

CONSUMER CREDIT DISCLOSURES COMPARED
Consumer Advisory Council--DoD
Directive--Truth in Lending

by

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INTRODUCTION

The Concept of Truth in Lending

In 1960 the Consumer Credit Labeling Bill was introduced in Congress by Senator Paul H. Douglas. This bill, based on the principle that the consumer was entitled to know the truth about the credit he used, required that the following information be disclosed to the borrower: the total cash price of the goods or service, the down payment, the difference between the down payment and the total cash price, all charges not directly resulting from the extension of credit, the total finance charges, and the finance costs expressed as a simple annual interest rate calculated on the basis of the unpaid balance of the debt through time.

The bill was vociferously opposed. Opposition from the financial and mercantile interests was based on the fear that the disclosure of a true rate of interest would alienate consumers. The publicly stated position was that consumers were not concerned about rates of interest (Douglas, 1968, p. 107).

Year after year the truth in lending concept was debated and then defeated in the face of forceful opposition. However, the use of credit by consumers continued to grow during the 1960's as did concern with consumer's interests and with this growth popular opinion developed in favor of truth in lending.

On March 14, 1962, President John F. Kennedy issued a special message to the Congress on consumer protection (Document 364). This was the first message ever delivered by a president on the topic of consumer interests.

President Kennedy noted the important role of consumers in the American economy and that the well being of most families could be improved if these families were helped to make the best possible use of their incomes. With regard to the use of consumer credit President Kennedy said:

Excessive and untimely use of credit arising out of ignorance of its true cost is harmful both to the stability of the economy and to the welfare of the public. Legislation should therefore be enacted requiring lenders and vendors to disclose to borrowers in advance the actual amounts and rates which they will be paying for credit (Document 364, p. 8).

He pointed to the increasing complexity of the choices facing consumers in the marketplace. In addition he recognized that consumers are affected either directly or indirectly by all administrative programs and pledged that his administration would recognize the rights of the consumer which he enumerated: the right to safety; the right to choose; the right to be heard; and the right to be informed which is the ethical basis for the so-called truth legislation including truth in lending.

In this same message President Kennedy directed the Council of Economic Advisers to create a Consumers' Advisory Council:

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

Consumer Advisory Council

In July 1962, Walter W. Heller, Chairman of the Council of Economic Advisors, appointed the first Consumer Advisory Council. The Council established four committees. Dr. Richard L. D. Morse was chairman of the committee on Consumer Credit and Economic Welfare. This committee studied the effect of consumer credit on the family and on the national economy.

The committee evaluated consumer credit terms as they facilitate or inhibit efficient and intelligent use of credit, and appraised the procedures used with consumers making excessive use of credit (Consumer Advisory Council First Report, 1963, pp. 6-7, 62-63).

The Consumer Advisory Council recommended support for the principles and purposes of the Douglas Truth-in-Lending Bill (S. 750) stating that it would:

- . Promote the right of consumers to have the facts they need to make rational, informed choices regarding credit usage;
- . Protect the ethical and efficient businessman who wishes to fully disclose credit charges from those competitors whose charges are deceptively concealed;
- . Reinvigorate price competition in the consumer credit market, and thereby contribute to the free enterprise system;
- . Introduce a stabilizing, countercyclical element into the Nation's economy by making consumers aware of rising credit costs in boom times and declining credit costs during recessions; and
- . Encourage consumers to shop for cheaper credit, thereby releasing funds for purchasing goods and services, thus buttressing the economy and consumer purchasing power (First Report, 1963, p. 13).

The committee also gave specific content to the phrase "Full Disclosure of Credit" by setting forth in detail what they thought were the essential components for both closed-end and open-end credit contracts.

1. . . . credit . . . contracts shall include:
 - a. . . . the cash or delivered prices of goods . . . and all additional charges assessed . . . ,
 - b. . . . down payment, amount to be financed, amounts and times of payments . . . ,
 - c. the rate at which the finance charge is . . . imposed on the amount financed, such rate to be in standardized terms . . . (a simple annual nominal percentage rate) . . . ,

- d. the cost of credit . . . expressed in dollars and cents,
 - e. the terms of credits or charges imposed in the event of advanced or delayed payments
2. When credit is extended on . . . open-end credit, . . . each contract shall include;
- a. a clear statement in writing, prior to any agreement . . . setting forth the simple annual nominal percentage rate . . . ,
 - b. a clear statement in writing, at the end of each month . . . setting forth;
 - (1) the outstanding balance . . . as of the beginning of the month,
 - (2) the amount of each extension of credit . . . with the date thereof and brief identification of any property . . . acquired,
 - (3) the total amount credited to the account during the period,
 - (4) the amount . . . on which the finance charge will be based . . . ,
 - (5) the simple nominal annual percentage rate at which the finance charge is imposed, which rate shall be the periodic rate multiplied by the number of periods in one year,
 - (6) the finance charge in dollars and cents . . . ,
 - (7) the outstanding balance . . . at the end of the month (First Report, 1963, pp. 63-64).

Consumer representation

President Johnson elevated the status of the consumer in January 1964 by issuing Executive Order 11136 which established at the Executive level the President's Committee on Consumer Interests (PCCI) and the Consumer Advisory Council. The President also gave public recognition to the need for greater concern for consumer interests within the Federal Government by establishing the Office of Special Assistant to the President on Consumer

Affairs to which he appointed Esther Peterson. The members of the Consumer Advisory Council together with representatives of various Federal departments made up the PCCI. Esther Peterson was appointed Chairman (Congressional Quarterly, 1964, p. 253).

In continued support of and emphasis on the American consumer, President Johnson delivered a special message to Congress on February 5, 1964. In this statement Johnson reaffirmed his support of President Kennedy's policies on consumer problems and recommended additional legislation. With regard to consumer credit, the President said:

I recommend enactment of legislation requiring all lenders and extenders of credit to disclose to borrowers in advance the actual amount of their commitment and the annual rate of interest they will be required to pay (Document 220, p. 5).

President Johnson continued to support full disclosure of credit, but he did not consistently include the annual percentage rate requirement.

Status of Consumer Credit Legislation

Legal provisions for consumer credit were historically the exclusive province of state law with the exception of those banks, savings and loan associations and credit unions which were Federally chartered or regulated. Finance companies and businesses offering retail credit as well as non-Federally regulated financial institutions were essentially free of Federal control. These institutions resisted uniform credit disclosure legislation. They objected not only to the imposition of Federal control where State regulation had prevailed, but also to the creation of order where chaos and confusion for the consumer had been the rule.

Provisions of consumer credit laws differed greatly from state to state. And even within the states the specific disclosures to be made and the forms in which they were made differed for each class of consumer credit. The provisions of these various State laws have been conclusively documented, analyzed, and compared by Curran (1965). Interest rates were variously stated by the monthly system, the add-on system and the discount system. Each of these systems of computation could of course be modified into infinite combinations. The complex mathematical computations necessary to compare rates quoted by various lenders presented a confusing picture to consumers. A further abuse of consumer credit developed in the 1960's, the avoidance of quoting any price at all on many consumer durables and instead stating only the amount of the monthly payment due and the number of months of the contract. In this instance the lender concealed both the cash price and the rate of interest (Douglas, 1968, pp. 105-107).

Federal legislation to require the full disclosure of credit terms was kept alive through the persistent efforts of Senator Paul H. Douglas who held hearings on this matter in 1960, 1961, 1962, 1963, and 1965. A summary and comparison of the disclosure provisions of the various bills which were introduced is included in Appendix A.

During this period the use of consumer credit increased dramatically. In 1960 the amount of consumer credit outstanding exceeded \$56 billion. By 1966 this amount had increased to \$97 billion (Federal Reserve Bulletin, 1970, p. 54).

Congressional Interest in Abusive Credit Practices
Involving Military Personnel

Servicemen were as much caught up in the growth of consumer credit as were civilian consumers. Historically and legally they are subject to greater protection as well as to more direct governmental control than civilian consumers. Therefore when abusive credit practices against military personnel became known, the matter was brought to the attention of Congress.

In 1965 the Domestic Finance Subcommittee of the House Committee on Banking and Currency held hearings investigating the abusive credit practices of the Federal Services Finance Corporation. This Corporation, a lending institution having offices around the world, dealt primarily in personal and automobile loans to members of the Armed Forces. During the hearings, the Subcommittee uncovered numerous abusive practices in which Federal Services Finance Corporation engaged. The company had been found to charge interest rates which amounted to as much as 100 percent on a 2 year loan. Military customers were charged for automobile insurance, but were not notified that the insurance had been purchased.

In other instances servicemen were charged for insurance when in fact no insurance was placed on their automobile. In some instances where a serviceman had already purchased insurance on his automobile, he was forced to pay for an additional policy, supposedly purchased by Federal Services. In other cases, Federal Services would not supply the serviceman with copies of the policy that the company purchased on the automobile.

A \$30 charge was levied against cars purchased overseas without the serviceman's knowledge. In many instances it was supposedly for insurance

coverage on vehicles being shipped back to the United States. This insurance was not needed as automobiles being shipped at Government expense were already covered by Government insurance.

When servicemen attempted to prepay loan obligations on automobiles, they were quoted a price by Federal Services, then after making a payment in that amount, were notified that unexplained and undocumented charges were still due.

When cars were repossessed, Federal Services used phony bids at auctions to insure that the company itself obtained the car. The cars were then resold from used car lots owned by Federal Services. Often in instances of repossession and resale where the car was sold from the Federal Services used car lot, the serviceman was not given credit for the retail price of the vehicle and was served with a deceptively high deficiency balance. Federal Services also often failed to credit payments to the debtors account (Congressional Records, 1965, pp. 24996-25000).

In September, 1965, complaints were issued against 11 companies, Federal Services Finance Corporation being one of the worst offenders, who had engaged in unfair practices in credit transactions with servicemen.

In an address before Congress on September 23, 1965, Honorable Frank Annunzio, a member of the Domestic Finance Subcommittee, reported on the activities of Federal Services and called for action by the Department of Defense to protect the welfare of the serviceman. He acknowledged that a recently published Department of Defense Directive endorsing credit unions for military establishments in the United States was a step in the right direction. He also noted that the problems surrounding overseas financing remained to be resolved (Congressional Record, 1965, pp. 24996-25000).

History of Department of Defense Directive Number 1344.7,
Subject: Personal Commercial Affairs

The Department of Defense in an attempt to provide guidance to servicemen in use of credit and also to assure a source of credit on and near military bases other than loan shark operations issued a directive on August 27, 1965, encouraging the establishment of credit unions on military bases in the United States.

September 29, 1965 Directive

In a further effort to provide guidance to military personnel in financial matters, the Department of Defense, on September 29, 1965, issued a Directive which established standards for use in credit transactions involving military personnel. This Directive was philosophically based on President Johnson's message "The American Consumer." The stated purpose of this Directive was:

. . . to prescribe uniform Defense policy governing personal commercial transactions and related matters involving members of the Armed Forces; to safeguard and promote the welfare and interests of such personnel as consumers; and to observe the policies stated in the President's Message to the Congress, February 5, 1964, "The American Consumer" with special emphasis to be given to the serviceman in his ". . . rights to safety . . . to be informed . . . to choose (and) to be heard. . . ."

The strength of this Directive, which did not carry the force of law, lay in Section VI, Parts B and C, which stated that the Armed Forces would not provide assistance to creditors in the location of delinquent debtors unless the creditor met the full disclosure requirements and abided by the standards of fairness as set forth in the Directive. These were to have been set forth prior to the time that the debtor signed a contract or deposited money or property which he might stand to forfeit. These

disclosure requirements were set forth in the directive as Part I of the Appendices A, B, and C.

Classes of creditors. Appendix A of the Directive was to be used in credit sales transactions by (1) sellers who financed their own sales, and (2) creditors who might have a financial tie with the seller or might have a right of recourse against the seller. Appendix B was for use by (1) lending institutions having no financial tie with the seller and no right of recourse against the seller, or (2) creditors in an obligation in which the debtor pledged as security property which he had owned for less than 60 days prior to the loan. Appendix C was to be used in credit loan transactions by lenders (1) making unsecured loans not intended for the purchase of goods, (2) loans secured by property which the borrower had owned for more than 60 days, and which was not purchased from a seller having any financial ties to the lender, or (3) any loan secured by a lien on real property.

This differentiation in the types of credit transactions for which specific disclosures were required conformed to the traditional distinction between vendor and lender credit (A and C, respectively) and Appendix B recognized the blending of the two in a manner which could obscure the true identity of the creditor. The creditor had to declare his relationship to the seller both in his use of forms A or B and his answer to question number 4 on these forms.

Credit disclosures. Part I of Appendix A and Appendix B (see pp. 11 and 12) was designed for sales credit and provided for disclosure of (a) cash price less (b) discounts for paying cash resulting in (c) the net

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

**THIS IS AS
RECEIVED FROM
CUSTOMER.**

APPENDIX A

To be used by:

1. Sellers financing their own sales.
2. Lending institutions having any financial ties with, or right of recourse against the seller of the service or goods to which the contract relates.

PART I

1. Description of property or service acquired or to be acquired:
2. Seller's name and address:
3. Name and address of creditor to whom the note or obligation is or will be payable if other than the seller:
4. Does the creditor have any financial ties with the seller or any right of recourse against the seller in event of default on the obligation (yes) (no)
5. (a) Quoted cash price of goods or services \$ _____
- (b) Less discount customarily allowed cash purchases \$ _____
- (c) Net cash price of goods or services (a minus b) \$ _____
- (d) Add ancillary charges, such as taxes and auto license fees, from which the seller or creditor receives no benefit and which are not related to the extension of credit. If insurance premiums are included here, exclude any commission or fee earned on the insurance by the seller, creditor or any insurer in which seller or creditor have a financial interest. Itemize ancillary charges:

	\$	
	\$	
	\$	
Total ancillary charges:	\$	

- (e) Cash delivered price (c plus d) \$ _____
- (f) Less trade-in allowance \$ _____
- (g) Net cash price to be financed (e minus f) \$ _____
- (h) Add finance charges, include here all charges including commissions which inure to the benefit of the seller or creditor or entities in which either have a financial interest and all other charges which would not be made if this were a cash purchase:

Charge for	Amount	
	\$	
	\$	
	\$	
Total finance charges	\$	

- (i) Total time price (g plus h) \$ _____

APPENDIX B

To be used by:

1. Lending institutions having no financial ties with, or right of recourse against the seller of the service or goods to which the contract relates.
2. Lending institutions on an obligation secured by property which the debtor has owned and possessed for less than 60 days prior to the loan.

PART I

1. Description of property or service acquired or to be acquired:
2. Seller's name and address:
3. Name and address of creditor to whom the note or obligation is or will be payable if other than the seller:
4. Does the creditor have any financial ties with the seller or any right of recourse against the seller in event of default on the obligation (Yes) (No)
5. (a) Quoted cash price of goods or services \$ _____
 (b) Less discount customarily allowed cash purchases \$ _____
 (c) Net cash price of goods or services (a minus b) \$ _____
 (d) Add ancillary charges, such as taxes and auto license fees, from which the seller or creditor receives no benefit and which are not related to the extension of credit. If insurance premiums are included here, exclude any commission or fee earned on the insurance by the seller, creditor or any insurer in which seller or creditor have a financial interest. Itemize ancillary charges:

	\$		
	\$		
	\$		
Total ancillary charges:	\$		\$ _____

 (e) Cash delivered price (c plus d) \$ _____
 (f) Less trade-in allowance \$ _____
 (g) Net cash price to be financed (e minus f) \$ _____
 (h) Add finance charges, include here all charges including commissions which inure to the benefit of the seller or creditor or entities in which either have a financial interest and all other charges which would not be made if this were a cash purchase: \$ _____

<u>Charge for</u>	<u>Amount</u>		
	\$		
	\$		
	\$		
Total finance charges	\$		\$ _____

 (i) Total time price (g plus h) \$ _____

cash price (a minus b). Itemized under (d) were charges ancillary to the acquisition of the property or services which included all charges not related to the extension of credit, and all fees and charges from which the seller/creditor or an entity in which either the creditor/seller had a financial interest received no benefit. Even if insurance premiums were included in the amount financed, any commissions earned on the insurance by the seller were to be excluded from the ancillary charges; they were to be included and listed under finance charges (h). From the cash delivered price (c+d) was subtracted the trade-in allowance (f) to obtain the net cash price to be financed (g). The total time price (i) was the net cash price plus the finance charge (g+h).

The critical elements of this disclosure form were: (1) required disclosure of the relationship of seller to creditor, (2) treatment of insurance premium if the creditor/seller received any commission or benefited from the sale of the insurance and (3) definition of the finance charge so as to include not only charges which benefited the creditor/seller, but more inclusively, all charges that would not be required if the consumer were purchasing the item for cash.

Part I of Appendix C was designed for use in loan transactions (see p. 14) and provided for disclosure of (a) the total amount to be repaid, including interest; (b) the total charges (cost of loan; (c) any deductions from the net proceeds which were to be applied to pay off any other obligations; and (d) the net proceeds to the borrower.

These disclosure forms (A, B, and C) had four major deficiencies:

(1) There was no provision for disclosure of the Annual Percentage Rate or Periodic Percentage Rate in the case of open end credit; (2) Open-end credit was totally ignored; (3) The term finance charge was used only with

APPENDIX C

To be used by: _____

Lenders making: (1) unsecured loans not intended for the purchase of goods or services, or (2) loans secured by property which the borrower has owned and possessed for more than 60 days, and which was not purchased from a seller having any financial interest in the lender or vice versa, or (3) any loan secured by a lien on real property.

PART I

1. Date of loan: _____
2. Lender's name and address: _____
3. Borrower's name and address: _____
4. Purpose of Loan: _____
5. Security for the loan: _____
6. (a) Total amount to be repaid, including interest, if this loan is paid according to its terms. \$ _____

- (b) Charges which will be made against the debtor if loan is repaid according to its terms are: (Itemize)

<u>Charge</u>	<u>Amount</u>	
_____	\$ _____	
_____	\$ _____	
_____	\$ _____	
Total charges (cost of loan)	\$ _____	\$ _____
Net proceeds of loan		\$ _____

- (c) Deductions from net proceeds to be applied to payoff of other obligations:

<u>Item</u>	<u>Amount</u>	
_____	\$ _____	
_____	\$ _____	
_____	\$ _____	
Total deductions other than charges	\$ _____	\$ _____

- (d) Net proceeds to borrower \$ _____

respect to sales credit and no such term was used with respect to loan credit; and (4) Loan credit was not subjected to the same standard of disclosures as set forth under sale credit, particularly with respect to provisions for credit insurance.

Standards of fairness. Section VI. Part D. of the Directive provided that a contractual obligation would be considered fair by the DoD if all of the standards of fairness as set forth in Part II of Appendix A, B, or C were complied with (see pp. 16, 17, 18). The standards of fairness varied to conform to the type of credit for which each appendix applied and are summarized in Table 1, p. 19. Because the standards were more numerous for Appendix A which concerned sales credit it is used as the reference.

Excepted transactions. The requirement that a creditor comply with the terms of the directive in order to receive debt collection assistance could be waived by the commanding officer on the basis of these conditions: if the total unpaid claim was for \$50 or less, if the complaint was not predicated upon an installment note or contract, or if the complaint involved an open or revolving charge account. This last exception, which exempted creditors who extended open end credit from the requirement to make any form of disclosure to a serviceman, underscored the intent of the directive to ignore open-end credit.

Additional provisions. The directive also dealt with solicitation privileges on military installations (Section I, Part B), limitation of franchises and concessions on bases (Section I, Part C), educational

PART II - STANDARDS OF FAIRNESS:

The items set forth in Column I are limitations which the Department of Defense considers desirable to insure fairness in contracts of this type obligating military members for the payment of money. Column II signifies the creditors willingness, or lack thereof, to have such limitations apply to the subject contract. These limitations do not extend any provision of the contract.

Column I	Column II
Provisions Desirable to Insure Fairness	Complete by filling in "shall apply" or "shall not apply"
1. No finance charge made shall be in excess of the charge which could be made under the law of the place in which this contract is signed by the serviceman.	1. _____
2. No claim shall be made for an attorney's fee unless suit is filed and decided in favor of the creditor in which event such fee shall not exceed 10% of the obligation found due.	2. _____
3. No deficiency shall be claimed if the security for the debt is repossessed and sold for an amount less than the balance due on the contract.	3. _____
4. Defenses which the debtor may have against the originallender or against the seller of the goods or any agent of either shall be good against any subsequent holder of the obligation.	4. _____
5. The debtor shall have the right to remove any security for the obligation beyond state or national boundaries if he or his family moves beyond such boundaries and notifies the creditor of the new address where the security is located and removal of the security shall not accelerate payment of the obligation.	5. _____
6. No late charge in excess of 5% of the late payment shall be made.	6. _____
7. There shall be no penalty for prepayment and in the event of prepayment that portion of the finance charges which have inured to the benefit of the seller or creditor shall be prorated on the basis of the charges which would have been ratably payable had finance charges been calculated and payable as equal periodic payments over the term of the contract and only the prorated amount to the date of prepayment shall be due.	7. _____
8. This contract may be terminated at any time prior to delivery to the debtor of the goods or services which were consideration for the contract. However, if goods of special manufacture or made to size to meet specifications of the purchaser, are the subject of this contract then the contract may be terminated only if such goods are not delivered to the debtor within 30 days after the date of the contract. If this contract provides for the delivery of goods or services at future intervals of time then termination shall apply with regard to undelivered goods or services and the debtor shall pay no greater part of the total contract price than the fraction which goods or services delivered to the time of termination bears to total goods or services called for by the contract.	8. _____
9. No charge shall be made as a part of the cash delivered price or finance charges for an insurance premium unless satisfactory evidence of a policy reflecting such coverage is delivered to the debtor within 15 days after the contract is signed.	9. _____

Sept 29, 65

APPENDIX B (Continued) 1344.7 (Encl 2)

PART II - STANDARDS OF FAIRNESS:

The items set forth in Column I are limitations which the Department of Defense considers desirable to insure fairness in contracts of this type obligating military members for the payment of money. Column II signifies the creditors willingness, or lack thereof, to have such limitations apply to the subject contract. These limitations do not extend any provision of the contract.

COLUMN I Provisions Desirable to Insure Fairness	COLUMN II Complete by filling in "shall apply" or "shall not apply"
1. No finance charge made shall be in excess of the charge which could be made under the law of the place in which this contract is signed by the serviceman.	1. _____
2. No claim shall be made for an attorney's fee unless suit is filed and decided in favor of the creditor in which event such fee shall not exceed 10% of the obligation found due.	2. _____
3. No deficiency shall be claimed if the security for the debt is repossessed and sold for an amount less than the balance due on the contract.	3. _____
4. The debtor shall have the right to remove any security for the obligation beyond state or national boundaries if he or his family moves beyond such boundaries and notifies the creditor of the new address where the security is located and removal of the security shall not accelerate payment of the obligation.	4. _____
5. No late charge in excess of 5% of the late payment shall be made.	5. _____
6. There shall be no penalty for prepayment and in the event of prepayment that portion of the finance charges which have inured to the benefit of the seller or creditor shall be prorated on the basis of the charges which would have been ratably payable had finance charges been calculated and payable as equal periodic payments over the term of the contract and only the prorated amount to the date of prepayment shall be due.	6. _____
7. No charge shall be made as a part of the cash delivered price or finance charges for an insurance premium unless satisfactory evidence of a policy reflecting such coverage is delivered to the debtor within 15 days after the contract is signed.	7. _____

APPENDIX C (Continued)

PART II - STANDARDS OF FAIRNESS:

The items set forth in Column I are limitations which the Department of Defense considers desirable to insure fairness in contracts of this type obligating military members for the payment of money. Column II signifies the creditors willingness, or lack thereof, to have such limitations apply to the subject contract. These limitations do not extend any provision of the contract.

Column I Provisions Desirable to Insure Fairness	Column II Complete by filling in "shall apply" or "shall not apply"
1. No finance charge made shall be in excess of the charge which could be made under the law of the place in which this contract is signed by the serviceman.	1. _____
2. No claim shall be made for an attorney's fee unless suit is filed and decided in favor of the creditor in which event such fee shall not exceed 10% of the obligation found due.	2. _____
3. The debtor shall have the right to remove any personal property which is security for the obligation beyond state or national boundaries if he or his family moves beyond such boundaries and notifies the creditor of the new address where the security is located and removal of the security shall not accelerate payment of the obligation.	3. _____
4. No late charge in excess of 5% of the late payment shall be made.	4. _____
5. There shall be no penalty for prepayment and in the event of prepayment that portion of the finance charges which have inured to the benefit of the seller or creditor shall be prorated on the basis of the charges which would have been ratably payable had finance charges been calculated and payable as equal periodic payments over the term of the contract and only the prorated amount to the date of prepayment shall be due.	5. _____
6. No charge shall be made as a part of the cash delivered price or finance charges for an insurance premium unless satisfactory evidence of a policy reflecting such coverage is delivered to the debtor within 15 days after the contract is signed.	6. _____

Table 1. Standards of Fairness compared

DoD Directive, September, 1965			DoD Directive, May, 1966
Appendix A ¹	Appendix B ¹	Appendix C ¹	
1. Finance charge not to exceed state law	Same	Same	Same
2. Attorney's fees not to exceed 10%	Same	Same	Same; also no fee if salaried by creditor
3. No deficiency judgment if security repossessed and sold for less than balance due	Same	Not applicable	Greatly expanded
4. Prohibition of Holder in Due Course	Not included	Not applicable	Same (no. 3)
5. Removal of security from state boundary	Same (no. 4)	Same (no. 3)	Same (no. 4)
6. No late charge in excess of 5%	Same (no. 5)	Same (no. 4)	5% or \$5, whichever less (no. 5)
7. No prepayment penalty; finance charge rebate prorated	Same (no. 6)	Same (no. 5)	Same with "Rule of 78" added (no. 6)
8. Termination anytime prior to delivery; special orders only if arrive 30 days after contract signed; future delivery	Not included	Not applicable	Same; payment required for special order extras (no. 10)
9. Delivery of insurance policy in 15 days or no charge or finance charge	Same (no. 7)	Same (no. 6)	30 days (no. 7)
Not included	Not included	Not included	Payments of equal amount and duration (no. 8)

¹Full text of the standards as numbered appears on pp. 16, 17, and 18, respectively.

programs (Section I, Part H), and advertisements appearing in unofficial military publications sold or distributed on defense installations (Part V). These provisions have not been considered by the author in this thesis.

Reactions to the September 29, 1965 Directive

Richard L. D. Morse, Professor of Family Economics at Kansas State University, read the directive as published in the Consumer Finance News (December, 1965, pp. 23-30), and noted that no provision was made for the disclosure of the annual percentage rate. He wrote to the Department of Defense concerning this omission saying that although the Directive made reference to the rights of the consumer, particularly the right to be informed, it failed to require disclosure of the annual percentage rate (see p. 21). He was assured that the Directive was being revised and reissued in an amended form.

Undoubtedly many further comments were made on this innovative document. However, the author was denied access to the Department of Defense history files and therefore is limited to personal interviews, published documents, and congressional hearings. A copy of Lieutenant General Benade's letter of May 28, 1974 appears on p. 22.

May 2, 1966 Directive

In April, 1966 while serving as consultant to the United States Treasury Department, Dr. Morse assisted the Department of Defense in revising the DoD Directive: (1) to include disclosure of the Annual Percentage Rate, (2) to establish the actuarial method for computing the annual percentage rate, (3) to recognize and include open-end credit, (4) to simplify

ILLEGIBLE

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

ILLEGIBLE

Department of Family Economics
Justin Hall

December 28, 1967

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

Re: DoD Directive #1344.7

Dear Mr. Vance:

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

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

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

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

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

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

Sincerely yours,

Richard L. D. Morse
Professor and Head

RJDM:js
CC: Senator Paul Douglas

ILLEGIBLE DOCUMENT

**THE FOLLOWING
DOCUMENT(S) IS OF
POOR LEGIBILITY IN
THE ORIGINAL**

**THIS IS THE BEST
COPY AVAILABLE**



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

MANPOWER AND
RESERVE AFFAIRS

(Military Personnel Policy)

28 MAY 1974

Miss Cynthia Sprague Lamb
2205 42nd St., N. W. (Apt. 301)
Washington, D. C. 20007

Dear Miss Lamb:

This is in reply to your letter of May 13, 1974, concerning your request for background information files on Department of Defense Directive 1344.7.

Although we have not interpreted your request to be for the Directive itself, we are enclosing for you a copy of the original 1344.7 dated September 29, 1965, a subsequent replacement dated May 2, 1966, and the current edition dated July 1, 1969. In 1969 the indebtedness coverage in 1344.7 was established as a new and separate Directive numbered 1344.9. This Directive now contains DoD policy with regard to Truth in Lending and the Standards of Fairness. A copy of 1344.9 is also enclosed.

I am sorry that we are not able to make available to you the memorandums, letters and other inter-office working files on this Directive. The reasons for this prohibition were explained in my letter to Mr. Leslie V. Dix on your behalf on March 5, 1974. We are invoking the exemption provided in Title 5, Section 552, Subsection (b) of the U. S. Code dealing with public information and records which states that "This section does not apply to matters that are (5) inter-agency or intra-agency memorandums or letters which would not be available by law to a party other than an agency in litigation with the agency;"

I hope the enclosed material will be of assistance to you.

Sincerely,

Leo E. Benade
Lieutenant General, USA
Deputy Assistant Secretary of Defense

Enclosures

the full disclosure provisions, eliminating the distinction between sale and loan credit.

The revised Directive, issued May 2, 1966 was implemented by the Secretaries of the military departments within thirty (30) days of the date of issuance. The full text appears in Appendix B. Only those portions pertaining to its classification of creditors, full disclosure, standards of fairness, and exemptions are discussed.

Classes of creditors. For purposes of disclosure of credit terms, all creditors, other than those extending open-end credit, used a single form. This form was used regardless of whether credit was extended for a cash loan or for purchases. The traditional distinction between loan and sales credit was removed for the purpose of disclosure of credit terms. Nevertheless, the necessity to disclose the relationship of the creditor to the seller for purposes of determining finance charges was recognized and provided for on the forms. The differences between lenders and vendors of credit relating to the security interest of the parties was addressed and integrated in the standards of fairness statements.

Credit disclosures. Open-end credit, which had been excluded from the previous Directive, was recognized in this May 1966 Directive. The Directive provided conditions whereby the creditor extending open-end credit would be considered to have complied with the terms of the Directive. These conditions, as set forth in Section X. E. were that the creditor disclose (1) the periodic rate, (2) its annual rate equivalent, and (3) the balance on which the periodic rate was applied in order to compute the

finance charge. This essentially conformed with the recommendations of the Consumer Advisory Council (1963).

Disclosure requirements for credit other than open-end were set forth in Part II of Attachment A to the Directive (see pp. 25, 26). It provides three sections: A, Identification; B, Contract Terms; and C, Calculation of Approximate Annual Percentage Rate.

As previously mentioned, the creditor was required to declare whether he had any financial ties or had right of recourse against the seller in the event of default. This together with spaces for the names and addresses of the parties were in the Identification section.

The Contract Terms section provided for disclosure of (1) the quoted cash price of the goods or services or total amount of cash advances. To this amount was added (2) ancillary charges. These were charges such as taxes, auto license fees, filing or recording fees paid to a public official which would have been paid if there had been a cash purchase. It also included other charges from which the seller or lender received no benefit. The sum of these amounts less the down payment or trade-in allowance gave the unpaid cash balance or the amount of the loan to be financed (3). The remainder of the form provided for determining the finance charges to be itemized under (6). These were all charges which would not have been made if this had been a cash purchase, as well as all charges which would benefit the seller or creditor, or entities in which either had an interest. These included credit-related fees such as for recording financial papers and fees for credit investigation. Also, all charges for credit insurance (life, disability, accident, health, and other) were included as finance charges. This was a departure from the September

PART II - FULL DISCLOSURE

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

A. IDENTIFICATION

Date: _____

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

B. CONTRACT TERMS

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

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

1564.7, May 2, 1966
Attachment A

PART II - FULL DISCLOSURE (cont'd.)

C. CALCULATION OF APPROXIMATE ANNUAL PERCENTAGE RATE *

1. Total finance charges (B. 6) \$ _____
2. Total amount to be financed (B. 5) \$ _____
3. Finance charges per \$100 financed \$ _____
(Divide 1 above by 2 above and
multiply the result by \$100)
4. Number of monthly payments (B. 8) _____
5. Determine annual percentage rate by using either:
 - a. DoD Annual Rate Table (Attachment B). This table will
give an approximate annual percentage rate based on the
actuarial method. These approximate rates will differ from
precise calculations by no more than 1/4% at the left end
of the table and not more than 1-1/2% at the right end of
the table. Read down the left column of the table to the
number of monthly payments (4 above). Read across to find
between which pair of columns the finance charge per
hundred (3 above) falls. Read up and find the approximate
annual percentage rate at the head of the pair of columns, .. _____ %
 - or -
 - b. A More Precise Actuarial Calculation based on standard
annuity tables. _____ %

* For purposes of this calculation, it is necessary to determine the number of
equal monthly payments which would be required during the period of the
contract, regardless of the actual repayment terms specified.

REPAYMENT TERMS IF OTHER THAN LEVEL MONTHLY PAYMENTS

Directive. The total amount to be repaid and the time and amounts of payments were to be disclosed in (7) and (8). The finance charge, expressed as an approximate annual percentage rate, was to be disclosed as (9), using Part II of Attachment A (see p. 26) and the rate table included in Attachment B (see p. 28) for computing the approximate annual percentage rate.

The values in the DoD annual Rate Table were computed by the actuarial method, as noted in the footnote to the table. The instructions permitted the creditor to use either the table or more precise actuarial calculations.

Significantly, the terms "actuarial," "annuity," and "United States Rule" appear to be synonymous, and their multiple use reflects the confusion in precise terminology which existed at the time.

Perhaps of even greater significance was the publication of such a Table for this represented the first official table for use in determining the annual percentage rate by the actuarial method as applied to consumer credit rates and methods of payment.

Standards of fairness. Part I of the May Directive specified the standards of fairness (pp. 29, 30). A comparison of the standards with those included in the September Directive is presented in Table 1. These standards conform to those included in the September Directive with some exceptions: attorney's fees could not be assessed if the attorney were salaried by the creditor; late charges could not exceed 5% of the delinquent payment or \$5, whichever was less; the "Rule of 78" was recognized for use in the computation of finance charges to be rebated in instances of prepayment; creditors were allowed thirty (30) days in which to deliver insurance policies to debtors. The most significant change made was with respect to

DEPARTMENT OF DEFENSE

1941.7, May 2, 66
Attachment B

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

Finance charge = \$36; Total amount to be financed = \$250; Number of monthly payments = 24.

Step 1 - Divide the finance charge by the total amount to be financed and multiply by 100. This gives the finance charge per \$100 of amount to be financed. That is, $\$36 \div \$250 \times 100 = 14.4\%$.

Step 2 - Follow down the left hand column of the table to the line for 24 months. Follow across this line until you find the two numbers between which the finance charge of \$36 falls. In this example \$36 falls between \$35.20 and \$35.60. Reading up between the two columns of figures you will see that the annual percentage rate is 14%. For the purpose of this directive the annual percentage rate is the rate appearing at the head of the two columns between which the finance charge per \$100 of total amount to be financed falls. (If the finance charge per hundred falls exactly on a tabular value, the lower percentage rate may be used.)

Number of months		Approximate annual rate									
Period	Rate	1	2	3	4	5	6	7	8	9	10
1	\$0.40	\$0.44	\$0.48	\$0.52	\$0.56	\$0.60	\$0.65	\$0.71	\$0.79	\$0.88	\$0.96
2	\$0.59	\$0.66	\$0.72	\$0.78	\$0.84	\$0.91	\$0.97	\$1.06	\$1.16	\$1.27	\$1.39
3	\$0.79	\$0.88	\$0.96	\$1.04	\$1.13	\$1.21	\$1.30	\$1.40	\$1.51	\$1.63	\$1.75
4	\$0.99	\$1.10	\$1.20	\$1.31	\$1.41	\$1.51	\$1.62	\$1.78	\$1.93	\$2.09	\$2.25
5	\$1.19	\$1.32	\$1.44	\$1.57	\$1.69	\$1.82	\$1.95	\$2.13	\$2.30	\$2.49	\$2.67
6	\$1.39	\$1.54	\$1.68	\$1.83	\$1.96	\$2.10	\$2.25	\$2.45	\$2.65	\$2.87	\$3.07
7	\$1.59	\$1.76	\$1.93	\$2.07	\$2.26	\$2.43	\$2.60	\$2.85	\$3.15	\$3.47	\$3.79
8	\$1.79	\$1.98	\$2.17	\$2.36	\$2.55	\$2.74	\$2.93	\$3.21	\$3.60	\$3.98	\$4.36
9	\$1.99	\$2.19	\$2.41	\$2.62	\$2.83	\$3.05	\$3.26	\$3.57	\$4.00	\$4.43	\$4.85
10	\$2.19	\$2.42	\$2.65	\$2.87	\$3.12	\$3.35	\$3.59	\$3.84	\$4.28	\$4.71	\$5.13
11	\$2.39	\$2.64	\$2.90	\$3.15	\$3.41	\$3.66	\$3.92	\$4.21	\$4.71	\$5.13	\$5.54
12	\$2.59	\$2.87	\$3.14	\$3.42	\$3.70	\$3.97	\$4.25	\$4.56	\$5.09	\$5.50	\$5.91
13	\$2.79	\$3.09	\$3.39	\$3.68	\$3.98	\$4.28	\$4.58	\$4.91	\$5.47	\$5.87	\$6.27
14	\$2.99	\$3.31	\$3.63	\$3.95	\$4.27	\$4.59	\$4.91	\$5.29	\$5.89	\$6.29	\$6.69
15	\$3.19	\$3.54	\$3.88	\$4.22	\$4.56	\$4.90	\$5.24	\$5.66	\$6.29	\$6.69	\$7.09
16	\$3.40	\$3.76	\$4.13	\$4.48	\$4.83	\$5.18	\$5.53	\$5.98	\$6.64	\$7.04	\$7.44
17	\$3.60	\$3.98	\$4.37	\$4.75	\$5.14	\$5.52	\$5.91	\$6.37	\$7.06	\$7.46	\$7.86
18	\$3.80	\$4.21	\$4.61	\$5.02	\$5.42	\$5.82	\$6.23	\$6.70	\$7.41	\$7.81	\$8.21
19	\$4.01	\$4.43	\$4.86	\$5.28	\$5.69	\$6.10	\$6.52	\$7.00	\$7.73	\$8.13	\$8.53
20	\$4.21	\$4.66	\$5.11	\$5.56	\$6.01	\$6.46	\$6.92	\$7.40	\$8.15	\$8.55	\$8.95
21	\$4.42	\$4.88	\$5.35	\$5.81	\$6.27	\$6.73	\$7.20	\$7.67	\$8.44	\$8.84	\$9.24
22	\$4.62	\$5.11	\$5.60	\$6.07	\$6.54	\$7.01	\$7.49	\$7.97	\$8.76	\$9.16	\$9.56
23	\$4.82	\$5.33	\$5.85	\$6.33	\$6.81	\$7.28	\$7.76	\$8.24	\$9.05	\$9.45	\$9.85
24	\$5.02	\$5.56	\$6.10	\$6.59	\$7.08	\$7.56	\$8.04	\$8.52	\$9.35	\$9.75	\$10.15
25	\$5.23	\$5.79	\$6.35	\$6.85	\$7.34	\$7.82	\$8.30	\$8.78	\$9.63	\$10.03	\$10.43
26	\$5.43	\$6.01	\$6.60	\$7.11	\$7.61	\$8.09	\$8.57	\$9.05	\$9.92	\$10.32	\$10.72
27	\$5.64	\$6.24	\$6.85	\$7.36	\$7.86	\$8.34	\$8.82	\$9.30	\$10.18	\$10.58	\$10.98
28	\$5.85	\$6.47	\$7.10	\$7.62	\$8.13	\$8.61	\$9.09	\$9.57	\$10.46	\$10.86	\$11.26
29	\$6.05	\$6.70	\$7.35	\$7.87	\$8.38	\$8.87	\$9.36	\$9.84	\$10.74	\$11.14	\$11.54
30	\$6.25	\$6.92	\$7.59	\$8.11	\$8.61	\$9.10	\$9.59	\$10.07	\$10.98	\$11.38	\$11.78
31	\$6.46	\$7.15	\$7.83	\$8.35	\$8.84	\$9.33	\$9.82	\$10.30	\$11.22	\$11.62	\$12.02
32	\$6.67	\$7.38	\$8.10	\$8.62	\$9.12	\$9.61	\$10.10	\$10.58	\$11.51	\$11.91	\$12.31
33	\$6.87	\$7.61	\$8.35	\$8.87	\$9.37	\$9.86	\$10.35	\$10.83	\$11.77	\$12.17	\$12.57
34	\$7.08	\$7.84	\$8.60	\$9.12	\$9.61	\$10.10	\$10.58	\$11.06	\$12.01	\$12.41	\$12.81
35	\$7.28	\$8.07	\$8.85	\$9.37	\$9.86	\$10.35	\$10.83	\$11.31	\$12.27	\$12.67	\$13.07
36	\$7.49	\$8.30	\$9.11	\$9.63	\$10.12	\$10.61	\$11.10	\$11.58	\$12.55	\$12.95	\$13.35
37	\$7.70	\$8.53	\$9.37	\$9.89	\$10.38	\$10.87	\$11.36	\$11.84	\$12.82	\$13.22	\$13.62
38	\$7.91	\$8.76	\$9.62	\$10.14	\$10.63	\$11.12	\$11.61	\$12.09	\$13.08	\$13.48	\$13.88
39	\$8.12	\$9.00	\$9.88	\$10.40	\$10.89	\$11.38	\$11.87	\$12.35	\$13.35	\$13.75	\$14.15
40	\$8.33	\$9.23	\$10.13	\$10.65	\$11.14	\$11.63	\$12.12	\$12.60	\$13.61	\$14.01	\$14.41
41	\$8.54	\$9.46	\$10.38	\$10.90	\$11.39	\$11.88	\$12.37	\$12.85	\$13.87	\$14.27	\$14.67
42	\$8.75	\$9.70	\$10.64	\$11.16	\$11.65	\$12.14	\$12.63	\$13.11	\$14.14	\$14.54	\$14.94
43	\$8.96	\$9.93	\$10.89	\$11.41	\$11.90	\$12.39	\$12.88	\$13.36	\$14.40	\$14.80	\$15.20
44	\$9.16	\$10.15	\$11.13	\$11.65	\$12.14	\$12.63	\$13.12	\$13.60	\$14.65	\$15.05	\$15.45
45	\$9.37	\$10.38	\$11.37	\$11.89	\$12.38	\$12.87	\$13.36	\$13.84	\$14.90	\$15.30	\$15.70
46	\$9.58	\$10.60	\$11.60	\$12.12	\$12.61	\$13.10	\$13.59	\$14.07	\$15.14	\$15.54	\$15.94
47	\$9.79	\$10.83	\$11.84	\$12.36	\$12.85	\$13.34	\$13.83	\$14.31	\$15.39	\$15.79	\$16.19
48	\$10.00	\$11.05	\$12.07	\$12.59	\$13.08	\$13.57	\$14.06	\$14.54	\$15.63	\$16.03	\$16.43
49	\$10.21	\$11.27	\$12.30	\$12.82	\$13.31	\$13.80	\$14.29	\$14.77	\$15.87	\$16.27	\$16.67
50	\$10.42	\$11.50	\$12.53	\$13.05	\$13.54	\$14.03	\$14.52	\$15.00	\$16.11	\$16.51	\$16.91
51	\$10.63	\$11.72	\$12.76	\$13.28	\$13.77	\$14.26	\$14.75	\$15.23	\$16.35	\$16.75	\$17.15
52	\$10.84	\$11.95	\$13.00	\$13.52	\$14.01	\$14.50	\$15.00	\$15.48	\$16.61	\$17.01	\$17.41
53	\$11.05	\$12.17	\$13.23	\$13.75	\$14.24	\$14.73	\$15.22	\$15.70	\$16.84	\$17.24	\$17.64
54	\$11.26	\$12.39	\$13.46	\$13.98	\$14.47	\$14.96	\$15.45	\$15.93	\$17.08	\$17.48	\$17.88
55	\$11.47	\$12.61	\$13.69	\$14.21	\$14.70	\$15.19	\$15.68	\$16.16	\$17.32	\$17.72	\$18.12
56	\$11.69	\$12.84	\$13.93	\$14.45	\$14.94	\$15.43	\$15.92	\$16.40	\$17.57	\$17.97	\$18.37
57	\$11.90	\$13.07	\$14.17	\$14.69	\$15.18	\$15.67	\$16.16	\$16.64	\$17.82	\$18.22	\$18.62
58	\$12.11	\$13.30	\$14.41	\$14.93	\$15.42	\$15.91	\$16.40	\$16.88	\$18.07	\$18.47	\$18.87
59	\$12.33	\$13.54	\$14.66	\$15.18	\$15.67	\$16.16	\$16.65	\$17.13	\$18.33	\$18.73	\$19.13
60	\$12.54	\$13.77	\$14.89	\$15.41	\$15.90	\$16.39	\$16.88	\$17.36	\$18.57	\$18.97	\$19.37
61	\$12.75	\$14.00	\$15.13	\$15.65	\$16.14	\$16.63	\$17.12	\$17.60	\$18.82	\$19.22	\$19.62
62	\$12.96	\$14.23	\$15.37	\$15.89	\$16.38	\$16.87	\$17.36	\$17.84	\$19.07	\$19.47	\$19.87
63	\$13.17	\$14.46	\$15.60	\$16.12	\$16.61	\$17.10	\$17.59	\$18.07	\$19.31	\$19.71	\$20.11
64	\$13.38	\$14.69	\$15.84	\$16.36	\$16.85	\$17.34	\$17.83	\$18.31	\$19.56	\$19.96	\$20.36
65	\$13.59	\$14.92	\$16.08	\$16.60	\$17.09	\$17.58	\$18.07	\$18.55	\$20.00	\$20.40	\$20.80
66	\$13.80	\$15.15	\$16.33	\$16.85	\$17.34	\$17.83	\$18.32	\$18.80	\$20.26	\$20.66	\$21.06
67	\$14.01	\$15.38	\$16.57	\$17.09	\$17.58	\$18.07	\$18.56	\$19.04	\$20.51	\$20.91	\$21.31
68	\$14.22	\$15.61	\$16.81	\$17.33	\$17.82	\$18.31	\$18.80	\$19.28	\$20.76	\$21.16	\$21.56
69	\$14.43	\$15.84	\$17.05	\$17.57	\$18.06	\$18.55	\$19.04	\$19.52	\$21.01	\$21.41	\$21.81
70	\$14.64	\$16.07	\$17.28	\$17.80	\$18.29	\$18.78	\$19.27	\$19.75	\$21.25	\$21.65	\$22.05
71	\$14.85	\$16.30	\$17.51	\$18.03	\$18.52	\$19.01	\$19.50	\$20.00	\$21.46	\$21.86	\$22.26
72	\$15.06	\$16.53	\$17.74	\$18.26	\$18.75	\$19.24	\$19.73	\$20.22	\$21.69	\$22.09	\$22.49
73	\$15.27	\$16.76	\$17.97	\$18.49	\$18.98	\$19.47	\$19.96	\$20.45	\$21.93	\$22.33	\$22.73
74	\$15.48	\$16.99	\$18.20	\$18.72	\$19.21	\$19.70	\$20.19	\$20.68	\$22.17	\$22.57	\$22.97
75	\$15.69	\$17.22	\$18.43	\$18.95	\$19.44	\$19.93	\$20.42	\$20.91	\$22.41	\$22.81	\$23.21
76	\$15.90	\$17.45	\$18.66	\$19.18	\$19.67	\$20.16	\$20.65	\$21.14	\$22.65	\$23.05	\$23.45
77	\$16.11	\$17.68	\$18.89	\$19.41	\$19.90	\$20.39	\$20.88	\$21.37	\$22.89	\$23.29	\$23.69
78	\$16.32	\$17.91	\$19.12	\$19.64	\$20.13	\$20.62	\$21.11	\$21.60	\$23.13	\$23.53	\$23.93
79	\$16.53	\$18.14	\$19.35	\$19.87	\$20.36	\$20.85	\$21.34	\$21.83	\$23.37	\$23.77	\$24.17
80	\$16.74	\$18.37	\$19.58	\$20.10	\$20.59	\$21.08	\$21.57	\$22.06	\$23.61	\$24.01	\$24.41
81	\$16.95	\$18.60	\$19.80	\$20.33	\$20.82	\$21.31	\$21.80	\$22.29	\$23.85	\$24.25	\$24.65
82	\$17.16	\$18.83	\$20.03	\$20.56	\$21.05	\$21.54	\$22.03	\$22.52	\$24.09	\$24.49	\$24.89
83	\$17.37	\$19.06	\$20.26	\$20.78	\$21.27	\$21.76	\$22.25	\$22.74	\$24.33	\$24.73	\$25.13
84	\$17.58	\$19.29	\$20.49	\$21.01	\$21.50	\$21.99	\$22.48	\$22.97	\$24.57	\$24.97	\$25.37
85	\$17.79	\$19.52	\$20.72	\$21.24	\$21.73	\$22.22	\$22.71	\$23.20	\$24.81	\$25.21	\$25.61
86	\$18.00	\$19.75	\$20.95	\$21.47	\$21.96	\$22.45	\$22.94	\$23.43	\$25.05	\$25.45	\$25.85
87	\$18.21	\$19.98	\$21.18	\$21.70	\$22.19	\$22.68	\$23.17	\$23.66	\$25.29	\$25.69	\$26.09
88	\$18.42	\$20.21	\$21.41	\$21.93	\$22.42	\$22.91	\$23.40	\$23.89	\$25.53	\$25.93	\$26.33
89	\$18.63	\$20.44	\$21.64	\$22.16	\$22.65	\$23.14	\$23.63	\$24.12	\$25.77	\$26.17	\$26.57
90	\$18.84	\$20.67	\$21.87	\$22.39	\$22.88	\$23.37	\$23.86	\$24.35	\$26.01	\$26.41	\$26.81
91	\$19.05	\$20.90	\$22.10	\$22.62	\$23.11	\$23.60	\$24.09	\$24.58	\$26.25	\$26.65	\$27.05
92	\$19.26	\$21.13	\$22.33	\$22.85	\$23.34	\$23.83	\$24.32	\$24.81	\$26.49	\$26.89	\$27.29
93	\$19.47	\$21.36	\$22.56	\$23.08	\$23.57	\$24.06	\$24.55	\$25.04	\$26.73	\$27.13	\$27.53
94	\$19.68	\$21.59	\$22.79	\$23.31	\$23.80	\$24.29	\$24.78	\$25.27	\$26.97	\$27.37	\$27.77
95	\$19.89	\$21.82	\$23.02	\$23.5							

The values in this table have been computed by the actuarial or annuity method which conforms to the United States Rule.

PART I - STANDARDS OF FAIRNESS

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

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

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

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

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

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

7. No charge shall be made for an insurance premium or for finance charges for such premium unless satisfactory evidence of a policy, or insurance certificate where state insurance laws or regulations permit such certificates to be issued in lieu of a policy, reflecting such coverage has been delivered to the debtor within 30 days after the specified date of delivery of the item purchase or the signing of a cash loan agreement.

8. If the loan or contract agreement provides for payments in installments, each payment, other than the down payment, shall be in equal or substantially equal amounts, and installments shall be successive and of equal or substantially equal duration.

9. If the security for the debt is repossessed and sold in order to satisfy or reduce the debt, the repossession and resale will meet the following conditions: (a) the defaulting purchaser will be given advance written notice of the intention to repossess; (b) following repossession, the defaulting purchaser will be served a complete statement of his obligations and adequate advance notice of the sale; (c) he will be permitted to redeem the item by payment of the amount due before the sale, or in lieu thereof submit a bid at the sale; (d) there will be a solicitation for a minimum of three sealed bids unless sold at auction; (e) the party holding the security, and all agents thereof, are ineligible to bid; (f) the defaulting purchaser will be charged only those charges which are reasonably necessary for storage, reconditioning and resale and (g) he shall be provided a written detailed statement of his obligations, if any, following the resale and promptly refunded any credit balance due him, if any.

10. The contract may be terminated at any time before delivery of the goods or services without charge to the purchaser. However, if goods made to the special order of the purchaser result in pre-production costs, or require preparation for delivery, such additional costs will be listed in the order form or contract. No termination charge will be made in excess of this amount. Contracts for delivery at future intervals may be terminated as to the undelivered portion, and the purchaser shall be chargeable only for that proportion of the total cost which the goods or services delivered bear to the total goods and services called for by the contract.

provisions for the repossession of secured property, addressing the right to due process for the military consumer, as well as other abuses which had prevailed in instances of repossession.

Excepted transactions. Unlike the September Directive, the May Directive did provide that the creditor could execute the required forms not only before the credit was extended, but could file a certificate after the credit had been extended provided he state that he had complied with the terms of the Directive. This is Part III of Attachment A (p. 32). As discovered by Leonard (1967) in a study of the effect of the Directive on creditors, this provision proved to be a significant loop-hole, permitting creditors to complete credit transactions, without making the proper disclosures to the military consumers. A request to receive debt collection assistance could be made by completing the disclosure forms and the certificate of compliance at the time of the request. This meant that military personnel could enter into credit transactions without the benefit of full disclosure, and the creditor could still request and receive assistance in the collection of the debt. Thus, this vitiated the spirit of the Directive.

Additional exceptions were made in Section X. E. of the Directive. Complaints which were not subject to the processing requirements of the Directive included: claims by accommodation endorsers, co-makers, or lenders against the party primarily liable where this accommodating party was to receive no benefit; contracts for the purchase, sale or rental of real estate; claims in which the total unpaid amount did not exceed \$50; claims for support of dependents; purchase money liens on real property,

1344.7, May 2, 66
Attachment A

PART III - Certificate of Compliance

(If Attachment A is executed before the obligation is incurred)

I certify that (1) the Standards of Fairness (Part I) have been applied to the loan or credit obligation to which this form refers, (2) a full disclosure of the terms of the obligation has been made by execution of Part II or its equivalent, and (3) that a copy of this disclosure was furnished to the borrower (or debtor), whose signature is also indicated below, before the obligation was incurred.

Signature of borrower_____
Signature of creditor_____
(Date)(If Attachment A is not executed before the obligation was incurred)

I certify that (1) the Standards of Fairness (Part I) have been applied to the loan or credit obligation to which this form refers and that the unpaid balance owing has been adjusted in accordance therewith as reflected in an executed copy of Part II, or (2) that the Standards of Fairness were applied at the time the loan was made and no adjustment is required in the transaction as indicated by the executed copy of Part II.

Name of borrower_____
Signature of creditor_____
(Date)

not including liens representing obligations for improvement or repair; and finally, open-end credit transaction in which the periodic rate, its annual rate equivalent, and the balance on which the periodic rate was applied to compute the finance charge, as previously discussed.

Reactions to the May, 1966 Directive. The provisions set forth in the DoD Directive were controversial. Records of the Defense Department, which might indicate in detail the attitude of the private business community toward specific provisions of the Directive, were unavailable to the author (see p. 22). However, Dr. Carl F. Hawver, Executive Vice President of the National Consumer Finance Association, and Archie K. Davis, President of the American Bankers Association did publish statements which are summarized.

Accusations were made that the provisions of the Directive violated existing State laws, that the Department of Defense had attempted to regulate consumer credit practices to an extent which Congress had not seen fit to make the subject of legislation. In addition, some critics stated that an Annual Percentage Rate could not be quoted accurately and that such subject matter could be better enforced by State governments than by the Federal government. Critics also stated that provisions of the Directive gave preferential treatment to credit unions at the expense of banks and consumer finance companies. It was also stated that the necessity of printing disclosure statements to comply with the Directive would cause unnecessary expense for the finance industry.

Hawver (1966, p. 130) referred to a nationwide on-base consumer counseling program conducted by the National Consumer Finance Association

as "the most effective consumer program the serviceman had." Section VI(a) of the Directive, subject: "Educational Programs and Advertising Policies," however, specifically prohibits commercial agents, including loan or finance companies and their associations from conducting such educational programs. This section of the Directive did permit the use of informative material prepared by such commercial agents, provided the material was entirely educational in nature and contained no advertisements. Davis (1966, p. 132) took exception to Section VI of the Directive on the grounds that preferential treatment was given to credit unions and their associations by permitting them to conduct educational programs. In addition, Davis stated that he believed that commercial banks should be utilized for educational programs on the same basis as credit unions.

Hawver (1966, p. 131) in speaking of the required disclosure of an Annual Percentage Rate, referred to the Department of Defense Rate Table for computing an approximate Annual Percentage Rate as the "Rube Goldberg chart." Hawver stated that the output from the chart would be a figure which represented neither interest nor principal, and which would be meaningless in terms of any real value to the serviceman consumer. Hawver believed that the requirement in the Directive for a statement of simple annual interest was added in an apparent attempt to circumvent the procedures of law and to accomplish by Directive what Congress had refused to do by legislation. Davis (1966, p. 133) observed that the table ignored the requirements of consumer loans having variable payment schedules; further he stated that such variable payment schedules would render a rate approximation relatively meaningless.

The method used in computing finance charges specified in the Directive was also contested. Davis (1966, p. 132) noted that the definition of finance charges and the disclosure requirements of the laws of a number of States differed substantially from the requirements set forth in Part II B. 6 of the Full Disclosure Contract. Davis also called for the elimination of such items as official fees for filing or recording, credit investigation fees, and insurance premiums from the definition of finance charges on the grounds that such fees had nothing to do with the traditional legal concept of finance charges. Davis suggested that the finance charge be stated separately from other charges enumerated and that only the finance charge as such be converted to an Annual Percentage Rate equivalent. Davis continued, stating that the requirements of the Full Disclosure Contract relating to finance charges would seriously distort the over-all concept of finance charges and would render disclosure of such charges virtually meaningless to a borrower or credit purchaser.

Hawver (1966, p. 130) also questioned the definition of finance charges adopted by the Department of Defense. He cited in particular his disagreement with the inclusion of charges for insurance in the finance charge. Hawver stated that the calculation called for in the Directive produced an "approximate annual percentage rate" and not an "interest rate," and that this would be difficult for everyone involved to understand, bringing confusion instead of clarity.

Both Hawver and Davis noted that great expense for printing would necessarily be incurred by the finance industry if use of the Full Disclosure Contract was required. Hawver stated that he believed existing contract forms in use by the finance industry at the time contained most of

the required information. Davis, however, noted that the terminology employed varied in considerable degree from similar terms in contract or loan agreement forms generally used by commercial consumer lending and financing agencies. He suggested amending the Disclosure Contract to agree as closely as possible with the terminology contained in contract forms in general commercial use at the time.

The provisions of the Standards of Fairness were also questioned. Davis (1966, p. 133) in observing the provisions of Standard Number 3 which prohibited the waiver of defenses by the debtor against the original lender, stated that the Standard was extremely inequitable for third parties who would be denied rights under State law which may have permitted a debtor to waive defenses in an action where a note was discounted to a third party, known as the "holder in due course doctrine." Davis alleged that the provision would abrogate substantial rights given by State law under the provisions of the Uniform Commercial Code and the Uniform Negotiable Instruments Act.

Davis objected to the provisions of Standard Number 4 on the grounds that permitting a debtor to remove a chattel or other security for an obligation beyond State or national boundaries would be in direct conflict with many State laws which required the permission of a lender before property subject to a conditional sales contract or a chattel mortgage could be removed from the State. He alleged that such removal of security would generally have the effect of terminating physical damage insurance.

Hawver (1966, p. 131) noted that the provisions of Standard Number 5 concerning late charges might prove a problem under some precomputed contracts where interest was precomputed in the anticipation that payments

would be made on time. If they were not, additional "late charges," according to Hawver, should be made to cover interest due on money used for a longer period of time than computed.

Standard Number 6 authorized the use of the "Rule of 78" provided the Rule was explained in the contract. Hawver objected to this provision on the basis that an explanation of the Rule was seldom written in existing contracts, therefore, reprinting of contracts at considerable expense would be necessary. In addition he noted that in most instances an oral explanation of the Rule would be far easier to understand than a written definition.

Davis further objected to the provisions of Standard Number 8 which required that a loan agreement or contract provide for monthly installments in equal or substantially equal amounts. He observed that lenders often accommodated borrowers by arranging installment payments to accommodate unusual needs of individual borrowers and suggested that provision be made for permissible exceptions to the equal payment requirement.

In analyzing the provisions of Standard Number 9 relating to repossession and sale in the event of default, Davis contended that the Standard could conceivably work to the disadvantage of the debtor as well as the lender. He raised the question of the debtor's responsibility for possible deficiencies resulting where there were no bids at a sale and the holder of the security was forbidden to bid at the sale under the terms of the Standard. Davis also maintained that advance written notice of a creditor's intention to repossess was unreasonable, impractical, and would substantially hinder collection efforts because years of experience showed that when given prior notice, a debtor often would attempt to conceal the secured property.

A brief review of the Directive by W. H. Blake, Executive Vice President of International Consumer Credit Association, appeared in the June, 1966, issue of The Credit World. He noted that the May issue of the Directive contained less "red tape" than did the original version for those doing business "on-base" or those who seek DoD cooperation in collection accounts. In addition he commented that the language of the May version had been improved, making the Directive somewhat easier to understand.

Blake questioned the provision of the Directive which stated that the DoD expected credit granters to make full disclosure of the costs of credit before a loan, credit agreement or contract was executed. He felt the meaning of the words "expects" and "full disclosure in advance" to be unclear.

He also noted that compliance with the provisions of the Directive by credit granters operating outside of military installations was voluntary. He questioned the disclosure procedures for revolving credit, declaring the need for a public interpretation of the Directive by the DoD on this matter.

Finally, Blake noted that compliance with the Directive would be hampered by Senator Douglas' efforts to extend the same provisions to credit transactions with all Federal Government employees, and asked the members of his organization whether their obligation to the military outweighed the "incalculable legal and other risks inherent in the DoD rate disclosure formula."

The only study made to determine the effect of the DoD Directive on creditors was that made by Leonard (1967). She found that the majority of the creditors interviewed felt that the Standards of Fairness would have little or no effect on them. A notable exception was Standard four which

permitted servicemen to move security beyond state and national boundaries; objections to this Standard were raised specifically by banks and car dealers.

With regard to completion of the Full Disclosure Contract most of the creditors interviewed thought that completing the Contract would not be difficult. Creditors did question the inclusion of filing fees, investigating fees, and insurance as part of the finance charge because present contracts did not include these amounts. In addition they indicated that it would be difficult to supply the approximate annual percentage rate as they were unaccustomed to expressing such a figure. However more than half of the creditors reported that the DoD Rate Table was not difficult to understand. This study was made of a random sample of creditors in communities bordering Fort Riley in Kansas.

Subsequent Credit Proposals

The Department of Defense Directive 1344.7 of May 2, 1966, which required full disclosure in credit transactions was the first national standard for truth in lending. Congressional hearings on Truth in Lending which were held in 1965 and in 1967 began to receive wide publicity. In addition a consumer movement was developing and growing just as was the use of consumer credit. The prevailing climate began to shift in favor of a Federal law setting forth uniform disclosures for consumer credit transactions. The issuance of the DoD Directive was a part of the movement which led to the passage of the Federal Truth in Lending Act.

At this time the merits of full disclosure legislation were also being debated in various State legislatures. In 1966 the State of Massachusetts passed such a full disclosure legislation, however this law did not require the quotation of an annual percentage rate based on actuarial calculations. The Canadian province of Nova Scotia also passed a law in 1966. Similar legislation had been proposed in the State of California.

Truth-in-Lending Act and DoD Directive of July 1, 1969

When the Federal Truth in Lending Act was passed on May 29, 1968, uniform disclosure in consumer credit transactions was made the law with regard to all consumers. The DoD Directive, which had been a forerunner in the concept of full disclosure of credit, was revised as of July 1, 1969, to require full disclosure and other provisions of the Truth in Lending Act, and cancelled the May 2, 1966, Directive.

Uniform Consumer Credit Code (UCCC)

During the time that the Truth in Lending Act was being debated in Congress, authors of the UCCC were attempting to complete the Code. Their intent, according to Morse and Fasse (1970), was to have the Code ready for consideration by State legislatures prior to any decisive action on Truth in Lending by the Congress. The debate surrounding the two statutes centered on the rate of interest to be disclosed. Truth in Lending called for the quotation of an annual percentage rate and the UCCC advocated a dollar-add-on rate type of disclosure. Passage of the Truth in Lending Act by the Senate in 1967 settled the controversy surrounding the form of disclosure. However, states were pressured to adopt the UCCC with a promise that it

would protect the states from federal intervention when the federal Truth in Lending Act became effective in 1969.

The UCCC, which has been adopted by several states since 1970, attempts to coordinate and simplify the proliferation of state credit laws. Its major contribution is in the limitation of abusive credit practices. Additionally the Code provides rate ceilings for consumer credit. For purposes of this thesis, the 1968 draft of the UCCC was used, although subsequent revisions of the Code have been issued.

Model Consumer Credit Act

In the midst of the controversy surrounding the UCCC, a grant was awarded the National Consumer Law Center, Inc. of the Boston College Law School by the Office of Economic Opportunity for an extensive study of the Code and to address the requirements of desirable consumer credit legislation. The National Consumer Act, drafted by the National Consumer Law Center, Inc. in 1970, attempted to simplify and clarify provisions for legislation in the area of consumer credit in a context which would ensure adequate private remedies for consumers. The 1973 draft of the Act, titled the Model Consumer Credit Act, is referred to in this thesis.

National Commission on Consumer Finance

Title IV of the Truth in Lending Act called for the establishment of a bipartisan Commission to study consumer credit in this country. This Commission from 1969 to 1972 studied the functioning and the structure of the consumer finance industry, as well as consumer credit transactions generally. The findings of this Commission address many of the provisions

which were contained in the Standards of Fairness of the May, 1966 Directive. The recommendations of the Commission, based in large part on conclusions drawn from the results of extensive technical studies and reviews, were published in a 1972 Report, titled Consumer Credit in the United States.

OBJECTIVES

The purpose of this study was to consider the merits of the Department of Defense Directive 1344.7 of May 2, 1966 as a precursor to the Truth in Lending Act of 1968. The specific objectives of the study were:

To evaluate the provisions for full disclosure of the DoD Directive relative to the recommendations for full disclosure of credit established by the Consumer Advisory Council in its First Report (1963), and to evaluate the extent to which the full disclosure provisions of the DoD Directive were a precursor, to those in the Truth in Lending Act.

To evaluate the provisions of the Standards of Fairness by comparing them to the standards implicit in the Uniform Consumer Credit Code, the Model Consumer Credit Act drafted by the National Consumer Law Center, Inc., and the Report of the National Commission on Consumer Finance.

PROCEDURES

To facilitate study of the provisions of the full disclosure contract of the May, 1966 Directive, tabular comparisons were developed to illustrate specific points considered particularly significant by the author. Table 2

Table 2. Comparison of Full Disclosure Provisions from CAC First Report to Those of DoD Directive 1344.7, May 2, 1966

Consumer Advisory Council Recommendations		DoD Directive 1344.7, May 2, 1966
1. Separate Contracts		
a. Cash or Delivered Price	1. Cash Price or Cash Advanced	
All Additional Charges	2. Ancillary Charges	
	3. Total Cash Price or Amount Extended	
b. Terms of Payment		
Down Payment	4. Down Payment/Trade in Allowance	
Amount to be Financed	7. Total Amount to be Repaid	
Amount of Payment	8. Amount & Due Date of Payments	
Times of Payment	8. Same as above	
c. Simple Annual Nominal Percentage Rate	9. Approximate Annual Percentage Rate	
d. Cost of Credit Services in Dollars & Cents	6. Total Finance Charges	
e. Terms in the event of Advanced Payment and Delayed Payment	Included in Standards of Fairness	
2. Revolving or Open-end Credit		Subsection E of Section X, <u>Processing Debt Complaints</u>
a. Simple Annual Nominal Percentage Rate		

Table 2. continued

Consumer Advisory Council Recommendations		DoD Directive 1344.7, May 2, 1966
b. Written Monthly Statement to Include:		
1) outstanding balance @ beginning of month		The balance to which the periodic rate is applied to compute the finance charge
2) amount & identification of each extension of credit		
3) total amount credited during month		
4) amount & time period on which finance charge based		
5) simple nominal annual percentage rate-- to be the periodic rate times the number of periods per year		Periodic rate annual rate equivalent
6) finance charge in dollars and cents		
7) outstanding balance in account @ end of month		

shows comparisons between the recommendations of the Consumer Advisory Council for full disclosure and the provisions of the DoD Directive. Table 3 notes comparative points between the provisions of the Directive and the Truth in Lending Act. The full disclosure provisions of the Directive were evaluated in terms of the standards for full disclosure in credit established by the Consumer Advisory Council and in terms of the provisions of the Truth in Lending Act.

The Standards of Fairness were tabulated along with applicable provisions of the Uniform Consumer Credit Code, the Model Consumer Credit Act of the National Consumer Law Center, and the Report of the National Commission on Consumer Finance. This tabulation, presented in Table 4, provided the basis for making a comparative analysis and evaluation of the provisions of the Standards of Fairness.

RESULTS AND DISCUSSION

Provisions of the Full Disclosure Contract

Specific provisions of the May Directive relating to the full disclosure of credit terms have been compared to the recommendations of the Consumer Advisory Council and to appropriate sections of the Truth in Lending Act. These comparisons appear in Tables 2 and 3. The extent to which the provisions of the Directive follow the recommendations of the Consumer Advisory Council will be discussed and evaluated on the basis of the comparisons previously mentioned. Additionally comparisons between the provisions of the Directive and the Truth in Lending Act will be

Table 3. Credit Disclosure Provisions of the May, 1966 DoD Directive and Truth in Lending

Disclosure element	DoD	Truth in Lending
1. Classes of Creditors	A uniform disclosure for both loan and sale credit	Separate disclosures for loans and sale credit (open-end and other than open-end)
2. Types of Credit	1. Revolving or open-end credit 2. Contract credit	Section 127: Open-end consumer credit Section 128: Sales other than open-end credit Section 129: Consumer loans
3. Quoted Rate or Rates	Allows for quotation of only a single rate--Annual Percentage Rate	Section 127: Open-end credit (a)(4) Nominal Annual Percentage Rate (a)(5)(A) Average Effective Annual Percentage Rate (B) Projected Rate of Return Section 128: Sales other than open end (a)(7) Annual Percentage Rate except where: (A) Finance Charge of less than \$5 on \$75 or less (B) Finance Charge of \$7.50 on more than \$75

Table 3. continued

Disclosure element	DoD	Truth in Lending
		<p>Section 129: Consumer loans</p> <p>(a)(5) Annual Percentage Rate except where:</p> <p>(A) Finance Charge of less than \$5 on \$75 or less</p> <p>(B) Finance Charge of \$7.50 on more than \$75</p>
<p>4. Calculation of the Annual Percentage Rate</p>	<p>Approximate Annual Percentage Rate using DoD Annual Rate Table or</p> <p>Precise Actuarial Calculation based on Standard Annuity Table</p>	<p>Section 107:</p> <p>(a)(1) Credit other than open end</p> <p>(A) Nominal Annual Percentage Rate</p> <p>(B) The rate described above determined by a simplified method</p> <p>(2) In open end credit the rate found by multiplying the number of periods in a year by the periodic rate</p> <p>(b) Where the same finance charge is charged for balances within a range, the rate to be computed on the median balance in the range</p>

Table 3. continued

Disclosure element	DoD	Truth in Lending
5. Credit Insurance Charges	All credit insurance charges included in the Finance Charge	Section 106 (b): Credit life, accident and health included in Finance Charge only if coverage required Property & liability included in Finance Charge unless option is given to obtain coverage elsewhere
6. Determination of Finance Charge	Charges which benefit the seller or creditor which would not be made if a cash purchase	Section 106: Charges imposed by the creditor as incident to the extension of credit
7. Required Point of Disclosure	Disclosures may be made at any point in transaction	Section 127(a) Section 128(b) Section 129(b) Disclosures must be made prior to completion of transaction

Table 4. Standards of Fairness Compared to Subsequent Credit Proposals

DoD Standard	UCCC ¹	Model Act ²	Nat'l Commission Report ³
1. Finance charge; not to exceed state law	Sets maximum rate	Reference to state statutes	Not included
2. Attorney's fees; 10%	15% or no liability	Abolishes	15% or creditor pays if consumer wins suit
3. Holder-in-Due-Course; limited	Applicable but limited	Applicable but limited	Abolishes
4. Removal of security; (peculiar to military)	Not included	Not included	Not included
5. Late charges; 5% or \$5, whichever less	\$2 - \$5, not to exceed 5%	1%, no more than \$3	Not included
6. Prepayment; no penalty Rebate; "Rule of 78" or prorated	No penalty	No penalty Actuarial method	No penalty "Rule of 78" or Actuarial method
7. Insurance policy delivery; in 30 days or no charge	No requirement	30 days	Not included
8. Terms of payment; equal amounts and due dates	Balloon payments limited	Balloon payments limited	Balloon payments limited
9. Repossession	Included under deficiency judgment	Repossession and judgment decisions	Repossession and judgment decisions
10. Termination; can terminate any sale	Home solicitation sales only	Door-to-door sales	Extended TIL provisions re. principal residence

¹Uniform Consumer Credit Code (1968)²A Model Consumer Credit Act (1973), National Consumer Law Center, Inc.³Report of the National Commission on Consumer Finance (1972)

analyzed to determine the extent to which the Directive was a precursor to Truth in Lending. The points will be discussed in the sequence in which they appear in Table 3.

Classes of Creditors

The Consumer Advisory Council (First Report, 1963, pp. 63-64) in its recommendations ignored the traditional distinction between loan and sale credit which exists in the body of state consumer credit law. The Council's recommendations for full disclosure of credit applied to all credit transactions.

The Directive provided a uniform disclosure document for use in both loan and sales credit. However, it recognized the potential tie-in relationship between lenders and vendors and required that the existence of any such relationship be declared.

The Truth in Lending Act recognized a distinction between the two types of credit and made separate provision for open-end consumer sales, sales other than open-end, and consumer loans.

In summary, the historic distinction between sales and loan credit persisted in Truth in Lending in spite of the advances made in the DoD Directive. As a result, Truth in Lending requires three separate sections to accommodate this distinction.

Types of Credit

The Consumer Advisory Council made separate recommendations for contract credit and for open-end credit. The DoD recognized the distinction between open-end credit and contract credit (other than open-end). It

required the completion of the Full Disclosure Contract only in contract credit transactions. Its recognition of open-end credit was inferential, in that it declared in Section X.E. the type of disclosures that were to be made for open-end credit by creditors in open-end credit transactions in order to comply with the Directive. The Truth in Lending Act provides separate and distinct disclosure requirements for three separate types of credit: consumer loans, open-end credit, and sales other than open-end.

In summary, the distinction between open-end credit and credit other than open-end (contract credit) as recommended by the Consumer Advisory Council, was instituted by the Directive and persisted in Truth in Lending. However, Truth in Lending did retreat by allowing for a distinction between loan and sales credit.

Quoted Rate or Rates

The Consumer Advisory Council in its definition of full disclosure of credit (First Report, 1963, pp. 63-64) had specified that when credit was to be extended on the basis of separate contracts, the contract should include ". . . the rate at which a finance charge is to be imposed . . . to be in standardized terms . . . (a simple annual nominal percentage rate). . . ." This rate was what is known as the actuarial rate but was not declared as such (see Morse's reply to Bradford in Consumer Credit Computations, 1966, pp. 48-53). With regard to open-end credit the Council specified that each Contract should include ". . . prior to any agreement to extend . . . credit . . . the simple annual nominal percentage rate. . . ." In addition, written statements at the end of each month were to include "the simple, nominal annual percentage rate at which the finance

charge is imposed, which rate shall be the periodic rate multiplied by the number of periods in one year. . . ."

The DoD followed the recommendation of the Consumer Advisory Council and required these disclosures as a single rate. Truth in Lending deviated from the single rate by allowing disclosure of the rate or rates. This allowed for continued use of multiple rates, sometimes called "step rates."

In summary, the standard of a single rate set by the Consumer Advisory Council was first adopted in the Directive, however, this standard was relinquished by passage of Truth in Lending.

Calculation of the Annual Percentage Rate

The Consumer Advisory Council in its Report noted in regard to credit extended on the basis of separate contracts that a simple annual nominal percentage rate should be disclosed. No means for arriving at this rate was specified other than to refer to it as the same rate as used for savings accounts. Concerning open-end credit it was specified that the rate should be the periodic rate multiplied by the number of periods in one year.

The Directive specified that the Rate should be determined by using either the DoD Annual Rate Table which would give an approximate annual percentage rate based on the actuarial method or a more precise actuarial calculation based on standard annuity tables.

Section X.E. of the Directive excluded open-end credit accounts from the requirements of the Directive provided the account showed the periodic rate and its annual rate equivalent and the balance to which it applied to compute the finance charge. This assumed that the annual percentage rate was the periodic rate annualized.

In summary, the concept of the actuarial rate which was recommended by the Consumer Advisory Council was adopted in more sophisticated and practical form in the Directive and use of this actuarial rate was then continued under Truth in Lending.

Credit Insurance Charges

The Consumer Advisory Council did not address the question of credit insurance. The DoD established a precedent by including all charges for credit insurance in the finance charge.

In the Truth in Lending Act, however, provisions concerning credit life insurance were relaxed. The Act provided that charges for credit life, accident, or health insurance were to be included in the finance charge only if required by the creditor as a condition to the extension of credit. If the insurance coverage was not a factor in the approval of credit and if this fact were clearly disclosed in writing to the consumer, the insurance charges could be included in the amount financed and not considered a finance charge.

Determination of Finance Charges

In its report, the Consumer Advisory Council recommended that ". . . all additional charges assessed against the debtor in connection with the transaction" be disclosed. However, the Council did not specify what they thought should be included in such "additional charges."

The DoD clearly specified charges to be included in the finance charge. These were to be charges which benefited the creditor/seller and

which would not be made for a cash purchase. Also it enumerated specific charges to be included, such as charges for credit insurance.

In the Truth in Lending Act, finance charges are defined as those imposed by the creditor as incident to the extension of credit. The Act also sets forth certain specific charges which must be included in the finance charge. Furthermore, it provides significant exemptions which under the DoD Directive would have been considered finance charges.

In summary, the Directive clearly defined and established standards for finance charges. These standards, however, were relaxed by Truth in Lending.

Required Point of Disclosure

The Consumer Advisory Council did not specifically recommend that disclosures in credit transactions involving separate contracts be made prior to the consummation of the transaction. However, the recommendations did specify that the disclosures should be included in the contract which would supposedly be given to the debtor to read before signing. With regard to open-end credit, the Council noted that the recommended disclosures should be made in writing prior to the extension of credit.

The Directive noted that banks and credit unions operating on military bases were to complete the requirements of the Standards of Fairness and the Full Disclosure Contract before executing a loan or credit contract. However, in reference to all other creditors, it was noted only that they were "expected" to make full disclosure before the consummation of a credit transaction. In fact the disclosures could be made at any point, even after the military debtor had signed a contract. The Directive required

proof of compliance with the provisions of the Standards and the execution of the Full Disclosure Contract before assistance would be given to a creditor in attempting to locate a delinquent military debtor. However, the creditor could conceivably defer completion of the appropriate documents demonstrating compliance until such time as he presented a claim to the commanding officer of the military member concerned. This deferment proved to be a major loophole.

With respect to the Truth in Lending Act, the importance of informing the debtor before he signed a contract was recognized. The Act specifies that the required disclosures must be made prior to the completion of any transaction. It also set disclosure standards for advertising of consumer credit.

Provisions of the Standards of Fairness

Each of the Standards of Fairness of the May Directive has been compared with similar provisions addressed in the Uniform Consumer Credit Code, the Report of the National Commission on Consumer Finance, and the Model Consumer Credit Act of the National Consumer Law Center. A tabulation comparing the appropriate provisions appears in Table 4 (p. 49). The extent to which the Standards of the Directive were incorporated in subsequent consumer credit proposals will be discussed in the numerical order in which they appear in the May Directive.

Standard Number One

This Standard referred to finance charges and provided that (1) such charges should not exceed State law, and (2) where a debt was contracted in a foreign country, the finance charges should not exceed the lowest rate of the State where the Company was chartered or doing business.

The Uniform Consumer Credit Code set maximum rate ceilings for each type of consumer credit addressed in the Code. By law, these rates would constitute the maximum amount which could be charged as a finance charge in the state where the credit transaction was consummated. Different rate schedules were recommended for consumer credit sales and for regulated loans and supervised loans. Furthermore, multiple or step rates were incorporated.

The Model Consumer Credit Act in Sections 2.202 and 2.203 provided that finance charges assessed should meet the requirements of State law. The Act does not set forth maximum rates, but rather leaves this decision to the state legislators. However, it provided for step or multiple rates.

The Report of the National Commission does not contain a provision similar to that contained in Standard Number One. However, the Commission did find that in many states, rate ceilings restrict the supply of credit and eliminate many worthy borrowers from the consumer market. Additionally, many borrowers pay rates considerably higher than they would in a competitive market. The Commission recommended that state policies be designed to promote competition and that rate ceilings be used as a means of expanding the availability of credit (1972, p. 147). The Commission failed to provide for a single rate disclosure.

The Directive by requiring that where a credit transaction was consummated in a foreign country the finance charge could not exceed the lowest rate of the states where the creditor's company was chartered or doing business, was, in effect, setting rates for credit transactions in foreign countries involving military personnel. This meant that where a company engaged in credit transactions with military consumers overseas and also did business in more than one state in the U.S.A., if one of these states provided for a lower maximum rate than the other States in which the company did business, this lower rate would be the highest rate that could be charged to military consumers overseas. This situation, although peculiar to the military, could be incorporated by the states, empowering them to set rate ceilings by limiting a creditor to charging a rate no higher than the maximum allowed that creditor to charge in any other state in which it did business. This would tend to regularize rates and prevent creditors from trading off losses in one state with benefits of higher rates in other states.

Standard Number Two

This Standard concerned the question of attorney's fees. Specifically, it provided that no contract could allow for attorney's fees in the event of default unless suit was filed, in which event the fee provided for could not exceed 10% of the obligation found due. In addition, no attorney's fee could be authorized if the attorney was a salaried employee of the creditor.

The Uniform Consumer Credit Code includes alternative provisions for attorney's fees. States enacting this legislation are expected to choose

between the alternatives. Sections 2.413 and 3.404, referring respectively to credit sales and loans, provide the following alternatives: Alternative A in each of these sections states that consumers cannot be charged for attorney's fees in consumer credit transactions. Alternative B provides that a buyer who defaults in a consumer credit transaction may be held liable for reasonable attorney's fees not to exceed 15 percent of the unpaid debt, provided the attorney is not salaried by the creditor.

Section 3.511 concerns the question of attorney's fees in regulated and supervised loan transactions. This Section provides that where a supervised loan involves a principal amount of \$1,000 or less, a debtor cannot be charged for attorney's fees. This Section further provides that where Alternative A of Section 3.404 (as noted above) is enacted, Section 3.511 should be omitted.

Section 2.404 of the Model Act prohibits the inclusion in a credit instrument of any provision requiring payment by the consumer of attorney's fees.

The National Commission (1972, p. 25) recommended that credit contracts should provide for the payment of reasonable attorney's fees by the debtor in the event of default, provided the attorney is not salaried by the creditor. It was recommended that such fees should not exceed 15 percent of the outstanding balance. In addition, the Commission recommended that in the event the court should find in favor of the consumer when a suit had been initiated by the creditor, the creditor should be liable for the payment of the debtor's attorney's fees based on the time expended by the attorney, not the amount of the recovery.

In summary, the questions of attorney's fees is dealt with most favorably by the Model Act which prohibits any such fee being charged to the consumer. The repercussions of prohibited fees, however, may affect the availability of credit for more questionable credit applicants.

Standard Number Three

This Standard concerned the preservation of a debtor's defenses where a credit contract was sold to a subsequent holder. The concept, known as the "holder in due course doctrine," meant that a debtor's defenses could not be applied against subsequent holders.

The Standard provided that a debtor's defenses were to be good against any subsequent holder of an obligation provided the holder had actual knowledge of the defense or under conditions where he could have learned this fact through reasonable inquiry.

Under Section 2.404 of the Uniform Consumer Credit Code, two alternatives are provided in reference to the question of "holder in due course," the desired alternative to be enacted by the individual State legislatures. Alternative A provides that assignees or subsequent holders are subject to all claims and defenses of the buyer with respect to consumer credit transactions. Alternative B provides that if proper notice of assignment is given to the buyer, the assignee is not subject to defenses against the seller.

Sections 2.601, 2.602 and 2.603 of the Model Act provide that a buyer's claims and defenses arising from a transaction may be asserted against any subsequent holder with the exception that where the subsequent holder (lender or transferee) acquires the obligation of the consumer, in

good faith, without any notice of claims, and if he acts in good faith, he cannot be held liable for any amount in excess of the total amount of the original transaction by the consumer. Additionally, a lender or transferee cannot be held liable where he did not know that the proceeds of a loan would be used in a consumer transaction.

The National Commission in its Report (1972, p. 35) recommended that holders of contracts and notes executed in connection with consumer credit transactions should be subject to all claims and defenses of the consumer-debtor which might arise out of the transaction.

In summary, the Directive established a principle of fairness with respect to debtor-creditor relationships by assuring consumers' rights through preserving the military debtors' defenses with respect to subsequent holders of credit obligations. This provision conditionally abolished the doctrine of "holder in due course." This provision assured far greater protection to consumers than did existing State laws at the time.

The UCCC makes the holder liable for claims as well as defenses, the Directive only for defenses. However, the Code fails to institute a full measure of protection and provides an alternative designed to preserve the rights of creditors in existing State law.

The Model Act also makes the holder liable for claims as well as defenses. In addition, the Model Act makes the holder liable with or without knowledge of the defenses, in contrast to the provisions of the Directive and the UCCC. In this respect, the Model Act is somewhat more protective than the Directive.

The recommendation of the National Commission that "holder in due course" be abolished offers the greatest protection to the consumer of any of the provisions studied.

Standard Number Four

This Standard provided that a debtor had the right to remove any secured property beyond state or national boundaries if he or his family moved under military orders and if he notified the creditor of the new address of the security. Payments could not be accelerated if the secured property was removed.

This Standard was peculiarly military in orientation and was contrary to State laws which traditionally prohibit the removal of secured property from within state boundaries. This subject was not addressed in the other documents.

Standard Number Five

This concerned late charges and provided that no such charge could be made in excess of 5 percent of the late payment or \$5, whichever was the lesser amount. In addition, only one late charge could be assessed for any one tardy installment.

Section 2.203 of the Uniform Consumer Credit Code concerns delinquency charges and provides that where an installment payment is not paid in full within 10 days after it is due, a delinquency charge of \$2 or an amount, not exceeding \$5, which is 5 percent of the unpaid amount of the installment may be assessed. This Section also provides that only one delinquency charge may be collected on any one overdue installment and that no delinquency charge may be collected on an installment which is paid in full within 10 days after it was due. This Section of the Code also refers to a deferral charge and provides that a consumer may be permitted to defer the unpaid amount of the installment for the period that it is delinquent by

paying a deferral charge. Section 2.204 sets forth requirements for deferral charges, a charge which the consumer may elect to pay for the privilege of deferring the payment of all or part of an unpaid installment.

Section 2.206 of the Model Consumer Credit Act provides that a delinquency charge may be no greater than an amount equal to 1 percent of the unpaid amount of the installment and not to exceed \$3. This section of the Act also provides that only one delinquency charge may be collected on any overdue installment and that no finance charge may be imposed on it.

The National Commission did not address the question of late charges in its Report.

In summary, the Directive stopped the practice of assessing more than one delinquency charge on an overdue payment. Both the UCCC and the Model Act include similar provisions. With respect to the permissible amount of a delinquency or late charge, the Model Act stipulated the smallest permissible charge of the documents studied.

Standard Number Six

This Standard concerned the question of prepayment and provided that an obligation could be paid in full at any time and that there could be no penalty for this prepayment. In addition, the Directive provided that any unearned portion of the finance charge should be returned to the consumer. The amount of the finance charge due the creditor could be determined by using either the "Rule of 78" in which case an explanation of this operation was to be explained in the contract, or by a method of proration.

The Uniform Consumer Credit Code in Sections 2.209 and 3.209 provides that a buyer may repay an obligation in full without incurring what is

titled a penalty. Sections 2.210 and 3.210 of the Code sets forth specific requirements for the rebate of finance charges in the event of prepayment. Under the terms of the Code, a required rebate computed to be less than \$1 need not be refunded to the consumer. In prepayment of a credit sale, other than in connection with a revolving charge account, the creditor is permitted to retain the amount of a minimum credit service charge even though the computed amount of the finance charge due him may be less than the minimum credit charge as stated in the contract. The Code provides that rebates of finance charges may be computed by using either the "Rule of 78" or an actuarial method of computation.

Section 2.210 of the Model Act provides the consumer the right to prepay without penalty. Section 2.211 provides that unearned finance charges in excess of \$1 are to be repaid to the consumer. The Act specifies that the actuarial method is to be used to compute the amount of the unearned finance charges.

The National Commission (1972, p. 40) recommended that consumers always be allowed to prepay the unpaid balance of any consumer credit obligation without penalty. Further recommendation was made that in instances of prepayment a rebate of unearned finance charges should be computed by the actuarial method or by the "Rule of 78."

In summary, the right to prepayment without penalty established in the Directive was continued in subsequent credit proposals. In addition, the provisions of the Directive were innovative in requiring that the "Rule of 78" be explained in the credit contract when it was to be used in computing the unearned portion of the finance charge. On the other hand, the Model Act obviates the need for the "Rule of 78" by applying the actuarial method.

Standard Number Seven

Provision was made that no charge could be assessed for an insurance premium unless a satisfactory policy had been delivered to the debtor within 30 days after the signing of the contract or the specified date of delivery of the item purchased.

The Uniform Consumer Credit Code does not require the creditor to furnish an insurance policy to the debtor within any specified time period.

The Model Act does provide that a satisfactory policy should be delivered to the consumer within 30 days of the consummation of the contract.

The National Commission did not address this question in its Report.

Both the Directive and the Model Act offer an additional protection to the consumer by requiring that a copy of all insurance policies be delivered to the consumer within a specified time period. The UCCC offers little protection to the consumer in this area. Thus, the Directive set a higher standard.

Standard Number Eight

This Standard provided that payments, other than the down payment, should be in equal or substantially equal amounts, and should be successive and of equal or substantially equal duration. This represented an effort to stop abuses which resulted from balloon payments.

The Uniform Consumer Credit Code in Section 2.405 places restrictions on balloon payments, in requiring that where any payment, other than the first, is more than twice as large as the average of the other payments,

the buyer must have the right to refinance the amount of that payment at the time it is due without penalty. The Code also provides that the requirements of this Section need not apply where such balloon payments are scheduled in order to accommodate a buyer with a seasonal or irregular income. The Code does not require that payments be of equal amounts and of equal duration.

The Model Act in Section 2.402 prohibits balloon payments unless the creditor and debtor agree in writing to adopt a schedule of irregular payments. This section calls for payments to be of substantially equal amounts and substantially equal duration.

The National Commission also addressed the question of balloon payments (1972, p. 39). The recommendation was made that where a scheduled payment was more than twice as large as the average of the regularly scheduled payments, the consumer should have the right to refinance the amount of that payment without penalty, except in the instance of a payment schedule agreed to due to the seasonal or irregular nature of the buyer's income.

In summary, the Directive provision prohibited the scheduling of balloon payments. While military consumers generally receive income on a regular basis, such a prohibition of irregular payments could be restrictive. In each of the subsequent credit proposals studied, balloon payments are permitted, provided the buyer agrees in writing; otherwise payments must be regularly scheduled and of substantially equal amounts.

Standard Number Nine

This Standard concerned repossession. When a debtor defaults on an extension of credit, there are several means by which a creditor may recover or retake secured property. Repossession is a self-help remedy whereby the creditor retakes collateral from a debtor to satisfy an unpaid obligation. Under most state laws, a creditor need not obtain a court order to repossess secured property, although generally there are required procedures which the creditor must follow in instances of repossession.

A creditor may also recover the collateral through judicial process by a suit for the amount owed or, in rare cases, by a writ of replevin obtained prior to a trial which requires the creditor to demonstrate at a hearing, following notice to the debtor, that his chance for recovering the property will be greatly damaged by further delay until the time of a trial.

Standard Number Nine contained detailed requirements involving repossession procedures. The Standard provided that (a) the defaulting purchaser must be given advance written notice of the intention to repossess; (b) following repossession, the purchaser in default must be notified of his obligation and adequate advance notice of the sale; (c) the debtor must be permitted to redeem the item by payment of the amount due before the sale, or in lieu submit a bid at the sale; (d) there was to be a solicitation for a minimum of three sealed bids unless the item was sold at auction; (e) the party holding the security, and all agents thereof, were ineligible to bid; (f) the defaulting purchaser was to be charged only those charges which were reasonably necessary for storage, reconditioning, and resale; and (g) the debtor was to be provided a written detailed

statement of his obligations, if any following the resale and promptly refunded any credit balance due him, if any.

The Uniform Consumer Credit Code addresses the question of repossession only with respect to restrictions placed on deficiency judgments in consumer credit sales. Article 5, Section 5.103 of the Code provides; (1) if a seller repossesses goods which had a cash price of \$1000 or less, the buyer cannot be held liable for the unpaid balance of the debt, nor is the seller obligated to resell the collateral; (2) the buyer may be held liable for damages if he has damaged the collateral; (3) the buyer may be held liable for damages if he failed to make the collateral available to the seller on demand following his default.

The provisions of the Model Act concern the enforcement of a creditor's security interest through repossession, which does not involve due process, and through judicial process by obtaining a judgment against a defaulting debtor. Sections 7.201 through 7.208 of the Act provide:

(1) no collateral can be taken without a court order unless the consumer-debtor consents; (2) if a creditor accepts the collateral for an unpaid obligation, he may not then obtain a deficiency judgment on the obligation; (3) if the creditor elects to take the collateral he may only retake it, with the consumer's consent or following a judgment, or by obtaining a writ of replevin which must then be followed by a judgment before the creditor can resell the collateral; (4) following the sale of the collateral, any surplus money remaining after the proceeds of the sale have been applied to the debt must go to the debtor.

The National Commission in its Report (1972, pp. 27-31) made the following recommendations concerning repossession: (1) when default occurs

where the original indebtedness was for an amount of \$1,765 or less, the creditor should be required to elect to either repossess the collateral in full satisfaction of the debt without the right to seek a deficiency judgment, or to sue for a personal judgment on the obligation, but not both; (2) the debtor should have an opportunity to be heard in court on the merits of the creditor's claim.

In summary, the provisions of the Directive highlighted abuses which were occurring at the time among military consumers. The UCCC proposes reform measures in the area of repossession; however, the measures provided for in the Model Act assure rights for the consumer-debtor which are far reaching and innovative in design.

Standard Number Ten

This Standard referenced contract termination. Provision was made for contracts to be terminated before delivery without charge to the purchaser if the military purchaser changed his mind. This Standard provided in addition that if special pre-production costs were incurred by the creditor as the result of goods being made to special order, the purchaser could be held liable for these special charges but that no termination charges could be made in excess of this amount. Contracts for delivery at future intervals could be terminated as to the undelivered portion, and the purchaser could be charged only for that portion of the total cost which the goods or services delivered would bear the total goods and services called for by the contract.

The Uniform Consumer Credit Code in Section 2.502 provides the buyer a right to cancel a contract only in the instance of a home solicitation

sale when he has until midnight of the third calendar day after the day on which he signed an agreement in which to cancel it.

The Model Act addresses the question of contract termination only in Part 7, Sections 2.701 through 2.710 concerning direct solicitation transactions or door-to-door sales. The Act provides the consumer a 3-day period of time in which to approve the transaction in writing.

The National Commission (1972, p. 189) in dealing with contract termination simply recommended that the provisions of the Truth in Lending Act regarding the right of rescission be amended to include security interests that arise by operation of law (such as mechanics' liens). The Commission also recommended that the Act be further amended to limit the time where the right of rescission may run where the creditor has failed to give proper disclosures. The Report also includes a recommendation for a three day "cooling-off-period" in door to door sales (1972, p. 43).

The Directive clearly provided more extensive rights to the military consumer with respect to contract termination than do any subsequent consumer credit provisions.

SUMMARY AND CONCLUSIONS

The Department of Defense Directive 1344.7 was the first national standard for truth in lending. The Directive set forth uniform disclosures for consumer credit transactions and standards of fairness. Prescribed in the Directive were conditions and procedures required to be observed by all creditors who extended consumer credit on the military base and by all creditors located off the military base who requested help of the Department

of Defense in collecting delinquent accounts from military personnel. At the time the Directive was issued in 1966, the Truth in Lending Bill was before the Congress. It had been introduced by Senator Douglas in 1960 and subjected to extensive Congressional hearings until its passage by the Senate in 1967 and enactment into law in 1968.

An objective of this thesis was to evaluate the disclosure provisions of the Directive relative to the recommendations for full disclosure in credit transactions made by the Consumer Advisory Council in 1963 and also to determine the extent to which the DoD Directive was a precursor to the full disclosure provisions of the Truth in Lending Act.

The Directive also included Standards of Fairness for credit contracts. A second objective of this thesis was to assess these Standards of Fairness relative to subsequent proposals pertaining to fair dealings between creditor and debtor. The proposals referenced are the 1968 draft of the Uniform Consumer Credit Code, the 1973 draft of the Model Consumer Credit Act drafted by the National Consumer Law Center, and the 1972 Report of the National Commission on Consumer Finance.

It was concluded that the Department of Defense Directive incorporated many of the conditions recommended by the Consumer Advisory Council. Further, the Directive anticipated many of the provisions of Truth in Lending. It established the feasibility of disclosing the Annual Percentage Rate, recognized and proved feasible the actuarial method. The Directive also recognized the unequivocal relationship between the Periodic Percentage Rate and the Annual Percentage Rate as used in open-end credit transactions, requiring the disclosure of these rates in open-end transactions.

The Directive was an advance over Truth in Lending as enacted in that it: (1) Required a single Annual Percentage Rate and did not permit several rate disclosures. (2) Clarified the term "finance charge," by distinguishing between an ancillary or extra charge, and charges which directly benefited the creditor. (3) Recognized consumer credit as such and did not differentiate between sale and loan credit. (4) Incorporated all costs for credit insurance in the finance charge. With respect to Standards of Fairness, the Department of Defense Directive was clearly a pioneer in that it: (1) Limited holder-in-due course. (2) Provided for safeguarding the military consumer's rights if the security for a debt was to be repossessed or sold in order to satisfy or reduce the debt. (3) Required that military consumers be given a copy of all insurance contracts.

Following the passage of the Truth in Lending Act in 1968, an amended Directive was issued in July 1969, substituting the full disclosure provisions of the Truth in Lending Act. This meant the loss of all the previously enumerated advances.

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Appendix A
COMPARISON OF TRUTH IN LENDING BILLS*

DISCLOSURE OF FINANCE CHARGES		
<p>S. 2755 86th 2nd (Original Bill) Jan. 7, 1960</p>	<p>S. 2755 86th 2nd (Committee Print) May 3, 1960</p>	<p>S. 1740 87th 1st April 27, 1961</p>
<p>Section 3. Any person engaged in the business of extending credit shall furnish to each person to whom such credit is extended, prior to the consummation of the transaction, a clear statement in writing, in accordance with rules and regulations which the Board of Governors of the Federal Reserve System shall prescribe,</p> <p>(1) setting forth the total amount of the finance charges to be borne by such person in connection with such extension of credit, and</p> <p>(2) stating the percentage that such amount bears to the outstanding principal obligation, or unpaid balance, expressed in terms of simple annual interest.</p>	<p>Section 3. 4. Any person engaged in the business of extending credit shall furnish to each person to whom such credit is extended, prior to the consummation of the transaction, a clear statement in writing, setting forth, to the extent applicable and in accordance with rules and regulations prescribed by which the Board of Governors of the Federal Reserve System shall prescribe, the following information:—</p> <p>(1) the cash price or delivered price of the property or service to be acquired;</p> <p>(2) the amounts, if any, to be credited as downpayment and/or trade-in;</p> <p>(3) the difference between the amounts set forth under clauses (1) and (2);</p> <p>(4) the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;</p> <p>(5) the total amount to be financed;</p> <p>(6) the finance charge expressed in terms of dollars and cents; and</p> <p>(7) the percentage that the finance charge bears to the total amount to be financed, expressed as a simple annual rate.</p>	<p>Section 4. Same as 2755.</p> <p>(1) Same as 2755</p> <p>(2) " " "</p> <p>(3) " " "</p> <p>(4) " " "</p> <p>(5) " " "</p> <p>(6) " " "</p> <p>(7) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.</p>

* Richard L. D. Morse, "Statement Before the Subcommittee on Financial Institutions of the Senate Committee on Banking and Currency on S. 5 (Truth in Lending Act of 1967), April 20, 1967.

Contract Credit - COMPARISON OF TRUTH IN LENDING BILLS (con't)

<p>S. 1740 87th 2nd Committee Print April 21, 1962</p> <p>S. 750 88th 1st Jan. 15, 1963</p>	<p>S. 2275 89th 2nd July 12, 1965</p>	<p>S. 5 90th 1st Jan. 11, 1967</p>
<p>Section 4. (a) Except as provided in subsection (b), any creditor shall furnish . . .</p> <p>Same as S. 1740</p> <p>(1) " " " "</p> <p>(2) " " " "</p> <p>(3) " " " "</p> <p>(4) " " " "</p> <p>(5) " " " "</p> <p>(6) " " " "</p> <p>(7) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the average outstanding unpaid balance of the obligation.</p>	<p>Section 4. Same as S. 750 with and ascertainable inserted after the words: "extent applicable."</p> <p>(1) Same as S. 750</p> <p>(2) " " " "</p> <p>(3) " " " "</p> <p>(4) " " " "</p> <p>(5) " " " "</p> <p>(6) " " " "</p> <p>(7) Delete - average-outstanding- Insert - periodic</p>	<p>Section 4. Same as S. 2275</p> <p>(1) " " " "</p> <p>(2) " " " "</p> <p>(3) " " " "</p> <p>(4) " " " "</p> <p>(5) the total amount to be financed; (the sum of the amounts set forth under (3) and (4), above);</p> <p>(6) the finance charge expressed in terms of dollars and cents; and-</p> <p>(7) the finance charge expressed as an annual percentage rate to be computed as set forth in section 3 (5);</p> <p>(8) the time and amount of payments scheduled to repay the indebtedness; and</p> <p>(9) the terms applicable in the event of advanced or delayed payments from those specified in (8) above.</p>
<p>Section 3. As used in this Act, the term --</p> <p>(5) "Annual percentage rate" means the percentage rate per period expressed as a percent per annum. It shall be computed by multiplying the percentage rate per period by the number of periods per year.</p> <p>(6) "Percentage rate per period" means the percentage ratio of the finance charge for the period for which the charge is made to the unpaid balance of the total amount to be financed.</p> <p>(7) "Period" means the time interval between the payments specified in the credit agreement for repayment of the total amount to be financed.</p>	<p>Section 5. Regulations. Rephrased giving the Board duty to describe "the methods which may be used in determining the annual percentage rate."</p>	<p>Section 5. Regulations. Rephrased giving the Board duty to describe "the methods which may be used in determining the annual percentage rate."</p>

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<p>Section 4. (b) Any creditor agreeing to extend credit to any person pursuant to a revolving or open-end credit plan shall, in accordance with rules and regulations prescribed by the Board and in lieu of the information described in subsection (a) -</p> <p>(1) furnish to such person, prior to agreeing to extend credit under such plan, a clear statement in writing setting forth the simple annual percentage rate or rates at which a finance charge will be imposed; and</p> <p>(2) furnish to such person, at the end of each monthly period (which need not be a calendar month) following the entering into of any such agreement, a clear statement in writing setting forth -</p> <p>(A) the outstanding balance in the account of such person as of the beginning of such monthly period;</p> <p>(B) the amount of each extension of credit to such person (including the cash price or delivered price of any property or service acquired by such person) during such period, together with the date thereof and a brief identification of any property or services so acquired;</p> <p>(C) the total amount received from, or credited to the account of, such person during such period;</p> <p>(D) the finance charge (in dollars and cents) required for such period;</p> <p>(E) the outstanding balance in the account of such person as of the end of such monthly period; and</p> <p>(F) the simple annual percentage rate of rates providing a yield equal to the finance charge imposed.</p> <p>As used in this subsection, the term "revolving or open-end credit plan" means a credit plan under which the total amount of credit to be utilized, the dollar amount of the finance charge to be assessed, and the amounts and times of repayment are not specified at the time an agreement to extend credit pursuant to such plan is entered into.</p>	<p>Same as S. 750 with amendments as noted:</p> <p>¹Insert: on the monthly balances</p> <p>²Insert: to the extent applicable and ascertainable</p> <p>³Delete: -together with</p> <p>Insert: and unless previously furnished</p> <p>(F) Delete: providing a yield equal to the finance charge imposed</p> <p>Insert: at which a finance charge has been imposed on the monthly balance.</p> <p>Definitions same as shown under S. 5</p>	<p>Section 4. (b) Any creditor agreeing to extend credit to any person pursuant to a revolving or open-end credit plan shall, in accordance with rules and regulations prescribed by the Board and in lieu of the information described in subsection (a) -</p> <p>(1) furnish to such person, prior to agreeing to extend credit under such plan, a clear statement in writing setting forth the simple annual percentage rate or rates at which a finance charge will be imposed on the monthly balance; and following information:</p> <p>(i) the periodic rates of the balances against which a finance charge will be imposed;</p> <p>(ii) the percentage rate per period of the finance charge to be imposed; and</p> <p>(iii) the periodic rate of finance charge expressed as an annual percentage rate.</p> <p>(2) furnish to such person, at as of the end of each monthly period (which need not be a calendar month) following the entering into of any such agreement, a clear statement in writing setting forth to the extent applicable and ascertainable --</p> <p>(A) Same as S. 2275 with "monthly" deleted.</p> <p>(B) " " "</p> <p>(C) " " "</p> <p>(D), (E), & (F), From S. 2275 deleted</p> <p>(D) the outstanding unpaid balance in the account of such person as of the end of such period;</p> <p>(E) the annual percentage rate used to compute the finance charge for such period;</p> <p>(F) the balance on which the periodic finance charge was computed; and</p> <p>(G) the finance charge (in dollars and cents) imposed for such period.</p> <p>As used in this subsection, the term "revolving or open-end credit plan" means a credit plan prescribing the terms of credit transactions which may be made thereunder from time to time and under the terms of which a finance charge may be computed on the outstanding unpaid balance from time to time thereunder.</p>	<p>Section 4. 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ASD(M)

Department of Defense Directive

SUBJECT Personal Commercial Affairs

- Refs: (a) DoD Directive 1344.7, "Personal Commercial Affairs," September 29, 1965 (hereby reissued as set forth herein)
- (b) President's Message of March 21, 1966, "Consumer Interests" (H.R. Document No. 413, 89th Congress)
- (c) DoD Directive 1344.1, "Solicitation of Life Insurance on Military Installations," March 3, 1964
- (d) DoD Directive 1344.6, "Motor Vehicle Liability Insurance," April 15, 1964
- (e) DoD Directive 1000.9, "Credit Unions Serving DoD Personnel," August 27, 1965
- (f) DoD Directive 1000.10, "Credit Unions Serving DoD Personnel on Overseas U.S. Military Installations"
- (g) DoD Directive 1330.9, "Armed Services Exchange Regulations," January 6, 1956
- (h) Joint Regulations, "Armed Forces Disciplinary Control Boards," (AR 15-3, DSAR 5725.1, BUPERSINST 1620.4, AFR 125-11, MCO 1620.1, COMDTINST 1620.1). March 12, 1965

I. PURPOSE

The purpose of this Directive is to reissue reference (a), and in furtherance of the President's message reference (b), to prescribe general Department of Defense policy regarding the

solicitation and sale of goods, services and commodities on military installations by dealers, tradesmen and their agents, to safeguard and promote the welfare and interests of military personnel as consumers, and to set forth the conditions under which DoD may extend assistance in the collection of debts, wherever incurred, from members of the armed forces.

II. APPLICABILITY AND SCOPE

A. This Directive is applicable to all components of the Department of Defense, to those desiring the privilege of conducting commercial transactions with military personnel on military installations (including controlled housing areas), and to those who seek assistance in the processing of debt complaints against military personnel, particularly those in which consumer credit has been extended.

B. For additional provisions governing on-base solicitation for certain specialized types of commercial enterprises see the following DoD directives:

1. Life insurance companies and their agents - reference (c).
2. Automobile insurance companies and their agents - reference (d).
3. Credit unions - references (e) and (f).
4. Commercial facilities authorized by the Army, Navy, Air Force or Marine Corps Exchanges - reference (g).

As used herein, credit unions refer to those authorized by references (e) and (f).

C. The provisions of this Directive relating to processing of debt complaints involving consumer credit transactions do not apply to companies furnishing utility services, milk, laundry and related delivery services in which credit is extended solely to facilitate the service, as distinguished from inducing the purchase of the product or service. For additional exceptions see section X. E.

III. COMMERCIAL ACTIVITIES CONDUCTED ON MILITARY INSTALLATIONS

- A. The solicitation and transaction of commercial business on military installations with members of the armed forces may be permitted at the discretion of the military commander, provided such solicitations and transactions conform to applicable regulations and do not otherwise interfere with essential military activities. No person has authority to enter upon and transact commercial business as a matter of right.
- B. Because of his broad responsibilities to maintain discipline, protect property and safeguard the health, morale, and welfare of his personnel, the installation commander may impose reasonable restrictions on the character and conduct of commercial activities. Of special concern is the need to assure that members of the armed forces are not subject to fraudulent, usurious or unethical business practices, and that reasonable and consistent standards are applied to each company and its agents in conducting commercial transactions on the installation. The word "company" as used herein, includes any commercial organization, company, group or other type of legal entity.
- C. Those seeking to transact personal commercial transactions on military installations in the United States, its territories and the Commonwealth of Puerto Rico will be required, upon demand, to present to the installation commander or his designee documentary evidence that the company and its agents meet the licensing requirements of the state in which the installation is located, and that they also meet any other applicable regulatory requirements imposed by civil authorities (federal, state, county or municipality). For ease of administration, the installation commander may issue temporary permits to agents who meet these requirements and who frequently conduct commercial activities on the military installations. Permanent installation passes will not be issued for this purpose.
- D. Those seeking to transact personal commercial transactions in foreign countries will be required to observe the applicable laws of the Host Country and upon demand to present documentary evidence to the installation commander or his

designee that the company and its agents meet the licensing requirements of the Host Country. If the company and its agents also conduct business in the United States, they must also present upon demand, documentary evidence that they meet the licensing requirements of the state in which they conduct their principal business.

- E. Armed Services Exchange facilities will be approved as authorized by reference (g). No other exclusive franchise or concession will be awarded for on-base solicitation and sale of goods, services and commodities to military personnel without the approval of the Assistant Secretary of Defense (Manpower). All existing exclusive franchises or concessions of this nature will be referred to the ASD (Manpower) for review. This limitation will not apply to service and supply contracts related to base operations.

V. SUPERVISION OF ON-BASE COMMERCIAL ACTIVITIES

- A. The solicitation of military personnel and their dependents will be conducted on an individual basis, preferably by appointment, in such locations, and at such hours as the military commander may designate.
- B. A conspicuous notice of installation regulations will be posted in such form and such place as to give notice thereof to all those conducting on-base commercial activities. In so far as practicable as determined by the military commander, those conducting on-base commercial activities will be presented with a copy of the applicable installation regulations and advised that disregard of the regulations will result in the withdrawal of solicitation privileges.
- C. The following solicitation practices are prohibited:
 1. Solicitation of recruits, trainees, "mass" or "captive" audiences, and transient personnel.
 2. Solicitation in areas utilized for processing or housing transient personnel; solicitation in barracks occupied as quarters; or the making of appointments with or soliciting military persons in an "on duty" status.

3. The use of official identification cards by retired or reserve members of the armed forces to gain access to military installations for the purpose of soliciting.
4. Procuring, or attempting to procure, or supplying roster listings of DoD personnel for solicitation purposes.
5. The offering of unfair, improper and deceptive inducements to purchase or deal.
6. Practices involving rebates to facilitate transactions or to eliminate competition. (Credit union interest refunds to borrowers are not considered a prohibited rebate.)
7. The use of any manipulative, deceptive or fraudulent device, scheme or artifice, including misleading advertising and sales literature.
8. Any oral or written representations which suggest or give rise to the appearance that the DoD sponsors or endorses the company, its agents, or the goods, services and commodities it sells.

V. DENIAL AND REVOCATION OF ON-BASE SOLICITATION

- A. In furtherance of a commander's responsibilities, he shall deny or revoke permission to a company and its agents to conduct commercial activities on the military base if such action would further the best interests of the command. The grounds for taking this action shall include, but not be limited to, the following:
 1. Failure to meet the licensing and other regulatory requirements prescribed by Section III. C., or Section III. D.
 2. Commission of any of the solicitation practices prohibited by Section IV. C.
 3. Substantiated adverse complaints or reports regarding the quality of the goods, services or commodities solicited, the manner in which they are offered for sale, and the method and terms of financing.

4. Personal misconduct by a company's agents or representatives while on the military installation.
 5. The possession of or any attempts to obtain allotment forms.
- B. The decision as to whether the denial or revocation action shall be limited to the agent, or whether it shall also be extended to the company he represents, shall be dependent upon the circumstances of the particular case, including among others, the nature of the violations, their frequency, the extent to which other agents of the company have engaged in such practices, and any other matters tending to show the company's culpability.
- C. Upon denying or revoking solicitation privileges the agent and the company he represents will be promptly notified of the reasons, orally or in writing. If the grounds for the action bear significantly on the eligibility of the agent and the company to hold a state license or to meet other regulatory requirements, the appropriate authorities will be notified. If the grounds for the action are such that the denial or revocation action should be extended to additional military installations, the installation commander will make his recommendations to the military department concerned after affording the company the opportunity to show cause why it should not be so extended. If so approved, and when appropriate, the order may be extended to the other military departments by the Assistant Secretary of Defense (Manpower), following consultation with the military departments concerned.

VI. EDUCATIONAL PROGRAMS AND ADVERTISING POLICIES

- A. The military departments shall maintain information and education programs for the purpose of providing members of the armed forces with information pertaining to the conduct of their personal commercial affairs (consumer credit and financing insurance, government benefits, savings and budgeting). The services of commercial agents, including loan or finance companies and their associations may not be used for this purpose. The services of representatives of credit unions, including associations of credit unions, may be used for this purpose provided their programs are entirely educational in nature. Educational materials prepared by outside organizations expert in this field may be adapted or used provided

such material is entirely educational in nature and does not contain or refer to any particular commercial product, service or company. In addition, such experts in the field of personal commercial affairs may provide expert advice to those conducting such educational programs, but may not take parts in orientation lectures or individual counselling.

- B. The local military commander will also make qualified personnel and facilities available for individual counselling on loans and consumer credit transactions in order to encourage thrift and financial responsibility and promote a better understanding of the wise use of credit. Legal assistance programs will continue to encourage individual military members to seek advice from the judge advocate or their own lawyer before making substantial loan or credit commitments. The counselling service and the orientation lectures should include information regarding the need for a full disclosure of the terms of the agreement, how finance and interest rates are quoted and computed, the standards of fairness which should be observed, and the DoD forms available for this purpose. See Section IX. and Attachment A.
- C. The Department of Defense expects that commercial enterprises soliciting military personnel through advertisements appearing in unofficial military publications will voluntarily observe, or will be requested by the publisher to observe, the highest business ethics in describing goods, services and commodities and the terms of sale (including guarantees, warranties, etc.). If credit terms are offered in such advertisements, a clear statement of the total cash price as well as the total cost of credit, including all charges, should be shown clearly in the company's advertisements. If time payments are shown, the number of payments, the amount of each, and the time period should also be shown in order that the reader can easily compute the dollar cost of the loan.

VII. EXERCISE OF "OFF-LIMITS" AUTHORITY

- A. In appropriate cases a military commander may use the services of the Armed Forces Disciplinary Control Board to investigate reports that cash or consumer credit transactions offered military personnel by a business establishment are

usurious, fraudulent, misleading or deceptive. Should it be determined that the commercial establishment engages in such practices, that it has not taken corrective action upon being duly notified, and that the health, morale and welfare of military personnel would be served thereby, the Armed Forces Disciplinary Control Board may recommend that the offending business establishment be declared "off-limits" to all military personnel. The procedures for making these determinations are set out in reference (h).

- B. A Secretary of a military department or the Secretary of Defense, upon receiving information that a company conducting cash or consumer credit transactions with members of the armed forces on a nation-wide or international basis is engaged in widespread usurious, fraudulent, or deceptive practices, may direct appropriate Armed Forces Disciplinary Control Boards in all geographical areas in which these practices have occurred to investigate the charges and take appropriate action.

VIII. INDEBTEDNESS OF MILITARY PERSONNEL

- A. A member of the armed forces is expected to pay his just financial obligations in a proper and timely manner. A "just financial obligation" means one acknowledged by the military member in which there is no reasonable dispute as to the facts or the law, or one reduced to judgment which conforms to the Soldiers' and Sailors' Civil Relief Act (50 U. S. Code, Appendix 501, et seq.), if applicable. "In a proper and timely manner" means a manner which the military department concerned determines does not, under the circumstances, reflect discredit on the military service.
- B. However, the military departments are without legal authority to require a member to pay a private debt, or to divert any part of his pay for the satisfaction thereof even though the indebtedness may have been reduced to judgment by a civil court. The enforcement of the private obligations of a military member is a matter for civil authorities.

- C. Those desiring to contact a military member about his indebtedness may obtain the member's address by writing to the locator service of the military department concerned and enclosing \$1.50 as a fee for the service.

IX. STANDARDS OF FAIRNESS AND FULL DISCLOSURE BY LENDERS AND SELLERS

- A. The Department recognizes that a great majority of those engaged in making loans and extending credit to military personnel deal fairly and justly. Attachment A describes the principal standards (Part I) which are considered to characterize fair and just dealing with servicemen, and itemizes the information (Part II) which the serviceman needs to know in order to be fully informed on the terms of the contract. Adherence to these standards and disclosure of this information in advance places both parties squarely on notice of their respective obligations, discourages improvident loans, and reduces cases of default.
- B. Those who sell or loan to military personnel are expected to subscribe to the standards of fairness and to make full disclosure before the loan or credit agreement or contract is executed. Because banks and credit unions operating on military installations owe a special responsibility to deal fairly with those assigned to or employed on the installation, they must conform to the requirements of Attachment A before executing the loan or credit agreement or contract.
- C. The itemized information required in Part II of Attachment A may be presented to the serviceman in the form most convenient to the seller or lender, as long as all of the information is disclosed and a copy is provided to the borrower.

X. PROCESSING DEBT COMPLAINTS

- A. With the growth of borrowing opportunities and consumer credit, the military departments have been called upon, with increasing frequency, to provide assistance in the processing of debt complaints growing out of such transactions. While many of these requests involve loan and credit transactions which are fair and reasonable, others involve transactions in which the full cost of credit has not been stated simply and clearly in advance. Further, some of

- 1 these transactions levy exorbitant charges and other unreasonable obligations against the military debtor. Under such circumstances, the Department will not use its facilities and personnel in processing such debt complaints through military channels. For the purpose of this Directive, lenders also include all financial institutions (such as centralized charge systems) which, although not a party to the original transaction, seek assistance in the collection of debts.
- B. In all loan and credit transactions subject to this Directive, the military department concerned will refer letters charging military members with indebtedness through military channels to the debtor only under the conditions set forth in 1. or 2. below.
1. Lenders and creditors completing Attachment A before executing the loan or credit contract must submit a copy of Part II (Full Disclosure) and Part III (Certificate of Compliance) to the commanding officer of the military member concerned or, if unknown, to his military department for forwarding to the military member concerned.
 2. Those not executing Attachment A before consummating the loan or credit contract (or who are unable to produce a copy thereof signed by both parties) must submit an executed copy of Part II (Full Disclosure) and Part III (Certificate of Compliance). Requests for assistance which fail to meet these requirements and which are not modified after the sender has been so notified, will not be acted upon.
- C. Those claims in which there is questionable compliance with these requirements, or in which the cost of the loan or credit, including all finance charges, although stated, appear excessive or exorbitant, will be referred to the officer responsible for such consideration and disposition as may be appropriate. Before deciding on a proper course of action, the appropriate officer will give the creditor an opportunity to demonstrate (1) that the finance charges conform to the law of the state governing the contract and (2) the extent to which the finance charges and rates conform to the prevailing rates and charges for similar consumer credit transactions.
- D. Additionally, the fact that a particular claim is exempt from the requirements of Full Disclosure and Standards of Fairness under E. below (e.g., an open-end or revolving charge

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account), does not foreclose the right by the debtor to question service charges and other finance charges and to negotiate a fair and reasonable settlement.

- E. The following types of debt complaints are not subject to the processing requirements of D. above; claims by accommodation endorsers, co-makers or lenders against the party primarily liable on obligations not intended to benefit the accommodating party through payment of interest or otherwise; contracts for the purchase, sale or rental of real estate; claims in which the total unpaid amount does not exceed \$50; claims for support of dependents; claims based on a revolving or open-end credit account if the account shows the periodic rate and its annual rate equivalent and the balance to which it is applied to compute the charge; or purchase money liens on real property (this does not include other liens on real property and related obligations such as those which represent obligations for improvement or repair).

XI. RESPONSIBILITIES

The Assistant Secretary of Defense (Manpower) shall be responsible for the administration of the provisions of this Directive and assure its effective implementation throughout the DoD.

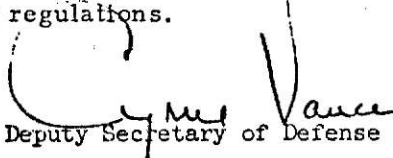
XII. EFFECTIVE DATE AND CANCELLATION

- A. This Directive shall be published in the Federal Register and shall become effective July 1, 1966. Reference (a) is hereby superseded as of that date and reissued as provided herein.
- B. As an exception, any debt complaints received prior to August 1 which conform to the "collection procedures" and attachment of reference (a) will be processed. After that date, lenders or creditors seeking assistance must comply with the terms of this Directive.

XIII. IMPLEMENTATION

Within thirty (30) days of the date of issuance the Secretaries of the military departments shall submit to the ASD (Manpower) two copies of their implementing regulations.

Attachments - 2: A & B

11  Deputy Secretary of Defense

PART I - STANDARDS OF FAIRNESS

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

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

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

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

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

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

7. No charge shall be made for an insurance premium or for finance charges for such premium unless satisfactory evidence of a policy, or insurance certificate where state insurance laws or regulations permit such certificates to be issued in lieu of a policy, reflecting such coverage has been delivered to the debtor within 30 days after the specified date of delivery of the item purchase or the signing of a cash loan agreement.

8. If the loan or contract agreement provides for payments in installments, each payment, other than the down payment, shall be in equal or substantially equal amounts, and installments shall be successive and of equal or substantially equal duration.

9. If the security for the debt is repossessed and sold in order to satisfy or reduce the debt, the repossession and resale will meet the following conditions: (a) the defaulting purchaser will be given advance written notice of the intention to repossess; (b) following repossession, the defaulting purchaser will be served a complete statement of his obligations and adequate advance notice of the sale; (c) he will be permitted to redeem the item by payment of the amount due before the sale, or in lieu thereof submit a bid at the sale; (d) there will be a solicitation for a minimum of three sealed bids unless sold at auction; (e) the party holding the security, and all agents thereof, are ineligible to bid; (f) the defaulting purchaser will be charged only those charges which are reasonably necessary for storage, reconditioning and resale and (g) he shall be provided a written detailed statement of his obligations, if any, following the resale and promptly refunded any credit balance due him, if any.

10. The contract may be terminated at any time before delivery of the goods or services without charge to the purchaser. However, if goods made to the special order of the purchaser result in pre-production costs, or require preparation for delivery, such additional costs will be listed in the order form or contract. No termination charge will be made in excess of this amount. Contracts for delivery at future intervals may be terminated as to the undelivered portion, and the purchaser shall be chargeable only for that proportion of the total cost which the goods or services delivered bear to the total goods and services called for by the contract.

PART II - FULL DISCLOSURE

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

A. IDENTIFICATION

Date: _____

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

B. CONTRACT TERMS

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

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

PART II - FULL DISCLOSURE (cont'd.)

C. CALCULATION OF APPROXIMATE ANNUAL PERCENTAGE RATE *

1. Total finance charges (B. 6) \$ _____
2. Total amount to be financed (B. 5) \$ _____
3. Finance charges per \$100 financed \$ _____
(Divide 1 above by 2 above and
multiply the result by \$100) .
4. Number of monthly payments (B. 8) _____
5. Determine annual percentage rate by using either:
 - a. DoD Annual Rate Table (Attachment B). This table will
give an approximate annual percentage rate based on the
actuarial method. These approximate rates will differ from
precise calculations by no more than 1/4% at the left end
of the table and not more than 1-1/2% at the right end of
the table. Read down the left column of the table to the
number of monthly payments (4 above). Read across to find
between which pair of columns the finance charge per
hundred (3 above) falls. Read up and find the approximate
annual percentage rate at the head of the pair of columns, .. _____ %
- or -
 - b. A More Precise Actuarial Calculation based on standard
annuity tables. _____ %

* For purposes of this calculation, it is necessary to determine the number of
equal monthly payments which would be required during the period of the
contract, regardless of the actual repayment terms specified.

REPAYMENT TERMS IF OTHER THAN LEVEL MONTHLY PAYMENTS

1344.7, May 2, 66
Attachment A

PART III - Certificate of Compliance

(If Attachment A is executed before the obligation is incurred)

I certify that (1) the Standards of Fairness (Part I) have been applied to the loan or credit obligation to which this form refers, (2) a full disclosure of the terms of the obligation has been made by execution of Part II or its equivalent, and (3) that a copy of this disclosure was furnished to the borrower (or debtor), whose signature is also indicated below, before the obligation was incurred.

Signature of borrower

Signature of creditor

(Date)

(If Attachment A is not executed before the obligation was incurred)

I certify that (1) the Standards of Fairness (Part I) have been applied to the loan or credit obligation to which this form refers and that the unpaid balance owing has been adjusted in accordance therewith as reflected in an executed copy of Part II, or (2) that the Standards of Fairness were applied at the time the loan was made and no adjustment is required in the transaction as indicated by the executed copy of Part II.

Name of borrower

Signature of creditor

(Date)

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

EXAMPLE
FINANCE CHARGE = \$38; Total amount to be financed = \$250; Number of monthly payments = 24.

Step 1 - Divide the finance charge by the total amount to be financed and multiply by 100. This gives the finance charge per \$100 of amount to be financed. That is, $\$38 \div \$250 \times 100 = \$15.20$.
Step 2 - Follow down the left hand column of the table to the line for 24 months. Follow across this line until you find the two numbers between which the finance charge of \$15.20 falls. In this example \$15.20 falls between \$14.66 and \$15.80. Reading up between the two columns of figures you will see that the annual percentage rate is 14%. For the purpose of this directive the annual percentage rate is the rate appearing at the head of the two columns between which the finance charge per \$100 of total amount to be financed falls. (If the finance charge per hundred falls exactly on a tabular value, the lower percentage rate may be used.)

Number of level monthly payments	Approximate annual rate																								
	5%	5 1/2%	6%	6 1/2%	7%	7 1/2%	8%	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%	22%	24%	26%	28%	30%	33%	36%	
1	\$0.40	\$0.44	\$0.48	\$0.52	\$0.56	\$0.60	\$0.65	\$0.71	\$0.79	\$0.88	\$0.96	\$1.04	\$1.12	\$1.21	\$1.29	\$1.42	\$1.58	\$1.75	\$1.92	\$2.08	\$2.25	\$2.42	\$2.62	\$2.88	\$3.14
2	.59	.66	.72	.78	.84	.91	.97	1.06	1.19	1.31	1.44	1.57	1.69	1.82	1.94	2.13	2.38	2.63	2.88	3.14	3.39	3.64	3.95	4.33	4.71
3	.79	.88	.96	1.04	1.13	1.21	1.29	1.42	1.59	1.76	1.92	2.09	2.26	2.43	2.59	2.85	3.18	3.52	3.86	4.20	4.53	4.87	5.30	5.80	6.30
4	.99	1.10	1.20	1.31	1.41	1.51	1.62	1.78	1.99	2.20	2.41	2.62	2.83	3.04	3.25	3.57	3.99	4.41	4.84	5.26	5.69	6.11	6.65	7.29	7.97
5	1.19	1.32	1.44	1.57	1.69	1.82	1.95	2.13	2.39	2.64	2.89	3.15	3.40	3.65	3.91	4.29	4.80	5.31	5.82	6.34	6.85	7.37	8.01	8.79	9.61
6	1.39	1.54	1.68	1.83	1.98	2.13	2.27	2.49	2.79	3.08	3.38	3.68	3.97	4.27	4.57	5.02	5.61	6.21	6.81	7.42	8.02	8.63	9.39	10.30	11.31
7	1.59	1.76	1.93	2.09	2.26	2.43	2.60	2.85	3.19	3.53	3.87	4.21	4.55	4.89	5.23	5.75	6.43	7.12	7.81	8.51	9.20	9.90	10.77	11.83	12.97
8	1.79	1.98	2.17	2.36	2.55	2.74	2.93	3.21	3.60	3.98	4.36	4.74	5.13	5.51	5.90	6.48	7.26	8.03	8.82	9.60	10.39	11.18	12.17	13.36	14.64
9	1.99	2.20	2.41	2.62	2.83	3.05	3.26	3.57	4.00	4.43	4.85	5.28	5.71	6.14	6.57	7.22	8.08	8.95	9.83	10.70	11.58	12.47	13.58	14.92	16.31
10	2.19	2.42	2.65	2.89	3.12	3.35	3.59	3.94	4.41	4.88	5.35	5.82	6.29	6.77	7.24	7.96	8.91	9.88	10.84	11.81	12.79	13.77	15.00	16.48	18.06
11	2.39	2.64	2.90	3.15	3.41	3.66	3.92	4.30	4.81	5.33	5.84	6.36	6.88	7.40	7.92	8.70	9.75	10.80	11.86	12.93	14.00	15.08	16.43	18.06	19.79
12	2.59	2.87	3.14	3.42	3.69	3.97	4.25	4.66	5.22	5.78	6.34	6.90	7.46	8.03	8.59	9.45	10.59	11.74	12.89	14.05	15.22	16.40	17.87	19.66	21.59
13	2.79	3.09	3.39	3.68	3.98	4.28	4.58	5.03	5.63	6.23	6.84	7.44	8.05	8.66	9.27	10.20	11.43	12.67	13.93	15.18	16.45	17.72	19.33	21.26	23.35
14	2.99	3.31	3.63	3.95	4.27	4.59	4.91	5.39	6.04	6.69	7.34	7.99	8.64	9.30	9.96	10.95	12.28	13.62	14.97	16.32	17.69	19.06	20.79	22.88	25.25
15	3.20	3.54	3.88	4.22	4.56	4.90	5.24	5.76	6.45	7.14	7.84	8.53	9.23	9.94	10.64	11.71	13.13	14.57	16.01	17.47	18.93	20.41	22.27	24.52	27.07
16	3.40	3.76	4.12	4.48	4.85	5.21	5.58	6.13	6.86	7.60	8.34	9.08	9.83	10.58	11.33	12.46	13.99	15.52	17.06	18.62	20.19	21.76	23.75	26.15	28.85
17	3.60	3.98	4.37	4.75	5.14	5.52	5.91	6.49	7.27	8.06	8.84	9.63	10.43	11.22	12.02	13.23	14.85	16.48	18.12	19.78	21.45	23.13	25.35	28.12	31.18
18	3.80	4.21	4.61	5.02	5.43	5.84	6.25	6.86	7.69	8.52	9.35	10.19	11.03	11.87	12.72	13.93	15.57	17.22	18.89	20.57	22.25	23.93	26.70	30.02	33.97
19	4.01	4.43	4.86	5.29	5.72	6.15	6.58	7.23	8.10	8.98	9.86	10.74	11.63	12.52	13.41	14.76	16.48	18.21	19.95	21.70	23.45	25.20	28.33	32.18	36.78
20	4.21	4.66	5.11	5.56	6.01	6.46	6.92	7.60	8.52	9.40	10.37	11.30	12.23	13.17	14.11	15.54	17.35	19.18	21.03	22.88	24.73	26.58	30.13	34.35	39.32
21	4.41	4.88	5.35	5.83	6.30	6.78	7.26	7.97	8.94	9.90	10.83	11.85	12.84	13.82	14.82	16.31	18.21	20.13	22.07	24.02	25.97	27.92	31.83	36.46	42.11
22	4.62	5.11	5.60	6.10	6.60	7.09	7.59	8.35	9.36	10.37	11.39	12.41	13.44	14.48	15.52	17.08	19.01	21.00	23.00	25.00	27.00	29.00	33.30	38.32	44.21
23	4.82	5.33	5.85	6.37	6.89	7.41	7.93	8.72	9.77	10.84	11.90	12.97	14.05	15.14	16.23	17.88	20.00	22.13	24.26	26.40	28.53	30.66	35.35	40.78	47.45
24	5.02	5.56	6.10	6.64	7.18	7.73	8.27	9.09	10.19	11.30	12.42	13.54	14.66	15.80	16.94	18.66	20.98	23.33	25.68	28.03	30.38	32.73	37.80	43.63	50.95
25	5.23	5.79	6.35	6.91	7.48	8.04	8.61	9.47	10.62	11.77	12.93	14.10	15.28	16.46	17.65	19.45	21.87	24.32	26.78	29.24	31.69	34.15	39.60	45.83	53.41
26	5.43	6.01	6.60	7.18	7.77	8.36	8.95	9.84	11.04	12.24	13.45	14.67	15.89	17.13	18.37	20.24	22.77	25.33	27.91	30.53	33.18	35.83	41.75	48.49	56.78
27	5.64	6.24	6.85	7.46	8.07	8.68	9.29	10.22	11.46	12.71	13.97	15.24	16.51	17.80	19.09	21.04	23.67	26.34	29.03	31.76	34.52	37.31	43.68	50.95	59.60
28	5.84	6.47	7.10	7.73	8.36	8.99	9.64	10.60	11.89	13.18	14.49	15.81	17.13	18.47	19.81	21.84	24.58	27.35	30.15	33.00	35.87	38.78	45.55	53.41	62.60
29	6.05	6.70	7.35	8.00	8.66	9.32	9.98	10.97	12.31	13.66	15.01	16.38	17.75	19.14	20.53	22.64	25.49	28.37	31.28	34.24	37.23	40.26	47.59	56.05	65.78
30	6.25	6.92	7.60	8.28	8.96	9.64	10.32	11.35	12.74	14.13	15.54	16.95	18.38	19.81	21.26	23.45	26.40	29.39	32.42	35.49	38.60	41.75	50.00	59.05	69.40
31	6.46	7.15	7.85	8.55	9.25	9.96	10.67	11.73	13.17	14.61	16.06	17.53	19.00	20.49	21.99	24.26	27.32	30.42	33.56	36.75	39.97	43.22	52.00	61.65	72.80
32	6.66	7.38	8.10	8.82	9.55	10.28	11.01	12.11	13.59	15.09	16.59	18.11	19.63	21.17	22.72	25.07	28.24	31.45	34.71	38.01	41.36	44.75	54.00	64.29	76.16
33	6.87	7.61	8.35	9.10	9.85	10.60	11.36	12.49	14.02	15.57	17.12	18.69	20.26	21.85	23.46	25.88	29.16	32.49	35.86	39.28	42.75	46.26	56.00	67.16	79.83
34	7.08	7.84	8.61	9.37	10.15	10.92	11.70	12.88	14.45	16.05	17.65	19.27	20.90	22.54	24.19	26.70	30.09	33.53	37.02	40.56	44.15	47.79	58.00	70.00	83.50
35	7.28	8.07	8.86	9.65	10.45	11.25	12.05	13.26	14.89	16.53	18.18	19.85	21.53	23.23	24.94	27.52	31.02	34.58	38.18	41.84	45.56	49.32	60.00	72.50	87.50
36	7.49	8.30	9.11	9.93	10.75	11.57	12.40	13.64	15.32	17.01	18.71	20.43	22.17	23.92	25.68	28.35	31.96	35.63	39.35	43.11	46.97	50.85	62.00	75.00	90.00
37	7.70	8.53	9.37	10.20	11.05	11.89	12.74	14.03	15.75	17.49	19.25	21.02	22.81	24.61	26.42	29.18	32.90	36.69	40.53	44.43	48.39	52.41	64.00	77.50	93.50
38	7.91	8.76	9.62	10.48	11.35	12.22	13.09	14.41	16.19	17.98	19.78	21.61	23.45	25.30	27.17	30.01	33.85	37.75	41.71	45.74	49.82	53.97	66.00	80.00	97.50
39	8.11	8.99	9.87	10.76	11.65	12.54	13.44	14.80	16.63	18.46	20.32	22.20	24.09	26.00	27.92	30.85	34.80	38.82	42.90	47.05	51.26	55.54	68.00	82.50	100.00
40	8.32	9.22	10.13	11.04	11.95	12.87	13.79	15.19	17.06	18.95	20.86	22.79	24.73	26.70	28.68	31.68	35.75	39.89	44.09	48.37	52.71	57.12	70.00	85.00	104.00
41	8.53	9.45	10.38	11.32	12.25	13.20	14.14	15.57	17.50	19.44	21.40	23.38	25.38	27.40	29.44	32.52	36.71	40.96	45.29	49.69	54.16	58.70	72.00	87.50	107.50
42	8.74	9.69	10.64	11.60	12.56	13.52	14.50	15.9.																	

CONSUMER CREDIT DISCLOSURES COMPARED
Consumer Advisory Council--DoD
Directive--Truth in Lending

by

CYNTHIA SPRAGUE LAMB

B. S., Florida State University, 1964

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

1974

The Department of Defense issued in 1966 a Directive setting forth uniform disclosures for consumer credit transactions and standards of fairness. The Directive prescribed conditions and procedures to be observed by creditors who extended consumer credit on the military base and by creditors located off the military base who requested help of the Department of Defense in collecting delinquent accounts from military personnel. At that time the Truth in Lending Bill was before the Congress. It had been introduced by Senator Douglas in 1960 and subjected to extensive Congressional hearings until its passage by the Senate in 1967 and enactment into law in 1968.

An objective of this thesis was to determine the extent to which the DoD Directive was a precursor to the full disclosure provisions of the Truth in Lending Act, and to evaluate these disclosures relative to the conditions as recommended by the Consumer Advisory Council in 1963 for meaningful and full disclosure for the consumer in credit transactions.

The Directive also included Standards of Fairness for credit contracts. A second objective of this thesis was to assess these Standards of Fairness relative to subsequent proposals pertaining to fair dealings between creditor and debtor. The proposals are in the form of the 1972 report of the National Commission on Consumer Finance, the 1973 Model Consumer Credit Act drafted by the National Consumer Law Center, and the 1968 draft of the Uniform Consumer Credit Code.

It was concluded that the Department of Defense Directive anticipated many of the provisions of Truth in Lending. It established the feasibility of disclosing the Annual Percentage Rate, recognized the actuarial method and provided Annual Percentage Rate tables. The Directive also recognized

the unique and unequivocal relationship between the Periodic Percentage Rate and the Annual Percentage Rate as used in open-end credit transactions.

The Directive was an advance over Truth in Lending as enacted in that it: (1) Required a single Annual Percentage Rate and did not permit several rate disclosures. (2) It not only clarified the terms "finance charge," but distinguished between an ancillary or extra charge, and charges which directly benefited the creditor. (3) A major advancement over all previous credit contracts was the recognition of consumer credit as such and not differentiating between sale and loan credit. (4) A radical advancement was its insistence that all forms of credit insurance be included in the finance charge. With respect to standards of fairness, the Department of Defense Directive was clearly a pioneer in (5) its limitation of holder-in-due course and (6) its provision for safeguarding the military consumers rights if the security for a debt was to be repossessed or sold in order to satisfy or reduce the debt.

The issuance of an amended Department of Defense Directive in July, 1969 substituting the full disclosure provisions of the Truth in Lending Act meant the loss of all the previously enumerated advances.