Four had "some effect" on 20-25 per cent of the creditors. The objection most frequently mentioned was that servicemen could move security beyond state and national boundaries. Nearly all creditors found Standards Five, Six, and Seven to have "no effect."

The Junction City creditors (95%) found Standard Eight to be of "no effect," but 75 per cent of the Manhattan creditors, primarily the car dealers, indicated "some effect." Over 80 per cent of the creditors reported Standard Nine to have "no effect" on them. The Junction City creditors (93%) also found Standard Ten to have "no effect" on them. However, almost half (45%) of the car dealers in Manhattan reported it would affect their business with servicemen since they required a non-refundable deposit for new cars which must be ordered.

Effect of Full Disclosure Contract

Each creditor was asked how difficult it would be to complete each section of the contract disclosure form. All

said it would not be difficult to secure the necessary information for all parts, except six and nine, because they already supply this information on their own contracts in compliance with Kansas law. They said the sixth part would be difficult because present contracts do not include filing fee, investigating fee, or insurance as part of the finance charge. Also, they said it would be difficult or somewhat difficult to supply the information called for in the ninth part because they were unaccustomed to expressing the finance charge in terms of an approximate annual percentage rate.

Non-Equal Payments

Fifty-eight per cent of the creditors in Manhattan and 75 per cent in Junction City said all their contracts were written to be paid in equal monthly payments. The volume of credit extended for repayment in other than level monthly payments in both cities was less than five per cent.

Department of Defense Rate Table

More than half of the creditors reported the Department of Defense Rate Table was not difficult to understand and use. In Manhattan, slightly more than one-quarter of the creditors (26%) said they are or would use this rate table to disclose the annual percentage rate. In Junction City, 50 per cent said they would prefer to use the Department of Defense Rate Table.

Use of the Directive

Twenty-nine (76%) of the creditors in Manhattan and 24 (60%) in Junction City were not using the Directive when extending credit to servicemen. Some creditors in Junction City reported they were using the Directive in part; they fill out the Certificate of Compliance only if they need assistance with collection of debts. Others fill out the contract disclosure forms for only 25 per cent of the contracts written with servicemen because it "confuses them, takes too much time, and adds more paper work."

Additional Problems

Seventy-four per cent of the creditors in Manhattan and 70 per cent in Junction City stated they could see no problems other than the ones previously discussed. Additional problems mentioned were: (1) The Directive calls for more paper work, thus increasing time necessary to fill out forms. (2) Extension of credit will be tightened. (3) Many sales will be lost if the annual percentage rate is quoted because people will think it is the rate of interest being charged. (4) Paper will no longer be purchased from door-to-door salesmen.

Creditors Affected

Creditors were asked to indicate those for whom they believed the Directive might present serious problems. Thirty-three per cent of the Manhattan creditors and 46 per cent in

Junction City did not think the Directive would give any serious problems. The remainder named one or two creditors, but none of those listed were mentioned by more than five per cent of the creditors in Manhattan nor by more than ten per cent of the creditors in Junction City. The ones listed were: Finance companies, banks, jewelry dealers, fly-by-night salesmen, door-to-door salesmen, independent creditors, car dealers, retail creditors, mail order houses, loan sharks, and pawnshop brokers.

Effect on Servicemen Obtaining Credit

Nearly 50 per cent of the creditors in Manhattan and Junction City said the Directive would have "no effect" on servicemen and their ability to obtain credit. Some creditors said they would be more selective in the contracts they buy, and others said the Directive makes it less attractive to deal with servicemen because of the additional paper work.

Observations

Most creditors considered the Department of Defense Directive to be neither unduly burdensome nor too difficult to understand. Some may have considered it not burdensome because they had found a convenient "loophole," and some "understood" who did not fully comprehend the Directive.

Approximately one-quarter of the creditors had adopted the Department of Defense forms, and believed they were executing the Directive properly. They did not consider the

Directive a burden.

Another one-tenth of the creditors had found a tolerable escape which allowed them to adapt the Directive to their own needs. They filled out forms only if the serviceman's credit worthiness was questioned. Or, they filled out a Certificate of Compliance after the contract was negotiated with the serviceman and needed assistance of the Department of Defense with collection of the debt.

Another larger group, who refinanced the credit they extended, did not comply unless required to do so by their financing source. Few had been so directed; these creditors found the Directive to be of little effect. Evidently Standard of Fairness Number 3 is not considered to affect the holder of purchased credit paper.

Some creditors who said they understood the Directive, in fact, did not. When questioned about the finance charges being expressed as an annual percentage rate, they showed as evidence of their compliance their rate schedules, which were dollar add-on and not actuarial rate based. Others said their contracts provided for the finance charge to be expressed in dollars per hundred as required by Kansas statutes. Nevertheless, most creditors said the Department of Defense Rate Table was not difficult to use and understand; it did not pose a threat to them or appear to be something they could not use.

Another major misunderstanding was the failure of creditors to include insurance premiums in the total finance charges. Instead, they included them as one of the charges

to be financed. Although the Full Disclosure form is quite explicit in this regard, the practice of not including insurance as a finance charge will probably continue to be ignored until enforced by the Department of Defense because (1) it would raise the disclosed rate so much in some cases as to give the appearance of exceeding the legal rate, and (2) servicemen might be discouraged from adding this insurance coverage, thereby reducing a profitable line of service being extended by the credit grantors.

Retailers seemed not to understand clearly their possible exemption from the requirements of Full Disclosure and Standards of Fairness for claims based on a revolving or open-end credit account. Such claims are exempt " . . . if the account shows the periodic rate and its annual equivalent and the balance to which it is applied to compute the charge;" (section X. E). Since the Directive assumes monthly periodic payments, the annual equivalent is twelve times the monthly rate.

Except for the efforts of Colonel Douglass, there was no other significant educational effort observed. Merchants did not indicate that military personnel were demanding Certificates of Compliance of Full Disclosure statements, and, managers of local chain outlets were generally without guidelines from national and regional headquarters. The seriousness of the Department of Defense Directive was not in full evidence.

Recommendations

As a result of this study, the following are recommended:

1. The privilege under Section X. B. 2 of completing the second Certificate of Compliance which begins: "If Attachment A is not executed before the obligation was incurred . . .," should be limited to those situations in which servicemen were not in the military at the time the contract was signed, or the contract was dated prior to the effective date of the Department of Defense Directive, July 1, 1966.

2. Closer scrutiny of insurance premiums to be included in the total finance charges should be made.

3. Clarification of the possible exemption of retailers from the requirements of Full Disclosure and Standards of Fairness for claims based on revolving or open-end credit accounts should be made.

4. Greater assistance on the part of the military in effective educational enforcement should be given.

SUBSEQUENT EVENTS

Press Response

The investigator notified Lynn Twinem (November 28, 1966), Editor of Personal Finance Law Quarterly Report (Quarterly Report) of the completion of Phase I of the study. In the winter issue (1966, p. 31) Mr. Twinem chose to review the study and announce its availability through his office.

Interested persons were instructed to write to the Editor of Quarterly Report for copies; members received copies free, others were charged 50 cents for postage and handling. The expense of reproduction was absorbed by Quarterly Report.

Two newspapers, the Manhattan Mercury (March 5, 1967) and the Kansas City Star (March 7, 1967) announced the completion of Phase I and summarized the study for their readers.

Mr. Twinem announced, in the spring, 1966 (p. 60) issue of Quarterly Report the completion of both phases and a summary. Interested persons were directed to write to the Department of Family Economics at Kansas State University for copies and to enclose \$1.00 for each copy ordered. It is this report which is in the permanent collection of Farrell Library (Leonard, 1967).

American Bankers Association

The fall issue of Personal Finance Law Quarterly Report (1966, p. 129-135) published a symposium on the Department of Defense Directive Number 1344.7. Three Trade Association representatives evaluated the Directive: Dr. Carl F. Hawver, Executive Vice President of the National Consumer Finance Association, Mr. Archie K. Davis, President of the American Bankers Association, and Mr. Max A. Denny, Executive Vice President of the American Industrial Bankers Association.

Special note was taken of Mr. Davis' criticism that the Department of Defense Rate Table "ignores the fact that a substantial volume of consumer loans have variables in

payment schedules which render a rate approximation relatively meaningless." The investigator wrote to Mr. Davis (November 9, 1966) asking for clarification and evidence as to the nature of these variables and their frequency (See Appendix C).

This letter was answered (November 21, 1966) by a Mr. Frederick K. Gardner, Deputy Manager of the Association because Mr. Davis' term of office as President of the Association had expired. In answer to the question posed, Mr. Gardner said that they had no acceptable statistical data as to the nature and frequency of the variables from consistent regular monthly payments (See Appendix D). He said that for a large number of loans the variations in first payment date would have a considerable impact on the annual interest rate. Another variable Mr. Gardner mentioned was the delayed payment plans frequently used in home improvement transactions. In addition, he said that there are many transactions involving loans to teachers for whom payments are not required through summer months. He also referred to transactions involving farmers wherein payments are on a quarterly or semi-annual basis. Because of these variables, Mr. Gardner said:

We have always felt that an expression of rate in terms of dollars per one hundred per year is the type of truth-in-lending that the man in the street can understand and the type that will enable him to quickly and easily arrive at the dollar cost of his borrowing.

In reply, the investigator wrote (December 7, 1966) she did not understand how the consumer could "easily arrive at the dollar cost of his borrowing" for irregular notes

using the dollars per hundred per year method. She asked him to send some "real-life" cases showing how the dollars per hundred per year method is applied to irregular payment contracts, the original complaint of Mr. Davis (See Appendix E).

Mr. Gardner wrote again (December 15, 1966), and in this letter he said:

I have not made the statement that it is any easier for a consumer to ascertain the true annual interest cost on an irregularly scheduled transaction when the charge is quoted in terms of dollars per \$100 rather than when it is quoted in terms of simple interest per annum. In both cases it is practically impossible for the consumer to make the calculation. (See Appendix F).

Regarding the question of how the banks make such calculations, he did not send the investigator the requested "real-life" cases, but instead referred her to a publication written by Professor Robert W. Johnson entitled, "Methods of Stating Consumer Finance Charges." Mr. Gardner said the booklet does a better job of defining the Association's attitudes on disclosure than he could do. However, he gave no page numbers, and the investigator found no discussion by Johnson regarding treatment of irregular payments.

In reply (January 17, 1967), the investigator reminded Mr. Gardner that the original letter to Mr. Davis was in regard to his criticism that the Directive ignored the variations in payments and her inquiry as to the nature and frequency of such variations. He (Mr. Gardner) had introduced a related issue, namely, the preferability of dollars per hundred per year method to the Department of Defense annual

rate method of disclosing credit costs. This prompted the writer to question whether the method of issue was pertinent to the discussion, so she pressed for clarification as to how the bankers using this dollars per hundred method make allowance for irregularities and asked again for examples (See Appendix G). This letter and a follow-up letter asking for examples have not been answered (See Appendix H). Failure of Mr. Gardner to respond suggests that there is not an established procedure for handling finance charges for irregular payments.

Policy of Creditors

The investigator was impressed by number of statements made by most local creditors and retailers, representing national or regional retailing credit institutions, claiming they were without adequate guidelines concerning the Department of Defense Directive. Some reasons for this may have been: (1) No guidelines for interpreting the Department of Defense Directive were issued by national or regional offices; or (2) the local managers had not given the guidelines adequate study, and therefore, were not familiar with the company policy. Therefore, the investigator wrote (January 28, 1967) to sixteen national and regional offices, represented by the creditors interviewed, inquiring whether they had issued interpretive guidelines to their local offices, and, if not contrary to company policy, for a copy of their guidelines (See Appendix I). Eight of the sixteen offices

responded explaining their company policy. None had issued guidelines instructing local offices not to comply to the Directive. Some companies had printed new contract forms complying with the Directive for their local offices to use. This opens up a major area for further investigation. The present investigator did not pursue it further.

ACKNOWLEDGMENTS

Sincere appreciation and gratitude is expressed to my major professor, Dr. Richard L. D. Morse, Professor and Head of the Department of Family Economics, for his guidance and constructive criticism during the study and preparation of this manuscript.

Gratitude is expressed to Colonel John Jay Douglass, Staff Judge Advocate at Fort Riley, for his valuable criticism and suggestions; to Miss Tessie Agan, Associate Professor in the Department of Family Economics, and Dr. Dorothy L. Harrison, Professor in the Department of Foods and Nutrition, for their constructive criticism and reading of the manuscript.

Sincere appreciation and gratitude is also expressed to my family and to my fiance Bob for their interest, understanding, and encouragement throughout graduate study and the development of this thesis.

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APPENDICES

APPENDIX A

INTERVIEW SCHEDULE

Introduction

I am engaged in a study regarding the impact and the effect of the Department of Defense Directive which became effective July 1, 1966. I'm interested in your reaction to the Directive and the effect you foresee the Directive will have on your extension of credit to servicemen. I would like to take a few minutes and ask you some questions in this respect.

CIRCLE

1. Have you seen or are you familiar with the Department of Defense Directive? Yes No
2. Do you extend credit to servicemen from Fort Riley? Often Seldom Never
3. Approximately what proportion of your business is done with servicemen when Fort Riley is in full operation? Answer to the nearest tenth of per cent. _____ %
4. What forms of credit do you extend to servicemen?

InstallmentNon-Installment

___ Automobile paper

___ Single-payment loans

___ Other consumer goods

___ 30-day charge account

___ Repair and modernizing loans

___ Revolving charge account

___ Personal loans

5. Do you feel that you understand the Directive?

Completely

Generally

Somewhat

Firm _____

Person Interviewed _____

Date _____

Page 2
Standards of Fairness

6. Just to be sure there are no major problems involved, I would like to be specific and ask you concerning each Standard of Fairness. I am interested in knowing whether each Standard will effect your way of doing business with the Servicemen and how.

<u>How/Comments</u>	<u>Major Effect</u>	<u>Some Effect</u>	<u>No Effect</u>
1.	_____	_____	_____
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____
5.	_____	_____	_____
6.	_____	_____	_____
7.	_____	_____	_____
8.	_____	_____	_____
9.	_____	_____	_____
10.	_____	_____	_____

Page 3
Contract

7. Again being specific, let's look at the Contract to see if it presents any major questions or problems.

Part A deals only with identification of debtor and creditor. It will not give any problem. (Briefly point out 1-6 on Part A.)

Part B is the actual contract. Do you feel that securing the information necessary to fill out this form will be difficult and create problems for you; or, do you already have this information?

	<u>Very</u> <u>Difficult</u>	<u>Difficult</u>	<u>Not</u> <u>Difficult</u>
1.	_____	_____	_____
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____
5.	_____	_____	_____
6.	_____	_____	_____
a.	_____	_____	_____
b.	_____	_____	_____
c.	_____	_____	_____
d.	_____	_____	_____
7.	_____	_____	_____
8.	_____	_____	_____
9.	_____	_____	_____

Page 4
Final

8. What proportion of your credit contracts provide for repayment in other than level monthly payments?
Answer to the nearest tenth of per cent. _____%
9. Is the Department of Defense Annual Rate Table difficult to understand and use? Yes No
Why?
10. Do you feel that you would prefer to use 5 b. to the DoD Annual Rate Table? Yes No
If so, under what circumstances?
11. What is your policy in respect to execution of Attachment A when extending credit to servicemen?
12. Will this Directive have any effect on your operations or services extended to servicemen which we have not previously discussed? In what way(s)?
13. For what creditors, if any, do you think this Directive might present serious problems?

Why?
14. What effect will this Directive have on the servicemen and their ability to obtain credit?

PART I - STANDARDS OF FAIRNESS

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

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

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

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

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

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

1344.7, May 2, 1966
Attachment A

PART II - FULL DISCLOSURE

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

A. IDENTIFICATION

Date: _____

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

B. CONTRACT TERMS

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

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

TABLE FOR COMPUTING APPROXIMATE ANNUAL PERCENTAGE RATE FOR LEVEL MONTHLY PAYMENT PLANS

Finance charge = \$384. Total amount to be financed = \$2500. Number of monthly payments = 24.

EXAMPLE
 Finance charge = \$384. Total amount to be financed = \$2500. Number of monthly payments = 24.
SOLUTION
 Step 1 = Divide the finance charge by the total amount to be financed and multiply by \$100. This gives the finance charge per \$100 of amount to be financed. That is, $\$38 \div \$2500 \times 100 = \$15.20$.
 Step 2 = Follow down the left hand column of the table to the line for 24 months. Follow across this line until you find the two numbers between which the finance charge per \$100 of amount to be financed falls. (If the finance charge per \$100 of amount to be financed falls exactly on a tabular value, the lower percentage rate may be used.)

Number of level payments	Approximate annual rate																									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	22%	24%	26%	28%	30%	
1	\$0.40	\$0.44	\$0.48	\$0.52	\$0.56	\$0.60	\$0.65	\$0.71	\$0.79	\$0.88	\$0.96	\$1.04	\$1.12	\$1.21	\$1.29	\$1.38	\$1.48	\$1.58	\$1.68	\$1.78	\$1.88	\$2.00	\$2.12	\$2.24	\$2.36	\$2.48
2	.59	.66	.72	.78	.84	.91	1.00	1.06	1.19	1.31	1.44	1.57	1.69	1.82	1.94	2.08	2.23	2.38	2.53	2.68	2.83	3.00	3.16	3.32	3.47	3.62
3	.75	.83	.91	1.00	1.09	1.19	1.29	1.40	1.53	1.67	1.81	1.95	2.09	2.23	2.38	2.53	2.68	2.83	2.99	3.15	3.31	3.48	3.65	3.82	3.99	4.16
4	.90	1.00	1.10	1.21	1.32	1.44	1.57	1.71	1.86	2.00	2.15	2.30	2.45	2.60	2.75	2.90	3.06	3.22	3.38	3.54	3.71	3.88	4.05	4.22	4.39	4.56
5	1.05	1.16	1.28	1.40	1.53	1.66	1.81	1.96	2.12	2.28	2.44	2.60	2.76	2.92	3.08	3.24	3.41	3.58	3.75	3.92	4.10	4.28	4.46	4.64	4.82	5.00
6	1.19	1.32	1.44	1.57	1.69	1.82	1.95	2.13	2.26	2.40	2.54	2.68	2.83	3.00	3.15	3.30	3.45	3.60	3.75	3.90	4.05	4.20	4.35	4.50	4.65	4.80
7	1.32	1.45	1.58	1.71	1.84	1.97	2.10	2.26	2.42	2.58	2.74	2.90	3.06	3.22	3.38	3.54	3.70	3.86	4.02	4.18	4.34	4.50	4.66	4.82	4.98	5.14
8	1.45	1.59	1.73	1.87	2.00	2.14	2.28	2.45	2.62	2.79	2.96	3.12	3.29	3.46	3.63	3.80	3.97	4.14	4.31	4.48	4.65	4.82	4.99	5.16	5.33	5.50
9	1.58	1.73	1.88	2.02	2.16	2.30	2.45	2.63	2.81	2.99	3.17	3.35	3.53	3.71	3.89	4.07	4.25	4.43	4.61	4.79	4.97	5.15	5.33	5.51	5.69	5.87
10	1.71	1.87	2.02	2.16	2.30	2.45	2.63	2.81	3.00	3.18	3.36	3.54	3.72	3.90	4.08	4.26	4.44	4.62	4.80	4.98	5.16	5.34	5.52	5.70	5.88	6.06
11	1.84	2.00	2.16	2.31	2.46	2.61	2.77	2.95	3.14	3.33	3.52	3.71	3.90	4.09	4.28	4.47	4.66	4.85	5.04	5.23	5.42	5.61	5.80	5.98	6.17	6.36
12	1.97	2.14	2.31	2.47	2.63	2.79	2.97	3.16	3.36	3.55	3.74	3.93	4.13	4.32	4.52	4.71	4.91	5.10	5.30	5.49	5.69	5.88	6.08	6.28	6.47	6.67
13	2.09	2.27	2.44	2.61	2.78	2.95	3.14	3.34	3.54	3.74	3.94	4.14	4.34	4.54	4.74	4.94	5.14	5.34	5.54	5.74	5.94	6.14	6.34	6.54	6.74	6.94
14	2.20	2.39	2.56	2.73	2.90	3.08	3.27	3.47	3.67	3.87	4.07	4.27	4.47	4.67	4.87	5.07	5.27	5.47	5.67	5.87	6.07	6.27	6.47	6.67	6.87	7.07
15	2.30	2.50	2.67	2.84	3.01	3.19	3.39	3.59	3.79	3.99	4.19	4.39	4.59	4.79	4.99	5.19	5.39	5.59	5.79	5.99	6.19	6.39	6.59	6.79	6.99	7.19
16	2.40	2.60	2.77	2.94	3.11	3.30	3.49	3.69	3.89	4.09	4.29	4.49	4.69	4.89	5.09	5.29	5.49	5.69	5.89	6.09	6.29	6.49	6.69	6.89	7.09	7.29
17	2.50	2.70	2.87	3.04	3.21	3.40	3.60	3.80	4.00	4.20	4.40	4.60	4.80	5.00	5.20	5.40	5.60	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40
18	2.60	2.80	2.97	3.14	3.31	3.50	3.70	3.90	4.10	4.30	4.50	4.70	4.90	5.10	5.30	5.50	5.70	5.90	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50
19	2.70	2.90	3.07	3.24	3.41	3.60	3.80	4.00	4.20	4.40	4.60	4.80	5.00	5.20	5.40	5.60	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60
20	2.80	3.00	3.17	3.34	3.51	3.69	3.89	4.09	4.29	4.49	4.69	4.89	5.09	5.29	5.49	5.69	5.89	6.09	6.29	6.49	6.69	6.89	7.09	7.29	7.49	7.69
21	2.90	3.10	3.27	3.44	3.61	3.80	4.00	4.20	4.40	4.60	4.80	5.00	5.20	5.40	5.60	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80
22	3.00	3.20	3.37	3.54	3.71	3.90	4.10	4.30	4.50	4.70	4.90	5.10	5.30	5.50	5.70	5.90	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90
23	3.10	3.30	3.47	3.64	3.81	4.00	4.20	4.40	4.60	4.80	5.00	5.20	5.40	5.60	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00
24	3.20	3.40	3.57	3.74	3.91	4.10	4.30	4.50	4.70	4.90	5.10	5.30	5.50	5.70	5.90	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.10
25	3.30	3.50	3.67	3.84	4.01	4.20	4.40	4.60	4.80	5.00	5.20	5.40	5.60	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00	8.20
26	3.40	3.60	3.77	3.94	4.11	4.30	4.50	4.70	4.90	5.10	5.30	5.50	5.70	5.90	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.10	8.30
27	3.50	3.70	3.87	4.04	4.21	4.40	4.60	4.80	5.00	5.20	5.40	5.60	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00	8.20	8.40
28	3.60	3.80	3.97	4.14	4.31	4.50	4.70	4.90	5.10	5.30	5.50	5.70	5.90	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.10	8.30	8.50
29	3.70	3.90	4.07	4.24	4.41	4.60	4.80	5.00	5.20	5.40	5.60	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00	8.20	8.40	8.60
30	3.80	4.00	4.17	4.34	4.51	4.70	4.90	5.10	5.30	5.50	5.70	5.90	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.10	8.30	8.50	8.70
31	3.90	4.10	4.27	4.44	4.61	4.80	5.00	5.20	5.40	5.60	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00	8.20	8.40	8.60	8.80
32	4.00	4.20	4.37	4.54	4.71	4.90	5.10	5.30	5.50	5.70	5.90	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.10	8.30	8.50	8.70	8.90
33	4.10	4.30	4.47	4.64	4.81	5.00	5.20	5.40	5.60	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00	8.20	8.40	8.60	8.80	9.00
34	4.20	4.40	4.57	4.74	4.91	5.10	5.30	5.50	5.70	5.90	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.10	8.30	8.50	8.70	8.90	9.10
35	4.30	4.50	4.67	4.84	5.01	5.20	5.40	5.60	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00	8.20	8.40	8.60	8.80	9.00	9.20
36	4.40	4.60	4.77	4.94	5.11	5.30	5.50	5.70	5.90	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.10	8.30	8.50	8.70	8.90	9.10	9.30
37	4.50	4.70	4.87	5.04	5.21	5.40	5.60	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00	8.20	8.40	8.60	8.80	9.00	9.20	9.40
38	4.60	4.80	4.97	5.14	5.31	5.50	5.70	5.90	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.10	8.30	8.50	8.70	8.90	9.10	9.30	9.50
39	4.70	4.90	5.07	5.24	5.41	5.60	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00	8.20	8.40	8.60	8.80	9.00	9.20	9.40	9.60
40	4.80	5.00	5.17	5.34	5.51	5.70	5.90	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.10	8.30	8.50	8.70	8.90	9.10	9.30	9.50	9.70
41	4.90	5.10	5.27	5.44	5.61	5.80	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00	8.20	8.40	8.60	8.80	9.00	9.20	9.40	9.60	9.80
42	5.00	5.20	5.37	5.54	5.71	5.90	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.10	8.30	8.50	8.70	8.90	9.10	9.30	9.50	9.70	9.90
43	5.10	5.30	5.47	5.64	5.81	6.00	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00	8.20	8.40	8.60	8.80	9.00	9.20	9.40	9.60	9.80	10.00
44	5.20	5.40	5.57	5.74	5.91	6.10	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.10	8.30	8.50	8.70	8.90	9.10	9.30	9.50	9.70	9.90	10.10
45	5.30	5.50	5.67	5.84	6.01	6.20	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00	8.20	8.40	8.60	8.80	9.00	9.20	9.40	9.60	9.80	10.00	10.20
46	5.40	5.60	5.77	5.94	6.11	6.30	6.50	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.10	8.30	8.50	8.70	8.90	9.10	9.30	9.50	9.70	9.90	10.10	10.30
47	5.50	5.70	5.87	6.04	6.21	6.40	6.60	6.80	7.00	7.20	7.40	7.60	7.80	8.00	8.20	8.40	8.60	8.80	9.00	9.20.						

TABLE FOR COMPUTING APPROXIMATE ANNUAL PERCENTAGE RATE FOR LEVEL MONTHLY PAYMENT PLANS

Example: Finance charge = \$30; Total amount to be financed = \$200; Number of monthly payments = 24.

Step 1 - Divide the finance charge by the total amount to be financed and multiply by 100. This gives the finance charge per \$100 of amount to be financed. That is, $\$30 \div \$200 \times 100 = 15.00$.
 Step 2 - Follow down the left hand column of the table to the line for 24 months. Follow across this line until you find the two numbers between which the finance charge of \$30 falls. In this example \$30.00 falls between \$31.66 and \$31.80. Reading up between the two columns of figures you will see that the annual percentage rate is 14%. For the purpose of this directive the annual percentage rate is the value appearing at the head of the two column between which the finance charge per \$100 of total amount to be financed falls. (If the finance charge per hundred falls exactly on a tabular value, the lower percentage rate may be used.)

Number of payments	Approximate annual rate												100 of balance at first payment												100 of balance at last payment																																																																										
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70																														

Kansas State University

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Manhattan, Kansas 66502

Department of Family Economics
Justin Hell

November 9, 1966

Mr. Archie K. Davis, President
American Bankers Association
New York City, N. Y.

Dear Mr. Davis:

I am making a field study of the effect the DoD Credit Directive is having on local creditors.

Because the Directive seems to assume the general pattern of loan contracts to require regular monthly payments, I asked local credit grantors whether this was objectionable. With the few exceptions, making balloon notes, the monthly payments schedule is the pattern. The volume of credit extended for repayment of other than level monthly payment is less than 5%.

However, I have since read your article in the Fall issue of Personal Finance Law Quarterly Report. In reference to Table B of the Directive, you state: "This table ignores the fact that a substantial volume of consumer loans have variables in payment schedules which render a rate approximation relatively meaningless." (page 133)

What evidence do you have as to the nature of these variables and their frequency? I have not been able to find references to any study reporting on this problem, so I should be most appreciative of any references or abstracts you might supply.

From my experience, it would seem that you are either confusing contracts as written with performance of parties under the contract, or are over-emphasizing the unusual cases. In any case, I would like to see the facts upon which you base your statements.

I am enclosing a copy of the questionnaire I am using.

Sincerely yours,

Louise Leonard
Graduate Teaching
Assistant

LL:js
Enclosure

APPENDIX D
INSTALMENT CREDIT COMMITTEE
THE AMERICAN BANKERS ASSOCIATION

43

90 PARK AVENUE
NEW YORK, N. Y. 10016

CHAIRMAN

JOHN L. GIBSON
SENIOR VICE PRESIDENT
PUBLIC NATIONAL BANK OF DALLAS
DALLAS, TEXAS 75222

SECRETARY

FREDERICK K. GARDNER
DEPUTY MANAGER

November 21, 1966

Miss Louise Leonard
Graduate Teaching Assistant
Department of Family Economics
Justin Hall
Kansas State University
Manhattan, Kansas 66502

Dear Miss Leonard:

This letter is in response to your communication of November 9 concerning the Department of Defense Directive and addressed to Archie K. Davis, President of the American Bankers Association. The matter has been referred to me since Mr. Davis is no longer the President of the Association, his term of office having expired a few weeks ago, and also because the subject matter falls in my area of responsibility in the Association.

First of all, I'd like to clear up an apparent misunderstanding. The material quoted does not come from an article published in the Personal Finance Law Quarterly Report but is excerpted from a letter written by Mr. Davis to Thomas D. Morris, Assistant Secretary of Defense for Manpower. The letter from Mr. Davis represented the objection of the A.B.A. to certain portions of the Department of Defense Directive. It was written in response to a letter from Mr. Morris to Mr. Davis requesting the support of the A.B.A. for this Directive and assistance in disseminating the material to all of the banks in the country.

You can readily see the irony of the A.B.A. being asked to support a Directive which contains a requirement for disclosure in terms of simple annual interest rates when this is the precise type of legislation contained in Senator Douglas' so-called "Truth-In-Lending" bills which he perennially introduced into the legislative hopper. We have consistently expressed our negative position on Senator Douglas' bill, not because we do not favor truth-in-lending but because we do not believe that simple annual rates represent the kind of truth that is significant to the consumer borrower. We have always felt that an expression of rate in terms of dollars per one hundred per year is the type of truth-in-lending that the man in the street can understand and the type that will enable him to quickly and easily arrive at the dollar cost of his borrowing.

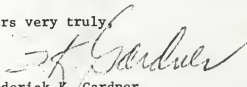
Getting to the specifics of your question, we have no acceptable statistical data as to the nature and frequency of the variables from consistent regular monthly payments. I agree with your statement in the second paragraph that the balloon note situation would represent less than 5% of all loans made. However, there is a large additional number of loans where the variations of the dating of the first payment would have a considerable impact upon the annual interest rate. For example, in many automobile transactions where the customer's down payment is construed to be too little for acceptance of the credit transaction, catch-up payments are required which perhaps might be required on a weekly basis during the first month until the down payment deficiency is made up. How would these transactions be handled in a situation requiring disclosure in terms of simple annual interest?

In addition, there are a substantial number of transactions involving variations from regular payments such as the delayed payment plans frequently used in home improvement transactions, particularly as related to heating plant installations. Many times where the sale is made in the spring or summer the payments don't start until the heating season begins. Also there are many transactions involving loans to teachers where payments are not required during the months of June, July and August. Then, too, we have the transactions involving farmers where payments are sometimes on a quarterly or semi-annual basis. All of these transactions, in addition to the balloon note situation, throws a considerable burden on sales and clerical personnel.

The statements in Mr. Davis' letter were based upon the practical experience of several knowledgeable and experienced instalment credit bankers including myself. If the total number of variables only reached 10%, we feel that this is a "substantial variable" and would impose considerable operational problems on either the retailer or the lender.

I hope this answers your inquiry to your satisfaction.

Yours very truly,


Frederick K. Gardner
Deputy Manager

FKG:ks

Kansas State University

45

Manhattan, Kansas 66502

Department of Family Economics
Justin Hall

December 7, 1966

Mr. Frank K. Gardner
Deputy Manager
The American Bankers Association
90 Park Avenue
New York, New York 10016

Dear Mr. Gardner:

Thank you for your letter of November 21, 1966. You mentioned that irregularities throw a considerable burden on sales and clerical personnel. You say that contracts with teachers and farmers as well as home improvement transactions and balloon notes are the source of these irregularities. Manhattan is a community which has school teachers and farmers plus military personnel and college students, so presumably we would encounter such problems.

In Manhattan I found only 5% of the contracts to be written on an irregular basis, and this included balloon notes. I did not realize that balloon notes alone would comprise 5% of the irregular loans and that other irregularities would comprise an additional 5%.

You say that an expression of rate in terms of dollars per one hundred per year is what the man in the street can understand. Actually, the per cent per annum is dollars per hundred per year, so it is the same information whether expressed in Latin or English.

I do not understand how the consumer can find the dollar cost of irregular notes as easily as you say he can, when the rate is expressed in the English form. Do you mean the consumer understands the rate if applied to the original amount and not if applied to the unpaid balance? If one were to borrow \$1,000 for two years at a rate of \$6 per one hundred dollars per year he would be able to understand this cost to be \$120, whereas, he would have difficulty in understanding this cost to be \$62.50 if the rate were quoted at 6% on the unpaid balance. If this is what you mean, then I understand you. This much is clear to me.

Mr. Frederick K. Gardner

-2- December 7, 1966

What is not clear is how the consumer can figure the dollar cost of his borrowing quicker and easier under the A.B.A.'s recommended rate quotation form than he can by the actuarial method as employed by the Department of Defense. Would the cost still be \$120 for a two-year, \$1,000 loan made to a school teacher whose contract does not require payments during June, July and August of each year? Does she pay one-third more for the 18 paying months, or does her contract stretch out over 30 calendar months? If so, how are these variations reflected in the cost of the contract if the rate remains at \$6 per hundred per year? This same question applies for the farmer whose payments are delayed, for the student who can make larger payments when out of school, and for the home improvement transaction.

I tried to set-up some special cases for irregular payment situations to show the month-to-month payments and assessments for finance charges. But I destroyed these because I was not sure they were realistic. I respect your knowledge of this matter gained from practical experience and would appreciate your sending me some "real-life" cases to show how the dollar per hundred per year is applied to irregular payments contracts, and, as you have mentioned, enables them to know in advance what this cost will be.

I will appreciate your assistance for I feel this matter needs clarification as I continue in my study of the effect of the Department of Defense Directive on local creditors.

Very truly yours,

Louise Leonard
Graduate Teaching
Assistant

LL:js

APPENDIX F
INSTALMENT CREDIT COMMITTEE
THE AMERICAN BANKERS ASSOCIATION
90 PARK AVENUE
NEW YORK, N. Y. 10016

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CHAIRMAN

JOHN L. GIBSON
SENIOR VICE PRESIDENT
PUBLIC NATIONAL BANK OF DALLAS
DALLAS, TEXAS 75222

SECRETARY

FREDERICK K. GARDNER
DEPUTY MANAGER

December 15, 1966

Miss Louise Leonard
Graduate Teaching Assistant
Department of Family Economics
Justin Hall
Kansas State University
Manhattan, Kansas 66502

Dear Miss Leonard:

From the tenor of your letter of December 7, it is immediately apparent that you and I will never be in agreement on the subject. However, there are a few misunderstandings which I feel constrained to clarify now:

1. Your letter infers that I claim that irregularly scheduled transactions amount to 10% of the total. This inference cannot be drawn from my previous letter if it is studied carefully. In the final paragraph, I state "if the total number of variables only reached 10%---". I have added underlining to the words "if" and "only" for present emphasis.

2. In paragraph 4 of your letter you refer to a situation involving a \$1000 loan for two years at a rate of \$6 per \$100 per year. You agree that the customer could readily ascertain his total cost to be \$120. However, if the rate were quoted at 6% on the unpaid balance you are assuming that he could readily ascertain the total dollar cost. I doubt very much that most people could figure this without some assistance. For example, do you think that most people in securing a mortgage loan in the amount of \$20,000 for 20 years could easily ascertain the total dollar cost of the interest over the period? I doubt it.

3. I have not made the statement that it is any easier for a consumer to ascertain the true annual interest cost on an irregularly scheduled transaction when the charge is quoted in terms of dollars per \$100 rather than when it is quoted in terms of simple interest per annum. In both cases it is practically impossible for the consumer to make the calculation.

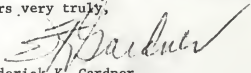
Judging from the reference to expression in terms of Latin or English, I am assuming that you are a reader of some material emanating from the Reverend Raymond C. Jancauskas. This comparison seems to be a favorite of his. Frankly, I've had the same experience with Reverend Jancauskas as I seem to be having with you in discussing rate disclosure.

I would commend for your study a publication written by Robert W. Johnson, presently connected with Krannert Graduate School of Industrial Administration, Purdue University, Lafayette, Indiana and published by the Graduate School of Business of Columbia University, entitled "Methods of Stating Consumer Finance Charges". In this booklet, Professor Johnson does a far better job of defining our attitude on disclosure than I could possibly do.

We continue to maintain our position that rate disclosure should properly be left to definition by the individual state legislatures. In view of the scholarly and certainly non-political approach being pursued by the National Conference of Commissioners on Uniform State Laws to the problem of devising a Uniform Consumer Code for all fifty states, we repeat our position currently, with the additional recommendation that efforts to reform (if that is the word) a system that has worked well for many years be delayed pending completion of that project.

In closing, I would like to make this point -- bankers are not averse to "Truth-In-Lending". We just don't think that the type of "truth" to which you refer is as meaningful to the average consumer as the type that we recommend.

Yours very truly,



Frederick K. Gardner
Deputy Manager

FKG:ks

Kansas State University

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Manhattan, Kansas 66502

Department of Family Economics
Justin Hall

January 17, 1967

Mr. Frederick K. Gardner
Deputy Manager
The American Bankers Association
90 Park Avenue
New York, New York 10016

Dear Mr. Gardner:

Your letter of December 15 came just before the Christmas vacation so my reply has been delayed. I was sorry to learn you feel we will never agree on "the subject". As a student, I would hope we would be able to reach some sort of agreement, or at least clarify more precisely points of disagreement. It seems to me that several points of mine have been misunderstood.

1. Paragraph two of your December 15 letter contains the major point of misunderstanding. You previously stated (letter of November 21) that "an expression of rate in terms of dollars per one hundred per year is the type of truth-in-lending that the man on the street can understand and the type that will enable him to quickly and easily arrive at the dollar cost of his borrowing." I agreed with you, when the base is the original balance owed and the payments are regular, for I said: "If one were to borrow \$1,000 for two years at a rate of \$6 per one hundred dollars per year he would be able to understand the cost to be \$120.00." (And, I think you might agree with me, that the same people could calculate the \$120. as readily if the rate were quoted as 6% per annum, but this is the English vs Latin point).

I went on to say: "He would have difficulty in understanding this cost to be \$62.50 if the rate were quoted at 6% on the unpaid balance." (Again, the Latin vs the English point, I think you might agree with me that these same people would have difficulty arriving at the \$62.50 cost if the rate were quoted as \$6 per one hundred dollars per year on the unpaid balance.) I have underlined the words "have difficulty" to emphasize that I was not assuming, as you said I had, that he could readily ascertain the dollar cost.

Mr. Frederick K. Gardner

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January 17, 1967

My point is, as originally stated: "Do you mean the consumer understands the rate if applied to the original amount and not if applied to the unpaid balance? . . . If this is what you mean, then I understand you."

2. To put this discussion into different words which may help to clarify our respective positions, I shall restate the two points involved in our consideration of the expression which the "man on the street can understand and . . . will enable him to quickly and easily arrive at the dollar cost of his borrowing." The points relate to:

- (1) The rate form:
 - (a) as % per annum.
 - (b) as \$ per \$100 per year.
- (2) The base to which the rate is applied
 - (a) The original balance. (The initial amount of credit extended)
 - (b) The unpaid balances. (The actual amount of credit extended under the contract)

Question 1. Am I correct in interpreting your position that rate form 1 (b) is preferable to form 1 (a)?

Question 2. If so, is it the preferred form whether applied to base 2 (a) or base 2 (b)?

I assume your answer would be negative, for it seems to me the rate must be considered in relation to the base. And, if your answer to question 2 is negative, then the question regarding base-rate combination needs to be asked.

Question 3. If base 2 (a) is used,

- a. Is rate form 1 (b) preferred to form 1 (a)?
- b. Is rate form 1 (a) preferred to form 1 (b)?

Question 4. If base 2 (b) is used,

- a. Is rate form 1 (b) preferred to form 1 (a)?
- b. Is rate form 1 (a) preferred to form 1 (b)?

Question 5. Which of the choices made in answer to questions 3 and 4 is preferred?

Mr. Frederick K. Gardner

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January 17, 1967

Question 6. Finally, am I correct that you consider the two rate forms to express different rate concepts, that is, they differ not only in language form (English vs Latin) but in meaning? If so, could you be more explicit to help me understand your position?

3. You have asked whether people securing a mortgage loan in the amount of \$20,000 for 20 years could easily ascertain the total dollar cost of the interest over the period. It is safe to assume the customer would be told the amount of the payments expected. My textbook shows payments for a 6% rate to be \$87.19 for \$1,000, which is \$1,743.80 per \$20,000. This, for 20 years, would be \$34,876 or \$14,876 in excess of the \$20,000. That is, had I been given the customary re-payment information, I would need to multiply and subtract to arrive at the cost. This involves two operations. However, had the rate been expressed as \$3.719 per \$100 per year, I would arrive at the cost by two multiplications: $3.719 \times 20 \times 20$. This also involves two operations.

If it is easier to subtract than to multiply, it is easier to figure the dollar cost from a contract that tells the number and amount of regular payments than from a contract that gives the \$ per \$100 per year rate. If it is easier to multiply than subtract, the dollar rate disclosure is easier. So it seems like a toss-up as to which is easier. However, if the amounts are not even \$100 or the time not in even years, then fractions are introduced. For example, to arrive at the dollar cost of credit extended at the rate of \$6 per 100 per year for \$135.55 to be repaid in 15 months requires two more operations, decimal placement and division ($6 \times 1.3555 \times 15/12$). These added operations swing the balance in favor of figuring dollar cost by multiplying the regular payment amount by the number of periods and subtracting.

4. With regard to contracts involving irregularly scheduled transactions, I appreciate your clarifying for me that it is not your position that the consumer can more readily ascertain the cost of a loan when the rate is quoted in terms of dollars per \$100 rather than when it is quoted in terms of simple interest per annum. As I read Mr. Davis' letter in Personal Finance Law Quarterly Report, it seemed to me that his objection to the DoD Directive's full disclosure provisions were specifically related to the inapplicability of the Directive to irregular contracts. In fact, what prompted my letter of November 9 was Mr. Davis' reference to Table B of the Directive wherein he said, "This table ignores the fact that a substantial volume of consumer loans have variables in payment schedules which render a rate approximation relatively meaningless."

Mr. Frederick K. Gardner

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January 17, 1967

5. I can only partially agree that "in both cases it is practically impossible for the consumer to make the calculation." That is, I can understand how a simple rate can be applied to the unpaid balance and the amount of pro-rata interest assessed with the balance of the irregular payment used to reduce the amount owing until the next scheduled irregular payment is due, etc., thus, "custom-tailoring" the contract to the irregular circumstances and arriving at the dollar cost by addition of the individual assessments.

However, I cannot understand how the dollars per \$100 per year form, recommended by the ABA, works. On page two of my letter of December 7 I asked for assistance and examples showing how this month-to-month assessment works. You said you had had considerable experience with this type of lending, so I feel you are well qualified to supply evidence from previous files of how this works out.

I do not have a copy of the booklet you refer to by Robert Johnson. If you could mark those pages or tables which show the working of \$ per \$100 per year applied to irregularly scheduled payments, I would be most appreciative.

6. I do not know Reverend Jancauskas to whom you refer. I am disappointed, for I thought reference to Latin or English form of expression was original with me.

7. In closing, I am not debating the Truth-in-Lending Bill. My concern has been with the Department of Defense Directive, its clarity and applicability at the local level. My letter to Mr. Davis, which you answered, was in regard to his analysis of the Directive, and specifically his criticism of Table B of the Directive.

Not until you raised the preferability of \$ per \$100 method of quotation did I consider this pertinent to the discussion. And now I wonder what its merits are when payments are irregularly scheduled.

Sincerely yours,

Louise Leonard
Graduate Teaching
Assistant

LL:js

Kansas State University

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Manhattan, Kansas 66502

Department of Family Economics
Justin Hall

March 1, 1967

Mr. Frederick K. Gardner
Deputy Manager
The American Bankers Association
90 Park Avenue
New York, New York 10015

Dear Mr. Gardner:

I have not as yet received an answer to my January 17, 1967 letter. As I am nearing the completion of my study, I am most anxious to receive your comments to questions posed in this letter.

I have secured a copy of "Methods of Stating Consumer Finance Charges" by Robert W. Johnson. However, I do not find where Dr. Johnson discusses the working of dollars per \$100 per year as applied to irregularly scheduled payments. If you will give me the page numbers to which you refer, I will be most appreciative.

I look forward to your letter giving examples, from your experience, showing how this month to month assessment works on irregularly scheduled payment contracts.

Sincerely,

Louise Leonard
Graduate Research
Assistant

LL:js

APPENDIX I
Kansas State University

54

Manhattan, Kansas 66502

Department of Family Economics
Justin Hall

January 28, 1967

Gentlemen:

I am engaged in a study regarding the impact and effect of the Department of Defense Directive No. 1344.7 which became effective July 1, 1966. The Directive prescribes conditions and procedures for creditors who deal with military personnel which must be observed if the help of the Department of Defense is to be requested in collecting defaulting obligations. Those who do not elect to do business with servicemen are under no obligation to observe and follow the conditions and procedures as outlined in this Directive.

I am impressed by statements made by local creditors and retailers who represent you and other national or regional retailing credit institutions to the effect that they were without adequate guidelines concerning the Department of Defense Directive. The reason for this may be (1) No guidelines for interpreting the Department of Defense Directive have been issued by national or regional offices, or (2) The local managers have not given the guidelines adequate study and therefore were not familiar with the company policy.

I would appreciate knowing whether you have issued interpretive guidelines to your local offices. And, if not contrary to your company policy, I would appreciate receiving a copy of your guidelines.

Sincerely,

Louise Leonard
Graduate Teaching
Assistant

LL:js

P. S. A copy of the first report of the study which was made in Manhattan, Kansas is available from the Editor of Personal Finance Law Quarterly Report at 50¢ each to cover the cost of reproduction, handling, and postage. The address is: Mr. Linn K. Twinem, Editor, Personal Finance Law Quarterly Report, 115 Broadway, New York, New York, 10006.

EFFECT OF DEPARTMENT OF DEFENSE DIRECTIVE NUMBER 1344.7
ON CREDITORS BORDERING FORT RILEY

by

LOUISE MARIE LEONARD

B. S., Brigham Young University, 1962

AN ABSTRACT OF A MASTER'S THESIS

submitted in partial fulfillment of the
requirements for the degree

MASTER OF SCIENCE

Department of Family Economics

KANSAS STATE UNIVERSITY
Manhattan, Kansas

1967

The revised Department of Defense Directive Number 1344.7 pertains to the issuance of credit to servicemen. It was issued May 2, 1966 and implemented July 1, 1966. It is philosophically based on the late President Kennedy's "Rights of Consumers" and instituted to meet some of the problems servicemen experience as a result of abusive practices of creditors. These had been under Congressional investigation. The Directive prescribes conditions and procedures for creditors who deal with military personnel to observe if they wish help of the Department of Defense in collecting defaulting obligations. Those not electing to do business with servicemen or not needing assistance of the military for collection of debt are under no obligation to observe and follow the conditions and procedures as outlined in this Directive.

The objective of the study was to evaluate its impact on local creditors. All creditors in Manhattan and Junction City, Kansas, presumed doing business with military personnel from Fort Riley, were interviewed between September 20, 1966 and January 19, 1967. Most found the Directive workable and not complicated or burdensome. However, some were using the Directive in such a way that it was not accomplishing its original purpose of requiring disclosure of credit costs at the time the credit was granted.

This study revealed: (1) Creditors failed to include life and accident and health insurance premiums in the total

finance charge, as specified in the Full Disclosure Contract.

(2) Retailers seemed not to understand clearly their possible exemption from the requirements of Full Disclosure and Standards of Fairness for claims based on a revolving or open-end charge account. (3) Although the rate chart was easy to understand and use, creditors considered the annual percentage rate difficult to express because (a) it was foreign to them, (b) it is not required by Kansas law, (c) present forms and practices do not require this information, (d) this was considered an unattractive way to sell credit, and (e) it was believed most consumers are concerned only with the amount of the monthly payment, and the annual percentage rate adds to their confusion.

This study has been published and sufficient gift copies supplied Farrell Library, Kansas State University in May, 1967 for deposit in the permanent archives, for circulation purposes, and for requesting a Library of Congress number. This study was completed in the first quarter of 1967, and made available in published form in April, 1967. Personal Finance Law Quarterly Report announced its completion and availability from the Department of Family Economics at Kansas State University for \$100. The study will contribute information to the current debate over the proposed legislation, Truth in Lending, which allegedly would extend to civilians the type of information the Directive provides military personnel.