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Loanshark Revitalization Act

by David Greenberg, Legislative Representative

Legislation currently before the Senate Banking Committee threatens to burden consumers with billions of dollars in additional interest payments on loans of every kind. S.1406, the Credit Deregulation and Availability Act, will preempt all state laws which limit the loan interest charged by banks, finance companies, autodealers, retailers and credit card companies. It will also allow lenders to impose deceptive fees and charges that make comparison shopping for loans impossible.

A united community of lenders is working hard to pass this bill with a minimum of public attention. If they succeed in keeping the legislation a private matter, it stands an excellent chance of enactment.

Dubbing S.1406 the Loan Shark Revitalization Act of 1981, CFA Director of Governmental Relations Jim Boyle testified this summer at a Senate Financial Institutions Subcommittee hearing and told the Senators that the legislation will aggravate inflation, undermine truth-in-lending and destroy many state consumer protection statutes. In a subsequent letter and press release, Boyle demonstrated that the bill will wipe out or weaken a number of state criminal statutes outlawing extortion, loansharking and usury. (See table.)

Every 1% rise in average loan interest rates could increase finance payments by $3 billion.

Raising the Roof

At a time of high inflation and high interest rates, legislation like S.1406 will only make economic matters worse. With over $313 billion in outstanding consumer installment debt, every 1% rise in average loan interest rates could increase finance payments by $3 billion. Given the diversity of state interest ceilings—the highest is approximately 33%, the lowest approximately 10%—a run-up of 5-10 percentage points is quite possible. Such an increase would sap between $15 billion and $30 billion from borrowers, but would produce no goods, no services and no jobs.

The experience of states with very high or unlimited interest rate ceilings confirms the likelihood of a rate explosion under federal preemption. In Texas and Oklahoma, small loans at interst rates of between 150% and 200% are beginning to appear. And in Arizona—a state which recently waived all ceilings—lenders are refinancing second mortgage loans at nearly 100% while making used car loans at over 50%.

Rates at levels such as these will inevitably lead to more defaults, more bankruptcies and, with an increasing percentage of loans secured by homes, more foreclosures.

Undermining Consumer Credit Protection

In addition to imposing these high costs, S.1406 will undermine two of the most important concepts in the consumer credit area: truth-in-lending and full disclosure. By preempting nearly all state laws governing fees and charges, the legislation opens the door for inclusion of a large number of unjustified and deceptive charges in loan agreements.

S.1406 bill eliminate state limitations on charges for credit reports, surveys, delinquency, prepayment, refinancing, consolidation, and official fees like tax, title and license fees. Without these state protections, lenders will be free to hide interest rate increases in the form of additional fees and charges. Potential borowers will be unable to make meaningful comparisons between the annual percentage rate disclosures mandated by truth-in-lending laws, frustrating their ability to shop for loans.

In Arizona, which recently waived all ceilings, lenders are refinancing second mortgage loans at nearly 100% while making car loans at over 50%.

In the end, the absence of comparison shopping will reduce competition between lenders and drive up the price of loans even further.

Overdose

Given the high cost of S.1406, the ultimate irony is that the legislation appears to be unnecessary. States have been exercising their traditional authority in this area: 46 have adjusted their interest rate ceilings in recent years. Moreover, the economy is awash in consumer credit, so much so that 9% of credit card holders cut up and returned cards last year. Any additional credit that S.1406 will produce is likely to be precisely the kind of high-risk, high-pressure credit that creates more problems than it solves.

Legalized Loansharking?

This provision would legalize loansharking. Any state criminal statute which creates a presumption of extortioner making it an offense to charge more than a certain amount of interest would be wiped out. A sample of nine sates which would have their anti-loansharking statutes emasculated by S. 1406 is set out below:

A Sample of Criminal Interest Rate Ceilings Preempted by S. 1406

State	Type of Statute	Interest Ceiling
Colorado	Criminal Usury/Extortion	45%
Florida	Loansharking	45%
Hawaii	Extortion	45%
Indiana	Loansharking	72%
Louisiana	Loansharking	45%
New Jersey	Criminal Usury	50%
New Mexico	Extortion	45%
North Dakota	Criminal Usury	45%
Pennsylvania	Criminal Usury	36%

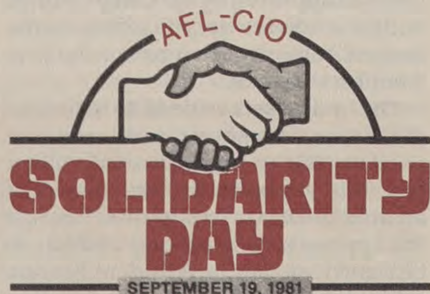
Support Solidarity Day

A national demonstration of grass-roots opposition to the Reagan Administration's assault on the interests of working families and the poor will be held in Washington, D.C. on September 19.

Thousands of demonstrators are expected to gather on Solidarity Day to protest the Administration's attempts to dismantle the social and economic gains of the past 50 years. The protest is being organized by the AFL-CIO and a coalition of allied organizations including civil rights groups, senior citizens, handicapped and women's groups and dozens of public interest groups including CFA.

Solidarity Day will focus attention on issues of social and economic justice including unfair taxes, high energy prices, poor housing, high interest rates and health and safety threats.

Participants in the demonstration will gather at noon at the Washington monument and march to the Capitol. Special Solidarity Day offices are operating at AFL-CIO headquarters, 815 16th St. N.W., Washington, D.C. For transportation information contact: Dick Wilson, Room 311, (202) 637-5380.



Budget & Tax Cuts

by Stephen Brobeck, Executive Director

The budget and tax cuts recently approved by Congress will fall most heavily and immediately on the poor. Yet, contrary to popular perceptions, the cuts are unlikely to benefit middle income consumers appreciably, if at all.

The Administration's budget and tax packages should be understood, first and foremost, as an instrument of transferring income and influence from the poor to the wealthy and to large corporations. This is the principal goal shared by President Reagan and the wealthy businessmen he appointed to fill most top slots in the Executive Branch. Their slogans about "getting government off the backs of taxpayers" and "out of the lives of citizens" are smokescreens designed to hide this redistribution of resources from the middle class majority on whose support they depend.

Tax Cuts for the Wealthy

Tax cuts for corporations are estimated to cost the U.S. Treasury more than $75 billion from 1982 through 1986. $12 billion of this total represents special tax breaks for the oil industry, which will also benefit from accelerated cost recovery that will shrink their Federal income tax payments by additional billions. The corporate cuts will, according to *New York Times* estimates, reduce the effective corporate tax rate from 28% in 1980 to 14% in 1986.

Wealthy individuals stand to benefit just as greatly. The reduction of taxes on gifts, estates, unearned income, and the new "saver certificates" will by themselves save the well-to-do an estimated $38 billion through 1986. Next year, the Congressional Joint Committee on Taxation estimates, these and other new tax breaks will provide the most affluent 6% with 35% of all the benefits.

Budget Cuts for the Poor

Programs for the poor and near-poor were the primary targets of Administration and Congressional budget-cutting. About one million persons just above the poverty line will lose food stamps; unless the Senate acts, roughly one million needy seniors will lose minimum social security benefits; more than one million children and their mothers will lose all or a portion of AFDC benefits, and most of the latter will lose some Medicaid assistance. Cutbacks in CETA, child nutrition, educational loans, public housing, rental subsidies, low-income energy assistance, and weatherization, among other programs, will also hit the poor the hardest.

These losses will not be offset by tax cuts. By 1984, the Joint Committee on Taxation estimates, bracket creep and social security tax hikes will *cost* those earning less than $20,000 an additional $4.5 billion in taxes. By contrast, those earning more than $20,000 are predicted to *gain* $16.2 billion in tax breaks from across-the-board reductions.

Higher Prices for the Middle Class

There has been considerable support for these budget and tax cuts from middle income consumers who believe the Federal government has been overtaxing them and running up unconscionable inflation-creating deficits. To their disappointment, they will soon learn that the wealthy, not themselves, receive the lion's share of the tax reduction. During the next four years, they will also observe Federal budget deficits as high as any in our nation's history.

For the period 1982-84, Congress has already cut taxes by $285 billion, but increased defense spending by much more ($185-208 billion, depending on inflationary projections) than it cut domestic programs ($130 billion). The prospects have begun to frighten even such zealous supply-siders as David Stockman, who is looking at a $60+ billion deficit this year for starters.

Huge deficits and massive military increases will generate long-term inflationary pressures. By forcing the government to compete in credit markets, large deficits will keep interest rates high, and these high rates, ironically, will swell the deficit further by expanding the government's indebtedness. Most defense spending will deprive civilian firms of much-needed capital and brainpower, thereby undermining the country's ability to increase productivity and compete effectively in world markets. In this situation, any increases in money supply, broadly defined to include all titles to property, will be inflationery. As explained in an earlier "CFAnews" article, these disincentives for productive investments will not be offset by individual and corporate income tax cuts.

Less Protection for All Consumers

As a bonus to business beyond the halving of corporate income taxes, the Administration intends to eliminate or weaken regulators and regulations protecting consumers. Failing to persuade Congress to shut down the Consumer Product Safety Commission, it won a reduction in the agency's budget of 30%. As well as restricting the activity of the National Highway Traffic Safety Administration to public education, the White House pressured Congress to slash its budget by 50%. Even though it withdrew a proposal to eliminate the Federal Trade Commission's Bureau of Competition, the Administration aims to reduce the Commission's staff 40% by 1986.

The best friend of low-income consumers, Neighborhood Legal Services, will either see its budget slashed and powers curbed or, if President Reagan is able to sustain a promised veto of a separate authorization bill Congress is likely to pass, be denied any further funding.

Several programs the Administration wished to eliminate did in fact survive— not only the FTC's Bureau of Competition and the CPSC, but also the Consumer Coop Bank and the rural electric cooperatives' loan programs. Yet the danger to most of these programs has not passed. Driven by ideology and a need to reduce bloated deficits, the White House is likely to continue its assault on entitlements and consumer protections.

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Budget Wrap-Up . . .

Food Stamps

Giving way to pressure from conservative Congressmen led by Sen. Jesse Helms (R-NC), budget conferees agreed to cut food stamp benefits an average of $2 billion per year for the next three years. Families below the poverty line will furnish most of the $6 billion "savings."

The cuts, which go even deeper than those requested by the Reagan Administration, will strike over one million recipients from the program and reduce benefits for nearly all 20 million recipients.

Reauthorization of the food stamp program awaits House action on the farm bill in September or early October. The Senate-passed bill provides for reauthroization, but places "caps" on the program.

Consumer Product Safety Commission

One of the brightest moments for consumers in this session of Congress was the lawmakers' refusal to abolish the CPSC as demanded by the Reagan Administration. The consumer protection agency emerged from the budget deliberations with a smaller budget but with a two year reauthorization and its status as an independent agency left intact.

Led by CFA, a broad coalition of national organizations coordinated their lobbying efforts to save CPSC. The coalition found committed support from key legislators such as Sen. Wendall Ford (D-KY) and Rep. Henry Waxman (D-CA), and equally strong support at the grassroots.

CFA's mobilization of the grassroots into a national network of citizens concerned about product safety played a major role in the reauthorization of the Commission by the budget reconciliation conference in July. By that time the Consumer Product Safety Network had over 500 active members making phone calls, writing letters and sending telegrams.

"Early in our lobbying effort, we realized the need to develop strong grassroots support," said Ron Wainrib, CFA Legislative Assistant and network organizer. "Legislators repeatedly complained there was no constituency for product safety. We had to prove them wrong or risk losing CPSC altogether. We proved them wrong."

Low-Income Energy Assistance

Financial assistance to help senior citizens, the handicapped and low-income households pay their heating bills was approved by the Congressional budget conferees despite efforts by the Reagan Administration to cut the program back severely.

The budget sets aside $1.88 billion for the low-income energy assistance program in 1982, an increase of $25 million over this year's funds. But the actual amount still has to be approved through the appropriations process and has to be signed into law by President Reagan.

The fate of the home weatherization program is even less certain. The budget does not earmark any specific funds for

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weatherization, but includes the program with other conservation measures for which $360 million is set aside in the 1982 budget. The specific amount to be alloted for home weatherization must be determined by the appropriations committees, but it will most likely be far less than the $181 million appropriated this year or the $175 million recommended by the budget conferees.

Consumer Education

Consumer education survived the budget cutting process, but emerged in altered form as part of the new state block grant system. Consumer ed will now have to compete for funds with 25 other programs included in the block grants.

"If any money is to be spent for con sumer education," warned CFA Governmental Relations Director Jim Boyle, "individuals will have to organize at the state level to have access to block grant money."

The national Office of Consumers' Education also survived the budget-cutting process, at least until October, 1982. OCE was faced with immediate elimination last spring, but with help from the Coalition for Consumer Education, spearheaded by CFA, its life was continued for the next 13 months.

Rural Electrcity

In opposition to the Office of Management and Budget, Congress directed that rural electric cooperatives continue to have access to low-interest government loans from the Federal Financing Bank (FFB) and from the Rural Electrification Administration (REA).

Earlier this year, the OMB announced it would administratively bar cooperatives from use of the FFB. It also sponsored legislation to raise interest rates charged by the REA.

Robert D. Partridge, head of the National Rural Electric Cooperative Association, praised the actions of Congress: "If it had knuckled under to Administration pressures, the result would have been higher electric bills to rural consumers who already pay an average of 12% more than other consumers for electric services."

Consumer Co-Op Bank

Consumers won a crucial victory over the Reagan Administration when Congress refused to kill the National Consumer Co-op Bank. In a compromise worked out in the final hours of budget reconciliation conference deliberations, Congress voted to turn the bank into a private entity by the end of 1981.

Last spring the Reagan Administration marked the bank for elimination, triggering a fierce battle for survival by the bank, its friends in the consumer movement and its allies on Capitol Hill.

In Congress an unusual bipartisan alliance led by House Banking chairman Fernand St. Germain (D-RI) and Rep. Chalmers Wylie (R-OH) finally saved the institution. Wylie and 17 other Republicans threatened to vote against the final budget bill unless an accommodation was made for the bank.

Watchdog Agency Loses Its Teeth

by Anne C. Averyt, CFAnews Editor

Memories of last year's bitter struggle with Congress haunt the Federal Trade Commission as it awaits new Congressional Reauthorization hearings expected to begin early next year.

The FTC survived the Congressional storm in 1980 but it sustained structural damage which now threatens to significantly change its course. Congress gave itself power to veto FTC actions last year, and prompted by special interest groups, is now threatening to exercise that power.

The FTC recently issued a watered-down version of its long-awaited funeral rules which consumer groups and senior citizen organizations regard as little better than no regulation at all. But even though the rule is weak it may well draw Congressional gunfire.

Under the final rule, funeral directors will be required to disclose prices, terms and conditions only upon request. The Commission rejected proposals requiring itemized listing of the elements of funeral arrangements and subtraction of the cost of items not wanted in the package. It also dropped sections requiring price tags on caskets and floor displays of the least expensive casket available.

An earlier proposal to prohibit embalming unless requested was changed so that a funeral director could proceed after exercising "due diligence" in notifying the consumer that this was an optional item. Left to be resolved is whether funeral homes which offer cremation should be required to have inexpensive containers available instead of expensive caskets.

But despite the lack of teeth in the rule, industry members are considering an appeal to Congress to veto the measure. During last year's hearings, Congress displayed considerable sympathy for the funeral lobby, and a veto of the final rule is considered possible.

Political Potshots

Congress has already taken aim at the FTC over the Commission's scrutiny of restrictive trade practices by lawyers, doctors and other professionals. Key members of Congress warned the FTC during hearings in mid-July that it risks a Congressional ban on the regulation of professionals, unless it backs off on efforts to lift curbs on professional advertising and licensing.

Not surprisingly, the Reagan Administration has also made the FTC a target, proposing to cut its staff 40% by 1986 and advocating the elimination of the FTC's 10 regional offices—moves that according to Commissioner and former FTC Chairman Michael Pertschuk will "wreck" the Commission.

The FTC narrowly escaped the new Administration's ax early this year when Reagan spokesman David Stockman called for the elimination of the Commission's antitrust unit. But the agency's impact on behalf of consumers will be radically reduced when business advocate regulatory foe, James C. Miller III takes over as head of the FTC in October.

Within the Commission, the change in the wind has brought new staff members and new policies.

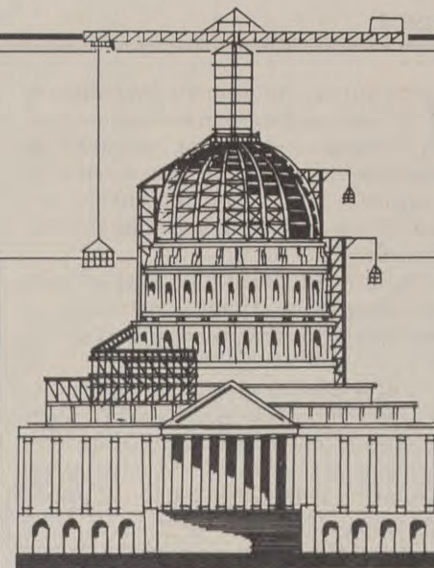
The FTC has begun abandoning its aggressive policy of issuing industry-wide rules and is reverting to a policy of individual suits against offending companies on a case-by-case basis. It was just this policy, ironically, which prompted Congress in the mid-1970s to reform the agency and increase its power to move against abuses in the marketplace.

The "new" FTC has not only crippled its funeral rule, it has killed the "kidvid" probe, and dumped its own proposed used-car rule in favor of a weaker version recently released. It has also dropped its probe of the auto industry's structure at a time when consumer groups are calling for an investigation of auto rebates and other consumer problems with auto companies, but the Reagan Administration is pursuing a policy of assisting the industry by backing away from regulations.

Dropping the Hot Potatoes

The Commission has been backing away a lot itself recently. It has shifted its review of the control of medical prepayment plans by physician groups from an industry-wide to a case-by-case investigation. It voted to drop a rule requiring over-the-counter drug ads to stick to FDA-approved language. In late June, staff members urged the Commission to drop its 8-year-old antitrust case against the nation's eight largest oil companies. And in a number of other previously intitiated actions, the FTC has chosen to discontinue, delay or modify its probes.

The winds in the country have changed. The Administration is fiercely pro-business, the Congress marches to the conservative drumbeat of special interest groups, consumer activists are gone from government leadership. Much of the consumer protection work begun in the mid-70s is now coming to fruition. But because of Congressional and Administration pressures hostile to consumer protection mandates, and internal pressures to merely survive as an independent agency, the rules emerging from the Federal Trade Commission are hardly those envisioned a decade ago.



WASHINGTON PERSPECTIVE

TERRIBLE 20 REGULATIONS

Candidate Reagan's two-edged promise to "get government off the backs of the people" by slashing regulations has become President Reagan's payoff to the business community which calculates regulatory costs not in human terms but in dollar signs.

The Administration's Task Force on Regulatory Relief, headed by Vice-President Bush, has declared open war on government regulations and has asked business to provide the intelligence report on where to draw the battle zones.

Earlier this year, Bush requested from businesses their lists of the most burdensome and costly regulations. The Office of Management and Budget was inundated with responses. The result—a list dubbed the "Terrible 20" by the U.S. Chamber of Commerce: 1) *Hazardous Waste* management, 2) Criteria and standards for national *Pollutant Discharge Elimination* system, 3) *Nuclear Licensing* requirements, 4) Pre-treat-ment standards for the *Discharge of Industrial Waste*, 5) Notification and testing requirements for *New Commercial Substances*, 6) *OSHA's Cancer Policy*, 7) *Incremental Pricing of Natural Gas* which forces large industrial users to pay more than residential users, 8) Davis-Bacon Act's *Prevailing Wage* regulation, 9) *Residential Conservation Service* program, 10) *Coal Conservation* guidelines requiring industry to switch from oil and gas to coal or alternative fuel, 11) *Energy Performance* standards for new buildings, 12) *Mine Safety*, 13) *Occupation Noise* standards, 14) certain *Medicare/Medicaid* rules, 15) *Occupational Exposure* to hazardous substances such as arsenic and lead, 16) *Patient Package Inserts*, 17) Reporting allegations of significant *Adverse Reactions to Health or Environment*, 18) *Affirmative Action*, 19) *Food Labeling*, 20) *Pension Plan* regulations.

Why Reagan Will Try To Deregulate Natural Gas Soon

by Ann K. Lower, Director of Information

Contrary to veteran Washington watchers' earlier assessment that Reagan would not have time to deregulate natural gas this session of Congress, the President's energy advisers indicate that they just might give it a shot.

As one Administration official told *The New York Times*, "We've got a window right now to get it down this year."

Next year, during heated Congressional races, Reagan strategists figure their window is only half open. And after the elections, when we are closer to when decontrol will occur anyway, they figure their window is shut.

DOE policy makers, as early as June, advised Reagan's energy cabinet that if the Administration wants to deregulate, it should act soon. "We have a fairly short window of time in which effective arguments for acceleration can be made," DOE advised.

There is another reason why Reagan's men must hurry. Though Burns Roper's latest poll shows that Reagan received the lowest score from the public on his handling of energy issues—a score that lost Carter the Presidency—energy has become a long-range problem now, not a short-run crisis.

Moreover, while the public still thinks oil price deregulation is against the public interest by 46 percent to 38 percent, the advertising campaigns of the oil companies are beginning to pay off. After looking at a number of polls, *The Christian Science Monitor* reports that "less hostility toward the U.S. oil companies and a greater tolerance of their economic arguments is among the more significant shifts in public views."

So Reagan's men must hurry. One interruption in gasoline supplies, or one cold winter without sufficient amounts of home heating oil, and Reagan's window to deregulation will *slam* shut.

Of course, the Reagan strategists know that their window is not so open now that they can just crawl right through it like undetected burglars in the night. They expect a fight—one certainly promised by Chairman of the House Energy and Commerce Committee, John Dingell—and so they are getting their strategy together.

Here are highlights from two of the most likely options they gave Reagan to study while on vacation this month in California.

"*Option:* Support and hit hard for as much initial price increase as possible, while staying within the rubric of 'phased deregulation.' *Were we forced to retreat somewhat at a later point, it can be argued that we will be better off for giving a little publicly . . .*

"*The Most Likely Option:* Do not specify at this time a particular choice on kinds and amounts of gas which would be allowed an immediate increase. *We could then . . . conduct consultations and negotiations over the month of August.*"

After putting these options on the President's desk, Reagan's men hurried into print announcing that they had recommended to the President that he send up legislation that would *not only* deregulate new gas, but old gas, as well—a category that would have remained under regulation even after 1985.

These are bold men. They have recommended the worst possible case against which Reagan will now attempt to negotiate an accommodation with a new group of boll-weevils. To counter, consumers will need a bold strategy.

J. Devonian Shale, Esq.

J. Devonian Shale, Esq. was drawn by Bob Eckhardt in December of 1977 and first published in his Quarterly Report under the title, "THE GAS PRICE ISSUE As Dealt with by the House-Senate Conference With Impressions Drawn there, Pertinent and Impertinent." The issue which prompted Eckhart's pen, as one of the few pro-consumer members on the conference committee, was the inclusion of stripper wells, Devonian shale, and coal seams as categories of production qualifying for special high-cost treatment. CFA has recently retained Eckhardt as their legal counsel on the gas deregulation issue.

Groups Urge Protection Against Runaway VRMs

CFA Director of Governmental Relations Jim Boyle moderated a recent Washington press coference which announced the formation of a broad-based coalition of consumer, labor and civil rights groups to seek protection for homebuyers against runaway adjustable rate mortgages.

The coalition, made up of more than 60 citizen participation organizations, including Public Interest Research Group, National Urban Coalition, National Association of Neighborhoods, CFA and the National Rural Housing Coalition, said they would ask Congress to place strict limits on the increases in mortgage payments permitted under the new variable rate mortgage (VRM) plan.

Ralph Nader, Gale Cincotta—chairperson for National People's Action, a coalition of 300 neighborhood groups throughout the country—and a representative for International Asociation of Machinists President William Winpisinger, told the press conference that the Federal Home Loan Bank/Board rules governing VRMs contain no limitations on increases in either interest rates or monthly mortgages. The Coalition warned this will result in loss of homes for many Americans as house payments and loan amounts rise faster than buyers' incomes.

"If we are to avoid a sudden explosion of home buyer foreclosures," Boyle told the press conference, "legislation must be enacted to limit increases in mortgage payments. It is one thing to ask borrowers to bear some burden of the risk of interest rate fluctuation; but it is compeltely unfair to shift all the risk to the borrower. If there is no sharing of risk between lender and home buyer, the policy of adjustable rate mortgages becomes a prescription for economic collapse."

In addition to setting limits on increases in house payments, the Coalition's legislative guidelines provide for the continuing availability of conventional fixed rate mortgages and require all VRMs to be based on the same rate adjustment index. The groups also proposed that adjustments in rates be made at regular intervals, not more than once a year.

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