

EFFECT OF TRUTH IN LENDING ON CREDITORS IN MANHATTAN, KANSAS

by 4589

RACHEL SARAH MORELAND

B. S., University of Arizona, 1955

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

1970

Approved by:



Major Professor

**THIS BOOK
CONTAINS
NUMEROUS PAGES
WITH THE ORIGINAL
PRINTING BEING
SKEWED
DIFFERENTLY FROM
THE TOP OF THE
PAGE TO THE
BOTTOM.**

**THIS IS AS RECEIVED
FROM THE
CUSTOMER.**

LD
2668
74
1970
M67
C.2

TABLE OF CONTENTS

| | |
|--|----|
| INTRODUCTION | 1 |
| Development of Truth in Lending | 1 |
| Federal Reserve Regulation Z | 2 |
| Kansas Truth in Lending | 3 |
| Family Economics Consumer Credit Series | 5 |
| OBJECTIVES | 7 |
| PROCEDURE | 7 |
| RESULTS | 9 |
| OBSERVATIONS | 23 |
| SUMMARY AND CONCLUSIONS | 25 |
| ACKNOWLEDGMENTS. | 27 |
| LITERATURE CITED | 28 |
| APPENDIX A -- Interview Schedule, annotated. | 30 |
| APPENDIX B -- Respondents' Comments. | 35 |
| 1. To question 6 | 36 |
| 2. To question 9 | 37 |
| 3. To question 11 | 40 |
| 4. To questions 12 and 14 | 41 |
| 5. To question 15 | 43 |
| 6. To question 16 | 44 |
| 7. To question 17 | 45 |
| 8. To question 20 | 46 |
| 9. To question 21 | 47 |
| 10. To question 22 | 48 |
| 11. To question 23 | 49 |

| | |
|---|----|
| APPENDIX C -- State vs. Federal Definition of "creditor" | 50 |
| 1. Letter of 2/9/70 Frizzell/Lindahl | 51 |
| 2. Letter of 2/10/70 Morse/Robertson | 54 |
| 3. Letter of 3/3/70 Robertson/Morse | 56 |
| 4. Kansas Administrative Regulation 77-2-1(q) | 58 |
| 5. Before the Consumer Credit Commission of the State of Kansas General Order No. 7 March 24, 1970 | 59 |
| 6. Letter of 4/28/70 Burr/Saffels | 62 |
| 7. Letter of 5/1/70 Graham/Saffels | 63 |
| 8. Letter of 5/5/70 Saffles/Graham | 65 |

INTRODUCTION

The Truth in Lending Act became effective July 1, 1969. Its purpose is to assure a meaningful disclosure of credit terms so that the consumer will be able to compare readily the various credit terms available to him and avoid the uninformed use of credit (Public Law 90-321). The concern of this thesis was to determine what effect Truth in Lending had on retailers extending credit in Manhattan, Kansas, a city of over 25,000 population.

Development of Truth in Lending

The tremendous increase in the volume of consumer credit following World War II caused concern among some Americans regarding the quality of the information available to consumers buying on credit. They questioned whether the information needed by consumers to shop for credit and to use it wisely was being provided (Morse, 1957).

In 1960 Senator Douglas introduced the "Consumer Credit Labeling Bill". It was the first in a series of bills under the title of "Truth in Lending" that Senator Douglas introduced in subsequent sessions of Congress. It, like those that followed, required the disclosure of both the dollar cost and the annual percentage rate for consumer credit. It gave the Board of Governors of the Federal Reserve System regulatory and enforcement authority. Those are the essentials of the Truth in Lending Act as passed.

Senator Douglas was defeated in November, 1966 and left the Congress without seeing his bill passed. However, in May, 1966 the Department of Defense issued a significant breakthrough for Truth in Lending, as a result of Congressional investigations into the victimization of military personnel, who all too often were charged excessively high interest rates and mistreated

in the repossession of goods (Congressional Record, 1965). The Department of Defense issued directive number 1344.7. It required that military personnel be informed of the cost of credit and the nominal annual percentage rate by the creditor, if the creditor wanted assistance from the Department of Defense in collecting debts incurred by military personnel (Department of Defense, 1966). This directive and accompanying tables demonstrated that it was possible to disclose the cost of credit and the annual percentage rate. The rate tables were prepared by the U. S. Treasury for the Department of Defense and served as a forerunner to the present Truth in Lending regulation rate tables.

In 1967 Senator Proxmire reintroduced the Truth in Lending bill as S. 5. in the 90th Congress, and in May, 1968 it became the law of the land with an enactment date of July 1, 1969.

Federal Reserve Regulation Z

Pursuant to Title I (Truth in Lending Act) and Title V (General Provisions) of the Consumer Credit Protection Act (Public Law 90-321), the Board of Governors of the Federal Reserve System issued on February 10, 1969 Regulation Z (12 CFR 226). It is under terms of this regulation that the Truth in Lending Act is enforced.

Among other things Regulation Z spells out the disclosures--chiefly the finance charge and the annual percentage rate-- that those who extend consumer credit must make to their customers. It sets standards for advertising credit terms, and permits a customer to cancel some types of credit arrangements within three business days if his residence is used as collateral (Robertson, 1969).

The Federal Reserve Board also is responsible for supplying the information about the Truth in Lending Act to all known creditors in the nation. This has been done through releases to news media and through the distribution of copies of Regulation Z to as many creditors as were then known. The eight other Federal agencies charged by Congress to enforce Truth in Lending regulations assisted in this distribution effort.

Truth in Lending Regulation Z applies to all businesses that extend or arrange credit for which a finance charge is or may be payable, or which is repayable in more than four instalments (Section 226.2(k)). It requires that every credit transaction or offer must show clearly the finance charge and the annual percentage rate (Sections 226.4 and 226.5). With this information a person seeking credit can compare costs from a variety of sources. The Truth in Lending Act does not regulate credit nor does it tell lenders how much they may charge. It is concerned only with disclosure of credit terms.

Kansas Truth-In-Lending

The Federal Reserve Board has been given the authority to exempt a particular state from the Federal Truth in Lending regulations if that state passes a law substantially similar to the Federal Act (Public Law 90-321). The history of this provision is traced by Fasse (1970).

Purportedly it was to meet the requirements for this exemption that the Kansas Truth-In-Lending legislation, Senate Bill 125, was introduced in the Kansas Senate on February 5, 1969. The bill became a controversial issue in the 1969 Kansas State Legislature as documented by Fasse (1970) and Reisig (1970).

The Kansas Act consists of two portions. The first is essentially a

replica of the Federal Truth in Lending Act. The latter consists of various amendments that raised the legal maximum on interest rates on consumer loans and legalized credit card transactions. Certain sections related to sales and loan credit were based on the Uniform Consumer Credit Code (UCCC), a proposed model for uniform state consumer credit legislation. Morse and Fasse (1970) have evaluated the UCCC from the consumers' standpoint.

The Kansas Act requires any retailer and others who wish to engage in consumer credit to pay a \$10 notification fee and an annual fee of \$10 for each \$100,000 of outstanding credit. The fee is to provide funds sufficient to support the state regulatory agency. No such fee is required to support the Federal Trade Commission.

Enactment of the Kansas Act not only required retailers to pay a \$10 notification fee, but it also raised the question, "Who is a creditor?" Both the Federal and State Acts define a creditor as someone engaging in the extension of credit if there is a finance charge. Thus, a retailer who adds the finance charge to the retail price and advertises "no finance charge" "monthly payments can be arranged" could escape coverage under the Kansas Truth-in-Lending Act. This escape was recognized by the Federal Reserve Board who closed the hole by defining in the regulations a creditor as one who agrees to receive repayment in more than four instalments even though no finance charge is imposed.

The Kansas Attorney General ruled that because regulations could not extend or modify the law, a retailer that accepted payments over a period of time, but did not make a finance charge, was, according to Kansas statutes, not engaged in credit and thus need not pay the \$10 notification fee. The present opinion of the Attorney General of Kansas and the Consumer Credit

Commission is that such retailers are not considered creditors. To include them as creditors will require legislation. (Copies of all relevant documents and letters to date bearing on this question are shown in Appendix C.)

At the time of this study a second notice from the Consumer Credit Commission had been mailed to all retailers to pay the \$10 notification fee, so understandably, many retailers were as much if not more conscious of Truth in Lending as a Kansas Statute as they were of its enactment by the Congress.

Family Economics Consumer Credit Series

This study reflects the long standing interest of the Family Economics Department at Kansas State University in teaching consumer credit, and the need for standardized disclosure of credit terms to facilitate efficient consumer credit education. Instructors of the Family Finance course have assigned students a credit problem requiring that they get the dollar cost and annual percentage rate from each of four credit grantors in their local communities. The data from those assignments have been analyzed and published (Morse and Courter, 1963) (Redeker, 1964). This has proved effective in acquainting students with the ability of credit grantors to give reliable information. It has also yielded significant information. Analysis of quotations before and after the enactment of the Truth in Lending Act is currently being made by Rasmussen (1970).

As the use of revolving credit became more and more prevalent, the Family Economics Department became interested in determining what kind of information related to the cost of revolving credit was available from retailers.

The results of earlier studies were reported by Morse (1966) and

popularized by Consumer Union (1967). The standardized billing sequence constructed for the purpose of enabling creditors to demonstrate the workings of their credit system was published in the American Home Economics Association Workbook on Credit (Morse, 1968).

The reliability of credit personnel of chain stores and of central office management to identify the system used for figuring dollar cost of credit was studied by Max (1969). She interviewed 51 Kansas stores representing 11 different chains, and concluded that reliable information was not available from retail credit personnel at the store and central office levels. This study, conducted prior to passage of the Truth in Lending Act, was repeated after the Truth in Lending Act became effective. The only significant difference was in the quality of information disclosed on the contracts and in printed literature (Max and Morse, 1970).

A third type of study was that undertaken by Leonard (1967) of the impact on retailers of the Department of Defense Directive. The success of interviewing retailers about their credit practices and their understanding of the directive suggested the feasibility of making the present study of the impact of Truth in Lending on retailers.

OBJECTIVES

The objectives of the study were:

1. To study the impact of the Truth in Lending Act on independent businesses engaged in consumer credit.
2. To specifically identify those businesses in Manhattan, Kansas engaged in credit covered by the Truth in Lending Act.
3. To determine the type and source of information relative to Truth in Lending received by creditors.
4. To seek opinions of creditors relative to the effect of the Truth in Lending Act on their customer relations.
5. To seek opinions of creditors concerning the effect of the Truth in Lending Act on how consumers shop for credit.

Procedure

The Chamber of Commerce office furnished a list of businesses in Manhattan. From it a list was compiled of those businesses presumed doing a major part of their business with retail credit. Only those businesses not associated with a chain concern were included. There were 75 in the total population.

A random sample was drawn for interviewing of all businesses classified into strata: banks, finance companies, credit union, savings and loan companies, motor vehicle and boat dealers, mobile home dealers, jewelry stores, furniture and appliance stores, funeral homes, plumbing contractors, electric contractors, and monument sales and concrete products. The sample included: (a) all of the financial institutions, with the exception of two of the three credit unions, (b) all businesses in those strata with less than four

businesses, and (c) one-half of the businesses in strata of more than four businesses. The population size and resultant sample for each stratum is presented in Table 1.

Table 1. Population and sample size by stratum

| Stratum | Businesses | Sample |
|------------------------------------|------------|--------|
| Banks | 4 | 4 |
| Finance Companies | 7 | 7 |
| Credit Union | 1 | 1 |
| Savings & Loan Companies | 2 | 2 |
| Car, Truck & Boat Dealers | 16 | 8 |
| Mobile Home Dealers | 2 | 2 |
| Jewelry Stores | 8 | 4 |
| Furniture & Appliances | 10 | 5 |
| Music Stores | 2 | 2 |
| Funeral Homes | 3 | 3 |
| Plumbers | 8 | 4 |
| Electric Contractors | 10 | 4 |
| Monument Sales & Concrete Products | 2 | 2 |
| ALL | 75 | 48 |

An interview schedule was prepared and pre-tested in 10 interviews. Changes in the pre-test schedule were made to make the meaning of some of the questions clearer. Responses to questions 3 and 21 tended to duplicate each other so those questions were revised. A few changes were made in the choices

offered respondents to facilitate tabulation of the answers. Since the changes were relatively minor, a second pre-testing was not done. The final interview schedule is shown in Appendix A.

The interviews were conducted during January and February of 1970. Every business contacted responded to the interview. No appointments were made and it was necessary to call back for only three of the interviews.

The interview schedule was designed so that all respondents answered questions 1 through 5. Questions 6 and 7 were answered only by those who did not believe the Truth in Lending Act applied to their businesses. Respondents who believed the Truth in Lending Act applied to their businesses answered questions 8 through 23. For those respondents the average time to complete the interview was twenty minutes. However, the few respondents who were generally upset over the Truth in Lending Act required from forty-five minutes to an hour to interview. If the respondent needed to answer only the questions on the first page, the interview rarely lasted over ten minutes and many were completed in five minutes.

Results

The numerical results of the survey are shown in handwriting on the interview schedule in Appendix A. All comments to questions are in Appendix B. Only representative comments and a summary of the general consensus of opinions expressed by respondents on each question is reported in the following report of results.

Acquainted with the Truth in Lending Act (Questions 1 and 2)

Most (96%) of the businesses interviewed were familiar with the Truth in Lending Act. A majority (60%) had seen the pamphlet What You Ought To Know

About Federal Reserve Regulation Z, published by the Federal Reserve Board and distributed to all known creditors by them. Only 12 businesses (25%) had not seen nor heard of the pamphlet.

Truth in Lending Creditors (Questions 4-7)

The majority (60%) of the respondents believed the Truth in Lending Act pertained to their business, while 40% did not. The 19 businesses comprising the latter group did cash business. For this study "cash" was understood to include the 30, 60, or 90-day charge accounts with no interest or carrying charge.

Those respondents who did not believe the Truth in Lending Act applied to them also were asked if they ever made arrangements to have a bill collected in more than four payments. The Federal Reserve Regulation Z Section 226.2(k) defines consumer credit as existing if the credit is repayable in more than 4 instalments. Eight of the 19 businesses (42%) which did not believe the Truth in Lending regulations applicable to them indicated they did make arrangements to have bills collected in more than four payments. The effect of the Truth in Lending Act on creditors is summarized in Table 2.

The remainder of the interview schedule, beginning with question 8, applied only to the 29 respondents who believed their business came under the jurisdiction of the Truth in Lending Act.

Type of credit extended (Question 8)

Twenty-one of the businesses (75%) extended credit of the instalment type in connection with automobile sales (15), other consumer goods (19), personal loans (12), home repair and modernizing loans (13), real estate (11), and services (10). The non-instalment credit, identified by eight businesses,

Table 2. Effect of the Truth in Lending Act on creditors

| Interviewees | All | Financial Institutions | Car, Truck Mobile Homes | Furnishings Jewelry, Music | Others |
|--|-----------|---------------------------|-------------------------------|----------------------------------|-----------|
| All | <u>48</u> | <u>14</u> | 9 | <u>11</u> | <u>14</u> |
| Familiar with the Truth in Lending Act | 45 | 14 | 9 | 9 | 13 |
| Had seen Federal Reserve <u>Regulation Z</u> pamphlet - - - - - | 30 | 14 | 6 | 7 | 3 |
| Had heard about Regulation Z - - - - | 36 | 14 | 8 | 5 | 9 |
| Believed the Truth in Lending Act to pertain to their business - | 29 | 14 | 8 | 4 | 3 |

included single payment credit, 30, 60, or 90-day charge accounts, and budget contracts with an automobile financing company for auto repair work. None of the respondents reported revolving charge accounts.

Purpose of the Truth in Lending Act (Question 9)

An overwhelming majority (93%) of the creditors understood the purpose of the Truth in Lending Act was to give the consumer information needed to shop for credit. One respondent whose business involved selling insurance as well as operating a finance company said he had used the information extensively in locating the most economical source of credit for large contracts with insurance clients. He believed the law had not only benefited consumers but had been beneficial to him in his business. Prior to the Truth in Lending Act, he had been unable to obtain adequate information on the true cost of money.

Only three respondents believed that the law served no purpose or did not help anyone. All comments in reply to this question are tabulated in Appendix B-2. Each is identified with the type of business with which the respondent making the comment was associated.

Finance Charge (Question 10)

Twenty-seven (93%) of the creditors had made no changes in the items included in the finance charge. The two creditors who had made changes indicated they had not considered the premium for life or other insurance, when this was a condition for giving credit, as a part of their finance charge. These were a finance company and a music store. The music store also had not previously considered the loan fee and amount paid as discount as a part of the finance charge.

Customers' reactions to finance charge (Question 12)

The creditors were asked to rate their customers' reactions to the disclosure of the finance charge on a five point scale of "very favorable," "favorable," "no difference," "unfavorable," and "very unfavorable." The reactions cited ranged from "favorable" to "very unfavorable," but the most frequently cited (86%) was "no difference." The distribution of the various customers' reactions among the different types of businesses is given in Table 3.

Annual percentage rate (Question 13)

Most creditors used charts furnished by their home office, tables from the Federal Reserve Board, or charts supplied by their finance source to figure the annual percentage rate. Creditors that maintained open accounts charged a certain percent of the unpaid balance on late accounts. One

Table 3. Customer reaction to the disclosure of the finance charge

| Scale | All | Financial Institutions | Car, Truck, Mobile Home | Furnishings, Music, Jewelry | Other |
|------------------|-----------|---------------------------|----------------------------|--------------------------------|----------|
| All | <u>29</u> | <u>14</u> | <u>8</u> | <u>5</u> | <u>2</u> |
| Very favorable | - | - | - | - | - |
| Favorable | 2 | 1 | 1 | - | - |
| No difference | 25 | 13 | 7 | 3 | 2 |
| Unfavorable | 1 | - | - | 1 | - |
| Very unfavorable | 1 | - | - | 1 | - |

creditor did not figure the annual percentage rate on any of his contracts.

Customers' reactions to the annual percentage rate of interest (Question 14)

Stating the interest as an annual percentage rate on the contracts caused more reaction from customers than had stating the finance charge as a separate dollar cost. The same scale was used to rate the customers' reaction to both. A little over three-fourths (79%) of the creditors indicated it had made "no difference" to their customers, however, reactions were noted on each step of the scale as is shown in Table 4.

Customers' comments (Questions 12 and 14)

The creditors were asked to relate what they considered the most meaningful comments made by their customers in relation to the disclosure of the finance charge and to stating the annual percentage rate on the contracts. The majority (76%) had had no comments from their customers in relation to the finance charge, however, over half (62%) had received comments concerning

Table 4. Effect on customer relations of stating interest as annual percentage rate

| Scale | All | Financial Institutions | Car, Truck, Mobile Home | Furnishings, Music, Jewelry | Other |
|------------------|------------|---------------------------|----------------------------|--------------------------------|----------|
| All | <u>28*</u> | <u>14</u> | <u>8</u> | <u>4</u> | <u>2</u> |
| Very favorable | 1 | 1 | - | - | - |
| Favorable | 1 | 1 | - | - | - |
| No difference | 23 | 12 | 7 | 2 | 2 |
| Unfavorable | 2 | - | 1 | 1 | - |
| Very unfavorable | 1 | - | - | 1 | - |

* one creditor did not figure the annual percentage rate

the annual percentage rate. In general it was the higher interest figures that created questions or comments.

Several of the creditors expressed the belief that their customers simply were not interested in how much the credit was costing them. Their only concern was whether they could afford the monthly payment.

Representative of the comments received from customers in relation to the annual percentage rate were:

They ask how we figure the interest so that it is more than they used to pay.

Customers think the interest is too high.

Whenever I get a comment, the customer is generally upset and wants to know "why are we paying 18%? That is USURY!" If people aren't disturbed about it, they do not comment.

Many of my customers think the rising cost of prime money accounts for the higher interests rates.

People in the income bracket to buy mobile homes are most interested in whether or not they can afford the monthly payment, not in how much the interest rate is.

Prior to the Truth in Lending Act, Kansas law required disclosure of the finance charge. The major change was the additional disclosure of the annual percentage rate.

Shopping for credit (Question 15)

The Truth in Lending Act has made available to the credit customer the information he needs to shop for credit. Did the creditors believe their customers were making use of this information to actually shop for credit? Creditors were asked to give their opinions on a 5-point scale of "quite a few," "some," "a few," "none," and "don't know." The majority (72%) of the creditors believed none of their customers had done any credit shopping. Opinions varied on this question and responses noted at each step of the scale. The distribution of responses among the different types of creditors is shown in Table 5.

Table 5. Creditors' opinions on number of consumers shopping for credit

| Scale | All | Financial Institutions | Car, Truck Mobile Home | Furnishings, Music, Jewelry | Other |
|-------------|-----------|---------------------------|---------------------------|--------------------------------|----------|
| All | <u>29</u> | <u>14</u> | <u>8</u> | <u>5</u> | <u>2</u> |
| Quite a few | 1 | - | 1 | - | - |
| Some | 3 | 3 | - | - | - |
| A few | 2 | - | 1 | 1 | - |
| None | 21 | 11 | 6 | 3 | 1 |
| Don't know | 2 | - | - | 1 | 1 |

One-third of the creditors commented about credit shopping by consumers. The comments were about evenly divided between those who thought consumers were doing more shopping for credit and those who thought they were not. All the comments are tabulated in Appendix B-5, but the following are indicative of the types of comments received:

Customers who've always shopped still do, those who didn't still don't.

More are shopping now than before.

We have had no more shoppers than usual.

There is no need to shop, the rates are all the same in our industry.

People want the money. They want to know what the monthly payment is. They are not interested beyond that.

Generally it is non-customers who are the shoppers.

Advertising credit (Questions 16 and 17)

Over two-thirds (69%) of the creditors had made no changes in their advertisements concerning credit since the Truth in Lending Act. Eight (40%) of the creditors reporting no changes had never advertised credit and do not do so now. Of those who had changed their advertisements, four had quit quoting any percentage rates in their ads. The remainder had quit advertising credit terms because they were uncertain about what could be put in the ads, however two had resumed advertising when their home offices furnished new formats. One finance company manager did not know how their advertisements had changed because this was taken care of completely by the home office and he had not paid any attention to the matter. The reaction of the different types of creditors to advertising credit since the Truth in Lending Act is tabulated in Table 6.

Table 6. Creditors' reactions to advertising credit since the Truth in Lending Act

| Creditor | All | Made no change | Made changes | Didn't know | Never have and do not now advertise credit |
|----------------|-----------|----------------|--------------|-------------|--|
| All | <u>29</u> | <u>12</u> | <u>8</u> | <u>1</u> | <u>8</u> |
| Banks | 1 | 2 | 2 | - | - |
| Credit Union | 1 | - | 1 | - | - |
| Finance Co. | 7 | 4 | 2 | 1 | - |
| Savings & Loan | 2 | 2 | - | - | - |
| Mobile Homes | 2 | - | - | - | 2 |
| Car & Truck | 6 | 3 | 1 | - | 2 |
| Music | 1 | - | 1 | - | - |
| Jewelry | 2 | 1 | 1 | - | - |
| Others | 4 | - | - | - | 4 |

Generally the creditors reported they had not noticed changes in the advertisements of their competitors. Among the 24% who had noticed changes, the most frequently mentioned change was that they no longer say the "nothing down and so much a week" type of advertisement. One creditor noted that dollar rates were no longer being advertised as the interest rate. Another said he had noticed fewer ads offering "easy credit."

Time of compliance with the Truth in Lending Act (Question 19)

Most (86%) of the creditors were operating their business in what they considered to be in compliance with the Truth in Lending Regulation Z, when it became effective on July 1, 1969. One creditor was ready by September 1, 1969; one by January 1, 1970; one was in the process of getting new forms

printed and meanwhile he was adjusting his old contracts. One creditor had done nothing at the time of his interview in February. He indicated he intended to but just had done nothing as yet.

Changes made in handling credit business (Question 20)

Twenty-three (79%) of the creditors had not made any changes in the way they handled their business because of the Truth in Lending Act. Among the 21% who had made changes only two involved more than simply changing their contract forms. These changes were:

The manager of a home furnishings store now writes all the contracts, whereas previously any of the salesmen had written them.

The manager of a finance company reported he could no longer have any blank spaces on the loan forms. Previously they had filled in some of the blanks after the customer had signed the form and left the premises.

Evidently the Truth in Lending Act caused the manager of that finance company to bring his practices into conformity with what has been Kansas law for many years but of which he seemingly was unaware.

Assistance in understanding the Truth in Lending regulations received by creditors (Question 21)

The creditors received assistance from numerous sources. Four (14%) had received the major part of their information from meetings held by the Federal Reserve Board. One of those was a foreign car dealer. He reported that their manufacturer had urged all dealers in the United States to attend the Federal Reserve meetings. Seventeen (59%) had received assistance from trade associations or home offices. Eight (27%) gave as their major source of help their finance or credit source, which in general were the local banks and finance companies.

Attorneys and accountants were most often listed as "others" who had given assistance.

The type of help received included general information about the regulations as they affected the business concerned and having new contract forms supplied or receiving suggestions for developing their own forms. Table 7 gives a summary of the primary sources of assistance and the type of creditors receiving the help. Table 8 gives the tabulation of assistance received in detail.

Table 7. Sources of assistance received by creditors in understanding the Truth in Lending regulations

| Primary source | Number of creditors | Types of businesses |
|--|---------------------|--|
| All | <u>29</u> | |
| Trade associations or home offices | 17 | Financial institutions Jewelry store Music store Funeral home |
| Finance or credit source | 8 | Car and truck dealers Mobile home sales Home furnishings store |
| Meetings held by the Federal Reserve Board | 4 | Mobile home dealer Foreign car dealer Finance companies |

Source: Table 8

Table 8. Assistance in understanding the Truth in Lending regulations received by creditors

| Creditors | Source of help | Type of assistance |
|----------------------|---|--|
| Banks | Kansas Bankers Association | Supplied sample forms Held group clinics |
| Credit Union | Kansas Credit Union League | Supplied new forms Sent literature on the law Held informational meetings |
| Finance companies | Home offices | Furnished new forms |
| | Kansas Assoc. of Finance Companies | Gave information in memos and bulletins relating the law to their businesses |
| | Kansas Assoc. of Independent Insurance Agents | |
| | Federal Reserve Board | Held informational meetings |
| Savings & Loan | U.S. Savings & Loan League | Gave information in bulletins Supplied forms |
| Car* & truck dealers | Kansas Motor Car Dealers Assoc. | Held district informational meetings |
| | Financing source | Furnished new contract forms |
| | Federal Reserve Board | Held informational meetings |
| Mobile Home sales | Federal Reserve Board | Held informational meetings |
| | Financing source | Supplied new forms and explained how to use them |
| Home Furnishings | Financing source | Supplied new forms |
| | Office supply firm | Helped in securing new forms |
| Jewelry store | Jewelers Board of Trade | Explained the law in their monthly newsletters |
| | Retail Jewelers of America | |
| | Kansas Jewelers Assoc. | |
| Music Store | National Assoc. of Music Merchants | Distributed complete manuals on Regulation Z and held a seminar at the 1969 convention on Truth in Lending |
| Funeral Homes | Order of the Golden Rule | Suggested forms and ways of stating items |

* The foreign car dealer was urged by his manufacturer to attend the Federal Reserve Board meetings on Truth in Lending.

Only one creditor, the owner of a music store, had actually developed his own credit contract to meet the Truth in Lending regulations. He said other music stores in Kansas had used it as a guide for developing their own forms.

The creditors were asked for copies of the contracts they used before the Truth in Lending Act and of those they were now using. Eighteen (62%) did supply copies of both contracts. The rest either preferred not to release their contracts or did not have them available at the time of the interview. Those received are on file for review in the Family Economics Department at Kansas State University.

Effect of the Truth in Lending Act on competition (Question 23)

The overwhelming majority (90%) of the creditors did not believe the Truth in Lending Act had affected their competitive position within the credit community. A home furnishings dealer voiced the sentiment of many of the creditors, other than the financial institutions, when he said he did not think his credit policies were a deciding factor in gaining customers. He felt his merchandise and services were of primary importance, while the credit was simply an added convenience for those who wanted to use it.

Among financial institutions the general consensus was that the Truth in Lending Act probably had helped their competitive position. The typical response from the finance companies was: "If anything, it has bettered our position in relation to banks." They believed that interest charges stated as annual percentage rates by all the financial institutions made potential customers realize that the difference between the interest charged by finance companies and by the banks really was not very great.

The bankers also believed the law had helped them and basically for the same reason as given by the finance companies, except they believed it was the banks that had benefited by the use of annual percentage rates. One banker explained: "It's been of slight benefit to the banks, because our rates are so much lower than the finance companies charge." Thus, since both the banks and the finance companies believe they have benefited from the law for the same reason, it seems safe to assume the law has not greatly affected the competitive position of either.

Only one creditor, the owner of a jewelry store, believed his business had been affected adversely by the law. He commented: "It has hurt my competitive position because I am telling patrons the annual percentage rate is 1% per month or 12% per year while my competitors are saying they have no interest, no carrying charges, and no money down for purchases. So far I have not added to my mark-up to compensate." Of the four jewelers interviewed he was the only one who thought his business came under the jurisdiction of the law.

Other effects (Question 22)

The creditors were given the opportunity to state any other ways in which the Truth in Lending Act had affected or might affect their businesses. One creditor who deals in "large ticket items" reported he had discontinued his discount for prompt payment policy rather than do the figuring necessary to comply with the regulations on such discounts. He was unwilling to quote the annual percentage rate as he understood it should be stated if discounts were given. He believed the resulting annual percentage rate for such situations would be "two or three hundred percent." Others generally commented that the Truth in Lending Act had added to their costs and to the bookkeeping

details of their business. Beyond that it had not affected them and they did not expect that it would.

OBSERVATIONS

Over two-thirds of the creditors had made no changes in their credit advertising. Among those who had made changes, most had either quit advertising credit entirely or had stopped quoting percentage rates in their ads. The Board of Governors of the Federal Reserve System in their annual report to Congress on Truth in Lending (1970) had a similar conclusion based on a nationwide survey. They reported:

Advertising appears to be the most troublesome single problem area. There seems to be some misunderstanding as to limitations on advertising credit terms. There is some feeling that the restrictions are unnecessarily severe and tend to eliminate all advertising of credit terms. As a consequence, customers are said to be unable to shop for credit by reading advertisements; they must physically go from creditor to creditor to ascertain credit terms. We are watching developments in this area closely, but at the present time we are recommending no change in the advertising provisions of the Act.

Six months after the Truth in Lending Act became effective, some creditors were still uncertain about the regulations. Generally they were the independent businesses who did not have affiliations with a home office or a specific finance source, and therefore were without guidance as to how to comply with the law.

The responses did bring out some apparent misconceptions about the Truth in Lending Act. For example, one creditor had gone back over his accounts for the past year and refigured them according to the regulations of Truth in Lending. Either he had been misinformed or had misinterpreted the information he had received on Truth in Lending for the regulations did not make any such requirement.

Another creditor was extremely disturbed over what he termed the "lay-away situation." He believed the Truth in Lending Act required him to make full refund on any merchandise that had been put in lay-away if the customer decided he did not want it. He cited an example of a ring which required a special order and was bought on lay-away seven months previously. A competing merchant convinced the buyer that he could give him a better deal and encouraged him to ask for a refund on the original purchase. The refund was made, but the first seller believed the Truth in Lending Act had caused him undue problems in this situation. Again, it is not known where this creditor received his information, but there is nothing in the Truth in Lending regulations to require him to make this kind of a refund.

Misconceptions about the Truth in Lending Act occurred most generally among the independent creditors. Feldman, (1969), attorney in charge of the Truth in Lending Section of the Federal Trade Commission, stated before the Truth in Lending Act ever became effective that he was convinced it would be the small retailers and small finance companies that would encounter the most difficulties in complying with the Act. This study seems to indicate that for Manhattan, Kansas Feldman had made an accurate prediction.

At the time of the interviews most retailers had just received a second notice from the Kansas Consumer Credit Commission of their 1970 liability for a \$10 notification fee. This was irritating because the commissioner had requested payment for 1969 only three months previously. Furthermore, this requirement in compliance with the Kansas Truth-In-Lending Act generally was not recognized as a distinctively Kansas requirement, but was construed to be a part of the Federal Truth in Lending Act. However, there was a conflict between the laws that became apparent among jewelry stores. The Kansas requirement that creditors pay the \$10 notification fee, caused some jewelers

to question their liability. Under Kansas law those advertising "no finance charge, easy payments" did not consider themselves creditors, because there was no finance charge. However, under Regulation Z they were considered creditors if they arranged for repayment in more than four instalments. This conflict in definition between the Federal and State laws is still under discussion as documented in Appendix C.

SUMMARY AND CONCLUSIONS

The majority of the creditors in Manhattan, Kansas correctly identified themselves as to whether they were subject to the requirements of the Truth in Lending Act. The major exception was the jewelry stores that did not make a finance charge but did arrange to collect bills in more than four payments. This confusion was justifiable in that they were subject to the Federal Truth in Lending Act, but not to the Kansas Truth-In-Lending Act.

Assistance with interpretation of the Truth in Lending Act came primarily from trade associations or home offices, the business's finance or credit source, or from information meetings held by the Federal Reserve Board. Many of the creditors also had been helped by their attorneys or accountants. The assistance generally included information about the Truth in Lending Act as it related to their type of business and new credit forms. No assistance from the Chamber of Commerce was reported by any of the creditors.

The majority of the creditors did not believe the Truth in Lending Act had greatly affected either the way they conducted business, or their relations with customers. Disclosure of the finance charge had been required in retail credit and on loans under the Kansas Consumer Loan Act, so stating the annual percentage rate was the major new disclosure. Consequently it caused more

comments from customers than any other requirement of the Truth in Lending Act. Some indicated they believed that as the public became accustomed to the annual percentage rate it would cease to be a source of comments.

Although the Truth in Lending Act has required disclosure in the contract of the information needed to shop for credit, the majority of the creditors believed that their customers were not making use of this information as they shopped for credit. Some expressed the belief that as consumers became better educated about the finance charge and the annual percentage rate they would do more shopping for credit.

Since the creditors interviewed did not believe consumers were making use of the information available to them, a study might well be undertaken to determine the reliability and usefulness of the information currently being disclosed by creditors to the consumer who is shopping for credit prior to signing the contract. The Truth in Lending Act requires full disclosure of terms in the contract and in advertising only under certain circumstances, but it does not pertain to factual disclosure by sales personnel to the prudent shopper.

A companion study would determine how effectively the consumer uses the information disclosed in shopping for credit.

ACKNOWLEDGMENTS

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

Gratitude is expressed to William R. Fasse for his assistance; 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.

A special note of thanks goes to my employer, Dr. Richard A. Farley, Director of the University Library, for his encouragement and understanding throughout graduate study and the development of this thesis.

Expressions of appreciation and gratitude would not be complete without acknowledging the tremendous support given me throughout my graduate study by my husband, Floyd, and children, Richard, Tommy, Mary, Cathy, and John Mark. John Mark's contribution being to provide a pleasant interlude from graduate study in order to receive him into our family.

LITERATURE CITED

- Board of Governors of the Federal Reserve System. Annual Report to Congress on Truth in Lending for the Year 1969. Washington, D. C.: Board of Governors of the Federal Reserve System, (January 9), 1970.
- _____. What You Ought to Know About Truth in Lending. Washington, D. D.: Board of Governors of the Federal Reserve System, 1969.
- Fasse, William R. "Truth-In-Lending in Kansas." Unpublished Masters Thesis, Kansas State University, 1970.
- Feldman, Sheldon. "Administrative Enforcement of Truth in Lending." Consumer Finance News, 54 (October 1969), 7.
- Leonard, Louise. Effect of Department of Defense Directive Number 1344.7 on Creditors Bordering Fort Riley. Department of Family Economics, Kansas State University, Manhattan, Kansas, 1967.
- _____. "Effect of Department of Defense Directive Number 1344.7 on Creditors Bordering Ft. Riley." Unpublished Masters Thesis, Kansas State University, 1967.
- Max, Marilyn Janet Morris. "Revolving Credit Systems Prior to the Truth in Lending Act." Unpublished Masters Thesis, Kansas State University, 1969.
- Max, Marilyn J., and Morse, Richard L. D. "Retail Revolving Credit Disclosures Before and After Truth in Lending." Unpublished. Department of Family Economics, Kansas State University, Manhattan, Kansas, 1970.
- Morse, Richard L. D. "Consumer Credit." Journal of Home Economics, 49 (April 1957), 273.
- _____. "Revolving Credit--The Big Hole in Truth in Lending." Consumer Reports, 32 (September 1967), 470-474.
- _____. "A Workbook on Consumer Credit." Journal of Home Economics, 60 (January 1968) 47-52.
- Morse, Richard L. D., and Courter, Theresa. "Are Credit Terms Quoted Accurately?" Consumer Finance News, 48 (October 1963), 3.
- _____. "Are Credit Terms Quoted Accurately?" Credit Union Executive, 2 (Winter 1963), 20-29.
- _____. "Are Credit Terms Quoted Accurately?" Personal Finance Law Quarterly Report, 17 (Fall 1963), 119.

- Morse, Richard L. D., and Fasse, William R. "Where is the Consumer in the Uniform Consumer Credit Code?" Journal of Home Economics, 62 (January 1970), 30-33.
- Rasmussen, Albie. "Accuracy of Credit Quotations Before and After Truth in Lending." Unpublished. Department of Family Economics, Kansas State University, Manhattan, Kansas, 1970.
- Redeker, Norma J. "Credit Quotation Accuracy." Unpublished Masters Thesis, Kansas State University, 1964.
- "Regulation Z: Truth in Lending." Code of Federal Regulations, Title 12, Chapter II, Part 226.
- Reisig, Pamela W. "Kansas Daily Newspaper Coverage of Senate Bill 125-- Truth-in-Lending." Unpublished Masters Thesis, Kansas State University, 1970.
- Robertson, J. L. "Statement of J. L. Robertson, Vice Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Consumer Affairs of the Committee on Banking and Currency, House of Representatives, March 6, 1969." Federal Reserve Bulletin, 55 (March 1969), 251.
- U. S. Congress. Consumer Credit Protection Act. Public Law 90-321, 90th Congress, 2nd session, S. 5, May 29, 1968.
- U. S. Congressional Record. Proceedings and Debates of the 89th Congress, 1st Session, Volume III, No. 176, Washington, D. C., September 28, 1965, 24098-24010.
- U. S. Department of Defense. Department of Defense Directive Number 1344.7, September 29, 1965.

APPENDIX A

Interview Schedule, annotated

Page 1

Date: _____

Firm: _____

Time In: _____

Person Interviewed: _____

Time Out: _____

Position in Firm: _____

I am Rachel Moreland, graduate student in Family Economics at K.S.U. I am studying the impact and effect of the Federal Truth in Lending law which became effective July 1, 1969. I'm interested in your reaction to the bill and the effect it has had on the way you do your credit business. I would like a few minutes to ask some questions.

1. Undoubtedly by now you have hear or read something about the Truth in Lending law, but have you see or are you familiar with it? ²⁵YES 3 NO
2. This pamphlet was prepared by the Board of Governors of the Federal Reserve System. (Show "What you ought to know about Federal Regulation Z")
 - a. Have you ever seen this pamphlet before? ²⁹YES ¹⁹NO
 - b. Have you heard about it? ³⁶YES ¹²NO
3. The government anticipated that your trade association would assist you by supplying you with information on Truth in Lending and with forms for use in your business.
 - a. Has your association done this? ³¹YES ¹⁷NO

I will be asking for more details about this later on.

4. Do you extend or arrange credit for which a finance charge is or may be payable?

| | | | |
|-------------------|---|------------------|--|
| ³² YES | <u>23</u> Do your own financing | ¹⁶ NO | <u>8</u> Cash only |
| | <u>13</u> Arrange for customer to get credit from another source. | | <u>10</u> Cash policy, but not always effective. (i.e. customers sometimes pay bills by instalments without making arrangements to do so.) |

Comments: _____

5. Do you believe the Truth in Lending law pertains to your business?

²⁹YES ¹⁹NO (If "yes" skip to question 8.)

6. Why do you not consider this applicable to your business? _____

Comments are given in Appendix B-1

7. Do you ever arrange to have bills collected in more than four payments?

⁸YES // NO

8. What forms of credit do you extend, arrange or offer to your customers?
(Which of the following apply to you?)

Installment

- 15 Automobile paper
19 Other consumer goods
12 Personal loans
13 Repair and modernizing loans
11 Real estate
 First Second mortgage
 For services (Doctor, Dentist,
 Repair work, etc.)
 Other (specify)

Non-Installment

- 10 Single-payment loans
11 *(w/o fin. chg, generally 30 da*
 30, 60, 90-day charge
 accounts.
 (circle) with/without finance
 charge
 1 - 90-day, with finance charge
 _____ Revolving charge account
2 Other (specify)
 1% on unpaid balance
 on late accounts
 Budget contracts with
 auto financing company for
 repair work

9. What is the purpose of the Truth in Lending law as you see it? _____

Who does it help? answers listed in appendix B-2

According to the pamphlet published by the Board of Governors, "The FINANCE CHARGE and the ANNUAL PERCENTAGE RATE are really the two most important disclosures required by this regulation. They tell you customer, at a glance, how much he is paying for his credit and its relative cost in percentage terms.

I want to ask you first about the FINANCE CHARGE, then about the ANNUAL PERCENTAGE RATE.

10. Following is a list of some of the more common items that must be included in the finance charge. Which of the following had you NOT previously considered as part of your FINANCE CHARGE.

- | | |
|--|---|
| <u>27</u> <i>No change</i> Interest | <u>1</u> Amount paid as discount |
| <u>1</u> Loan Fee | <u> </u> Service, transaction or carrying charge |
| <u> </u> Finders fee or similar charge | <u> </u> Points |
| <u> </u> Time-price differential | <u> </u> Appraisal fee (except in real estate transactions.) |
| <u>2</u> Premium for credit life or other insurance, should you make this a condition for giving credit. | <u> </u> Investigation or credit report fee (except in real estate transactions) |

11. Undoubtedly you had to have new credit forms printed. Other than that problem, did the required disclosure of the finance charges to the customer present any other problems? 7 YES 22 NO

Please explain: Comments given in appendix B-3

12. What has been the reaction of your customers to the disclosure of the finance charge?

Very favorable 2 Favorable 25 No difference /Unfavorable /Very unfavorabl

I would like to have you think a minute and then give me what you consider to be the most meaningful comments made by your customers in relation to the disclosure of the FINANCE CHARGE. The comments might indicate their approval, disapproval, or some of each.

Comments tabulated in appendix B-4

And now regarding the ANNUAL PERCENTAGE RATE:

13. How do you compute the ANNUAL PERCENTAGE RATE FOR:

Open-end credit? 1% of unpaid Balance

For credit other than open-end? 18 - use published charts
1 - doesn't figure the A.P.R.

14. How has stating the ANNUAL PERCENTAGE RATE on your contracts affected your customer relations?

/Very favorably /Favorably 23 No difference 2 Unfavorably /Very unfavorab

I would like for you to do the same thing here as you did in question 12, only this time think about your customers' comments in relation to the ANNUAL PERCENTAGE RATE.

Comments shown in appendix B-4

15. Have you had more people actually shopping around for credit and comparing the FINANCE CHARGE and ANNUAL PERCENTAGE RATE since these are now available to them?

/Quite a few 3 Some 2 A few 2 None 2 Don't know

Comments: Shown in appendix B-5

16. What changes have you made in your advertisements of credit since the law became effective?

Answers listed in appendix B-6

17. Have you noticed any changes in the advertisements of your competitors?

7 YES 2 NO If "yes", what changes? _____

Changes listed in Appendix B-7

18. For reference purposes, I would appreciate having copies of the contracts you used before Truth in Lending to compare with those you now use.

(Copies supplied? 18 YES // NO)

19. How much time did it take for your business to begin operating in what you consider to be in compliance with the Truth in Lending regulations?
25 Ready as of July 1, 1969 _____ Ready 4 months after July 1, 1969

1 Ready 2 months after July 1, 1969 1 Ready 6 months after July 1, 1969

20. Have you made any changes in the way you handle your credit business because of the law?
1 - in process
1 - done nothing

6 YES 23 NO If "yes", what or how have you changed? _____

Answers shown in Appendix B-8

21. Early in the interview we asked if your trade association had given you assistance in regard to Truth in Lending. I would like more details now.

Name of Association _____

Address _____

Type of assistance given _____

Information tabulated in Appendix B-9

I would appreciate having copies of this information for review. Could I write your association for it? 10 YES 1 NO 17 - No answer or nothing available

Have others assisted you with Truth in Lending? Please tell me which, if any, of the following have assisted you.

4 Attorney

9 Your credit source

3 Accountant

Others:

1 - Banker

1 - Farm printers

1 - Consultant from National selected morticians

22. Are there any other ways in which you believe this law has affected or will effect your business operations? _____

Answers shown in Appendix B-10

23. You are in competition with other businesses for credit customers. Has this law affected your competitive position?

3 YES 26 NO Comments: Shown in Appendix B-11

APPENDIX B
Respondents' Comments

APPENDIX B-1

Question 6

Answers given in response to the question: "Why do you not consider Truth in Lending applicable to your business?"

Sell for cash only.

Don't sell on time payments.

Think it applies to loan sharks.

Do not make formal debt arrangements.

Do not intentionally set up credit sales.

Do not handle enough credit to be concerned.

Do not charge interest or carrying costs on our credit sales, therefore the law does not apply. (Jewelry store)

APPENDIX B-2

Question 9

What is the purpose of the Truth in Lending Act as you see it?

Who does it help?

(Car and Truck Dealers)

To let people know what actual cost is. But think it confuses more than anything else. Ones who need help most understand it the least.

Not sure it helps anyone.

To bring facts out to the people.

The people.

So one can have the actual account of interest rates they're paying.

Customers.

To keep the money sharks from gouging the public.

General public.

To let public know what they're paying--how much interest and all the hidden charges.

Customers, but it helps the dealers too because it gets the deal all above board.

(Bankers)

To let people know what interest rate they are paying.

Helps person who takes time and interest to find out what interest rate they're paying.

To tell people what true cost of their money is.

Borrowers.

To protect the unaware and ignorant.

No one, the ignorant are still ignorant and unaware. Makes more work for others.

(Furniture and Appliances)

To tell customer what he is paying for his money.

Not sure it helps anyone except possibly the Ghetto people. Locally it might help students and military.

To make sure people know what they are paying for things.

Consumers.

-2-

Question 9

(Finance Companies)

To enable people to make a valid comparison of interest rates.

Helps both creditor and borrower.

To keep customer informed as to what protection he has from lending association and to protect the consumer.

No one, just creates more paper work and makes a job for someone.

To better educate the borrower, but he does not pay much attention to it.

Consumer because it eliminates the "dark" operator.

Gives individual more information about his loan.

General public.

To give the public a better understanding of what they are paying for their money.

"Hasn't particularly helped us, but certainly hasn't hurt."

To protect the consumer.

Doubt if it helps anyone. Possibly helps the finance company because of everyone stating the annual percentage rate the same.

(Savings and Loan Companies)

To indicate to the borrower how much the credit is actually costing him.

Borrower.

To keep people from being overcharged.

The little fellow.

(Mobile Home Sales)

Lets the customers know exactly what they are paying.

Buyer.

To let people know more about how much their financing is costing them over what they thought it was.

Both the dealer and customer. It eliminates any misunderstanding as far as the dealer is concerned.

(Funeral Home)

No purpose. (Respondent was very bitter-- thought it all a lot of bother and expense.)

No one but employees that police it.

-3-

Question 9

(Jewelry Stores)

To protect the borrower from paying interest he doesn't realize he is paying.

Consumer.

Trying to protect the consumer which is impossible to do.

(Credit Union)

To tell borrower the true cost of his money.

Consumers.

(Music Store)

This is a lot of political nothing.

Not a soul. The consumers don't understand it and it has increased our costs to cover bookkeeping that is involved.

(Plumber)

To let you know what you're being charged for financing.

Anyone who charges anything.

APPENDIX B-3

Question 11

11. Undoubtedly you had to have new credit forms printed. Other than that problem, did the required disclosure of the finance charges to the customer present any other problems? Please explain:

Explanations from respondents who answered "yes", they had had other problems.

Must maintain file of second copy--more paper work.

Takes more time to make the loan and to explain the costs.

Takes longer to handle note--takes more time to type them up and explain and the supplies cost more.

Had to completely refrain from any kind of discount to anyone to keep out of the disclosure business. Costs more on accounting end. Have problems in explaining to customer.

Feels it discriminates against the small legitimate businessman. Feels it has created extensive, expensive problems, among them being the developing of a useable form. He is very upset over the lay-away situation where he must refund on merchandise that has been in lay-away for seven or more months. He felt his competitors were using this against him--i.e. they were suggesting to customers they get their money back and come and buy from them. He was further convinced that when this happened the customer was the loser, for he got cheaper merchandise and in reality was paying a very high price for it.

Takes an additional 10-25 minutes to close a deal.

Explanations from respondents who answered "no", they had no other problems:

Takes longer to write note.

Takes longer to explain contract. (3 gave this reply)

Nothing different except for signing of insurance understanding.

Most are not familiar with the contracts anyway.

Just learning how to do it.

Had trouble locating a suitable preprinted form.

Only a matter of getting used to the forms.

We didn't get new forms printed. We write very few formal contracts.

APPENDIX B-4

Questions 12 & 14

Respondents were asked to relate what they considered to be the most meaningful comments made by their customers in relation to the (a) disclosure of the FINANCE CHARGE and (b) stating the ANNUAL PERCENTAGE RATE on the contracts. They were told these comments might indicate their approval, disapproval, or some of each.

(a) comments in relation to the Finance Charge:

A few have commented on our new forms. Only one person noted that they were the new Truth in Lending forms.

People only seem interested in payments, not in the cost of the money or the annual percentage rate.

After spending more time explaining the figures, the general comment I receive from customers is: "What do you mean by that?"

People could care less, they are unaware of it.

Very few seem concerned.

They ask how we figure the interest so that it is more than they used to pay.

Customers indicate they misunderstand, then we explain.

(b) comments in relation to the Annual Percentage Rate:

The customers think the interest is too high.

It startled them.

When a customer comments, he is always in a mad frame of mind and wants to know why he is paying 18% interest--it is usury.

Many think the rising cost of prime money accounts for the higher interest rates.

People that are in the income bracket to buy mobile homes are most interested in whether or not they can afford the monthly payments.

One of my customers commented that a salesman had quoted him a 7% interest rate on an automobile loan, but that when it was figured on paper the interest came to 12.83%.

-2-

Question 12 & 14

People realize they are not paying anymore for money at a finance company than at a bank, when they had always thought they were.

I do not think people have learned yet how to best use the comparison of the annual percentage rate.

I do not feel the consumer understands what I am talking about. All they are really interested in is the amount of the monthly payment.

My questions are about the deferred payment price, not the annual percentage rate.

APPENDIX B-5

Question 15

Have you had more people actually shopping around for credit and comparing the finance charge and annual percentage rate since these are now available to them? Comments:

Plumber: Our customers usually just compare estimates.

Credit Union: Customers who have always shopped still do, those who didn't still don't.

Mobile Home Dealer: No need to shop, the rates are all the same in the mobile home industry.

Jeweler: People don't read.

Finance company: Have the same customers we've had for years.

Finance company: People want the money; they want to know what the monthly payment is; they are not interested beyond that.

Finance company: I encourage my customers to shop for their credit.

Music store: We have had a lot more people decide to get their own money since the law.

Bank: Generally it is non-customers who are the shoppers.

Bank: Have had no more shoppers than usual.

Car dealer: Those who shopped before do now and vice-versa.

Car dealer: Have had some shopping from bank to bank but don't think they are shopping the finance companies.

APPENDIX B-6

Question 16

What changes have you made in your advertisements of credit since the law became effective?

Cut down a lot, we're still not sure what we can say.

Can't advertise budget terms anymore.

Respondent did not know. He said the home office took care of all the advertising and he didn't pay any attention.

Do not quote rates anymore.

Keep away from putting any percentage figures on anything.

Quit advertising credit in any way.

We did no advertising for three months, then the home office furnished us with a few basic ads that we are using.

APPENDIX B-7

Question 17

Have you noticed any changes in the advertisements of your competitors?
If "yes", what changes?

I still know of one advertisement that gives the so much down and so much per week pitch. It is on T-V.

They have quit advertising size of loan and size of payments. Do not see the dollar rate advertised as the interest rate.

"H. F. C.'s" ads have changed.

Have noticed that the discount store has pulled off all the dollar signs from hard merchandise and no longer show so many dollars down and so much per week.

Have noticed some changes in the ads of our suppliers.

In bigger cities the ads have dropped the monthly payments advertising.

No longer see that ad one dealer had that included the statement "nothing down". (He was referring to a T-V ad.)

No longer see so many ads offering "easy credit terms."

APPENDIX B-8

Question 20

Have you made any changes in the way you handle your credit business because of the law? If "yes", what or how have you changed?

Now only one person writes the contracts, while before any of our salesmen could do it. -- home furnishings dealer

Haven't made any changes yet, but are considering dropping our open accounts. -- music store owner

We can't have any blank spaces on forms anymore. Used to go ahead and fill in some parts of the contract after the customer had signed and left. -- a finance company manager

I think people are really taking unfair advantage of the jewelers. I am trying to eliminate my lay-away business because of the law. -- jewelry store owner

Now we have customers write down their own informational figures instead of the salesman doing as he used to. -- mobile home sales

Have changed our note forms. -- banker

Have had to put on another secretary to handle the same amount of business. This might be considered the extra boost that prompted the hiring of additional help because of a generally expanding business. -- banker

APPENDIX B-9

Question 21

Assistance in understanding the Truth in Lending regulations received by creditors:

| Creditors | Source of Help | Type of Assistance |
|---------------------|--|---|
| Banks | Kansas Bankers Association | Supplied sample forms and held group clinics. |
| Credit Union | Kansas Credit Union League | Supplied new forms. Held informational meetings. Sent literature on the law. |
| Finance Companies | Home Offices Kansas Assoc. of Finance Companies Kansas Assoc. of Independent Insurance Agents Federal Reserve Board | Furnished new forms. Gave information in memos and bulletins relating the law to their businesses. Held informational meetings. |
| Savings & Loan | U. S. Savings & Loan League | Gave information in bulletins. Supplied forms. |
| Car & Truck Dealers | Kansas Motor Car Dealers Assoc. Financing Source Federal Reserve Board | Held district informational meetings. Furnished new contract forms. Held informational meetings. |
| Mobile Home Sales | Federal Reserve Board Financing source | Held informational meetings. Supplied new forms and explained how to use them. |
| Home Furnishings | Financing source Office supply firm | Supplied new forms. Helped in securing new forms. |
| Jewelry Store | Jewelers Board of Trade Retail Jewelers of America Kansas Jewelers Assoc. | Explained the law in their monthly newsletters. |
| Music Stores | Nat. Assoc. of Music Merchants | Distributed complete manuals on Regulation Z; held seminar on it at the 1969 summer convention. |
| Funeral Homes | Order of the Golden Rule | Suggested forms and ways of stating items. |

APPENDIX B-10

Question 22

Are there any other ways in which you believe this law has affected or will effect your business operations?

Savings & Loans -- It has added to costs--both in form of supplies and in time required to fill out forms.

Funeral home -- Makes it more expensive in filling out forms and reporting to policing organization.

Bank -- Think the law will change the custom of quotations on instalment loans so that eventually everyone will quote the annual percentage rate as a matter of course.

Mobile home sales -- Has made it rougher on the person making out the contract because there's more pressure to be absolutely correct.

Jeweler -- Think the lay-away situation and getting workable forms are the biggest problems. Don't think the law as it is now is workable nor doing the job it set out to do. Do think a simple workable law is needed, one that will apply to all businesses (all jewelers.)

Finance company - Insurance sales --Think the law has helped us. We've used the charts to really know what the yield on our money is, especially in our insurance business.

Music store -- Have had to completely refrain from any kind of discount to anyone to keep out of disclosure business. It costs more on the accounting end. Have had problems explaining it to customers.

Car dealer -- Had thought about going into the revolving charge account type of business, but have decided against it since the law became effective.

Car dealer -- As it is now, we are not particularly affected. If the legislature doesn't put in the 3-day trial period, during which a customer could change his mind, we will be O.K. That provision would put us in a real bind, because we couldn't let a car off our lot until the 3-day period had ended. Otherwise someone could use it for a long week-end trip and then bring it in and say he had changed his mind about buying and we would just be out.

Bank -- As it stands now, it is no big thing. There is just another form to fill out in triplicate. (said sincerely, not sarcastically)

Credit Union -- No, a little more paperwork is all.

Home Furnishings dealer -- Has caused me to spend a great deal of time doing book work, as I had to go back and refigure all of my accounts for the past year.

APPENDIX B-11

Question 23

Has the law affected your competitive position in relation to credit customers?

Home Furnishings Dealer -- I don't think my credit policies are a deciding factor in gaining customers.

Car Dealer -- Is no different than before. Banks can still loan money cheaper.

Finance Company -- It has put us in a better competitive position. We're doing better than before.

Finance Company -- If anything it has bettered our position in relation to banks.

Finance Company -- I do not think people have learned yet how to use the law.

Jeweler -- It has hurt my competitive position because I am telling patrons the annual percentage rate is 1% per month or 12% per year while my competitors are saying they have no interest and no carrying charges and no money down for purchases. So far I have not added to my mark-up to compensate.

Credit Union -- Haven't noticed any effects. We are really not in competition for business.

Bank -- If anything it has enhanced us a little.

Bank -- Think it has improved our position in relation to other finance sources out of the banking field.

Bank -- Been of slight benefit to the banks, because our rates are so much under other types of loans.

APPENDIX C

State vs. Federal Definition of "Creditor"

ILLEGIBLE

**THE FOLLOWING
DOCUMENT (S) IS
ILLEGIBLE DUE
TO THE
PRINTING ON
THE ORIGINAL
BEING CUT OFF**

ILLEGIBLE

**THE FOLLOWING
PAGES ARE BADLY
SPECKLED DUE TO
BEING POOR
QUALITY
PHOTOCOPIES.**

**THIS IS AS
RECEIVED FROM
CUSTOMER.**



Office of the Attorney General

State Capitol Bldg. (911) 276-2215 Topeka, Kansas 66612

Attorney General 51
LANCE W. BURR
Asst. Attorney General

February 9, 1970

RECEIVED

Honorable Ted Lindahl
State Representative
103rd District
Plevan, Kansas 67568

MAR 9 1970

FAMILY ECONOMICS
College of Home Economics

Dear Representative Lindahl:

You have asked whether certain merchants who extend credit to purchasers without imposing a finance charge are required to pay an annual fee pursuant to the provisions of the new Truth-In-Lending Act.

K.S.A. 1969 Supp. 16-808 (f) of the act provides that:

"Any creditor or person making consumer credit sales, consumer leases or consumer type loans and any person having an office or place of business in this state who takes assignments of and undertakes direct collection of payments or enforcement of rights against debtors arising from credit sales, consumer leases or consumer loans, not regulated by one of the state agencies enumerated in subsection (a) above, for purposes of enforcement of the provisions of this act, shall be administered by the office of the consumer credit commissioner. Such creditors shall file notification with the consumer credit commissioner upon commencing business in this state, and thereafter, on or before January 1 of each year"

Subsection (g) (1) of K.S.A. 1969 Supp. 16-808 provides that creditors who are required to file notification under this act shall pay an annual fee of ten dollars per year. Subsection (g) (2) requires additional fees if a creditor extends a substantial amount of credit but this section is probably not applicable to the merchants described in your letter.

We agree with you that the definition set forth in K.S.A. 1969 Supp. 16-803 (e) is most germane to this question. That section defines the word creditor in the following manner:

"The term 'creditor' refers only to creditors who regularly extend, or arrange for the extension of, credit for which the payment of a finance charge is required, whether in connection with loans, sales of property or services, or otherwise. The provisions of this act apply to any such creditor, irrespective of his or its status as a natural person or any type of organization."
(Emphasis added)

We feel that the language in the above section, which defines the word "creditor," clearly calls for the conclusion that unless a creditor imposes a finance charge, he need not pay the fee.

We now turn to your specific question whether the persons you refer to in your letter are required to pay the fee. We are of the opinion that if the merchants described in your letter, such as the grocer, do not impose a finance charge when they extend credit to their customers in connection with the sale of goods, they are not covered by the fee provisions of the act. In view of that conclusion, we feel compelled to discuss a provision set forth in the Kansas Administration Regulations which purports to cover some transactions in which a finance charge is not imposed. To implement the provisions of the Truth-In-Lending Act the legislature authorized the consumer credit commission to enact and adopt certain regulations. Kansas Administration Regulation 77-2-1 (m) implies that under some circumstances, the person who extends credit without requiring the payment of finance charge, must pay the fee:

"'Consumer credit' means credit offered or extended to a natural person, in which the money, property, or service which is the subject of the transaction is primarily for personal, family, household, or agricultural purposes and for which either a finance charge is or may be imposed or which pursuant to an agreement, is or may be payable in more than 4 installments. 'Consumer loan' is one type of 'consumer credit.'"

In other words this regulation purports to say that if the debtor and creditor enter into an agreement in which the amount of the debt is to be paid off in more than 4 monthly installments, the creditor, such as the grocer in your letter, would have to pay the fee notwithstanding the fact that a finance

charge is not imposed. We feel that this provision of the regulations conflicts with K.S.A. 1969 Supp. 16-803 (e) of the act because the act specifically provides that "the term 'creditor' refers only to creditors who regularly extend, or arrange for the extension of, credit for which the payment of a finance charge is required. . . ." A regulation which is out of harmony with, or violates, alters, extends or limits a statutory provision is said to be void. State ex rel., v. Columbia Pictures Corporation, 197 Kan. 448, 454, 417 P. 2d 255 (1966). Therefore, we feel that the only question presented by the fact situation described in your letter is whether a finance charge is imposed by a creditor such as a grocer who extends credit in connection with the sale of groceries.

In our conversation of December 10, 1969, you mentioned that the hardware company in your community arranges to have the local bank loan money to certain customers who purchase more expensive hardware goods such as refrigerators. You also stated that often the hardware company will co-sign the customer's note in order to assure the bank that the note will be paid in full. Under these circumstances the hardware company would have to pay the fee since they play an integral part in arranging for the extension of credit for which a finance charge is imposed. The other merchants, such as the grocers, would not be required to pay the fee since they are not creditors as defined by the act.

I hope this letter has been of assistance to you.

Very truly yours,

KENT FRIZZELL
Attorney General

LWB:rh

February 10, 1970

J. L. Robertson, Vice Chairman
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Sir:

It has been called to my attention that the definitions covering those who must comply with Truth in Lending is in question. As elected chairman of the Advisory Committee to the Kansas Consumer Credit Commission which is responsible for enforcing the Kansas Truth in Lending Act I would appreciate your answers to the following questions for use by our Advisory Committee in making recommendations to the Kansas Consumer Credit Commission:

1. The term "Creditor" in Public Law 90-321, Title I, Sec. 103 (f) defines a creditor as only those creditors "...who regularly extend, or arrange for the extension of, credit for which the payment of a finance charge is required, ..." However, the term "Creditor" in Reg. Z, 226.2 (m) uses the somewhat broader definition of one ... who in the ordinary course of business regularly extends or arranges for the extension of consumer credit, ..." with no mention of the requirement of payment of a finance charge.

The term "Consumer Credit" is not defined in Public Law 90-321. It is defined only in Reg. Z, 226.2 (k) and includes those transactions in which it is agreed that payment may be made in (4) four or more payments irrespective of a finance charge.

On July 1, 1969 the Kansas Truth in Lending Act took effect in Kansas. This Act includes an almost word-for-word reprint of Public Law 90-321. Kansas has also adopted an almost word-for-word reprint of Reg. Z as the state regulations, with the exception that in the state regulations they use the definition of the term "Creditor" found in Public Law 90-321. I interpret this to mean that, with respect to state act, only those creditors who impose a finance charge would be required to comply with the disclosure provisions of the state act.

(This is a facsimile of 1st page of original letter)

The question I submit is: whether the difference in definition of "Creditor" between the Kansas and Federal regulations and the interpretation stated above would cause the FRB to rule that the state law was not "substantially similar" (Public Law 90-321, Sec. 123) to the Federal Act and that the state law did not provide for adequate enforcement?

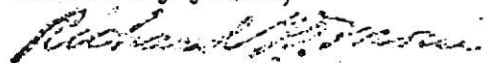
2. If the state ruled that only those creditors who impose a finance charge must comply with the state act and regulations, then I question: would those creditors who agreed to receive their payment in (4) four or more instalments, irrespective of the imposition of a finance charge, be required to comply with the disclosure provisions under the Federal Act and regulations?

I have reference to a store which advertises "no finance charge" and allows a customer to buy goods with an agreement that the customer may pay for the goods in four or more monthly payments. Regulation Z included the definition of "Consumer Credit" (Reg. Z, 226.2 (k) to provide for those creditors who agreed to receive payment in four or more instalments irrespective of the imposition of a finance charge. This was done in recognition of the intent of the Congress that the traditional 30, 60, 90 day free credit not be inhibited, but to include as creditors those who allow payments in four or more instalments. Therefore, as creditors they would be required to tell all of the facts, such as: number and amount of payments, any late fees, insurance, etc., needed for the consumer to avoid the uninformed use of credit".

3. I submit the question: would Kansas law be substantially similar to the Federal Act if the state act were amended to include both the definition of "Creditor" found in Reg. Z, 226.2 (m) and the definition of "Consumer Credit" found in Reg. Z, 226.2 (k), and if the state regulations used these definitions?

I would appreciate your answers to these questions as soon as possible, as the agenda for the Advisory Committee to the Kansas Consumer Credit Commission must be printed in the first week of March, 1970.

Sincerely yours,



Richard L. D. Morse
Professor and Head

cc: Mr. Dale Saffels, Chm.
Kans. Corporation Commission
& Chm. Consumer Credit Commission
Honorable Kent Frizzell, Attorney General



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

OFFICE OF THE VICE CHAIRMAN

March 3, 1970.

RECEIVED

MAR 9 1970

FAMILY ECONOMICS
College of Home Economics

Professor Richard L. D. Morse,
Kansas State University,
Department of Family Economics,
Justin Hall,
Manhattan, Kansas 66502

Dear Professor Morse:

I am happy to respond to your letter of February 10, 1970, regarding Regulation Z's coverage of transactions involving more than four instalments with no identifiable finance charge as it relates to the Kansas Truth in Lending Act.

The Board felt that it was imperative to include transactions involving more than four instalments under the Regulation since without this provision the practice of burying the finance charge in the cash price, a practice which already exists in many cases, would have been encouraged by Truth in Lending. Obviously this would have been directly contrary to Congressional intent. Consequently we believe that this is a rather important part of the Regulation, and while I cannot speak for the Board, I would imagine that they would not be inclined to view a State regulation which did not contain this provision as "substantially similar" to Regulation Z.

Without detailed study of the actual provisions it is more difficult to respond to your question whether a class of credit transactions for State exemption purposes under § 123 of the Act could be structured to exclude those creditors extending more than four instalment credit with no identifiable finance charges leaving them subject to Federal jurisdiction. It does seem to me that this could present very difficult enforcement problems perhaps involving a single creditor being subject to both State and Federal jurisdiction if he had more than one credit program. If you can, I would suggest that you strive to structure the Kansas provisions to avoid these problems.

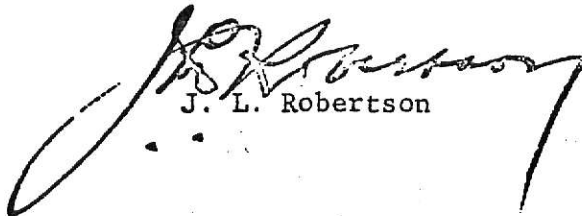
Professor Richard L. D. Morse

-2-

With reference to your third question, since judgment as to whether a State statute is "substantially similar" relates to much more than simply the problem discussed above I would not be able to render an opinion as to the general substantial similarity of the Kansas statute. However if you did incorporate the definitions of "creditor" and "consumer credit" found in Regulation Z into the Kansas statute this would avoid jeopardizing the State's prospects for exemption for having failed to cover the more than four instalment situation.

Enclosed is a copy of Supplement II to the Regulation which sets forth the procedures and criteria for seeking an exemption. Please be assured that we will aid you in whatever way we can in connection with the preparation of an application for exemption should Kansas decide to file one.

Sincerely,



J. L. Robertson

Enclosure.

(EMERGENCY REGULATION)

Definitions: "Creditor"

Effective , 77-2-1(q) is amended to read as follows:

(q) "Creditor" means a person who in the ordinary course of business regularly extends or arranges for the extension of consumer credit, or offers to extend or arrange for the extension of such credit.

Old Definition: "Creditor"

(q) "Creditor" refers only to creditors who regularly extend, or arrange for the extension of, credit for which the payment of a finance charge is required, whether in connection with loans, sales of property or services, or otherwise. The provisions of this act apply to any such creditor, irrespective of his or its status as a natural person or any type of organization.

BEFORE THE CONSUMER CREDIT COMMISSION

OF THE STATE OF KANSAS

GENERAL ORDER NO. 7

IN THE MATTER OF THE ADOPTION OF NEW RULES OF PRACTICE

AND PROCEDURE

O P I N I O N

Now, on this 24th day of March, 1970, the proposed Rules and Regulations of Practice and Procedure of the Consumer Credit Commission come on for further consideration.

This Commission finds that the rules and regulations adopted in General Orders Nos. 1, 2, 3, 4, 5, and 6, need to be amended and/or supplemented insofar as Kansas Administrative Rule 77-2-1(q) is concerned.

The cause for such a supplement and/or amendment is found by reference to Part 226.2(m) of the Regulation Z of the Federal Truth-in-Lending Act which was amended, effective August 8, 1969. The Federal Amendment exists as cause for and the reason that this Commission is directed to attempt as close a coordination and equivalency of regulation as is possible with the Federal legislation and regulations in this area.

Further, said proposed amendment and/or supplement must be adopted as an emergency regulation and so published because of the requirements contained in K.S.A., 1969 Supp. 77-415, et seq., in that the time for hearings on and filings of permanent regulations for the regulation of the area concerned with Kansas Administrative Regulation 77-2-1(q) has lapsed and this Commission was unaware of the amendment of the Federal Truth-in-Lending Act at the time of the hearings on the proposed adoption of regulations contained in 77-2-1(q), et seq. held on September 29, 1969.

WHEREFORE, this Commission orders that the Kansas Administrative Regulation 77-2-1(q) be supplemented and/or amended by an emergency regulation which reads exactly as Regulation Z Part 226.2(m) of the Federal Trade Commission's Regulations.

FURTHER, this Commission orders: that an explanatory note be published, if at all possible with the emergency regulation explaining the reason and cause for the publication of said emergency regulation.

LASTLY, this Commission orders that the Rules and Regulations hereinbefore mentioned be submitted to the Attorney

General, the Revisor of Statutes, and any other members
comprising the State Board approving regulations prior to
April 24, 1970.

Dale S. Jell

State Corporation Commission

Chairman

Charles G. Bauer

for Savings and Loan Department

E. J. Hogan

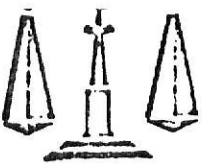
for Banking Commissioner

Lee B. Cornell

Consumer Credit Commissioner

W. J. Bivins

for Credit Union Department



STATE OF KANSAS

Office of the Attorney General

State Capitol Bldg. (913) 296-2215 Topeka, Kansas 66612

KENT FRIZZELL
Attorney General 62
LANCE W. BURR
Asst. Attorney General
BUYER PROTECTION
DIVISION

April 28, 1970

Mr. Dale E. Saffels, Chairman
Consumer Credit Commission
State Office Building - 4th Floor
Topeka, Kansas 66612

Dear Mr. Saffels:

Because Emergency Regulation 77-2-1(q) defines "creditor" so as to give that term a meaning which is inconsistent with and materially alters the meaning of the term "creditor" as defined in K.S.A. 1969 Supp. 16-803(e), we disapprove Emergency Regulation 77-2-1(q), which is intended to amend the existing definition of creditor as provided in Kansas Administrative Regulation 77-2-1(q).

To further clarify our reasoning for disapproving this Emergency Regulation, we are enclosing a copy of our opinion to the Honorable Ted Lindahl.

Very truly yours,

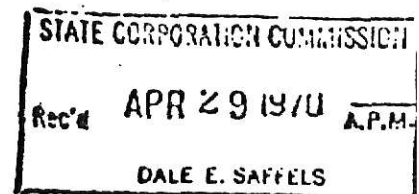
KENT FRIZZELL
Attorney General

By:

Lance W. Burr
LANCE W. BURR
Assistant Attorney General

LWB:sm

Enc.





ERT B. DOCKING
LE E. SAFFELS
LES V. DOTY
JHN W. CUNNINGHAM
YMOND B. HARVEY
CK GLAVES

Governor
Chairman
Commissioner
Commissioner
Secretary
Gen. Counsel

State Corporation Commission

TOPEKA, KANSAS 66612

RECEIVED

May 1, 1970

MAY 7 1970

FAMILY ECONOMICS
College of Home Economics

Mr. Dale E. Saffels, Chairman
Consumer Credit Commission
State Office Building
Topeka, Kansas

Dear Mr. Saffels:

This letter is in reference to my attempts to obtain State exemption from the Federal Truth-in-Lending Act. The comments below explain the difficulties I have encountered regarding this exemption and my recommendations as to how the Commission should proceed to overcome these difficulties.

Recently Professor Richard L. D. Morse corresponded with J. L. Robertson, Vice Chairman of the Board of Governors of the Federal Reserve System regarding state exemption from the Federal Truth-in-Lending Act. The issue was whether the difference in the definition of "Creditor" between the Kansas and Federal Regulations would cause the Federal Reserve Board to rule that the State law was not "substantially similar" to the Federal Act and that the State law did not provide for adequate enforcement.

Mr. Robertson replied that, while he could not speak for the Board, he felt that they would not be inclined to view a state regulation which did not contain the "Creditor" definition as one that was "substantially similar" to Regulation Z.

Following Mr. Robertson's reply, the Consumer Credit Commission drafted an Emergency Regulation amending the definition of "Creditor." This is reflected in General Order Number 7 of the Commission. In accordance with K.S.A. 77-422, it was necessary to submit the Emergency Regulation to the Attorney General for his approval, before filing with the Revisor of Statutes. The Attorney General has disapproved the Emergency Regulation for the reasons set forth in this letter, a copy of which is enclosed.

Mr. Dale E. Saffels, Chairman
Consumer Credit Commission

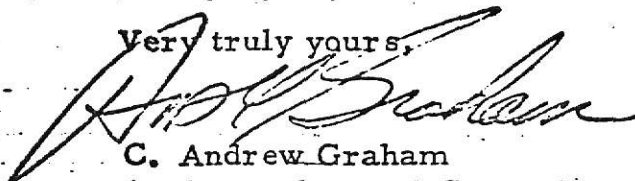
- 2 -

May 1, 1970

In summary it is my opinion that submission of the application for exemption would not be approved by the Federal Reserve Board because of the differences existing in the definition of the term "Creditor." As an alternative, I recommend legislation be submitted to the next session of the Kansas legislature. Upon the Commission's direction I will prepare for submission, such legislation.

Should such legislation be enacted, Kansas would then be in a position to apply for exemption from the Federal Act.

Very truly yours,



C. Andrew Graham
Assistant General Counsel

CAG:rf
Encl.

cc: Members of Consumer Credit Commission
Chairman of Consumer Credit Advisory Committee



HERBERT B. DOCKING
DALE E. SAFFELS
LES V. DOTY
JOHN W. CUNNINGHAM
LYMOND B. HARVEY
CHUCK GLAVES

Governor
Chairman
Commissioner
Commissioner
Secretary
Gen. Counsel

State Corporation Commission

TOPEKA, KANSAS 66612

May 5, 1970

RECEIVED

MAY 7 1970

ECONOMICS
College of Home Economics

C. Andrew Graham, Assistant General Counsel
State Corporation Commission
State Office Building
Topeka, Kansas

Dear Andy:

Thank you very much for your letter of May 1, 1970, explaining the predicament imposed by lack of adequate legislation as to obtaining exemption from federal regulation in connection with Truth-in-Lending.

I direct you to work with the bill drafting department of the Revisor of Statutes to draft a bill which would take care of this and would appreciate it being examined by the Attorney General or his representative to see that all parties involved agree on same, after which I will suggest to the members of the Consumer Credit Commission that it be presented to the Legislative Council with the hope that they will make it a part of their recommendations to the Legislature for enactment in 1971.

I am forwarding a copy of this letter along with other correspondence on this subject to the members of the Consumer Credit Commission and to the Chairman and members of the Consumer Credit Advisory Committee.

I see no need for the time and expense of a meeting until this matter is worked out, unless there are other subjects to be considered which would be profitable in connection with this Commission.

I extend my best regards.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Dale E. Saffels".
Dale E. Saffels, Chairman
Consumer Credit Commission

cc: Consumer Credit Commission members
Consumer Credit Advisory Committee members

EFFECT OF TRUTH IN LENDING ON CREDITORS IN MANHATTAN, KANSAS

by

RACHEL SARAH MORELAND

B. S., University of Arizona, 1955

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

1970

The Federal Truth in Lending Act became effective July 1, 1969. Its purpose is to assure a meaningful disclosure of credit terms so that the consumer will be able to compare readily the various credit terms available to him and avoid the uninformed use of credit.

The major objective of this thesis was to determine what effect the Truth in Lending Act had on retailers extending credit in a city of over 25,000 population, Manhattan, Kansas.

The Kansas Legislature enacted a State Truth-in-Lending Act in the 1969 session. It was similar to the Federal law; it was not identical to it. The State act required creditors to pay an annual \$10 notification fee not required by the Federal act. It also defined "creditors" so retailers were exempted if they did not have finance charges separate from those included in the original cost of the item even though they collected payments in more than four instalments. The Federal Truth in Lending regulations included these retailers in their definition of "creditor". Consequently the interviews revealed some justifiable confusion among retailers as to whether or not Truth in Lending applied to their business.

Interviews were conducted during January and February of 1970 with respondents drawn from a stratified random sample of businesses presumed doing a major part of their business with retail credit. The sample included 48 businesses of which 29 indicated they believed the Truth in Lending Act applied to their business. All businesses contacted for an interview responded.

The following conclusions were drawn from the study:

- . The majority of the creditors in Manhattan, Kansas correctly identified themselves as to whether they were subject to Truth in Lending. The major exception was jewelry stores which did not make a finance charge, but did arrange to collect bills in more than four payments.

- . Assistance in understanding Truth in Lending regulations came primarily from trade associations or home offices, the business's finance or credit source, or from information meetings held by the Federal Reserve Board. No creditor reported assistance from the Chamber of Commerce.
- . The majority of the creditors did not believe the Truth in Lending Act had greatly affected either the way they conducted business or their relations with customers.
- . Although the Truth in Lending Act has required in the contract disclosure of the information needed to shop for credit, the majority of the creditors did not believe their customers were making use of this information as they shopped for credit.

It is recommended that a follow-up study be undertaken to determine the reliability and usefulness of the information currently being disclosed by creditors to the consumer who is shopping for credit at all stages prior to signing a contract. A companion study is recommended to determine how effectively the consumer uses the information disclosed while shopping for credit.