
**THE CONSUMER CREDIT PROTECTION
ACT AMENDMENTS OF 1977**

HEARINGS
BEFORE THE
SUBCOMMITTEE ON CONSUMER AFFAIRS
OF THE
COMMITTEE ON
BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES
NINETY-FIFTH CONGRESS

FIRST SESSION

ON

H.R. 8753

A BILL TO AMEND THE CONSUMER CREDIT PROTECTION ACT TO SAFEGUARD CONSUMERS IN THE UTILIZATION OF ELECTRONIC FUNDS TRANSFER SERVICES; AND TO PROTECT CONSUMERS IN THE STABILIZATION OF CREDIT CARDS; AND FOR OTHER PURPOSES.

PART 3

DECEMBER 5, 1977

CHICAGO, ILL.

Printed for the use of the
Committee on Banking, Finance and Urban Affairs



MICROFICHE

55913

**THE CONSUMER CREDIT PROTECTION
ACT AMENDMENTS OF 1977**

NCJRS

HEARINGS

NOV 2 1978

BEFORE THE

SUBCOMMITTEE ON CONSUMER AFFAIRS

OF THE

COMMITTEE ON

BANKING, FINANCE AND URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

H.R. 8753

**A BILL TO AMEND THE CONSUMER CREDIT PROTECTION ACT
TO SAFEGUARD CONSUMERS IN THE UTILIZATION OF ELEC-
TRONIC FUNDS TRANSFER SERVICES; AND TO PROTECT CON-
SUMERS IN THE STABILIZATION OF CREDIT CARDS; AND FOR
OTHER PURPOSES**

PART 3

DECEMBER 5, 1977

CHICAGO, ILL.

Printed for the use of the
Committee on Banking, Finance and Urban Affairs



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1977

20-691 O

HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

HENRY S. REUSS, Wisconsin, *Chairman*

THOMAS L. ASHLEY, Ohio
WILLIAM S. MOORHEAD, Pennsylvania
FERNAND J. ST GERMAIN, Rhode Island
HENRY B. GONZALEZ, Texas
JOSEPH G. MINISH, New Jersey
FRANK ANNUNZIO, Illinois
JAMES M. HANLEY, New York
PARREN J. MITCHELL, Maryland
WALTER E. FAUNTROY,
District of Columbia
STEPHEN L. NEAL, North Carolina
JERRY M. PATTERSON, California
JAMES J. BLANCHARD, Michigan
CARROLL HUBBARD, Jr., Kentucky
JOHN J. LAFALCE, New York
GLADYS NOON SPELLMAN, Maryland
LES AuCOIN, Oregon
PAUL E. TSONGAS, Massachusetts
BUTLER DERRICK, South Carolina
MARK W. HANNAFORD, California
DAVID W. EVANS, Indiana
CLIFFORD ALLEN, Tennessee
NORMAN E. D'AMOURS, New Hampshire
STANLEY N. LUNDINE, New York
HERMAN BADILLO, New York
EDWARD W. PATTISON, New York
JOHN J. CAVANAUGH, Nebraska
MARY ROSE OAKAR, Ohio
JIM MATTOX, Texas
BRUCE F. VENTO, Minnesota
DOUG BARNARD, Georgia
WES WATKINS, Oklahoma

J. WILLIAM STANTON, Ohio
GARRY BROWN, Michigan
CHALMERS P. WYLIE, Ohio
JOHN H. ROUSSELOT, California
STEWART B. MCKINNEY, Connecticut
GEORGE HANSEN, Idaho
HENRY J. HYDE, Illinois
RICHARD KELLY, Florida
CHARLES E. GRASSLEY, Iowa
MILLICENT FENWICK, New Jersey
JIM LEACH, Iowa
NEWTON I. STEERS, JR., Maryland
THOMAS B. EVANS, JR., Delaware
BRUCE F. CAPUTO, New York
HAROLD C. HOLLENBECK, New Jersey

PAUL NELSON, *Clerk and Staff Director*
WILLIAM P. DIXON, *General Counsel*
MICHAEL P. FLAHERTY, *Counsel*
GRASY CREWS II, *Counsel*
MERCER L. JACKSON, *Minority Staff Director*
GRAHAM T. NORTHUP, *Deputy Minority Staff Director*

SUBCOMMITTEE ON CONSUMER AFFAIRS

FRANK ANNUNZIO, Illinois, *Chairman*

GLADYS NOON SPELLMAN, Maryland
BRUCE F. VENTO, Minnesota
CLIFFORD ALLEN, Tennessee
FERNAND J. ST GERMAIN, Rhode Island
JOSEPH G. MINISH, New Jersey
WALTER E. FAUNTROY,
District of Columbia

CHALMERS P. WYLIE, Ohio
MILLICENT FENWICK, New Jersey
THOMAS B. EVANS, JR., Delaware

CURTIS A. PRINS, *Staff Director*

CONTENTS

STATEMENTS

	Page
Baer, David D., executive vice president, First National Bank of Freeport, Freeport, Ill.; chairman, Electronic Funds Transfer Committee, Association for Modern Banking in Illinois (AMBI).....	1418
Baker, Richard J., assistant vice president, Commercial National Bank of Peoria, Peoria, Ill.; representing the Illinois Bankers Association	1417
Brown, V. K., consumer, Chicago, Ill	1365
Clark, Ken, staff representative, Wisconsin AFL-CIO, Milwaukee, Wis.....	1328
Eisendrath, Jack N., attorney-at-law, Milwaukee, Wis.; member, board of directors, Wisconsin Consumer League	1330
Fary, Hon. John G., a Representative in Congress from the State of Illinois	1300
Flodstrom, Karl R., director/counselor, financial division, Family Counseling Service, Aurora, Ill	1380
Gall, Ron, director, member of board of directors, Wisconsin Consumer League, Milwaukee, Wis	1326
Garber, Alan J., president, Crawford Department Stores, Chicago, Ill.....	1340
Gitles, Arlene, Consumer Coalition, Skokie, Ill	1318
LaFalce, Hon. John J., a Representative in Congress from the State of New York.....	1300
Lamet, Jerome, Assistant Regional Director, Chicago region, Federal Trade Commission, testifying as a consumer	1376
Leveck, Terry, representing the Illinois Department of Aging	1386
Marquez, Daniel, consumer, Chicago, Ill	1372
Partee, Cecil, commissioner, Department of Human Services, Chicago, Ill	1301
Quigley, Daniel, chairman of the board, Electronic Funds Illinois, Inc., Chicago, Ill	1306
Rank, Prof. Hugh, consumer, Governors State University, Park Forest South, Ill	1354
Rogers, John L., consumer, Chicago, Ill	1367
Rosenblum, Dan, staff attorney, Legal Assistance Foundation of Chicago, Chicago, Ill	1323
Ruf, J. Frederic, vice president, M. & I. Marshall & Ilsley Bank; president, TYME Corp., Milwaukee, Wis	1399
Ryan, Agnes, attorney-at-law, Chicago, Ill	1321
Skopec, Kenneth A., president, Mid-City National Bank of Chicago, Chicago, Ill.; representing the Illinois Bankers Association	1421
Vance, Craig R., credit manager, Spurgeon Mercantile Co., Chicago, Ill	1343
Velco, Lori, chairwoman, Skokie Consumer Affairs Commission, Skokie, Ill.....	1373
Vento, Hon. Bruce F., member of the subcommittee.....	1299
Wylie, Hon. Chalmers P., ranking minority member of the subcommittee	1295

ADDITIONAL INFORMATION SUBMITTED FOR THE RECORD

Annunzio, Hon. Frank chairman, Subcommittee on Consumer Affairs, opening statement	1293
Flodstrom, Karl L., prepared statement	1383
McClain, Tom J., vice president and consumer loan administrator of the National Bank of Greenwood, Indianapolis, Ind.....	1394
Rank, Prof. Hugh, correspondence submitted re Carte Blanche charge ticket error of Prof. William H. Miller	1357
Rogers, John L., appendixes attached to statement:	
A. First National Bank of Chicago incorrect debit slip, copy of	1371
B. Documented verification	1371
Ruf, J. Frederic, prepared statement	1404
Wylie, Hon., Chalmers P., opening statement	1297

THE CONSUMER CREDIT PROTECTION ACT AMENDMENTS OF 1977

MONDAY, DECEMBER 5, 1977

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSUMER AFFAIRS OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Chicago, Ill.

The subcommittee met, pursuant to notice, at 10:25 a.m., in room 2535, Dirksen Federal Office Building, Chicago, Ill., Hon. Frank Annunzio (chairman) presiding.

Present: Representatives Annunzio, Vento, and Wylie.

Also Present: Representatives John J. LaFalce of New York and John G. Fary of Illinois.

Chairman ANNUNZIO. The meeting of the Subcommittee on Consumer Affairs will come to order.

This morning I want to welcome to Chicago my distinguished colleagues of the Congress who have joined me for the session on the hearings on credit cards and electronic fund transfer systems.

These hearings were originally scheduled for December 5 and 6. The hearings of tomorrow have been canceled because, as many of you know, we are faced with a logjam in the Congress and we have been called back to work. We are waiting for the conference report on the HEW appropriation. There is a possibility of the conference report on social security and there is a District of Columbia appropriations bill.

The hearings for tomorrow will not be held. Instead, we have combined the witnesses for today and tomorrow so we are hoping to conclude the hearings today.

We have already held 8 days of hearings on this subject. Two days of hearings have been spent on what I have termed educational hearings so that the committee could probe and get facts as to how the credit card industry is working and what is the public reception as far as EFTS is concerned.

As you know, the credit card industry is something we know very little about.

As I go deeper into the credit card industry, I am beginning to find out the industry itself doesn't know too much about the credit card industry.

I am delighted this morning that Congressman Wylie can be here. He is the ranking Republican on the subcommittee from Columbus, Ohio. I have had the privilege and the pleasure of working with Congressman Wylie for several years on the Consumer Affairs Subcommittee.

He has been nonpartisan as far as consumer legislation is concerned. It was through his efforts that we were finally able to pass more legislation on our subcommittee than has been passed in the last 14 years.

As most of you know, the committee is responsible for the Equal Credit Opportunity Act, the Fair Credit Billing Act, the Fair Debt Collection Practices Act, and several other pieces of legislation that have been signed into law. Congressman Wylie, I thank you very much for being present.

We also have with us my distinguished colleague from the city of Chicago who is a member of the Public Works Committee and who is very dedicated to his responsibility in the Congress, Congressman Fary of the Fifth District of Chicago. Mr. Fary, I am happy that you are with us this morning.

Then we have my good friend, Congressman John LaFalce, who traveled from Buffalo, N.Y., to be with us today, a member of the House Banking, Finance, and Urban Affairs Committee. I am grateful for the efforts you have made to be with us this morning.

Now, to my right is Congressman Vento. He is from Minnesota and a member of the House Banking, Finance, and Urban Affairs Committee. Though he is not here at the moment to hear me extend my deep appreciation, I want the record to show I am deeply grateful for his being with us this morning.

The House Banking Subcommittee on Consumer Affairs begins its field hearings on H.R. 8753, the credit card-EFTS bill which I introduced on August 4. The bill was cosponsored by five other Congressmen, including Congressman Minish and Congressman Vento.

These are the first field hearings I have held as chairman of this subcommittee. I am doing so because this legislation is vitally important to all Americans.

I want to remind the members of the press these field hearings will be continued throughout various sections of the country. We intend to go to the people. We intend to go to Minnesota; we intend to go to Ohio.

You know, Congressman Wylie comes from Columbus, Ohio, and it is a coincidence that Columbus, Ohio, has a pilot project on the EFTS system and that is our reason for going to Columbus. We then want to go to Minnesota and we are hoping we can go to California.

Some people will ask, why come to Chicago? Because the chairman is from Chicago. The chairman loves Chicago. The chairman loves the people of Chicago.

In addition, Chicago is the third largest financial community in America, so there is every reason for us to be here this morning in Chicago.

It is essential that Congress have a grassroots knowledge of what local people around this country feel are the problems with credit and debit cards.

I have been asked on many occasions why this legislation is needed. It has been suggested that if consumers are unhappy with credit cards, they should stop using them and thereby solve the problem. Unfortunately, it is not as easy as that. If credit cards were only a convenience, it would be a simple matter to give them

up. But it is virtually impossible to function in today's economy without credit cards.

It is difficult to rent a hotel or motel room without a credit card, and it is impossible to rent a car without a credit card. Cashing a check without one and, in some cases, two credit cards is next to impossible. In many cases consumers who don't have credit cards are considered second-class citizens, at least economically speaking.

For example, in many hotels and motels guests who wish to pay cash are not allowed to charge any expenses to their room with the thought of paying off the entire amount at checkout time.

A person with a credit card can order champagne and a seven course meal from room service and pay for that at checkout time, but a cash customer can't even order a hamburger without cash up front.

There are more than 560 million credit cards in circulation today and more and more it is the necessity of a credit card rather than the convenience that accounts for the growing number of credit cards.

It has been suggested that consumers who do not like the credit card practices of a particular financial institution should switch and get another credit card. Unfortunately, most consumers do not realize that all Master Charge or all VISA cards—formerly BankAmericard—are not the same. They do not realize that each financial institution that issues such cards are separate operations. Instead, the consumer feels that he or she is on a take it or leave it basis with a particular credit card.

When credit cards were first marketed, consumers were promised the Moon. But now that credit cards have become a way of life, those promises are being broken. That is why I introduced this legislation which in effect says to the credit card companies, you must keep the promises you made to the public. I do not feel that is unrealistic nor is it an attempt to hurt credit-card companies.

Consumers pay the major share of credit-card costs. Why should they be saddled with new charges and reduced services? In most States consumers are charged 18 percent a year on credit-card accounts. Certainly that interest payment should entitle the consumer to better treatment instead of new charges.

Shouldn't an interest payment of 18 percent provide consumers with copies of sales slips? Shouldn't 18 percent be enough so that billing methods don't have to be manipulated to provide increased fees?

Shouldn't 18 percent be enough to guarantee consumers that the credit card contracts will be written in easy to understand terms instead of the gibberish that is common in these contracts as can be easily seen from the example on display here today. And even in those states whose usury laws are lower than 18 percent, the finance charges should provide enough income for the credit-card companies. After all, I have not heard of any credit-card company going bankrupt.

One of the provisions of the legislation would require credit-card companies to return copies of the sales slips to the consumers each month, a practice which is called country club billing. I have been told by industry representatives that such a requirement would cost the industry \$616 million. I can only assume that when the

industry discontinued this practice that it saved this money, yet I can see no evidence that any of the savings were passed on to consumers.

Since the initial hearings were held on this legislation in Washington, I have uncovered a new gimmick in connection with credit-card descriptive billing, a system under which the consumer does not receive individual copies of sales slips, but rather is given a listing of purchases.

If a consumer disputes a purchase and asks to see a copy of the sales slip as verification, the consumer must pay a fee which can go as high as \$2.50 for each sales slip.

And so it goes. New costs are being thrust upon the consumer but no new benefits are being provided to the consumer.

The legislation also contains safeguards for the so-called electronic funds transfers or the cashless and checkless banking. I feel that the question of credit cards and EFT go hand in hand, for EFT is being merchandised today exactly the way credit cards were merchandised 10 years ago as witnessed by the advertisement offering free Big Macs to people learning to use an automated teller machine. Unless we establish consumer safeguards for EFT now, I predict that the same changes that we have seen in credit-card operations will occur in the EFT field within 10 years.

Electronic funds transfers may be the future of banking but it is having a serious problem getting off the ground. Consumers not only do not want EFTS, but they are afraid of it and they are even more afraid when they see financial institutions opposing legislation such as this bill that would create important consumer protections.

Texas last month held a referendum on whether or not EFTS should be allowed in that State. The voters rejected EFTS by nearly a 2 to 1 margin and that is a pretty strong market indicator. Shortly after the Texas vote, the Savings Association Control Corp., a California corporation designed to implement EFTS in that State, decided to determine if consumers want EFTS. This decision was made, however, 2 years after the organization was formed.

Earlier this year a large California savings and loan association discontinued a multi-million-dollar EFTS program because of lack of interest on the part of consumers, and in Iowa, that State's largest bank has stopped a 5-month test program of EFTS because of limited usage by consumers.

What concerns me is that financial institutions are not going to spend millions of dollars on EFTS equipment and then leave it up to consumer whim as to whether or not the system will be used. There may well be an attempt to force consumers to use EFTS and that is why the safeguards contained in this bill are so vitally needed. EFTS has been described as a "technology in search of a market" and "King Kong in search of a trainer." It may well be the future of banking and it may well be a boon for consumers, but let us approach EFTS in a reasonable, sensible, and straightforward manner.

The legislation provides such safeguards as a limit on the liability of an EFTS, or debit card which is used in an unauthorized manner so that a consumer's life savings cannot be wiped out because his or her debit card was stolen or used improperly. Such

an occurrence could happen today in many States without the consumer having any recourse. The legislation would prohibit the sending of unsolicited debit cards and we all remember what happened in the late sixties when thousands and thousands of unsolicited credit cards swamped the Chicago area and resulted in multi-million-dollar losses for the business and financial community because of fraud and theft.

If you think the dangers of computer crimes are over-emphasized by those who seek such safeguards for EFTS, consider that a study recently released by the Department of Commerce noted that for every five computer related crimes detected, four are not reported because of concern for bad public relations.

My latest report indicates there are over \$100 million in losses now a year in computer crime.

As far as EFTS is concerned, in our first 3 days of hearings, we were told: "Go slow. Let us wait for the EFTS commission to report."

Well, as most of you know, the EFTS Commission report was finally finalized and the Commission now has joined the committee in urging legislative action to protect the public.

Again I want to commend those of you in the audience representing the public, representing business, representing consumers and the media for being here this morning.

[The opening statement of Chairman Annunzio follows:]

OPENING STATEMENT OF HON. FRANK ANNUNZIO, CHAIRMAN, SUBCOMMITTEE ON CONSUMER AFFAIRS, COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

This morning the House Banking Subcommittee on Consumer Affairs begins its field hearings on H.R. 8753, the credit card/EFT bill which I introduced on August 4. The bill was cosponsored by five other Congressmen including Congressman Minish and Congressman Vento.

These are the first field hearings I have held as Chairman of this Subcommittee. I am doing so because this legislation is vitally important to all Americans.

It is essential that Congress have a grassroots knowledge of what local people around this country feel are the problems with credit and debit cards.

I have been asked on many occasions why this legislation is needed. It has been suggested that if consumers are unhappy with credit cards, they should stop using them and thereby solve the problem. Unfortunately, it is not as easy as that. If credit cards were only a convenience, it would be a simple matter to give them up. But it is virtually impossible to function in today's economy without credit cards.

It is difficult to rent a hotel or motel room without a credit card, and it is impossible to rent a car without a credit card. Cashing a check without one and, in some cases, two credit cards is next to impossible. In many cases consumers who don't have credit cards are considered second class citizens, at least economically speaking. For example, in many hotels and motels guests who wish to pay cash are not allowed to charge any expenses to their room with the thought of paying off the entire amount at checkout time. A person with a credit card can order champagne and a seven-course meal from room service and pay for that at checkout time, but a cash customer can't even order a hamburger without cash up front.

There are more than 560 million credit cards in circulation today and more and more it is the necessity of a credit card rather than the convenience that accounts for the growing number of credit cards.

It has been suggested that consumers who do not like the credit card practices of a particular financial institution should switch and get another credit card. Unfortunately, most consumers do not realize that all Master Charge or all Visa cards (formerly BankAmericard) are not the same. They do not realize that each financial institution that issues such cards are separate operations. Instead the consumer feels that he or she is on a take-it-or-leave-it basis with a particular credit card.

When credit cards were first marketed, consumers were promised the moon. But now that credit cards have become a way of life, those promises are being broken. That is why I introduced this legislation which in effect says to the credit card

companies you must keep the promises you made to the public. I do not feel that is unrealistic nor is it an attempt to hurt credit card companies.

Consumers pay the major share of credit card costs. Why should they be saddled with new charges and reduced services? In most States consumers are charged 18 percent a year on credit card accounts. Certainly that interest payment should entitle the consumer to better treatment instead of new charges. Shouldn't an interest payment of 18 percent provide consumers with copies of sales slips? Shouldn't 18 percent be enough so that billing methods don't have to be manipulated to provide increased fees? Shouldn't 18 percent be enough to guarantee consumers that the credit card contracts will be written in easy to understand terms instead of the gibberish that is common in these contracts as can be easily seen from the example on display here today. And even in those States whose usury laws are lower than 18 percent, the finance charges should provide enough income for the credit card companies. After all, I have not heard of any credit card company going bankrupt.

One of the provisions of the legislation would require credit card companies to return copies of the sales slips to the consumers each month, a practice which is called country club billing. I have been told by industry representatives that such a requirement would cost the industry \$616 million. I can only assume that when the industry discontinued this practice that it saved this money, yet I can see no evidence that any of the savings were passed on to consumers. Since the initial hearings were held on this legislation in Washington, I have uncovered a new gimmick in connection with credit card descriptive billing, a system under which the consumer does not receive individual copies of sales slips but rather is given a listing of purchases. If a consumer disputes a purchase and asks to see a copy of the sales slip as verification, the consumer must pay a fee which can go as high as \$2.50 for each sales slip.

And so it goes, new costs are being thrust upon the consumer but no new benefits are being provided to the consumer.

The legislation also contains safeguards for the so-called electronic funds transfers or the cashless and checkless banking. I feel that the question of credit cards and EFT go hand-in-hand for EFT is being merchandised today exactly the way credit cards were merchandised 10 years ago as witnessed by the advertisement offering free Big Macs to people learning to use an automated teller machine. Unless we establish consumer safeguards for EFT now, I predict that the same changes that we have seen in credit card operations will occur in the EFT field within 10 years.

Electronic funds transfers may be the future of banking but it is having a serious problem getting off the ground. Consumers not only do not want EFTS, but they are afraid of it and they are even more afraid when they see financial institutions opposing legislation such as this bill that would create important consumer protections.

Texas last month held a referendum on whether or not EFTS should be allowed in that State. The voters rejected EFTS by nearly a two-to-one margin and that is a pretty strong market indicator. Shortly after the Texas vote, the Savings Association Control Corporation, a California corporation designed to implement EFTS in that State, decided to determine if consumers want EFTS. This decision was made, however, two years after the organization was formed.

Earlier this year a large California savings and loan association discontinued a multi-million dollar EFTS program because of lack of interest on the part of consumers, and in Iowa that State's largest bank has stopped a five-month test program of EFTS because of limited usage by consumers.

What concerns me is that financial institutions are not going to spend millions of dollars on EFTS equipment and then leave it up to consumer whim as to whether or not the system will be used. There may well be an attempt to force consumers to use EFTS and that is why the safeguards contained in this bill are so vitally needed. EFTS has been described as a "technology in search of a market" and "King Kong in search of a trainer". It may well be the future of banking and it may well be a boon for consumers, but let's approach EFTS in a reasonable, sensible and straightforward manner.

The legislation provides such safeguards as a limit on the liability of an EFTS, or debit, card which is used in an unauthorized manner so that a consumer's life savings cannot be wiped out because his or her debit card was stolen or used improperly. Such an occurrence could happen today in many States without the consumer having any recourse. The legislation would prohibit the sending of unsolicited debit cards and we all remember what happened in the late 60's when thousands and thousands of unsolicited credit cards swamped the Chicago area and resulted in multi-million dollar losses for the business and financial community because of fraud and theft.

If you think the dangers of computer crimes are over-emphasized by those who seek such safeguards for EFTS, consider that a study recently released by the Department of Commerce noted that for every five computer related crimes detected, four are not reported because of concern for bad public relations.

The report also showed that internal fraud and embezzlement was found to be the most important reason for financial institution losses.

To add further fuel to this point, consider the testimony of a witness at our hearings in Washington who said that he could crack any EFTS computer system in the country in ten minutes. Such a statement is indeed frightening but even more frightening would be the consequences of losing your entire checking or savings account. The Electronic Fund Transfers Commission recently completed a two-year study and recommended swift legislative action to protect consumers in EFT systems. My legislation is not in response to those recommendations. My legislation was written months before the report was finalized, but now that the Commission has joined the call for consumer protection, there should be no delay in enacting the legislation.

Chairman ANNUNZIO. Before I call the first witness, I am going to ask Congressman Wylie of Ohio if he would like to make an opening statement.

**STATEMENT OF HON. CHALMERS P. WYLIE, RANKING
MINORITY MEMBER OF THE SUBCOMMITTEE**

Mr. WYLIE. Thank you very much, Mr. Chairman. I would be remiss if I did not thank you for the very generous remarks regarding my work on the committee.

I might say that we have worked very closely together and I appreciate your acknowledging the fact that some of the legislation had a little bit of my stamp on it, I hasten to acknowledge the fact that it wouldn't be there or here except for you.

I am delighted to be in Chicago. I am delighted to be in your territory. When you enter Chicago, you can feel the heartbeat of America and as representatives of the people I think it is desirable that we go to the people and listen to the people, and there are a lot of them here—a little later on we will go to Columbus, as you have suggested.

Columbus is being used as a test market for electronic fund transfers. If the theory is successful in Columbus, you can sell it any place, and they are in the process of selling it.

Also, I might add the congressional district I represent is one of the youngest in age in the whole of the United States of America because of the Ohio State University with some 50,000 students.

While we are considering this legislation, of course, we don't want to make the Government too burdensome and I have taken a more or less neutral approach on this bill. We don't want to add a price tag to the legislation which would make it burdensome to industry because that cost will be passed on to consumers and too much cost, of course, would bankrupt businesses and thereby create unemployment.

However, I want to compliment you, Mr. Chairman, for introducing this bill and providing the forum for a very thorough study of this new and exciting world of electronic fund transfers. Computer technology has put man on the Moon, and I think this technology, widely used, can greatly add to the mobility of our citizens here on Earth.

Fortunately, Mr. Chairman, as you have suggested, we are not acting in haste. There is an issue here I think which must be considered and which must be taken to the people and I appreciate

the fact that you are proceeding in an atmosphere of understanding.

Mr. Chairman, again thank you very much for having the hearings in Chicago and I appreciate the commitment you have just made, that we will have some a little later on in Columbus.

[The opening statement of Congressman Wylie follows:]

OPENING STATEMENT
HONORABLE CHALMERS P. WYLIE
HEARINGS ON H.R. 8753
THE CONSUMER CREDIT PROTECTION ACT AMENDMENTS OF 1977

MR. CHAIRMAN, I AM DELIGHTED TO BE HERE. WHEN YOU COME TO CHICAGO YOU CAN FEEL THE HEARTBEAT OF THE UNITED STATES, THE PEOPLE OF THIS GREAT METROPOLIS EVERYDAY MUST SHOULDER THE BURDEN OF A FEDERAL GOVERNMENT THAT, TO ME, HAS GROWN TOO BIG. PEOPLE, AND THERE ARE A LOT OF THEM IN CHICAGO, SEE THEIR HARD EARNED TAX DOLLARS EVAPORATE IN A MULTITUDE OF WHAT THEY REGARD AS WASTEFUL FEDERAL PROGRAMS. SMALL BUSINESSMEN COMPLAIN TO ME CONSTANTLY THAT THEY ARE BEING CHOKED IN REDTAPE AND FEDERAL FORMS. A GOVERNMENT THAT WAS DESIGNED TO BE OF THE PEOPLE, FOR THE PEOPLE AND BY THE PEOPLE, HAS BECOME BURDENSOME TO MANY. MOST AMERICANS NOW FEEL, ACCORDING TO THE POLLS, THAT THEY HAVE LITTLE OR NO VOICE IN THEIR NATIONAL GOVERNMENT. CONGRESSMAN ANNUNZIO SUGGESTED FIELD TRIPS TO TAKE THE FEDERAL GOVERNMENT TO THE PEOPLE OF HIS DISTRICT. IT'S A GOOD IDEA. I ASKED HIM, IF LATER ON WE COULD GO TO MY DISTRICT TO COLUMBUS, OHIO. HE AGREED. WE HAVE COME TO LISTEN AND TO LEARN. WE DO NOT WANT TO PASS AN UNNECESSARY LAW. BUT, IF THERE IS A NEED WE WANT TO PASS A LAW TO MEET THAT NEED. WE WANT TO KNOW YOUR THOUGHTS ABOUT CREDIT CARDS AND ELECTRONIC BANKING. WE SEEK YOUR ASSISTANCE IN DRAFTING LEGISLATION DEALING WITH A MOST COMPLICATED THICKET.

I AM NEUTRAL ON THE PROPOSED LEGISLATION, I GREET ALL PROPOSED NEW LAWS WITH SKEPTICISM. IF I SEEM TO ASSUME THE ROLE OF DEVIL'S ADVOCATE, IT IS JUST THAT. GOOD INTENTIONS ARE NOT ENOUGH. THERE IS A PRICE TAG ATTACHED TO ALL NEW LEGISLATION. A BUSINESS MUST TEACH ITS EMPLOYEES NEW GUIDELINES, FILE NEW REPORTS AND KNOW THE LEGAL RAMIFICATIONS OF ANY NEW LAW OR REGULATIONS PURSUANT THERETO. TO STAY IN BUSINESS, A COMPANY MUST PASS THESE ADDED COSTS ONTO THE CONSUMER THROUGH AN INCREASE IN THE PRICE OF A PRODUCT OR SERVICE.

A MARGINAL BUSINESS FACING THE ADDED COST OF COMPLIANCE WITH A NEW LAW MAY BE FORCED INTO BANKRUPTCY AND WITH THAT, THE TRAGEDY OF MORE JOBLESSNESS. THUS WE MUST FINE TUNE A BILL THAT DEALS WITH A REAL NATIONAL PROBLEM. IF THE PROBLEMS ARE LOCAL IN NATURE THEY CAN BE ADEQUATELY HANDLED BY THE STATE LEGISLATURE.

I THINK IT SHOULD BE NOTED FOR THE RECORD THAT THE RECOMMENDATION OF THE ELECTRONIC FUNDS TRANSFER COMMISSION ARE TO A CERTAIN EXTENT AT A VARIANCE WITH THE PROVISIONS OF THE BILL BEFORE US. IN ADDITION, SOME PROVISIONS RUN CONTRARY TO THE RECOMMENDATION OF THE COMMISSION OF FEDERAL PAPERWORK. I THINK THE CHAIRMAN HAS PERFORMED A GREAT PUBLIC SERVICE IN INTRODUCING THE BILL SO IT CAN BE THE VEHICLE FOR A

THOROUGH EXAMINATION OF THIS NEW, EXCITING WORLD OF EFTS.
COMPUTER TECHNOLOGY HAS PUT MAN ON THE MOON. WISELY USED,
IT CAN ADD GREATLY TO OUR MOBILITY ON EARTH.

FORTUNATELY, OUR CHAIRMAN IS NOT ACTING IN HASTE ON THIS
BILL. EVEN MORE IMPORTANTLY, HE IS TAKING THE ISSUE TO THE
PEOPLE TO SEE WHAT THEY HAVE TO SAY. WE MUST PROCEED IN AN
ATMOSPHERE OF OPENNESS, FAIRNESS AND UNDERSTANDING.

Chairman ANNUNZIO. Thank you very much, Congressman
Wylie.

Now I would like to ask Congressman Vento if he has anything
to say.

**STATEMENT OF HON. BRUCE F. VENTO, MEMBER OF THE
SUBCOMMITTEE**

Mr. VENTO. Mr. Chairman, thank you. I have listened closely to
your remarks and gleaned some new facts about what has been
happening with regard to credit cards and electronic fund transfer
systems.

I would like to make a few remarks as we begin these field
hearings in Chicago, a very appropriate location, and then move to
other communities, Columbus, and perhaps to Buffalo.

First of all, we are dealing with the problem of regulating credit
cards and EFTS because this is a regulated industry and because of
the expansion of credit, banks, and financial institutions in this
country. The important point is that we are looking at it from a
consumer standpoint, not from the standpoint of limiting financial
institutions, but from the standpoint of how it impacts on people.

We are concerned. We may have the freest economy in the world
in this country, but we are concerned. It is a great challenge to
reform the regulatory process and to make it work because no one
benefits, neither consumer nor financial institution, if, in fact, we
enact regulations and requirements on that are inappropriate.

Electronic fund transfers, and the credit card technology are
already in effect in many instances. The question of privacy really
becomes amplified when we engage in the control of capital re-
sources.

We can free up more dollars in the monetary system and make it
work better, but we have some problems competitive disadvantages
that will occur in terms of the financial resources necessary to use
the electronic fund transfer system.

In addition, the EFTS does cause more specialization of the var-
ious services that consumers receive.

There are, also a number of drawbacks. I guess you might think
of them as consumer dependency factors that no longer will be
available.

We have gaps in the way our consumer laws impact and these shortcomings are evident when we embark upon electronic funds transfer.

One is, the fact that a credit card billing takes 10 to 40 days after the expenditure. During that time, you have an opportunity to use the credit card, and to utilize the credit card company to force performance on a merchant.

With the electronic funds transfer system, you lose that leverage.

Finally, the most important fact about the electronic funds transfer and credit card is the matter of choice which is very important to the consumer and to the American public. We are losing that choice and losing it in a very real way. I was recently reminded of this when I talked to an individual in the process of purchasing a home. As one of the conditions of the contract, he had to sign or they had to sign an agreement that would permit an automatic deduction from his checking account to make the mortgage payment.

I can think of some advantages and I can think of some negative things about this procedure of deducting payments from a checking account. The fact of the matter is that if a young couple wanted a loan, the only way they could receive it would be by agreeing to have that money automatically deducted from this checking account. I think that is part of the essential problem we face with this system, and we probably won't solve it in one legislative effort, but we are going to make a try.

Thank you, Mr. Chairman.

Chairman ANNUNZIO. Thank you very much, Mr. Vento, for your excellent statement.

Now, Congressman LaFalce of New York.

STATEMENT OF HON. JOHN J. LaFALCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. LaFALCE. It is great to be here from the State of New York in the great city of Chicago. I arrived yesterday morning and when Congressman Wylie was saying what a great and vital city it is, all I could think of was the excellent day I had yesterday and that makes me think of something that I want to put you on notice about, that in order to run for Congress there is no requirement of a year's residency or even a requirement of residency. The only requirement is residency and there are no time periods. If you invite me back to Chicago more often—I am just putting you on—I really like this city and I might run from a different district.

Chairman ANNUNZIO. Chicago has many fine Congressmen and we can use one more.

Thank you very much.

Now, our own Congressman from the city of Chicago, who has joined us, Congressman Fary, would you like to say something briefly?

STATEMENT OF HON. JOHN G. FARY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. FARY. Thank you very much, Mr. Chairman. I am happy to see my good friend and former seatmate in the Illinois House of

Representatives, former Senator, and now commissioner of the department of resources, Cecil Partee.

It is nice to be with you again. It has been quite some time. I miss you. I really do. You are a good man, extremely well respected. You left a trademark in Springfield of fairness that will be hard to match.

I congratulate you upon your appointment as head of the department of human services. You are a very highly qualified person. I am glad to see your name on the list of witnesses.

I deeply appreciate your invitation, Mr. Chairman, to sit as a member of the Consumers Affairs Subcommittee and I commend you for your thoughtfulness.

Chairman Annunzio is clearly the consumer champion in Congress. It is significant that the first consumer bill signed into law by President Carter was the Fair Debt Collection Practices Act, a bill which Chairman Annunzio authored. His efforts on the part of consumers have not gone unnoticed. He recently was presented with the Philip Hart Distinguished Service Award by the Consumer Federation of America, the highest award presented by that organization. In his first term as chairman of the Consumer Affairs Subcommittee, he was responsible for more successful legislation than the subcommittee had passed in the previous 14 years. I am proud to say he is in the Congress and I am proud of the fact that this great consumer champion represents our great city of Chicago.

Thank you very much.

Chairman ANNUNZIO. Thank you very much, Congressman Fary. Our first witness this morning is Commissioner Partee.

I am delighted this morning to introduce a very dear and an old friend who is at present the commissioner of the Department of Human Services of the city of Chicago. Senator Partee has had long legislative experience, having served in the Illinois State Senate for 20 years, another great distinction. He was also president of the Illinois Senate. He has long been an active leader in consumer protection. While in the State senate, Commissioner Partee succeeded in getting the first law passed to require consumer education in the public schools.

Commissioner, I want to congratulate you for the outstanding job that you have done over the years and even in your new position, how you are continuing to serve the needs and wants of the people of our city.

I am delighted, as chairman of this committee, to have you as the leadoff witness on behalf of the consumers of America.

Commissioner Partee, you may proceed in your own manner.

STATEMENT OF CECIL PARTEE, COMMISSIONER, DEPARTMENT OF HUMAN SERVICES, CHICAGO, ILL.

Mr. PARTEE. Thank you very much, Chairman Annunzio, and members of the Subcommittee on Consumer Affairs. Welcome to Chicago. The chairman and committee members are to be commended for coming here to the Midwest and giving citizens an opportunity to offer testimony on this excellent piece of legislation, H.R. 8753. Chairman Annunzio, the principal sponsor of the bill, and his cosponsors are to be thanked for endeavoring with this proposal to cope with a number of problems relating to the growing

use of credit cards and the new electronic funds transfer cards, called debit cards.

I just listened to you and thought, perhaps it is not really quite as presumptuous as I might imagine that I should come to bring some information as it were on this subject because, in addition to serving those 20 years in the legislature where we worked very often on what we described as credit reform legislation, apart from my going to the legislature, I spent some years in the States attorney's office of this county. One of those years gave me a firsthand view and some knowledge of the credit system and consumerism and how they interface.

In addition to those 20 years in the legislature, I have also been an attorney for more than 25 years, so I have seen it from several vantage points.

On that basis, I proffer this statement.

It is estimated within the next year there will be in circulation in this country 600 million credit cards of various hues and conformations. We are all quite aware of the rapidly accelerating use of these little plastic cards that take up just a tiny space in one's wallet. We are not all aware perhaps of a growing number of personal bankruptcies being filed that arise from a consumer's overspending himself because of the easy availability of credit via these cards.

If money were the root of all evil, credit cards might be regarded as the fertilizer that brings that evil to mature growth. But in fact improperly used is not the root of all evil, nor is credit responsibly offered and responsibly used the nutrition that causes the evil to grow and flourish.

Some years back, in a large city not far from where I am sitting, banks were losing millions of dollars because they scattered credit cards to the four winds and, like the Biblical seed, they took root in some rather rough places.

They got into wallets that they were never meant for. They were taken from mailboxes by persons other than the addressee. We support this bill, H.R. 8753, because it will further strengthen the existing prohibition against the mailing of unsolicited credit cards to unsuspecting and unwanting citizens.

It will also extend that prohibition to the new debit cards. We don't see how banks and other reputable vendors of credit plans can justify the mass mailing hard-sell of a commodity which is essentially a privilege.

If a person wants credit, he can go to a bank and get it. His work experience and earning records, if they justify his getting credit, within, of course, the economic standards and parameters which should apply to all of our people regardless of race or sex or creed or age or how you part your hair, for him to find the credit card lying in his mailbox or on the floor thereunder is neither a natural nor desirable state of affairs. For someone else to find it is a deplorable state of affairs.

I make this rather strong statement because we have seen people lose their jobs on account of financial problems arising from too much and too easy credit. We see families disrupted and children neglected, all with the consequent shift of those ills to governmen-

tal agencies, welfare and social service agencies that have to try to pick up the pieces.

If one result of the passage of this legislation is that banks and credit card companies are more prudent in the issuance of credit cards and find themselves issuing fewer cards, so be it. You are not helping the person up to his ears in debt by giving him a new opportunity to go deeper into the credit hole.

We are also alarmed at the proliferation of add-ons that are attached to these credit plans. We understand with many bank credit cards the terms of the agreement or contract can be unilaterally modified by the banks; that there are abuses related to periods when interest may be fairly shared, that late charges assessed and service fees can be required.

What appears to be a straightforward credit arrangement between an ordinary citizen and the credit card issuer has sometimes grown excessively and, for the consumer, expensively complex.

A certified public accountant is virtually needed to figure out some of the monthly statements relating to those cards. John Q. Citizen is no longer an equal participant in this transaction and he often finds it impossible to figure out the myriad charges and fees being assessed.

In H.R. 8753, these problems are dealt with in the provisions relating to billing, charging of monthly fees, even where there is no balance. Unilateral modification of the agreement and so forth are dealt with.

We feel it is inappropriate to charge both membership fees and interest on unpaid balances. The company should be required to go one way or the other.

As indicated above, the provision requiring a written application signed by the consumer before a credit card may be issued will help to diminish, if not altogether remove, the problem of the unsolicited card.

Another plus for the consumer is the requirement that credit card statements be mailed within 7 days of the end of the billing cycle. Thus a prompt payment avoids the payment of needless finance charges.

In the area of electronic fund transfers or debt cards, banks should be, in my judgment, very grateful to the drafters of this bill. As we read it, this legislation would save the banks from some of the unfortunate experiences that they have had with credit cards for the years that they have been dealing with them. This law would prohibit banks from sending out unsolicited cards, a fund transfer card, and without such a provision the widow could lose her savings if this card were stolen without her ever having been informed that Santa Claus was leaving it in her mailbox.

She didn't ask for it; she didn't want it, but she got it; that is, if she got to the mailbox first. This is not a prudent vending of credit.

This legislation is delivering to banks and credit card companies a message and the message is this:

Ladies and gentlemen, you are dealing with people's lives and savings and financial resources. Be prudent. Be judicial. Be fair and be careful.

We feel that credit is something that each person should choose for himself and not have thrust upon him.

Thank you.

Chairman ANNUNZIO. Thank you very much, Commissioner Partee, for your very constructive and excellent statement. I am sure that the members of the committee have all made notes on your very constructive suggestions and it will help and aid this committee in the further deliberations on this legislation.

I have but one question. As a former president of the Illinois Senate, where we have established credit on a Federal level, 1½ percent per month, or 18 percent a year, we have in Illinois a State usury law. Now, we have information where interest charges run from 18 to 35 percent a year. In your opinion, how are these large credit companies and banks getting around the usury laws of the State?

Mr. PARTEE. I have not had occasion to examine that recently, but I recall several years ago the question of what is or is not usury was presented to me. I remember an old, old decision written back in Illinois law. It was *Finance Company v. Jones*.

In that case, they set forth the fact that there is a difference, as they judged it, between the lending of the money to which usury applies, and the giving of a service.

There is a difference between the offering of a service and the per se lending of money. The result happens, it seems to me, to be the same, but that is one of those legal nuances that makes the difference between "a" and "b."

Chairman ANNUNZIO. Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman.

What you are saying then is that you feel consumers need to become better informed as to how charges are assessed.

Mr. PARTEE. Let me see, Mr. Wylie, in all the years I have dealt with problems relating to consumerism and relating to credit, I have come to know that, as much as you try, as hard as you try to set forth your notions and ideas in statutory form, that we have to have something else and that is really what motivated me to refer to the first law of the United States that mandates the teaching of consumer education in high schools.

Laws are difficult. People are going to deal with them positively and negatively. They are going to understand them or not understand them. But we have to and that is why we started in this State—the first one in the country—mandating the teaching of consumer education.

I think first of all people need to have some view and some appraisal and some appreciation of the marketplace.

This country thrives, of course, on our marketplace, and we have to do those things which are not restrictive, but encouraging of business. Business is a very vital and fundamental part of our American heritage. We don't want to suggest that everything that is suggested by a consumer is proper and everything suggested by the business community is improper. We must strike a delicate balance between them and we must proffer those kinds of laws which bring about that kind of a balance while at the same time enlightening and edifying our population as to what choices they have available to them and the options that they have available.

Mr. WYLIE. Do you use credit cards?

Mr. PARTEE. Yes, I do.

Mr. WYLIE. You find them convenient?

Mr. PARTEE. I find them very convenient. Particularly when one travels, one doesn't want to carry cash.

Mr. WYLIE. Have you ever used a debit card?

Mr. PARTEE. I have not used a debit card.

Mr. WYLIE. They are not too widespread yet.

I take it from your statement that you think credit cards used widely can serve a vital function in our society.

Mr. PARTEE. Absolutely.

Mr. WYLIE. The question goes to the wise use of them.

Chairman ANNUNZIO. If the members have further questions for Commissioner Partee, when he gets a copy of the transcript he may answer your additional questions.

Mr. VENTO. Commissioner, I listened closely to your comments and think they are very good. I especially agree with your emphasis on choice, which is really what we would like to retain.

You know the philosophy of laissez-faire is one that we hold very dear in this society, but we also have to give people the tools to handle problems and I think your emphasis on education is a very good one.

Here you have some examples of what we face. Two of them represent the extension of credit. Or I should say the demise of credit, if we are talking about electronic funds transfer, because there is no sense of credit there. It is an immediate cashout system. To emphasize it as a gain—I don't know that we could educate anyone to understand that. I have tried to read the card explanation myself, I feel I have average ability, but I had trouble understanding what it means. That is what we are up against and that is why we have to apply some guidelines.

I think your point is good. Perhaps you have some examples. I think the last emphasis, again, has to be on choice.

What is the experience that you have had in this State with regard to this? Do consumers have a choice? I illustrated one example in my opening statement.

Have you had any experience, Mr. Partee, with that problem?

Mr. PARTEE. As to whether we have choices?

Mr. VENTO. As to whether you actually have choices. If someone goes to you for a home mortgage, do they have the option of choice, for instance? When they are employed at a certain location, do you run into instances where the checks are automatically put into an account where payments are automatically deducted for a mortgage? What is the circumstance today, to your knowledge, in this area?

Mr. PARTEE. I have not particularly encountered that kind of a situation.

Mr. VENTO. I hope you will review that for us as closely as you can. If you run into any examples, I think it would be helpful for us to know about them. I very much appreciate your efforts in that vein. Thank you.

Chairman ANNUNZIO. Congressman LaFalce?

Mr. LAFALCE. I will pass at this time.

Chairman ANNUNZIO. Congressman Fary, have you any questions?

Mr. FARY. Do you feel it is important to put a limit on the amount of money a consumer can lose when his debit or credit

card has been lost or stolen and used to take money from his account?

Mr. PARTEE. I would really like to cogitate that problem. I really don't think I could give an answer off the top of my head on that one. I can think of some immediate positive and negative replies to that subject. I would really like to think about it before giving a firm opinion.

Chairman ANNUNZIO. I have already made the statement that when you get the statement you can answer those questions for the record.

If there are no further questions, on behalf of the entire panel, I express our deep appreciation to you for taking time out of your busy day to make a statement that has been very worthwhile and helpful to this subcommittee.

Mr. PARTEE. The pleasure is mine and we appreciate your being here.

Chairman ANNUNZIO. Our next witness is Mr. Daniel Quigley.

Mr. Quigley is chairman of the board of Electronic Funds Illinois, Inc. This corporation is a statewide organization of 700 banks started in early 1977 to plan a cooperative electronic funds network.

Mr. Quigley has an extensive background in banking, having worked in that industry for nearly 17 years. He is currently the executive vice president of the National Boulevard Bank of Chicago. Mr. Quigley is an extremely progressive banker. In his thoughts, which I have had the pleasure of talking with him on EFTS, are indeed refreshing and worthwhile.

Mr. Quigley, we are delighted to have you here this morning and proceed in your own manner.

**STATEMENT OF DANIEL QUIGLEY, CHAIRMAN OF THE BOARD,
ELECTRONIC FUNDS ILLINOIS, INC., CHICAGO, ILL.**

Mr. QUIGLEY. As you mention, I am associated with the National Boulevard Bank, which, if I may characterize, is a very aggressive, medium-size bank with a good balance of corporate and retail customers as well.

I am, as you stated, chairman of the board of Electronic Funds Illinois, Inc.

This Illinois corporation formed in the early part of the year was chartered to provide electronic funds services for its membership, which presently numbers some 700 of the approximately 1,200 banks in our State, which we estimate serve the majority of Illinois' consumer banking public. Therefore, I feel that our comments are appropriate and timely and we thank the Chair for this opportunity.

Electronic Funds Illinois, Inc., was conceived and organized on these basic premises:

One: Electronic funds transfer services are inevitable and will provide benefit to the financial institution, the merchant, and the consumer.

Two: Electronic funds transfer systems are banking and as such require the active participation, involvement, and direction of bankers in any regard affecting the delivery of efficient, convenient, and timely services to our customers.

Three: That in our role of prudently bringing these new services to the market that it is incumbent upon we bankers to create a viable, effective, and meaningful dialog with all the participants including but not limited to consumers, merchants, noncommercial banking financial entities, and legislators.

The bankers of Electronic Funds Illinois, Inc., have provided more than lipservice to these objectives. We have already formed a merchants' advisory committee composed of outstanding merchant representatives here in Illinois, and a consumers' advisory committee. Both these committees will consult with our board of directors who are bankers at the senior management level. We are convinced that EFT can only proceed if bankers at this executive level are not only aware of what is going on now but actively participate in the decisions that will affect tomorrow.

In that regard, Electronic Funds Illinois, Inc., has supported the State legislature-initiated Illinois study commission on EFT as the focal point through which EFT legislation can be enacted in 1978. Legislation is now being drafted which will reflect not only the expertise of the bankers involved and contact with responsible legislators, but also the input of our merchant and consumer advisory groups.

This brief summary of some of the objectives and motivations of Electronic Funds Illinois, Inc., is meant, Mr. Chairman, to point up the underlying philosophy of this banking group. EFT cannot develop in anyone's vacuum. If it is to emerge, it must mirror a confluence of the best interests of banking and its retail and wholesale customers.

A recent study reported in the New York Times, Friday, November 18, stated that the business community is sharply out of step with the American people on consumerism issues and that consumers were dissatisfied with government protection of their rights. I personally think that is overly conclusive for there has been a significant turnaround in our industry, Mr. Chairman, albeit perhaps overdue, and I believe, on balance, a positive trend is developing which augurs well for us and our customers.

The primary challenge, however, for creative and informed legislators as yourself and the innovative bankers of Illinois and elsewhere is to overcome the possibility of a contentious and nonproductive atmosphere that could develop between this subcommittee and some of the previous witnesses from our industry who have testified on H.R. 8753.

Let me assure you, Mr. Chairman, that their remarks as reported do not reflect a consensus of the position of all bankers. We also thought it inappropriate that our industry's trade newspaper would exacerbate the issue by highlighting in editorial a remark of one of the testifiers who referred to H.R. 8753 as the turkey bill.

You didn't invent EFT, Mr. Chairman. We bankers did, and I feel it is part of our challenge and, if I may, yours too, to make sure that the outstanding issues yet to be resolved are worked out in a mature and agreeable environment.

If I have a difference with H.R. 8753, Mr. Chairman, and I do, I also feel I have a responsibility as I am sure you do, to provide some meaningful resolution to most of the objectives of your bill which, on balance, we support as reasonable.

We bankers feel we do have some of those solutions which will inure to the benefit of our customers and to the enactment of legislation that will encourage the development of EFT, which is truly an emerging banking service. This is the spirit which underscores our commentary on some of the major issues in H.R. 8753.

Among its amendments is a requirement concerning country club billing; that is, returning copies of receipts or sales drafts to the customer. Significant advances have been made in a procedure referred to as descriptive billing which lists the transactions on a monthly statement without returning the sales receipt.

We feel that the credit card industry certainly has the capability of developing programs that will capture and refine input so that the present verifications provided by the sales draft can be replicated in descriptive billing, and they should be given such opportunity. The concept of descriptive billing and the corollary benefits of truncation are, as you know, critical to the development of a less-paper-payment system. The challenge is, however, truly with our industry and it would seem that until a satisfactory program is generated, the reported practice of some bankers of imposing a charge to the consumer for producing a copy of the sales draft to verify a charge is inappropriate.

We certainly concur with the prohibition of the previous balance method in calculating finance charges. It is my understanding that this practice where the consumer is charged interest on his account balance from the month before, even though he may have already reduced this balance, is not prevalent in the banking industry. However, as provided in H.R. 8753, it should be prohibited.

The requirement that credit card charges be billed within 2 months to a consumer's account as outlined under the prompt billing section of H.R. 8753 does seem fair and equitable. Delayed billing can cause confusion and possibly create an overline situation. Although in supporting this section it should be noted, however, that some consumers do not feel inconvenienced when they become victims of a fortuitous late billing as it certainly extends the free period or float before payment is due or finance charges are imposed.

In addition, barring some specified impediment, it seems more equitable if consumer credit card statements were mailed more promptly than the 14 days presently allowed after the end of the billing cycle.

The practice of charging fees on accounts of credit card consumers with no outstanding balance which is primarily pointed toward those who make their payment during the so-called grace period of 25 to 30 days before a finance charge is imposed is obviously a product of the growing number of cardholders who are using their card in this way to avoid finance charges and the increasing expense burden being shouldered by the card-issuing bank or company as more consumers adopt this practice.

The American consumer is, without a doubt, becoming more informed and I suppose it is safe to say that this country is encountering a serious shortage of morons. There is not, however, a shortage of alternative, competitive plans that the consumer can switch to if faced with such charges and although there is strong validity to the argument that the consumer is being presented with a new

ballgame, there should be consideration given to the contention that those who do revolve their charge are, to a great extent, underwriting the expense of those who do not.

It is a complex issue, but perhaps some consideration might be given to grandfathering the terms and conditions of present card-holders.

The amendment to the Truth in Lending Act, which adds a provision prohibiting the addition of unauthorized amounts to a credit card receipt after it has been signed by the consumer, is a positive action which we applaud. Besides eliminating consumer confusion over a billing which invariably makes the bank a party to this practice, the amendment would also serve to reduce a fraudulent opportunity.

The section dealing with requirements for an application or signed document requesting a credit card should be adopted and also the provisions relative to full and open disclosure as to circumstances and consequences of card revocation, credit line reduction, and exceeding one's credit line. We also concur with the provisions relative to advance notice of any changes in fees or conditions relative to the account and that the language articulating such change be clear, concise, and not confusing.

In addition, we respectfully suggest that the legislation that generates the regulations we bankers must follow to satisfy these requirements also embody the same clear, concise, and not confusing language.

As to the amendments concerning electronics funds transfer, they should be considered not only against the backdrop of the present state of the art in Illinois, but nationally as well.

You are well aware, Mr. Chairman, that commercial bankers in our State are prohibited from engaging in any off-premises EFT transactions whereas in other localities throughout the Nation these prohibitions do not exist. There commercial bankers are permitted to engage in most of the transactions that present technology will permit. I believe the provisions of H.R. 8753 reflect the existence of this technology.

However, the marketplace that will support this technology is yet to materialize. Although there is general acceptance as to the viability of the concept there are yet major unresolved issues that involve our customers—retail and corporate—and our own ability to generate a system that will bring a fair return to our shareholders.

This is not to suggest that all sections relative to electronic funds transfer in H.R. 8753 are "restrictive and premature" as one banking industry spokesman was reported to have testified. However, there is no question in our minds that there is a need for continued examination of most of these issues so that whatever the final resolution, it serves those mutual interests that we referred to before.

We recognize and accept the motivations that have precipitated these EFT amendments to the Consumer Credit Protection Act. It has been, not unreasonably, pointed out that the act that curbed credit card abuses was a case of locking the barn door after the horse was stolen and that EFT amendments are needed before the

fact so that the same kinds of abuses do not befall the American consumer once again.

We can understand this rationale, but our experience, not only in Illinois, but throughout the country, would suggest that we are not yet to the point where the horse is even in the barn and, in fact, we know more withered and harried pioneers who are having more trouble locating the barn, much less the horse.

It is not my intention to be cavalier or treat lightly the EFT amendments in H.R. 8753 for in principle we feel that most of the issues you have raised are not only valid and necessary, but also resolvable. These are considerations that will undoubtedly be embodied in the legislation we in EFL, Inc., are drafting to submit to Springfield through the Illinois Study Commission on EFT in 1978.

Some systems throughout the Nation are relatively further advanced than others so that most of the EFT amendments to the act would apply only to this group. It does not seem premature or restrictive, however, if certain basics are outlined and some of the obvious liabilities covered now.

The indiscriminate unsolicited mailing or sending of any type of funds transfer or debit card must be prohibited and will be incorporated into the proposed EFT legislation in Illinois.

There is no need to recant the damage to our industry's reputation and credibility occasioned by the unsolicited credit card mailing experience of the late sixties. Suffice it to say that the consumer, if he is to be sold on EFT, will find greater comfort in dealing with prudent banking practice than procedures that lead to fraud and possible breach of the integrity of his banking relationship.

There is no question that if EFT is to become acceptable to the merchant, the consumer and the bank, that reasonable requirements be generated that will allow the consumer the same protections he has today in a checking environment when he wishes to stop payment. This is a section of the act we wish to further explore with your staff, as significant thought, obviously, has been given to this issue by our bankers. An area for consideration in this regard, as an example, may incorporate provisions that are presently being utilized under the terms and conditions relative to charge-backs in merchant credit card agreements.

We also support the setting of a monetary limit that a consumer would be charged in the event of an unauthorized use of his funds transfer card and protections in the event a bank did not make a preagreed electronic preauthorized payment.

I can assure the chairman that the integrity of the funds transfer transaction and the privacy of our customer is the paramount denominator of every program being established by the bankers of EFL, Inc.

On balance, Mr. Chairman, we feel that there must be procedures relative to corrections of errors as there are today and we welcome the opportunity to advance our ideas on this matter and also on how the funds transfer customer should be satisfied relative to securing a receipt.

The provisions relative to informing the customer on all terms and conditions should be an integral part of this legislation and again the same caveats relative to lucidity should apply here as well and perhaps in greater degree than under the credit card

since this service is still of tender age. In addition, such disclosure is vital since, as you have pointed out, the consumer may incorrectly believe his new EFT card is just like a credit card account.

Since the banking services that can be provided by an EFT card are quite distinct from that of a credit card and in fact can incorporate the extension of credit feature, it may be of value to consider carving out those amendments relative to electronic funds transfer and incorporating them into a separate bill.

Since there is a distinction between the credit card provisions and EFT, this action would tend to eliminate any confusion between the two and permit consideration of EFT provisions in a pure banking context. There is no question that there would be some redundancy between certain aspects of the credit card bill and EFT, but primarily in such areas such as disclosure, mass mailing, and certain liabilities.

Further, such an action would permit an orderly and prudent evaluation of the EFT phenomenon while allowing passage of provisions relative to the credit card that are presently deemed necessary.

In any event, Mr. Chairman, we share your concern that the consumer must be protected against the possibility of any unfair banking practice that might occur in the development of EFT. We share this concern because this consumer we refer to is our customer and let me assure you, with the inroads of thrifts and credit unions into the traditional commercial banking marketplace, this is one banker who believes that his conferees should look upon their consumer customers with the same respect and concern that we have for an endangered species.

I hope, Mr. Chairman, that these brief remarks might help to sway some conclusion that bankers are simply oblivious to the needs of their customers. And since I believe we know banking customers better than anyone else, let us not ignore the value of our input. Have we made mistakes? You bet. Probably over 1½ tons, but that doesn't mean we don't recognize your efforts which I believe are consonant with ours—sound banking and a satisfied and informed consumer customer. This banker doesn't believe that because we have differences regarding H.R. 8753 and how the consumer can best be protected that we can't work together to work them out.

Chairman ANNUNZIO. Thank you, Mr. Quigley, for what I consider to be an outstanding statement.

Throughout your statement you have proposed alternatives. This is what I have been saying for months and months; that the bankers of this country come up with alternative suggestions. It is hard for me to understand that, when in the State of Texas there is a vote taken and the people vote against an electronic fund transfer system by a 2 to 1 majority; it is difficult for me to understand. When the savings and loan in Glendale, Calif., invested in a multi-million-dollar program, and then shelved that program—it is difficult for me to understand, in the largest savings and loan association in Iowa that installed a program and then closed it.

You know, I have a great deal of respect for bankers. I respect the free enterprise system. But when they become one-issue oriented, they are making a big, big mistake.

Before you can have a program, you must have customers. This legislation seeks to help, not to hurt.

When the American public realizes, as you stated in your statement, that they are protected with debit cards and with credit cards, they become better customers and you will have them as customers, and not have what is happening throughout the country.

Oh, yes, it is easy to say, we write it off as a tax loss, but in the end you not only lose customers, the American people lose the additional revenue that is theirs through the Internal Revenue Department and the general revenue fund. That is what a tax writeoff is all about.

I want to say to you, Mr. Quigley, that I hope you have started, through your testimony, a chain reaction so that businessmen will carefully read this legislation, so that bankers and businessmen will let us know how best we can protect them, how best we can protect our customers.

I did not fight truth in lending. I supported the truth in lending bill back in 1968. I was for monthly disclosure. It was the industry. It was Montgomery Ward & Co. that suggested the yearly disclosure of 18 percent. It was not the Congress. The committee did not want to go as fast and the industry at that time went further than the committee wanted to go.

I am delighted with your statement. If I was voting for a president of the American Bankers Association, I would be voting for you.

Mr. QUIGLEY. I don't know whether Mr. Perkins would appreciate that.

Mr. WYLIE. Thank you very much, Mr. Quigley, for appearing here this morning and for your testimony. I think it has been very helpful. I think you did point up the fact that we have a very complicated issue on our hands here by anybody's standards.

For instance, the bill we have before us is at variance with the recommendation of the National Commission on Electronic Fund Transfers, as you know, I assume. Have you seen that statement and those recommendations?

Mr. QUIGLEY. Yes.

Mr. WYLIE. That Commission's recommendations are at variance with the recommendations of the National Commission on Federal Paperwork. They have some recommendations on this legislation too and on credit cards and on debit cards as far as that is concerned.

I think I would be remiss if I didn't acknowledge the fact that this bill was called a turkey bill by a representative of your industry who just happens to be a constituent of mine. Do you know John Fisher?

Mr. QUIGLEY. I have met Mr. Fisher, yes. I like him.

Mr. WYLIE. You like him?

Mr. QUIGLEY. Yes.

Mr. WYLIE. I like him too.

Do you regard him as an expert in the field?

Mr. QUIGLEY. I regard Mr. Fisher as a—I don't want to waffle on that one because the definition of the word "expert" in electronic funds transfer today is a—

Mr. WYLIE. They say an expert is a man who comes from out of town.

Mr. QUIGLEY. John Fisher is quite current on EFT.

Mr. WYLIE. I just brought that up because you mentioned somebody has referred to it as a turkey bill. I certainly wouldn't go that far. I think it is desirable for us to have some legislation in this area and I think it is desirable that the chairman did introduce this bill.

I think the chairman has performed a great public service in this regard, but there is a variety of opinions as to what we should do and what we should come up with.

I wonder if you think it would be possible for us to have your industry come up with some constructive suggestions, maybe a consensus of constructive suggestions as to what we might do in this field. Do you think you could get together, for example, with Tom Fisher? You understand the frustrations we have when you, as an expert, come before us and say one thing and someone else who is supposed to be an expert in the industry comes before us and says something else.

Mr. QUIGLEY. Congressman, I believe that that recommendation would be salutary. I really believe, as I mentioned before, if the Fishers and the other experts of this world could get together and perhaps propose some sort of meaningful recommendations to this subcommittee, I think that would be a start.

The area is extremely complex. I think one of the basic problems comes in communication with and education of our consumer public.

We haven't many more chances to maintain the credibility of the American banking industry and I am not suggesting that the end of the world is in sight, but from the standpoint of the competition we are faced with today as bankers, I look upon this as a great opportunity and I don't want to see us lose the handle, as we possibly could here, so that I would be delighted to participate in such an effort. I know John Fisher would too.

Mr. WYLIE. I think that is an excellent attitude and a step in the right direction.

Mention has been made of the fact that in Texas the voters proceeded without implementation of EFT at the polls. Are you familiar with that?

Mr. QUIGLEY. Yes.

Mr. WYLIE. I don't think we should leave the impression that the defeat was for EFT, per se, but it was over the issue of branching.

Mr. QUIGLEY. That is true. Not only that, I believe if I can paraphrase the president of the State association that had the responsibility for "getting out the votes" so to speak, they did a lousy job in educating the consumer and the public as to really what this whole thing was about.

So I agree with you, I don't believe that it was a damnation of the concept. I just don't think the people really understood and you are right, there was an intermingling of the branch issue.

Mr. WYLIE. What is your opinion on EFT vis-a-vis the issue of branching?

Mr. QUIGLEY. That is not an indelicate question in this State.

Mr. WYLIE. I asked the question advisedly.

Mr. QUIGLEY. The position of Electronic Funds Illinois relative to EFT and branching has been one where our membership, which is made up of more than 50 percent of the members of the three banking organizations in the State—there are three banking organizations that reflect this fracture, and our membership is made up of more than 50 percent of these three organizations—it has been that within the point-of-sale environment we feel there might be some inroad made to begin.

As you know, automated telemachines have been designated as branches. There is a definite overlapping concept between the two. We think there should be an approach of the three presidents of the organizations now sitting on the board of Electronic Funds Illinois, that they come together and we have the beginning of a compromise situation.

Mr. WYLIE. I hope you can come up with a compromise situation. I think it is very important. I notice you recommend separating the two titles of this bill into one.

Two separate bills, one being a credit card and one a debt card.

That might be a good suggestion since the two are not really the same.

Chairman ANNUNZIO. Thank you very much, Mr. Wylie.

Mr. VENTO.

Mr. VENTO. Thank you, Mr. Chairman.

I have listened closely to your remarks, Mr. Quigley.

I think we need to get this kind of input as we consider this particular issue.

I paid close attention to your suggestion about separating the subject matter. But is it possible, really, to separate it? Don't we have various technology levels that are already in effect, such as check verification and computer information, that will really take us along?

I think, for instance, that we are in fact late with this type of legislation if we are going to keep our parameters.

Mr. QUIGLEY. The question goes to the distinction between the credit card and the—

Mr. VENTO. The check verification, the use of computers, the detached facility type of thing, the cashout system at the bank—all of these are, in fact, already without rules and regulations. I wonder if it is possible really to separate this out.

Do you think it is appropriate in this bill to have a disincentive to force consumers to accept debt charge? To prevent banks and others issuing them, and forcing consumers to accept them?

Mr. QUIGLEY. I don't think anybody should be forced.

Mr. VENTO. You maintain the idea of choice.

How does the State of Illinois deal with the problem of the issuance of a debt charge in Minnesota or in New York?

Mr. QUIGLEY. I am sorry—

Mr. VENTO. How would the State of Illinois deal with the issuance of a debt card in Minnesota or New York?

Mr. QUIGLEY. In other words, if a resident of the State of Illinois—I don't understand.

Mr. VENTO. Had a card issued by Chase Manhattan Bank in New York. How would the State of Illinois deal with that?

Mr. QUIGLEY. You are presently referring to the fact that there are credit cards being mailed all over the country.

Mr. VENTO. Or debt cards.

Mr. QUIGLEY. Debt cards can only be—

Mr. VENTO. How would they deal with that if this happened?

Mr. QUIGLEY. I think it should be prohibited.

Mr. VENTO. Suppose the person was from Indiana. How would a resident in the State of Illinois deal with it? You say it should be restricted and the issuance should only come from the State in which you are a resident.

Mr. QUIGLEY. That is right, and related to the banking relationship you have. I think there is a direct relationship in the EFT environment between the account, between the card, and where the account is. That is right now. The indiscriminate mailing of debt cards throughout the country right now, except perhaps for check guaranteeing, wouldn't actually have any logic.

Mr. WYLIE. Would the gentleman yield?

Mr. VENTO. I yield.

Mr. WYLIE. Thank you.

You would have to have the ability to use the credit card in Minnesota if issued in Ohio—I am not sure I understand. If I receive a BankAmericard in Columbus, I have to be able to use it in Minnesota, Illinois, New York, or wherever.

Mr. VENTO. I am talking about a resident of Illinois having a card issued from the State of Minnesota or from the State of New York.

Mr. WYLIE. Does it only apply in that State?

Mr. VENTO. I think your input on that is very good. I am glad to have that recommendation. As you look at that and think about it, I hope you will provide us with any additional insights you might have. It is a tough question. It is one of the reasons that it is very appropriate that we state something.

At this point, I don't know if I agree, for instance, with the limitation. If the safeguards are in place, that is a different matter, but I don't see them as being in place at this particular time. I don't see those choices, incidentally, as being in place. Another concern that this bill addresses itself to is the disincentive to force an individual who has a checking account, to move into a debt card situation.

I think there is no sharp distinction between some of the financial transactions that take place, for instance, in debt cards. I think it is a gradual thing which might occur. It can and should be a very conscious decision on the part of consumers, but you can see the merchandising techniques that are being used don't always speak to that particular issue.

Mr. QUIGLEY. I mentioned before the board of Electronic Funds Illinois is made up of senior executive officers of banks and EFT has to be primarily a banking type of procedure, and although I have the greatest respect in the world for marketing and operational types of folks within banks—God bless them—I do think at this particular stage of the game, relative to EFT, it is the bankers who must maintain the leadership.

Mr. VENTO. How do you feel about a centralized electronics transfer system that would be available to all savings and loans or

all financial institutions—let us say all banks—in other words, I am saying if you have a terminal in the store for one bank or two, do you think it ought to be usable by all and what were the recommendations of your Commission on that issue?

Mr. QUIGLEY. I think what is going to happen, Congressman, is that the merchant area is going to make the whole issue academic. A merchant is not going to permit a terminal from a savings and loan or credit union or commercial bank. He wants one terminal and he wants a terminal that will accept all cards issued by the various institutions. That is one of the things we are facing.

Mr. VENTO. How shall we deal with privacy, for instance, with regard to that terminal at the end of the road?

Mr. QUIGLEY. We have on the staff of Electronic Funds Illinois a man whose job is to make sure we address that issue. Without getting into any horror stories—you have read them as well as I have—what could possibly happen if any system set up now were breached?

Mr. VENTO. There is one thing that has not come out because we don't hear from small merchants. Is there any system under which we could preclude small merchants from actually having these terminals? A terminal has a certain cost. If that is precluded from small merchants on Main Street, in Illinois or Minnesota, isn't that going to put them at a competitive disadvantage if, in fact, this is a consumer service folks plug into?

What happens to the small merchant who can't justify having the latest electronic equipment?

Mr. QUIGLEY. I think the challenge is related primarily to the banking institutions to settle that. The telephone can be as effective as a terminal. The banks in Electronic Funds Illinois run from \$5 million up to \$700 or \$800 million in assets. We are not all of the same sophistication in technology.

Mr. VENTO. Equal access to financial institutions, banks or whoever else plugs into the system in the various States. We talked about the equal opportunity for merchants to participate. Then you talk about the telephone and you get back to the privacy issue and access to the telephone. All the information comes back.

What type information should be available is another question.

Mr. QUIGLEY. There is much work to be done.

Mr. LAFALCE. Mr. Quigley, I thought your statement was excellent. I appreciate what you were attempting to do.

You came before us with a very conciliatory statement in contrast to previous statements made by representatives of the organizations such as yours. Because of that, it was somewhat difficult for me to find those areas where you have most difficulty with this particular bill. You were quite careful to explicitly point out areas of agreement. With what portion of the bill do you have the most difficulty?

Mr. QUIGLEY. I think in areas relative to EFT I have difficulty in the stop-payment provision; not from a concept—only because of the fact that I have yet to hear anybody who has come up with the answer as to how it can feasibly be done right now.

My difficulties with the bill are not in substance, but more in form.

Mr. LAFALCE. You have no difficulty with the concept, but just the implementation. On a check you have one specific item and you could stop payment on that.

Mr. QUIGLEY. As I mentioned, EFT is an emerging service. I can recognize there are systems that are in place and I can recognize there has to be some basic limitations for consumer protection now, but—

Mr. LAFALCE. What is the difference between going to a grocery store and paying your \$35 grocery bill with a check and then stopping payment on that check and then also stopping payment because of the EFT card that you have used?

Mr. QUIGLEY. As I say, in concept I have no problem with that, but if you take a full EFT environment, if I give my EFT card to the merchant, my account is immediately debited and his account is immediately credited with that \$35, whereas in a checking environment I give them a check. They put it in their bank; it goes through clearing and I think I have 24 hours after it is presented to me, as the banker, to send it back if my customer issues a stop payment on it.

Mr. LAFALCE. Rather than that being a difficulty for you, it seems to be a bookkeeping or operational difficulty as opposed to a legal difficulty.

Mr. QUIGLEY. Yes. I can't address the legal end of it, but, again, as I say, it deals more with form than substance.

Mr. LAFALCE. What other major difficulties do you have? Country club billing, I take it? You offered a compromise on that. You offered to grandfather—no, I am sorry.

Mr. QUIGLEY. Grandfathering was on paying the financial—I notice today in the paper Mr. Reynolds, who is president of Master Charge, says he pays off all of his bills before they enter into the 30-day period for financing.

Mr. LAFALCE. Going to country club billing, the chairman has quoted representatives of your industry as saying it would cost you \$600 to \$700 million if you had to go back to country club billing and yet he has indicated that he hasn't seen where this saving has gone on to the consumer.

I can see tremendous benefits in having country club billing. Now, forget about the dollar cost amount. The desirability of having country club billing as opposed to descriptive billing. I most prefer country club billing.

Mr. QUIGLEY. If I can provide you on your statement with what you get in a sales draft, then perhaps you, as a consumer, will say, "Gee, I am getting the same benefit as I am from the sales slip; therefore, I will accept it."

And I also stated that the descriptive billing procedure is hopefully a forerunner of the truncation or the stopping of paper where it goes, first, in a paperless system. So I am looking at, really, the country club billing as perhaps retarding the progress that could be made and is being made in descriptive billing.

Mr. LAFALCE. Where do we go together? Would it be wise for us to establish parameters that descriptive billing should come within—

Mr. QUIGLEY. Yes.

Mr. LAFALCE. Have you seen any suggested legislation or suggestion for legislation—

Mr. QUIGLEY. I have not.

Mr. LAFALCE. That seems to me to be an area of possible compromise. I probably could go on forever, but I am aware of the necessity to hear the other witnesses.

Chairman ANNUNZIO. I would like to suggest to my colleague from New York that he prepare some questions for Mr. Quigley to answer.

Mr. Fary.

Mr. FARY. You have answered the questions I was going to propound.

Chairman ANNUNZIO. I thank you very much.

Mr. Quigley, again, on behalf of the subcommittee, we appreciate your very excellent, constructive and conciliatory statement. Thank you very much.

The first panel shall consist of the following witnesses: Arlene Gitles, Consumer Coalition, Skokie, Ill.; Dan Rosenblum, staff attorney, Legal Assistance Foundation of Chicago, Chicago, Ill.; Agnes Ryan, attorney-at-law, Chicago, Ill.; Ron Gall, director, Wisconsin Consumer League, Milwaukee, Wis.; Ken Clark, Wisconsin AFL-CIO, Milwaukee, Wis.; and Jack Eisendrath, attorney-at-law, Milwaukee, Wis.

Now, our first panel. Thank you very much for being with us.

Each panel member will have at least 5 minutes to summarize your statements, but I am asking unanimous consent that your entire statement be made part of the record and, without objection, it is so ordered.

Our first witness will be Arlene Gitles.

STATEMENT OF ARLENE GITLES, CONSUMER COALITION, SKOKIE, ILL.

Mrs. GITLES. The Consumer Coalition is a rather loosely organized group of consumers predominantly located on the north shore of the Chicago area. We have been very successful in getting legislation passed in a number of areas and I am particularly grateful as codirector of the Consumer Coalition, to have this opportunity to state my views about the pending bill that you have and to compliment you for all your consumer-oriented activities. Unfortunately, there aren't enough Congressmen like you, we feel.

Marliss Levin was to speak on the EFT portion of the bill. Therefore, I am going to direct my comments strictly to the credit card situation. Unfortunately, because of the dire predictions of weather, I don't think she will make it.

It is amazing, in my capacity not only as—I call myself the purchasing agent for a family of five—but also as codirector of the Consumer Coalition, in talking to people, and women in particular, how confusing the whole area of credit cards is. Unfortunately, what happens, because time seems to be so short in so many people's lives, that rather than handle the situation people say to heck with it, and they are really not aware of the whole area of credit cards, especially since the advent of BankAmericard and so forth. It is different than when you went to Marshall Fields and paid your bill, but now you have BankAmericard and Master

Charge, which are, in many ways, seducing us to shop places that we would not have shopped before because of the ease of carrying that credit card.

As I read some of the previous statements that Chairman Annunzio had made, I couldn't help but think, that particular issue makes me angry so I would like to respond very briefly to each of the points that you have as far as the credit card amendments are concerned.

The country club billing: Many people have forgotten about it. It is unfortunate. I brought a copy of my most recent Master Charge bill. For example, it just says "Turnstile," which is the name of a discount store that I shopped at. It makes no indication of anything that I purchased. In examining the tissue that was given to me when I made the purchase, it says "merchandise." So the aspect of losing country club billing I think is a very sad one because those of us who keep accurate records, it makes it very, very difficult. Particularly if you charge more than one item. The loss of the tissues is, as I mentioned, sad. However, I am very pessimistic thinking in terms of the way the computer technology is going today that we would ever see it. It would be nice if we had a middle ground compromise to be made between the consumers and the credit card people.

The second point that we have, establishing a 25-day grace period for new purchases I think is a fantastic idea. Rarely, however, do you find companies giving you as much time as you would like to pay your bill. On the contrary, there seems to be as little time as possible. I am amazed that sometimes I have made a purchase. I barely got home and the mailman is at the door with the bill and it would be nice to have that 25-day grace period. I can still remember 30 days, and in some cases 90 days, that was automatic when you had a charge account.

Sections 3 and 4 of the amendments that you are proposing, I find, and I am sure many people do find most confusing, and most reprehensible. The average daily balance and the previous bill.

I must cite a personal experience that happened. A year or two ago, when I believe BankAmericard instituted this—and my facts may be vague because I did not know I would be testifying on such an issue—I became aware my bill was not what I expected it to be. I called BankAmericard, spoke to a very pleasant young lady at the other end who, in 25 minutes, gave me the most incredible double talk about why my bill was more than I had expected, and what she could not tell me and as near as I could figure out, it was because she was not allowed to tell me, was the average daily balance and previous balance; that although I had paid my bill, but had charged this new purchase—as I remember, before the bill was posted, then I was stuck with this finance charge which I had anticipated, but it never came out that way and I all but put the words in her mouth to get her to say it. I said, "Are you telling me—?"

"No, I am not telling you."

But, in any case, when you look at the back of the bill, it is double talk. Nobody understands "the important information" on the back of the bill and it would be nice if sections 3 and 4, as far as I am concerned, came in.

Requirement of credit card charges to be initially billed within 2 months. I think it would be nice if they waited 2 months to charge it. I have found this difficulty with the gas company. They are very slow in billing. I don't object to it. It is nice to go on vacation in August and not have to pay your gas bill until November, but it is inconsistent and there needs to be some consistency within all the accounts.

Section 65 makes me so angry. Any company who would charge me for the privilege—and I use that word with a great amount of hostility. I don't find it a privilege. I feel, and I guess I am old fashioned, that I am doing the credit card companies a favor by using their credit card. They are not doing me a favor. If it gets to the point that the City Bank in New York is going to charge me for the privilege of having that card even though I may not have any balance, I will tear up the card.

Requiring consumers' credit card statements to be mailed within 7 days or at the end of the billing cycle.

Again I can say BankAmericard is an example. Well, here is Master Charge. My billing date was November 22. I believe I received this bill in the mail approximately the 28th or the 29th of the month. My payment due date is December 17. They usually say, "Please allow 5 days for mail payments." That gives me less than 2 weeks from the time I receive the bill until it has to be paid, which is certainly not, as I mentioned before, in the old days, the 30-day float period.

Section 8. Marliss Levin, who was to testify this afternoon, works for a restaurant and she tells me as a bookkeeper for a particular restaurant that this business of add-on charges is a very common occurrence. You sign your bill. However, they neglected to note that you had a bar table; dessert was added; somebody joined you at the table; it was an extra cup of coffee. Generally the last thing that you put on a formal document is your signature and it seems again reprehensible that charges should be added after your signature has been put on and that you would not know about this until you received your statement in the mail.

Section 9. Requiring a written application in order to receive a credit card, I again have had this example. One firm in Chicago took over Korvette. They are near me. They called, very friendly over the phone, and asked if I wanted a credit card. Had my babysitter answered the phone and said that she was Mrs. Gitles, I could have received the credit card whether or not I wanted it.

I certainly object to being called over the telephone and offered something as important as a credit card without seeing the exact figures and specifics that go along with it.

Requiring a clear explanation. I don't think there are any clear explanations when you deal with credit cards. I think the clearest thing that has come out of late is that if you have a problem they want you to notify them in writing.

That, in and of itself, is a hardship for many people who have difficulty expressing themselves in writing. The consumer is confused enough in today's marketplace without the confusing language on the back of statements which read as "important."

Finally, requiring disclosure to the consumer, the three points that you have mentioned. Again, speaking for myself, and many

consumers, anything that can be done to make the consumer's life easier in the marketplace. Opal Slader, who came down with me today and is taking care of my baby while I am sitting here testifying, is a complete anomaly to what you are here talking about today. If we had the time, I wish you could speak to her.

Her husband, her three children and herself operate with no credit cards. She does not own any. She is an unusual person, I believe, in that respect, because it is almost impossible to cash a check, to rent a car, to check into a hotel without having some major credit card. I think she is a testimonial to those of us who frequently get very angry with the whole business of credit cards, but we are used to it.

It was an initial convenience, but now I feel we are at the mercy of the credit card rather than it being there to serve us.

Again I thank you for this opportunity to speak for the Consumer Coalition.

We have at times as many as 15 people and as many as 200. I hope I speak for them when I say all of the points that you have under the credit card amendments are positive and we are there rooting for you.

Thank you.

Chairman ANNUNZIO. Thank you very much for your excellent statement and your cooperation.

Our next witness is Agnes Ryan, an attorney at law in the city of Chicago.

Ms. Ryan, if you will proceed in your own manner.

STATEMENT OF AGNES RYAN, ATTORNEY AT LAW, CHICAGO, ILL.

Ms. RYAN. I am on the staff of the Legal Aid Bureau of United Charities. My statement is brief and I would prefer to read it rather than summarize it.

The concept of EFT is overwhelming. The consumer has had something thrust upon him that he has not expressed a desire to have as a part of his lifestyle. He has not been given the opportunity to analyze the pitfalls of this system. Yet it is a reality.

The passage of the proposed bill, H.R. 8753, is imperative. It will provide some necessary protection to the consumer and much-needed cushion financial institutions.

My comments are directed to the sections of the bill that I think are more important.

Section 812, which prohibits discriminatory pricing, must be maintained as a provision of the bill in order to allow the consumer alternative methods of payment.

My primary concern is with the low-income consumer, although EFT will probably not affect him directly. He will not be given a plastic card or paper purchases in this sophisticated manner, but he should not be penalized because he is not a part of the system.

I fear that those who are only able to pay cash will eventually suffer from the result of discrimination. In order to protect this consumer, the words "or in cash" should be added immediately after the words "paid for by check."

I do not believe that sufficient attention has been given to the position of the low-income consumer and it is the duty of the House to see that not any further financial burdens are placed upon him.

All of the provisions of sections 803 and 804 should be retained as a part of the bill. Section 803(d)(4) is a provision that will allow the consumer to maintain a record of his transactions. The necessity for this is obvious. The ability of a consumer under section 806(a)(2) to stop a transfer of funds after a purchase transaction is one of the outstanding features of the bill. The purchaser must have the right to protect himself against the unscrupulous merchant who hopes to profit through a maze of confusion. The other provisions of section 806 and the provisions of section 807 requiring that the institution furnish a record at the time of a purchase transaction, and a transfer transaction, together with the monthly statement required in section 803, will aid the consumer and keep him cognizant of the status of his account.

The right to demand a correction of error is so elementary that it should cause little discussion.

Section 808 should be retained as is, with one exception: It is conceivable that some confusion may exist between paragraph (a) and section 813(d) with reference to the 1-year statute. Is the date of the occurrence of the violation the date the error was made, or is the occurrence date the date on which the institution refused to correct the error? Judicial interpretation can be either way.

The House has the opportunity to define the terms precisely and should do so.

Section 811, limiting liability, is of paramount concern to the consumer. In view of the fact that the consumer does not exercise any control over the operation of the system, he needs many safeguards. He is completely at the mercy of the institution. I find the wording of section 811(b)(6) to be too harsh if it is not to work to the benefit of the consumer.

Attachment of funds belonging to the consumer from his wages or his bank account is prevalent as a collection tool. Some attention through legislation must be given to this aspect. Otherwise a creditor may successfully circumvent laws that have been enacted for the protection of the consumer. Overall it appears that H.R. 8753 has treated the important aspects that will arise under this system. However, experience will dictate whether or not this is correct.

Chairman ANNUNZIO. Thank you very much, Ms. Ryan, for your excellent statement, and the contribution that you have made to the subcommittee. I am sure that we will study the record and take your remarks into consideration as we deliberate the markup of this legislation.

Ms. RYAN. Thank you.

Chairman ANNUNZIO. Dan Rosenblum is also the staff attorney with the Legal Assistance Foundation of Chicago.

Mr. Rosenblum, you are recognized for 5 minutes.

Your entire statement will be made part of the record.

STATEMENT OF DAN ROSENBLUM, STAFF ATTORNEY, LEGAL ASSISTANCE FOUNDATION OF CHICAGO, CHICAGO, ILL.

Mr. ROSENBLUM. My name is Dan Rosenblum. I am staff attorney at the Legal Assistance Foundation of Chicago—LAF. I am here in response to your invitation to Jerrold Oppenheim, LAF director of consumer litigation, and this testimony represents our joint views and generally those of the poor people we represent. LAF is the federally funded legal services agency in Chicago. Through our 7 neighborhood offices, we resolve about 3,000 consumer problems annually. Most of them involve credit.

I represent the Legal Assistance Foundation, which is another agency in Chicago representing the consumer.

ELECTRONIC FUNDS TRANSFER

Our principal concern about EFT is that, when poor people and others are forced or encouraged to use this new technology, they should receive at least the same protections as are already afforded by the old technologies of checks and credit cards. Otherwise, the new electronic technology of moving people's money can simply become an evasion of consumer protection laws such as the Consumer Credit Protection Act, the Fair Credit and Billing Act, and the Uniform Commercial Code.

EFT cards and payment authorizations are not cash. They are simply modern electronic substitutes for such accounting devices as checks and credit cards. Long experience with checks and credit cards led Congress and the States to develop a broad net of protection against the major financial abuses associated with these instruments. Now, in one electronic swoop, the financial industry promises to wipe out decades of protection by calling a check by a fancier name.

If a check is used without authorization and a bank cashes it, the bank is liable. If a check is written one day and a stop order is issued on it the next day, the check is not paid. EFT transactions work just like checks—an account maintained at a bank is debited while another account is credited—only faster. The legal principles developed over decades of experience are no less valid for that extra speed. Unauthorized use of an EFT card should be at the bank's risk. Stop payment orders should be permitted. Errors should be reversed immediately.

Few of our clients have yet had to face an EFT terminal. For that matter, due in part to the restrictions here on branch banking, few of our clients have faced a bank teller. That means most of our clients do their banking at currency exchanges—check-cashing agencies—and grocery stores. In these circumstances, even a faceless terminal represents a potential improvement.

If Illinois banks are ever allowed to branch, one possibility is that the branches they will install in poor neighborhoods will principally be automated ones. Once bank branches of any description locate in poor neighborhoods, it is likely that public aid checks that are now delivered directly to currency exchanges for recipients to pick up will instead be electronically deposited in bank accounts. On an optional basis, such a system of direct deposits is already in effect for social security checks.

The advantages of direct deposits are convenience, speed, and prevention of mailbox theft. But care must be taken that these advantages are not outweighed by electronic fraud and computerized error. This bill, H.R. 8753, admirably addresses these concerns.

THEFT AND FRAUD

The bill would provide a \$50 limit on consumer liability for unauthorized use of an EFT card. This should be reduced to zero.

For a poor person whose only income is directly deposited into a bank account, but from whom nobody will take a check, the bank will be the only source of cash. If the neighborhood bank is a robot that requires an EFT card, it is scarcely just that the consumer should bear liability for a technology that is adopted principally for the bank's profit.

EFT cards, and the robot tellers that go with them, aid banks by making branches economic in locations where they might not otherwise be. This results in a greater marketing territory for a bank, which results in greater lendable deposits from such otherwise unavailable sources as direct deposit social security checks. The EFT card makes all this possible, but it is not risk free; that risk however, is a business risk that ought to be absorbed by the business that profits from that risk.

We have run across one circumstance that shows why liability must be limited. An EFT card belonging to one of our clients was used without authorization to overdraw her account by \$1,800. The bank took the position that our client should pay for what was obviously the bank's failure to properly program its computer. Such errors should result in no consumer liability.

An additional security problem that should be considered is access to the small remote buildings housing automated tellers. At a minimum, entrance to these locations should be governed by the same card that activates the teller.

ERRORS

It is anomalous that a bill to regulate instantaneous computerized financial transactions should permit 30 days to resolve a dispute as this bill does. At a minimum, it would seem that a computer capable of instantaneous deductions from an account is capable of similarly registering a disputed amount via the same terminal and temporarily crediting the disputed amount back to the account. Analogously, disputed credit card and utility bill amounts need not be paid until the dispute is resolved even though the bank or utility has already laid out the money or service in question.

Once a temporary credit is provided, you can be reasonably certain that dispute resolution will proceed at a pace somewhat faster than the 30 days provided in the bill. Such a provision also gives financial institutions a marketlike incentive to take steps to prevent error or at least removes the incentive contained in this bill to commit error. In essence, this bill is a message to banks that an error in their favor will gain them a consumer's money for 30 days interest free. One result is that such fail-safe computer mechanisms as duplexing would not be very popular. Duplexing programs a computer to repeat to a consumer what the computer

understood its instructions to be, as opposed to what the consumer entered on the keyboard. Thus a consumer learns of some computer errors at once.

Of course, another protection against error is mandatory issuance of receipts for all transactions, as this bill requires.

STOP PAYMENT ORDERS

The bill's provision for stop payment orders within 2 days properly bring EFT transactions to parity with the check and credit card transactions they replace.

In order to further this purpose, we would suggest requiring the immediate mailing of receipts for telephone order purchases and other purchases not initiated at the place of sale. As the bill stands, the receipt is not mailed until 3 days later, after stop payment orders are not permitted.

OTHER MATTERS

We are in general accord with other protections in this bill and would particularly like to note with approval the prohibition of discriminatory charging for checks or other payment mechanisms.

We will submit other, more detailed comments for the record.

CREDIT CARD AMENDMENTS

Most of our clients are unable to obtain credit cards. From their point of view, the principal benefit of a credit card is its relatively low interest. At 18 percent and up, that may seem surprising, but our clients are used to paying annual interest rates up to 32 percent.

This bill would help prevent banks and stores from reaching for such levels by outlawing such interest-boosting rackets as interest on average daily balance, interest on current purchases where there is any previous balance, and billing delays as long as 2 weeks.

The size of the boondoggle is most easily illustrated by imagining a consumer making credit-card purchases of \$101 each on January 1 and February 1. On February 14, he pays his January bill but makes a mistake and only pays \$100. That leaves him with a \$1 past due balance on his bill at the end of February. Under the original method of interest calculation, this cost him interest of 1.5 percent on the old \$1 balance, 2 cents.

That 1.5 percent translates to an annual percentage rate of 18 percent. Here is how some banks and stores have raised that to the equivalent of 2,061 percent annual interest calculated the original way.

The first step was to charge interest on the average unpaid balance if anything remained unpaid. Thus, our consumer would pay interest on his \$100 payment for the half month before he paid it—his free payment period has, in effect, been revoked. This brings the balance up from \$1 to an average daily balance of \$51.50 on which the 1.5 percent monthly interest is imposed to yield a 77-cent charge. To get that much by the old method, a bank would have to charge annual interest of 693 percent.

For some that was not enough. They now also add interest on current purchases where there is an unpaid balance, thus wiping out any free carrying period whatsoever and fundamentally changing the nature of a credit card purchase. This brings the average daily balance in our illustration up to \$152.50 and the interest charge up to \$2.29. To get that much by the old method would require an annual interest rate of 2,061 percent.

The ultimate, so far, at one New York bank, is to charge even those people who pay their bills in full on time. Other stores and banks have made prompt payment unlikely by sending out bills 2 weeks or so before they are due.

This bill would allow some forms of the average daily balance scheme just illustrated. To this extent, we think the bill should be revised to provide, in the proposed new section 177, that interest may be charged on the lesser of the unpaid balance or the average unpaid balance.

Our other comments on this part of the bill are also contained in our additional statement for the record.

Thank you again for your invitation.

Chairman ANNUNZIO. Our next witness is Ron Gall, director of the Wisconsin Consumer League from Milwaukee.

Mr. Gall.

STATEMENT OF RON GALL, DIRECTOR, MEMBER OF BOARD OF DIRECTORS, WISCONSIN CONSUMER LEAGUE, MILWAUKEE, WIS.

Mr. GALL. Thank you, Mr. Chairman. I don't feel as though my statement is that long that it will take too much time to read, so I will read it.

My name is Ron Gall and I am appearing today on behalf of the Wisconsin Consumers League in my capacity as a member of the board of directors.

The Wisconsin Consumer League is a volunteer, nonprofit, non-partisan organization established in 1966 to give consumers active voice in government. In 1972, our league was instrumental in enacting one of the best pieces of consumer legislation in the entire country, the Wisconsin Consumer Act.

In my professional capacity, I serve as program director of the Consumer Budget Counseling Service, a program of Family Service of Milwaukee. Family Service is a nonprofit mental health service and is funded by United Way.

Prior to my employment at Family Service, I spent 18 years as a branch manager for two consumer finance companies and a loan officer for two Wisconsin banks. During my 4 years at Family Service, I have been involved with counseling over 2,000 families and individuals that are burdened by various forms of financial problems. I would say that a large majority, over 75 percent, some form of trouble was stimulated by the use of credit cards. I think that this is significant regarding the nature of these hearings in that, even though Wisconsin Consumers have the protection of the Wisconsin Consumer Act, these problems still exist in large numbers.

I feel the crux of the problem is the all too easy availability of credit, particularly in the credit card area. The proposed legislation

would not cure all of these problems, but it would be a great step in the right direction.

At this point I would like to give an example of the results of this easy credit and illustrate the profound effects it had on an entire family.

Mr. B was born on December 25, 1957—19 years old. Mrs. B was born on January 21, 1959—18 years old. They have a 7-month-old child. Mr. and Mrs. B both have a 10th grade education, none of which included any consumer education. Mr. B is employed as a maintenance man for a local fast food restaurant. He takes home approximately \$500 per month. Mr. B also works at a part-time job and stimulates an extra \$152 per month.

These children, regardless of what the law states about 18-year-olds being adults, they are still children, were bestowed with all the gifts of our credit community in the form of a J. C. Penney charge, a Gimbel charge, and a Kohl's Department Store charge.

Also a Sears charge and an Alden's charge.

This, plus buying a car through a finance company, and various other debts brought them to a consolidation loan with Mr. B's father's credit union totaling \$7,000, with payments of \$178 per month. Mr. B's father was required to cosign this loan. This transaction took place in June 1977.

On November 16, 1977, the B's came to me for help. At that interview they informed me that since consolidating the previously mentioned charge accounts, they have reopened with Sears, Gimbels, and Aldens, in addition to loans with two small loan companies. Through further questioning, I discovered that the majority of the Gimbel bill—over \$800—was used for food purchases because all of their income was going for debt repayment, rent, and utilities.

Furthermore, I discovered that the Sears bill consisted of fuel for their car and cigarettes. At this point, I would like to point out that this is not an isolated case. It just happened to be the one I had fresh in my mind while preparing this testimony.

It became apparent that the solution to this problem would have to come through the Federal courts. This was particularly hard because of the father's involvement in the large credit union loan.

Again, I do not feel as though H.R. 8753 will be a cure-all to this type of situation, but it certainly is a beginning. Any regulation imposed on this cold-blooded industry will help.

In regard to the electronic funds transfer portion of the bill, I can only say that the majority of the issues have already been addressed in Wisconsin through the administrative rules issued by the State banking commission and the State savings and loan commission. I feel that it is important to note that these rules were brought about by extensive meetings of industry representatives and consumers. It was my pleasure and privilege to serve on a consumer committee that met with the TYME Corp.—Wisconsin Bank Electronic Funds Transfer System. During those meetings concerns regarding stop payment, recognized proof of payment, liability limits, unsolicited cards, and error resolutions were addressed and resolved.

My personal concern, as to the potential of electronic funds transfer system in expanding credit usage into the areas of food

purchases, and so forth, were not fully covered. I am still gravely concerned over the potential here.

I would like to close by stating that the Wisconsin Consumer League is pleased to support the passage of H.R. 8753. On behalf of the league, I would like to express the need for wording that the Federal bill would not preempt any State regulations that are of more benefit to the consumer.

Thank you.

Chairman ANNUNZIO. Thank you very much, Mr. Gall.

Our next witness will be Ken Clark of the Wisconsin AFL-CIO.

**STATEMENT OF KEN CLARK, STAFF REPRESENTATIVE,
WISCONSIN AFL-CIO, MILWAUKEE, WIS.**

Mr. CLARK. My name is Ken Clark. I am employed as a staff representative by the Wisconsin State AFL-CIO. My principal duties involve the legislative concerns of the State organized labor movement.

At the present time, I also serve as president of the Greater Milwaukee Consumers League, as a board member of the Wisconsin Consumers League and as a board member of Family Service Society of Milwaukee and the advisory committee to the Consumer Budget Counseling Service, which is run by Family Service.

My great concern with the problems relating to credit extension began while I was serving as assistant director of labor participation for the United Community Services of Greater Milwaukee.

I worked for UCS in that position from 1961 through July 1970.

I was called upon to get help for members of local unions who had problems. These problems included alcoholism, parent-child conflict, finding care for aged parents, and so forth.

The one great problem that kept coming up was that of credit overextension that resulted in wage garnishments, which in turn threatened loss of employment.

At that time, in the 1960's, there was no private agency in Milwaukee that was equipped to provide help to these people. I am a trained accountant so I took it upon myself to provide the necessary assistance. Usually, I met the clients in their homes. I sat down with the husband and wife and laid out all their bills, developed a family budget, and a list of all outstanding debts. I developed my own forms used for these purposes. With all of this information and in consultation with the clients, we then decided on a plan of action to stop the wage garnishments and save the job or jobs of the clients. This could be through a voluntary amortization, a chapter XIII proceeding, or a bankruptcy.

In this process, I soon learned of the very loose and unscrupulous ways that credit was being granted. I don't have time to tell you here of the many credit horror stories, and some very humorous ones I uncovered. I have the information and can document the many cases of credit extensions that are utterly ridiculous from any reasonable, humane, or sensible perspective.

In one large Milwaukee industrial plant, I conducted a program for 26 families threatened with loss of jobs because of wage garnishments. Seven private social service agencies and the University of Wisconsin extension and UWM school of social welfare helped conduct the program.

We met with the husbands and wives one-half day each week for a period of 12 weeks. With a combination of consumer education, and budget counseling, and assistance with immediate debt problems, we were very successful with these couples. The project was publicized and got wide acclaim.

As a result of this experience, the Wisconsin State AFL-CIO asked me to represent them on a legislative study committee to study and make recommendations to the Wisconsin Legislature on adoption of the uniform consumer credit code.

I served on that committee for over 2 years, 1969-71. The committee was constructed so that the credit grantors were in the majority. On October 4, 1971, Mrs. Miller, president of the Wisconsin Consumers League, and I walked out of a meeting of the committee and exposed its credit-grantor-oriented makeup. This act received wide publicity.

We then formed a coalition of consumer, labor, and other interested groups and developed our own bill. This legislation, known as the Wisconsin Consumer Act, was passed in April 1972 and became effective on March 1, 1973. This bill contained more than 60 consumer remedies aimed at making the determination of creditworthiness very important to all types of credit grantors. All types of consumer credit are regulated by the act. We think it is the best piece of consumer credit legislation in the Nation.

The Wisconsin State AFL-CIO and other consumer-oriented groups are very concerned about the introduction of another credit-granting mechanism—the electronic funds transfer system.

Unless carefully regulated, this system can result in more and more families being mired down with overindebtedness. I liken the availability of easy-to-get credit to the problems created by the easy availability of drugs and alcohol. I am sure that research shows the more readily available the substance, the greater the number of those who become addicted and get in trouble; the correlation is there.

In Wisconsin, the banking commission has promulgated rules to regulate EFTS and protect the consumer's interest.

The provisions contained in H.R. 8753 to regulate the use of credit cards and electronic funds transfers systems contain the protections that the Wisconsin law and rules provide to protect the interest of consumers.

We, in Wisconsin, want to be sure that the Federal law provides at least the equivalent to our laws. If the regulations offer less protection to consumers, we would want the law as passed to provide that State laws are not preempted by Federal law if the State law offers greater protection to the consumers in that jurisdiction.

The Wisconsin State AFL-CIO urges your committee to support H.R. 8753 without amendments that may lessen the consumer protection aspects of the bill.

Thank you.

Chairman ANNUNZIO. Thank you very much, Mr. Clark, for your fine statement and your very cooperative attitude.

Mr. Eisendrath.

**STATEMENT OF JACK N. EISENDRATH, ATTORNEY AT LAW,
MILWAUKEE, WIS., MEMBER, BOARD OF DIRECTORS, WIS-
CONSIN CONSUMER LEAGUE**

Mr. EISENDRATH. We are happy to be here, Mr. Chairman, and members of this very important subcommittee of Congress.

My name is Jack N. Eisendrath. I am in the private practice of law in Milwaukee, Wis., and am a member of the board of directors of the Wisconsin Consumer League.

In my work I am often called upon to assist individuals and families who find it difficult to work and live because of pressures which arise out of owing too many debts.

It is evident that the high percentage of credit card debts can become a driving force to motivate a person to seek the relief of bankruptcy. The credit card debt is unsecured and is readily listed in a bankruptcy petition because that debt is so easily dischargeable. This fact is not true of secured debts such as finance company loans, credit union loans, and other similar transactions. Because of this lure of easy discharge of credit card balances, we must place some of the blame for the great number of consumer bankruptcies at the doorstep of the credit card distributors.

I have checked 23 recent consumer bankruptcy cases filed by my office. I am sure you will be interested in my findings that the total debts for all 23 bankruptcies were \$173,606. Of this amount, \$35,165 were credit card debts. Those credit card debts were over 20 percent of the total debts listed in the bankruptcies. Of the credit card debts, 12 were over \$1,000 at the time of filing bankruptcy. Five credit card balances were over \$1,500. This is a sad monument to the easy credit practices that too often are found in this country's lending community.

Recently, an 18-year-old girl filed a bankruptcy petition. When I asked her about the large number of credit card balances due and owing, she told me that she lived in a girls' roominghouse and all the girls had a contest to see who could get the largest number of credit cards; and you have guessed it—she won the contest.

It has been estimated that in restaurants, those with credit cards have spent 51 percent more than those who pay cash.

Once a family files bankruptcy, the social consequences are many. Filing bankruptcy is often preceded by unhappiness between husband and wife over the pressure of bills. Children become disturbed and then schoolwork suffers as father and mother quarrel and criticize each other over money troubles; often a divorce is the result. Thousands of bad checks are written to momentarily satisfy the pressures of debt collectors. Each time a bankruptcy occurs the community suffers a little more. The physical and mental traumas in the family spreads to friends and relatives. The average of 25 to 50 merchants who must chalk up another bankruptcy loss brings further unhappiness into the community. When bankruptcy is repeated many times; the fabric of the community is weakened, along with the impact of other disturbing societal factors. When all of these detrimental forces occur often enough, society gets a little sicker. As social concerns increase, on every person's tongue the question is asked, "Why is society so involved and difficult today?"

If we look at the \$50 billion credit card business with an estimated 50 million credit cards in use, and we see the rising balances on

credit card debts listed in bankruptcy petitions, we must ask questions.

Is the increasing campaign for more business by credit grantors resulting in careless credit which will eventually bring more unhappiness to the community?

In the accounting year ending June 30, 1977, bankruptcies filed in the United States totaled 184,977. Installment credit has increased 12 percent over a year ago. Changing Times reports that more than one out of every four after-tax dollars goes to repay debt.

A sincere examination of the credit card boom leads to a considered conclusion that the credit card industry must be more carefully regulated and restricted in the interests of the consumer and the community.

I support and am in favor of this proposed bill on credit cards introduced by Representative Annunzio. Some of the corrective measures in the bill which will be helpful are:

A mandatory 25-day period of grace from interest for new purchases; this is an important consumer advantage. Such a law keeps the consumer in control of his bargain or credit. This provision prevents changes in the contract as the creditor grantor seeks to amend the rules once the borrower is signed on the dotted line.

The proposed law prohibits the credit grantor from using the average daily balance method as a means of assessing interest.

As a modification to the law, I suggest credit card users all over the country would save many, many thousands of dollars of interest if the adjusted balance method were used as a basis of charging interest. This is the least costly method to the consumer credit card user and is calculated on the unpaid balance at the end of the time of billing. Prohibition of added service charges if also an important law.

As the credit card issuers look for methods of increasing their return, there is a growing tendency to add service charges to accounts. Some such charges take advantage of prompt payment within the no-interest period. Eventually the regulated interest is increased beyond the legal limit as a result of the service charge. The elimination of service charge spells the addition of hundreds of thousands of dollars to consumer costs, if allowed service charges are foot-in-the-door devices that can lead to havoc for the consumer.

Requiring a written application before issuance of a credit card is an important way to prevent careless, overeager distribution of credit cards. There are other benefits of this bill.

In the marketplace, careful protections must be given to borrowers who use credit cards. Credit grantors are well organized and highly trained. The individual credit card holder is unorganized and untrained and needs continuing safeguards to help in the unequal struggle for dollars in the marketplace.

So that my comments are not too abstract, I wish to give the figure on the extra costs of consumers. If interest is figured on the average daily balance or if computed on the unpaid balance at the end of the billing period. Let us take \$400 charged on a credit card. Where \$200 is paid at the end of a billing period, the interest charge is \$5.90 a month, by using the average daily balance method

of computing the finance charges, but if we figure finance charges on the unpaid balance at the end of a billing period, the finance charge is only \$3.10, a saving of \$2.80 for that month for the consumer.

If we multiply this savings by \$100,000 for that many credit cards, we find there is a saving of \$180,000 in the local or financial community, and there are that many figures to contend with if we think about 50 million credit cards and for that reason that method of computing is a great advantage.

There are other things I feel compelled to put into the record at this time as I reach my conclusion.

As a member of a sturdy breed which holds firm to the importance of the individual in a democracy—and I would like to remain a healthy democracy—there is something I feel must be included in the record in the midst of the highly financed tidal wave of EFT.

As a Nation we are rapidly turning into a country of numbers rather than human beings. The electric fund transfer system is another step to make people autonomous with transactions becoming automatic without humans involved.

The depositor does not talk face to face with the bank teller. The need for the human touch, which is necessary for our society—and the friendly smile—which also is necessary—those needs are eliminated.

Human judgments are eliminated in a society dominated by the machine. We outdo ourselves to find new methods of turning people into machines, button pressers, card inserters, sorted by a computer into a massive mountain of nonhuman and inhuman figures and financial formula.

Where are we heading in this national community? With reference to this particular law, I say that in the marketplace careful protection must be given to borrowers who use credit cards. Credit grantors are well organized and highly trained. The individual credit cardholder is unorganized and untrained and needs continuing safeguards to help in the unequal struggle for dollars in the marketplace.

The giants in society do not need laws to control the little people. It is the little people who need help with laws to control the giants.

Chairman ANNUNZIO. Thank you, Mr. Eisendrath.

I would like to point out to Mr. Clark that in 1968 in the truth-in-lending bill I was the sponsor of the garnishment section of that bill. If my memory serves me right, we were suffering at that time with a wave of suicides among people working in steel mills and auto plants, and it was one of the times that industry and labor were together because of the manhours lost and worked on the part of the workers and now I believe under Federal law that the maximum amount that they can sue for under this particular section is 25 percent. So today we are faced again with the device—mentioned to you—the debit card, which can cause problems that will be astronomical and far outweigh the credit card.

With a debit card, unless something is done, the savings of a person can be wiped out with this machine and there is no way in which they can reclaim their funds.

Mr. CLARK. We took your law and improved upon it in the Wisconsin consumer act. We took another element, the Federal

minimum wage, and it goes up with that at 40 hours a week, plus \$15 for each dependent, so we have a much greater exemption in our law than the Federal law allows.

Another comment I would like to make, and I think your committee should be cognizant of it. I have read upon numerous occasions about attempts to do something about watering down the Bankruptcy Act. The significant thing, the very significant thing about bankruptcy is the fact that the threat of bankruptcy forces people who are giving credit, the borderline credit, to sit down and talk turkey when it comes to an amortization or some other form of helping the fellow. If you dilute the bankruptcy laws, you take a weapon away from us who are trying to do something in this area.

Chairman ANNUNZIO. The jurisdiction of the bankruptcy laws—and they are trying to revise the law—in the Judiciary Committee we have no responsibility. I think 3 or 4 weeks ago this was defeated on the floor of the House. There has been some effort to strengthen those laws.

Ms. Ryan, can you elaborate on why you feel prompter action on a correction is so important?

Ms. RYAN. Well, there isn't a lot of elaboration I can do except to state that a person has a right to know exactly the amount he is going to be charged. If there is a dispute, I think the consumer should be able to find out promptly after he registers a complaint.

The thing that bothers me so much is, if the bank or the institution refuses to correct the error, that 1-year statute bothers me tremendously because I think it is unclear.

Chairman ANNUNZIO. I have been thinking about the installation of a toll-free number, a local number for consumer complaints.

It is very easy for someone working for an institution to grant credit. You press a button and a computer letter comes out and you get the letter. When you get that letter, you call the store or the bank or the credit card company and you don't get any service.

It seems to me in these places that extend credit there should be just one particular division or a number that you can call toll free, you know, to get service for the consumer.

I think the consumer should be treated with dignity.

Ms. RYAN. There is but one thing wrong with that. I personally have called the toll free number of a major credit card company and I could not understand what the person was trying to tell me and, as I said, my concern is with low-income consumers who, most of them had less education. I don't believe they are going to understand it over a telephone. They may bring a paper to a lawyer or to some organization to have it interpreted for them. Also, if we use your toll-free number, the consumer has no record that he has reached any satisfaction with anybody or that there is anything definite arrived at.

The next thing he gets is a bill with the same error on it. I don't particularly favor the toll-free number.

Chairman ANNUNZIO. Thank you.

Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman.

Mr. Eisendrath, I practiced some law myself at one time and I know it is very easy to be an advocate, but we must act as an arbiter, or judge, when we pass this legislation.

I do not take it from your statement that you think that the use of credit cards should be abolished by law.

Mr. EISENDRATH. No, I realize I am involved in a tidal wave where we have to live with something. I am saying that if we do, any amount of regulation that is possible in the interests of the little consumer should be sought and used.

Mr. WYLIE. When we passed the Equal Credit Opportunity Act and I was a cosponsor of that—we had testimony to the effect that credit cards could be made available to everyone on an equal basis; that we could not discriminate against someone on the basis of race, creed, color, religion or economic status, of course, and that a company that—a credit card application can be sued—not that they can recover, but they can be sued up to \$500,000 in a class action. If they cannot prove the person who made the application was not creditworthy, so we get caught on the horns of a dilemma. We passed one bill with the consumer groups on it—and I would like to consider myself one of them—to provide equal access to credit cards and then we are supposed to come up with a bill here which will in effect say credit cards should be made less available. You understand my dilemma.

Mr. EISENDRATH. I understand, and I am familiar with the difficulty you have had before on this, but this does not prevent the fact that they must be available to everybody. This does not prevent us from putting in as many safeguards as possible

The Washington Post reports that many American families today are spending more in monthly car expenses, that is, with and without credit cards, than they do for food.

Do we need some type of controls?

Mr. WYLIE. We ought to make it more difficult for people to get credit cards regardless of their check status.

Mr. EISENDRATH. To get and to see that the charges are so excessive. That is a method that can be used as we have discussed and Mr. Rosenblum pointed out so well, of charging it to one that is very much in favor of the consumer and there is one that is very little in favor of the consumer. Why can we not use the method most helpful to the little person?

Mr. WYLIE. Ms. Ryan suggested something about protection for the poor people, the uneducated and so forth. When we start legislating for a certain group, sometimes we make it more difficult for other people to use that service and to stimulate the economic process. I apologize for this personal reference here, but—my wife is in the audience—several years ago we were able to go to Europe and on the way back through Spain we stopped in Madrid and she saw a particularly good purchase of a leather purse. She knew it was a good purchase. I didn't at the time, but we happened to be in the area where they make very fine leather goods. It is a part of their local industry. They wouldn't take American dollars, and we didn't have the coin of the realm. They did take a BankAmericard credit card and we found out a little later that she did make a very, very prudent purchase. So I hope by that example you see what I mean, that we ought to be able to—you wouldn't say we should abolish the use of credit cards, would you?

Ms. RYAN. Oh, no. I never indicated that in my statement. I am sorry if you arrived at that conclusion.

Mr. WYLIE. What I am saying is, on the one hand we think we should allow the use of credit cards and on the other hand we should make it very difficult for people who are uneducated or who are poor to get these credit cards because they are liable to use them indiscriminately.

Ms. RYAN. My statement is not with reference to that, Mr. Wylie. My statement is, I don't want you to discriminate against the poor because they do not have credit cards. Because if we go to EFT and that is going to be the accepted method of payment, the poor are not going to have these cards and if they have to pay in cash they may be discriminated against. That is what my concern is. Not that they can't get the cards. It is just the conclusion, I am sure, that they won't be given the cards.

Mr. WYLIE. What would you think about a discount for paying cash? I offered an amendment to the equal credit opportunity bill which would allow for discounts for the payment of cash.

Ms. RYAN. If it is going to work to the advantage of the low income consumer, I am in favor of it.

Mr. WYLIE. I would assume as much. I understand that.

Ms. RYAN. You see, they need more protection than the average consumer.

Mr. WYLIE. So you think it is more than anything else a matter of education, but at the same time some safeguards ought to be enacted into law.

The point I am making here is—and I hope you will understand our difficulty—is that the more laws we enact, the more regulations, the more laws that are enacted, the more it puts pressure on the businessman to add to the cost of the service for everyone using that service. In the 25-day float there is a suggestion here that there is no finance and no interest charge to be made for 25 days. I am not necessarily saying I am against that, but if you go to a bank or a savings and loan or financial institution to borrow money to pay cash, you perhaps start making interest payments from the date of the loan.

Mr. GALL. I think one thing we might be overlooking here is, these privileges do exist. The so-called float period. They exist because the industry uses it as a tool to get people into the system. I think that should be prolonged with the law. I think it should be established.

Mr. WYLIE. Mr. Rosenblum, how do you arrive at your conclusion that EFT is a substitute for a check? If the payment is instantaneous, doesn't it take on more the aura of cash?

Mr. ROSENBLUM. I think I was considering it to be more like a credit card. I think EFT clearly has great similarities to both check or cash. What I was saying is that it is closer to cash probably than a credit card because of the difference in the credit and it is different from a check because of the time period.

Mr. WYLIE. You were talking strictly in terms of credit card and not a debit charge?

Mr. ROSENBLUM. I am not sure exactly what you are referring to in my testimony.

Mr. WYLIE. I don't know if I can find it in the testimony at the present time.

This is one of the major issues that we have to decide as to whether an electronics fund transfer is an instantaneous payment more like cash or whether there is going to be provision for stopping payment later on.

You pay for your food with a check, as we know it, and it is possible for you to stop payment on that check even though you have eaten the food.

Is that what we want to do as far as the debit charge is concerned? It is an instantaneous transfer of money from your account to the store where you buy the food.

Mr. ROSENBLUM. I think it is more important to look at the used car dealer analogy, for example.

Mr. WYLIE. Could we make a distinction between the bread which is eaten and the automobile which is a long-term installment?

Mr. ROSENBLUM. It is a very complicated factor. You should protect the consumer in the used-car field and have protection where you do need it; not have protection where you don't need it.

Mr. WYLIE. You would err in favor of granting a protection to people who might not otherwise be sophisticated in the area. Is that a fair statement?

Mr. ROSENBLUM. That is a very fair statement; yes.

Chairman ANNUNZIO. Thank you, Mr. Wylie.

Mr. Vento.

Mr. VENTO. The witnesses I have heard have done a good job.

I was commenting to my colleague here that I suppose, if we had a check transaction, something that could determine whether or not a check was valid, we could eliminate the necessity or convenience of credit card and/or the necessity or convenience of a debit card. Working with existing tools, existing resources, why do we always have to talk about taking away a right a consumer has? If electronic equipment is part of our future, can't we expand and improve upon it rather than to define some new systems, some new way of doing things not understood by consumers, and likely to cause the necessity for new legislation?

I think every bank should be in favor of a check system to determine whether a check is good or not, rather than depending upon VISA and Master Card—that is what they do today. That is costing money for the consumer and causes a lot of problems that would not otherwise exist. We ought to be pushing down that road.

Nevertheless, one of the things that does concern me is the instantaneousness—you put a paycheck into an account without the authority of the individual, or you require that before a mortgage, you have to have an automatic transfer of the check, from where you work to the mortgage company to pay off the mortgage. That is what is happening today. People are getting squeezed into doing business that way. You work for company X; your check goes into the bank account and you have to write a check to get it out. You have no choice.

If we can preserve choice by the consumer, then I think a lot of the necessity for legislation for the consumer would vanish, but we can't do that. I wish we could do that, but we can't.

That is the basic issue. If we had those choices, we would not have to sit here writing laws to deal with this. That is an argument

we have lost. That is why the poor don't have credit. They haven't the choice any more to go into that system.

Under some circumstances, as a remedial technique, you might be able to extend credit where you can't extend it today to someone who is poor. But the problem is that the proposals which come forth extend it to everyone.

The individual isn't treated as an individual any more; he is treated as a member of VISA or a member of a certain financial institution where he might be seeking a loan.

He must have an escrow account. You can't receive interest on it. You must have the money in it beforehand. These are the sorts of things consumers are faced with and only after arduous effort by a State legislature or Congress do we find you can get interest on that money, that you have certain rights over it and you can control it again.

We all know the battle you have to put up with in dealing with that issue.

How about as a remedial technique? Is there a way we can help by, for instance, providing an opportunity for an individual to sign over a certain amount—for instance, a mortgage payment—through an electronic fund transfer system where you have an authorized, specific deduction from his check. Do you think there is a possibility we could do that on a voluntary basis? What do you think, Mr. Eisenrath?

Mr. EISENRATH. I agree with you that the right of choice is something we must preserve. Because this happens to be for the convenience of the mortgage grantor, I don't think we should knuckle under to that easy system. I agree with you thoroughly the freedom of choice must be maintained and being forced to have that money deposited there—what if somebody wants to garnishee him and it is in the account for garnishment the day after, what is our freedom of choice if we have a large number of bills? I think there should be a prohibition against that type of action by savings and loans and banks.

Mr. CLARK. In the Consumer Act, we were confronted with that in Wisconsin and the institutions that used that the most were the credit unions. In the Consumer Act, we placed a restriction there that any payroll deduction had to be cancelable.

I mentioned this one large plant with 26 people. They had three wage garnishments and one of the greatest violators were the credit unions. They made car loans based on seniority and the fact they had a checkoff. We did this and we did it in order to put the thrust of establishing creditworthiness based on the man's situation, not on length of service or the fact that they had a hand on his paycheck. That is a part of it.

The way I see this, we talk about consumer education and we have had a lot of experience in consumer education and the people we get to the consumer education classes are not the people who need the help.

Mr. VENTO. I used to teach school. I don't know how I could teach that to anybody. You can talk about education until you are blue in the face, but you can't teach anyone to read that. I can't read it here in 2 minutes and I challenge anyone else to get up and explain it to me.

Mr. CLARK. My thrust was, I am putting more responsibility on credit grantors to see that the people were in a situation where they could afford the credit.

I think that is the best approach we could make at this time.

I also do some income tax work yet as a sideline and the people who do the best job of living on limited income and especially the elderly, are the people who are completely debt-free and don't use any type of credit. That is the secret.

Mr. VENTO. Do you think electronic funds transfer out of a member's paycheck would be appropriate or not as a remedial method to extend credit where you otherwise would not extend it? Ms. Ryan?

Ms. RYAN. No, I think there should be a prohibition.

Mr. VENTO. People say, "We are able to extend credit under these circumstances to person x , where we otherwise wouldn't be able to do it because we are sure that we will be the first there to collect for the mortgage or for the food bill or something of that nature."

Ms. RYAN. I think they can still extend the credit based upon a person's wages, but I don't think they should be able to get it through the electronic transfer. I think there should absolutely be a law against that.

Mr. VENTO. The argument will also be made that that will help extend credit.

Ms. RYAN. We don't need to extend it any further. They are going to extend it based upon the wages and the person's financial status anyway.

Mr. VENTO. There is a tenuous position, you see, a situation where the individual, if he has the money in his hands, might not pay his mortgage.

Ms. RYAN. The point is that you will not be able to attach it through the electronic funds transfer. That will not affect the garnishment laws in the various States. They can still go through the court procedure and collect the money.

Mr. VENTO. That is being done today and we should be aware of it. It is being done in a variety of ways.

Ms. RYAN. I know it is. That is why I am sitting here.

Mr. EISENDRATH. I think we make a mistake if we do what the credit industry feels we must have. I think we are the ones who must be in control and not the credit industry.

Mr. VENTO. I am almost out of time, but their job is to minimize the risk and keep their interest rates down as low as they can. These are the arguments we get back. They are just trying to do what any good businessman will do and that is minimize their risk.

Mr. CLARK. That is not true.

Mr. VENTO. They are not trying to minimize their risk?

Mr. CLARK. No. On the old time payments so much was done because the sky was the limit on interest. There were interest rates of 54 percent for marginal credit. The looser the credit, the less testing of creditworthiness, the more credit will be granted.

Mr. LAFALCE. A general question for the panel or whoever would like to answer it.

We, in describing reasons for the cause of inflation, often point to Government spending. The oil embargo, the sale of wheat to

Russia. To what extent has the use of credit cards in our society and the resort to credit as an essential ingredient of our society—almost at an “at-will” basis—contributed, in your judgment to inflationary pressures in our society?

Mr. CLARK. I would just like to point out to the subcommittee that after World War II—

Mr. LAFALCE. To what extent would the continued use of electronic funds transfers exacerbate that?

Mr. CLARK. In 1947, before the great credit binge, there was \$9 billion in outstanding credit and now I think it is something like \$210 billion. Purely consumer credit, and no mortgage loans involved in there. I have read many pieces by economists that it is a big factor in inflation.

Mr. EISENDRATH. There is also a philosophical question we can spend hours on, discussing the need of credit in our society that we think we need. But do we need it. Sometime we would like to sit down with you on that.

What we have done, of course, by means of the credit card along with the other promotional advertising ideas, we have created a luxury standard of living that everybody seeks to get and in order to get to that, if you can get credit cards you get them. So what we are doing while we move into that electric manicure, the electric hedge cutter, the electric turkey knife cutter, and on and on, the matched ideas that go into a kitchen in a house, things we don't have to have, what we do is create a nation that seeks not what it needs, but what it wants. When we continue that, we can get into the type of trouble you are talking about.

How much does it contribute to inflation in the society? It certainly does.

Mr. LAFALCE. Mr. Clark, as a representative of labor, has this expanded use of credit also contributed to job creation?

Mr. CLARK. This is the one argument you always get when you meet with the bankers and the finance community. I say the 20 or 15 percent that is paid for rent of money is if it was spent on goods and services it would create a lot more employment.

Chairman ANNUNZIO. Mr. Wylie, one more question.

Mr. WYLIE. I had a question for Mr. Clark. Debt, or EFT cards, unlike credit cards—and I guess credit cards are also EFT cards, but anyhow, these debit EFT cards involve the potential for a consumer to lose all of the funds in his checking and savings account if unauthorized use occurs. You touched on this a little while ago. Should the consumers or the financial institutions bear the risk of such losses?

Mr. CLARK. The rules that were promulgated in our State limit the loss to the cardholders to \$50.

Mr. WYLIE. In your case it is \$50. I think Mrs. Gitles felt all the loss should be sustained by the financial institution.

Mr. CLARK. I will buy that.

Mr. ROSENBLUM. We suggested a zero limit also.

Mr. WYLIE. Thank you very much, Mr. Chairman.

Chairman ANNUNZIO. On behalf of the subcommittee, I want to thank all the members of the panel for being here with us this morning and this afternoon. To those of you who traveled from Milwaukee, we appreciate the great effort that you have made.

I know you will be asked many questions as to when the Congress will get around to marking up the bill. I want to remind you the Congress moves slowly; that it took us 4 years to pass the debt collection bill, that I intend to carry on the field hearings and I am hoping that possibly in the month of April we can begin some markup sessions and see if we can reach some tentative understanding amongst the committee members and some of the industry representatives.

In the meantime, I would like for you who represent various organizations and consumer groups to keep the pressure on your own Congressmen, your own Senators. I also want to advise you that Senator Riegle, who comes from the State of Michigan, has introduced and is holding hearings in the Senate only on EFT systems and not on credit cards. It has been suggested here this morning that maybe we should separate our bills.

I have put the two bills together. I am happy that my colleague, Mr. LaFalce, asked the question about, does this contribute to the inflation? There is no question in my mind that we do have about 550 million credit cards in circulation, and there is no question that it contributes to the inflation because the more goods you dispose of, you create a shortage of goods; you create a climate where you are competing for goods, and when you create a climate of competition for goods, it is only natural that the price of goods begins to rise and rise.

There are many other factors, but that is one of the important factors.

I appreciate your coming.

The record will be carefully studied. I know it is going to prove valuable to us in the further deliberations of this legislation.

Thank you very much.

The second panel shall consist of the following witnesses: Alan Garber, president, Crawford Department Stores, Chicago, Ill.; and Craig Vance, credit manager, Spurgeon Mercantile Co., Chicago, Ill.

The first witness of the second panel this afternoon is Alan J. Garber, president of the Crawford Department Stores of Chicago.

You can either read your statement or summarize. In any event, proceed in your own manner, Mr. Garber.

**STATEMENT OF ALAN J GARBER, PRESIDENT, CRAWFORD
DEPARTMENT STORES, CHICAGO, ILL.**

Mr. GARBER. Thank you, Mr. Chairman.

Mr. Chairman, my name is Alan J. Garber, president of Crawford's, a group of small, community-oriented department stores in Chicago and Rolling Meadows, Ill.

I appreciate the opportunity to express my views on H.R. 8753, title II, since this legislation could have a very adverse effect on the ability of my company to continue to offer credit at reasonable cost to our customers.

Some 5 years ago we abandoned country club billing, a costly and cumbersome method, for a much simpler, much less costly method—descriptive billing. Like you, I was very concerned that our customers might not be able to recognize their purchases from a one-line description, so we took exceptional care that the descrip-

tions name the department, and even the subclassification within the department when possible.

I was delighted to discover that even though signatures were no longer enclosed with the statement, our customers had no difficulty in identifying their purchases. To require us to abandon the greatly improved, much less costly billing system and go back to the country club billing would be, to us, an immense step backward, with no discernible benefit to our customers. To me, such a requirement would be a clear example of overkill. Where we now operate our credit office with our full-time persons, we would have to return to the hectic days when 12 persons were needed. Ultimately the same customers who now benefit from our easy to understand statement would have to pay an increased cost, either in higher direct credit charges, or more likely in higher markup.

Mr. Chairman, I could understand legislation that required statements to show clearer descriptions on each line. I cannot understand legislation that says that, because some statement descriptions from some credit grantors are not clear to the customer, therefore no statement descriptions can be clear—throw out descriptive billing. No, Mr. Chairman, that is wrong.

I might add as a side comment, in our operation roughly 25,000 or 30,000 accounts, we receive approximately 12 or 15 requests by phone for explanation of line items. The typical request by phone is, "I don't remember buying in that department. What is it?"

Our response is to immediately get the cross reference from a number the customer has, go to our file, pull the sales slip and describe what it says on the sales check, including the description and the type of merchandise.

In three out of four cases, the customer says, "Yes, I remember. Thank you very much." And hangs up.

In one out of four cases the customer says, "I still can't remember" and we say, "Allow us to mail you a photocopy of the sales check. You will have it in 2 days," and that is the last we hear of it.

They recognize the sales check.

I submit that has worked for us and is a simple way to solve the problem.

Our customer statements are produced for us by a service bureau. Our statements are mailed well within the 14-day present requirement, and almost invariably within the proposed 7-day requirement. But we cannot accept responsibility for a failure of an outside company, the service bureau, to produce statements even by the present 14-day limitation. The bill offers no relief for such events.

I don't think the failure of the service bureau to supply us with the bill in time should be considered to be an act of God.

The requirement that our application-for-credit form disclose all possible situations which may arise in the future which could reduce or eliminate a customer's credit line and/or revoke a customer's credit card is a hopelessly optimistic requirement. While I believe that I am a reasonably experienced retail executive—29 years—and I could probably put together a list which would include most conceivable future situations, there is no way in which I

could conceive of all possible future situations. Yet the bill requires me to do that. I can't.

Mr. Chairman, I will speak no more to specific sections of title II, but I would like to address a few remarks to you on the general credit legislation which I, along with many other retail credit grantors of moderate size, face. We have been subjected, in recent years, to an immense amount of legislation which has narrowed the freedom of choice which we have had in determining the rules by which we offer credit facilities to our customers. Most of these restrictions have been stimulated by consumer complaints concerning relatively few retail credit grantors, but the requirements have not, in my opinion, been too onerous, and many of them were welcome codifications of good credit practice which most of us were doing anyway.

But, Mr. Chairman, while a certain amount of credit legislation may be a good thing, a point of greatly diminishing returns to credit grantors, and therefore to customers, is being reached. Notice that I did not separate consumers from credit grantors, for if we are hurt by too much legislation, inevitably our consumers must either pay a higher price or do without. Neither prospect is a happy one.

I am pleased you have come home to Chicago for these hearings, Mr. Chairman. I am one of your constituents, and most of my customers are your constituents, and this opportunity to provide input to you and your subcommittee are much appreciated.

But, please, no more broad, all-inclusive credit legislation. The ultimate outcome of this trend will be brought home to us when the only places consumers will be able to go for credit will be the giant store, the bank card, and the criminal fringe. Too much of a good thing can be harmful to the business communities of the great northwest Chicago.

Mr. Chairman, your contribution to the codification of good credit practice in the past has been much appreciated. But Title II has in it the elements of a great step backward. I urge you to consider carefully the damage now to be done to credit grantors of modest size.

Most every comment I have heard this morning has to do with the giant size credit grantors but now I would like you to focus your attention on the modest ones.

The small credit grantors are gone. The modest sized ones are under great and increasing pressure as grantors of their own credit. The financial sufferer can only be the hard-pressed consumer.

Mr. Chairman, that finishes my formal statement.

I have a few notes I made during the session this morning, a few comments and observations I would like to make if we have time.

Chairman ANNUNZIO. Go right ahead.

Mr. GARBER. You raise the question of the usury law which I believe in Illinois is 8 percent.

Chairman ANNUNZIO. Eighteen percent.

Mr. GARBER. Other than revolving credit, I believe it is 8 percent. There is an exception for revolving credit being 18 percent.

I assume that you were referring to that 8 percent when you referred to a usury item. How do we reconcile the two?

Many years ago, when we were considering going to an 18-percent annual nominal charge, I tried to figure out how to do this and there are various ways to work it as we have seen, and after ample confusion I finally said to myself, what would happen if a customer opened an account, came in, bought \$100 worth and paid for it at our usual rate, which is one-tenth each month for 10 months? How much finance charge would that customer be paying? What would it cost the customer? The exact figure escapes me except I know it was between \$7.50 and \$8. Why? Because the balance keeps declining. So, if a customer came in who did nothing but buy \$100 worth, his final cost after 10 months would be, I believe it was around \$7.80.

That was one of the facts I discovered that persuaded me to go ahead and offer it, that it was not too costly a charge to our customers and, after all our true income from our customer is not from credit charges or finance charges, it is from the gross margin on the sales we make to that customer for the customer's merchandise or service.

Eighteen percent in Illinois is the top limit for revolving, but that 18 percent was selected as a high percentage number. In the days when the cost of money was considerably lower than it is today, all credit grantors struggled with the problem of financing their receivables at higher and higher rates of interest which we have observed come about in the last 2 or 3 years, and which frankly show no signs of abating.

I have sympathy with somebody like City Bank who says, "Look, we have a very expensive proposition here. We can't go on indefinitely not making money. One way to solve the problem is to say, if you want to use the facility, pay for it."

I am not sure that was the politic way to proceed, but it did make sense in terms of the principle that the consumer must pay for all services that the consumer receives. There is no place else to go.

Perhaps a more politic method and perhaps a less politic method would be to say, "Look, 18 percent is obsolete; 21 percent is needed or 24 percent is needed, and here are cost figures to justify it."

I have seen no cost figures which indicate that credit grantors in the department store industry are making a profit on their credit operations looking at their direct costs, overhead costs, and income from finance charges. We lose; not a great deal, but we lose a little, which is all right.

I have a few other comments, but I think I will reserve them. Thank you very much.

Chairman ANNUNZIO. Thank you very much, Mr. Garber, for your excellent statement expressing your point of view. I know the committee is deeply grateful.

**STATEMENT OF CRAIG R. VANCE, CREDIT MANAGER,
SPURGEON MERCANTILE CO., CHICAGO, ILL.**

Mr. VANCE. Thank you very much, Mr. Chairman and distinguished members of the Subcommittee on Consumer Affairs.

I am Craig R. Vance, credit manager of Spurgeon Mercantile Co., Chicago, Ill.

Spurgeon Mercantile Co. is privately owned chain of junior department stores. The company was founded in 1907. Through steady and profitable growth, we now operate 71 small stores in communities of 5,000 to 25,000 people in Illinois, Iowa, Wisconsin, Minnesota, Michigan, and Indiana.

A typical Spurgeon's store will employ 12 to 13 full- and part-time people and be located in a town of around 8,000 to 9,000 people such as Princeton, Ill. The closest Spurgeon stores to the Chicago metropolitan area are McHenry, Ill., DeKalb, Ill., and Morris, Ill. A payroll for our store operations would number approximately 950 people with an additional 75 persons employed in our Chicago headquarters.

We have been successful by very careful control of costs so that we can afford to operate low-volume stores in small communities. We will offer lower priced merchandise than the main street specialty shop and better service than the shopping center discount. We cater to the farmer and wage earner of the community, not the "carriage trade."

Until about 20 years ago we were strictly on a cash-and-carry basis. In order to be competitive with the retail giants, such as Wards, Sears, and Penney's, we felt the need to develop a credit plan so that our customers could have a choice.

Our company offers its customers two types of credit purchasing. We have our own Spurgeon's credit plan that is operated internally. This is a 30-day open-end revolving plan. As our stores do not offer many "big ticket" items, we do not have a time payment purchase plan. We also offer bank card charging in all of our stores. Credit sales are not a major portion of our business. In 1976, 13 percent of our sales volume was on our Spurgeon's plan and 2 percent of our volume on the bank cards. Although 15 percent is not large by some standards, with retail profit margins as small as they are, we need that 15 percent to survive.

We are not a large organization and we do not have customer profiles that would allow me to tell you specifically what a typical Spurgeon's charge customer would be like. I would say that this person, male or female, would have a working spouse and operate on a very limited budget. Based on conversations I have had with various banks concerning our bank card plans, I can say without hesitation that a great majority of the people that we offer revolving charge account privileges to would not qualify for a bank card. Our customers, as are many retail shoppers in smalltown mid-America, are rather unsophisticated in the use of credit and reluctant to use credit for retail purchases when some other means of making the purchase can be found.

While these statements may sound as though I am minimizing the importance of our charge plan, I do not intend to give that impression. The family who finds that they have three to five children to clothe for back-to-school items in September and then is looking forward to the Christmas buying season is very happy to be able to revolve their purchasing on through the first part of the next year to be able to budget the bulges in their consumer spending.

Spurgeon's feel that our own charge account system, while offering the company a benefit, is also doing an important service for our customer.

In 1976 we sent out approximately 400 to 450 statements per month per store and estimate that we have an active customer base of around 700 customers per store. While small on a unit base, this multiplies to 31,000 statements per month and 50,000 active customers. A typical customer purchased \$133 during 1976 and carried an average balance of around \$68. Our credit limit is the same for every account and is \$200.

With respect to H.R. 8753 that is under discussion here today I will limit my comments to title II of the proposed legislation. I very frankly feel that there is nothing in title II that would be of any benefit whatsoever to a Spurgeon's charge customer. There are two sections of title II that I would like to address specifically.

Section 202 that would amend the Truth in Lending Act to require the use of the so-called country club billing system would actually be a giant step backwards for consumer credit. We at Spurgeon's have invested thousands of dollars and hours of time in developing what we feel is a foolproof system for identifying consumer transactions and communicating those transactions with the utmost clarity to the customer.

If I may briefly describe our system, for every charge sale, return, or payment, a three-part transaction ticket is prepared. One copy of the ticket is given to the consumer at the point of sale. The second copy of the ticket is filed with the consumer's file in the office of the local store where the transaction took place, or in the case of a transaction being made by a customer whose account is kept in another store, the ticket is sent to the store where the customer's account is maintained. The third copy of the transaction ticket is sent to the Chicago headquarters.

Each month when the customer receives his statement, each transaction is identified by date, store in which it took place, a description as to what department the merchandise came from—one of 47 different departments—and amount of the transaction. The statement also directs the customer to the store that handles their account or the Chicago headquarters for any questions that they might have concerning their statement. We have so very, very few questions from our customers and even fewer questions that lead to a required adjustment that we have no one in our credit operations who is responsible for bill adjustment.

Typically either myself or the supervisor of our department will handle these adjustments personally. Based on this experience I can say that of the 371,000 statements that we mailed in 1976, less than 40 or one-tenth of 1 percent required any sort of adjustment or further communication with the customer.

Should country club billing be mandated by H.R. 8753, I believe the expenditures to convert would probably be around \$9 per active account—13 percent of our average balance of \$68—or approximately \$250,000 to \$275,000. This would include new filing systems, new forms, a great increase in personnel, additional office space and assorted overhead, and so on and so forth.

In our company we can fixture, improve, and deliver an opening inventory for a new store for less than that amount of money. We

typically will open one to three new stores in a year's time so I am sure you can see that the management of our company would be very reluctant to make that expenditure with absolutely zero return to the shareholders of the business.

The other section of H.R. 8753 then I would like to address is section 204 that would require periodic statements to be mailed within 7 days of the close of the billing cycle for which they were prepared. Due to the size of our company, we are not able to afford the expensive computer hardware to enable us to have electronic point of sale devices. Therefore, we must depend on the U.S. Postal Service for most of our communications between our stores and the Chicago headquarters.

Typical delivery of our credit transactions which are mailed to us each day is 3 business days. Given this mail time to receive the media in the Chicago headquarters, it would be absolutely impossible to audit the media, keypunch the data, and have the computer prepare the statements for billing within 4 days after they are received or 2 days with weekends. There is simply no way that our organization could comply with that section of H.R. 8753.

Again, I would like to stress that I can see little or no benefit for our customer even if it were possible. As I am sure other retailers have testified, the typical credit customer who revolves his account will wait until very close to the end of the billing cycle to make his payment. There just is no advantage to having that monthly statement in the customer's hands 7 days after the close of the billing cycle when he is not going to act on it until probably 2 or 3 days before the end of the billing cycle.

The current law provision of the Fair Credit Billing Act of 14 days prior to the close of the billing cycle is adequate for any consumer to make his financial decisions regarding the amount due on the statement. We will mail our statements 10 days after the cycle closes. I would be very interested to know what that 7-day period between day No. 7 and day No. 14 will do for the consumer.

When I reflect on the data and facts that I have briefly related to you, I can only come to one conclusion. Should H.R. 8753, specifically title II, be enacted, I see Spurgeon's faced with a very critical decision. A very small percentage of our total sales, 15 percent, are credit sales. How then will we justify the increased cost of our credit operation that would be mandated if title II became law? The \$275,000 figure that I spoke about before will not be allowed to fall through to the bottom line of net profit. Who is going to pay for it?

Are we going to have to increase our markups and therefore pass the additional cost of credit shopping on to the other 75 percent of our cash customers? Or are we simply going to get out of the credit business and take our chances at being able to survive?

The credit operations at Spurgeon's presently operates at a small loss. The communities that we serve are typical communities where most of the major retailers abandoned their full line department store, replacing it with a catalog operation. The reason that they are leaving is they find that they cannot operate profitably in that type of environment. What H.R. 8753 would force us to do is make that same decision for our credit operation. We run a family business in a family way. We serve and communicate with our

customers; we do not gouge or rip them off. We would not have stayed in business for 71 years if we did; the consumer is too smart for that.

I certainly hope that sometime and somehow legislators and regulators would sit back and not legislate and not regulate. I think that we would all be surprised at how efficiently and effectively the free market system would operate.

Gentlemen, I thank you very much for the courtesies that you have extended me and if there are any questions, I would be happy to answer them now.

Chairman ANNUNZIO. I thank you, Mr. Vance, for your statement.

Mr. Wylie.

Mr. WYLIE. Thank you very much, Mr. Chairman.

I think, Mr. Garber, you made some reference to the number of problems you have with the resolution of credit billing and it was a small percentage of your overall operation. I thought I would like to hear that for the record.

Mr. GARBER. A very small percentage?

I am sorry. It was Mr. Vance who said that. I think you said something like one-tenth of 1 percent of all of your credit accounts contained some error.

Mr. VANCE. No, one-tenth of 1 percent of all the statements we sent out. We sent out 371,000 statements last year, estimating that we have an active customer base of 50,000 accounts. The 400 or so adjustments we actually made on the statements came up to—and that is just on the bills we sent out. There is an even smaller percentage on transactions. Typically, the type of adjustment we make—as I say, we operate—Mr. Vento is from Minnesota and knows of our stores.

Mr. Smith, who knows the store manager, comes in, says, "I don't have my plastic card with me. I think my account number is this." They call the office and the person in the bookkeeping gives the information.

The person over the phone writes that down wrong and Mrs. Harry Smith, instead of Mrs. John Smith, gets charged. We find out about that next month when the bill comes through and an adjustment is made.

Mr. WYLIE. What has been your experience under the Fair Credit Billing Act regarding the resolution of errors?

Mr. VANCE. As I say, we have so few of those. We log them in. Every 6 months we send out our statements as required by the act. We don't have it printed on each statement. There is a short version. I think on that last year alone we had 25 customers who notified us.

Mr. WYLIE. It is not really a big problem in your operation and you are not a big volume operation, but do you think we should adopt a fair credit billing proceeding or procedure for the resolution of errors in this bill?

Mr. VANCE. I don't really think I understand your question.

Mr. WYLIE. There is a provision in the law right now under the Fair Credit Billing Act where a certain period of time is required to resolve errors.

If there is an error in the electronic fund transfer, we have to have a certain period of time to resolve the error. At least that has been suggested.

Mr. VANCE. I don't feel sufficiently knowledgeable on title I.

Mr. GARBER. I would comment this way: As retailers, I think we probably stand in the same position. We can't find any evidence from our customers that they have any interest at all in the EFT's or debit cards. We haven't studied the issue because there is no possibility as far as we can see of going into it. In the absence of that evidence—go ahead, please.

Mr. WYLIE. You don't think department stores will use debit cards?

Mr. GARBER. There has to be a tradeoff offered by the banking industry if they expect to interest department stores, in my opinion, or consumers.

Mr. WYLIE. It would just be limited to foodstores? There is a considerable number of debit cards being used in the Columbus area. It is a test market now in the foodstores. Krogers, A. & P., and other foodstores.

Mr. GARBER. That is an attempt to reduce the exposure to bad checks which foodstores seem to go into so heavily, which is somewhat unrelated to credit writing.

Mr. WYLIE. Do you have an opinion as to whether a debit card transaction could be a cash transaction?

Mr. GARBER. Yes; I feel it should be a cash transaction. When Mrs. Unknown walks into our store and tenders a debit card, we process the debit card and she takes our merchandise. We have no idea who she is, or where she is from, and goes away, and for reasons completely unrelated to our business, she decides to stop that transaction and I don't know where we are with regard to that customer.

Only now, when we start to investigate to find out who she is. I conceive of debit uses in department stores as a substitute for cash or for checks.

Mr. WYLIE. You say as a substitute for cash or checks.

Mr. GARBER. It is not a substitute for credit in the customer's mind.

Mr. WYLIE. Do you think you would ever find a time when you might use debit cards, Mr. Vance?

Mr. VANCE. We would certainly be forced to at some point if in the future we find that our competition is offering it. We are going to have to. We worried about it.

As I say, we don't have electronic point-of-sale systems. We are so spread out with small-volume stores that it isn't so much the expense of the hardware that kills us; it is the telephone lines to get the data transmitted to a central location.

It is something we are aware of and something we are worried about for the future.

Mr. WYLIE. One of the big issues has been the so-called country club billing and you referred to that. When you grant credit at the time of the sale, you give a copy of the sales slip, of course, to the purchaser. I think that is sufficient, if the purchaser wants to ascertain what the bill is all about when it comes in, that they can

relate it back to that sales slip which they got at the time of the purchase.

Mr. VANCE. Very easily.

Mr. WYLIE. In the case of country club billing, it would require another copy of the sales slip to accompany the bill and you think that would be an added cost to your business which might force you to go out of the credit business?

Mr. VANCE. I very seriously feel that way. It is not so much the extra mill that would be added to the expense of that form, but collecting all of these pieces of paper and sorting all of these pieces of paper and keeping these pieces of paper filed until the statements are then to be mailed to the customer, and then taking Mr. Craig Vance's bill and collecting the four transactions that have happened and putting them in the same envelope which then gets mailed to my home address. The proper word escapes me, but here, in one sense, you are telling us, we are going to shorten the period of time we are going to allow you to send the statement to the customer from 14 days down to 7, and then we are going to burden you with all this extra paperwork that you are going to have to put in the envelope.

Mr. WYLIE. Thank you very much. I think you gentlemen have pointed up some of the problems we are going to encounter.

Chairman ANNUNZIO. Thank you, Mr. Wylie.

Mr. Vento.

Mr. VENTO. Thank you, Mr. Chairman. I listened to the comments and I think they are interesting with regard to the credit-card portions of the bill and, you know, I think they are important and we should consider them. Descriptive billing. In one breath you are saying it is right, we ought to adopt legislation talking about that. We are not always dealing with ideal behavior in terms of descriptive billings so consequently there are rules and regulations.

The problem is, it is enacted as a minimum. You know, I have received some back descriptive billing on merchandise, and the slip I filled out said "merchandise," so descriptive billing would not be better.

Electronic equipment ought to work so we have more information and not less, and it can be made to do that.

The question that gets back to what both of you are saying is—and I know you didn't come prepared to talk too much about electronic funds transfer, but we are into it, you are going to be into it.

You may think you are going to have credit cards and what does electronics offer? It offers nothing. It doesn't offer credit, but the point is, credit-card companies will force individuals into accepting and using a debit card. If, for instance, checks are no longer accepted and in many instances you may not accept them now unless they are over a certain number, unless it is customer X, Y, or Z, and not from A, B, C. Or you may, for instance, not extend a charge to an individual, but today, for example, did you accept VISA?

Mr. VANCE. Yes.

Mr. GARBER. Yes.

Mr. VENTO. Master Charge?

Mr. GARBER. Yes.

Mr. VANCE. Yes.

Mr. VENTO. Someone is making money on them today. Do you offer cash discounts to customers not using those cards?

Mr. VANCE. No.

Mr. GARBER. No.

Mr. VENTO. Does it cost you money to finance a transaction for those individuals?

Mr. VANCE. Yes.

Mr. GARBER. Yes.

Mr. VENTO. The point is, you say, how are we going to deal with these things? If you grant 15 percent base for credit, there are merchants granting 95 percent, and I would say you are the exception, Mr. Vance, and not the rule.

Mr. VANCE. I think we are because of the clientele we serve.

Mr. VENTO. I think you exactly fit the prototype of the example I gave before—in other words, you are going to go, whether you want to or not, to electronic funds transfer.

Mr. VANCE. I think the other thing you have to realize is, it isn't just a debit card. We have a proprietary credit system in our company.

Mr. VENTO. I understand you maintain a choice, but in order to be competitive you have to be put in a situation where you have to go to that because you have a small margin. At least that is the impression you make today. Knowing the business in those communities, I would say it is tough for those merchants.

The point I am trying to get across is that you ought to be very interested in that. Today we say: "It is not really an alternative and we need not worry about it," but people are going to be using these debit cards and the banks are going to like them because there is no carryover charge, there is assurance of payment. There are a lot of things they get out of that they don't get from a credit card or from a check today.

Mr. GARBER. It seems to me that if one day the two major bank cards say: "No longer are these credit cards; they are now debit cards," and if I also were in the credit business, I would be delighted, because now customers would have to come to me for credit.

In the future it appears the hunger on the part of consumers is not for take money out of my account fast, the hunger is to take it out slowly.

Mr. VENTO. I agree with you, but it is being done in a very interesting way. I don't see any grand design and I am not paranoid and I don't imagine anyone else here is either. But I imagine they have got, you know, a good part of the folks now plugged into those systems and it is going to start, the erosion of benefits that existed. But you say: "They all knew what they were getting into, so they can cancel if they want to," so half cancel, and the other half don't.

Do you accept a debit card or not? Half the clients haven't used them before. Do you get rid of VISA and Master Charge? Certainly you don't. It is in your store and sitting there.

The point is, do they justify, on the basis of sales, that they can have one in Winona, Minn.? What if they can't? What is the impact on your store or other stores that may have a greater extension of credit?

Mr. VANCE. You know, in my opinion, where the limitation has been on, the banks have not pushed the cards until the last year.

Mr. VENTO. They have the fee provision.

Mr. VANCE. It is in there and it is economics. Now, the banks can afford to do it. If the customer wants that choice, it is a choice that has been given to him. In Winona, Minn., we are now fantastic. We probably increased our bank card sales there 100 percent a month. That may mean, instead of \$300 a month last month, we now have \$600. It is not a big dollar amount.

Mr. VENTO. I am trying to get across the point that you ought to be interested in that aspect of that issue if you are not right now.

Chairman ANNUNZIO. Mr. LaFalce.

Mr. LAFALCE. Mr. Garber, do you know of any credit card that does not carry with it the requirement that some statements be given to the customer at the time of the credit transaction?

Mr. GARBER. You use the word "statements."

Mr. LAFALCE. Some indication of the transaction.

Mr. GARBER. I think in all cases they receive a slip, a copy of the sales check. I think everybody's system does that.

Mr. LAFALCE. What do you think of the philosophical argument that he who has the intelligence to use a credit card must have the concomitant intelligence and responsibility to save those indications of the credit transactions that he has entered into?

Mr. GARBER. I think that is a function of the faith a particular customer has in a particular credit system. I think there is evidence here that in our two systems where we are quite close to our customers—indeed, in our system where we deal with them entirely by phone—they have demonstrated that. When they receive a statement they have not saved their duplicate copies, they believe it. It would seem to me the very same customer who may believe our statements would be well advised to not believe a nationwide bank card.

Mr. LAFALCE. Whenever they used that bank card, they would have some indicia of their transactions, would they not?

Mr. GARBER. They would. If they did not save their copy, they would not have acted wisely. In general, I feel consumers do act wisely in their own interests. In general. There are many exceptions.

Mr. LAFALCE. Requiring that this customer's statement or customer's receipt be on top rather than on the bottom—it varies. It depends on which one you are using—and that it has imprinted upon it the words "Save. This is your receipt of this transaction."

What would you think of that transaction?

Mr. GARBER. I think it is fine.

Mr. LAFALCE. If this approach is good, how do we use that approach say for a pay line system where—in some banks there are systems where you pick up the phone, call the bank and say: "Pay Crawford Department Store \$253." Now, obviously the system breaks down there.

Do you have any banks that service you in this manner?

Mr. GARBER. You may be referring to systems which involve making an agreement with the bank whereby each month you say: "Mr. Blank, I want you to pay the following bills for me each month." That is a variation of what you said.

Mr. LAFALCE. That is one variation, but there are other variations where you pick the phone up and call a bank.

Mr. GARBER. I do not know of it.

Mr. LAFALCE. What requirement should we have for more descriptive billing if we don't want to go back to country club billing?

Mr. GARBER. I think you should have the name of the store, at least the department in which merchandise was bought. If possible, a subclassification and the ideal would be the precise description of the item.

Most customers don't need the precise description of the item on a statement. I am convinced of that because of our own experience.

Mr. LAFALCE. There are grocery stores right now where you have electronic scanners and that handles your entire transaction, so you just put the can of soup under the electronic scanner and your bill is printed up and it is pretty accurate.

It would seem to me we should get very particular in our legal requirement for descriptive billing, that we could specify not just men's furnishings, but one pair of slacks, one suit, and so forth.

Since you have gone on outside of your own store, to what extent have you explored services that would provide you with a more descriptive point of billing? I will ask the question of both you, Mr. Vance and Mr. Garber.

Mr. GARBER. I recounted our experience of some 5 years ago when we tried to provide down to the classification. If that were not good enough, we would have heard from our customers.

Mr. LAFALCE. I don't accept that: "If we haven't received a complaint, obviously our service is good."

We would like to have reasonable requirements and I feel strongly about that, but I strongly suspect a good many individuals are being—I don't want to say "defrauded" but are losing money, perhaps, without being aware of it. Or mistakes are being made, in a good many instances, when the person adversely affected never becomes aware of it.

Let us go back to my original question. What would be a reasonable but fairly descriptive billing within the state of technology which exists today?

Mr. GARBER. Except that you have to be awfully careful that you don't flood a customer with a statement with so much information on it that she doesn't care to see it. The worst case might be the supermarket where every line is reproduced on the statement that was given to her on her statement in the first place. She may not want to see that.

The philosophic question needs a philosophic answer. I think the answer to the question is that whatever the customer tells us, in whatever way she tells us is her need, is what we should work our way down to.

Mr. LAFALCE. We represent the customer, we represent the consumer.

Mr. GARBER. The retail stores do too.

Mr. LAFALCE. We wanted to pass a legislation because we think there is a need and we want to do it seeking your advice. I don't want you to give us an answer that says: "Well, whatever the customer wants."

Mr. GARBER. I can tell you what I think the customer wants. I am happy to do that. She certainly wants to know the name of the store. In the broader sense, if it is a bank card, she wants to know the system.

In a narrower sense, she wants some description of the general type of merchandise which might well be described on what we call the departmental level. In some cases a subclassification. I don't think she wants more. I don't think she needs more, and I make that statement based solely on what our customers have told us by their behavior. By what they have complained about and what they don't complain about.

My recommendation for legislation is that no attempt be made to take it down to the specific description of the item purchased.

Mr. LAFALCE. How difficult would it be to virtually take a photograph of the sales bill and include that in miniature form on a billing?

Mr. GARBER. I don't know that the technology exists today. I have seen the Amoco credit card which attempts to reproduce my signature. It does a bad job. I have seen no better technology. Therefore I think the question you ask is for the future.

Mr. VANCE. I also am not aware of anything. I think possibly what you might want to consider is, should this bill be changed in some method of a proprietary plan, such as Mr. Garber's and mine; descriptive billing, I think is quite fine. I see no problem. I think the problem comes with the bank card, the American Express, Carte Blanche, and so forth. And even most of them, they have their customers and know what their customers complain about. When you get your American Express bill, you get a copy of those transactions.

You might be interested to know it was about 2 years ago that American Express now also gives you a descriptive bill. Some people don't want to bother with the paperwork.

Mr. LAFALCE. Suppose we pass legislation that says you can provide descriptive billing of whatever nature you like except for those customers who request country club billing.

You must of necessity give them country club billings on a regular basis.

Mr. GARBER. I would consider that a less desirable prospect than allowing businesses to bill under either system at their own choice, but if they choose to use descriptive billing that they must conform to certain minimum disclosures.

Chairman ANNUNZIO. Thank you very much, Mr. Garber and Mr. Vance.

On behalf of the subcommittee, I want to thank you very much for being here today. We are all very fortunate we live in a society whereby the Congress, the representative of the people, can go out into the country, as we are doing with these hearings, to get the opinions of small and large businessmen. When we write legislation in the Congress, we are writing legislation that must, of necessity, meet the requirements and standards of people in all walks of life. That is a difficult task. A difficult task does lie ahead.

I might not agree with your testimony this morning but, nevertheless, it was a very important contribution to the subcommittee. It will cause the subcommittee to examine this long and hard

before it reaches a determination with regard to descriptive billing and country club billing.

I hope we will get the assistance and cooperation of the business community in helping us resolve that particular problem, when we get to that problem. I thank you very, very much for your testimony this morning.

I am delighted, Mr. Garber, that you are one of my constituents. In order to bring you up to date, as you know, I send out a questionnaire every legislative session.

Mr. GARBER. And I answer them.

Chairman ANNUNZIO. And you answer them. I will tell you on that questionnaire, you know, all your neighbors do not agree with the statement you made this morning. If they had agreed with your statement on descriptive billing versus country club billing, I am astute enough to know what are the needs of my constituents.

I thank you very, very much.

Mr. GARBER. May I say one more thing? As a consumer, I would like to receive my bills in the form of country club.

Chairman ANNUNZIO. You are an honorable and honest man. I understand the problems of the subcommittee.

Mr. GARBER. As a businessman, I know as a consumer I will have to pay that price, and it is a high price.

AFTERNOON SESSION

Chairman ANNUNZIO. We resume the hearing and will hear from the third panel: Prof. Hugh Rank, consumer, Governors State University, Park Forest South, Ill.; John Rogers, consumer, Chicago, Ill.; Daniel Marquez, consumer, Chicago, Ill.; Lori Velco, consumer, Skokie, Ill.; V. K. Brown, consumer, Chicago, Ill.; Jerome Lamet, consumer, Assistant Regional Director, Federal Trade Commission, Chicago, Ill.; and Karl Flodstrom, director, debt management program, Family Counseling Service, Aurora, Ill.

Professor Rank.

STATEMENT OF PROF. HUGH RANK, CONSUMER, GOVERNORS STATE UNIVERSITY, PARK FOREST SOUTH, ILL.

Mr. RANK. I teach a course which focuses on the techniques of language manipulation, especially as used in political propaganda and commercial advertising. I am most concerned with providing ways for the average citizen and consumer to recognize and to understand the patterns and techniques used by the professional persuaders today.

I don't pretend to be an expert on banking, but I have a common-sense rule of thumb which I apply to language manipulation. If I can't understand a paragraph after I read it two or three times, then I assume there are a lot of other people who can't either.

Realistically, I am better trained, I spend more time, and I have more interest in language use than most people. So it is reasonable to assume if I get confused about some things, other people are also confused.

For example, here is my Master Charge statement. On the back side at the top there is a small box called important information. Within this box is a single sentence containing 178 words, 6

commas, 2 semicolons, 1 colon, 1 set of quotation marks, 4 sets of parens, 1 set of brackets, 4 roman numerals, 6 qualification words, 29 words capitalized, 4 words set in full caps and finally, after 178 words, a period.

This sentence must have been written by the William Faulkner of the banking industry. Don't ask me to diagram this sentence, but if you ever need a punishment for white-collared criminals, this might be a deterrent.

The instructions at the bottom of the page are printed in one of the smallest type sizes ever devised, only slightly larger than those engravings of the Lord's Prayer on the head of a pin.

Seriously, the printing below appears to be set solid in 6 point type condensed, using an ink with about 50-percent density, so it produces a washed out gray lettering. The result is something which may technically conform to the law, but it is unreadable, visually repelling, and designed to discourage anyone from reading it.

I speak as an individual consumer from my own experience and, as a teacher of adult students. I do not have statistical summaries or elaborate studies, but I have enough experience through my students and friends that I am convinced there are a lot more errors, mistakes, and problems in the systems than the bankers would care to advertise.

For example, here is an ad extolling the benefits of overdraft check protection. The ad says, "No embarrassment due to bouncing checks. You know your bills are paid on time. You know your credit reputation is safe."

A few weeks ago I applied for such protection. I made out the checks and then was out of town for a week. When I returned last week, I found six overdraft notices waiting for me. Eleven checks had bounced for insufficient funds, including my life insurance payment and my mortgage payment.

I also had a scolding letter from the savings and loan company which held the mortgage, hoping that my bad check would be the exception rather than the rule. My own banker was very sorry. There had been an error at the bank. Although I am not embarrassed as this ad says, I am aggravated because it is going to cost me hours of work with the checkbook, trying to straighten it out, and I have no idea at all about the safety of my credit reputation.

Another example: Last March I purchased airline tickets, then had to cancel. The bill for the purchase was listed on my March account, but the refund was not credited until August, after I had written several notes to them. Thus I paid interest for nearly half a year. Legally I am sure I could get a few dollars back, but it is not worth the time and the effort involved for me to provoke people who have tried to have an error rectified.

Since I have written this, I received a letter from a friend who knew I was going to testify here and I will submit this to you. Basically Professor Miller of California was traveling last summer in Canada, and he sent me this example of an error. Here is the billing for \$32.90 from a hotel where he stayed. Subsequently here is the bill he received at home, \$78.90, and he was a little bit upset over this error. As you can see, there is a great deal of correspondence involved: Finally, it says:

Please accept our apologies for the gross mistake. We have to admit we are at a loss as to why the cashier had indeed altered this voucher. As he cannot remember the reason for altering the once signed voucher, we can only assume that he may have lost the Maple Leaf Tour voucher and in turn to cover up his mistake changed the voucher to include the room rate in the new total. Needless to say, this individual has been severely dealt with.

But you can see the amount of correspondence.

Chairman ANNUNZIO. Would you like to make that correspondence part of the record.

Mr. RANK. Yes.

Chairman ANNUNZIO. Without objection, it is so ordered.

[The correspondence referred to follows:]

1850 Parkside Drive
Concord, California 94520

November 29, 1977

Dear Hugh,

Here is the stuff we talked about in New York. Hope it helps your presentation before the committee.

Enjoyed the visit with you. As a matter of fact, I went over to the deli after I checked out and bought some pastrami and corned beef to bring home. Couldn't think of a better way to bring home the "flavor" of New York to my family.

Hope you can make it to Denver for the 4-C's. If not, I guess I'll see you in Kansas City next year.

As ever,

Bill Miller

On August 16, 1977, William H. Miller, his wife and his daughter checked into the Calgary Inn, a Western International Hotel. Their one-night stay there was a part of a prepaid unescorted tour arranged by Canadian National Railway. At the time he checked in, Miller presented the voucher form provided by CN and noted that the voucher was stapled to the hotel billing sheet. During the stay Miller charged their dinner (\$32.40) and the service charge for a collect long distance call (\$.50) to his room. In checking out the next morning, Miller noted that the CN voucher was still attached to the billing sheet, and signed a Carte Blanche charge ticket for the additional amount, \$32.90. In its September billing, Carte Blanche billed Miller \$78.90, less \$5.33 currency conversion. Miller started to pay the bill, sensed a discrepancy and looked up his copy of the original voucher. It ~~was~~ quite clear in the attached photocopy that the voucher presented by Carte Blanche had been altered after Miller had signed it. The attached correspondence was necessary to straighten out the matter--representing a considerable drain on Miller's energy and patience. Further, in the ultimate settlement, Miller lost the benefit of the favorable currency conversion.

MEMBER SINCE	940 209 414 9	MEMBER SINCE	69	CHARGE VOUCHER	
	WILLIAM H MILLER			5064898	
CA	3 77	2 79	DATE OF CHARGE	RECORD OF CHARGE	
E S N T A D E I F S U H B N E T	375-053-0900	AMOUNT OF PURCHASE	\$ 78 90		MEMBER COPY
	CALGARY INN	TAXES			
	4th Ave. & 3rd St. S.W.	TIPS-MISC.			
	Calgary, Alta., Canada.	TOTAL	\$ 78 90		
12P 256.	APPROVAL CODE	18 17 77	CHECK OR BILL NUMBER		
MEMBER'S SIGNATURE	X <i>William H. Miller</i>		9402094149 1 X00000533224 X		
CHARGES RECORDED HEREON WERE INCURRED BY ME. I PROMISE TO PAY THIS AMOUNT TO CARTE BLANCHE ONLY.					
					

940 209 414 9
 WILLIAM H MILLER 69
 CA 3 77 2 79 5064898
 975-053-0900
 CALGARY INN
 4th Ave. & 3rd St. S.W. 18 17 77
 Calgary, Alta., Canada.
 T2P 2S6.
William H. Miller
 78 90
 78 90
 463553/

9402094149 1 X00000533224 X

Carte Blanche

CHARGES AND CREDITS "-" Indicates a credit.

In addition to regular charges (if any) the following charges and/or credits are included in the current billing for the month ending **SEPTEMBER 14, 1977**
 CAN. CHG. 78.90 CONVERTED TO AMER. 73.57
 YOUR ACCOUNT HAS BEEN ADJUSTED
 BY 5.33CR FOR 1 CHARGE(S)
 DUE TO CANADIAN/AMERICAN CURRENCY CONVERSION

5.33-
 TOTAL 5.33-

1850 Parkside Drive
Concord, California 94520

September 22, 1977

Calgary Inn
4th Ave. & 3rd St. S.W.
Calgary, Alta., Canada T2P 2S6

Att: Accounting Department

I am informing Carte Blanche that I am refusing to pay the charge you have submitted (copy attached) for the following reasons:

First, the charge voucher I signed was for \$32.90, which covered dinner and a telephone service charge made to the room. There were no further charges, since the room charge was covered by a Canadian National voucher as a part of our Maple Leaf Tour package. The original figure was altered sometime between the time my family and I checked out and the charge ticket was submitted by you to Carte Blanche. Such an alteration (commonly called "kiting") is a clearly flagrant illegal act.

Second, assuming for the sake of argument only but not admitting that such is the actual case, if there were additional charges, why weren't such charges billed to me at my home so that I might deal directly with you rather than having to go through the present fuss and bother? Any first class hotel I have ever stayed in has billed me directly for any overlooked or late charges.

I resent having to spend any of my time and energy on this matter. I expect, in addition to your admission that your accounting is in error, a complete explanation of how your hotel could condone the actions that were taken to correct the imagined error in the original billing.

William H. Miller

William H. Miller

copies: Canadian National Railway
Carte Blanche

1850 Parkside Drive
Concord, California 94520

September 22, 1977

Carte Blanche
P.O. Box
Terminal Annex
Los Angeles, California 90054

I am withholding payment on my current bill of \$73.57 because of a rather serious discrepancy between the amount on the charge voucher I signed and the altered amount on the charge submitted by the Calgary Inn to you.

Attached you will find my copy of the original charge voucher, a copy of the altered bill submitted to you and a copy of my letter dated 9-22-77 to the Calgary Inn. The problem, and the questionable, illegal action of the Calgary Inn should be readily apparent.

I will be grateful for any assistance you might offer in straightening out this matter. Thank you.

William H. Miller

William H. Miller

Acct. # 940 209 414 9

1361



Carte Blanche Corporation

3460 Wilshire Boulevard, Los Angeles, California 90010
Telephone (213) 480-3210

October 12, 1977

WILLIAM H MILLER
1850 PARKSIDE AVE
CONCORD CA 94520

RE: 940-209-414-9
AMOUNT \$46.00

Dear Mr Miller

Thank you for your letter advising us of a
disputed amount.

A temporary credit in the above amount has
been issued to your account while we investi-
gate this matter. Please retain all records
pertinent to this dispute until it has been
resolved.

You will hear from us in the near future.

Yours Truly,

A. Reynoso
Tel. (213) 480-3620

MM06 M74

AN ~~AVCO~~ FINANCIAL SERVICE

WESTERN INTERNATIONAL HOTELS



Calgary Inn

320 4th Avenue S.W., Calgary, Alberta T2P 2S6 Telephone (403) 266-1611

Executive Offices

October 13th, 1977

Mr. William H. Miller,
1850 Parkside Drive,
CONCORD, California
U.S.A. 94520

Dear Mr. Miller:

Thank you for your letter regarding the altered Carte Blanche voucher.

Please accept our apologies for such a gross mistake on our cashier's part necessitating you to write to us and pointing out an area obviously in need of improvement. Please rest assured Mr. Miller that an incident of this nature is not a common practice, but rather an exception here at the Calgary Inn.

We have to admit that we are at a loss as to why the cashier had indeed altered the voucher. As he can not remember the reason for altering the once signed voucher, we can only assume that he may have lost the Maple Leaf Tour Voucher and in turn to cover up his mistake changed the voucher to include the room rate in the new total. Needless to say, this individual has been severely dealt with.

Enclosed, please find our invoice in the amount of \$32.90, the original amount on your voucher. As you have instructed Carte Blanche to stop payment, we in turn are billing you directly for the dinner and telephone service and will recover our room charge from Maple Leaf Tours, as it should have been done originally.

Again, we are sorry you had to take the time and write us and point out our error. We hope you have had an otherwise enjoyable stay, and that we may be able to welcome you again as a visitor to the Calgary Inn.

Sincerely,

A handwritten signature in cursive script, appearing to read 'W. Simm'.

Werner Simm,
Senior Assistant Manager

1363



Carte Blanche Corporation

3460 Wilshire Boulevard, Los Angeles, California 90010
Telephone (213) 480-3210

November 15, 1977

WILLIAM H MILLER
1850 PARKSIDE AVE
CONCORD CA 94520

RE: 940-209-414-9
AMOUNT \$46.00

Dear Mr Miller

This letter is in reference to your dispute regarding a charge in the above indicated amount.

Since we have not received a reply from our associate regarding your inquiry, the temporary credit previously applied to your account will remain as a permanent credit.

Subsequently, if our associate provides us with documentation that the charge in question is valid, your account will be rebilled.

Thank you for this opportunity to be of service.

Sincerely,

A. Reynoso

Tel. (213) 480-3620

MM08 M74

Mr. RANK. These are the problems I have had with descriptive billing. In my case the brief abbreviations on the Master Charge.

I once received a bill from a city I had never visited and, after tracing this down, I eventually found out it had come from the company headquarters of a small store I had traded at. Even more confusing was an item posted last June described as editorial project, Washington, D.C.

I found out this was a subscription I had to the Chronicle of Higher Education, a weekly newspaper I had once subscribed to but was planning to drop.

I can't remember ever authorizing a subscription renewal. I may have. I am simply not sure, and the dates do not correspond to the labeling on my newspaper.

If I had such a club billing on this one, if I was able to see my signature on the authorization, I would be satisfied.

As we move toward more sophisticated banking systems using the computer, the individual needs more safeguards against such accidents and errors. People know that computers make mistakes. Garbage in, garbage out. Sometimes they are funny, sometimes they are tragic.

Consider our problem here last year in the delay of the welfare checks in Illinois.

People know computers encourage buckpassing. The vagueness and ambiguity and mystique of computer operation has created a great scapegoat. No one person seems accountable. Programmers blame problems on technicians, clerks and administrators attribute all problems to the computer.

People know that computer fraud by dishonest individuals is increasing. Newspaper and popular magazine stories in the past year have detailed accounts of millions of dollars being stolen by dishonest computer experts. A new generation of sophisticated con men who have more cleverness and expertise than older management.

This kind of computer fraud alone makes consumers worried when they find out proposed electronics fund transfer services do not have a protection for the individual.

As I understand the present arrangements, if a computer debited against my account, I would be liable. Certainly the basic consumer protection we need is basic liability protection for the individual. If the banks were to use computers for efficiency purposes, they ought to be responsible and liable for any errors not committed by the individual consumer.

There is a longstanding and deep-seated distrust of banks and bankers that cannot be erased by modern public relations campaigns or image building ads. Nor can the bankers blame the situation on one incident or one man.

Recently the Bert Lance affair caused many bankers to complain he was tarnishing their image, but in reality it has been tarnished for a long time.

We have an old, old stereotype in our melodrama portraying the banker as the evil villain foreclosing the mortgage of the hero.

Despite all the money spent for institutional advertising, most consumers are fearful and suspicious of banks which do have the

power of foreclosing or repossessing a car if an individual gets into a financial crisis.

I would urge the banks, if they really wanted to improve their public relationships, they take the leadership in trying to clarify their language, to simplify their system, to make it easy and less complicated for the average person to understand.

If the small print is too complex or complicated, it is not unreasonable for consumers to infer that it is also devious and deceitful. We need not think of public relations as a public vendor, nor should banks put themselves into an adversary position with consumers or with Government regulators. Many of these proposals in this legislation are reasonable reforms which the banking industry should be supporting enthusiastically.

If banks want popular support, they should be aware this new system of average daily balancing is seen by many people as a way of skimming off pennies from the poor. If banks seek popular support, they should be aware that many people, although they may not be able to articulate it precisely, have an intuitive distrust of a complicated flimflam game going on in billing practices. In fact, if they want popular support, they should take the leadership in providing adequate security for their computer systems and in making sure that all of the individual customers are protected and safeguarded from both computer crimes and computer errors.

Thank you.

Chairman ANNUNZIO. Thank you very much, Professor Rank. Our next witness is V. K. Brown, consumer, Chicago, Ill.

STATEMENT OF V. K. BROWN, CONSUMER, CHICAGO, ILL.

Mr. BROWN. Currently my wife and I have six major multipurpose credit cards. We have used these rather extensively. In the past 12 months our total volume of purchases was \$9,293.38. Through careful timing, in that same time we paid a total of only \$3.10 in finance charges. By paying close attention to the closing date for the card currently being used we are able to delay our payments for purchases for an average of 2 months. At 5 percent interest this means that we have made a gross profit of \$77.44, less our cost of \$3.10, for a net profit of \$74.34.

Because bank cards pay merchants only 94 or 95 percent of the face amount of our purchases they have made a handsome profit.

Assuming an average of 94½ percent paid to merchants, they invested only \$8,782.24, but in 2 months received the full face amount of our purchases. Thus, they made a gross profit—some might say a very gross profit—of \$511.14 on their investment in just 2 months. This works out to a true annual interest of some 35 percent, a rate I would very much enjoy earning on my own money.

Generally, merchants seem to feel that they also gain by accepting charge cards for purchases through resulting increased sales. Since we all pay higher taxes because of our profits, even the Internal Revenue Service is happy. The only real loser in this interesting game is the customer who pays equal prices in cash. Since almost universally such customers are unaware of their losses, just about everyone enjoys the arrangement.

While the above describes the vast majority of transactions we made in the past year, vigilance does pay. We noted the following unusual items in this connection:

First: One gasoline service station accepted our credit card for a legitimate purchase and then, on the next consecutively numbered invoice, attempted an exceptionally clumsy forgery in the amount of \$10. Since the oil company involved uses "country club billing," detection of the forgery was a simple matter. Both the forged and the genuine authorizations were returned to the oil company, along with a check for the corrected amount due. The adjustment was made without difficulty.

Second: One major resort hotel decided to increase an authorized charge from \$78.18 to \$92.64, without even bothering to forge a new authorization. While we received a credit for the overcharge two statements later, it took three requests and more than 3 months to obtain a photocopy, a very poor one, of the altered original authorization.

Third: One bank card firm indicates a line of credit for us of \$1,507. We tried to charge a purchase in the amount of \$1,344.15 with this firm. The authorization was denied. Our next statement, dated 2 days before the denial, showed that we had a credit balance of \$19.52. Some 3 weeks after our written protest, we received a profuse telephoned apology, but, of course, the apology did not save us the embarrassment of the original denial of credit.

Fourth: Another bank card firm received our check in full payment of the balance then due on the closing date of the next statement, but due to a clerical error the payment was not reflected in the next statement, and we were charged a finance charge on the past due balance. The following month's statement reflected the original payment, confirming the date it was received, but because it showed an opening balance, we were charged additional finance charges on current purchases. A telephone call eliminated the second set of finance charges, but not the first. As of this date we have no response whatever to our letter of October 1 requesting a credit for the original unwarranted finance charge.

Fifth: A \$100 cash advance, posted to our account on exactly the same date as a credit for merchandise returned, resulted in our being charged a finance charge on our own money. A letter of comment on this odd situation produced only a form letter response, outlining how finance charges are calculated and enclosing a worksheet for our convenience.

Sixth: When we decided to drop our membership with a well-known travel and entertainment card firm, our credit was cut off immediately upon receipt of our request for cancellation of the charge for the following year's membership fee, although the current membership still had some 2 months to run. Our letter of protest brought an immediate telephoned apology from an officer of the firm and also a carbon copy of a letter to the merchant involved explaining that the denial of authorization was a company error and in no way reflected on our credit trustworthiness. Our deduction of the 2 months' prorated membership fee from our final payment was also allowed by the company in question.

Section 205 of H.R. 8753 addresses itself to delayed billing. Last Friday, December 2, we finally received the bill for a stay in a

motel on June 25. Such a delay makes for very unpredictable bills, and for this reason we support section 205 along with the rest of H.R. 8753. There is, however, another way of looking at the matter: At 5 percent true annual interest we earned almost 64 cents on that money.

I wish to thank the subcommittee for providing me with the opportunity to outline our experiences of the past year with credit cards. I hope that in some small way this information will aid you in your very important deliberations. If the subcommittee wishes more specific information or documentation of any of the items described, I would be more than happy to provide whatever help I can.

Chairman ANNUNZIO. Thank you very much, Mr. Brown.

Our next witness is another consumer from Chicago, Mr. John L. Rogers.

STATEMENT OF JOHN L. ROGERS, CONSUMER, CHICAGO, ILL.

Mr. ROGERS. Mr. Chairman, I would like to begin by thanking the subcommittee for the opportunity to appear here today. This chance to be heard, to contribute and comment for a consumer is a unique experience.

Second and most important, I want to express my appreciation for being made more aware of the problems which H.R. 8753 hopes to correct. Like many, I was unconcerned because I was unaware of the potential problems and abuse of EFT. While the many abuses of the early credit card days were well reported, EFT has sort of slunk in, unannounced by its proper name. I am happy to find that the authors of this bill are practicing preventive medicine, as it were. The argument that we must wait and see what abuses occur before we act is without merit. In anticipating problems, we are learning from earlier experience.

The things that I would like to comment on here today are:

First: Several things in title I of the bill, specifically the need for the \$50 limit of liability and the need for the correction of error process.

Second: Several things that are not specifically included in title I that are of a concern to me; for example, secret number security.

Third: A few comments on title II and the amendments to the Truth in Lending Act.

In re title I, I received the greatest shock when I recently found out about my lack of limited liability. When I accepted and began to use this debit card, I assumed that it was similar to my other credit cards—it certainly looks like any other credit card. I thought that if it were lost, the most anyone could possibly get from my account would be \$50 just as the Truth in Lending Act protects consumers for credit cards.

Imagine my surprise when told my liability is limitless.

The question of liability, in my remembrance, was never raised when applying for the first card. They certainly didn't tell me in plain, old-fashioned English that if my card were to be lost or stolen that my entire life savings could be exhausted.

The provisions of S. 811, limiting consumer liability to \$50 is, in my opinion, the most important protection offered by the bill and the most urgently needed.

The problem of unlimited liability may be the most serious problem but ranking a close second, at least in terms of frustration, is the correction of errors.

The need for documenting disputed transactions was brought home to me recently and is in fact the impetus for my appearance here today.

I bank at the First National Bank of Chicago and have a first card which I showed you earlier, because it is so convenient, I often use the machine to make deposits, a cash withdrawal, or to pay a utility bill.

When I said it was convenient, that is very true; the lines are generally much shorter than at a teller cage and the transaction completed much quicker. But it is convenient only when things go according to plan. If something goes amiss, you can bet on much time and effort in getting it corrected.

I must tell you that the amount of money involved here is not a lot in absolute terms, but I can assure you that \$25 means a good deal to me and on principle it is very great indeed.

And to reveal the ending before the story, the bank was right, but for the wrong reason. I think you will agree that the fact that the bank was correct in this instance does not diminish the need for a backup system or adequate documents to resolve disputes.

In September I received my monthly bank statement and in reconciling it, noted a \$25 discrepancy. Checking the individual items closely, I saw that I had been charged with a debit for \$25. That is the top item on the sheet that I handed out.

Note the dates. August 30 stamped on, and August 29 listed as the transaction date. I have pointed these out.

This debit slip is a duplicate of a transaction that appears separately on my statement. In effect, I thought I had been charged twice for the same \$25. So began the near impossible task of correcting an error.

[A copy of the referred to debit slip follows Mr. Rogers' oral statement as app. A.]

I don't want to waste a lot of time relating what a frustrating experience this was, but a good deal of time was expended. The proper debit should have been for August 27, a Saturday transaction which I had inadvertently failed to record in my book.

The bank's explanation of the affair was that the computer was off line and that the transaction had to be posted by hand, thus the date of August 30, but they never did explain why they had sent the wrong debit slip. Evidently the other one, the correct one, didn't exist.

We all know that machines break down and there is human error, but I question if I am the only person to ever have this problem?

Two personal visits, seven phone calls—two unreturned—and 10 weeks later I finally received documented verification that the transaction was in fact mine. That is the bottom item on the sheet.

[The referred to documented verification appears as app. B following Mr. Rogers' oral statement.]

Somehow I had expected more from a bank with \$20 billion in assets.

Thus my support for S. 808 and the correction of error process outlined there, a 7-day period within which to answer a complaint seems fair to both sides and the technology exists if the institutions are forced to use it on behalf of the consumer.

Several topics relating to EFT are not mentioned specifically in title I and are of concern to me. The first is the interpretation of the term "purchase transaction" defined in S. 802 as a transaction in which a consumer purchases goods, property, or services or repays extensions of credit, primarily for personal, family, or household purposes.

My reading of the section gives it quite broad bounds but I am unable to determine for certain whether the payment of utility bills through an EFT machine is in fact a purchase transaction. If it is, then later sections of title I would afford, in my opinion, adequate protection. If, on the other hand, the payment of such bills is not included, then a potential conflict will continue to exist.

The procedure for payment today is after first making initial contact with the machine, to place the bill stub in a special envelope, push the appropriate buttons to register amount and then deposit the envelope into the machine upon command. In return you receive a receipt similar to this one that lists the amount and a transaction code, for example, "No. 41, payment deducted from your checking account. Please mark your records accordingly."

Sounds fair enough, but the problem is, what happens if the bill stub is lost in the shuffle and never reaches the utility company? Will Commonwealth Edison accept the fact that I gave my payment to the bank? Far worse, will Northern Illinois Gas demand that the consumer pay a second time until the dispute is settled?

I propose that payment of bills be specifically included in the definition of "purchase transaction" so the safeguards of S. 806 will apply.

My last comment on EFT deals with secret numbers and their security.

Congressman Annunzio's remarks in the Congressional Record are revealing. Over one-half of all cardholders surveyed have written their secret number on their cards.

Writing the number on the card does not apply to me, but my concern here is that possibly the four digit secret number is part of the account number embossed on the card, embossed in some form that if the card were lost or stolen, the secret number would be subject to compromise.

It has been reported and I know from personal experience that credit card numbers do reveal characteristics about their holders; for example, the Sears credit card carries a number for the issuing store, and the American Express card carries a three-digit code which is a general estimation of the holder's creditworthiness.

While I am sure that some information of this type is neutral and indeed could be helpful in foiling unauthorized use, other information in this case, a secret number, cannot be included if it is in some decipherable form.

In my case, the first two digits and the last two digits of my account number reveal my secret number, thus I have no reason to write it on my card. It has been done for me.

When I asked if this was common practice or procedure, I was told it was merely coincidental. I want to make sure that it is.

If I may, a few words on credit cards and, more specifically, section 205 of title II which amends the Truth in Lending Act, and prohibits the method of finance charge known as ADB with current charge.

It seems highly unfair when credit cards were issued with one method of computing a finance charge to then allow a change to this offensive method, especially when accompanied by an indecipherable disclosure statement.

It seems doubly unfair when the credit card company's entire emphasis is not for the consumer to pay his bill in full, but, rather, to send in a few dollars to satisfy some minimum amount. Predominantly displayed on each statement of account is the minimum acceptable payment thus encouraging consumers to bear added interest costs for past purchases.

That is bad enough, but now they want interest on current charges because they have induced us to roll over the previous balance.

Is it any wonder American consumers are in debt and there were so many bankruptcies last year? This method of computing a finance charge must be abolished.

Finally, gentlemen, a confession. I have trouble understanding some disclosure statements. I went to my files and read some and will admit that some are better than others but on balance they are not easy to understand.

I applaud proposed section 174 which requires a readily understandable explanation to accompany any amendment, but if past experience is any predictor of the future, there is little hope. I hate to end on a cynical note, but if I had just one prediction, I would predict that Diogenes will find his honest man before the consumer receives a readable disclosure statement.

Again, I would like to thank you for the opportunity to testify and add my support to H.R. 8753.

Again, I congratulate you for action on a problem instead of reacting and for dealing with the situation prospectively and not in retrospect.

Thank you.

[The material referred to by Mr. Rogers in his statement follows:]

APPENDIX A

First Card.
 Receipt
 The First
 National Bank
 of Chicago.

DEBIT

STATUS CODE	LOC NO	USERS REMAINING	CARD EXPIRES	TRANS CODE	DATE OF USE MONTH DAY YEAR	AMT	TRAC	AMT	SERIAL NUMBER

R/T NUMBER	YOUR ACCOUNT NUMBER	TRANS CODE	AMOUNT

AUG 30 1977

⑈ 4042233⑈ ⑈0000002500⑈

APPENDIX B

TERMINAL 6064 8-27-77

John L. Rogers
 1024 CATALPA
 NO. 507
 CHgo. IL 60626

Sen. 11 TIME DAY DEBIT ^{00A} CASH

- 9644 0352 SAT 10125438 401233 11 CSIC - 25.00 - DEBIT
25.00-

Chairman ANNUNZIO. We appreciate your statement relating all of your experiences. I am sure they will help the subcommittee in its further deliberations on this legislation.

Daniel Marquez is also a consumer from Chicago.

STATEMENT OF DANIEL MARQUEZ, CONSUMER, CHICAGO, ILL.

Mr. MARQUEZ. I would first like to thank the chairman of this subcommittee for bringing these hearings to the people so that our input could be added in regards to your pending legislation concerning the credit card industry. It was impossible for most consumers to fly to Washington and testify before your subcommittee at your first round of hearings. These field hearings afford the average consumer the only opportunity to voice her or his concerns regarding the proposed changes. We thank you.

In the few minutes I have I would like to express my feelings on three issues that your bill concerns itself with. The first issue deals with the advent of the monthly service charge that some banks have started which penalizes the credit-card holder who faithfully pays his monthly bill in full. I can assure you if Continental Bank or the First National Bank of Chicago ever imposed this charge on to my account, I would not hesitate 1 minute to get the scissors out and cut those cards to ribbons. When I applied for those cards there was an implied understanding on my part that if my bill was paid on time, that I was the kind of credit-card holder the bank was looking for.

For the past 4 to 12 years every month I have paid my bill within the grace period allotted to me. And now the banks want to penalize me for paying my bill on time. This is incredible. I'm damned if I do and damned if I don't. Sure, I'm a convenient credit-card holder, what's wrong with that? The banks still get their 2 or 3 percent from every purchase that I make. How much more do they want? I'll just go back to using legal tender for my purchases, that's all.

The second issue centers on certain credit card companies utilizing the previous balance method. This, as you know, is when a consumer receives a statement with a \$200 balance and she or he does not make full payment of the \$200 by the payment due date, no consideration is given for any payment that she or he makes. The next statement then shows a finance charge on the total \$200.

This happened just last month to a good friend of mine. When she received her bill of \$200 she nor her husband could recall a \$20 charge on the bill. The name of the retailer on the bill did not look familiar so she decided to question the charge. She promptly mailed a \$180 check to the credit-card company. When she called to inquire about the \$20 purchase she was told that their receipt could not be found, but that she should have paid the \$20 anyway and they would have credited her account later.

Sure enough, she made new purchases the following month and when that month's statement came there was a finance charge on the entire \$200 of the previous statement. Now is that fair? I believe that there has to be credit given to the account that is paid and a finance charge imposed on the balance only if it is proven that it was not an error made by the credit-card company.

The third issue that I would like to speak on concerns the new electronic funds transfer system. First of all, one of the reasons that I use a credit card is that I can charge something and not have to pay for it right away, but that by the time the monthly statement arrives, I can then pay it off. Now this debit card comes along whereby there is an instant transfer of funds from your savings or checking account at the time of purchase of goods. If I would want to pay my bill when I make a purchase, I would pay either by cash or by check. I don't want funds drawn out of my account every time I buy something.

I think the whole concept behind the debit card is suspect and should be investigated further. Are the banks slowly trying to phase out the credit card and go to the debit-card system entirely? Granted, there's less paperwork involved with the latter, yet that shouldn't be the only consideration.

The other question that I have regarding EFT is one that concerns itself with the first amendment right-to-privacy issue. I think that this subcommittee should look very carefully at this aspect because I see potential problems in this area when you have the kind of setup whereby a retailer can call the consumer's bank and ask if there are sufficient funds to cover the purchase. What kinds of safeguards are there to prevent unwarranted and unauthorized entry into a person's bank records when you have a retailer already allowed to get certain information under the debit card system. This unfortunately comes at a time when a person's right to privacy is being eroded more and more by recent court decisions and recently enacted laws by Congress. We, as Americans, can ill afford any further erosion of this cherished freedom.

Thank you for your time and patience and I hope that these hearings prove beneficial not only to your subcommittee, but to consumers throughout the country.

Chairman ANNUNZIO. Thank you, Mr. Marquez, for a very fine statement.

**STATEMENT OF LORI VELCO, CHAIRWOMAN, SKOKIE
CONSUMER AFFAIRS COMMISSION, SKOKIE, ILL.**

Ms. VELCO. This subcommittee is to be commended, not condemned, for taking testimony on electronic funds transfer systems—EFTS—legislation even before the Electronic Funds Transfer Commission made its recommendations. Computers pose many problems for the consumer. In this presentation I would like to relate specific problems caused by computers or their programmers in the area of credit cards and automatic banking cards.

The EFTS differs from present credit cardholders and commercial relations in that:

One: There is no provision to hold the consumer harmless in the event that EFTS cards are lost, or more possible with common use, stolen.

Two: There are increased probabilities for computer error with the expanding of computer transfer of information.

Three: There is no specific time frame for credit adjustments.

Four: There may be problems because of unauthorized access to consumers' personal accounts by individuals with whom the consumer has no direct commercial relationship.

Five: All of the above disadvantages and risks are masked in a sea of promotional efforts that distorts, omits and misleads the consumer into believing that once again she is about to get something for nothing.

Banking interests are moving at an alarming speed to introduce aspects of the EFTS concept. Consumer groups and consumers as well are not moving as rapidly as the bankers to study all the ramifications of EFTS. These hearings are vital to the common welfare.

Consumers don't realize their great power. The power to say no. "No, I do not want another credit card. No, I will not use another credit card. No, I will not pay an unfair interest charge." Many consumers are unaware that where there is competition, the businessman needs the consumer more than the consumer needs the businessman.

Even consumers whom one would expect to be sophisticated in the use of credit cards are not. A high school teacher of consumer education admitted to me that impulse buying caused him to charge about \$600 via Master Charge in a local foodstore chain during 1 month. A resident of the neighboring village of Lincolnwood reported that she received her Arco gasoline statement with a credit balance of \$10 and finance charges. She was puzzled by this since she wrote a check for the entire charge of \$59.05 and sent it to Arco promptly. She called the Arco Co. to learn that although she wrote a check for \$59.05, her bank, the Bank of Lincolnwood, paid out only \$49.05. She had to inform the bank of the discrepancy. The bank determined it to be a computer error and apologized. Arco canceled the finance charge when the additional \$10 payment was forwarded and the consumer was inconvenienced, but not monetarily penalized.

Those who find EFTS computers making errors may not be so lucky. EFTS pitfalls are not publicized. Bankers and merchants seem to be rushing into EFTS because they believe that there is great profit to be made. When appearing before governmental bodies or consumers, that is, anyone outside their club, they wear their poor suits, shake their tiny shoulders and, with misty eyes, profess there is no profit in their endeavors. Only inside the club, when they are with their peers, do they don their silk suits, and hats, and snort black smoke for a maximization of profit. Wary customers have noticed what this subcommittee has noticed, that businessmen cry poor as they count the cash.

My bank is eagerly pushing the automatic banking card. I was amazed when the Skokie Trust & Savings Bank mailed me an automatic banking card. I did not request the card nor did I know it would be mailed to me. I was encouraged to use this card as a convenience to get money from my account 24 hours a day, 7 days a week. Well, I don't need that convenience. I never yet have needed \$700 at 3 in the morning. This feature was not a selling point for me. I was curious to see if there might be some reason for me to use the card.

The literature which the bank publishes to encourage people to use this service is very confusing. An ABC account is advertised as offering free checking, cash 24 hours a day, automatic monthly interest, a free safe deposit box, free personalized checks, preferred

loan rates, reserve credit, automatic transfer of funds and an automatic banking card. One would think the automatic banking center is the ABC account and offers all of the above. Careful reading indicates that the automatic bank card only offers most of the services which the bank provides automatically and quickly 24 hours a day, et cetera, and the additional privilege of cashing checks at a specific chain grocery store and a specific chain department store. These stores offer their own cards for this purpose. Therefore, this is no new inducement at all.

Separate agreements are necessary to qualify for the free safe deposit box, free checks, et cetera. In paragraph 5 of the very finely printed electronic service agreement, the persevering reader learns that the bank will terminate the agreement in the case of legal restrictions; that the bank assumes no responsibility for mechanical failure and asks the customer to waive all claims except in cases of gross negligence.

When I spoke to a bank official for clarification of this confused advertising, she wouldn't mention any problems with bank limitations or liabilities. The most conscientious consumer would not be aware of any personal liabilities. Until consumers become aware of all EFTS ramifications and their vast power, regulations such as H.R. 8753 are necessary lest consumers sink into the depths of an unintelligible ocean of machine mechanism.

I have carefully read the above mentioned bill and have already voiced a concern to a staff member.

Under EFTS, funds are to be transferred to an institution promptly to complete a purchase transaction. However, there is no consideration made for credits. Let us say that a customer uses EFTS to purchase an item. The transaction is completed by transferring funds from the customer's account to that of the institution. If the customer decides her purchase was a mistake and returns the merchandise, the customer has neither merchandise or funds until another transfer occurs. I recommend a specific time be allowed to credit a customer's account via EFTS.

Although the issue of privacy is not the purview of this subcommittee, I would urge you to make strong recommendations to the Subcommittee on Financial Institutions Supervision, Regulation, and Insurance in regard to the serious potential for institutional and governmental violation of privacy. Computers can recall stored information with such ease and in such detail that it may tempt institutions and governments to misuse the data. This could be an even greater area for study.

Today people interacting with others in this society often results in a hassle, but when people have to interact with machines, it can be terribly frustrating. We become angry with the machine that takes our money and sends down the coffee but not the cup. But we have little recourse. The recorded answer service at the other end of the phone can only repeat what is programmed. It cannot answer questions, indeed it cannot discern an important message from one that is not. But woe to us if we perfect a machine that has discretion, for then we will be entering the year 2001 and the Hals of computers may take over.

EFTS and the oceanliner Titanic seem to have much in common. In fact, as I study this system and its implications for consumers, it

looks to me that the Titanic had only one feature that the EFTS does not have and that is an orchestra.

Chairman ANNUNZIO. Thank you, Ms. Velco, for a very enlightening statement. I am sure the committee members feel as I do. I appreciate your taking the time to be with us today.

Our next witness is Jerome Lamet who is appearing as a witness. Mr. Lamet is Assistant Regional Director of the Federal Trade Commission of Chicago.

STATEMENT OF JEROME LAMET, ASSISTANT REGIONAL DIRECTOR, CHICAGO REGION, FEDERAL TRADE COMMISSION, TESTIFYING AS A CONSUMER

Mr. LAMET. I am not speaking for the Commission and decided to speak from notes.

I am here not in the official capacity of the Federal Trade Commission, but as a private citizen who has been in the consumer protection work for about 20 years, so the experience I bring to you today is from not only working with the Commission, but also in talking and working with consumer groups over a number of years. I am going to address myself to title I, although I do support title II, and I think that the provisions in title II are important to the consumer.

I have some very basic concerns with title I because it addresses this revolution of EFTS. I think the bill is a good one, but let me discuss some of the problems I have with not only the bill but also the whole onslaught, juggernaut for EFTS, in this country. I am not too sure that the consumer really needs EFTS, nor does he want it; nor am I sure that the consumer knows how this new system that is occurring in this country is going to work for him or against him. Little, if anything, is really known about the system.

I attended the Chicago hearings of the National Commission on EFTS several months ago as an observer, and, as I sat in the audience and saw how few consumer representatives were present and how the audience was pretty well stacked with banking interests from all sides, I became concerned that this was a juggernaut that was going to happen whether the consumer wants it or not.

Some of the talk at that meeting was to the effect if we put in EFTS, the consumer is going to save money. In other words, if we become more efficient, we will be able to lower our interest rates and therefore the consumer, in the long run, will benefit.

I heard the same talk several years ago when another computer system was being introduced in this country, universal product code, that was a system where you would automatically go through a supermarket not knowing what you were paying for and hoping you would get at the end a bill which would itemize all of the groceries. Because of consumer groups and other consumers concerned, legislation was passed in several States requiring at least the marking of the merchandise in the store. I see this same thing happening with EFTS, and I think there should be some consumer concern.

Basically what I am saying is, will this benefit the consumer? Will it be a better service for the consumer; and will it give them the lower interest rates or the lower service charges that everybody in the industry seems to be referring to?

There are some serious problems with regard to competition as far as EFTS is concerned, as I see it. As you are aware, the Federal Trade Commission, in addition to being a consumer protection agency, is one of the two antitrust agencies and obviously we are concerned with competition wherever competition may in some way be impeded.

My concerns are basically this: Will small business, small financial institutions, have access to the systems once they are installed? If they do not have, will smaller financial institutions have to go out of business? If that is true, if they do go out of business, it means increased concentration in the banking industry. Will the neighborhood banks and savings and loans be able to survive if they cannot hook up into an EFTS system, and although the industry is now saying that it will be available to everybody, I think that these are concerns that must be carefully looked at before we wake up and find the neighborhood banks gone.

In all instances, when you do have increased concentration, where monopoly or oligopoly occurs in the long run, the consumer suffers because what he gets is higher prices and poorer service.

Examples, I think, in the marketplaces are rampant. We have fewer automobile makers today; therefore, we have higher prices for automobiles and poor service, incidentally. The steel price problem, which has recently been talked about, only several years ago before foreign imports were able to come in and compete pricewise, we had talk that the steel prices were too high because there was a lack of competition. And on and on and on.

I therefore think we should be concerned with protecting the viability of the smaller neighborhood financial institutions, and if EFTS is going to force them out of business, this is something the committee should be concerned with.

Chicago is unique because it does have currency exchanges, and I think this is something you might want to look at. Currency exchanges act as ghetto banks for a number of consumers who do not get to neighborhood banks because there are no neighborhood banks. Recently in Chicago, in the last few months, there have been some concerns that the rates for cashing checks have increased and the State has taken action by passing legislation to prevent it.

So the smaller financial institution's viability is an important one.

What about the impact on small business generally? If EFTS is installed in department stores and giant chains and everybody operates with a plastic card, will this mean that the smaller retailer will have to go out of business? My father happens to be a smaller retailer and I am sure at this stage or at any stage he is not going to be able to afford to tie up into a very expensive terminal. If his customers do not have chargeplates, checks or cash, but only a debit card, then he will have to go out of business, and if this occurs, of course, we have one less seller in the marketplace. And since we must preserve some sellers in the marketplace possibly in order to have competition, especially price competition, it is essential that we look at the impact on small business, especially small retailers, if EFTS is installed.

One other impact I see which I do not believe has been discussed—at least it wasn't discussed at the national commission meeting—and that is the impact on employment. As I understand the reason for installing EFTS is to cut down on the number of hours that are necessary, today, to actually take care of the checks that are going through the system, although a banker admitted to me during the recess that the number of checks that are going through the system are being reduced anyway because of the increased use of credit cards, which is rather ironic.

If this system is put into play, obviously people are going to lose jobs, and since we have a serious job problem in the United States, today, I don't know whether we can afford at this time to install a system with the idea it is going to save money, without taking some look at how many jobs it is going to displace.

This is particularly true, as I said before, when we are talking about the small retailers' effect. If the small retailers go out of business, they, of course, will lay off people. We have heard a lot of stories about factories that closed their doors, but very little about the thousands of businesses in the State of Illinois, small businesses, that have gone out of business, especially retailers, who also employ people, and it is probably far greater than the number of factories that have closed.

Specifically, I would like to address myself to the bill because if the technology is going to be here, H.R. 8753 must come into place, and I think there are some basic concerns with the bill. Section 803(b) refers to contracts being in understandable language, or being in readily understandable language.

This is a phrase used by the Congress in a number of other pieces of legislation, and since I have been in the business of trying to interpret statements like that when we get into the law enforcement area, let me just give you some thoughts about that.

"Readily understandable language" may sound as if everybody understands what it means, but does it really mean, for example, that a Spanish-speaking consumer, who is being sold EFTS, with an ad or a radio commercial, will his contract be in Spanish? A literal interpretation of that would say he should have the contract in Spanish, but we all know that it will not be in Spanish because we have had similar situations in the Truth in Lending Act, where the contracts are not in Spanish until certain States passed laws requiring it.

In addition to that, we have had a past history—just recently the Warranty Act, in which similar terms were used—that the warranties had to be in readily understandable language.

I have just returned not too long ago from a national conference on the update of the Warranty Act, and everybody was agreed that the warranties have gotten longer and more complicated, and nobody really understands them, so I think some attention ought to be addressed to that particular phrase.

I would suggest if we cannot define it more clearly in the bill, that perhaps the Federal Trade Commission be given rulemaking authority to assure that rules are passed so those disclosures are readily understandable.

Section 803(b) (6) and (7) refer to the consumer's right to stop payment. I think it is an excellent section of the bill. Of course, as

CONTINUED

1 OF 2

THE CONSUMER CREDIT PROTECTION ACT AMENDMENTS OF 1977

HEARINGS BEFORE THE SUBCOMMITTEE ON CONSUMER AFFAIRS OF THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES NINETY-FIFTH CONGRESS

FIRST SESSION

ON

H.R. 8753

A BILL TO AMEND THE CONSUMER CREDIT PROTECTION ACT TO SAFEGUARD CONSUMERS IN THE UTILIZATION OF ELECTRONIC FUNDS TRANSFER SERVICES; AND TO PROTECT CONSUMERS IN THE STABILIZATION OF CREDIT CARDS; AND FOR OTHER PURPOSES

PART 3

DECEMBER 5, 1977

CHICAGO, ILL.

Printed for the use of the
Committee on Banking, Finance and Urban Affairs



MICROFICHE

55913

**THE CONSUMER CREDIT PROTECTION
ACT AMENDMENTS OF 1977**

NCJRS

HEARINGS

NOV 2 1978

BEFORE THE

SUBCOMMITTEE ON CONSUMER AFFAIRS

OF THE

COMMITTEE ON

BANKING, FINANCE AND URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

H.R. 8753

**A BILL TO AMEND THE CONSUMER CREDIT PROTECTION ACT
TO SAFEGUARD CONSUMERS IN THE UTILIZATION OF ELEC-
TRONIC FUNDS TRANSFER SERVICES; AND TO PROTECT CON-
SUMERS IN THE STABILIZATION OF CREDIT CARDS; AND FOR
OTHER PURPOSES**

PART 3

DECEMBER 5, 1977

CHICAGO, ILL.

Printed for the use of the
Committee on Banking, Finance and Urban Affairs



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1977

HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

HENRY S. REUSS, Wisconsin, *Chairman*

THOMAS L. ASHLEY, Ohio
WILLIAM S. MOORHEAD, Pennsylvania
FERNAND J. ST GERMAIN, Rhode Island
HENRY B. GONZALEZ, Texas
JOSEPH G. MINISH, New Jersey
FRANK ANNUNZIO, Illinois
JAMES M. HANLEY, New York
PARREN J. MITCHELL, Maryland
WALTER E. FAUNTROY,
District of Columbia
STEPHEN L. NEAL, North Carolina
JERRY M. PATTERSON, California
JAMES J. BLANCHARD, Michigan
CARROLL HUBBARD, Jr., Kentucky
JOHN J. LAFALCE, New York
GLADYS NOON SPELLMAN, Maryland
LES AUCCOIN, Oregon
PAUL E. TSONGAS, Massachusetts
BUTLER DERRICK, South Carolina
MARK W. HANNAFORD, California
DAVID W. EVANS, Indiana
CLIFFORD ALLEN, Tennessee
NORMAN E. D'AMOURS, New Hampshire
STANLEY N. LUNDINE, New York
HERMAN BADILO, New York
EDWARD W. PATTISON, New York
JOHN J. CAVANAUGH, Nebraska
MARY ROSE OAKAR, Ohio
JIM MATTOX, Texas
BRUCE F. VENTO, Minnesota
DOUG BARNARD, Georgia
WES WATKINS, Oklahoma

J. WILLIAM STANTON, Ohio
GARRY BROWN, Michigan
CHALMERS P. WYLIE, Ohio
JOHN H. ROUSSELOT, California
STEWART B. MCKINNEY, Connecticut
GEORGE HANSEN, Idaho
HENRY J. HYDE, Illinois
RICHARD KELLY, Florida
CHARLES E. GRASSLEY, Iowa
MILLCENT FENWICK, New Jersey
JIM LEACH, Iowa
NEWTON I. STENERS, Jr., Maryland
THOMAS B. EVANS, Jr., Delaware
BRUCE F. CAPUTO, New York
HAROLD C. HOLLENBECK, New Jersey

PAUL NELSON, *Clerk and Staff Director*
WILLIAM P. DIXON, *General Counsel*
MICHAEL P. FLAHERTY, *Counsel*
GRASTY CREWS II, *Counsel*
MERCER L. JACKSON, *Minority Staff Director*
GRAHAM T. NORTHUP, *Deputy Minority Staff Director*

SUBCOMMITTEE ON CONSUMER AFFAIRS

FRANK ANNUNZIO, Illinois, *Chairman*

GLADYS NOON SPELLMAN, Maryland
BRUCE F. VENTO, Minnesota
CLIFFORD ALLEN, Tennessee
FERNAND J. ST GERMAIN, Rhode Island
JOSEPH G. MINISH, New Jersey
WALTER E. FAUNTROY,
District of Columbia

CHALMERS P. WYLIE, Ohio
MILLCENT FENWICK, New Jersey
THOMAS B. EVANS, Jr., Delaware

CURTIS A. PRINS, *Staff Director*

CONTENTS

STATEMENTS

	Page
Baer, David D., executive vice president, First National Bank of Freeport, Freeport, Ill.; chairman, Electronic Funds Transfer Committee, Association for Modern Banking in Illinois (AMBI)	1418
Baker, Richard J., assistant vice president, Commercial National Bank of Peoria, Peoria, Ill.; representing the Illinois Bankers Association	1417
Brown, V. K., consumer, Chicago, Ill	1365
Clark, Ken, staff representative, Wisconsin AFL-CIO, Milwaukee, Wis	1328
Eisendrath, Jack N., attorney-at-law, Milwaukee, Wis.; member, board of directors, Wisconsin Consumer League	1330
Fary, Hon. John G., a Representative in Congress from the State of Illinois	1300
Flodstrom, Karl R., director/counselor, financial division, Family Counseling Service, Aurora, Ill	1380
Gall, Ron, director, member of board of directors, Wisconsin Consumer League, Milwaukee, Wis	1326
Garber, Alan J., president, Crawford Department Stores, Chicago, Ill	1340
Gitles, Arlene, Consumer Coalition, Skokie, Ill	1318
LaFalce, Hon. John J., a Representative in Congress from the State of New York	1300
Lamet, Jerome, Assistant Regional Director, Chicago region, Federal Trade Commission, testifying as a consumer	1376
Leveck, Terry, representing the Illinois Department of Aging	1386
Marquez, Daniel, consumer, Chicago, Ill	1372
Partee, Cecil, commissioner, Department of Human Services, Chicago, Ill	1301
Quigley, Daniel, chairman of the board, Electronic Funds Illinois, Inc., Chicago, Ill	1306
Rank, Prof. Hugh, consumer, Governors State University, Park Forest South, Ill	1354
Rogers, John L., consumer, Chicago, Ill	1367
Rosenblum, Dan, staff attorney, Legal Assistance Foundation of Chicago, Chicago, Ill	1323
Ruf, J. Frederic, vice president, M. & I. Marshall & Ilsley Bank; president, TYME Corp., Milwaukee, Wis	1399
Ryan, Agnes, attorney-at-law, Chicago, Ill	1321
Skopec, Kenneth A., president, Mid-City National Bank of Chicago, Chicago, Ill.; representing the Illinois Bankers Association	1421
Vance, Craig R., credit manager, Spurgeon Mercantile Co., Chicago, Ill	1343
Velco, Lori, chairwoman, Skokie Consumer Affairs Commission, Skokie, Ill	1373
Vento, Hon. Bruce F., member of the subcommittee	1299
Wylie, Hon. Chalmers P., ranking minority member of the subcommittee	1295

ADDITIONAL INFORMATION SUBMITTED FOR THE RECORD

Annunzio, Hon. Frank chairman, Subcommittee on Consumer Affairs, opening statement	1293
Flodstrom, Karl L., prepared statement	1383
McClain, Tom J., vice president and consumer loan administrator of the National Bank of Greenwood, Indianapolis, Ind	1394
Rank, Prof. Hugh, correspondence submitted re Carte Blanche charge ticket error of Prof. William H. Miller	1357
Rogers, John L., appendixes attached to statement:	
A. First National Bank of Chicago incorrect debit slip, copy of	1371
B. Documented verification	1371
Ruf, J. Frederic, prepared statement	1404
Wylie, Hon., Chalmers P., opening statement	1297

THE CONSUMER CREDIT PROTECTION ACT AMENDMENTS OF 1977

MONDAY, DECEMBER 5, 1977

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSUMER AFFAIRS OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Chicago, Ill.

The subcommittee met, pursuant to notice, at 10:25 a.m., in room 2535, Dirksen Federal Office Building, Chicago, Ill., Hon. Frank Annunzio (chairman) presiding.

Present: Representatives Annunzio, Vento, and Wylie.

Also Present: Representatives John J. LaFalce of New York and John G. Fary of Illinois.

Chairman ANNUNZIO. The meeting of the Subcommittee on Consumer Affairs will come to order.

This morning I want to welcome to Chicago my distinguished colleagues of the Congress who have joined me for the session on the hearings on credit cards and electronic fund transfer systems.

These hearings were originally scheduled for December 5 and 6. The hearings of tomorrow have been canceled because, as many of you know, we are faced with a logjam in the Congress and we have been called back to work. We are waiting for the conference report on the HEW appropriation. There is a possibility of the conference report on social security and there is a District of Columbia appropriations bill.

The hearings for tomorrow will not be held. Instead, we have combined the witnesses for today and tomorrow so we are hoping to conclude the hearings today.

We have already held 8 days of hearings on this subject. Two days of hearings have been spent on what I have termed educational hearings so that the committee could probe and get facts as to how the credit card industry is working and what is the public reception as far as EFTS is concerned.

As you know, the credit card industry is something we know very little about.

As I go deeper into the credit card industry, I am beginning to find out the industry itself doesn't know too much about the credit card industry.

I am delighted this morning that Congressman Wylie can be here. He is the ranking Republican on the subcommittee from Columbus, Ohio. I have had the privilege and the pleasure of working with Congressman Wylie for several years on the Consumer Affairs Subcommittee.

He has been nonpartisan as far as consumer legislation is concerned. It was through his efforts that we were finally able to pass more legislation on our subcommittee than has been passed in the last 14 years.

As most of you know, the committee is responsible for the Equal Credit Opportunity Act, the Fair Credit Billing Act, the Fair Debt Collection Practices Act, and several other pieces of legislation that have been signed into law. Congressman Wylie, I thank you very much for being present.

We also have with us my distinguished colleague from the city of Chicago who is a member of the Public Works Committee and who is very dedicated to his responsibility in the Congress, Congressman Fary of the Fifth District of Chicago. Mr. Fary, I am happy that you are with us this morning.

Then we have my good friend, Congressman John LaFalce, who traveled from Buffalo, N.Y., to be with us today, a member of the House Banking, Finance, and Urban Affairs Committee. I am grateful for the efforts you have made to be with us this morning.

Now, to my right is Congressman Vento. He is from Minnesota and a member of the House Banking, Finance, and Urban Affairs Committee. Though he is not here at the moment to hear me extend my deep appreciation, I want the record to show I am deeply grateful for his being with us this morning.

The House Banking Subcommittee on Consumer Affairs begins its field hearings on H.R. 8753, the credit card-EFTS bill which I introduced on August 4. The bill was cosponsored by five other Congressmen, including Congressman Minish and Congressman Vento.

These are the first field hearings I have held as chairman of this subcommittee. I am doing so because this legislation is vitally important to all Americans.

I want to remind the members of the press these field hearings will be continued throughout various sections of the country. We intend to go to the people. We intend to go to Minnesota; we intend to go to Ohio.

You know, Congressman Wylie comes from Columbus, Ohio, and it is a coincidence that Columbus, Ohio, has a pilot project on the EFTS system and that is our reason for going to Columbus. We then want to go to Minnesota and we are hoping we can go to California.

Some people will ask, why come to Chicago? Because the chairman is from Chicago. The chairman loves Chicago. The chairman loves the people of Chicago.

In addition, Chicago is the third largest financial community in America, so there is every reason for us to be here this morning in Chicago.

It is essential that Congress have a grassroots knowledge of what local people around this country feel are the problems with credit and debit cards.

I have been asked on many occasions why this legislation is needed. It has been suggested that if consumers are unhappy with credit cards, they should stop using them and thereby solve the problem. Unfortunately, it is not as easy as that. If credit cards were only a convenience, it would be a simple matter to give them

up. But it is virtually impossible to function in today's economy without credit cards.

It is difficult to rent a hotel or motel room without a credit card, and it is impossible to rent a car without a credit card. Cashing a check without one and, in some cases, two credit cards is next to impossible. In many cases consumers who don't have credit cards are considered second-class citizens, at least economically speaking.

For example, in many hotels and motels guests who wish to pay cash are not allowed to charge any expenses to their room with the thought of paying off the entire amount at checkout time.

A person with a credit card can order champagne and a seven course meal from room service and pay for that at checkout time, but a cash customer can't even order a hamburger without cash up front.

There are more than 560 million credit cards in circulation today and more and more it is the necessity of a credit card rather than the convenience that accounts for the growing number of credit cards.

It has been suggested that consumers who do not like the credit card practices of a particular financial institution should switch and get another credit card. Unfortunately, most consumers do not realize that all Master Charge or all VISA cards—formerly BankAmericard—are not the same. They do not realize that each financial institution that issues such cards are separate operations. Instead, the consumer feels that he or she is on a take it or leave it basis with a particular credit card.

When credit cards were first marketed, consumers were promised the Moon. But now that credit cards have become a way of life, those promises are being broken. That is why I introduced this legislation which in effect says to the credit card companies, you must keep the promises you made to the public. I do not feel that is unrealistic nor is it an attempt to hurt credit-card companies.

Consumers pay the major share of credit-card costs. Why should they be saddled with new charges and reduced services? In most States consumers are charged 18 percent a year on credit-card accounts. Certainly that interest payment should entitle the consumer to better treatment instead of new charges.

Shouldn't an interest payment of 18 percent provide consumers with copies of sales slips? Shouldn't 18 percent be enough so that billing methods don't have to be manipulated to provide increased fees?

Shouldn't 18 percent be enough to guarantee consumers that the credit card contracts will be written in easy to understand terms instead of the gibberish that is common in these contracts as can be easily seen from the example on display here today. And even in those states whose usury laws are lower than 18 percent, the finance charges should provide enough income for the credit-card companies. After all, I have not heard of any credit-card company going bankrupt.

One of the provisions of the legislation would require credit-card companies to return copies of the sales slips to the consumers each month, a practice which is called country club billing. I have been told by industry representatives that such a requirement would cost the industry \$616 million. I can only assume that when the

industry discontinued this practice that it saved this money, yet I can see no evidence that any of the savings were passed on to consumers.

Since the initial hearings were held on this legislation in Washington, I have uncovered a new gimmick in connection with credit-card descriptive billing, a system under which the consumer does not receive individual copies of sales slips, but rather is given a listing of purchases.

If a consumer disputes a purchase and asks to see a copy of the sales slip as verification, the consumer must pay a fee which can go as high as \$2.50 for each sales slip.

And so it goes. New costs are being thrust upon the consumer but no new benefits are being provided to the consumer.

The legislation also contains safeguards for the so-called electronic funds transfers or the cashless and checkless banking. I feel that the question of credit cards and EFT go hand in hand, for EFT is being merchandised today exactly the way credit cards were merchandised 10 years ago as witnessed by the advertisement offering free Big Macs to people learning to use an automated teller machine. Unless we establish consumer safeguards for EFT now, I predict that the same changes that we have seen in credit-card operations will occur in the EFT field within 10 years.

Electronic funds transfers may be the future of banking but it is having a serious problem getting off the ground. Consumers not only do not want EFTS, but they are afraid of it and they are even more afraid when they see financial institutions opposing legislation such as this bill that would create important consumer protections.

Texas last month held a referendum on whether or not EFTS should be allowed in that State. The voters rejected EFTS by nearly a 2 to 1 margin and that is a pretty strong market indicator. Shortly after the Texas vote, the Savings Association Control Corp., a California corporation designed to implement EFTS in that State, decided to determine if consumers want EFTS. This decision was made, however, 2 years after the organization was formed.

Earlier this year a large California savings and loan association discontinued a multi-million-dollar EFTS program because of lack of interest on the part of consumers, and in Iowa, that State's largest bank has stopped a 5-month test program of EFTS because of limited usage by consumers.

What concerns me is that financial institutions are not going to spend millions of dollars on EFTS equipment and then leave it up to consumer whim as to whether or not the system will be used. There may well be an attempt to force consumers to use EFTS and that is why the safeguards contained in this bill are so vitally needed. EFTS has been described as a "technology in search of a market" and "King Kong in search of a trainer." It may well be the future of banking and it may well be a boon for consumers, but let us approach EFTS in a reasonable, sensible, and straightforward manner.

The legislation provides such safeguards as a limit on the liability of an EFTS, or debit card which is used in an unauthorized manner so that a consumer's life savings cannot be wiped out because his or her debit card was stolen or used improperly. Such

an occurrence could happen today in many States without the consumer having any recourse. The legislation would prohibit the sending of unsolicited debit cards and we all remember what happened in the late sixties when thousands and thousands of unsolicited credit cards swamped the Chicago area and resulted in multi-million-dollar losses for the business and financial community because of fraud and theft.

If you think the dangers of computer crimes are over-emphasized by those who seek such safeguards for EFTS, consider that a study recently released by the Department of Commerce noted that for every five computer related crimes detected, four are not reported because of concern for bad public relations.

My latest report indicates there are over \$100 million in losses now a year in computer crime.

As far as EFTS is concerned, in our first 3 days of hearings, we were told: "Go slow. Let us wait for the EFTS commission to report."

Well, as most of you know, the EFTS Commission report was finally finalized and the Commission now has joined the committee in urging legislative action to protect the public.

Again I want to commend those of you in the audience representing the public, representing business, representing consumers and the media for being here this morning.

[The opening statement of Chairman Annunzio follows:]

OPENING STATEMENT OF HON. FRANK ANNUNZIO, CHAIRMAN, SUBCOMMITTEE ON CONSUMER AFFAIRS, COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

This morning the House Banking Subcommittee on Consumer Affairs begins its field hearings on H.R. 8753, the credit card/EFT bill which I introduced on August 4. The bill was cosponsored by five other Congressmen including Congressman Minish and Congressman Vento.

These are the first field hearings I have held as Chairman of this Subcommittee. I am doing so because this legislation is vitally important to all Americans.

It is essential that Congress have a grassroots knowledge of what local people around this country feel are the problems with credit and debit cards.

I have been asked on many occasions why this legislation is needed. It has been suggested that if consumers are unhappy with credit cards, they should stop using them and thereby solve the problem. Unfortunately, it is not as easy as that. If credit cards were only a convenience, it would be a simple matter to give them up. But it is virtually impossible to function in today's economy without credit cards.

It is difficult to rent a hotel or motel room without a credit card, and it is impossible to rent a car without a credit card. Cashing a check without one and, in some cases, two credit cards is next to impossible. In many cases consumers who don't have credit cards are considered second class citizens, at least economically speaking. For example, in many hotels and motels guests who wish to pay cash are not allowed to charge any expenses to their room with the thought of paying off the entire amount at checkout time. A person with a credit card can order champagne and a seven-course meal from room service and pay for that at checkout time, but a cash customer can't even order a hamburger without cash up front.

There are more than 560 million credit cards in circulation today and more and more it is the necessity of a credit card rather than the convenience that accounts for the growing number of credit cards.

It has been suggested that consumers who do not like the credit card practices of a particular financial institution should switch and get another credit card. Unfortunately, most consumers do not realize that all Master Charge or all Visa cards (formerly BankAmericard) are not the same. They do not realize that each financial institution that issues such cards are separate operations. Instead the consumer feels that he or she is on a take-it-or-leave-it basis with a particular credit card.

When credit cards were first marketed, consumers were promised the moon. But now that credit cards have become a way of life, those promises are being broken. That is why I introduced this legislation which in effect says to the credit card

companies you must keep the promises you made to the public. I do not feel that is unrealistic nor is it an attempt to hurt credit card companies.

Consumers pay the major share of credit card costs. Why should they be saddled with new charges and reduced services? In most States consumers are charged 18 percent a year on credit card accounts. Certainly that interest payment should entitle the consumer to better treatment instead of new charges. Shouldn't an interest payment of 18 percent provide consumers with copies of sales slips? Shouldn't 18 percent be enough so that billing methods don't have to be manipulated to provide increased fees? Shouldn't 18 percent be enough to guarantee consumers that the credit card contracts will be written in easy to understand terms instead of the gibberish that is common in these contracts as can be easily seen from the example on display here today. And even in those States whose usury laws are lower than 18 percent, the finance charges should provide enough income for the credit card companies. After all, I have not heard of any credit card company going bankrupt.

One of the provisions of the legislation would require credit card companies to return copies of the sales slips to the consumers each month, a practice which is called country club billing. I have been told by industry representatives that such a requirement would cost the industry \$616 million. I can only assume that when the industry discontinued this practice that it saved this money, yet I can see no evidence that any of the savings were passed on to consumers. Since the initial hearings were held on this legislation in Washington, I have uncovered a new gimmick in connection with credit card descriptive billing, a system under which the consumer does not receive individual copies of sales slips but rather is given a listing of purchases. If a consumer disputes a purchase and asks to see a copy of the sales slip as verification, the consumer must pay a fee which can go as high as \$2.50 for each sales slip.

And so it goes, new costs are being thrust upon the consumer but no new benefits are being provided to the consumer.

The legislation also contains safeguards for the so-called electronic funds transfers or the cashless and checkless banking. I feel that the question of credit cards and EFT go hand-in-hand for EFT is being merchandised today exactly the way credit cards were merchandised 10 years ago as witnessed by the advertisement offering free Big Macs to people learning to use an automated teller machine. Unless we establish consumer safeguards for EFT now, I predict that the same changes that we have seen in credit card operations will occur in the EFT field within 10 years.

Electronic funds transfers may be the future of banking but it is having a serious problem getting off the ground. Consumers not only do not want EFTS, but they are afraid of it and they are even more afraid when they see financial institutions opposing legislation such as this bill that would create important consumer protections.

Texas last month held a referendum on whether or not EFTS should be allowed in that State. The voters rejected EFTS by nearly a two-to-one margin and that is a pretty strong market indicator. Shortly after the Texas vote, the Savings Association Control Corporation, a California corporation designed to implement EFTS in that State, decided to determine if consumers want EFTS. This decision was made, however, two years after the organization was formed.

Earlier this year a large California savings and loan association discontinued a multi-million dollar EFTS program because of lack of interest on the part of consumers, and in Iowa that State's largest bank has stopped a five-month test program of EFTS because of limited usage by consumers.

What concerns me is that financial institutions are not going to spend millions of dollars on EFTS equipment and then leave it up to consumer whim as to whether or not the system will be used. There may well be an attempt to force consumers to use EFTS and that is why the safeguards contained in this bill are so vitally needed. EFTS has been described as a "technology in search of a market" and "King Kong in search of a trainer". It may well be the future of banking and it may well be a boon for consumers, but let's approach EFTS in a reasonable, sensible and straightforward manner.

The legislation provides such safeguards as a limit on the liability of an EFTS, or debit, card which is used in an unauthorized manner so that a consumer's life savings cannot be wiped out because his or her debit card was stolen or used improperly. Such an occurrence could happen today in many States without the consumer having any recourse. The legislation would prohibit the sending of unsolicited debit cards and we all remember what happened in the late 60's when thousands and thousands of unsolicited credit cards swamped the Chicago area and resulted in multi-million dollar losses for the business and financial community because of fraud and theft.

If you think the dangers of computer crimes are over-emphasized by those who seek such safeguards for EFTS, consider that a study recently released by the Department of Commerce noted that for every five computer related crimes detected, four are not reported because of concern for bad public relations.

The report also showed that internal fraud and embezzlement was found to be the most important reason for financial institution losses.

To add further fuel to this point, consider the testimony of a witness at our hearings in Washington who said that he could crack any EFTS computer system in the country in ten minutes. Such a statement is indeed frightening but even more frightening would be the consequences of losing your entire checking or savings account. The Electronic Fund Transfers Commission recently completed a two-year study and recommended swift legislative action to protect consumers in EFT systems. My legislation is not in response to those recommendations. My legislation was written months before the report was finalized, but now that the Commission has joined the call for consumer protection, there should be no delay in enacting the legislation.

Chairman ANNUNZIO. Before I call the first witness, I am going to ask Congressman Wylie of Ohio if he would like to make an opening statement.

**STATEMENT OF HON. CHALMERS P. WYLIE, RANKING
MINORITY MEMBER OF THE SUBCOMMITTEE**

Mr. WYLIE. Thank you very much, Mr. Chairman. I would be remiss if I did not thank you for the very generous remarks regarding my work on the committee.

I might say that we have worked very closely together and I appreciate your acknowledging the fact that some of the legislation had a little bit of my stamp on it, I hasten to acknowledge the fact that it wouldn't be there or here except for you.

I am delighted to be in Chicago. I am delighted to be in your territory. When you enter Chicago, you can feel the heartbeat of America and as representatives of the people I think it is desirable that we go to the people and listen to the people, and there are a lot of them here—a little later on we will go to Columbus, as you have suggested.

Columbus is being used as a test market for electronic fund transfers. If the theory is successful in Columbus, you can sell it any place, and they are in the process of selling it.

Also, I might add the congressional district I represent is one of the youngest in age in the whole of the United States of America because of the Ohio State University with some 50,000 students.

While we are considering this legislation, of course, we don't want to make the Government too burdensome and I have taken a more or less neutral approach on this bill. We don't want to add a price tag to the legislation which would make it burdensome to industry because that cost will be passed on to consumers and too much cost, of course, would bankrupt businesses and thereby create unemployment.

However, I want to compliment you, Mr. Chairman, for introducing this bill and providing the forum for a very thorough study of this new and exciting world of electronic fund transfers. Computer technology has put man on the Moon, and I think this technology, widely used, can greatly add to the mobility of our citizens here on Earth.

Fortunately, Mr. Chairman, as you have suggested, we are not acting in haste. There is an issue here I think which must be considered and which must be taken to the people and I appreciate

the fact that you are proceeding in an atmosphere of understanding.

Mr. Chairman, again thank you very much for having the hearings in Chicago and I appreciate the commitment you have just made, that we will have some a little later on in Columbus.

[The opening statement of Congressman Wylie follows:]

OPENING STATEMENT
HONORABLE CHALMERS P. WYLIE
HEARINGS ON H.R. 8753
THE CONSUMER CREDIT PROTECTION ACT AMENDMENTS OF 1977

MR. CHAIRMAN, I AM DELIGHTED TO BE HERE. WHEN YOU COME TO CHICAGO YOU CAN FEEL THE HEARTBEAT OF THE UNITED STATES. THE PEOPLE OF THIS GREAT METROPOLIS EVERYDAY MUST SHOULDER THE BURDEN OF A FEDERAL GOVERNMENT THAT, TO ME, HAS GROWN TOO BIG. PEOPLE, AND THERE ARE A LOT OF THEM IN CHICAGO, SEE THEIR HARD EARNED TAX DOLLARS EVAPORATE IN A MULTITUDE OF WHAT THEY REGARD AS WASTEFUL FEDERAL PROGRAMS. SMALL BUSINESSMEN COMPLAIN TO ME CONSTANTLY THAT THEY ARE BEING CHOKED IN REDTAPE AND FEDERAL FORMS. A GOVERNMENT THAT WAS DESIGNED TO BE OF THE PEOPLE, FOR THE PEOPLE AND BY THE PEOPLE, HAS BECOME BURDENSOME TO MANY. MOST AMERICANS NOW FEEL, ACCORDING TO THE POLLS, THAT THEY HAVE LITTLE OR NO VOICE IN THEIR NATIONAL GOVERNMENT. CONGRESSMAN ANNUNZIO SUGGESTED FIELD TRIPS TO TAKE THE FEDERAL GOVERNMENT TO THE PEOPLE OF HIS DISTRICT. IT'S A GOOD IDEA. I ASKED HIM, IF LATER ON WE COULD GO TO MY DISTRICT TO COLUMBUS, OHIO. HE AGREED. WE HAVE COME TO LISTEN AND TO LEARN. WE DO NOT WANT TO PASS AN UNNECESSARY LAW. BUT, IF THERE IS A NEED WE WANT TO PASS A LAW TO MEET THAT NEED. WE WANT TO KNOW YOUR THOUGHTS ABOUT CREDIT CARDS AND ELECTRONIC BANKING. WE SEEK YOUR ASSISTANCE IN DRAFTING LEGISLATION DEALING WITH A MOST COMPLICATED THICKET.

I AM NEUTRAL ON THE PROPOSED LEGISLATION. I GREET ALL PROPOSED NEW LAWS WITH SKEPTICISM. IF I SEEM TO ASSUME THE ROLE OF DEVIL'S ADVOCATE, IT IS JUST THAT. GOOD INTENTIONS ARE NOT ENOUGH. THERE IS A PRICE TAG ATTACHED TO ALL NEW LEGISLATION. A BUSINESS MUST TEACH ITS EMPLOYEES NEW GUIDELINES, FILE NEW REPORTS AND KNOW THE LEGAL RAMIFICATIONS OF ANY NEW LAW OR REGULATIONS PURSUANT THERETO. TO STAY IN BUSINESS, A COMPANY MUST PASS THESE ADDED COSTS ONTO THE CONSUMER THROUGH AN INCREASE IN THE PRICE OF A PRODUCT OR SERVICE.

A MARGINAL BUSINESS FACING THE ADDED COST OF COMPLIANCE WITH A NEW LAW MAY BE FORCED INTO BANKRUPTCY AND WITH THAT, THE TRAGEDY OF MORE JOBLESSNESS. THUS WE MUST FINE TUNE A BILL THAT DEALS WITH A REAL NATIONAL PROBLEM. IF THE PROBLEMS ARE LOCAL IN NATURE THEY CAN BE ADEQUATELY HANDLED BY THE STATE LEGISLATURE.

I THINK IT SHOULD BE NOTED FOR THE RECORD THAT THE RECOMMENDATION OF THE ELECTRONIC FUNDS TRANSFER COMMISSION ARE TO A CERTAIN EXTENT AT A VARIANCE WITH THE PROVISIONS OF THE BILL BEFORE US. IN ADDITION, SOME PROVISIONS RUN CONTRARY TO THE RECOMMENDATION OF THE COMMISSION OF FEDERAL PAPERWORK. I THINK THE CHAIRMAN HAS PERFORMED A GREAT PUBLIC SERVICE IN INTRODUCING THE BILL SO IT CAN BE THE VEHICLE FOR A

THOROUGH EXAMINATION OF THIS NEW, EXCITING WORLD OF EFTs.
 COMPUTER TECHNOLOGY HAS PUT MAN ON THE MOON. WISELY USED,
 IT CAN ADD GREATLY TO OUR MOBILITY ON EARTH.

FORTUNATELY, OUR CHAIRMAN IS NOT ACTING IN HASTE ON THIS
 BILL. EVEN MORE IMPORTANTLY, HE IS TAKING THE ISSUE TO THE
 PEOPLE TO SEE WHAT THEY HAVE TO SAY. WE MUST PROCEED IN AN
 ATMOSPHERE OF OPENNESS, FAIRNESS AND UNDERSTANDING.

Chairman ANNUNZIO. Thank you very much, Congressman
 Wylie.

Now I would like to ask Congressman Vento if he has anything
 to say.

**STATEMENT OF HON. BRUCE F. VENTO, MEMBER OF THE
 SUBCOMMITTEE**

Mr. VENTO. Mr. Chairman, thank you. I have listened closely to
 your remarks and gleaned some new facts about what has been
 happening with regard to credit cards and electronic fund transfer
 systems.

I would like to make a few remarks as we begin these field
 hearings in Chicago, a very appropriate location, and then move to
 other communities, Columbus, and perhaps to Buffalo.

First of all, we are dealing with the problem of regulating credit
 cards and EFTS because this is a regulated industry and because of
 the expansion of credit, banks, and financial institutions in this
 country. The important point is that we are looking at it from a
 consumer standpoint, not from the standpoint of limiting financial
 institutions, but from the standpoint of how it impacts on people.

We are concerned. We may have the freest economy in the world
 in this country, but we are concerned. It is a great challenge to
 reform the regulatory process and to make it work because no one
 benefits, neither consumer nor financial institution, if, in fact, we
 enact regulations and requirements on that are inappropriate.

Electronic fund transfers, and the credit card technology are
 already in effect in many instances. The question of privacy really
 becomes amplified when we engage in the control of capital re-
 sources.

We can free up more dollars in the monetary system and make it
 work better, but we have some problems competitive disadvantages
 that will occur in terms of the financial resources necessary to use
 the electronic fund transfer system.

In addition, the EFTS does cause more specialization of the var-
 ious services that consumers receive.

There are, also a number of drawbacks. I guess you might think
 of them as consumer dependency factors that no longer will be
 available.

We have gaps in the way our consumer laws impact and these shortcomings are evident when we embark upon electronic funds transfer.

One is, the fact that a credit card billing takes 10 to 40 days after the expenditure. During that time, you have an opportunity to use the credit card, and to utilize the credit card company to force performance on a merchant.

With the electronic funds transfer system, you lose that leverage.

Finally, the most important fact about the electronic funds transfer and credit card is the matter of choice which is very important to the consumer and to the American public. We are losing that choice and losing it in a very real way. I was recently reminded of this when I talked to an individual in the process of purchasing a home. As one of the conditions of the contract, he had to sign or they had to sign an agreement that would permit an automatic deduction from his checking account to make the mortgage payment.

I can think of some advantages and I can think of some negative things about this procedure of deducting payments from a checking account. The fact of the matter is that if a young couple wanted a loan, the only way they could receive it would be by agreeing to have that money automatically deducted from this checking account. I think that is part of the essential problem we face with this system, and we probably won't solve it in one legislative effort, but we are going to make a try.

Thank you, Mr. Chairman.

Chairman ANNUNZIO. Thank you very much, Mr. Vento, for your excellent statement.

Now, Congressman LaFalce of New York.

**STATEMENT OF HON. JOHN J. LaFALCE, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF NEW YORK**

Mr. LaFALCE. It is great to be here from the State of New York in the great city of Chicago. I arrived yesterday morning and when Congressman Wylie was saying what a great and vital city it is, all I could think of was the excellent day I had yesterday and that makes me think of something that I want to put you on notice about, that in order to run for Congress there is no requirement of a year's residency or even a requirement of residency. The only requirement is residency and there are no time periods. If you invite me back to Chicago more often—I am just putting you on—I really like this city and I might run from a different district.

Chairman ANNUNZIO. Chicago has many fine Congressmen and we can use one more.

Thank you very much.

Now, our own Congressman from the city of Chicago, who has joined us, Congressman Fary, would you like to say something briefly?

**STATEMENT OF HON. JOHN G. FARY, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF ILLINOIS**

Mr. FARY. Thank you very much, Mr. Chairman. I am happy to see my good friend and former seatmate in the Illinois House of

Representatives, former Senator, and now commissioner of the department of resources, Cecil ParTEE.

It is nice to be with you again: It has been quite some time. I miss you. I really do. You are a good man, extremely well respected. You left a trademark in Springfield of fairness that will be hard to match.

I congratulate you upon your appointment as head of the department of human services. You are a very highly qualified person. I am glad to see your name on the list of witnesses.

I deeply appreciate your invitation, Mr. Chairman, to sit as a member of the Consumers Affairs Subcommittee and I commend you for your thoughtfulness.

Chairman Annunzio is clearly the consumer champion in Congress. It is significant that the first consumer bill signed into law by President Carter was the Fair Debt Collection Practices Act, a bill which Chairman Annunzio authored. His efforts on the part of consumers have not gone unnoticed. He recently was presented with the Philip Hart Distinguished Service Award by the Consumer Federation of America, the highest award presented by that organization. In his first term as chairman of the Consumer Affairs Subcommittee, he was responsible for more successful legislation than the subcommittee had passed in the previous 14 years. I am proud to say he is in the Congress and I am proud of the fact that this great consumer champion represents our great city of Chicago.

Thank you very much.

Chairman ANNUNZIO. Thank you very much, Congressman Fary. Our first witness this morning is Commissioner ParTEE.

I am delighted this morning to introduce a very dear and an old friend who is at present the commissioner of the Department of Human Services of the city of Chicago. Senator ParTEE has had long legislative experience, having served in the Illinois State Senate for 20 years, another great distinction. He was also president of the Illinois Senate. He has long been an active leader in consumer protection. While in the State senate, Commissioner ParTEE succeeded in getting the first law passed to require consumer education in the public schools.

Commissioner, I want to congratulate you for the outstanding job that you have done over the years and even in your new position, how you are continuing to serve the needs and wants of the people of our city.

I am delighted, as chairman of this committee, to have you as the leadoff witness on behalf of the consumers of America.

Commissioner ParTEE, you may proceed in your own manner.

STATEMENT OF CECIL PARTEE, COMMISSIONER, DEPARTMENT OF HUMAN SERVICES, CHICAGO, ILL.

Mr. PARTEE. Thank you very much, Chairman Annunzio, and members of the Subcommittee on Consumer Affairs. Welcome to Chicago. The chairman and committee members are to be commended for coming here to the Midwest and giving citizens an opportunity to offer testimony on this excellent piece of legislation, H.R. 8753. Chairman Annunzio, the principal sponsor of the bill, and his cosponsors are to be thanked for endeavoring with this proposal to cope with a number of problems relating to the growing

use of credit cards and the new electronic funds transfer cards, called debit cards.

I just listened to you and thought, perhaps it is not really quite as presumptuous as I might imagine that I should come to bring some information as it were on this subject because, in addition to serving those 20 years in the legislature where we worked very often on what we described as credit reform legislation, apart from my going to the legislature, I spent some years in the States attorney's office of this county. One of those years gave me a firsthand view and some knowledge of the credit system and consumerism and how they interface.

In addition to those 20 years in the legislature, I have also been an attorney for more than 25 years, so I have seen it from several vantage points.

On that basis, I proffer this statement.

It is estimated within the next year there will be in circulation in this country 600 million credit cards of various hues and conformations. We are all quite aware of the rapidly accelerating use of these little plastic cards that take up just a tiny space in one's wallet. We are not all aware perhaps of a growing number of personal bankruptcies being filed that arise from a consumer's overspending himself because of the easy availability of credit via these cards.

If money were the root of all evil, credit cards might be regarded as the fertilizer that brings that evil to mature growth. But in fact improperly used is not the root of all evil, nor is credit responsibly offered and responsibly used the nutrition that causes the evil to grow and flourish.

Some years back, in a large city not far from where I am sitting, banks were losing millions of dollars because they scattered credit cards to the four winds and, like the Biblical seed, they took root in some rather rough places.

They got into wallets that they were never meant for. They were taken from mailboxes by persons other than the addressee. We support this bill, H.R. 8753, because it will further strengthen the existing prohibition against the mailing of unsolicited credit cards to unsuspecting and unwanting citizens.

It will also extend that prohibition to the new debit cards. We don't see how banks and other reputable vendors of credit plans can justify the mass mailing hard-sell of a commodity which is essentially a privilege.

If a person wants credit, he can go to a bank and get it. His work experience and earning records, if they justify his getting credit, within, of course, the economic standards and parameters which should apply to all of our people regardless of race or sex or creed or age or how you part your hair, for him to find the credit card lying in his mailbox or on the floor thereunder is neither a natural nor desirable state of affairs. For someone else to find it is a deplorable state of affairs.

I make this rather strong statement because we have seen people lose their jobs on account of financial problems arising from too much and too easy credit. We see families disrupted and children neglected, all with the consequent shift of those ills to governmen-

tal agencies, welfare and social service agencies that have to try to pick up the pieces.

If one result of the passage of this legislation is that banks and credit card companies are more prudent in the issuance of credit cards and find themselves issuing fewer cards, so be it. You are not helping the person up to his ears in debt by giving him a new opportunity to go deeper into the credit hole.

We are also alarmed at the proliferation of add-ons that are attached to these credit plans. We understand with many bank credit cards the terms of the agreement or contract can be unilaterally modified by the banks; that there are abuses related to periods when interest may be fairly shared, that late charges assessed and service fees can be required.

What appears to be a straightforward credit arrangement between an ordinary citizen and the credit card issuer has sometimes grown excessively and, for the consumer, expensively complex.

A certified public accountant is virtually needed to figure out some of the monthly statements relating to those cards. John Q. Citizen is no longer an equal participant in this transaction and he often finds it impossible to figure out the myriad charges and fees being assessed.

In H.R. 8753, these problems are dealt with in the provisions relating to billing, charging of monthly fees, even where there is no balance. Unilateral modification of the agreement and so forth are dealt with.

We feel it is inappropriate to charge both membership fees and interest on unpaid balances. The company should be required to go one way or the other.

As indicated above, the provision requiring a written application signed by the consumer before a credit card may be issued will help to diminish, if not altogether remove, the problem of the unsolicited card.

Another plus for the consumer is the requirement that credit card statements be mailed within 7 days of the end of the billing cycle. Thus a prompt payment avoids the payment of needless finance charges.

In the area of electronic fund transfers or debt cards, banks should be, in my judgment, very grateful to the drafters of this bill. As we read it, this legislation would save the banks from some of the unfortunate experiences that they have had with credit cards for the years that they have been dealing with them. This law would prohibit banks from sending out unsolicited cards, a fund transfer card, and without such a provision the widow could lose her savings if this card were stolen without her ever having been informed that Santa Claus was leaving it in her mailbox.

She didn't ask for it; she didn't want it, but she got it; that is, if she got to the mailbox first. This is not a prudent vending of credit.

This legislation is delivering to banks and credit card companies a message and the message is this:

Ladies and gentlemen, you are dealing with people's lives and savings and financial resources. Be prudent. Be judicial. Be fair and be careful.

We feel that credit is something that each person should choose for himself and not have thrust upon him.

Thank you.

Chairman ANNUNZIO. Thank you very much, Commissioner ParTEE, for your very constructive and excellent statement. I am sure that the members of the committee have all made notes on your very constructive suggestions and it will help and aid this committee in the further deliberations on this legislation.

I have but one question. As a former president of the Illinois Senate, where we have established credit on a Federal level, 1½ percent per month, or 18 percent a year, we have in Illinois a State usury law. Now, we have information where interest charges run from 18 to 35 percent a year. In your opinion, how are these large credit companies and banks getting around the usury laws of the State?

Mr. PARTEE. I have not had occasion to examine that recently, but I recall several years ago the question of what is or is not usury was presented to me. I remember an old, old decision written back in Illinois law. It was *Finance Company v. Jones*.

In that case, they set forth the fact that there is a difference, as they judged it, between the lending of the money to which usury applies, and the giving of a service.

There is a difference between the offering of a service and the per se lending of money. The result happens, it seems to me, to be the same, but that is one of those legal nuances that makes the difference between "a" and "b."

Chairman ANNUNZIO. Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman.

What you are saying then is that you feel consumers need to become better informed as to how charges are assessed.

Mr. PARTEE. Let me see, Mr. Wylie, in all the years I have dealt with problems relating to consumerism and relating to credit, I have come to know that, as much as you try, as hard as you try to set forth your notions and ideas in statutory form, that we have to have something else and that is really what motivated me to refer to the first law of the United States that mandates the teaching of consumer education in high schools.

Laws are difficult. People are going to deal with them positively and negatively. They are going to understand them or not understand them. But we have to and that is why we started in this State—the first one in the country—mandating the teaching of consumer education.

I think first of all people need to have some view and some appraisal and some appreciation of the marketplace.

This country thrives, of course, on our marketplace, and we have to do those things which are not restrictive, but encouraging of business. Business is a very vital and fundamental part of our American heritage. We don't want to suggest that everything that is suggested by a consumer is proper and everything suggested by the business community is improper. We must strike a delicate balance between them and we must proffer those kinds of laws which bring about that kind of a balance while at the same time enlightening and edifying our population as to what choices they have available to them and the options that they have available.

Mr. WYLIE. Do you use credit cards?

Mr. PARTEE. Yes, I do.

Mr. WYLIE. You find them convenient?

Mr. PARTEE. I find them very convenient. Particularly when one travels, one doesn't want to carry cash.

Mr. WYLIE. Have you ever used a debit card?

Mr. PARTEE. I have not used a debit card.

Mr. WYLIE. They are not too widespread yet.

I take it from your statement that you think credit cards used widely can serve a vital function in our society.

Mr. PARTEE. Absolutely.

Mr. WYLIE. The question goes to the wise use of them.

Chairman ANNUNZIO. If the members have further questions for Commissioner Partee, when he gets a copy of the transcript he may answer your additional questions.

Mr. VENTO. Commissioner, I listened closely to your comments and think they are very good. I especially agree with your emphasis on choice, which is really what we would like to retain.

You know the philosophy of laissez-faire is one that we hold very dear in this society, but we also have to give people the tools to handle problems and I think your emphasis on education is a very good one.

Here you have some examples of what we face. Two of them represent the extension of credit. Or I should say the demise of credit, if we are talking about electronic funds transfer, because there is no sense of credit there. It is an immediate cashout system. To emphasize it as a gain—I don't know that we could educate anyone to understand that. I have tried to read the card explanation myself, I feel I have average ability, but I had trouble understanding what it means. That is what we are up against and that is why we have to apply some guidelines.

I think your point is good. Perhaps you have some examples. I think the last emphasis, again, has to be on choice.

What is the experience that you have had in this State with regard to this? Do consumers have a choice? I illustrated one example in my opening statement.

Have you had any experience, Mr. Partee, with that problem?

Mr. PARTEE. As to whether we have choices?

Mr. VENTO. As to whether you actually have choices. If someone goes to you for a home mortgage, do they have the option of choice, for instance? When they are employed at a certain location, do you run into instances where the checks are automatically put into an account where payments are automatically deducted for a mortgage? What is the circumstance today, to your knowledge, in this area?

Mr. PARTEE. I have not particularly encountered that kind of a situation.

Mr. VENTO. I hope you will review that for us as closely as you can. If you run into any examples, I think it would be helpful for us to know about them. I very much appreciate your efforts in that vein. Thank you.

Chairman ANNUNZIO. Congressman LaFalce?

Mr. LAFALCE. I will pass at this time.

Chairman ANNUNZIO. Congressman Fary, have you any questions?

Mr. FARY. Do you feel it is important to put a limit on the amount of money a consumer can lose when his debit or credit

card has been lost or stolen and used to take money from his account?

Mr. PARTEE. I would really like to cogitate that problem. I really don't think I could give an answer off the top of my head on that one. I can think of some immediate positive and negative replies to that subject. I would really like to think about it before giving a firm opinion.

Chairman ANNUNZIO. I have already made the statement that when you get the statement you can answer those questions for the record.

If there are no further questions, on behalf of the entire panel, I express our deep appreciation to you for taking time out of your busy day to make a statement that has been very worthwhile and helpful to this subcommittee.

Mr. PARTEE. The pleasure is mine and we appreciate your being here.

Chairman ANNUNZIO. Our next witness is Mr. Daniel Quigley.

Mr. Quigley is chairman of the board of Electronic Funds Illinois, Inc. This corporation is a statewide organization of 700 banks started in early 1977 to plan a cooperative electronic funds network.

Mr. Quigley has an extensive background in banking, having worked in that industry for nearly 17 years. He is currently the executive vice president of the National Boulevard Bank of Chicago. Mr. Quigley is an extremely progressive banker. In his thoughts, which I have had the pleasure of talking with him on EFTS, are indeed refreshing and worthwhile.

Mr. Quigley, we are delighted to have you here this morning and proceed in your own manner.

**STATEMENT OF DANIEL QUIGLEY, CHAIRMAN OF THE BOARD,
ELECTRONIC FUNDS ILLINOIS, INC., CHICAGO, ILL.**

Mr. QUIGLEY. As you mention, I am associated with the National Boulevard Bank, which, if I may characterize, is a very aggressive, medium-size bank with a good balance of corporate and retail customers as well.

I am, as you stated, chairman of the board of Electronic Funds Illinois, Inc.

This Illinois corporation formed in the early part of the year was chartered to provide electronic funds services for its membership, which presently numbers some 700 of the approximately 1,200 banks in our State, which we estimate serve the majority of Illinois' consumer banking public. Therefore, I feel that our comments are appropriate and timely and we thank the Chair for this opportunity.

Electronic Funds Illinois, Inc., was conceived and organized on these basic premises:

One: Electronic funds transfer services are inevitable and will provide benefit to the financial institution, the merchant, and the consumer.

Two: Electronic funds transfer systems are banking and as such require the active participation, involvement, and direction of bankers in any regard affecting the delivery of efficient, convenient, and timely services to our customers.

Three: That in our role of prudently bringing these new services to the market that it is incumbent upon we bankers to create a viable, effective, and meaningful dialog with all the participants including but not limited to consumers, merchants, noncommercial banking financial entities, and legislators.

The bankers of Electronic Funds Illinois, Inc., have provided more than lipservice to these objectives. We have already formed a merchants' advisory committee composed of outstanding merchant representatives here in Illinois, and a consumers' advisory committee. Both these committees will consult with our board of directors who are bankers at the senior management level. We are convinced that EFT can only proceed if bankers at this executive level are not only aware of what is going on now but actively participate in the decisions that will affect tomorrow.

In that regard, Electronic Funds Illinois, Inc., has supported the State legislature-initiated Illinois study commission on EFT as the focal point through which EFT legislation can be enacted in 1978. Legislation is now being drafted which will reflect not only the expertise of the bankers involved and contact with responsible legislators, but also the input of our merchant and consumer advisory groups.

This brief summary of some of the objectives and motivations of Electronic Funds Illinois, Inc., is meant, Mr. Chairman, to point up the underlying philosophy of this banking group. EFT cannot develop in anyone's vacuum. If it is to emerge, it must mirror a confluence of the best interests of banking and its retail and wholesale customers.

A recent study reported in the New York Times, Friday, November 18, stated that the business community is sharply out of step with the American people on consumerism issues and that consumers were dissatisfied with government protection of their rights. I personally think that is overly conclusive for there has been a significant turnaround in our industry, Mr. Chairman, albeit perhaps overdue, and I believe, on balance, a positive trend is developing which augurs well for us and our customers.

The primary challenge, however, for creative and informed legislators as yourself and the innovative bankers of Illinois and elsewhere is to overcome the possibility of a contentious and nonproductive atmosphere that could develop between this subcommittee and some of the previous witnesses from our industry who have testified on H.R. 8753.

Let me assure you, Mr. Chairman, that their remarks as reported do not reflect a consensus of the position of all bankers. We also thought it inappropriate that our industry's trade newspaper would exacerbate the issue by highlighting in editorial a remark of one of the testifiers who referred to H.R. 8753 as the turkey bill.

You didn't invent EFT, Mr. Chairman. We bankers did, and I feel it is part of our challenge and, if I may, yours too, to make sure that the outstanding issues yet to be resolved are worked out in a mature and agreeable environment.

If I have a difference with H.R. 8753, Mr. Chairman, and I do, I also feel I have a responsibility as I am sure you do, to provide some meaningful resolution to most of the objectives of your bill which, on balance, we support as reasonable.

We bankers feel we do have some of those solutions which will inure to the benefit of our customers and to the enactment of legislation that will encourage the development of EFT, which is truly an emerging banking service. This is the spirit which underscores our commentary on some of the major issues in H.R. 8753.

Among its amendments is a requirement concerning country club billing; that is, returning copies of receipts or sales drafts to the customer. Significant advances have been made in a procedure referred to as descriptive billing which lists the transactions on a monthly statement without returning the sales receipt.

We feel that the credit card industry certainly has the capability of developing programs that will capture and refine input so that the present verifications provided by the sales draft can be replicated in descriptive billing, and they should be given such opportunity. The concept of descriptive billing and the corollary benefits of truncation are, as you know, critical to the development of a less-paper-payment system. The challenge is, however, truly with our industry and it would seem that until a satisfactory program is generated, the reported practice of some bankers of imposing a charge to the consumer for producing a copy of the sales draft to verify a charge is inappropriate.

We certainly concur with the prohibition of the previous balance method in calculating finance charges. It is my understanding that this practice where the consumer is charged interest on his account balance from the month before, even though he may have already reduced this balance, is not prevalent in the banking industry. However, as provided in H.R. 8753, it should be prohibited.

The requirement that credit card charges be billed within 2 months to a consumer's account as outlined under the prompt billing section of H.R. 8753 does seem fair and equitable. Delayed billing can cause confusion and possibly create an overline situation. Although in supporting this section it should be noted, however, that some consumers do not feel inconvenienced when they become victims of a fortuitous late billing as it certainly extends the free period or float before payment is due or finance charges are imposed.

In addition, barring some specified impediment, it seems more equitable if consumer credit card statements were mailed more promptly than the 14 days presently allowed after the end of the billing cycle.

The practice of charging fees on accounts of credit card consumers with no outstanding balance which is primarily pointed toward those who make their payment during the so-called grace period of 25 to 30 days before a finance charge is imposed is obviously a product of the growing number of cardholders who are using their card in this way to avoid finance charges and the increasing expense burden being shouldered by the card-issuing bank or company as more consumers adopt this practice.

The American consumer is, without a doubt, becoming more informed and I suppose it is safe to say that this country is encountering a serious shortage of morons. There is not, however, a shortage of alternative, competitive plans that the consumer can switch to if faced with such charges and although there is strong validity to the argument that the consumer is being presented with a new

ballgame, there should be consideration given to the contention that those who do revolve their charge are, to a great extent, underwriting the expense of those who do not.

It is a complex issue, but perhaps some consideration might be given to grandfathering the terms and conditions of present card-holders.

The amendment to the Truth in Lending Act, which adds a provision prohibiting the addition of unauthorized amounts to a credit card receipt after it has been signed by the consumer, is a positive action which we applaud. Besides eliminating consumer confusion over a billing which invariably makes the bank a party to this practice, the amendment would also serve to reduce a fraudulent opportunity.

The section dealing with requirements for an application or signed document requesting a credit card should be adopted and also the provisions relative to full and open disclosure as to circumstances and consequences of card revocation, credit line reduction, and exceeding one's credit line. We also concur with the provisions relative to advance notice of any changes in fees or conditions relative to the account and that the language articulating such change be clear, concise, and not confusing.

In addition, we respectfully suggest that the legislation that generates the regulations we bankers must follow to satisfy these requirements also embody the same clear, concise, and not confusing language.

As to the amendments concerning electronics funds transfer, they should be considered not only against the backdrop of the present state of the art in Illinois, but nationally as well.

You are well aware, Mr. Chairman, that commercial bankers in our State are prohibited from engaging in any off-premises EFT transactions whereas in other localities throughout the Nation these prohibitions do not exist. There commercial bankers are permitted to engage in most of the transactions that present technology will permit. I believe the provisions of H.R. 8753 reflect the existence of this technology.

However, the marketplace that will support this technology is yet to materialize. Although there is general acceptance as to the viability of the concept there are yet major unresolved issues that involve our customers—retail and corporate—and our own ability to generate a system that will bring a fair return to our shareholders.

This is not to suggest that all sections relative to electronic funds transfer in H.R. 8753 are "restrictive and premature" as one banking industry spokesman was reported to have testified. However, there is no question in our minds that there is a need for continued examination of most of these issues so that whatever the final resolution, it serves those mutual interests that we referred to before.

We recognize and accept the motivations that have precipitated these EFT amendments to the Consumer Credit Protection Act. It has been, not unreasonably, pointed out that the act that curbed credit card abuses was a case of locking the barn door after the horse was stolen and that EFT amendments are needed before the

fact so that the same kinds of abuses do not befall the American consumer once again.

We can understand this rationale, but our experience, not only in Illinois, but throughout the country, would suggest that we are not yet to the point where the horse is even in the barn and, in fact, we know more withered and harried pioneers who are having more trouble locating the barn, much less the horse.

It is not my intention to be cavalier or treat lightly the EFT amendments in H.R. 8753 for in principle we feel that most of the issues you have raised are not only valid and necessary, but also resolvable. These are considerations that will undoubtedly be embodied in the legislation we in EFT, Inc., are drafting to submit to Springfield through the Illinois Study Commission on EFT in 1978.

Some systems throughout the Nation are relatively further advanced than others so that most of the EFT amendments to the act would apply only to this group. It does not seem premature or restrictive, however, if certain basics are outlined and some of the obvious liabilities covered now.

The indiscriminate unsolicited mailing or sending of any type of funds transfer or debit card must be prohibited and will be incorporated into the proposed EFT legislation in Illinois.

There is no need to recant the damage to our industry's reputation and credibility occasioned by the unsolicited credit card mailing experience of the late sixties. Suffice it to say that the consumer, if he is to be sold on EFT, will find greater comfort in dealing with prudent banking practice than procedures that lead to fraud and possible breach of the integrity of his banking relationship.

There is no question that if EFT is to become acceptable to the merchant, the consumer and the bank, that reasonable requirements be generated that will allow the consumer the same protections he has today in a checking environment when he wishes to stop payment. This is a section of the act we wish to further explore with your staff, as significant thought, obviously, has been given to this issue by our bankers. An area for consideration in this regard, as an example, may incorporate provisions that are presently being utilized under the terms and conditions relative to charge-backs in merchant credit card agreements.

We also support the setting of a monetary limit that a consumer would be charged in the event of an unauthorized use of his funds transfer card and protections in the event a bank did not make a preagreed electronic preauthorized payment.

I can assure the chairman that the integrity of the funds transfer transaction and the privacy of our customer is the paramount denominator of every program being established by the bankers of EFT, Inc.

On balance, Mr. Chairman, we feel that there must be procedures relative to corrections of errors as there are today and we welcome the opportunity to advance our ideas on this matter and also on how the funds transfer customer should be satisfied relative to securing a receipt.

The provisions relative to informing the customer on all terms and conditions should be an integral part of this legislation and again the same caveats relative to lucidity should apply here as well and perhaps in greater degree than under the credit card

since this service is still of tender age. In addition, such disclosure is vital since, as you have pointed out, the consumer may incorrectly believe his new EFT card is just like a credit card account.

Since the banking services that can be provided by an EFT card are quite distinct from that of a credit card and in fact can incorporate the extension of credit feature, it may be of value to consider carving out those amendments relative to electronic funds transfer and incorporating them into a separate bill.

Since there is a distinction between the credit card provisions and EFT, this action would tend to eliminate any confusion between the two and permit consideration of EFT provisions in a pure banking context. There is no question that there would be some redundancy between certain aspects of the credit card bill and EFT, but primarily in such areas such as disclosure, mass mailing, and certain liabilities.

Further, such an action would permit an orderly and prudent evaluation of the EFT phenomenon while allowing passage of provisions relative to the credit card that are presently deemed necessary.

In any event, Mr. Chairman, we share your concern that the consumer must be protected against the possibility of any unfair banking practice that might occur in the development of EFT. We share this concern because this consumer we refer to is our customer and let me assure you, with the inroads of thrifts and credit unions into the traditional commercial banking marketplace, this is one banker who believes that his conferees should look upon their consumer customers with the same respect and concern that we have for an endangered species.

I hope, Mr. Chairman, that these brief remarks might help to sway some conclusion that bankers are simply oblivious to the needs of their customers. And since I believe we know banking customers better than anyone else, let us not ignore the value of our input. Have we made mistakes? You bet. Probably over 1½ tons, but that doesn't mean we don't recognize your efforts which I believe are consonant with ours—sound banking and a satisfied and informed consumer customer. This banker doesn't believe that because we have differences regarding H.R. 8753 and how the consumer can best be protected that we can't work together to work them out.

Chairman ANNUNZIO. Thank you, Mr. Quigley, for what I consider to be an outstanding statement.

Throughout your statement you have proposed alternatives. This is what I have been saying for months and months; that the bankers of this country come up with alternative suggestions. It is hard for me to understand that, when in the State of Texas there is a vote taken and the people vote against an electronic fund transfer system by a 2 to 1 majority; it is difficult for me to understand. When the savings and loan in Glendale, Calif., invested in a multi-million-dollar program, and then shelved that program—it is difficult for me to understand, in the largest savings and loan association in Iowa that installed a program and then closed it.

You know, I have a great deal of respect for bankers. I respect the free enterprise system. But when they become one-issue oriented, they are making a big, big mistake.

Before you can have a program, you must have customers. This legislation seeks to help, not to hurt.

When the American public realizes, as you stated in your statement, that they are protected with debit cards and with credit cards, they become better customers and you will have them as customers, and not have what is happening throughout the country.

Oh, yes, it is easy to say, we write it off as a tax loss, but in the end you not only lose customers, the American people lose the additional revenue that is theirs through the Internal Revenue Department and the general revenue fund. That is what a tax writeoff is all about.

I want to say to you, Mr. Quigley, that I hope you have started, through your testimony, a chain reaction so that businessmen will carefully read this legislation, so that bankers and businessmen will let us know how best we can protect them, how best we can protect our customers.

I did not fight truth in lending. I supported the truth in lending bill back in 1968. I was for monthly disclosure. It was the industry. It was Montgomery Ward & Co. that suggested the yearly disclosure of 18 percent. It was not the Congress. The committee did not want to go as fast and the industry at that time went further than the committee wanted to go.

I am delighted with your statement. If I was voting for a president of the American Bankers Association, I would be voting for you.

Mr. QUIGLEY. I don't know whether Mr. Perkins would appreciate that.

Mr. WYLIE. Thank you very much, Mr. Quigley, for appearing here this morning and for your testimony. I think it has been very helpful. I think you did point up the fact that we have a very complicated issue on our hands here by anybody's standards.

For instance, the bill we have before us is at variance with the recommendation of the National Commission on Electronic Fund Transfers, as you know, I assume. Have you seen that statement and those recommendations?

Mr. QUIGLEY. Yes.

Mr. WYLIE. That Commission's recommendations are at variance with the recommendations of the National Commission on Federal Paperwork. They have some recommendations on this legislation too and on credit cards and on debit cards as far as that is concerned.

I think I would be remiss if I didn't acknowledge the fact that this bill was called a turkey bill by a representative of your industry who just happens to be a constituent of mine. Do you know John Fisher?

Mr. QUIGLEY. I have met Mr. Fisher, yes. I like him.

Mr. WYLIE. You like him?

Mr. QUIGLEY. Yes.

Mr. WYLIE. I like him too.

Do you regard him as an expert in the field?

Mr. QUIGLEY. I regard Mr. Fisher as a—I don't want to waffle on that one because the definition of the word "expert" in electronic funds transfer today is a—

Mr. WYLIE. They say an expert is a man who comes from out of town.

Mr. QUIGLEY. John Fisher is quite current on EFT.

Mr. WYLIE. I just brought that up because you mentioned somebody has referred to it as a turkey bill. I certainly wouldn't go that far. I think it is desirable for us to have some legislation in this area and I think it is desirable that the chairman did introduce this bill.

I think the chairman has performed a great public service in this regard, but there is a variety of opinions as to what we should do and what we should come up with.

I wonder if you think it would be possible for us to have your industry come up with some constructive suggestions, maybe a consensus of constructive suggestions as to what we might do in this field. Do you think you could get together, for example, with Tom Fisher? You understand the frustrations we have when you, as an expert, come before us and say one thing and someone else who is supposed to be an expert in the industry comes before us and says something else.

Mr. QUIGLEY. Congressman, I believe that that recommendation would be salutary. I really believe, as I mentioned before, if the Fishers and the other experts of this world could get together and perhaps propose some sort of meaningful recommendations to this subcommittee, I think that would be a start.

The area is extremely complex. I think one of the basic problems comes in communication with and education of our consumer public.

We haven't many more chances to maintain the credibility of the American banking industry and I am not suggesting that the end of the world is in sight, but from the standpoint of the competition we are faced with today as bankers, I look upon this as a great opportunity and I don't want to see us lose the handle, as we possibly could here, so that I would be delighted to participate in such an effort. I know John Fisher would too.

Mr. WYLIE. I think that is an excellent attitude and a step in the right direction.

Mention has been made of the fact that in Texas the voters proceeded without implementation of EFT at the polls. Are you familiar with that?

Mr. QUIGLEY. Yes.

Mr. WYLIE. I don't think we should leave the impression that the defeat was for EFT, per se, but it was over the issue of branching.

Mr. QUIGLEY. That is true. Not only that, I believe if I can paraphrase the president of the State association that had the responsibility for "getting out the votes" so to speak, they did a lousy job in educating the consumer and the public as to really what this whole thing was about.

So I agree with you, I don't believe that it was a damnation of the concept. I just don't think the people really understood and you are right, there was an intermingling of the branch issue.

Mr. WYLIE. What is your opinion on EFT vis-a-vis the issue of branching?

Mr. QUIGLEY. That is not an indelicate question in this State.

Mr. WYLIE. I asked the question advisedly.

Mr. QUIGLEY. The position of Electronic Funds Illinois relative to EFT and branching has been one where our membership, which is made up of more than 50 percent of the members of the three banking organizations in the State—there are three banking organizations that reflect this fracture, and our membership is made up of more than 50 percent of these three organizations—it has been that within the point-of-sale environment we feel there might be some inroad made to begin.

As you know, automated telemachines have been designated as branches. There is a definite overlapping concept between the two. We think there should be an approach of the three presidents of the organizations now sitting on the board of Electronic Funds Illinois, that they come together and we have the beginning of a compromise situation.

Mr. WYLIE. I hope you can come up with a compromise situation. I think it is very important. I notice you recommend separating the two titles of this bill into one.

Two separate bills, one being a credit card and one a debt card. That might be a good suggestion since the two are not really the same.

Chairman ANNUNZIO. Thank you very much, Mr. Wylie.

Mr. VENTO.

Mr. VENTO. Thank you, Mr. Chairman.

I have listened closely to your remarks, Mr. Quigley.

I think we need to get this kind of input as we consider this particular issue.

I paid close attention to your suggestion about separating the subject matter. But is it possible, really, to separate it? Don't we have various technology levels that are already in effect, such as check verification and computer information, that will really take us along?

I think, for instance, that we are in fact late with this type of legislation if we are going to keep our parameters.

Mr. QUIGLEY. The question goes to the distinction between the credit card and the—

Mr. VENTO. The check verification, the use of computers, the detached facility type of thing, the cashout system at the bank—all of these are, in fact, already without rules and regulations. I wonder if it is possible really to separate this out.

Do you think it is appropriate in this bill to have a disincentive to force consumers to accept debt charge? To prevent banks and others issuing them, and forcing consumers to accept them?

Mr. QUIGLEY. I don't think anybody should be forced.

Mr. VENTO. You maintain the idea of choice.

How does the State of Illinois deal with the problem of the issuance of a debt charge in Minnesota or in New York?

Mr. QUIGLEY. I am sorry—

Mr. VENTO. How would the State of Illinois deal with the issuance of a debt card in Minnesota or New York?

Mr. QUIGLEY. In other words, if a resident of the State of Illinois—I don't understand.

Mr. VENTO. Had a card issued by Chase Manhattan Bank in New York. How would the State of Illinois deal with that?

Mr. QUIGLEY. You are presently referring to the fact that there are credit cards being mailed all over the country.

Mr. VENTO. Or debt cards.

Mr. QUIGLEY. Debt cards can only be—

Mr. VENTO. How would they deal with that if this happened?

Mr. QUIGLEY. I think it should be prohibited.

Mr. VENTO. Suppose the person was from Indiana. How would a resident in the State of Illinois deal with it? You say it should be restricted and the issuance should only come from the State in which you are a resident.

Mr. QUIGLEY. That is right, and related to the banking relationship you have. I think there is a direct relationship in the EFT environment between the account, between the card, and where the account is. That is right now. The indiscriminate mailing of debt cards throughout the country right now, except perhaps for check guaranteeing, wouldn't actually have any logic.

Mr. WYLIE. Would the gentleman yield?

Mr. VENTO. I yield.

Mr. WYLIE. Thank you.

You would have to have the ability to use the credit card in Minnesota if issued in Ohio—I am not sure I understand. If I receive a BankAmericard in Columbus, I have to be able to use it in Minnesota, Illinois, New York, or wherever.

Mr. VENTO. I am talking about a resident of Illinois having a card issued from the State of Minnesota or from the State of New York.

Mr. WYLIE. Does it only apply in that State?

Mr. VENTO. I think your input on that is very good. I am glad to have that recommendation. As you look at that and think about it, I hope you will provide us with any additional insights you might have. It is a tough question. It is one of the reasons that it is very appropriate that we state something.

At this point, I don't know if I agree, for instance, with the limitation. If the safeguards are in place, that is a different matter, but I don't see them as being in place at this particular time. I don't see those choices, incidentally, as being in place. Another concern that this bill addresses itself to is the disincentive to force an individual who has a checking account, to move into a debt card situation.

I think there is no sharp distinction between some of the financial transactions that take place, for instance, in debt cards. I think it is a gradual thing which might occur. It can and should be a very conscious decision on the part of consumers, but you can see the merchandising techniques that are being used don't always speak to that particular issue.

Mr. QUIGLEY. I mentioned before the board of Electronic Funds Illinois is made up of senior executive officers of banks and EFT has to be primarily a banking type of procedure, and although I have the greatest respect in the world for marketing and operational types of folks within banks—God bless them—I do think at this particular stage of the game, relative to EFT, it is the bankers who must maintain the leadership.

Mr. VENTO. How do you feel about a centralized electronics transfer system that would be available to all savings and loans or

all financial institutions—let us say all banks—in other words, I am saying if you have a terminal in the store for one bank or two, do you think it ought to be usable by all and what were the recommendations of your Commission on that issue?

Mr. QUIGLEY. I think what is going to happen, Congressman, is that the merchant area is going to make the whole issue academic. A merchant is not going to permit a terminal from a savings and loan or credit union or commercial bank. He wants one terminal and he wants a terminal that will accept all cards issued by the various institutions. That is one of the things we are facing.

Mr. VENTO. How shall we deal with privacy, for instance, with regard to that terminal at the end of the road?

Mr. QUIGLEY. We have on the staff of Electronic Funds Illinois a man whose job is to make sure we address that issue. Without getting into any horror stories—you have read them as well as I have—what could possibly happen if any system set up now were breached?

Mr. VENTO. There is one thing that has not come out because we don't hear from small merchants. Is there any system under which we could preclude small merchants from actually having these terminals? A terminal has a certain cost. If that is precluded from small merchants on Main Street, in Illinois or Minnesota, isn't that going to put them at a competitive disadvantage if, in fact, this is a consumer service folks plug into?

What happens to the small merchant who can't justify having the latest electronic equipment?

Mr. QUIGLEY. I think the challenge is related primarily to the banking institutions to settle that. The telephone can be as effective as a terminal. The banks in Electronic Funds Illinois run from \$5 million up to \$700 or \$800 million in assets. We are not all of the same sophistication in technology.

Mr. VENTO. Equal access to financial institutions, banks or whoever else plugs into the system in the various States. We talked about the equal opportunity for merchants to participate. Then you talk about the telephone and you get back to the privacy issue and access to the telephone. All the information comes back.

What type information should be available is another question.

Mr. QUIGLEY. There is much work to be done.

Mr. LAFALCE. Mr. Quigley, I thought your statement was excellent. I appreciate what you were attempting to do.

You came before us with a very conciliatory statement in contrast to previous statements made by representatives of the organizations such as yours. Because of that, it was somewhat difficult for me to find those areas where you have most difficulty with this particular bill. You were quite careful to explicitly point out areas of agreement. With what portion of the bill do you have the most difficulty?

Mr. QUIGLEY. I think in areas relative to EFT I have difficulty in the stop-payment provision; not from a concept—only because of the fact that I have yet to hear anybody who has come up with the answer as to how it can feasibly be done right now.

My difficulties with the bill are not in substance, but more in form.

Mr. LAFALCE. You have no difficulty with the concept, but just the implementation. On a check you have one specific item and you could stop payment on that.

Mr. QUIGLEY. As I mentioned, EFT is an emerging service. I can recognize there are systems that are in place and I can recognize there has to be some basic limitations for consumer protection now, but—

Mr. LAFALCE. What is the difference between going to a grocery store and paying your \$35 grocery bill with a check and then stopping payment on that check and then also stopping payment because of the EFT card that you have used?

Mr. QUIGLEY. As I say, in concept I have no problem with that, but if you take a full EFT environment, if I give my EFT card to the merchant, my account is immediately debited and his account is immediately credited with that \$35, whereas in a checking environment I give them a check. They put it in their bank; it goes through clearing and I think I have 24 hours after it is presented to me, as the banker, to send it back if my customer issues a stop payment on it.

Mr. LAFALCE. Rather than that being a difficulty for you, it seems to be a bookkeeping or operational difficulty as opposed to a legal difficulty.

Mr. QUIGLEY. Yes. I can't address the legal end of it, but, again, as I say, it deals more with form than substance.

Mr. LAFALCE. What other major difficulties do you have? Country club billing, I take it? You offered a compromise on that. You offered to grandfather—no, I am sorry.

Mr. QUIGLEY. Grandfathering was on paying the financial—I notice today in the paper Mr. Reynolds, who is president of Master Charge, says he pays off all of his bills before they enter into the 30-day period for financing.

Mr. LAFALCE. Going to country club billing, the chairman has quoted representatives of your industry as saying it would cost you \$600 to \$700 million if you had to go back to country club billing and yet he has indicated that he hasn't seen where this saving has gone on to the consumer.

I can see tremendous benefits in having country club billing. Now, forget about the dollar cost amount. The desirability of having country club billing as opposed to descriptive billing. I most prefer country club billing.

Mr. QUIGLEY. If I can provide you on your statement with what you get in a sales draft, then perhaps you, as a consumer, will say, "Gee, I am getting the same benefit as I am from the sales slip; therefore, I will accept it."

And I also stated that the descriptive billing procedure is hopefully a forerunner of the truncation or the stopping of paper where it goes, first, in a paperless system. So I am looking at, really, the country club billing as perhaps retarding the progress that could be made and is being made in descriptive billing.

Mr. LAFALCE. Where do we go together? Would it be wise for us to establish parameters that descriptive billing should come within—

Mr. QUIGLEY. Yes.

Mr. LAFALCE. Have you seen any suggested legislation or suggestion for legislation—

Mr. QUIGLEY. I have not.

Mr. LAFALCE. That seems to me to be an area of possible compromise. I probably could go on forever, but I am aware of the necessity to hear the other witnesses.

Chairman ANNUNZIO. I would like to suggest to my colleague from New York that he prepare some questions for Mr. Quigley to answer.

Mr. FARY.

Mr. FARY. You have answered the questions I was going to propound.

Chairman ANNUNZIO. I thank you very much.

Mr. Quigley, again, on behalf of the subcommittee, we appreciate your very excellent, constructive and conciliatory statement. Thank you very much.

The first panel shall consist of the following witnesses: Arlene Gitles, Consumer Coalition, Skokie, Ill.; Dan Rosenblum, staff attorney, Legal Assistance Foundation of Chicago, Chicago, Ill.; Agnes Ryan, attorney-at-law, Chicago, Ill.; Ron Gall, director, Wisconsin Consumer League, Milwaukee, Wis.; Ken Clark, Wisconsin AFL-CIO, Milwaukee, Wis.; and Jack Eisendrath, attorney-at-law, Milwaukee, Wis.

Now, our first panel. Thank you very much for being with us.

Each panel member will have at least 5 minutes to summarize your statements, but I am asking unanimous consent that your entire statement be made part of the record and, without objection, it is so ordered.

Our first witness will be Arlene Gitles.

STATEMENT OF ARLENE GITLES, CONSUMER COALITION, SKOKIE, ILL.

Mrs. GITLES. The Consumer Coalition is a rather loosely organized group of consumers predominantly located on the north shore of the Chicago area. We have been very successful in getting legislation passed in a number of areas and I am particularly grateful as codirector of the Consumer Coalition, to have this opportunity to state my views about the pending bill that you have and to compliment you for all your consumer-oriented activities. Unfortunately, there aren't enough Congressmen like you, we feel. Marliss Levin was to speak on the EFT portion of the bill. Therefore, I am going to direct my comments strictly to the credit card situation. Unfortunately, because of the dire predictions of weather, I don't think she will make it.

It is amazing, in my capacity not only as—I call myself the purchasing agent for a family of five—but also as codirector of the Consumer Coalition, in talking to people, and women in particular, how confusing the whole area of credit cards is. Unfortunately, what happens, because time seems to be so short in so many people's lives, that rather than handle the situation people say to heck with it, and they are really not aware of the whole area of credit cards, especially since the advent of BankAmericard and so forth. It is different than when you went to Marshall Fields and paid your bill, but now you have BankAmericard and Master

Charge, which are, in many ways, seducing us to shop places that we would not have shopped before because of the ease of carrying that credit card.

As I read some of the previous statements that Chairman Annunzio had made, I couldn't help but think, that particular issue makes me angry so I would like to respond very briefly to each of the points that you have as far as the credit card amendments are concerned.

The country club billing: Many people have forgotten about it. It is unfortunate. I brought a copy of my most recent Master Charge bill. For example, it just says "Turnstile," which is the name of a discount store that I shopped at. It makes no indication of anything that I purchased. In examining the tissue that was given to me when I made the purchase, it says "merchandise." So the aspect of losing country club billing I think is a very sad one because those of us who keep accurate records, it makes it very, very difficult. Particularly if you charge more than one item. The loss of the tissues is, as I mentioned, sad. However, I am very pessimistic thinking in terms of the way the computer technology is going today that we would ever see it. It would be nice if we had a middle ground compromise to be made between the consumers and the credit card people.

The second point that we have, establishing a 25-day grace period for new purchases I think is a fantastic idea. Rarely, however, do you find companies giving you as much time as you would like to pay your bill. On the contrary, there seems to be as little time as possible. I am amazed that sometimes I have made a purchase. I barely got home and the mailman is at the door with the bill and it would be nice to have that 25-day grace period. I can still remember 30 days, and in some cases 90 days, that was automatic when you had a charge account.

Sections 3 and 4 of the amendments that you are proposing, I find, and I am sure many people do find most confusing, and most reprehensible. The average daily balance and the previous bill.

I must cite a personal experience that happened. A year or two ago, when I believe BankAmericard instituted this—and my facts may be vague because I did not know I would be testifying on such an issue—I became aware my bill was not what I expected it to be. I called BankAmericard, spoke to a very pleasant young lady at the other end who, in 25 minutes, gave me the most incredible double talk about why my bill was more than I had expected, and what she could not tell me and as near as I could figure out, it was because she was not allowed to tell me, was the average daily balance and previous balance; that although I had paid my bill, but had charged this new purchase—as I remember, before the bill was posted, then I was stuck with this finance charge which I had anticipated, but it never came out that way and I all but put the words in her mouth to get her to say it. I said, "Are you telling me—?"

"No, I am not telling you."

But, in any case, when you look at the back of the bill, it is double talk. Nobody understands "the important information" on the back of the bill and it would be nice if sections 3 and 4, as far as I am concerned, came in.

Requirement of credit card charges to be initially billed within 2 months. I think it would be nice if they waited 2 months to charge it. I have found this difficulty with the gas company. They are very slow in billing. I don't object to it. It is nice to go on vacation in August and not have to pay your gas bill until November, but it is inconsistent and there needs to be some consistency within all the accounts.

Section 65 makes me so angry. Any company who would charge me for the privilege—and I use that word with a great amount of hostility. I don't find it a privilege. I feel, and I guess I am old fashioned, that I am doing the credit card companies a favor by using their credit card. They are not doing me a favor. If it gets to the point that the City Bank in New York is going to charge me for the privilege of having that card even though I may not have any balance, I will tear up the card.

Requiring consumers' credit card statements to be mailed within 7 days or at the end of the billing cycle.

Again I can say BankAmericard is an example. Well, here is Master Charge. My billing date was November 22. I believe I received this bill in the mail approximately the 28th or the 29th of the month. My payment due date is December 17. They usually say, "Please allow 5 days for mail payments." That gives me less than 2 weeks from the time I receive the bill until it has to be paid, which is certainly not, as I mentioned before, in the old days, the 30-day float period.

Section 8. Marliss Levin, who was to testify this afternoon, works for a restaurant and she tells me as a bookkeeper for a particular restaurant that this business of add-on charges is a very common occurrence. You sign your bill. However, they neglected to note that you had a bar table; dessert was added; somebody joined you at the table; it was an extra cup of coffee. Generally the last thing that you put on a formal document is your signature and it seems again reprehensible that charges should be added after your signature has been put on and that you would not know about this until you received your statement in the mail.

Section 9. Requiring a written application in order to receive a credit card, I again have had this example. One firm in Chicago took over Korvette. They are near me. They called, very friendly over the phone, and asked if I wanted a credit card. Had my babysitter answered the phone and said that she was Mrs. Gitles, I could have received the credit card whether or not I wanted it.

I certainly object to being called over the telephone and offered something as important as a credit card without seeing the exact figures and specifics that go along with it.

Requiring a clear explanation. I don't think there are any clear explanations when you deal with credit cards. I think the clearest thing that has come out of late is that if you have a problem they want you to notify them in writing.

That, in and of itself, is a hardship for many people who have difficulty expressing themselves in writing. The consumer is confused enough in today's marketplace without the confusing language on the back of statements which read as "important."

Finally, requiring disclosure to the consumer, the three points that you have mentioned. Again, speaking for myself, and many

consumers, anything that can be done to make the consumer's life easier in the marketplace. Opal Slader, who came down with me today and is taking care of my baby while I am sitting here testifying, is a complete anomaly to what you are here talking about today. If we had the time, I wish you could speak to her.

Her husband, her three children and herself operate with no credit cards. She does not own any. She is an unusual person, I believe, in that respect, because it is almost impossible to cash a check, to rent a car, to check into a hotel without having some major credit card. I think she is a testimonial to those of us who frequently get very angry with the whole business of credit cards, but we are used to it.

It was an initial convenience, but now I feel we are at the mercy of the credit card rather than it being there to serve us.

Again I thank you for this opportunity to speak for the Consumer Coalition.

We have at times as many as 15 people and as many as 200. I hope I speak for them when I say all of the points that you have under the credit card amendments are positive and we are there rooting for you.

Thank you.

Chairman ANNUNZIO. Thank you very much for your excellent statement and your cooperation.

Our next witness is Agnes Ryan, an attorney at law in the city of Chicago.

Ms. Ryan, if you will proceed in your own manner.

STATEMENT OF AGNES RYAN, ATTORNEY AT LAW, CHICAGO, ILL.

Ms. RYAN. I am on the staff of the Legal Aid Bureau of United Charities. My statement is brief and I would prefer to read it rather than summarize it.

The concept of EFT is overwhelming. The consumer has had something thrust upon him that he has not expressed a desire to have as a part of his lifestyle. He has not been given the opportunity to analyze the pitfalls of this system. Yet it is a reality.

The passage of the proposed bill, H.R. 8753, is imperative. It will provide some necessary protection to the consumer and much-needed cushion financial institutions.

My comments are directed to the sections of the bill that I think are more important.

Section 812, which prohibits discriminatory pricing, must be maintained as a provision of the bill in order to allow the consumer alternative methods of payment.

My primary concern is with the low-income consumer, although EFT will probably not affect him directly. He will not be given a plastic card or paper purchases in this sophisticated manner, but he should not be penalized because he is not a part of the system.

I fear that those who are only able to pay cash will eventually suffer from the result of discrimination. In order to protect this consumer, the words "or in cash" should be added immediately after the words "paid for by check."

I do not believe that sufficient attention has been given to the position of the low-income consumer and it is the duty of the House to see that not any further financial burdens are placed upon him.

All of the provisions of sections 803 and 804 should be retained as a part of the bill. Section 803(d)(4) is a provision that will allow the consumer to maintain a record of his transactions. The necessity for this is obvious. The ability of a consumer under section 806(a)(2) to stop a transfer of funds after a purchase transaction is one of the outstanding features of the bill. The purchaser must have the right to protect himself against the unscrupulous merchant who hopes to profit through a maze of confusion. The other provisions of section 806 and the provisions of section 807 requiring that the institution furnish a record at the time of a purchase transaction, and a transfer transaction, together with the monthly statement required in section 803, will aid the consumer and keep him cognizant of the status of his account.

The right to demand a correction of error is so elementary that it should cause little discussion.

Section 808 should be retained as is, with one exception: It is conceivable that some confusion may exist between paragraph (a) and section 813(d) with reference to the 1-year statute. Is the date of the occurrence of the violation the date the error was made, or is the occurrence date the date on which the institution refused to correct the error? Judicial interpretation can be either way.

The House has the opportunity to define the terms precisely and should do so.

Section 811, limiting liability, is of paramount concern to the consumer. In view of the fact that the consumer does not exercise any control over the operation of the system, he needs many safeguards. He is completely at the mercy of the institution. I find the wording of section 811(b)(6) to be too harsh if it is not to work to the benefit of the consumer.

Attachment of funds belonging to the consumer from his wages or his bank account is prevalent as a collection tool. Some attention through legislation must be given to this aspect. Otherwise a creditor may successfully circumvent laws that have been enacted for the protection of the consumer. Overall it appears that H.R. 8753 has treated the important aspects that will arise under this system. However, experience will dictate whether or not this is correct.

Chairman ANNUNZIO. Thank you very much, Ms. Ryan, for your excellent statement, and the contribution that you have made to the subcommittee. I am sure that we will study the record and take your remarks into consideration as we deliberate the markup of this legislation.

Ms. RYAN. Thank you.

Chairman ANNUNZIO. Dan Rosenblum is also the staff attorney with the Legal Assistance Foundation of Chicago.

Mr. Rosenblum, you are recognized for 5 minutes.

Your entire statement will be made part of the record.

STATEMENT OF DAN ROSENBLUM, STAFF ATTORNEY, LEGAL ASSISTANCE FOUNDATION OF CHICAGO, CHICAGO, ILL.

Mr. ROSENBLUM. My name is Dan Rosenblum. I am staff attorney at the Legal Assistance Foundation of Chicago—LAF. I am here in response to your invitation to Jerrold Oppenheim, LAF director of consumer litigation, and this testimony represents our joint views and generally those of the poor people we represent. LAF is the federally funded legal services agency in Chicago. Through our 7 neighborhood offices, we resolve about 3,000 consumer problems annually. Most of them involve credit.

I represent the Legal Assistance Foundation, which is another agency in Chicago representing the consumer.

ELECTRONIC FUNDS TRANSFER

Our principal concern about EFT is that, when poor people and others are forced or encouraged to use this new technology, they should receive at least the same protections as are already afforded by the old technologies of checks and credit cards. Otherwise, the new electronic technology of moving people's money can simply become an evasion of consumer protection laws such as the Consumer Credit Protection Act, the Fair Credit and Billing Act, and the Uniform Commercial Code.

EFT cards and payment authorizations are not cash. They are simply modern electronic substitutes for such accounting devices as checks and credit cards. Long experience with checks and credit cards led Congress and the States to develop a broad net of protection against the major financial abuses associated with these instruments. Now, in one electronic swoop, the financial industry promises to wipe out decades of protection by calling a check by a fancier name.

If a check is used without authorization and a bank cashes it, the bank is liable. If a check is written one day and a stop order is issued on it the next day, the check is not paid. EFT transactions work just like checks—an account maintained at a bank is debited while another account is credited—only faster. The legal principles developed over decades of experience are no less valid for that extra speed. Unauthorized use of an EFT card should be at the bank's risk. Stop payment orders should be permitted. Errors should be reversed immediately.

Few of our clients have yet had to face an EFT terminal. For that matter, due in part to the restrictions here on branch banking, few of our clients have faced a bank teller. That means most of our clients do their banking at currency exchanges—check-cashing agencies—and grocery stores. In these circumstances, even a faceless terminal represents a potential improvement.

If Illinois banks are ever allowed to branch, one possibility is that the branches they will install in poor neighborhoods will principally be automated ones. Once bank branches of any description locate in poor neighborhoods, it is likely that public aid checks that are now delivered directly to currency exchanges for recipients to pick up will instead be electronically deposited in bank accounts. On an optional basis, such a system of direct deposits is already in effect for social security checks.

The advantages of direct deposits are convenience, speed, and prevention of mailbox theft. But care must be taken that these advantages are not outweighed by electronic fraud and computerized error. This bill, H.R. 8753, admirably addresses these concerns.

THEFT AND FRAUD

The bill would provide a \$50 limit on consumer liability for unauthorized use of an EFT card. This should be reduced to zero.

For a poor person whose only income is directly deposited into a bank account, but from whom nobody will take a check, the bank will be the only source of cash. If the neighborhood bank is a robot that requires an EFT card, it is scarcely just that the consumer should bear liability for a technology that is adopted principally for the bank's profit.

EFT cards, and the robot tellers that go with them, aid banks by making branches economic in locations where they might not otherwise be. This results in a greater marketing territory for a bank, which results in greater lendable deposits from such otherwise unavailable sources as direct deposit social security checks. The EFT card makes all this possible, but it is not risk free; that risk however, is a business risk that ought to be absorbed by the business that profits from that risk.

We have run across one circumstance that shows why liability must be limited. An EFT card belonging to one of our clients was used without authorization to overdraw her account by \$1,800. The bank took the position that our client should pay for what was obviously the bank's failure to properly program its computer. Such errors should result in no consumer liability.

An additional security problem that should be considered is access to the small remote buildings housing automated tellers. At a minimum, entrance to these locations should be governed by the same card that activates the teller.

ERRORS

It is anomalous that a bill to regulate instantaneous computerized financial transactions should permit 30 days to resolve a dispute as this bill does. At a minimum, it would seem that a computer capable of instantaneous deductions from an account is capable of similarly registering a disputed amount via the same terminal and temporarily crediting the disputed amount back to the account. Analogously, disputed credit card and utility bill amounts need not be paid until the dispute is resolved even though the bank or utility has already laid out the money or service in question.

Once a temporary credit is provided, you can be reasonably certain that dispute resolution will proceed at a pace somewhat faster than the 30 days provided in the bill. Such a provision also gives financial institutions a marketlike incentive to take steps to prevent error or at least removes the incentive contained in this bill to commit error. In essence, this bill is a message to banks that an error in their favor will gain them a consumer's money for 30 days interest free. One result is that such fail-safe computer mechanisms as duplexing would not be very popular. Duplexing programs a computer to repeat to a consumer what the computer

understood its instructions to be, as opposed to what the consumer entered on the keyboard. Thus a consumer learns of some computer errors at once.

Of course, another protection against error is mandatory issuance of receipts for all transactions, as this bill requires.

STOP PAYMENT ORDERS

The bill's provision for stop payment orders within 2 days properly bring EFT transactions to parity with the check and credit card transactions they replace.

In order to further this purpose, we would suggest requiring the immediate mailing of receipts for telephone order purchases and other purchases not initiated at the place of sale. As the bill stands, the receipt is not mailed until 3 days later, after stop payment orders are not permitted.

OTHER MATTERS

We are in general accord with other protections in this bill and would particularly like to note with approval the prohibition of discriminatory charging for checks or other payment mechanisms.

We will submit other, more detailed comments for the record.

CREDIT CARD AMENDMENTS

Most of our clients are unable to obtain credit cards. From their point of view, the principal benefit of a credit card is its relatively low interest. At 18 percent and up, that may seem surprising, but our clients are used to paying annual interest rates up to 32 percent.

This bill would help prevent banks and stores from reaching for such levels by outlawing such interest-boosting rackets as interest on average daily balance, interest on current purchases where there is any previous balance, and billing delays as long as 2 weeks.

The size of the boondoggle is most easily illustrated by imagining a consumer making credit-card purchases of \$101 each on January 1 and February 1. On February 14, he pays his January bill but makes a mistake and only pays \$100. That leaves him with a \$1 past due balance on his bill at the end of February. Under the original method of interest calculation, this cost him interest of 1.5 percent on the old \$1 balance, 2 cents.

That 1.5 percent translates to an annual percentage rate of 18 percent. Here is how some banks and stores have raised that to the equivalent of 2,061 percent annual interest calculated the original way.

The first step was to charge interest on the average unpaid balance if anything remained unpaid. Thus, our consumer would pay interest on his \$100 payment for the half month before he paid it—his free payment period has, in effect, been revoked. This brings the balance up from \$1 to an average daily balance of \$51.50 on which the 1.5 percent monthly interest is imposed to yield a 77-cent charge. To get that much by the old method, a bank would have to charge annual interest of 693 percent.

For some that was not enough. They now also add interest on current purchases where there is an unpaid balance, thus wiping out any free carrying period whatsoever and fundamentally changing the nature of a credit card purchase. This brings the average daily balance in our illustration up to \$152.50 and the interest charge up to \$2.29. To get that much by the old method would require an annual interest rate of 2,061 percent.

The ultimate, so far, at one New York bank, is to charge even those people who pay their bills in full on time. Other stores and banks have made prompt payment unlikely by sending out bills 2 weeks or so before they are due.

This bill would allow some forms of the average daily balance scheme just illustrated. To this extent, we think the bill should be revised to provide, in the proposed new section 177, that interest may be charged on the lesser of the unpaid balance or the average unpaid balance.

Our other comments on this part of the bill are also contained in our additional statement for the record.

Thank you again for your invitation.

Chairman ANNUNZIO. Our next witness is Ron Gall, director of the Wisconsin Consumer League from Milwaukee.

Mr. Gall.

STATEMENT OF RON GALL, DIRECTOR, MEMBER OF BOARD OF DIRECTORS, WISCONSIN CONSUMER LEAGUE, MILWAUKEE, WIS.

Mr. GALL. Thank you, Mr. Chairman. I don't feel as though my statement is that long that it will take too much time to read, so I will read it.

My name is Ron Gall and I am appearing today on behalf of the Wisconsin Consumers League in my capacity as a member of the board of directors.

The Wisconsin Consumer League is a volunteer, nonprofit, non-partisan organization established in 1966 to give consumers active voice in government. In 1972, our league was instrumental in enacting one of the best pieces of consumer legislation in the entire country, the Wisconsin Consumer Act.

In my professional capacity, I serve as program director of the Consumer Budget Counseling Service, a program of Family Service of Milwaukee. Family Service is a nonprofit mental health service and is funded by United Way.

Prior to my employment at Family Service, I spent 18 years as a branch manager for two consumer finance companies and a loan officer for two Wisconsin banks. During my 4 years at Family Service, I have been involved with counseling over 2,000 families and individuals that are burdened by various forms of financial problems. I would say that a large majority, over 75 percent, some form of trouble was stimulated by the use of credit cards. I think that this is significant regarding the nature of these hearings in that, even though Wisconsin Consumers have the protection of the Wisconsin Consumer Act, these problems still exist in large numbers.

I feel the crux of the problem is the all too easy availability of credit, particularly in the credit card area. The proposed legislation

would not cure all of these problems, but it would be a great step in the right direction.

At this point I would like to give an example of the results of this easy credit and illustrate the profound effects it had on an entire family.

Mr. B was born on December 25, 1957—19 years old. Mrs. B was born on January 21, 1959—18 years old. They have a 7-month-old child. Mr. and Mrs. B both have a 10th grade education, none of which included any consumer education. Mr. B is employed as a maintenance man for a local fast food restaurant. He takes home approximately \$500 per month. Mr. B also works at a part-time job and stimulates an extra \$152 per month.

These children, regardless of what the law states about 18-year-olds being adults, they are still children, were bestowed with all the gifts of our credit community in the form of a J. C. Penney charge, a Gimbel charge, and a Kohl's Department Store charge.

Also a Sears charge and an Alden's charge.

This, plus buying a car through a finance company, and various other debts brought them to a consolidation loan with Mr. B's father's credit union totaling \$7,000, with payments of \$178 per month. Mr. B's father was required to cosign this loan. This transaction took place in June 1977.

On November 16, 1977, the B's came to me for help. At that interview they informed me that since consolidating the previously mentioned charge accounts, they have reopened with Sears, Gimbels, and Aldens, in addition to loans with two small loan companies. Through further questioning, I discovered that the majority of the Gimbel bill—over \$800—was used for food purchases because all of their income was going for debt repayment, rent, and utilities.

Furthermore, I discovered that the Sears bill consisted of fuel for their car and cigarettes. At this point, I would like to point out that this is not an isolated case. It just happened to be the one I had fresh in my mind while preparing this testimony.

It became apparent that the solution to this problem would have to come through the Federal courts. This was particularly hard because of the father's involvement in the large credit union loan.

Again, I do not feel as though H.R. 8753 will be a cure-all to this type of situation, but it certainly is a beginning. Any regulation imposed on this cold-blooded industry will help.

In regard to the electronic funds transfer portion of the bill, I can only say that the majority of the issues have already been addressed in Wisconsin through the administrative rules issued by the State banking commission and the State savings and loan commission. I feel that it is important to note that these rules were brought about by extensive meetings of industry representatives and consumers. It was my pleasure and privilege to serve on a consumer committee that met with the TYME Corp.—Wisconsin Bank Electronic Funds Transfer System. During those meetings concerns regarding stop payment, recognized proof of payment, liability limits, unsolicited cards, and error resolutions were addressed and resolved.

My personal concern, as to the potential of electronic funds transfer system in expanding credit usage into the areas of food

purchases, and so forth, were not fully covered. I am still gravely concerned over the potential here.

I would like to close by stating that the Wisconsin Consumer League is pleased to support the passage of H.R. 8753. On behalf of the league, I would like to express the need for wording that the Federal bill would not preempt any State regulations that are of more benefit to the consumer.

Thank you.

Chairman ANNUNZIO. Thank you very much, Mr. Gall.

Our next witness will be Ken Clark of the Wisconsin AFL-CIO.

**STATEMENT OF KEN CLARK, STAFF REPRESENTATIVE,
WISCONSIN AFL-CIO, MILWAUKEE, WIS.**

Mr. CLARK. My name is Ken Clark. I am employed as a staff representative by the Wisconsin State AFL-CIO. My principal duties involve the legislative concerns of the State organized labor movement.

At the present time, I also serve as president of the Greater Milwaukee Consumers League, as a board member of the Wisconsin Consumers League and as a board member of Family Service Society of Milwaukee and the advisory committee to the Consumer Budget Counseling Service, which is run by Family Service.

My great concern with the problems relating to credit extension began while I was serving as assistant director of labor participation for the United Community Services of Greater Milwaukee.

I worked for UCS in that position from 1961 through July 1970.

I was called upon to get help for members of local unions who had problems. These problems included alcoholism, parent-child conflict, finding care for aged parents, and so forth.

The one great problem that kept coming up was that of credit overextension that resulted in wage garnishments, which in turn threatened loss of employment.

At that time, in the 1960's, there was no private agency in Milwaukee that was equipped to provide help to these people. I am a trained accountant so I took it upon myself to provide the necessary assistance. Usually, I met the clients in their homes. I sat down with the husband and wife and laid out all their bills, developed a family budget, and a list of all outstanding debts. I developed my own forms used for these purposes. With all of this information and in consultation with the clients, we then decided on a plan of action to stop the wage garnishments and save the job or jobs of the clients. This could be through a voluntary amortization, a chapter XIII proceeding, or a bankruptcy.

In this process, I soon learned of the very loose and unscrupulous ways that credit was being granted. I don't have time to tell you here of the many credit horror stories, and some very humorous ones I uncovered. I have the information and can document the many cases of credit extensions that are utterly ridiculous from any reasonable, humane, or sensible perspective.

In one large Milwaukee industrial plant, I conducted a program for 26 families threatened with loss of jobs because of wage garnishments. Seven private social service agencies and the University of Wisconsin extension and UWM school of social welfare helped conduct the program.

We met with the husbands and wives one-half day each week for a period of 12 weeks. With a combination of consumer education, and budget counseling, and assistance with immediate debt problems, we were very successful with these couples. The project was publicized and got wide acclaim.

As a result of this experience, the Wisconsin State AFL-CIO asked me to represent them on a legislative study committee to study and make recommendations to the Wisconsin Legislature on adoption of the uniform consumer credit code.

I served on that committee for over 2 years, 1969-71. The committee was constructed so that the credit grantors were in the majority. On October 4, 1971, Mrs. Miller, president of the Wisconsin Consumers League, and I walked out of a meeting of the committee and exposed its credit-grantor-oriented makeup. This act received wide publicity.

We then formed a coalition of consumer, labor, and other interested groups and developed our own bill. This legislation, known as the Wisconsin Consumer Act, was passed in April 1972 and became effective on March 1, 1973. This bill contained more than 60 consumer remedies aimed at making the determination of creditworthiness very important to all types of credit grantors. All types of consumer credit are regulated by the act. We think it is the best piece of consumer credit legislation in the Nation.

The Wisconsin State AFL-CIO and other consumer-oriented groups are very concerned about the introduction of another credit-granting mechanism—the electronic funds transfer system.

Unless carefully regulated, this system can result in more and more families being mired down with overindebtedness. I liken the availability of easy-to-get credit to the problems created by the easy availability of drugs and alcohol. I am sure that research shows the more readily available the substance, the greater the number of those who become addicted and get in trouble; the correlation is there.

In Wisconsin, the banking commission has promulgated rules to regulate EFTS and protect the consumer's interest.

The provisions contained in H.R. 8753 to regulate the use of credit cards and electronic funds transfers systems contain the protections that the Wisconsin law and rules provide to protect the interest of consumers.

We, in Wisconsin, want to be sure that the Federal law provides at least the equivalent to our laws. If the regulations offer less protection to consumers, we would want the law as passed to provide that State laws are not preempted by Federal law if the State law offers greater protection to the consumers in that jurisdiction.

The Wisconsin State AFL-CIO urges your committee to support H.R. 8753 without amendments that may lessen the consumer protection aspects of the bill.

Thank you.

Chairman ANNUNZIO. Thank you very much, Mr. Clark, for your fine statement and your very cooperative attitude.

Mr. Eisendrath.

**STATEMENT OF JACK N. EISENDRATH, ATTORNEY AT LAW,
MILWAUKEE, WIS., MEMBER, BOARD OF DIRECTORS, WIS-
CONSIN CONSUMER LEAGUE**

Mr. EISENDRATH: We are happy to be here, Mr. Chairman, and members of this very important subcommittee of Congress.

My name is Jack N. Eisendrath. I am in the private practice of law in Milwaukee, Wis., and am a member of the board of directors of the Wisconsin Consumer League.

In my work I am often called upon to assist individuals and families who find it difficult to work and live because of pressures which arise out of owing too many debts.

It is evident that the high percentage of credit card debts can become a driving force to motivate a person to seek the relief of bankruptcy. The credit card debt is unsecured and is readily listed in a bankruptcy petition because that debt is so easily dischargeable. This fact is not true of secured debts such as finance company loans, credit union loans, and other similar transactions. Because of this lure of easy discharge of credit card balances, we must place some of the blame for the great number of consumer bankruptcies at the doorstep of the credit card distributors.

I have checked 23 recent consumer bankruptcy cases filed by my office. I am sure you will be interested in my findings that the total debts for all 23 bankruptcies were \$173,606. Of this amount, \$35,165 were credit card debts. Those credit card debts were over 20 percent of the total debts listed in the bankruptcies. Of the credit card debts, 12 were over \$1,000 at the time of filing bankruptcy. Five credit card balances were over \$1,500. This is a sad monument to the easy credit practices that too often are found in this country's lending community.

Recently, an 18-year-old girl filed a bankruptcy petition. When I asked her about the large number of credit card balances due and owing, she told me that she lived in a girls' roominghouse and all the girls had a contest to see who could get the largest number of credit cards; and you have guessed it—she won the contest.

It has been estimated that in restaurants, those with credit cards have spent 51 percent more than those who pay cash.

Once a family files bankruptcy, the social consequences are many. Filing bankruptcy is often preceded by unhappiness between husband and wife over the pressure of bills. Children become disturbed and then schoolwork suffers as father and mother quarrel and criticize each other over money troubles; often a divorce is the result. Thousands of bad checks are written to momentarily satisfy the pressures of debt collectors. Each time a bankruptcy occurs the community suffers a little more. The physical and mental traumas in the family spreads to friends and relatives. The average of 25 to 50 merchants who must chalk up another bankruptcy loss brings further unhappiness into the community. When bankruptcy is repeated many times; the fabric of the community is weakened, along with the impact of other disturbing societal factors. When all of these detrimental forces occur often enough, society gets a little sicker. As social concerns increase, on every person's tongue the question is asked, "Why is society so involved and difficult today?"

If we look at the \$50 billion credit card business with an estimated 50 million credit cards in use, and we see the rising balances on

credit card debts listed in bankruptcy petitions, we must ask questions.

Is the increasing campaign for more business by credit grantors resulting in careless credit which will eventually bring more unhappiness to the community?

In the accounting year ending June 30, 1977, bankruptcies filed in the United States totaled 184,977. Installment credit has increased 12 percent over a year ago. Changing Times reports that more than one out of every four after-tax dollars goes to repay debt.

A sincere examination of the credit card boom leads to a considered conclusion that the credit card industry must be more carefully regulated and restricted in the interests of the consumer and the community.

I support and am in favor of this proposed bill on credit cards introduced by Representative Annunzio. Some of the corrective measures in the bill which will be helpful are:

A mandatory 25-day period of grace from interest for new purchases; this is an important consumer advantage. Such a law keeps the consumer in control of his bargain or credit. This provision prevents changes in the contract as the creditor grantor seeks to amend the rules once the borrower is signed on the dotted line.

The proposed law prohibits the credit grantor from using the average daily balance method as a means of assessing interest.

As a modification to the law, I suggest credit card users all over the country would save many, many thousands of dollars of interest if the adjusted balance method were used as a basis of charging interest. This is the least costly method to the consumer credit card user and is calculated on the unpaid balance at the end of the time of billing. Prohibition of added service charges if also an important law.

As the credit card issuers look for methods of increasing their return, there is a growing tendency to add service charges to accounts. Some such charges take advantage of prompt payment within the no-interest period. Eventually the regulated interest is increased beyond the legal limit as a result of the service charge. The elimination of service charge spells the addition of hundreds of thousands of dollars to consumer costs, if allowed service charges are foot-in-the-door devices that can lead to havoc for the consumer.

Requiring a written application before issuance of a credit card is an important way to prevent careless, overeager distribution of credit cards. There are other benefits of this bill.

In the marketplace, careful protections must be given to borrowers who use credit cards. Credit grantors are well organized and highly trained. The individual credit card holder is unorganized and untrained and needs continuing safeguards to help in the unequal struggle for dollars in the marketplace.

So that my comments are not too abstract, I wish to give the figure on the extra costs of consumers. If interest is figured on the average daily balance or if computed on the unpaid balance at the end of the billing period. Let us take \$400 charged on a credit card. Where \$200 is paid at the end of a billing period, the interest charge is \$5.90 a month, by using the average daily balance method

of computing the finance charges, but if we figure finance charges on the unpaid balance at the end of a billing period, the finance charge is only \$3.10, a saving of \$2.80 for that month for the consumer.

If we multiply this savings by \$100,000 for that many credit cards, we find there is a saving of \$180,000 in the local or financial community, and there are that many figures to contend with if we think about 50 million credit cards and for that reason that method of computing is a great advantage.

There are other things I feel compelled to put into the record at this time as I reach my conclusion.

As a member of a sturdy breed which holds firm to the importance of the individual in a democracy—and I would like to remain a healthy democracy—there is something I feel must be included in the record in the midst of the highly financed tidal wave of EFT.

As a Nation we are rapidly turning into a country of numbers rather than human beings. The electric fund transfer system is another step to make people autonomous with transactions becoming automatic without humans involved.

The depositor does not talk face to face with the bank teller. The need for the human touch, which is necessary for our society—and the friendly smile—which also is necessary—those needs are eliminated.

Human judgments are eliminated in a society dominated by the machine. We outdo ourselves to find new methods of turning people into machines, button pressers, card inserters, sorted by a computer into a massive mountain of nonhuman and inhuman figures and financial formula.

Where are we heading in this national community? With reference to this particular law, I say that in the marketplace careful protection must be given to borrowers who use credit cards. Credit grantors are well organized and highly trained. The individual credit cardholder is unorganized and untrained and needs continuing safeguards to help in the unequal struggle for dollars in the marketplace.

The giants in society do not need laws to control the little people. It is the little people who need help with laws to control the giants.

Chairman ANNUNZIO. Thank you, Mr. Eisendrath.

I would like to point out to Mr. Clark that in 1968 in the truth-in-lending bill I was the sponsor of the garnishment section of that bill. If my memory serves me right, we were suffering at that time with a wave of suicides among people working in steel mills and auto plants, and it was one of the times that industry and labor were together because of the manhours lost and worked on the part of the workers and now I believe under Federal law that the maximum amount that they can sue for under this particular section is 25 percent. So today we are faced again with the device—mentioned to you—the debit card, which can cause problems that will be astronomical and far outweigh the credit card.

With a debit card, unless something is done, the savings of a person can be wiped out with this machine and there is no way in which they can reclaim their funds.

Mr. CLARK. We took your law and improved upon it in the Wisconsin consumer act. We took another element, the Federal

minimum wage, and it goes up with that at 40 hours a week, plus \$15 for each dependent, so we have a much greater exemption in our law than the Federal law allows.

Another comment I would like to make, and I think your committee should be cognizant of it. I have read upon numerous occasions about attempts to do something about watering down the Bankruptcy Act. The significant thing, the very significant thing about bankruptcy is the fact that the threat of bankruptcy forces people who are giving credit, the borderline credit, to sit down and talk turkey when it comes to an amortization or some other form of helping the fellow. If you dilute the bankruptcy laws, you take a weapon away from us who are trying to do something in this area.

Chairman ANNUNZIO. The jurisdiction of the bankruptcy laws—and they are trying to revise the law—in the Judiciary Committee we have no responsibility. I think 3 or 4 weeks ago this was defeated on the floor of the House. There has been some effort to strengthen those laws.

Ms. Ryan, can you elaborate on why you feel prompt action on a correction is so important?

Ms. RYAN. Well, there isn't a lot of elaboration I can do except to state that a person has a right to know exactly the amount he is going to be charged. If there is a dispute, I think the consumer should be able to find out promptly after he registers a complaint.

The thing that bothers me so much is, if the bank or the institution refuses to correct the error, that 1-year statute bothers me tremendously because I think it is unclear.

Chairman ANNUNZIO. I have been thinking about the installation of a toll-free number, a local number for consumer complaints.

It is very easy for someone working for an institution to grant credit. You press a button and a computer letter comes out and you get the letter. When you get that letter, you call the store or the bank or the credit card company and you don't get any service.

It seems to me in these places that extend credit there should be just one particular division or a number that you can call toll free, you know, to get service for the consumer.

I think the consumer should be treated with dignity.

Ms. RYAN. There is but one thing wrong with that. I personally have called the toll free number of a major credit card company and I could not understand what the person was trying to tell me and, as I said, my concern is with low-income consumers who, most of them had less education. I don't believe they are going to understand it over a telephone. They may bring a paper to a lawyer or to some organization to have it interpreted for them. Also, if we use your toll-free number, the consumer has no record that he has reached any satisfaction with anybody or that there is anything definite arrived at.

The next thing he gets is a bill with the same error on it. I don't particularly favor the toll-free number.

Chairman ANNUNZIO. Thank you.

Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman.

Mr. Eisendrath, I practiced some law myself at one time and I know it is very easy to be an advocate, but we must act as an arbiter, or judge, when we pass this legislation.

I do not take it from your statement that you think that the use of credit cards should be abolished by law.

Mr. EISENDRATH. No, I realize I am involved in a tidal wave where we have to live with something. I am saying that if we do, any amount of regulation that is possible in the interests of the little consumer should be sought and used.

Mr. WYLIE. When we passed the Equal Credit Opportunity Act and I was a cosponsor of that—we had testimony to the effect that credit cards could be made available to everyone on an equal basis; that we could not discriminate against someone on the basis of race, creed, color, religion or economic status, of course, and that a company that—a credit card application can be sued—not that they can recover, but they can be sued up to \$500,000 in a class action. If they cannot prove the person who made the application was not creditworthy, so we get caught on the horns of a dilemma. We passed one bill with the consumer groups on it—and I would like to consider myself one of them—to provide equal access to credit cards and then we are supposed to come up with a bill here which will in effect say credit cards should be made less available. You understand my dilemma.

Mr. EISENDRATH. I understand, and I am familiar with the difficulty you have had before on this, but this does not prevent the fact that they must be available to everybody. This does not prevent us from putting in as many safeguards as possible.

The Washington Post reports that many American families today are spending more in monthly car expenses, that is, with and without credit cards, than they do for food.

Do we need some type of controls?

Mr. WYLIE. We ought to make it more difficult for people to get credit cards regardless of their check status.

Mr. EISENDRATH. To get and to see that the charges are so excessive. That is a method that can be used as we have discussed and Mr. Rosenblum pointed out so well, of charging it to one that is very much in favor of the consumer and there is one that is very little in favor of the consumer. Why can we not use the method most helpful to the little person?

Mr. WYLIE. Ms. Ryan suggested something about protection for the poor people, the uneducated and so forth. When we start legislating for a certain group, sometimes we make it more difficult for other people to use that service and to stimulate the economic process. I apologize for this personal reference here, but—my wife is in the audience—several years ago we were able to go to Europe and on the way back through Spain we stopped in Madrid and she saw a particularly good purchase of a leather purse. She knew it was a good purchase. I didn't at the time, but we happened to be in the area where they make very fine leather goods. It is a part of their local industry. They wouldn't take American dollars, and we didn't have the coin of the realm. They did take a BankAmericard credit card and we found out a little later that she did make a very, very prudent purchase. So I hope by that example you see what I mean, that we ought to be able to—you wouldn't say we should abolish the use of credit cards, would you?

Ms. RYAN. Oh, no. I never indicated that in my statement. I am sorry if you arrived at that conclusion.

Mr. WYLIE. What I am saying is, on the one hand we think we should allow the use of credit cards and on the other hand we should make it very difficult for people who are uneducated or who are poor to get these credit cards because they are liable to use them indiscriminately.

Ms. RYAN. My statement is not with reference to that, Mr. Wylie. My statement is, I don't want you to discriminate against the poor because they do not have credit cards. Because if we go to EFT and that is going to be the accepted method of payment, the poor are not going to have these cards and if they have to pay in cash they may be discriminated against. That is what my concern is. Not that they can't get the cards. It is just the conclusion, I am sure, that they won't be given the cards.

Mr. WYLIE. What would you think about a discount for paying cash? I offered an amendment to the equal credit opportunity bill which would allow for discounts for the payment of cash.

Ms. RYAN. If it is going to work to the advantage of the low income consumer, I am in favor of it.

Mr. WYLIE. I would assume as much. I understand that.

Ms. RYAN. You see, they need more protection than the average consumer.

Mr. WYLIE. So you think it is more than anything else a matter of education, but at the same time some safeguards ought to be enacted into law.

The point I am making here is—and I hope you will understand our difficulty—is that the more laws we enact, the more regulations, the more laws that are enacted, the more it puts pressure on the businessman to add to the cost of the service for everyone using that service. In the 25-day float there is a suggestion here that there is no finance and no interest charge to be made for 25 days. I am not necessarily saying I am against that, but if you go to a bank or a savings and loan or financial institution to borrow money to pay cash, you perhaps start making interest payments from the date of the loan.

Mr. GALL. I think one thing we might be overlooking here is, these privileges do exist. The so-called float period. They exist because the industry uses it as a tool to get people into the system. I think that should be prolonged with the law. I think it should be established.

Mr. WYLIE. Mr. Rosenblum, how do you arrive at your conclusion that EFT is a substitute for a check? If the payment is instantaneous, doesn't it take on more the aura of cash?

Mr. ROSENBLUM. I think I was considering it to be more like a credit card. I think EFT clearly has great similarities to both check or cash. What I was saying is that it is closer to cash probably than a credit card because of the difference in the credit and it is different from a check because of the time period.

Mr. WYLIE. You were talking strictly in terms of credit card and not a debit charge?

Mr. ROSENBLUM. I am not sure exactly what you are referring to in my testimony.

Mr. WYLIE. I don't know if I can find it in the testimony at the present time.

This is one of the major issues that we have to decide as to whether an electronics fund transfer is an instantaneous payment more like cash or whether there is going to be provision for stopping payment later on.

You pay for your food with a check, as we know it, and it is possible for you to stop payment on that check even though you have eaten the food.

Is that what we want to do as far as the debit charge is concerned? It is an instantaneous transfer of money from your account to the store where you buy the food.

Mr. ROSENBLUM. I think it is more important to look at the used car dealer analogy, for example.

Mr. WYLIE. Could we make a distinction between the bread which is eaten and the automobile which is a long-term installment?

Mr. ROSENBLUM. It is a very complicated factor. You should protect the consumer in the used-car field and have protection where you do need it; not have protection where you don't need it.

Mr. WYLIE. You would err in favor of granting a protection to people who might not otherwise be sophisticated in the area. Is that a fair statement?

Mr. ROSENBLUM. That is a very fair statement; yes.

Chairman ANNUNZIO. Thank you, Mr. Wylie.

Mr. Vento.

Mr. VENTO. The witnesses I have heard have done a good job.

I was commenting to my colleague here that I suppose, if we had a check transaction, something that could determine whether or not a check was valid, we could eliminate the necessity or convenience of credit card and/or the necessity or convenience of a debit card. Working with existing tools, existing resources, why do we always have to talk about taking away a right a consumer has? If electronic equipment is part of our future, can't we expand and improve upon it rather than to define some new systems, some new way of doing things not understood by consumers, and likely to cause the necessity for new legislation?

I think every bank should be in favor of a check system to determine whether a check is good or not, rather than depending upon VISA and Master Card—that is what they do today. That is costing money for the consumer and causes a lot of problems that would not otherwise exist. We ought to be pushing down that road.

Nevertheless, one of the things that does concern me is the instantaneousness—you put a paycheck into an account without the authority of the individual, or you require that before a mortgage, you have to have an automatic transfer of the check, from where you work to the mortgage company to pay off the mortgage. That is what is happening today. People are getting squeezed into doing business that way. You work for company X; your check goes into the bank account and you have to write a check to get it out. You have no choice.

If we can preserve choice by the consumer, then I think a lot of the necessity for legislation for the consumer would vanish, but we can't do that. I wish we could do that, but we can't.

That is the basic issue. If we had those choices, we would not have to sit here writing laws to deal with this. That is an argument

we have lost. That is why the poor don't have credit. They haven't the choice any more to go into that system.

Under some circumstances, as a remedial technique, you might be able to extend credit where you can't extend it today to someone who is poor. But the problem is that the proposals which come forth extend it to everyone.

The individual isn't treated as an individual any more; he is treated as a member of VISA or a member of a certain financial institution where he might be seeking a loan.

He must have an escrow account. You can't receive interest on it. You must have the money in it beforehand. These are the sorts of things consumers are faced with and only after arduous effort by a State legislature or Congress do we find you can get interest on that money, that you have certain rights over it and you can control it again.

We all know the battle you have to put up with in dealing with that issue.

How about as a remedial technique? Is there a way we can help by, for instance, providing an opportunity for an individual to sign over a certain amount—for instance, a mortgage payment—through an electronic fund transfer system where you have an authorized, specific deduction from his check. Do you think there is a possibility we could do that on a voluntary basis? What do you think, Mr. Eisenrath?

Mr. EISENDRATH. I agree with you that the right of choice is something we must preserve. Because this happens to be for the convenience of the mortgage grantor, I don't think we should knuckle under to that easy system. I agree with you thoroughly the freedom of choice must be maintained and being forced to have that money deposited there—what if somebody wants to garnishee him and it is in the account for garnishment the day after, what is our freedom of choice if we have a large number of bills? I think there should be a prohibition against that type of action by savings and loans and banks.

Mr. CLARK. In the Consumer Act, we were confronted with that in Wisconsin and the institutions that used that the most were the credit unions. In the Consumer Act, we placed a restriction there that any payroll deduction had to be cancelable.

I mentioned this one large plant with 26 people. They had three wage garnishments and one of the greatest violators were the credit unions. They made car loans based on seniority and the fact they had a checkoff. We did this and we did it in order to put the thrust of establishing creditworthiness based on the man's situation, not on length of service or the fact that they had a hand on his paycheck. That is a part of it.

The way I see this, we talk about consumer education and we have had a lot of experience in consumer education and the people we get to the consumer education classes are not the people who need the help.

Mr. VENTO. I used to teach school. I don't know how I could teach that to anybody. You can talk about education until you are blue in the face, but you can't teach anyone to read that. I can't read it here in 2 minutes and I challenge anyone else to get up and explain it to me.

Mr. CLARK. My thrust was, I am putting more responsibility on credit grantors to see that the people were in a situation where they could afford the credit.

I think that is the best approach we could make at this time.

I also do some income tax work yet as a sideline and the people who do the best job of living on limited income and especially the elderly, are the people who are completely debt-free and don't use any type of credit. That is the secret.

Mr. VENTO. Do you think electronic funds transfer out of a member's paycheck would be appropriate or not as a remedial method to extend credit where you otherwise would not extend it? Ms. Ryan?

Ms. RYAN. No, I think there should be a prohibition.

Mr. VENTO. People say, "We are able to extend credit under these circumstances to person x, where we otherwise wouldn't be able to do it because we are sure that we will be the first there to collect for the mortgage or for the food bill or something of that nature."

Ms. RYAN. I think they can still extend the credit based upon a person's wages, but I don't think they should be able to get it through the electronic transfer. I think there should absolutely be a law against that.

Mr. VENTO. The argument will also be made that that will help extend credit.

Ms. RYAN. We don't need to extend it any further. They are going to extend it based upon the wages and the person's financial status anyway.

Mr. VENTO. There is a tenuous position, you see, a situation where the individual, if he has the money in his hands, might not pay his mortgage.

Ms. RYAN. The point is that you will not be able to attach it through the electronic funds transfer. That will not affect the garnishment laws in the various States. They can still go through the court procedure and collect the money.

Mr. VENTO. That is being done today and we should be aware of it. It is being done in a variety of ways.

Ms. RYAN. I know it is. That is why I am sitting here.

Mr. EISENDRATH. I think we make a mistake if we do what the credit industry feels we must have. I think we are the ones who must be in control and not the credit industry.

Mr. VENTO. I am almost out of time, but their job is to minimize the risk and keep their interest rates down as low as they can. These are the arguments we get back. They are just trying to do what any good businessman will do and that is minimize their risk.

Mr. CLARK. That is not true.

Mr. VENTO. They are not trying to minimize their risk?

Mr. CLARK. No. On the old time payments so much was done because the sky was the limit on interest. There were interest rates of 54 percent for marginal credit. The looser the credit, the less testing of creditworthiness, the more credit will be granted.

Mr. LAFALCE. A general question for the panel or whoever would like to answer it.

We, in describing reasons for the cause of inflation, often point to Government spending. The oil embargo, the sale of wheat to

Russia. To what extent has the use of credit cards in our society and the resort to credit as an essential ingredient of our society—almost at an “at-will” basis—contributed, in your judgment to inflationary pressures in our society?

Mr. CLARK. I would just like to point out to the subcommittee that after World War II—

Mr. LAFALCE. To what extent would the continued use of electronic funds transfers exacerbate that?

Mr. CLARK. In 1947, before the great credit binge, there was \$9 billion in outstanding credit and now I think it is something like \$210 billion. Purely consumer credit, and no mortgage loans involved in there. I have read many pieces by economists that it is a big factor in inflation.

Mr. EISENDRATH. There is also a philosophical question we can spend hours on, discussing the need of credit in our society that we think we need. But do we need it. Sometime we would like to sit down with you on that.

What we have done, of course, by means of the credit card along with the other promotional advertising ideas, we have created a luxury standard of living that everybody seeks to get and in order to get to that, if you can get credit cards you get them. So what we are doing while we move into that electric manicure, the electric hedge cutter, the electric turkey knife cutter, and on and on, the matched ideas that go into a kitchen in a house, things we don't have to have, what we do is create a nation that seeks not what it needs, but what it wants. When we continue that, we can get into the type of trouble you are talking about.

How much does it contribute to inflation in the society? It certainly does.

Mr. LAFALCE. Mr. Clark, as a representative of labor, has this expanded use of credit also contributed to job creation?

Mr. CLARK. This is the one argument you always get when you meet with the bankers and the finance community. I say the 20 or 15 percent that is paid for rent of money is if it was spent on goods and services it would create a lot more employment.

Chairman ANNUNZIO. Mr. Wylie, one more question.

Mr. WYLIE. I had a question for Mr. Clark. Debt, or EFT cards, unlike credit cards—and I guess credit cards are also EFT cards, but anyhow, these debit EFT cards involve the potential for a consumer to lose all of the funds in his checking and savings account if unauthorized use occurs. You touched on this a little while ago. Should the consumers or the financial institutions bear the risk of such losses?

Mr. CLARK. The rules that were promulgated in our State limit the loss to the cardholders to \$50.

Mr. WYLIE. In your case it is \$50. I think Mrs. Gitles felt all the loss should be sustained by the financial institution.

Mr. CLARK. I will buy that.

Mr. ROSENBLUM. We suggested a zero limit also.

Mr. WYLIE. Thank you very much, Mr. Chairman.

Chairman ANNUNZIO. On behalf of the subcommittee, I want to thank all the members of the panel for being here with us this morning and this afternoon. To those of you who traveled from Milwaukee, we appreciate the great effort that you have made.

I know you will be asked many questions as to when the Congress will get around to marking up the bill. I want to remind you the Congress moves slowly; that it took us 4 years to pass the debt collection bill, that I intend to carry on the field hearings and I am hoping that possibly in the month of April we can begin some markup sessions and see if we can reach some tentative understanding amongst the committee members and some of the industry representatives.

In the meantime, I would like for you who represent various organizations and consumer groups to keep the pressure on your own Congressmen, your own Senators. I also want to advise you that Senator Riegle, who comes from the State of Michigan, has introduced and is holding hearings in the Senate only on EFT systems and not on credit cards. It has been suggested here this morning that maybe we should separate our bills.

I have put the two bills together. I am happy that my colleague, Mr. LaFalce, asked the question about, does this contribute to the inflation? There is no question in my mind that we do have about 550 million credit cards in circulation, and there is no question that it contributes to the inflation because the more goods you dispose of, you create a shortage of goods; you create a climate where you are competing for goods, and when you create a climate of competition for goods, it is only natural that the price of goods begins to rise and rise.

There are many other factors, but that is one of the important factors.

I appreciate your coming.

The record will be carefully studied. I know it is going to prove valuable to us in the further deliberations of this legislation.

Thank you very much.

The second panel shall consist of the following witnesses: Alan Garber, president, Crawford Department Stores, Chicago, Ill.; and Craig Vance, credit manager, Spurgeon Mercantile Co., Chicago, Ill.

The first witness of the second panel this afternoon is Alan J. Garber, president of the Crawford Department Stores of Chicago.

You can either read your statement or summarize. In any event, proceed in your own manner, Mr. Garber.

**STATEMENT OF ALAN J GARBER, PRESIDENT, CRAWFORD
DEPARTMENT STORES, CHICAGO, ILL.**

Mr. GARBER. Thank you, Mr. Chairman.

Mr. Chairman, my name is Alan J. Garber, president of Crawford's, a group of small, community-oriented department stores in Chicago and Rolling Meadows, Ill.

I appreciate the opportunity to express my views on H.R. 8753, title II, since this legislation could have a very adverse effect on the ability of my company to continue to offer credit at reasonable cost to our customers.

Some 5 years ago we abandoned country club billing, a costly and cumbersome method, for a much simpler, much less costly method—descriptive billing. Like you, I was very concerned that our customers might not be able to recognize their purchases from a one-line description, so we took exceptional care that the descrip-

tions name the department, and even the subclassification within the department when possible.

I was delighted to discover that even though signatures were no longer enclosed with the statement, our customers had no difficulty in identifying their purchases. To require us to abandon the greatly improved, much less costly billing system and go back to the country club billing would be, to us, an immense step backward, with no discernible benefit to our customers. To me, such a requirement would be a clear example of overkill. Where we now operate our credit office with our full-time persons, we would have to return to the hectic days when 12 persons were needed. Ultimately the same customers who now benefit from our easy to understand statement would have to pay an increased cost, either in higher direct credit charges, or more likely in higher markup.

Mr. Chairman, I could understand legislation that required statements to show clearer descriptions on each line. I cannot understand legislation that says that, because some statement descriptions from some credit grantors are not clear to the customer, therefore no statement descriptions can be clear—throw out descriptive billing. No, Mr. Chairman, that is wrong.

I might add as a side comment, in our operation roughly 25,000 or 30,000 accounts, we receive approximately 12 or 15 requests by phone for explanation of line items. The typical request by phone is, "I don't remember buying in that department. What is it?"

Our response is to immediately get the cross reference from a number the customer has, go to our file, pull the sales slip and describe what it says on the sales check, including the description and the type of merchandise.

In three out of four cases, the customer says, "Yes, I remember. Thank you very much." And hangs up.

In one out of four cases the customer says, "I still can't remember" and we say, "Allow us to mail you a photocopy of the sales check. You will have it in 2 days," and that is the last we hear of it.

They recognize the sales check.

I submit that has worked for us and is a simple way to solve the problem.

Our customer statements are produced for us by a service bureau. Our statements are mailed well within the 14-day present requirement, and almost invariably within the proposed 7-day requirement. But we cannot accept responsibility for a failure of an outside company, the service bureau, to produce statements even by the present 14-day limitation. The bill offers no relief for such events.

I don't think the failure of the service bureau to supply us with the bill in time should be considered to be an act of God.

The requirement that our application-for-credit form disclose all possible situations which may arise in the future which could reduce or eliminate a customer's credit line and/or revoke a customer's credit card is a hopelessly optimistic requirement. While I believe that I am a reasonably experienced retail executive—29 years—and I could probably put together a list which would include most conceivable future situations, there is no way in which I

could conceive of all possible future situations. Yet the bill requires me to do that. I can't.

Mr. Chairman, I will speak no more to specific sections of title II, but I would like to address a few remarks to you on the general credit legislation which I, along with many other retail credit grantors of moderate size, face. We have been subjected, in recent years, to an immense amount of legislation which has narrowed the freedom of choice which we have had in determining the rules by which we offer credit facilities to our customers. Most of these restrictions have been stimulated by consumer complaints concerning relatively few retail credit grantors, but the requirements have not, in my opinion, been too onerous, and many of them were welcome codifications of good credit practice which most of us were doing anyway.

But, Mr. Chairman, while a certain amount of credit legislation may be a good thing, a point of greatly diminishing returns to credit grantors, and therefore to customers, is being reached. Notice that I did not separate consumers from credit grantors, for if we are hurt by too much legislation, inevitably our consumers must either pay a higher price or do without. Neither prospect is a happy one.

I am pleased you have come home to Chicago for these hearings, Mr. Chairman. I am one of your constituents, and most of my customers are your constituents, and this opportunity to provide input to you and your subcommittee are much appreciated.

But, please, no more broad, all-inclusive credit legislation. The ultimate outcome of this trend will be brought home to us when the only places consumers will be able to go for credit will be the giant store, the bank card, and the criminal fringe. Too much of a good thing can be harmful to the business communities of the great northwest Chicago.

Mr. Chairman, your contribution to the codification of good credit practice in the past has been much appreciated. But Title II has in it the elements of a great step backward. I urge you to consider carefully the damage now to be done to credit grantors of modest size.

Most every comment I have heard this morning has to do with the giant size credit grantors but now I would like you to focus your attention on the modest ones.

The small credit grantors are gone. The modest sized ones are under great and increasing pressure as grantors of their own credit. The financial sufferer can only be the hard-pressed consumer.

Mr. Chairman, that finishes my formal statement.

I have a few notes I made during the session this morning, a few comments and observations I would like to make if we have time.

Chairman ANNUNZIO. Go right ahead.

Mr. GARBER. You raise the question of the usury law which I believe in Illinois is 8 percent.

Chairman ANNUNZIO. Eighteen percent.

Mr. GARBER. Other than revolving credit, I believe it is 8 percent. There is an exception for revolving credit being 18 percent.

I assume that you were referring to that 8 percent when you referred to a usury item. How do we reconcile the two?

Many years ago, when we were considering going to an 18-percent annual nominal charge, I tried to figure out how to do this and there are various ways to work it as we have seen, and after ample confusion I finally said to myself, what would happen if a customer opened an account, came in, bought \$100 worth and paid for it at our usual rate, which is one-tenth each month for 10 months? How much finance charge would that customer be paying? What would it cost the customer? The exact figure escapes me except I know it was between \$7.50 and \$8. Why? Because the balance keeps declining. So, if a customer came in who did nothing but buy \$100 worth, his final cost after 10 months would be, I believe it was around \$7.80.

That was one of the facts I discovered that persuaded me to go ahead and offer it, that it was not too costly a charge to our customers and, after all our true income from our customer is not from credit charges or finance charges, it is from the gross margin on the sales we make to that customer for the customer's merchandise or service.

Eighteen percent in Illinois is the top limit for revolving, but that 18 percent was selected as a high percentage number. In the days when the cost of money was considerably lower than it is today, all credit grantors struggled with the problem of financing their receivables at higher and higher rates of interest which we have observed come about in the last 2 or 3 years, and which frankly show no signs of abating.

I have sympathy with somebody like City Bank who says, "Look, we have a very expensive proposition here. We can't go on indefinitely not making money. One way to solve the problem is to say, if you want to use the facility, pay for it."

I am not sure that was the politic way to proceed, but it did make sense in terms of the principle that the consumer must pay for all services that the consumer receives. There is no place else to go.

Perhaps a more politic method and perhaps a less politic method would be to say, "Look, 18 percent is obsolete; 21 percent is needed or 24 percent is needed, and here are cost figures to justify it."

I have seen no cost figures which indicate that credit grantors in the department store industry are making a profit on their credit operations looking at their direct costs, overhead costs, and income from finance charges. We lose; not a great deal, but we lose a little, which is all right.

I have a few other comments, but I think I will reserve them. Thank you very much.

Chairman ANNUNZIO. Thank you very much, Mr. Garber, for your excellent statement expressing your point of view. I know the committee is deeply grateful.

**STATEMENT OF CRAIG R. VANCE, CREDIT MANAGER,
SPURGEON MERCANTILE CO., CHICAGO, ILL.**

Mr. VANCE. Thank you very much, Mr. Chairman and distinguished members of the Subcommittee on Consumer Affairs.

I am Craig R. Vance, credit manager of Spurgeon Mercantile Co., Chicago, Ill.

Spurgeon Mercantile Co. is privately owned chain of junior department stores. The company was founded in 1907. Through steady and profitable growth, we now operate 71 small stores in communities of 5,000 to 25,000 people in Illinois, Iowa, Wisconsin, Minnesota, Michigan, and Indiana.

A typical Spurgeon's store will employ 12 to 13 full- and part-time people and be located in a town of around 8,000 to 9,000 people such as Princeton, Ill. The closest Spurgeon stores to the Chicago metropolitan area are McHenry, Ill, DeKalb, Ill., and Morris, Ill. A payroll for our store operations would number approximately 950 people with an additional 75 persons employed in our Chicago headquarters.

We have been successful by very careful control of costs so that we can afford to operate low-volume stores in small communities. We will offer lower priced merchandise than the main street specialty shop and better service than the shopping center discounter. We cater to the farmer and wage earner of the community, not the "carriage trade."

Until about 20 years ago we were strictly on a cash-and-carry basis. In order to be competitive with the retail giants, such as Wards, Sears, and Penney's, we felt the need to develop a credit plan so that our customers could have a choice.

Our company offers its customers two types of credit purchasing. We have our own Spurgeon's credit plan that is operated internally. This is a 30-day open-end revolving plan. As our stores do not offer many "big ticket" items, we do not have a time payment purchase plan. We also offer bank card charging in all of our stores. Credit sales are not a major portion of our business. In 1976, 13 percent of our sales volume was on our Spurgeon's plan and 2 percent of our volume on the bank cards. Although 15 percent is not large by some standards, with retail profit margins as small as they are, we need that 15 percent to survive.

We are not a large organization and we do not have customer profiles that would allow me to tell you specifically what a typical Spurgeon's charge customer would be like. I would say that this person, male or female, would have a working spouse and operate on a very limited budget. Based on conversations I have had with various banks concerning our bank card plans, I can say without hesitation that a great majority of the people that we offer revolving charge account privileges to would not qualify for a bank card. Our customers, as are many retail shoppers in smalltown mid-America, are rather unsophisticated in the use of credit and reluctant to use credit for retail purchases when some other means of making the purchase can be found.

While these statements may sound as though I am minimizing the importance of our charge plan, I do not intend to give that impression. The family who finds that they have three to five children to clothe for back-to-school items in September and then is looking forward to the Christmas buying season is very happy to be able to revolve their purchasing on through the first part of the next year to be able to budget the bulges in their consumer spending.

Spurgeon's feel that our own charge account system, while offering the company a benefit, is also doing an important service for our customer.

In 1976 we sent out approximately 400 to 450 statements per month per store and estimate that we have an active customer base of around 700 customers per store. While small on a unit base, this multiplies to 31,000 statements per month and 50,000 active customers. A typical customer purchased \$133 during 1976 and carried an average balance of around \$68. Our credit limit is the same for every account and is \$200.

With respect to H.R. 8753 that is under discussion here today I will limit my comments to title II of the proposed legislation. I very frankly feel that there is nothing in title II that would be of any benefit whatsoever to a Spurgeon's charge customer. There are two sections of title II that I would like to address specifically.

Section 202 that would amend the Truth in Lending Act to require the use of the so-called country club billing system would actually be a giant step backwards for consumer credit. We at Spurgeon's have invested thousands of dollars and hours of time in developing what we feel is a foolproof system for identifying consumer transactions and communicating those transactions with the utmost clarity to the customer.

If I may briefly describe our system, for every charge sale, return, or payment, a three-part transaction ticket is prepared. One copy of the ticket is given to the consumer at the point of sale. The second copy of the ticket is filed with the consumer's file in the office of the local store where the transaction took place, or in the case of a transaction being made by a customer whose account is kept in another store, the ticket is sent to the store where the customer's account is maintained. The third copy of the transaction ticket is sent to the Chicago headquarters.

Each month when the customer receives his statement, each transaction is identified by date, store in which it took place, a description as to what department the merchandise came from—one of 47 different departments—and amount of the transaction. The statement also directs the customer to the store that handles their account or the Chicago headquarters for any questions that they might have concerning their statement. We have so very, very few questions from our customers and even fewer questions that lead to a required adjustment that we have no one in our credit operations who is responsible for bill adjustment.

Typically either myself or the supervisor of our department will handle these adjustments personally. Based on this experience I can say that of the 371,000 statements that we mailed in 1976, less than 40 or one-tenth of 1 percent required any sort of adjustment or further communication with the customer.

Should country club billing be mandated by H.R. 8753, I believe the expenditures to convert would probably be around \$9 per active account—13 percent of our average balance of \$68—or approximately \$250,000 to \$275,000. This would include new filing systems, new forms, a great increase in personnel, additional office space and assorted overhead, and so on and so forth.

In our company we can fixture, improve, and deliver an opening inventory for a new store for less than that amount of money. We

typically will open one to three new stores in a year's time so I am sure you can see that the management of our company would be very reluctant to make that expenditure with absolutely zero return to the shareholders of the business.

The other section of H.R. 8753 then I would like to address is section 204 that would require periodic statements to be mailed within 7 days of the close of the billing cycle for which they were prepared. Due to the size of our company, we are not able to afford the expensive computer hardware to enable us to have electronic point of sale devices. Therefore, we must depend on the U.S. Postal Service for most of our communications between our stores and the Chicago headquarters.

Typical delivery of our credit transactions which are mailed to us each day is 3 business days. Given this mail time to receive the media in the Chicago headquarters, it would be absolutely impossible to audit the media, keypunch the data, and have the computer prepare the statements for billing within 4 days after they are received or 2 days with weekends. There is simply no way that our organization could comply with that section of H.R. 8753.

Again, I would like to stress that I can see little or no benefit for our customer even if it were possible. As I am sure other retailers have testified, the typical credit customer who revolves his account will wait until very close to the end of the billing cycle to make his payment. There just is no advantage to having that monthly statement in the customer's hands 7 days after the close of the billing cycle when he is not going to act on it until probably 2 or 3 days before the end of the billing cycle.

The current law provision of the Fair Credit Billing Act of 14 days prior to the close of the billing cycle is adequate for any consumer to make his financial decisions regarding the amount due on the statement. We will mail our statements 10 days after the cycle closes. I would be very interested to know what that 7-day period between day No. 7 and day No. 14 will do for the consumer.

When I reflect on the data and facts that I have briefly related to you, I can only come to one conclusion. Should H.R. 8753, specifically title II, be enacted, I see Spurgeon's faced with a very critical decision. A very small percentage of our total sales, 15 percent, are credit sales. How then will we justify the increased cost of our credit operation that would be mandated if title II became law? The \$275,000 figure that I spoke about before will not be allowed to fall through to the bottom line of net profit. Who is going to pay for it?

Are we going to have to increase our markups and therefore pass the additional cost of credit shopping on to the other 75 percent of our cash customers? Or are we simply going to get out of the credit business and take our chances at being able to survive?

The credit operations at Spurgeon's presently operates at a small loss. The communities that we serve are typical communities where most of the major retailers abandoned their full line department store, replacing it with a catalog operation. The reason that they are leaving is they find that they cannot operate profitably in that type of environment. What H.R. 8753 would force us to do is make that same decision for our credit operation. We run a family business in a family way. We serve and communicate with our

customers; we do not gouge or rip them off. We would not have stayed in business for 71 years if we did; the consumer is too smart for that.

I certainly hope that sometime and somehow legislators and regulators would sit back and not legislate and not regulate. I think that we would all be surprised at how efficiently and effectively the free market system would operate.

Gentlemen, I thank you very much for the courtesies that you have extended me and if there are any questions, I would be happy to answer them now.

Chairman ANNUNZIO. I thank you, Mr. Vance, for your statement.

Mr. Wylie.

Mr. WYLIE. Thank you very much, Mr. Chairman.

I think, Mr. Garber, you made some reference to the number of problems you have with the resolution of credit billing and it was a small percentage of your overall operation. I thought I would like to hear that for the record.

Mr. GARBER. A very small percentage?

I am sorry. It was Mr. Vance who said that. I think you said something like one-tenth of 1 percent of all of your credit accounts contained some error.

Mr. VANCE. No, one-tenth of 1 percent of all the statements we sent out. We sent out 371,000 statements last year, estimating that we have an active customer base of 50,000 accounts. The 400 or so adjustments we actually made on the statements came up to—and that is just on the bills we sent out. There is an even smaller percentage on transactions. Typically, the type of adjustment we make—as I say, we operate—Mr. Vento is from Minnesota and knows of our stores.

Mr. Smith, who knows the store manager, comes in, says, "I don't have my plastic card with me. I think my account number is this." They call the office and the person in the bookkeeping gives the information.

The person over the phone writes that down wrong and Mrs. Harry Smith, instead of Mrs. John Smith, gets charged. We find out about that next month when the bill comes through and an adjustment is made.

Mr. WYLIE. What has been your experience under the Fair Credit Billing Act regarding the resolution of errors?

Mr. VANCE. As I say, we have so few of those. We log them in. Every 6 months we send out our statements as required by the act. We don't have it printed on each statement. There is a short version. I think on that last year alone we had 25 customers who notified us.

Mr. WYLIE. It is not really a big problem in your operation and you are not a big volume operation, but do you think we should adopt a fair credit billing proceeding or procedure for the resolution of errors in this bill?

Mr. VANCE. I don't really think I understand your question.

Mr. WYLIE. There is a provision in the law right now under the Fair Credit Billing Act where a certain period of time is required to resolve errors.

If there is an error in the electronic fund transfer, we have to have a certain period of time to resolve the error. At least that has been suggested.

Mr. VANCE. I don't feel sufficiently knowledgeable on title I.

Mr. GARBER. I would comment this way: As retailers, I think we probably stand in the same position. We can't find any evidence from our customers that they have any interest at all in the EFT's or debit cards. We haven't studied the issue because there is no possibility as far as we can see of going into it. In the absence of that evidence—go ahead, please.

Mr. WYLIE. You don't think department stores will use debit cards?

Mr. GARBER. There has to be a tradeoff offered by the banking industry if they expect to interest department stores, in my opinion, or consumers.

Mr. WYLIE. It would just be limited to foodstores? There is a considerable number of debit cards being used in the Columbus area. It is a test market now in the foodstores. Krogers, A. & P., and other foodstores.

Mr. GARBER. That is an attempt to reduce the exposure to bad checks which foodstores seem to go into so heavily, which is somewhat unrelated to credit writing.

Mr. WYLIE. Do you have an opinion as to whether a debit card transaction could be a cash transaction?

Mr. GARBER. Yes; I feel it should be a cash transaction. When Mrs. Unknown walks into our store and tenders a debit card, we process the debit card and she takes our merchandise. We have no idea who she is, or where she is from, and goes away, and for reasons completely unrelated to our business, she decides to stop that transaction and I don't know where we are with regard to that customer.

Only now, when we start to investigate to find out who she is. I conceive of debit uses in department stores as a substitute for cash or for checks.

Mr. WYLIE. You say as a substitute for cash or checks.

Mr. GARBER. It is not a substitute for credit in the customer's mind.

Mr. WYLIE. Do you think you would ever find a time when you might use debit cards, Mr. Vance?

Mr. VANCE. We would certainly be forced to at some point if in the future we find that our competition is offering it. We are going to have to. We worried about it.

As I say, we don't have electronic point-of-sale systems. We are so spread out with small-volume stores that it isn't so much the expense of the hardware that kills us; it is the telephone lines to get the data transmitted to a central location.

It is something we are aware of and something we are worried about for the future.

Mr. WYLIE. One of the big issues has been the so-called country club billing and you referred to that. When you grant credit at the time of the sale, you give a copy of the sales slip, of course, to the purchaser. I think that is sufficient, if the purchaser wants to ascertain what the bill is all about when it comes in, that they can

relate it back to that sales slip which they got at the time of the purchase.

Mr. VANCE. Very easily.

Mr. WYLIE. In the case of country club billing, it would require another copy of the sales slip to accompany the bill and you think that would be an added cost to your business which might force you to go out of the credit business?

Mr. VANCE. I very seriously feel that way. It is not so much the extra mill that would be added to the expense of that form, but collecting all of these pieces of paper and sorting all of these pieces of paper and keeping these pieces of paper filed until the statements are then to be mailed to the customer, and then taking Mr. Craig Vance's bill and collecting the four transactions that have happened and putting them in the same envelope which then gets mailed to my home address. The proper word escapes me, but here, in one sense, you are telling us, we are going to shorten the period of time we are going to allow you to send the statement to the customer from 14 days down to 7, and then we are going to burden you with all this extra paperwork that you are going to have to put in the envelope.

Mr. WYLIE. Thank you very much. I think you gentlemen have pointed up some of the problems we are going to encounter.

Chairman ANNUNZIO. Thank you, Mr. Wylie.

Mr. VENTO.

Mr. VENTO. Thank you, Mr. Chairman. I listened to the comments and I think they are interesting with regard to the credit-card portions of the bill and, you know, I think they are important and we should consider them. Descriptive billing. In one breath you are saying it is right, we ought to adopt legislation talking about that. We are not always dealing with ideal behavior in terms of descriptive billings so consequently there are rules and regulations.

The problem is, it is enacted as a minimum. You know, I have received some back descriptive billing on merchandise, and the slip I filled out said "merchandise," so descriptive billing would not be better.

Electronic equipment ought to work so we have more information and not less, and it can be made to do that.

The question that gets back to what both of you are saying is—and I know you didn't come prepared to talk too much about electronic funds transfer, but we are into it, you are going to be into it.

You may think you are going to have credit cards and what does electronics offer? It offers nothing. It doesn't offer credit, but the point is, credit-card companies will force individuals into accepting and using a debit card. If, for instance, checks are no longer accepted and in many instances you may not accept them now unless they are over a certain number, unless it is customer X, Y, or Z, and not from A, B, C. Or you may, for instance, not extend a charge to an individual, but today, for example, did you accept VISA?

Mr. VANCE. Yes.

Mr. GARBER. Yes.

Mr. VENTO. Master Charge?

Mr. GARBER. Yes.

Mr. VANCE. Yes.

Mr. VENTO. Someone is making money on them today. Do you offer cash discounts to customers not using those cards?

Mr. VANCE. No.

Mr. GARBER. No.

Mr. VENTO. Does it cost you money to finance a transaction for those individuals?

Mr. VANCE. Yes.

Mr. GARBER. Yes.

Mr. VENTO. The point is, you say, how are we going to deal with these things? If you grant 15 percent base for credit, there are merchants granting 95 percent, and I would say you are the exception, Mr. Vance, and not the rule.

Mr. VANCE. I think we are because of the clientele we serve.

Mr. VENTO. I think you exactly fit the prototype of the example I gave before—in other words, you are going to go, whether you want to or not, to electronic funds transfer.

Mr. VANCE. I think the other thing you have to realize is, it isn't just a debit card. We have a proprietary credit system in our company.

Mr. VENTO. I understand you maintain a choice, but in order to be competitive you have to be put in a situation where you have to go to that because you have a small margin. At least that is the impression you make today. Knowing the business in those communities, I would say it is tough for those merchants.

The point I am trying to get across is that you ought to be very interested in that. Today we say: "It is not really an alternative and we need not worry about it," but people are going to be using these debit cards and the banks are going to like them because there is no carryover charge, there is assurance of payment. There are a lot of things they get out of that they don't get from a credit card or from a check today.

Mr. GARBER. It seems to me that if one day the two major bank cards say: "No longer are these credit cards; they are now debit cards," and if I also were in the credit business, I would be delighted, because now customers would have to come to me for credit.

In the future it appears the hunger on the part of consumers is not for take money out of my account fast, the hunger is to take it out slowly.

Mr. VENTO. I agree with you, but it is being done in a very interesting way. I don't see any grand design and I am not paranoid and I don't imagine anyone else here is either. But I imagine they have got, you know, a good part of the folks now plugged into those systems and it is going to start, the erosion of benefits that existed. But you say: "They all knew what they were getting into, so they can cancel if they want to," so half cancel, and the other half don't.

Do you accept a debit card or not? Half the clients haven't used them before. Do you get rid of VISA and Master Charge? Certainly you don't. It is in your store and sitting there.

The point is, do they justify, on the basis of sales, that they can have one in Winona, Minn.? What if they can't? What is the impact on your store or other stores that may have a greater extension of credit?

Mr. VANCE. You know, in my opinion, where the limitation has been on, the banks have not pushed the cards until the last year.

Mr. VENTO. They have the fee provision.

Mr. VANCE. It is in there and it is economics. Now, the banks can afford to do it. If the customer wants that choice, it is a choice that has been given to him. In Winona, Minn., we are now fantastic. We probably increased our bank card sales there 100 percent a month. That may mean, instead of \$300 a month last month, we now have \$600. It is not a big dollar amount.

Mr. VENTO. I am trying to get across the point that you ought to be interested in that aspect of that issue if you are not right now. Chairman ANNUNZIO. Mr. LaFalce.

Mr. LAFALCE. Mr. Garber, do you know of any credit card that does not carry with it the requirement that some statements be given to the customer at the time of the credit transaction?

Mr. GARBER. You use the word "statements."

Mr. LAFALCE. Some indication of the transaction.

Mr. GARBER. I think in all cases they receive a slip, a copy of the sales check. I think everybody's system does that.

Mr. LAFALCE. What do you think of the philosophical argument that he who has the intelligence to use a credit card must have the concomitant intelligence and responsibility to save those indications of the credit transactions that he has entered into?

Mr. GARBER. I think that is a function of the faith a particular customer has in a particular credit system. I think there is evidence here that in our two systems where we are quite close to our customers—indeed, in our system where we deal with them entirely by phone—they have demonstrated that. When they receive a statement they have not saved their duplicate copies, they believe it. It would seem to me the very same customer who may believe our statements would be well advised to not believe a nationwide bank card.

Mr. LAFALCE. Whenever they used that bank card, they would have some indicia of their transactions, would they not?

Mr. GARBER. They would. If they did not save their copy, they would not have acted wisely. In general, I feel consumers do act wisely in their own interests. In general. There are many exceptions.

Mr. LAFALCE. Requiring that this customer's statement or customer's receipt be on top rather than on the bottom—it varies. It depends on which one you are using—and that it has imprinted upon it the words "Save. This is your receipt of this transaction."

What would you think of that transaction?

Mr. GARBER. I think it is fine.

Mr. LAFALCE. If this approach is good, how do we use that approach say for a pay line system where—in some banks there are systems where you pick up the phone, call the bank and say: "Pay Crawford Department Store \$253." Now, obviously the system breaks down there.

Do you have any banks that service you in this manner?

Mr. GARBER. You may be referring to systems which involve making an agreement with the bank whereby each month you say: "Mr. Blank, I want you to pay the following bills for me each month." That is a variation of what you said.

Mr. LAFALCE. That is one variation, but there are other variations where you pick the phone up and call a bank.

Mr. GARBER. I do not know of it.

Mr. LAFALCE. What requirement should we have for more descriptive billing if we don't want to go back to country club billing?

Mr. GARBER. I think you should have the name of the store, at least the department in which merchandise was bought. If possible, a subclassification and the ideal would be the precise description of the item.

Most customers don't need the precise description of the item on a statement. I am convinced of that because of our own experience.

Mr. LAFALCE. There are grocery stores right now where you have electronic scanners and that handles your entire transaction, so you just put the can of soup under the electronic scanner and your bill is printed up and it is pretty accurate.

It would seem to me we should get very particular in our legal requirement for descriptive billing, that we could specify not just men's furnishings, but one pair of slacks, one suit, and so forth.

Since you have gone on outside of your own store, to what extent have you explored services that would provide you with a more descriptive point of billing? I will ask the question of both you, Mr. Vance and Mr. Garber.

Mr. GARBER. I recounted our experience of some 5 years ago when we tried to provide down to the classification. If that were not good enough, we would have heard from our customers.

Mr. LAFALCE. I don't accept that: "If we haven't received a complaint, obviously our service is good."

We would like to have reasonable requirements and I feel strongly about that, but I strongly suspect a good many individuals are being—I don't want to say "defrauded" but are losing money, perhaps, without being aware of it. Or mistakes are being made, in a good many instances, when the person adversely affected never becomes aware of it.

Let us go back to my original question. What would be a reasonable but fairly descriptive billing within the state of technology which exists today?

Mr. GARBER. Except that you have to be awfully careful that you don't flood a customer with a statement with so much information on it that she doesn't care to see it. The worst case might be the supermarket where every line is reproduced on the statement that was given to her on her statement in the first place. She may not want to see that.

The philosophic question needs a philosophic answer. I think the answer to the question is that whatever the customer tells us, in whatever way she tells us is her need, is what we should work our way down to.

Mr. LAFALCE. We represent the customer, we represent the consumer.

Mr. GARBER. The retail stores do too.

Mr. LAFALCE. We wanted to pass a legislation because we think there is a need and we want to do it seeking your advice. I don't want you to give us an answer that says: "Well, whatever the customer wants."

Mr. GARBER. I can tell you what I think the customer wants. I am happy to do that. She certainly wants to know the name of the store. In the broader sense, if it is a bank card, she wants to know the system.

In a narrower sense, she wants some description of the general type of merchandise which might well be described on what we call the departmental level. In some cases a subclassification. I don't think she wants more. I don't think she needs more, and I make that statement based solely on what our customers have told us by their behavior. By what they have complained about and what they don't complain about.

My recommendation for legislation is that no attempt be made to take it down to the specific description of the item purchased.

Mr. LAFALCE. How difficult would it be to virtually take a photograph of the sales bill and include that in miniature form on a billing?

Mr. GARBER. I don't know that the technology exists today. I have seen the Amoco credit card which attempts to reproduce my signature. It does a bad job. I have seen no better technology. Therefore I think the question you ask is for the future.

Mr. VANCE. I also am not aware of anything. I think possibly what you might want to consider is, should this bill be changed in some method of a proprietary plan, such as Mr. Garber's and mine; descriptive billing, I think is quite fine. I see no problem. I think the problem comes with the bank card, the American Express, Carte Blanche, and so forth. And even most of them, they have their customers and know what their customers complain about. When you get your American Express bill, you get a copy of those transactions.

You might be interested to know it was about 2 years ago that American Express now also gives you a descriptive bill. Some people don't want to bother with the paperwork.

Mr. LAFALCE. Suppose we pass legislation that says you can provide descriptive billing of whatever nature you like except for those customers who request country club billing.

You must of necessity give them country club billings on a regular basis.

Mr. GARBER. I would consider that a less desirable prospect than allowing businesses to bill under either system at their own choice, but if they choose to use descriptive billing that they must conform to certain minimum disclosures.

Chairman ANNUNZIO. Thank you very much, Mr. Garber and Mr. Vance.

On behalf of the subcommittee, I want to thank you very much for being here today. We are all very fortunate we live in a society whereby the Congress, the representative of the people, can go out into the country, as we are doing with these hearings, to get the opinions of small and large businessmen. When we write legislation in the Congress, we are writing legislation that must, of necessity, meet the requirements and standards of people in all walks of life. That is a difficult task. A difficult task does lie ahead.

I might not agree with your testimony this morning but, nevertheless, it was a very important contribution to the subcommittee. It will cause the subcommittee to examine this long and hard

before it reaches a determination with regard to descriptive billing and country club billing.

I hope we will get the assistance and cooperation of the business community in helping us resolve that particular problem, when we get to that problem. I thank you very, very much for your testimony this morning.

I am delighted, Mr. Garber, that you are one of my constituents. In order to bring you up to date, as you know, I send out a questionnaire every legislative session.

Mr. GARBER. And I answer them.

Chairman ANNUNZIO. And you answer them. I will tell you on that questionnaire, you know, all your neighbors do not agree with the statement you made this morning. If they had agreed with your statement on descriptive billing versus country club billing, I am astute enough to know what are the needs of my constituents.

I thank you very, very much.

Mr. GARBER. May I say one more thing? As a consumer, I would like to receive my bills in the form of country club.

Chairman ANNUNZIO. You are an honorable and honest man. I understand the problems of the subcommittee.

Mr. GARBER. As a businessman, I know as a consumer I will have to pay that price, and it is a high price.

AFTERNOON SESSION

Chairman ANNUNZIO. We resume the hearing and will hear from the third panel: Prof. Hugh Rank, consumer, Governors State University, Park Forest South, Ill.; John Rogers, consumer, Chicago, Ill.; Daniel Marquez, consumer, Chicago, Ill.; Lori Velco, consumer, Skokie, Ill.; V. K. Brown, consumer, Chicago, Ill.; Jerome Lamet, consumer, Assistant Regional Director, Federal Trade Commission, Chicago, Ill.; and Karl Flodstrom, director, debt management program, Family Counseling Service, Aurora, Ill.

Professor Rank.

STATEMENT OF PROF. HUGH RANK, CONSUMER, GOVERNORS STATE UNIVERSITY, PARK FOREST SOUTH, ILL.

Mr. RANK. I teach a course which focuses on the techniques of language manipulation, especially as used in political propaganda and commercial advertising. I am most concerned with providing ways for the average citizen and consumer to recognize and to understand the patterns and techniques used by the professional persuaders today.

I don't pretend to be an expert on banking, but I have a common-sense rule of thumb which I apply to language manipulation. If I can't understand a paragraph after I read it two or three times, then I assume there are a lot of other people who can't either.

Realistically, I am better trained, I spend more time, and I have more interest in language use than most people. So it is reasonable to assume if I get confused about some things, other people are also confused.

For example, here is my Master Charge statement. On the back side at the top there is a small box called important information. Within this box is a single sentence containing 178 words, 6

commas, 2 semicolons, 1 colon, 1 set of quotation marks, 4 sets of parens, 1 set of brackets, 4 roman numerals, 6 qualification words, 29 words capitalized, 4 words set in full caps and finally, after 178 words, a period.

This sentence must have been written by the William Faulkner of the banking industry. Don't ask me to diagram this sentence, but if you ever need a punishment for white-collared criminals, this might be a deterrent.

The instructions at the bottom of the page are printed in one of the smallest type sizes ever devised, only slightly larger than those engravings of the Lord's Prayer on the head of a pin.

Seriously, the printing below appears to be set solid in 6 point type condensed, using an ink with about 50-percent density, so it produces a washed out gray lettering. The result is something which may technically conform to the law, but it is unreadable, visually repelling, and designed to discourage anyone from reading it.

I speak as an individual consumer from my own experience and, as a teacher of adult students. I do not have statistical summaries or elaborate studies, but I have enough experience through my students and friends that I am convinced there are a lot more errors, mistakes, and problems in the systems than the bankers would care to advertise.

For example, here is an ad extolling the benefits of overdraft check protection. The ad says, "No embarrassment due to bouncing checks. You know your bills are paid on time. You know your credit reputation is safe."

A few weeks ago I applied for such protection. I made out the checks and then was out of town for a week. When I returned last week, I found six overdraft notices waiting for me. Eleven checks had bounced for insufficient funds, including my life insurance payment and my mortgage payment.

I also had a scolding letter from the savings and loan company which held the mortgage, hoping that my bad check would be the exception rather than the rule. My own banker was very sorry. There had been an error at the bank. Although I am not embarrassed as this ad says, I am aggravated because it is going to cost me hours of work with the checkbook, trying to straighten it out, and I have no idea at all about the safety of my credit reputation.

Another example: Last March I purchased airline tickets, then had to cancel. The bill for the purchase was listed on my March account, but the refund was not credited until August, after I had written several notes to them. Thus I paid interest for nearly half a year. Legally I am sure I could get a few dollars back, but it is not worth the time and the effort involved for me to provoke people who have tried to have an error rectified.

Since I have written this, I received a letter from a friend who knew I was going to testify here and I will submit this to you. Basically Professor Miller of California was traveling last summer in Canada, and he sent me this example of an error. Here is the billing for \$32.90 from a hotel where he stayed. Subsequently here is the bill he received at home, \$78.90, and he was a little bit upset over this error. As you can see, there is a great deal of correspondence involved. Finally, it says:

Please accept our apologies for the gross mistake. We have to admit we are at a loss as to why the cashier had indeed altered this voucher. As he cannot remember the reason for altering the once signed voucher, we can only assume that he may have lost the Maple Leaf Tour voucher and in turn to cover up his mistake changed the voucher to include the room rate in the new total. Needless to say, this individual has been severely dealt with.

But you can see the amount of correspondence.

Chairman ANNUNZIO. Would you like to make that correspondence part of the record.

Mr. RANK. Yes.

Chairman ANNUNZIO. Without objection, it is so ordered.

[The correspondence referred to follows:]

1850 Parkside Drive
Concord, California 94520

November 29, 1977

Dear Hugh,

Here is the stuff we talked about in New York. Hope it helps your presentation before the committee.

Enjoyed the visit with you. As a matter of fact, I went over to the deli after I checked out and bought some pastrami and corned beef to bring home. Couldn't think of a better way to bring home the "flavor" of New York to my family.

Hope you can make it to Denver for the 4-C's. If not, I guess I'll see you in Kansas City next year.

As ever,

Bill Miller

On August 16, 1977, William H. Miller, his wife and his daughter checked into the Calgary Inn, a Western International Hotel. Their one-night stay there was a part of a prepaid unescorted tour arranged by Canadian National Railway. At the time he checked in, Miller presented the voucher form provided by CN and noted that the voucher was stapled to the hotel billing sheet. During the stay Miller charged their dinner (\$32.40) and the service charge for a collect long distance call (\$.50) to his room. In checking out the next morning, Miller noted that the CN voucher was still attached to the billing sheet, and signed a Carte Blanche charge ticket for the additional amount, \$32.90. In its September billing, Carte Blanche billed Miller \$78.90, less \$5.33 currency conversion. Miller started to pay the bill, sensed a discrepancy and looked up his copy of the original voucher. It ~~was~~ quite clear in the attached photocopy that the voucher presented by Carte Blanche had been altered after Miller had signed it. The attached correspondence was necessary to straighten out the matter--representing a considerable drain on Miller's energy and patience. Further, in the ultimate settlement, Miller lost the benefit of the favorable currency conversion.

MEMBER SINCE 69	940 209 414 9		CHARGE VOUCHER
	WILLIAM H MILLER		
MEMBER ID CA	3 77	2 79	5064898
DATE OF CHARGE 18 17 77	APPROVAL CODE	RECORD OF CHARGE	
		AMOUNT OF PURCHASE	\$ 78.90
MEMBER'S SIGNATURE <i>William H. Miller</i>	TAXES		
	TIPS-MISC.		
TOTAL		\$	78.90
CHARGES RECORDED HEREON WERE INCURRED BY ME I PROMISE TO PAY THIS AMOUNT TO CARTE BLANCHE ONLY		CHECK OR BILL NUMBER	

Carte Blanche
SUBSIDIARY OF A & C CORPORATION

940 209 414 9
WILLIAM H MILLER 69
CA 3 77 2 79 5064898
975-053-0900
CALGARY INN
4th Ave. & 3rd St. S.W. 18 17 77
Calgary, Alta., Canada.
T2P 2S6.

William H. Miller

78.90
78.90
663553

9402094149 1 X00000533224 X

Carte Blanche

CHARGES AND CREDITS "-" Indicates a credit.

In addition to regular charges (if any) the following charges and/or credits are included in the current billing for the month ending **SEPTEMBER 14, 1977**

CAN. CHG. 78.90 CONVERTED TO AMER. 73.57
YOUR ACCOUNT HAS BEEN ADJUSTED
BY 5.33CR FOR 1 CHARGE(S)
DUE TO CANADIAN/AMERICAN CURRENCY CONVERSION

5.33-
TOTAL 5.33-

1850 Parkside Drive
Concord, California 94520

September 22, 1977

Calgary Inn
4th Ave. & 3rd St. S.W.
Calgary, Alta., Canada T2P 2S6

Att: Accounting Department

I am informing Carte Blanche that I am refusing to pay the charge you have submitted (copy attached) for the following reasons:

First, the charge voucher I signed was for \$32.90, which covered dinner and a telephone service charge made to the room. There were no further charges, since the room charge was covered by a Canadian National voucher as a part of our Maple Leaf Tour package. The original figure was altered sometime between the time my family and I checked out and the charge ticket was submitted by you to Carte Blanche. Such an alteration (commonly called "kiting") is a clearly flagrant illegal act.

Second, assuming for the sake of argument only but not admitting that such is the actual case, if there were additional charges, why weren't such charges billed to me at my home so that I might deal directly with you rather than having to go through the present fuss and bother? Any first class hotel I have ever stayed in has billed me directly for any overlooked or late charges.

I resent having to spend any of my time and energy on this matter. I expect, in addition to your admission that your accounting is in error, a complete explanation of how your hotel could condone the actions that were taken to correct the imagined error in the original billing.

William H. Miller

William H. Miller

copies: Canadian National Railway
Carte Blanche

1850 Parkside Drive
Concord, California 94520

September 22, 1977

Carte Blanche
P.O. Box
Terminal Annex
Los Angeles, California 90054

I am withholding payment on my current bill of \$73.57 because of a rather serious discrepancy between the amount on the charge voucher I signed and the altered amount on the charge submitted by the Calgary Inn to you.

Attached you will find my copy of the original charge voucher, a copy of the altered bill submitted to you and a copy of my letter dated 9-22-77 to the Calgary Inn. The problem, and the questionable, illegal action of the Calgary Inn should be readily apparent.

I will be grateful for any assistance you might offer in straightening out this matter. Thank you.

William H. Miller

William H. Miller

Acct. # 940 209 414 9

1361



Carte Blanche Corporation

3460 Wilshire Boulevard, Los Angeles, California 90010
Telephone (213) 480-3210

October 12, 1977

WILLIAM H MILLER
1850 PARKSIDE AVE
CONCORD CA 94520

RE: 940-209-414-9
AMOUNT \$46.00

Dear Mr Miller

Thank you for your letter advising us of a
disputed amount.

A temporary credit in the above amount has
been issued to your account while we investi-
gate this matter. Please retain all records
pertinent to this dispute until it has been
resolved.

You will hear from us in the near future.

Yours Truly,

A. Reynoso
Tel. (213) 480-3620

MM06 M74

AN  AVCO FINANCIAL SERVICE

WESTERN INTERNATIONAL HOTELS



Calgary Inn

320 4th Avenue S.W., Calgary, Alberta T2P 2S6 Telephone (403) 266-1611

Executive Offices

October 13th, 1977

Mr. William H. Miller,
1850 Parkside Drive,
CONCORD, California
U.S.A. 94520

Dear Mr. Miller:

Thank you for your letter regarding the altered Carte Blanche voucher.

Please accept our apologies for such a gross mistake on our cashier's part necessitating you to write to us and pointing out an area obviously in need of improvement. Please rest assured Mr. Miller that an incident of this nature is not a common practice, but rather an exception here at the Calgary Inn.

We have to admit that we are at a loss as to why the cashier had indeed altered the voucher. As he can not remember the reason for altering the once signed voucher, we can only assume that he may have lost the Maple Leaf Tour Voucher and in turn to cover up his mistake changed the voucher to include the room rate in the new total. Needless to say, this individual has been severely dealt with.

Enclosed, please find our invoice in the amount of \$32.90, the original amount on your voucher. As you have instructed Carte Blanche to stop payment, we in turn are billing you directly for the dinner and telephone service and will recover our room charge from Maple Leaf Tours, as it should have been done originally.

Again, we are sorry you had to take the time and write us and point out our error. We hope you have had an otherwise enjoyable stay, and that we may be able to welcome you again as a visitor to the Calgary Inn.

Sincerely,

Werner Simm,
Senior Assistant Manager

1363



Carte Blanche Corporation

3460 Wilshire Boulevard, Los Angeles, California 90010
Telephone (213) 480-3210

November 15, 1977

WILLIAM H MILLER
1850 PARKSIDE AVE
CONCORD CA 94520

RE: 940-209-414-9
AMOUNT \$46.00

Dear Mr Miller

This letter is in reference to your dispute regarding a charge in the above indicated amount.

Since we have not received a reply from our associate regarding your inquiry, the temporary credit previously applied to your account will remain as a permanent credit.

Subsequently, if our associate provides us with documentation that the charge in question is valid, your account will be rebilled.

Thank you for this opportunity to be of service.

Sincerely,

A. Reynoso
Tel. (213) 480-3620

MM08 M74

Mr. RANK. These are the problems I have had with descriptive billing. In my case the brief abbreviations on the Master Charge.

I once received a bill from a city I had never visited and, after tracing this down, I eventually found out it had come from the company headquarters of a small store I had traded at. Even more confusing was an item posted last June described as editorial project, Washington, D.C.

I found out this was a subscription I had to the Chronicle of Higher Education, a weekly newspaper I had once subscribed to but was planning to drop.

I can't remember ever authorizing a subscription renewal. I may have. I am simply not sure, and the dates do not correspond to the labeling on my newspaper.

If I had such a club billing on this one, if I was able to see my signature on the authorization, I would be satisfied.

As we move toward more sophisticated banking systems using the computer, the individual needs more safeguards against such accidents and errors. People know that computers make mistakes. Garbage in, garbage out. Sometimes they are funny, sometimes they are tragic.

Consider our problem here last year in the delay of the welfare checks in Illinois.

People know computers encourage buckpassing. The vagueness and ambiguity and mystique of computer operation has created a great scapegoat. No one person seems accountable. Programers blame problems on technicians, clerks and administrators attribute all problems to the computer.

People know that computer fraud by dishonest individuals is increasing. Newspaper and popular magazine stories in the past year have detailed accounts of millions of dollars being stolen by dishonest computer experts. A new generation of sophisticated con men who have more cleverness and expertise than older management.

This kind of computer fraud alone makes consumers worried when they find out proposed electronics fund transfer services do not have a protection for the individual.

As I understand the present arrangements, if a computer debited against my account, I would be liable. Certainly the basic consumer protection we need is basic liability protection for the individual. If the banks were to use computers for efficiency purposes, they ought to be responsible and liable for any errors not committed by the individual consumer.

There is a longstanding and deep-seated distrust of banks and bankers that cannot be erased by modern public relations campaigns or image building ads. Nor can the bankers blame the situation on one incident or one man.

Recently the Bert Lance affair caused many bankers to complain he was tarnishing their image, but in reality it has been tarnished for a long time.

We have an old, old stereotype in our melodrama portraying the banker as the evil villain foreclosing the mortgage of the hero.

Despite all the money spent for institutional advertising, most consumers are fearful and suspicious of banks which do have the

power of foreclosing or repossessing a car if an individual gets into a financial crisis.

I would urge the banks, if they really wanted to improve their public relationships, they take the leadership in trying to clarify their language, to simplify their system, to make it easy and less complicated for the average person to understand.

If the small print is too complex or complicated, it is not unreasonable for consumers to infer that it is also devious and deceitful. We need not think of public relations as a public vendor, nor should banks put themselves into an adversary position with consumers or with Government regulators. Many of these proposals in this legislation are reasonable reforms which the banking industry should be supporting enthusiastically.

If banks want popular support, they should be aware this new system of average daily balancing is seen by many people as a way of skimming off pennies from the poor. If banks seek popular support, they should be aware that many people, although they may not be able to articulate it precisely, have an intuitive distrust of a complicated flimflam game going on in billing practices. In fact, if they want popular support, they should take the leadership in providing adequate security for their computer systems and in making sure that all of the individual customers are protected and safeguarded from both computer crimes and computer errors.

Thank you.

Chairman ANNUNZIO. Thank you very much, Professor Rank. Our next witness is V. K. Brown, consumer, Chicago, Ill.

STATEMENT OF V. K. BROWN, CONSUMER, CHICAGO, ILL.

Mr. BROWN. Currently my wife and I have six major multipurpose credit cards. We have used these rather extensively. In the past 12 months our total volume of purchases was \$9,293.38. Through careful timing, in that same time we paid a total of only \$3.10 in finance charges. By paying close attention to the closing date for the card currently being used we are able to delay our payments for purchases for an average of 2 months. At 5 percent interest this means that we have made a gross profit of \$77.44, less our cost of \$3.10, for a net profit of \$74.34.

Because bank cards pay merchants only 94 or 95 percent of the face amount of our purchases they have made a handsome profit.

Assuming an average of 94½ percent paid to merchants, they invested only \$8,782.24, but in 2 months received the full face amount of our purchases. Thus, they made a gross profit—some might say a very gross profit—of \$511.14 on their investment in just 2 months. This works but to a true annual interest of some 35 percent, a rate I would very much enjoy earning on my own money.

Generally, merchants seem to feel that they also gain by accepting charge cards for purchases through resulting increased sales. Since we all pay higher taxes because of our profits, even the Internal Revenue Service is happy. The only real loser in this interesting game is the customer who pays equal prices in cash. Since almost universally such customers are unaware of their losses, just about everyone enjoys the arrangement.

While the above describes the vast majority of transactions we made in the past year, vigilance does pay. We noted the following unusual items in this connection:

First: One gasoline service station accepted our credit card for a legitimate purchase and then, on the next consecutively numbered invoice, attempted an exceptionally clumsy forgery in the amount of \$10. Since the oil company involved uses "country club billing," detection of the forgery was a simple matter. Both the forged and the genuine authorizations were returned to the oil company, along with a check for the corrected amount due. The adjustment was made without difficulty.

Second: One major resort hotel decided to increase an authorized charge from \$78.18 to \$92.64, without even bothering to forge a new authorization. While we received a credit for the overcharge two statements later, it took three requests and more than 3 months to obtain a photocopy, a very poor one, of the altered original authorization.

Third: One bank-card firm indicates a line of credit for us of \$1,507. We tried to charge a purchase in the amount of \$1,344.15 with this firm. The authorization was denied. Our next statement, dated 2 days before the denial, showed that we had a credit balance of \$19.52. Some 3 weeks after our written protest, we received a profuse telephoned apology, but, of course, the apology did not save us the embarrassment of the original denial of credit.

Fourth: Another bank card firm received our check in full payment of the balance then due on the closing date of the next statement, but due to a clerical error the payment was not reflected in the next statement, and we were charged a finance charge on the past due balance. The following month's statement reflected the original payment, confirming the date it was received, but because it showed an opening balance, we were charged additional finance charges on current purchases. A telephone call eliminated the second set of finance charges, but not the first. As of this date we have no response whatever to our letter of October 1 requesting a credit for the original unwarranted finance charge.

Fifth: A \$100 cash advance, posted to our account on exactly the same date as a credit for merchandise returned, resulted in our being charged a finance charge on our own money. A letter of comment on this odd situation produced only a form letter response, outlining how finance charges are calculated and enclosing a worksheet for our convenience.

Sixth: When we decided to drop our membership with a well-known travel and entertainment card firm, our credit was cut off immediately upon receipt of our request for cancellation of the charge for the following year's membership fee, although the current membership still had some 2 months to run. Our letter of protest brought an immediate telephoned apology from an officer of the firm and also a carbon copy of a letter to the merchant involved explaining that the denial of authorization was a company error and in no way reflected on our credit trustworthiness. Our deduction of the 2 months' prorated membership fee from our final payment was also allowed by the company in question.

Section 205 of H.R. 8753 addresses itself to delayed billing. Last Friday, December 2, we finally received the bill for a stay in a

motel on June 25. Such a delay makes for very unpredictable bills, and for this reason we support section 205 along with the rest of H.R. 8753. There is, however, another way of looking at the matter: At 5 percent true annual interest we earned almost 64 cents on that money.

I wish to thank the subcommittee for providing me with the opportunity to outline our experiences of the past year with credit cards. I hope that in some small way this information will aid you in your very important deliberations. If the subcommittee wishes more specific information or documentation of any of the items described, I would be more than happy to provide whatever help I can.

Chairman ANNUNZIO. Thank you very much, Mr. Brown.

Our next witness is another consumer from Chicago, Mr. John L. Rogers.

STATEMENT OF JOHN L. ROGERS, CONSUMER, CHICAGO, ILL.

Mr. ROGERS. Mr. Chairman, I would like to begin by thanking the subcommittee for the opportunity to appear here today. This chance to be heard, to contribute and comment for a consumer is a unique experience.

Second and most important, I want to express my appreciation for being made more aware of the problems which H.R. 8753 hopes to correct. Like many, I was unconcerned because I was unaware of the potential problems and abuse of EFT. While the many abuses of the early credit card days were well reported, EFT has sort of slunk in, unannounced by its proper name. I am happy to find that the authors of this bill are practicing preventive medicine, as it were. The argument that we must wait and see what abuses occur before we act is without merit. In anticipating problems, we are learning from earlier experience.

The things that I would like to comment on here today are:

First: Several things in title I of the bill, specifically the need for the \$50 limit of liability and the need for the correction of error process.

Second: Several things that are not specifically included in title I that are of a concern to me; for example, secret number security.

Third: A few comments on title II and the amendments to the Truth in Lending Act.

In re title I, I received the greatest shock when I recently found out about my lack of limited liability. When I accepted and began to use this debit card, I assumed that it was similar to my other credit cards—it certainly looks like any other credit card. I thought that if it were lost, the most anyone could possibly get from my account would be \$50 just as the Truth in Lending Act protects consumers for credit cards.

Imagine my surprise when told my liability is limitless.

The question of liability, in my remembrance, was never raised when applying for the first card. They certainly didn't tell me in plain, old-fashioned English that if my card were to be lost or stolen that my entire life savings could be exhausted.

The provisions of S. 811, limiting consumer liability to \$50 is, in my opinion, the most important protection offered by the bill and the most urgently needed.

The problem of unlimited liability may be the most serious problem but ranking a close second, at least in terms of frustration, is the correction of errors.

The need for documenting disputed transactions was brought home to me recently and is in fact the impetus for my appearance here today.

I bank at the First National Bank of Chicago and have a first card which I showed you earlier, because it is so convenient, I often use the machine to make deposits, a cash withdrawal, or to pay a utility bill.

When I said it was convenient, that is very true; the lines are generally much shorter than at a teller cage and the transaction completed much quicker. But it is convenient only when things go according to plan. If something goes amiss, you can bet on much time and effort in getting it corrected.

I must tell you that the amount of money involved here is not a lot in absolute terms, but I can assure you that \$25 means a good deal to me and on principle it is very great indeed.

And to reveal the ending before the story, the bank was right, but for the wrong reason. I think you will agree that the fact that the bank was correct in this instance does not diminish the need for a backup system or adequate documents to resolve disputes.

In September I received my monthly bank statement and in reconciling it, noted a \$25 discrepancy. Checking the individual items closely, I saw that I had been charged with a debit for \$25. That is the top item on the sheet that I handed out.

Note the dates. August 30 stamped on, and August 29 listed as the transaction date. I have pointed these out.

This debit slip is a duplicate of a transaction that appears separately on my statement. In effect, I thought I had been charged twice for the same \$25. So began the near impossible task of correcting an error.

[A copy of the referred to debit slip follows Mr. Rogers' oral statement as app. A.]

I don't want to waste a lot of time relating what a frustrating experience this was, but a good deal of time was expended. The proper debit should have been for August 27, a Saturday transaction which I had inadvertently failed to record in my book.

The bank's explanation of the affair was that the computer was off line and that the transaction had to be posted by hand, thus the date of August 30, but they never did explain why they had sent the wrong debit slip. Evidently the other one, the correct one, didn't exist.

We all know that machines break down and there is human error, but I question if I am the only person to ever have this problem?

Two personal visits, seven phone calls—two unreturned—and 10 weeks later I finally received documented verification that the transaction was in fact mine. That is the bottom item on the sheet.

[The referred to documented verification appears as app. B following Mr. Rogers' oral statement.]

Somehow I had expected more from a bank with \$20 billion in assets.

Thus my support for S. 808 and the correction of error process outlined there, a 7-day period within which to answer a complaint seems fair to both sides and the technology exists if the institutions are forced to use it on behalf of the consumer.

Several topics relating to EFT are not mentioned specifically in title I and are of concern to me. The first is the interpretation of the term "purchase transaction" defined in S. 802 as a transaction in which a consumer purchases goods, property, or services or repays extensions of credit, primarily for personal, family, or household purposes.

My reading of the section gives it quite broad bounds but I am unable to determine for certain whether the payment of utility bills through an EFT machine is in fact a purchase transaction. If it is, then later sections of title I would afford, in my opinion, adequate protection. If, on the other hand, the payment of such bills is not included, then a potential conflict will continue to exist.

The procedure for payment today is after first making initial contact with the machine, to place the bill stub in a special envelope, push the appropriate buttons to register amount and then deposit the envelope into the machine upon command. In return you receive a receipt similar to this one that lists the amount and a transaction code, for example, "No. 41, payment deducted from your checking account. Please mark your records accordingly."

Sounds fair enough, but the problem is, what happens if the bill stub is lost in the shuffle and never reaches the utility company? Will Commonwealth Edison accept the fact that I gave my payment to the bank? Far worse, will Northern Illinois Gas demand that the consumer pay a second time until the dispute is settled?

I propose that payment of bills be specifically included in the definition of "purchase transaction" so the safeguards of S. 806 will apply.

My last comment on EFT deals with secret numbers and their security.

Congressman Annunzio's remarks in the Congressional Record are revealing. Over one-half of all cardholders surveyed have written their secret number on their cards.

Writing the number on the card does not apply to me, but my concern here is that possibly the four digit secret number is part of the account number embossed on the card, embossed in some form that if the card were lost or stolen, the secret number would be subject to compromise.

It has been reported and I know from personal experience that credit card numbers do reveal characteristics about their holders; for example, the Sears credit card carries a number for the issuing store, and the American Express card carries a three-digit code which is a general estimation of the holder's creditworthiness.

While I am sure that some information of this type is neutral and indeed could be helpful in foiling unauthorized use, other information in this case, a secret number, cannot be included if it is in some decipherable form.

In my case, the first two digits and the last two digits of my account number reveal my secret number, thus I have no reason to write it on my card. It has been done for me.

When I asked if this was common practice or procedure, I was told it was merely coincidental. I want to make sure that it is.

If I may, a few words on credit cards and, more specifically, section 205 of title II which amends the Truth in Lending Act, and prohibits the method of finance charge known as ADB with current charge.

It seems highly unfair when credit cards were issued with one method of computing a finance charge to then allow a change to this offensive method, especially when accompanied by an indecipherable disclosure statement.

It seems doubly unfair when the credit card company's entire emphasis is not for the consumer to pay his bill in full, but, rather, to send in a few dollars to satisfy some minimum amount. Predominantly displayed on each statement of account is the minimum acceptable payment thus encouraging consumers to bear added interest costs for past purchases.

That is bad enough, but now they want interest on current charges because they have induced us to roll over the previous balance.

Is it any wonder American consumers are in debt and there were so many bankruptcies last year? This method of computing a finance charge must be abolished.

Finally, gentlemen, a confession. I have trouble understanding some disclosure statements. I went to my files and read some and will admit that some are better than others but on balance they are not easy to understand.

I applaud proposed section 174 which requires a readily understandable explanation to accompany any amendment, but if past experience is any predictor of the future, there is little hope. I hate to end on a cynical note, but if I had just one prediction, I would predict that Diogenes will find his honest man before the consumer receives a readable disclosure statement.

Again, I would like to thank you for the opportunity to testify and add my support to H.R. 8753.

Again, I congratulate you for action on a problem instead of reacting and for dealing with the situation prospectively and not in retrospect.

Thank you.

[The material referred to by Mr. Rogers in his statement follows:]

APPENDIX A

First Card.

Receipt
The First
National Bank
of Chicago

DEBIT

STATUS CODE	LOC NO	USES REMARKS	CARD EXPIRES	TRANS CODE	DATE OF USE MONTH DAY YEAR	TIME HR MIN	SERIAL NUMBER

R/T NUMBER	YOUR ACCOUNT NUMBER	TRANS CODE	AMOUNT

AUG 30 1977

402223 0000002500

APPENDIX B

TERMINAL 6064

8-27-77

John L. Ryers
1024 CATALPA
NO. 507
Chgo. IL 60626

Serial TIME DAY

DEBIT ^{00A}

CASH ^{00A}

9644 0552 SAT 1015-5:33 402223 11 0500 - 25.00 -

25.00 -

Chairman ANNUNZIO. We appreciate your statement relating all of your experiences. I am sure they will help the subcommittee in its further deliberations on this legislation.

Daniel Marquez is also a consumer from Chicago.

STATEMENT OF DANIEL MARQUEZ, CONSUMER, CHICAGO, ILL.

Mr. MARQUEZ. I would first like to thank the chairman of this subcommittee for bringing these hearings to the people so that our input could be added in regards to your pending legislation concerning the credit card industry. It was impossible for most consumers to fly to Washington and testify before your subcommittee at your first round of hearings. These field hearings afford the average consumer the only opportunity to voice her or his concerns regarding the proposed changes. We thank you.

In the few minutes I have I would like to express my feelings on ~~three issues that your bill concerns itself with~~. The first issue deals with the advent of the monthly service charge that some banks have started which penalizes the credit-card holder who faithfully pays his monthly bill in full. I can assure you if Continental Bank or the First National Bank of Chicago ever imposed this charge on to my account, I would not hesitate 1 minute to get the scissors out and cut those cards to ribbons. When I applied for those cards there was an implied understanding on my part that if my bill was paid on time, that I was the kind of credit-card holder the bank was looking for.

For the past 4 to 12 years every month I have paid my bill within the grace period allotted to me. And now the banks want to penalize me for paying my bill on time. This is incredible. I'm damned if I do and damned if I don't. Sure, I'm a convenient credit-card holder, what's wrong with that? The banks still get their 2 or 3 percent from every purchase that I make. How much more do they want? I'll just go back to using legal tender for my purchases, that's all.

The second issue centers on certain credit card companies utilizing the previous balance method. This, as you know, is when a consumer receives a statement with a \$200 balance and she or he does not make full payment of the \$200 by the payment due date, no consideration is given for any payment that she or he makes. The next statement then shows a finance charge on the total \$200.

This happened just last month to a good friend of mine. When she received her bill of \$200 she nor her husband could recall a \$20 charge on the bill. The name of the retailer on the bill did not look familiar so she decided to question the charge. She promptly mailed a \$180 check to the credit-card company. When she called to inquire about the \$20 purchase she was told that their receipt could not be found, but that she should have paid the \$20 anyway and they would have credited her account later.

Sure enough, she made new purchases the following month and when that month's statement came there was a finance charge on the entire \$200 of the previous statement. Now is that fair? I believe that there has to be credit given to the account that is paid and a finance charge imposed on the balance only if it is proven that it was not an error made by the credit-card company.

The third issue that I would like to speak on concerns the new electronic funds transfer system. First of all, one of the reasons that I use a credit card is that I can charge something and not have to pay for it right away, but that by the time the monthly statement arrives, I can then pay it off. Now this debit card comes along whereby there is an instant transfer of funds from your savings or checking account at the time of purchase of goods. If I would want to pay my bill when I make a purchase, I would pay either by cash or by check. I don't want funds drawn out of my account every time I buy something.

I think the whole concept behind the debit card is suspect and should be investigated further. Are the banks slowly trying to phase out the credit card and go to the debit-card system entirely? Granted, there's less paperwork involved with the latter, yet that shouldn't be the only consideration.

The other question that I have regarding EFT is one that concerns itself with the first amendment right-to-privacy issue. I think that this subcommittee should look very carefully at this aspect because I see potential problems in this area when you have the kind of setup whereby a retailer can call the consumer's bank and ask if there are sufficient funds to cover the purchase. What kinds of safeguards are there to prevent unwarranted and unauthorized entry into a person's bank records when you have a retailer already allowed to get certain information under the debit card system. This unfortunately comes at a time when a person's right to privacy is being eroded more and more by recent court decisions and recently enacted laws by Congress. We, as Americans, can ill afford any further erosion of this cherished freedom.

Thank you for your time and patience and I hope that these hearings prove beneficial not only to your subcommittee, but to consumers throughout the country.

Chairman ANNUNZIO. Thank you, Mr. Marquez, for a very fine statement.

STATEMENT OF LORI VELCO, CHAIRWOMAN, SKOKIE CONSUMER AFFAIRS COMMISSION, SKOKIE, ILL.

Ms. VELCO. This subcommittee is to be commended, not condemned, for taking testimony on electronic funds transfer systems—EFTS—legislation even before the Electronic Funds Transfer Commission made its recommendations. Computers pose many problems for the consumer. In this presentation I would like to relate specific problems caused by computers or their programmers in the area of credit cards and automatic banking cards.

The EFTS differs from present credit cardholders and commercial relations in that:

One: There is no provision to hold the consumer harmless in the event that EFTS cards are lost, or more possible with common use, stolen.

Two: There are increased probabilities for computer error with the expanding of computer transfer of information.

Three: There is no specific time frame for credit adjustments.

Four: There may be problems because of unauthorized access to consumers' personal accounts by individuals with whom the consumer has no direct commercial relationship.

Five: All of the above disadvantages and risks are masked in a sea of promotional efforts that distorts, omits and misleads the consumer into believing that once again she is about to get something for nothing.

Banking interests are moving at an alarming speed to introduce aspects of the EFTS concept. Consumer groups and consumers as well are not moving as rapidly as the bankers to study all the ramifications of EFTS. These hearings are vital to the common welfare.

Consumers don't realize their great power. The power to say no. "No, I do not want another credit card. No, I will not use another credit card. No, I will not pay an unfair interest charge." Many consumers are unaware that where there is competition, the businessman needs the consumer more than the consumer needs the businessman.

Even consumers whom one would expect to be sophisticated in the use of credit cards are not. A high school teacher of consumer education admitted to me that impulse buying caused him to charge about \$600 via Master Charge in a local foodstore chain during 1 month. A resident of the neighboring village of Lincolnwood reported that she received her Arco gasoline statement with a credit balance of \$10 and finance charges. She was puzzled by this since she wrote a check for the entire charge of \$59.05 and sent it to Arco promptly. She called the Arco Co. to learn that although she wrote a check for \$59.05, her bank, the Bank of Lincolnwood, paid out only \$49.05. She had to inform the bank of the discrepancy. The bank determined it to be a computer error and apologized. Arco canceled the finance charge when the additional \$10 payment was forwarded and the consumer was inconvenienced, but not monetarily penalized.

Those who find EFTS computers making errors may not be so lucky. EFTS pitfalls are not publicized. Bankers and merchants seem to be rushing into EFTS because they believe that there is great profit to be made. When appearing before governmental bodies or consumers, that is, anyone outside their club, they wear their poor suits, shake their tiny shoulders and, with misty eyes, profess there is no profit in their endeavors. Only inside the club, when they are with their peers, do they don their silk suits, and hats, and snort black smoke for a maximization of profit. Wary customers have noticed what this subcommittee has noticed, that businessmen cry poor as they count the cash.

My bank is eagerly pushing the automatic banking card. I was amazed when the Skokie Trust & Savings Bank mailed me an automatic banking card. I did not request the card nor did I know it would be mailed to me. I was encouraged to use this card as a convenience to get money from my account 24 hours a day, 7 days a week. Well, I don't need that convenience. I never yet have needed \$700 at 3 in the morning. This feature was not a selling point for me. I was curious to see if there might be some reason for me to use the card.

The literature which the bank publishes to encourage people to use this service is very confusing. An ABC account is advertised as offering free checking, cash 24 hours a day, automatic monthly interest, a free safe deposit box, free personalized checks, preferred

loan rates, reserve credit, automatic transfer of funds and an automatic banking card. One would think the automatic banking center is the ABC account and offers all of the above. Careful reading indicates that the automatic bank card only offers most of the services which the bank provides automatically and quickly 24 hours a day, et cetera, and the additional privilege of cashing checks at a specific chain grocery store and a specific chain department store. These stores offer their own cards for this purpose. Therefore, this is no new inducement at all.

Separate agreements are necessary to qualify for the free safe deposit box, free checks, et cetera. In paragraph 5 of the very finely printed electronic service agreement, the persevering reader learns that the bank will terminate the agreement in the case of legal restrictions; that the bank assumes no responsibility for mechanical failure and asks the customer to waive all claims except in cases of gross negligence.

When I spoke to a bank official for clarification of this confused advertising, she wouldn't mention any problems with bank limitations or liabilities. The most conscientious consumer would not be aware of any personal liabilities. Until consumers become aware of all EFTS ramifications and their vast power, regulations such as H.R. 8753 are necessary lest consumers sink into the depths of an unintelligible ocean of machine mechanism.

I have carefully read the above mentioned bill and have already voiced a concern to a staff member.

Under EFTS, funds are to be transferred to an institution promptly to complete a purchase transaction. However, there is no consideration made for credits. Let us say that a customer uses EFTS to purchase an item. The transaction is completed by transferring funds from the customer's account to that of the institution. If the customer decides her purchase was a mistake and returns the merchandise, the customer has neither merchandise or funds until another transfer occurs. I recommend a specific time be allowed to credit a customer's account via EFTS.

Although the issue of privacy is not the purview of this subcommittee, I would urge you to make strong recommendations to the Subcommittee on Financial Institutions Supervision, Regulation, and Insurance in regard to the serious potential for institutional and governmental violation of privacy. Computers can recall stored information with such ease and in such detail that it may tempt institutions and governments to misuse the data. This could be an even greater area for study.

Today people interacting with others in this society often results in a hassle, but when people have to interact with machines, it can be terribly frustrating. We become angry with the machine that takes our money and sends down the coffee but not the cup. But we have little recourse. The recorded answer service at the other end of the phone can only repeat what is programmed. It cannot answer questions, indeed it cannot discern an important message from one that is not. But woe to us if we perfect a machine that has discretion, for then we will be entering the year 2001 and the Hals of computers may take over.

EFTS and the oceanliner Titanic seem to have much in common. In fact, as I study this system and its implications for consumers, it

looks to me that the Titanic had only one feature that the EFTS does not have and that is an orchestra.

Chairman ANNUNZIO. Thank you, Ms. Velco, for a very enlightening statement. I am sure the committee members feel as I do. I appreciate your taking the time to be with us today.

Our next witness is Jerome Lamet who is appearing as a witness. Mr. Lamet is Assistant Regional Director of the Federal Trade Commission of Chicago.

STATEMENT OF JEROME LAMET, ASSISTANT REGIONAL DIRECTOR, CHICAGO REGION, FEDERAL TRADE COMMISSION, TESTIFYING AS A CONSUMER

Mr. LAMET. I am not speaking for the Commission and decided to speak from notes.

I am here not in the official capacity of the Federal Trade Commission, but as a private citizen who has been in the consumer protection work for about 20 years, so the experience I bring to you today is from not only working with the Commission, but also in talking and working with consumer groups over a number of years. I am going to address myself to title I, although I do support title II, and I think that the provisions in title II are important to the consumer.

I have some very basic concerns with title I because it addresses this revolution of EFTS. I think the bill is a good one, but let me discuss some of the problems I have with not only the bill but also the whole onslaught, juggernaut for EFTS, in this country. I am not too sure that the consumer really needs EFTS, nor does he want it; nor am I sure that the consumer knows how this new system that is occurring in this country is going to work for him or against him. Little, if anything, is really known about the system.

I attended the Chicago hearings of the National Commission on EFTS several months ago as an observer, and, as I sat in the audience and saw how few consumer representatives were present and how the audience was pretty well stacked with banking interests from all sides, I became concerned that this was a juggernaut that was going to happen whether the consumer wants it or not.

Some of the talk at that meeting was to the effect if we put in EFTS, the consumer is going to save money. In other words, if we become more efficient, we will be able to lower our interest rates and therefore the consumer, in the long run, will benefit.

I heard the same talk several years ago when another computer system was being introduced in this country, universal product code, that was a system where you would automatically go through a supermarket not knowing what you were paying for and hoping you would get at the end a bill which would itemize all of the groceries. Because of consumer groups and other consumers concerned, legislation was passed in several States requiring at least the marking of the merchandise in the store. I see this same thing happening with EFTS, and I think there should be some consumer concern.

Basically what I am saying is, will this benefit the consumer? Will it be a better service for the consumer, and will it give them the lower interest rates or the lower service charges that everybody in the industry seems to be referring to?

There are some serious problems with regard to competition as far as EFTS is concerned, as I see it. As you are aware, the Federal Trade Commission, in addition to being a consumer protection agency, is one of the two antitrust agencies and obviously we are concerned with competition wherever competition may in some way be impeded.

My concerns are basically this: Will small business, small financial institutions, have access to the systems once they are installed? If they do not have, will smaller financial institutions have to go out of business? If that is true, if they do go out of business, it means increased concentration in the banking industry. Will the neighborhood banks and savings and loans be able to survive if they cannot hook up into an EFTS system, and although the industry is now saying that it will be available to everybody, I think that these are concerns that must be carefully looked at before we wake up and find the neighborhood banks gone.

In all instances, when you do have increased concentration, where monopoly or oligopoly occurs in the long run, the consumer suffers because what he gets is higher prices and poorer service.

Examples, I think, in the marketplaces are rampant. We have fewer automobile makers today; therefore, we have higher prices for automobiles and poor service, incidentally. The steel price problem, which has recently been talked about, only several years ago before foreign imports were able to come in and compete pricewise, we had talk that the steel prices were too high because there was a lack of competition. And on and on and on.

I therefore think we should be concerned with protecting the viability of the smaller neighborhood financial institutions, and if EFTS is going to force them out of business, this is something the committee should be concerned with.

Chicago is unique because it does have currency exchanges, and I think this is something you might want to look at. Currency exchanges act as ghetto banks for a number of consumers who do not get to neighborhood banks because there are no neighborhood banks. Recently in Chicago, in the last few months, there have been some concerns that the rates for cashing checks have increased and the State has taken action by passing legislation to prevent it.

So the smaller financial institution's viability is an important one.

What about the impact on small business generally? If EFTS is installed in department stores and giant chains and everybody operates with a plastic card, will this mean that the smaller retailer will have to go out of business? My father happens to be a smaller retailer and I am sure at this stage or at any stage he is not going to be able to afford to tie up into a very expensive terminal. If his customers do not have chargeplates, checks or cash, but only a debit card, then he will have to go out of business, and if this occurs, of course, we have one less seller in the marketplace. And since we must preserve some sellers in the marketplace possibly in order to have competition, especially price competition, it is essential that we look at the impact on small business, especially small retailers, if EFTS is installed.

One other impact I see which I do not believe has been discussed—at least it wasn't discussed at the national commission meeting—and that is the impact on employment. As I understand the reason for installing EFTS is to cut down on the number of hours that are necessary, today, to actually take care of the checks that are going through the system, although a banker admitted to me during the recess that the number of checks that are going through the system are being reduced anyway because of the increased use of credit cards, which is rather ironic.

If this system is put into play, obviously people are going to lose jobs, and since we have a serious job problem in the United States, today, I don't know whether we can afford at this time to install a system with the idea it is going to save money, without taking some look at how many jobs it is going to displace.

This is particularly true, as I said before, when we are talking about the small retailers' effect. If the small retailers go out of business, they, of course, will lay off people. We have heard a lot of stories about factories that closed their doors, but very little about the thousands of businesses in the State of Illinois, small businesses, that have gone out of business, especially retailers, who also employ people, and it is probably far greater than the number of factories that have closed.

Specifically, I would like to address myself to the bill because if the technology is going to be here, H.R. 8753 must come into place, and I think there are some basic concerns with the bill. Section 803(b) refers to contracts being in understandable language, or being in readily understandable language.

This is a phrase used by the Congress in a number of other pieces of legislation, and since I have been in the business of trying to interpret statements like that when we get into the law enforcement area, let me just give you some thoughts about that.

"Readily understandable language" may sound as if everybody understands what it means, but does it really mean, for example, that a Spanish-speaking consumer, who is being sold EFTS, with an ad or a radio commercial, will his contract be in Spanish? A literal interpretation of that would say he should have the contract in Spanish, but we all know that it will not be in Spanish because we have had similar situations in the Truth in Lending Act, where the contracts are not in Spanish until certain States passed laws requiring it.

In addition to that, we have had a past history—just recently the Warranty Act, in which similar terms were used—that the warranties had to be in readily understandable language.

I have just returned not too long ago from a national conference on the update of the Warranty Act, and everybody was agreed that the warranties have gotten longer and more complicated, and nobody really understands them, so I think some attention ought to be addressed to that particular phrase.

I would suggest if we cannot define it more clearly in the bill, that perhaps the Federal Trade Commission be given rulemaking authority to assure that rules are passed so those disclosures are really readily understandable.

Section 803(b) (6) and (7) refer to the consumer's right to stop payment. I think it is an excellent section of the bill. Of course, as

you know, the commission, several years ago, adopted a trade regulation rule abolishing the so-called "holder in due course." I participated in the Chicago hearings on that rule and heard consumer after consumer testify that the only real defense they had against the fraudulent seller was the ability to stop payment on a check. Since the courts and other remedies are not really available to the consumer, it is important that that particular section be strengthened in order to make sure that the consumer can stop payment in EFTS in order to protect himself against the fact that he did not get the merchandise and was defrauded.

With regard to sections 803(b)(8) and 808(c), which talk in the terms that the bank must reimburse consumers for losses or charges resulting from an error, I am not too sure that I read those sections very carefully. I am not too sure what the subcommittee or the Congress is referring to. Does this include consequential damages, if the consumer is damaged by the fact that EFTS transactions did not occur the way they should have?

For example, if the insurance premium is not paid and the consumer's house burns down, who pays for the house? Does the bank pay for the house because they failed to pay the premium, or does the consumer pay for the house? I don't know whether that section is clear, but it could be read to indicate that all the bank would be responsible for would be the premium charge which must be charged to their account. That certainly will do little for the consumer whose house has burned down.

I would suggest perhaps the subcommittee might want to consider the consequential damages under the Warranty Act, which requires that the consumer be told in writing clearly and have it indicated in the warranty that the seller limits his consequential damages. Although I don't like to use the phrase consequential damage, I could envisage a statement something to the effect "if we make a mistake and we don't pay your insurance, you pay for the house that is burned down," so the consumer clearly understands what he is getting into in case a mistake is made.

With regard to section 812, this prohibits the extra charge for the use of checks. The section talks about extra charges for the use of checks, but I am also concerned about the poor who do not have checkbooks and therefore cannot even use a check in making purchases in a retail establishment. If most of the poor have to pay cash for their item, and if they are charged extra by smaller stores, or by larger stores because they must pay cash, obviously this will be to the detriment of the poor and some provision ought to be included to include those consumers that pay cash for their merchandise and other services.

In section 813, which refers to civil liability, once again perhaps there is some clarification that can be included in the explanation of the bill, but I am a little confused with the wording in that section that talks about the liability occurring only if there is an intentional or bona fide error on the part of the banking institution. They would not be liable if the error occurs, and it was not a bona fide error and was not intentional.

Once again, I refer to my example of the burned-down house. Let's assume, for example, that there was no intent to make a mistake and there was a bonafide error. Who pays for the house?

you know, the commission, several years ago, adopted a trade regulation rule abolishing the so-called "holder in due course." I participated in the Chicago hearings on that rule and heard consumer after consumer testify that the only real defense they had against the fraudulent seller was the ability to stop payment on a check. Since the courts and other remedies are not really available to the consumer, it is important that that particular section be strengthened in order to make sure that the consumer can stop payment in EFTS in order to protect himself against the fact that he did not get the merchandise and was defrauded.

With regard to sections 803(b)(8) and 808(c), which talk in the terms that the bank must reimburse consumers for losses or charges resulting from an error, I am not too sure that I read those sections very carefully. I am not too sure what the subcommittee or the Congress is referring to. Does this include consequential damages, if the consumer is damaged by the fact that EFTS transactions did not occur the way they should have?

For example, if the insurance premium is not paid and the consumer's house burns down, who pays for the house? Does the bank pay for the house because they failed to pay the premium, or does the consumer pay for the house? I don't know whether that section is clear, but it could be read to indicate that all the bank would be responsible for would be the premium charge which must be charged to their account. That certainly will do little for the consumer whose house has burned down.

I would suggest perhaps the subcommittee might want to consider the consequential damages under the Warranty Act, which requires that the consumer be told in writing clearly and have it indicated in the warranty that the seller limits his consequential damages. Although I don't like to use the phrase consequential damage, I could envisage a statement something to the effect "if we make a mistake and we don't pay your insurance, you pay for the house that is burned down," so the consumer clearly understands what he is getting into in case a mistake is made.

With regard to section 812, this prohibits the extra charge for the use of checks. The section talks about extra charges for the use of checks, but I am also concerned about the poor who do not have checkbooks and therefore cannot even use a check in making purchases in a retail establishment. If most of the poor have to pay cash for their item, and if they are charged extra by smaller stores, or by larger stores because they must pay cash, obviously this will be to the detriment of the poor and some provision ought to be included to include those consumers that pay cash for their merchandise and other services.

In section 813, which refers to civil liability, once again perhaps there is some clarification that can be included in the explanation of the bill, but I am a little confused with the wording in that section that talks about the liability occurring only if there is an intentional or bona fide error on the part of the banking institution. They would not be liable if the error occurs, and it was not a bona fide error and was not intentional.

Once again, I refer to my example of the burned-down house. Let's assume, for example, that there was no intent to make a mistake and there was a bonafide error. Who pays for the house?

Will the consumer pay for the house, or will the banking institution pay for the house?

I would suggest that perhaps since the consumer has less bargaining power in the marketplace than the banking institution, that some provision be provided in the law requiring that the banking institution pay for the house if they have made the error. These could lead to very serious problems for consumers who get involved in this particular system.

In closing, I welcome your coming here to Chicago, giving us the opportunity to discuss this very important piece of legislation with you. I am prepared to answer any questions, if you have any.

Chairman ANNUNZIO. Thank you very much, Mr. Lamet, for your excellent testimony. I deeply appreciate your appearing today in the role of a consumer.

We appreciate your coming this distance to Chicago to testify.

**STATEMENT OF KARL R. FLODSTROM, DIRECTOR/COUNSELOR,
FINANCIAL DIVISION, FAMILY COUNSELING SERVICE,
AURORA, ILL.**

Mr. FLODSTROM. Mr. Chairman, I am here today to testify with regard to the widespread use and abuse of credit cards in our society. I work for Family Counseling Service of Aurora as a consumer credit counselor. I work with families in financial difficulty, assisting them in setting up a workable budget and, if need be, to set up a repayment plan for an orderly liquidation of their debts. Since our program was started in December 1974, we have helped 261 families to retire nearly two-thirds of a million dollars in consumer debt. For this service we charge the family a maximum fee of \$5 a month. The bulk of our financial support comes from the credit grantors, our local United Way, and local revenue sharing funds.

In my work I come across many people who have become overextended through the use and abuse of credit, particularly credit cards. According to Newsweek: Many Americans have gone into debt trying to live up to middle-class expectations. Easy credit, aggressive promotion, and a keep-up-with-the-Joneses mentality encouraged by advertising have all led the middle class to stretch its budget through credit. Many people wind up badly in debt, requesting help from credit counseling services.

I work with financially distressed families to help them to work themselves out of debt. Many of the families who come to see us are facing bankruptcy. These families tell pretty much the same story. When things were going well, they found it all too easy to get credit. Quite literally they found credit being pushed at them by merchants and advertisers.

For one reason or another, they fell prey to the lure of easy credit. Then the unexpected happens. The breadwinner's overtime or working hours are cut back or he loses his job. There may be an unexpected medical expense. Suddenly the family is over their heads in debt and badly overextended financially.

However, the problem has been mounting over a period of years. So-called consolidation loans only help to postpone the problem for

a short while and frequently act to compound and extend the problem.

The only viable solution for these families is to simply cut off their credit by cutting up their credit cards. In our program these families are asked to sign an agreement not to incur any more charges. Then we set up a fair, but stringent budget for the family which enables them to make payments, however reduced, to their creditors.

The original purpose of credit was to sell merchandise and services. Today the sale of credit has become, in many instances, an end in itself. Merchandise and services are fast becoming just a tool to sell debt.

Credit cards are big business. This fact is illustrated by the size of the following numbers.

Master Charge has 39.2 million cardholders, while BankAmericard has 33.2 million. Charges made on Sears cards in 1975 amounted to \$7.9 billion.

The great advantage of credit cards is their convenience. But that very convenience makes it all too easy for people to become overextended. When I ask an incoming family that owes \$1,000 to BankAmericard or Master Charge what they got for that money, invariably they can only account for a portion of that sum. But once a debt of several thousand dollars is incurred on a revolving charge, it then takes a family a long time to pull itself out of debt.

Customers are being pressured to use credit cards rather than paying cash. A year ago I gave a talk before a local Optimists Club. A gentleman in the audience related the story of how he had gone to St. Louis to be present at someone's wedding. While there he attempted to rent a car. The car rental agency would not accept a deposit. The only thing they would accept was a credit card. So the man was forced to obtain a credit card.

According to a recent article in the Wall Street Journal, the compulsion to spend more than they earn grips a number of Americans, including many affluent people who otherwise function sensibly as accountants, lawyers, or doctors.

According to economist Arch W. Troelstrup, an authority in the area of family finance, the credit-card revolution has been a mixed blessing for the consumer. It is perhaps inevitable that our consumer protection laws have lagged behind the rapidly changing developments in the use of credit. The consumer has been harassed and intimidated by computer-written dunning letters; he has been shortchanged by tricky billing practices which result in interest rates far above the State-level usury ceilings; he is being given less and less time to pay his bills before incurring a finance charge; and he is forced to subsidize the credit card system whenever he pays cash instead of using a credit card.

Financial stress caused by overextension in turn affects the marriage and the family. Economist John Kenneth Galbraith in his book, "The Affluent Society," put it this way:

One wonders, inevitably, about the tensions associated with debt creation on such a massive scale. The legacy of wants, which are themselves inspired, are the bills which descend like the winter snow on those who are buying on the installment plan. By millions of hearths throughout the land it is known that, when these harbingers arrive, the repossession man cannot be far behind. Can the bill collector be the central figure in the good society?

In closing, I am glad to see that the Congress of the United States has seen the need to hold these hearings about credit cards. The proposed reforms in this legislation are all well and good; however, they do not deal with the fundamental problem—the all-too-easy availability of credit in our society as symbolized by the credit card.

I wish to thank the subcommittee for extending to me the opportunity to appear and testify at this hearing.

[The prepared statement of Mr. Flodstrom, on behalf of the Family Counseling Service, Aurora, Ill., follows:]

STATEMENT OF KARL L. FLODSTROM, ON BEHALF OF THE FAMILY COUNSELING SERVICE,
AURORA, ILL.

I am here today to testify with regard to the widespread use and abuse of credit cards in our society. I work for Family Counseling Service of Aurora as a consumer credit counselor. I work with families in financial difficulty, assisting them in setting up a workable budget and, if need be, to set up a repayment plan for an orderly liquidation of their debts. Since our program was started in December, 1974, we have helped 261 families to retire nearly 2/3 of a million dollars in consumer debt. For this service we charge the family a maximum fee of \$5.00 a month. The bulk of our financial support comes from the credit granters, our local United Way, and local revenue sharing funds.

In my work I come across many people who have become overextended through the use and abuse of credit, particularly credit cards. According to Newsweek:

Many Americans have gone into debt trying to live up to middle-class expectations. Easy credit, aggressive promotion, and a keep-up-with-the-Joneses mentality encouraged by advertising have all led the middle class to stretch its budget through credit. Many people wind up badly in debt, requesting help from credit counseling services!¹

I work with financially distressed families to help them to work themselves out of debt. Many of the families who come to see us are facing bankruptcy. These families tell pretty much the same story. When things were going well, they found it all too easy to get credit. Quite literally they found credit being pushed at them by merchants and advertisers. For one reason or another, they fell prey to the lure of easy credit. Then the unexpected happens. The breadwinner's overtime or working hours are cut back or he loses his job. There may be an unexpected medical expense. Suddenly the family is over their heads in debt and badly overextended financially. However, the problem has been mounting over a period of years. So-called consolidation loans only help to postpone the problem for a short while and frequently act to

¹"The Middle Class Poor," Newsweek, September 12, 1977, pp. 30-33.

compound and extend the problem. The only viable solution for these families is to simply cut off their credit by cutting up their credit cards. In our program these families are asked to sign an agreement not to incur any more charges. Then we set up a fair, but stringent, budget for the family which enables them to make payments, however reduced, to their creditors.

The original purpose of credit was to sell merchandise and services. Today the sale of credit has become, in many instances, an end in itself. Merchandise and services are fast becoming just a tool to sell debt.²

Credit cards are big business. This fact is illustrated by the size of the following numbers. MasterCharge has 39.2 million card holders, while BankAmericard has 33.2 million. Charges made on Sears cards in 1975 amounted to 7.9 billion dollars.³

The great advantage of credit cards is their convenience. But that very convenience makes it all too easy for people to become overextended. When I ask an incoming family that owes \$1,000 to BankAmericard or MasterCharge what they got for that money, invariably they can only account for a portion of that sum. But once a debt of several thousand dollars is incurred on a revolving charge, it then takes a family a long time to pull itself out of debt.

Consumers are being pressured to use credit cards rather than paying cash. A year ago I gave a talk before a local Optimist Club. A gentleman in the audience related the story of how he had gone to St. Louis to be present at someone's wedding. While there he attempted to rent a car. The car rental agency would not accept a deposit. The only thing they would accept was a credit card. So, the man was forced to obtain a credit card.⁴

According to a recent article in the Wall Street Journal, the compulsion to spend more than they earn grips a number of Americans, including many affluent people who otherwise function sensibly as accountants, lawyers, or doctors.⁵

²Hillel Black, Buy Now Pay Later, William Morrow and Company, New York: 1961, p. 111.

³Credit Card News for Consumers, Consumer Information Services, 777 S. Post Oak Rd., Houston, Texas 77056.

⁴Presentation before Optimist Club.

⁵Wall Street Journal, Dow Jones & Co., August 1, 1977.

According to economist Arch Troelstrup, an authority in the area of family finance, the credit card revolution has been a mixed blessing for the consumer. It is perhaps inevitable that our consumer protection laws have lagged behind the rapidly-changing developments in the use of credit. The consumer has been harassed and intimidated by computer-written dunning letters; he has been shortchanged by tricky billing practices which result in interest rates far above the state legal usury ceilings; he is being given less and less time to pay his bills before incurring a finance charge; and he is forced to subsidize the credit card system whenever he pays cash instead of using a credit card.⁶

Financial stress caused by over-extension in turn affects the marriage and the family. Economist John Kenneth Galbraith in his book, The Affluent Society, put it this way:

One wonders, inevitably, about the tensions associated with debt creation on such a massive scale. The legacy of wants, which are themselves inspired, are the bills which descend like the winter snow on those who are buying on the installment plan. By millions of hearths throughout the land it is known that, when these harbingers arrive, the repossession man cannot be far behind. Can the bill collector be the central figure in the good society?⁷

In closing, I am glad to see that the Congress of the United States has seen the need to hold these hearings about credit cards. The proposed reforms in this legislation are all well and good; however, they do not deal with the fundamental problem--the all too easy availability of credit in our society as symbolized by the credit card.

I wish to thank the committee for extending to me the opportunity to appear and testify at this hearing.

⁶Arch W. Troelstrup, The Consumer in American Society: Personal And Family Finance, 5th Ed., McGraw Hill, Inc., 1974, p. 183.

⁷John Kenneth Galbraith, The Affluent Society, 3rd Ed. revised, Houghton Mifflin Co., Boston, 1976.

Chairman ANNUNZIO. Thank you for your statement. We have another witness if she is here. Terry Leveck. You are with the Illinois Department of Aging?
Ms. LEVECK. Thank you. That is correct.

STATEMENT OF TERRY LEVECK, REPRESENTING THE ILLINOIS DEPARTMENT OF AGING

Ms. LEVECK. Congressman Annunzio and members of the Consumer Affairs Subcommittee, I wish to thank you for the opportunity to appear before you and offer testimony on behalf of the older persons of Illinois.

My name is Terry Leveck, and I am acting as a representative for the Illinois Department on Aging.

The department on aging is the sole State agency responsible for planning and administering programs funded under the Older Americans Act.

One other function of the department on aging is to serve as an advocate for older persons in Illinois. Our main office is located at 2401 West Jefferson, Springfield, Ill., with a smaller branch located at 910 South Michigan Avenue, Chicago, Ill.

One of my responsibilities in the department is to coordinate information and referral services. Because of this role, I became involved with the direct deposit program, a program which encourages the electronic transfer of social security, Government pension, and veterans benefits to eligible recipients. The department on aging would like to take this opportunity to address some of the concerns that were raised, and some concerns that remained unresolved as the result of the direct deposit education program.

Many older persons depend wholly or in large part on income received from their social security or pension benefits. This represents a fixed income base which in many cases requires careful planning and ingenuity to meet an older person's needs.

Initially, there was a great deal of fear that the direct deposit program would be made a mandatory requirement in order to receive these benefits. This fear was allayed by the promise from both the U.S. Department of the Treasury and the regional administration on aging office that this program would be strictly voluntary and would in no way affect a person's eligibility to receive their due benefits.

We would like to go on record in support of any program that would assure the efficient and timely transfer of funds. There is also the advantage of protecting the safety of an older person by guarding against the potential risk of crime.

However, there are certain safeguards and procedures that would be helpful to the older consumer that I would like to note:

First: In order to provide accurate information and referrals to potential direct deposit consumers, a list of all participating banks in a given locality would be necessary.

Second: Because many older persons' sole income is derived from these benefits, a uniform method of recording deposits that coincides with the usual deposit date is a necessity.

For example, social security checks are issued the third day of every month. Notification as to the date and amount of deposit should be made available to each person. This would confirm that

the appropriate amount has been received and lessen the chance of error. This procedure should be followed whether the person has a checking or savings account. A quarterly statement may allow too great a margin of error.

In other words, if there is something wrong, it would be 3 months before they would be able to catch it.

Third: All funds deposited on a regular basis, such as social security, should be available to the consumer immediately. Banks have a 10- to 15-day clearance period, I understand. Again, with a small fixed income, this delay could create a hardship.

Fourth: Because of the estimated savings to both the Government and the benefit to banking institutions of a regular deposit base, it seems unfair to charge a service fee or checking account fee to the older consumer of the direct deposit or EFT program.

Fifth: We also would recommend that consumer education be provided that would specify what the rights and responsibilities of a direct deposit participant including: His or her right to request and receive a correction of error in his or her account; what charges, if any, the consumer will have to pay; the terms of the EFT arrangement. In the case of the elderly, we recommend that any written materials be designed in large print; and, if appropriate, in a second language; and the consumers' right to change financial institutions or discontinue the program if they so desire.

These were the major concerns and issues that were raised by the department on aging, service providers and the senior citizens and which we felt should be addressed by your committee. Again I would like to emphasize that we approve the concept of the electronic transfer of funds.

It is our hope that these hearings and the future efforts of your Consumer Affairs Subcommittee will address these issues.

Thank you for your consideration. If you have further questions, I will be happy to respond.

Chairman ANNUNZIO. Thank you very much, Ms. Leveck.

On behalf of the subcommittee, let me express my appreciation to all of you for being here with us this afternoon.

You have presented your case well for the consumer. I am not going to ask any questions, but when I get the record back you will be getting some questions from me, so that you will be able to answer those questions. I hope I am not putting you to too much trouble.

We are on a fact-finding mission. Chicago is our first stop. We have had hearings in Washington, as you know. I made these announcements earlier this morning. We will probably go to Minnesota, Ohio, California, and other States before we begin to markup the legislation.

Your experiences you have related in testimony will be invaluable to the committee.

I know you all realize how difficult legislation of this type can be. I think we can get it through the subcommittee, but it will be a battle to pass it through the full committee and there will be a battle to pass it on the floor.

The debt collection bill passed by one vote on the House floor. Mr. Wylie refers to it as the "Landslide Annunzio" bill. Nevertheless, one vote is all you need in a democracy. It is a majority. We

went over to the Senate and were finally able to come out with a piece of legislation that will probably cut down the harassment against people who owe money.

The legitimate debt collectors, the legitimate people in business have no fear of this legislation. It is only those who seek to get around the law. They appear before a committee and when they begin to scream then I know they have a lot that is under the rug that they don't want exposed.

It has been a very, very good panel. I have related in my talks on the floor of the House many of the experiences that you have related to the panel today. I had some questions of Professor Rank, but, as he carried on in his testimony he answered most of my questions, so that I am grateful for your contribution.

Sometimes in a democracy there is much frustration but again that is what makes a good fight interesting. We are going to have a good fight. It is not going to be an easy fight, but I think in the end we are going to come out with some legislation.

Out of necessity, we must come out with some legislation as far as the EFTS is concerned.

In our first hearings in Washington all I heard was "Why don't you wait, Mr. Chairman, wait for the EFTS Commission to come out with its report?"

Well, they finally came out with a report. We held our hearings months before the report and the conclusion that is reached is that there must be some safeguards to the consumer. This is the EFTS Commission. This is what the committee will attempt to do. At least I hope I can lead the committee to pass legislation with safeguards.

The batting average of this committee has been excellent with reference to consumer legislation. I believe in the last 2 years, Mr. Wylie, we have passed four or five bills out of the subcommittee.

I have the pens of Presidents Nixon, Ford, and Carter in cases where we have passed legislation which they have signed into law. We hope that contribution to the people of America has been of benefit.

I do know one piece of legislation we passed is the Equal Credit Opportunity Act. Some of my friends in the banking industry fought hard against that legislation until they saw the light. Today, because we extended credit to people of different sexes, people of different religions, people of different colors, to people regardless of age, we extended credit to people who are creditworthy.

I noticed in report after report, where installment banking in commercial banks has increased to the amount of about \$2 million a month. I also notice from savings and loan reports I have read whereby we have taken into consideration cases where a woman who is married can cosign a loan in the purchase of a house, that the number of loans has gone up.

The legislation that has been passed has been helpful to consumers. At the same time, it has not hurt business, nor has it hurt the free enterprise system. So when these people begin to criticize the legislation, saying we are hurting the free enterprise system, I am accustomed to that. I have broad shoulders. We will wait until all the results are in before we are going to reach that conclusion.

Mr. Wylie, do you have any questions?

Mr. WYLIE. I want to thank each of the members of the panel for appearing here today. I understand you did it voluntarily after you heard this hearing was going to be here in Chicago today, and that you came on your own initiative. I think that is very commendable. That is what this hearing is all about, to me; it is getting grass-roots testimony on our problem which has, whether we like it or not, become a major problem, and it is something upon which we are going to have to take some action; I agree with that.

I was interested in what you had to say, Mr. Rogers, particularly. You pinpointed one of the real problems to me and that is the one of identification and whether the personal identification number so-called should or should not accompany the debit card or the credit card in your case. I think it might have been a coincidence, but in any event, your personal identification number was on your credit card so someone else could use it and thereby take money from your account, and I think you have suggested in any case the extender of the credit should be liable for any unauthorized use of your credit card, is that correct?

Mr. ROGERS. That is correct, sir. At least to some limit. I believe \$50 was the compromise position.

Mr. WYLIE. That is what is in the bill right now.

I notice you had a credit card with you which had a little black strip on the back.

Mr. ROGERS. I understand that is a magnetic strip.

Mr. WYLIE. That is a magnetic strip and there is a lot of information in there. I was talking with one of the debit card people about this in Columbus. As I understand it, the new ones which will be coming out, they will have a description of your hand in there that will be marked right in here so that you can put that in the little receptacle in the store where you buy your groceries and then you will put your hand under a little slide, or machine, and the young lady will test you out on that machine and it will, in less than a second, describe your hand and if it doesn't match that description on the card, then you can't use it. Somebody else is using your card.

What do you think about that? Would that satisfy you?

Mr. ROGERS. That would indicate that 1984 is coming very quickly. It would at least go to the problem of limiting the use of that one card.

Mr. WYLIE. Do you think a debit card is something that is desirable? Is it a useful tool?

Mr. ROGERS. I believe it is, yes. I find it very, very convenient. I am seldom around during the day. I really enjoy the 24-hour banking convenience. As long as there are adequate safeguards.

Mr. WYLIE. How about the senior citizens, Ms. Leveck, do they use the credit cards?

Ms. LEVECK. I think they are less likely to use credit cards than the younger population.

Mr. WYLIE. I think that is what we found out. Debit cards are in widespread use in my district, Columbus being a test district, and the State of Ohio State university. I see the students line up using their debit cards in preference to cash.

Do you think senior citizens should be educated to the use of credit cards? I ask that question advisedly because it was suggested to us in one of our earlier hearings in Washington. If the potential committers of a crime knew everybody in the neighborhood used a credit card, muggers might be somewhat more reluctant.

Ms. LEVECK. It might help.

Mr. WYLIE. Mr. Brown says no.

Mr. BROWN. I say that for a particular reason. My wife was robbed at gunpoint in the lobby of our building on one occasion. I am sure that the people who finally received her identification got rid of the money in an awful hurry, but for a period of 2 years those credit cards were in use.

Mr. WYLIE. For a period of 2 years?

Mr. BROWN. Yes, sir.

Mr. WYLIE. You had some problem of determining liability as I understand it from your statement.

Mr. BROWN. No, there was no problem determining the liability after my wife went to the State attorney's office, gave handwriting samples and so on, but the people who had those cards continued to make use of them for 2 years. A credit card is a highly viable commodity.

Mr. WYLIE. Were you held liable for any of the purchases made on your card?

Mr. BROWN. No, not after we refused to pay. There were all sorts of threats, but no actual liability.

Mr. WYLIE. Do you believe there is a benefit or that credit cards or debit cards can be used as a tool in our fast-moving society?

Mr. BROWN. Yes, sir, very much so. I get a lot of mileage out of mine.

Mr. WYLIE. You have just had all these problems of knowing how much you owe and what your statement means and that sort of thing?

Mr. BROWN. The last American Express bill sort of amused me because I knew to the penny exactly what it was going to be before it got there and this is kind of a standard thing, except when somebody holds up a bill for months and months and months.

It is an awfully easy to abuse kind of situation. The total credit available to me on the six cards is probably \$8,000 or \$9,000 at any one time and that is a lot to be aware of, that you can get in awfully deep.

Mr. WYLIE. Mr. Marquez, you said something about the opportunity for people to use your debit card or your credit card to transfer money from your checking account without your authority or permission. Do you think this is a real danger in the use of the credit card?

Mr. MARQUEZ. I think it is. I am not that familiar with the use of a debit card, but from what information I have been able to get on the subject, when you go to a retailer and make a purchase, the electronic transfer system plugs him into the bank and there is that transfer of funds from the account of your bank.

As my statement indicated, the reason why I have a credit card in the first place is to defer payment until the end of the month. Then at the end of the month I do have the funds available. For 4½ years, I have had the money to pay my bill on time.

Now the debit card is going to take the money immediately out of my bank account.

Mr. WYLIE. Then you feel the debit card is kind of a trap for you and will take money out of your account and make it difficult for you to plan your budget, is that what you are saying?

Mr. MARQUEZ. Yes.

Mr. WYLIE. You won't be forced to use it under any set of circumstances?

Mr. MARQUEZ. Right. I will cash a personal check when making the purchase instead of using a debit card.

Mr. WYLIE. I think the point I want to make here is that the use of the debit card or credit card is on a voluntary basis, but I take it from the panel you think there is some sort of magnetic attraction to the use of credit cards which gets people involved to the extent where they should not be involved, and perhaps there should be some restriction on you. Is that right or not?

Mr. MARQUEZ. Yes.

Mr. WYLIE. When our committee passed the truth-in-lending bill, we had something else in mind, but sometimes when we pass laws they get beyond our control. When we passed that truth-in-lending law, we had something in mind, that we thought people ought to be able to shop for credit and find out exactly what the bottom line would be on an item when they got through.

The Federal Reserve Board drafted regulation Z and it is now several hundred pages long, which is a little more than we had bargained for.

That happened with the Real Estate Settlement Procedures Act. We wanted people involved in real estate transactions to know what the bottom line was going to be as far as cash is concerned, and they had a regulation of some 41 different questions that had to be answered which defeated the whole purpose of the thing.

We have a Truth in Lending Simplification Act which I have introduced right now which, simply stated, would provide a form of about four or five lines on which you would indicate the amount, not percentages or anything like that, but dollar amounts as to how much will be charged. From your testimony I would think you would favor something like that, would you not?

Mr. BROWN. I favor anything that is going to make the predictability of the charges clearer to the consumer so he knows what he is going to run into.

I think the comment on the jibberish on the back of those statements, I believe that was Professor Rank who brought that up.

Mr. RANK. I would favor anything that simplified or clarified.

Mr. WYLIE. Perhaps I can send you a copy of my bill and see what you think about it.

Mr. RANK. I remember when Sputnik was set up. Suddenly the National Science Foundation was created and a lot of money was put into solving that problem. Now, I would suggest if you wish to solve some of the problems of clarity in language you might start putting money that way. That is if you say, "This is our goal," there are several hundred English teachers with Ph. D.'s unemployed throughout the country who might be attracted to such a job in Government.

Mr. WYLIE: I think the point I want to make here is that you have suggested that the amount of information on the back of that statement is too much, that the average individual can't really decipher it and understand it.

A panel this morning suggested there is not enough information being given to the consumer.

Are we providing the consumer with too much information or providing too much cost in the granting of credit, in the use of credit cards or debit cards, or are we talking about simplifying the language?

Mr. RANK: I think it is simplification that is needed. We may need more information provided. For example, one should not provide it in this kind of small print. When Master Charge advertises, they advertise quite clearly in 10- or 12-point typeface. I don't think it is that the consumer doesn't want the information, but they want understandable information.

Mr. WYLIE: You brought up another point there. Should they be required to advertise in the same typeface as the information on the back of that billing?

Mr. RANK: The whole business of clarity of language depends on a speaker-audience relationship. It is very complex. As you talk about large type being needed for elderly people, and someone talked about the Spanish people needing a translation, I think if we are really sincere in providing people with information, banks and advertising agencies should spend as much time in researching this kind of information as they do in researching their ads.

Any time an ad is presented, it is pretested and they take it out to a small group and say, "Do you understand it? Do you understand that?" And anything which is not understandable by the consumer is not presented.

Mr. WYLIE: The chairman says he thinks you have made your point, but I want to ask one more question for clarification which you can answer for the record.

How do you suggest consumers protect themselves from advertisements which omit pertinent information if the consumer is not educated in the area?

Mr. RANK: This is very difficult. Those are examples of confusion, and a consumer can intuitively react against confusion, but unless you are an expert in a subject, you don't know what goes in it.

Mr. WYLIE: And who is an expert in the subject?

Mr. RANK: I would say we protect consumers two ways, through education and through legislation, and I hope that you are the experts in the subject and we are here asking you to point out what is omitted from these things.

Mr. WYLIE: From the panel this morning I think we might be led into the trap of providing too much information which has confused the consumer of the credit card/debit card. From the testimony of the panel today, we might have a tendency to react the other way.

The difficulty we have appears in the limitations that we have.

Mr. FARY: I appreciate the frank and sincere testimony of this panel. Rest assured the impact of your experiences are well noted and will be given serious consideration by this committee and the other House Members.

I have enjoyed hearing from you all. Thank you very much. Chairman ANNUNZIO. Thank you, Mr. Fary.

Again I want to reiterate my thanks to the panel, but not speaking as the chairman now.

You know people ask me, "Are you against credit cards?"

I am not against credit cards. All of us know we live in a credit card society.

I am just against the rules that they are changing in the middle of the ballgame, you know. I wanted to make that very clear for the record.

Thank you very, very much.

We now have a group that represents the banking industry as I look at the names of the banks that you represent.

For that reason I am going to read a small quote from Business Week of February 1, 1977, before you start.

It is called "The Unknown Industry."

Annunzio freely admits that he and his committee do not know quite what they are getting into, or what they will do when they find out. He says that one of the objectives of his hearings will be educational, to lay out just how far the industry has gone, as well as where it may be going.

We are dealing with an industry about which probably less is known than any other section of the credit business, says Annunzio, who insists that so far industry leaders do not seem to know very much either. We asked credit card companies and banks questions about the industry, he says, and they couldn't answer.

In nearly reaching the end of the hearings, I felt that was a good statement to read, so the public can be aware of the dilemma facing the industry representatives, that faces the Members of the Congress, as we shall see in the job ahead as far as this legislation is concerned.

We will now move on to the fourth panel which consists of J. Frederic Ruf, president, TYME Corp., Milwaukee, Wis.; Richard J. Baker, assistant vice president, Commercial National Bank of Peoria, representing the Illinois Bankers Association, Peoria, Ill.; David D. Baer, executive vice president, First National Bank of Freeport, representing the Association for Modern Banking in Illinois, Freeport, Ill.; and Kenneth A. Skopec, president, Mid-City National Bank of Chicago, representing the Illinois Bankers Association, Chicago, Ill.

Chairman ANNUNZIO. Tom J. McClain, vice president and consumer loan administrator of the National Bank of Greenwood is unable to appear as scheduled, but has provided us with a prepared statement, which statement will, without objection, appear in the record at this point.

[The prepared statement of Mr. McClain follows:]

PREPARED STATEMENT OF TOM J. McCLAIN
V.P. & CONSUMER LOAN ADMINISTRATOR
THE NATIONAL BANK OF GREENWOOD

on

H.R. 8753

Mr. Chairman, members of the Consumer Affairs Subcommittee, I appreciate the opportunity to appear here and bring you thoughts of a middle-size bank in the Midwest, where I believe sometimes the word banking means something different than it might on either coast.

My name is Tom McClain. I am Vice President of the National Bank of Greenwood, which is located south of Indianapolis, Indiana. Some people even consider us a suburb of Indianapolis. I might add that I'm on the board of governors of Consumer Bankers Association and the advisory board of the Installment Lending Division of the American Bankers Association.

My bank has footings of just short of 100 million dollars. We're a suburban bank with most of our deposit base from the small consumer depositor. We have very little commercial deposits or borrowings. I'm in charge of the consumer lending division which means installment lending, charge cards, student loans and the collection department.

I would like to address my remarks to Title II of H.R. 8753 and how it could affect our type of bank. I don't believe you have had testimony from my type of bank. We're not a card issuing bank; we're a "Class B" bank, which means we participate with a larger bank in the money loaned and the interest earned. We also participate in the merchant discount---and I might add also, any losses that occur.

We are still further unique in that we participate with two larger banks. Through one we have VISA and through the other we have Master Charge. There are different contract agreements with both banks.

We have a total of 2,769 cards outstanding with both banks for a combined total of \$602,000.00 outstanding with both banks. We also have 121 merchant accounts.

The reason we have two cards for our community is to give our customers a choice and the same with the merchant. I will admit that both the consumer and the merchant in a lot of cases have both cards, but I feel that's good. It's called a "freedom of choice." If Title II is passed the difference between cards almost becomes non-existent, except for the names and that might as well change to Master VISA or some such name. You will have transformed a private enterprise business into a totally regulated part of our national government. Let the charge card industry work as it is now, with the many regulations that have been heaped on it already: Regulation Z, Fair Credit Billing, and regulation B. If the American people don't like one card because it reacts in a certain way, then let them have the freedom and the right to choose a different one. If Title II becomes law, we will have one card with two names. We, the American people, have an uncanny way of changing things we don't like; if one card is wrong it won't take that card long to change because all business will go to the other card. That's called competition. The bill in its present form substantially inhibits and reduces or eliminates any incentive for a card-issuer to be innovative or to attempt to compete by making its credit plan just a little bit different from others. As a representative of our depositors it prevents us from shopping for the best possible plan to meet their needs, which might be a plan far different from what is wanted in California or Florida or Massachusetts.

Mr. Chairman, I will make my remarks brief on several sections of Title II and how they will affect the industry of the charge card and a bank like mine.

SECTION 202 of the bill or the Country Club billing section: As stated, we have 2,769 cards outstanding. Last year we received 45 requests for

copies of customer receipts. This is approximately 1½ percent, a very small amount---and I might add all requests for information comes to my bank. The customer is aware that if he wants a copy of a receipt, he is entitled to it, which was provided through the already enacted Fair Credit Billing Act. There seems to be no need to change to this type of billing. The cost to my participating bank will be enormous. It's easy to say, "That's the bank's problem," but don't think for a moment that this cost won't be passed on to the consumer in some way: Through higher interest or some other imaginative vehicle. The bigger banks will raise my cost to stay in the program, then I'll have to make a decision to stay in or let my customer go to the bigger bank for his card. No longer a full service bank, no competition. That's not right! Our bank is only one of several small banks bordering the Indianapolis market. Our presence assures greater competition in this market--to the consumer's advantage. In order for us to be viable competitors, you must allow us to offer whatever services other banks offer and permit us to offer something "different" if we believe many of our customers want it.

SECTION 203 of the bill deals with the issuing of cards. We can't issue a card now unless the customer wants it and requests it. Now you say the request must be made in writing. I would guess that in my bank, 99 times out of a 100, it is done in writing thru a formal application. By being the size bank we are, a lot of customers that we know call and say, "Hey, send me a card. I'm going out of town for a few days." It's awful nice to say "OK". That's one of the things that sells my size bank over the big ones. It's going to be hard to say to this person

that I have known all of my life, "No, send me an application." He knows I have the authority from my bank to okay a card. How I'll have to explain that someone in Washington Says you now have to ask me in writing. I know what he will think. I hope you do.

SECTION 204 of the bill requires that a statement be mailed seven days after the billing cycle. I'm sure that banks try to get the statement out as quickly as they can. After all, we want to be repaid, and as quickly as possible. Self interest is always a better motivation than absolute and fixed regulation. Also, this section doesn't even allow for equipment breakdowns or other unforeseen circumstances that can legitimately delay billing.

NEW SECTION 172 of the act makes that a little tougher by again telling us how quick we must get information to our customer. This section allows for the unnatural things, such as acts of God, war and so forth; but what about the natural aspects: our mail system's breakdowns, lost information, etc. Believe me, we want to bill as quickly and accurately as possible! I want the customer satisfied and I want my income! If we delay billing we are the ones that lose---and the customer gets the benefit by having a longer period when he has the use of our money free!

NEW SECTION 173 of the act would in my judgement require a book to be sent to the cardholder and we still couldn't anticipate all the circumstances that could occur by enacting this section of the bill. The cardholder already knows most of the information that this section refers to. If he doesn't know, believe me, he will ask. Give him some credit for brains. I'll tell you, if there is something the customer needs to know, we will tell him even if he doesn't ask. It's easier

and better for us to tell him in advance than to have him ask or complain.

NEW SECTION 174 of the act as I understand it, states that if the card issuer wants to provide better service, he must inform every card holder 90 days before he expects to start this service. What happens if for some reason he cannot start or wants to change something with the new service? Does it start the 90 day cycle over again? If we make extra charges, the card holder is already protected by the Regulation Z. I do however, agree with the idea behind this part of the section that states that the explanation must be in "readily understandable" language. Everything sent to the consumer, including contracts, should be this way. The only problem is if we are besieged by law suits from people trying to take advantage of the simple language concept.

NEW SECTIONS 175-177-178: In drawing to an end, I would like to take sections 175, 177 and 178 and lump them together. With these three sections you are going to infringe on rate structure, which we all know in the past belongs to the states. Don't start this! Let the states decide what rates will be charged. If different card issuers want to have different plans and to compete on the basis that their plan is better than another, let them. This gives my customers some meaningful choice, not just two separate lines of identical credit. If the card issuer wants to charge the consumer for using his money for a short period of time, such as is done in certain areas as New York City or is allowable in the states of Washington or Minnesota, why not? The consumer doesn't have to use his card or accept one. If

the rich cardholder can pay his account off monthly because he has the money to do so or his business gives him an expense check, and we cannot charge him, then someone will pay. Most likely it will be the cardholder who cannot afford such a luxury as paying an account in full monthly. This will be the lower income person. This is contrary to the way people in Washington have been trying to get legislation to flow. After all, who are you to tell us that we can't charge for the use of our depositors' money? You're telling us not to recover our cost or not to make a profit in this one instance. This is contrary to freedom. You don't tell the car dealer to let the buyer use the car for a while before purchasing it or the furniture salesmen to let the customers use the product and not charge for it. Profit, no matter how bad it sounds, is still the name of the game (even in banking.)

We "small town" bankers don't understand you people in Washington. We feel you are trying to regulate us out of business or out of profit or both. It would be sad if competition in banking disappears. Please give a lot of thought to this bill, H.R. 8753 and to other bills that would only accomplish further complicating an already over complicated business. Thank you for being so patient.

Chairman ANNUNZIO. Our first witness is J. Frederic Ruf of the TYME Corp. of Milwaukee, Wis.

STATEMENT OF J. FREDERIC RUF, VICE PRESIDENT, M. & I. MARSHALL & ILLSLEY BANK; PRESIDENT, TYME CORP., MILWAUKEE, WIS.

Mr. RUF. Thank you, Chairman Annunzio.

My name is J. Frederic Ruf. I am a vice president of the M. & I. Marshall & Illsley Bank of Milwaukee and president of the TYME Corp., one of five competing electronic funds transfer systems operating within the State of Wisconsin.

I have submitted written testimony. The oral testimony that follows is supplemental to that testimony and deals exclusively with our experiences in the State of Wisconsin under title I of your bill.

Over the past 3 years, we have been in the process of designing an electronic funds transfer system in Wisconsin. My experience is limited to the TYME Corp., which is one of five competing systems. Our system was designed to try to maximize the competitive nature of our industry. Membership is open to all banks, savings and loans and credit unions. We only operate as a time system which I would call a telephone switching network. We do not own

or place electronic terminals; we do not determine which customers of banks, savings and loans, or credit unions will receive these cards. We do not place limitations on the cards by the institution.

We have designed the back office, the method of handling these transactions and limiting our transactions to that segment of the EFT system.

We have tried to parallel the existing check payment systems as far as possible and as such transactions are conducted within our system and not charged instantaneously to either the customer or credited to the merchant. They are charged to the customer on a memo-posting basis with final payment being made the following business day.

This effort was conducted as a joint effort by a number of financial institutions within the State of Wisconsin.

Following the passage of a very general piece of legislation permitting the utilization of offpremise EFT terminals, the regulators began a process of drafting administrative rules under which our systems would operate. As a potential procedure of these services, we joined forces with both the regulators and a number of the consumers who have appeared before your panel already to design a system which we felt would provide adequate safeguards for the utilization of the system through to the ultimate user, meaning the customer.

We are very pleased that much of the substantive matter within our local legislation is reflected in your bill. Obviously the specific wording and phraseology is somewhat different in your bill over Wisconsin, and it is well to point out ours was administratively reached rather than legislatively.

H.R. 8753 deals with a number of these, as I have indicated. I would like to briefly go through the ones that are provided in the Wisconsin legislation so the parallel is apparent to all.

There is a prohibition under mailing of unsolicited debit cards. This is a prohibition which we within the industry support. There is a requirement for descriptive monthly statements, if an account utilizes an EFT card. In the past, the EFT card has accessed with the depository account, but it is not done with a statement that requires a statement. Our descriptive statement is limited to a description of the retailer, his actual physical location within a community. We feel to go beyond that in the form of descriptive statements will create severe hardships for the consumer as well as the financial industry.

The merchants simply do not have the type equipment that will allow them to detail the product or service they are selling at the point of sale without creating tremendous costs in the getting of additional equipment or manning systems which will slow the checkout process.

We believe a description of the store and its actual location is adequate for the consumer to reconstruct the transaction that took place. In our checking system today that is basically what the consumer gets back. If he has paid for his goods, he gets a check. The check indicates the total purchased. To go further would create an undue burden on the industry.

We have limited liability. We support limited liability. We have a limited liability of \$50 for any card that is lost or stolen. We don't purport to see any magic in the \$50 figure, but support it since it is in line with other similar bills. We do also provide for the right of reversal that in your legislation is referred to as stop payment. We would, as a reversal, since the transaction has taken place before the time span has elapsed in which it can be reversed. The stop payment is only effective as long as the check has not been paid. In this case, the right to reverse extends beyond the actual payment of the item. This, too, is limited in our State, and we think reasonably so, to \$50. Anything in excess of \$50 can be reversed with a purchase of goods or services. Obviously, the transaction, if it is on a cash basis, there is no reversal. As it is today, we see no reason to have it extended into tomorrow. The \$50 limit represents a compromise between our industry, the consumer, and the regulators, and it is our belief that transactions below that dollar amount are generally on a cash basis in today's society and to relieve the industry of the administrative burden of handling small dollar amount reversals we have put on the limitation of \$50.

We must disclose to all of our customers very detailed statements of the rules under which the system will operate, and we cannot change those rules without prior notification to consumers provided the change is of an adverse nature. We do not believe there should be a blanket limitation on change without prior notice, since some changes are obviously beneficial to the consumer. I cite the example of some years ago when we raised the interest rate from 4½ percent to 5 percent. I don't think we should penalize the customer who is utilizing an EFT service by not raising his interest rate for 90 days because he utilizes the service when all the other customers could have an increased interest rate.

We require a receipt be given to the customer at point of purchase. We think that is a very key element to the system. That receipt is not required under our present rules for check guarantee because we believe the check to be the receipt, in effect, and there is no need to duplicate that.

I would next like to speak a little bit about fears. We all have fears about anything that is new and unknown. That is quite natural. But I think we have to analyze our fears as to what causes them and why they persist. The consumer has expressed fears about the required usage of these cards, be they credit or debit. I think that is an ungrounded fear. Our industry is a highly competitive industry, and, frankly, if it was required—if I really believed there was going to be some way that everybody was going to use an EFT card, I would open a bank for nothing but checking accounts and would make a lot of money. I don't believe the fear of required usage is a legitimate fear. It is a supplementary service. We in Wisconsin have always so viewed it as a natural extension of the present paying system which is paper based. Just as we extended from cash to checks, this is an extension of checks to the electronic atmosphere which will be supplementary for as long as I think any of us will be around and probably lots longer than that.

A fear of loss of control: There has been a good deal of talk about that. I think control is something that is exercised by the individ-

ual and can only be exercised by the individual, and he or she can control as much as he or she chooses to control. The system in and of itself does not change the control. It may expand the customer's availability of his depository dollars, and in the case of financial institutions expand his availability of interest-earning depository dollars, but it wouldn't in and of itself cause loss of control. It may cause us to try and analyze and reorganize our methods of doing business, but we can live with that.

The financial industry has expressed fears that we aren't unified in our approach to EFT. Many people within our industry are fearful that major city banks will come in and take over markets of smalltown banks. Our experience in Wisconsin indicates that simply isn't the case. The EFT machine in and of itself is an inanimate object. It can't open an account; it can't close an account; it can't grant a loan; it can't answer a question; it may allow a bank to more effectively penetrate its natural trade area, but certainly our experience would indicate that it has not allowed banks to expand beyond their own recognized market of today.

We are concerned about increased costs. Many of my associates are very concerned about this. We have seen an increase in cost, but a long-term cost displacement and a cost displacement that is reflected in many ways within our industry, and the natural operating costs as our systems grow, there is a need to expand.

Also, some of our associates are concerned about their inability to become a part of the system because of the very technological nature of it. Within the State of Wisconsin, because the systems are available to all, I think we have shown, I think rather conclusively, that no bank, regardless of its size, need be left out of the world of EFT because of its technological nature or the individual financial institution's limited resources.

Regulators have expressed concerns about the potential strain on the capital of the financial industry. These concerns could be construed to be very legitimate, particularly in the last few years, where there have been great strains on the capital position of a number of financial institutions, but, within our State, the way the system is being developed, it has proven to be of very little additional strain to the financial condition of any of the banks that are participating, and we have certainly not disadvantaged the small financial institutions.

Merchants have expressed concern, concern that this will require the acquisition of greater amounts of new equipment to serve their customers. They are concerned that it will disrupt their current methods of operation, and that it might threaten their now-existing revolving credit card business. None of these things have come to pass as yet in the State of Wisconsin and as long as the rules are written reasonably and allow us to have sufficient technical and operating flexibility, we don't believe they will come to pass. It will be an add-on system of benefit to those participating.

Finally, I would like to address myself to several items within the bill in addition to those pointed out in my written testimony.

In your bill, you provide for error resolution in section 808. While we have struggled with error resolution in the last 2½ years, and in the last year the system has operated, we really haven't found any very satisfactory answers. It is a very gray area.

The one thing that has become very apparent to us, and it was really apparent before EFT ever came to pass, is that before we can begin the process of resolving an error, or discrepancy in a customer's bill, we must have adequate information to begin to search. I think it is vital the legislation draft make this proviso so the financial institution can be responsive. Without the information, we don't have the ability to search out and solve the problem.

I cite the example of my father who called me several weeks ago and indicated we had inaccurately credited a depositor's account. We acknowledged the occurrence of an inaccuracy and were prepared to correct it, but needed to know where he made the deposit, and so forth. Before we had that information, we had no way of resolving the problem. It was ultimately given to us, and we corrected it very quickly.

We would also like to say, in Wisconsin, with reversibility, it has not created a major problem. In fact, we are looking for our first reversal request. I think you have to look behind that to recognize we are dealing with a relatively limited number of merchants who are very sophisticated and are extremely interested, as are the banks, savings and loans, in properly serving their customers. If the customer has a problem, he appears to have resolved it with the merchant before coming to us.

In your legislation in section 809, you seem to broaden significantly the liability of financial institutions for loss incurred by preauthorized payments. You broaden it beyond what is in the paper-based system today. We think that is an unreasonable broadening of that right. It is no different than the preauthorized payments we have today for insurance companies, primarily for life insurance. The errors are very few and far between, and they have been resolved satisfactorily, for the most part. We believe we should transfer these rights from a paper basis to a cash system, to EFT, but we don't believe they should be expanded significantly and reallocate all the things involved in the financial providers.

We recognize the needs our customers have, just as our predecessors recognized the need to convert from cash to a checking system.

Finally, in 803(e)(4), you talk about separate billing and the detailing of all the products purchased. Again, I refer to my earlier comments and urge the subcommittee that to modify the position on this and provide for other identification without specific identification of the goods or service to be purchased because of the burdensome nature of it.

In closing, I would like to urge the subcommittee to look beyond consumer-oriented EFT transactions into the entire scope of potential electronic funds transfer mechanisms, automated clearinghouses, government payrolls, and other industry or government-oriented aspects of it; encourage you to look at those aspects of it that design a uniform set of regulations so we, as industry providers in the future, will have one set of rules to deal with rather than a multitude of rules.

I commend you for your efforts in drafting this legislation and feel some type of legislation of this nature is of benefit to all service providers as well as service users.

Thank you.

[The prepared statement of Mr. Ruf, on behalf of the TYME Corp., follows:]

PREPARED STATEMENT OF J. FREDERIC RUF, PRESIDENT, TYME CORP.,

MILWAUKEE, WIS.

My name is J. Frederic Ruf. I am a Vice President of the M&I Marshall & Ilsley Bank of Milwaukee and President of the Tyme Corporation, one of five competing electronic funds transfer systems operating within the State of Wisconsin. I am very pleased to have been invited to appear at these field hearings of the Sub-Committee on Consumer Affairs of the House Banking, Housing and Urban Affairs Committee to testify on Title I. of H. R. 8753, otherwise known as the "Electronic Fund Transfer Act".

For the past two and one half years, I have been actively involved in the legal and legislative development of EFT systems within the State of Wisconsin, as well as the technical design of the TYME (Take Your Money Everywhere) system. During this developmental period, members of the financial community, leaders of consumer groups and the Wisconsin Commissioners of Banking and Savings and Loans worked together closely to develop a legal and regulatory framework for the operation of EFT systems within the state. They were designed to allow for the continued technical change and development of our EFT systems and to provide effective recognition of appropriate consumer concerns about these systems. For example, Wisconsin regulations require: (1) descriptive monthly statements of accounts experiencing EFT activity; (2) a \$50.00 liability limit for unauthorized use; (3) right to charge back purchases of goods or services over \$50.00 for three business days; (4) prohibition on the issuance of unsolicited debit cards; (5) system assurance of confidentiality; (6) advance written disclosure of card usage rules; (7) written receipts for transactions at the point of purchase; (8) continuing advance notice to regulators of system expansion; and (9) regular regulator review of system operations.

Since the inauguration of Wisconsin EFT services in December of 1976, providers of these services have been operating under statutory and administrative authority which includes nearly all of the conceptual consumer concerns and remedies addressed in your bill, although the precise requirements may vary from those of the bill. We are pleased to report that these consumer protections have not significantly hindered the growth or development of EFT services within our state and, in fact, we believe have fostered the customer acceptance of our service offerings. We believe that addressing these issues on a national level is both appropriate and necessary and commend your efforts to this end.

In the process of developing our operating system within the State of Wisconsin, we worked closely with our appropriate State regulators and leaders of the consumer community in an effort to address and

define the concerns of all affected parties and develop resolutions which would satisfactorily address these concerns. While this type of cooperative effort may seem unusual, for those of us in the financial industry in the State of Wisconsin, it seemed quite natural, since we have done it before with other consumer protection legislation. Individually, we believed that before we could successfully offer a new service, we would have to address and answer the legitimate concerns of our potential customers and design a service which would (1) recognize and preserve their existing legal rights, and (2) provide economic and convenience incentives for the utilization of EFT services.

As providers of this service, we too needed economic incentives and a reasonable opportunity to design a service which would attract a substantial number of depository customers, while potentially reducing our direct and indirect operating costs. We also needed the flexibility to modify our operating procedures as new technology and equipment become available.

In developing the Tyme system, we also recognized that these services would only be supplementary in nature and initially appeal to a rather limited segment of our consuming public. We did not and do not view electronic funds transfer systems as a replacement for the existing paper based payment system, but do believe that they will supplement existing systems. In time, the utilization of EFT services should gain wide acceptance, just as the checking system did develop over the past 30 years, as an alternative to the cash payment system. Acceptance of EFT systems, we believe, will be gradual and only expand if we are able to offer our customers a service which they believe is of real economic and operating convenience to them.

We also believe that the advent of EFT reflects the recognition that our consuming public is becoming far more mobile than it once was, and needs greater and more convenient accessibility to their depository accounts. For those who have expressed fear about the potentially all encompassing nature of EFT, we suggest they review the past. Cash has never totally replaced barter; checks have never totally replaced cash; and EFT will never totally replace any of the above. In each instance, a new service was added to the existing payment system which recognized the expanded needs of the utilizers of the payment system for a better and more convenient method of account access.

We further believe that those people who fear the potential of compulsory EFT fail to recognize the competitive nature of the financial industry, and the continuing desire of that industry to provide services to its customers in a form that meets their needs and insures continued profitable depository growth for the financial institution.

I am very pleased to say that in my opinion, Title I. of H. R. 8753 addresses legitimate consumer concerns about the operation of consumer oriented EFT systems. However, I would urge the drafters to carefully review the bill to see that these protections (1) do not unnecessarily hinder the technological and operating developments of EFT systems, and (2) encompass all facets of the emerging electronic funds transfer systems, such as automated clearing houses, automated bill paying services, wire transfer services, etc. While it is very easy to isolate and examine one facet of these emerging systems, it seems to me that the drafting of legislation to deal only with an isolated facet of EFT could result in confusing and conflicting legislation as the Congress subsequently grapples with other facets of the developing system on a piecemeal basis. My own belief is that the Congress should consider legislation which will equate the rights and liabilities of all parties under all forms of payment mechanisms. In other words, a consumer's rights and obligations should be similar whether he pays cash, check, credit card, preauthorized payment, telephone transfer or by some as yet uninvented means. The type of payment mechanism should not dictate the extent of the rights and obligations of the parties. I urge the Committee to consider this view.

I would further urge that the provision of basic consumer protections not be unnecessarily broad or restrictive simply because we are dealing with an industry in its infancy, or as some have described it, a service in search of a market. I cannot think of any major new technological advance that had a market on its introduction date, for instance, the automobile, the airplane, the power boat, etc. Yet all of these products now have gained wide acceptance and are an integral part of our society. Allow these developing systems the chance to realize the benefits of technological changes so that over a period of time we as providers and you as customers can experience the benefit of the improved product and service.

While we have no specific legislative language to suggest for the creation of this recommended technological flexibility, we urge you to consider giving the appropriate regulatory authorities the ability to review and modify specific provisions of the Act to allow for change.

Having stated my support for the conceptual consumer protections provided within Title I. of H. R. 8753, I now come to the more unpleasant task of articulating our concerns about specific technical provisions of the bill as drafted. In so doing, I fully recognize and appreciate the difficulty of drafting such legislation and the relative ease of criticizing the drafting effort.

What follows is a section by section analysis of our concerns and, in some instances, specific recommendations for modification in the statutory language. Your favorable consideration of these suggestions will minimize some of our concerns without diminishing the quality of the basic consumer protections provided therein.

802. Definitions and rules of construction

802.(b)

The inclusion of the words on line 12 "clearly and in readily understandable language" appears to raise a number of questions of interpretation without materially enhancing the necessary and appropriate dissemination of information to the potential EFT customer. We do not believe that any of the service providers could really determine what is clear and understandable language for all of their customers. What one may understand, the other might not. But we believe that since the primary modification of all service suppliers is to design an acceptable service for their customers and market, it is unnecessary to add the confusion created by the language suggested. Therefore, we recommend that this language in Section 802.(b) as well as other sections of the bill be deleted.

802.(c)

Since virtually all transactions, even within the present funds transfer systems, are in part conducted by electronic means, we feel that the definition of "electronic means" in 802.(c) may be unnecessarily broad and inadvertently include virtually all existing funds transfer applications (paper or electronic and even those at the bank counter). At the same time, we recognize the difficulty of narrowing this definition, and therefore, suggest that revision of the definitions of "purchase transaction" and "transfer transaction" might be appropriate and also materially aid in limiting the definition of "electronic means" to those transactions intended to be covered by the bill. Our suggestions for revisions of Sections 802.(g) and (h) follow.

802.(g)

"The term 'purchase transaction' means a transaction in which a consumer purchases goods, property or services, or repays extensions of credit, primarily for personal, family or household purposes and in which the transfer of funds for payment from an account of the consumer is performed or intended to be performed by the institution holding the account as a result of the transmission to it of electronic impulses rather than the presentation to it of an instrument as defined in Section _____."

802. (h)

"The term 'transfer transaction' means any transfer of funds between accounts of a consumer at the same institution, any deposit of funds into an account of a consumer or any cash withdrawal of funds from an account of a consumer which (1) is initiated or ordered away from the premises of the institution, and (2) is performed or intended to be performed by the institution as a result of the transmission to it of electronic impulses rather than the presentation to it of an instrument as defined in Section _____."

Note that both definitions are intended to include POS, ATM and ACH transfers. The definitions are not intended to include guaranteed checks which are, in reality, paper transactions. However, the definitions will include any on-line charge card transactions.

802. (k)

We suggest that the definition of "unauthorized transfer of funds" be expanded to include the concept that if a consenting customer gives another person his electronic funds card and identification number, that this act be construed as continuing consent for the utilization of this card by the other party for all transactions which he may conduct until the card issuer is notified to the contrary.

803. Electronic funds transfer agreements803. (b)(1)

As drafted, this section might include service fees related to the operation of accounts accessible to EFT transactions, regardless of whether or not these service fees relate to the provision of electronic funds services. Since electronic funds services are a supplementary means of access to existing depository accounts, we suggest that the language be changed to include only those service fees which are imposed for the utilization of EFT services.

803. (b)(2)

This appears to require that the terms of an EFT agreement be disclosed apart from the agreement. Such a requirement is duplicatory and its purpose could be accomplished by requiring that the consumer be given a copy of the agreement.

803.(b)(3)

803.(b)(3) appears to transfer the liability for all losses relating to banking transactions from the consumer to the bank. We believe that this is an inadvertent transfer of liability and suggest that it be redrafted to indicate that the consumer is not liable for unauthorized transfers, but is liable for all transfers completed at his request. We have the same comment on Section 811.(a).

803.(b)(6)

This section as well as a number of other sections deals with the consumer's right to reverse an EFT transaction. As drafted, it addresses the consumer's right to stop a transfer of funds. But, since electronic funds transfers are instantaneous, we do not believe it is possible to stop whatever has already taken place. Therefore, we suggest that this section, as well as others which deal with this consumer right, be redrafted to incorporate the concept of consumer reversibility of electronic funds transactions for the purchase of goods or services.

We further suggest that this right to reverse a transaction for the purchase of goods or services only be available for those transactions which exceed \$50.00. The recommendation that the reversibility apply to only transactions in excess of \$50.00 is based on the belief that transactions for less than that dollar amount, if completed, will not render severe economic damage to the individual concerned. However, it will alleviate the financial institution from significant operating problems in the handling of small dollar requests for reversibility. With that limitation, I support the right of reversibility - it has not impaired the growth of EFT systems in Wisconsin where it is presently required by administrative rules.

Finally, in this section the concept of business day is introduced, and we recommend that the term "business day" be clearly defined since the business day for the bank, the consumer or the merchant can and does frequently differ. The following is suggested phraseology for this definition:

"Business day" means that part of any day on which an institution is open to the public for carrying on substantially all of its business functions.

803. (b)(11)

While we strongly support the concept that a consumer's financial dealings with a bank should be maintained on a strictly confidential basis, we believe that this section as drafted could unduly hinder a financial institution in its efforts to correct an error or resolve a dispute. Therefore, we suggest that a specific exception be provided which will allow the financial institution to provide the consumer, the merchant or any other parties to the transaction with whatever information is necessary to resolve the error or dispute that occurs as a result of an electronic funds transfer.

803. (d)

This section appears to require that monthly statements be mailed or delivered on any account which is accessible to EFT activity. We would suggest that since many of these accounts are not accessed regularly, that only those accounts which have EFT activity be subject to the monthly statement requirement.

803. (d)(2)

The inclusion of this provision does not appear to provide the consumer with any substantive protection, but will certainly create for the service provider a very major record keeping problem and, therefore, we recommend that the requirement for EFT agreement identification numbers be deleted.

803. (d)(4)

This section as drafted requires a brief description of the goods, property or services purchased through an EFT transaction. The inclusion of this requirement will, we believe, create major operating problems for EFT systems without any offsetting consumer benefits. For example, if a housewife were to pay for the purchase of her groceries utilizing an EFT card, the merchant would be required to provide a brief description of the purchased items at the point of purchase. For most grocers, this would be virtually impossible since their cash registers are only capable of indicating the dollar amount of each purchase. Furthermore, no real benefit would accrue to the consumer who got a receipt with this descriptive information as well as a monthly statement from his financial institution duplicating the information. Since the brief description of the goods would have to be entered individually by the checkout clerk, it would significantly slow the checkout process within stores and certainly result in increased cost for the merchant and an

inconvenience for the consumer. This scenario could be applied to virtually any situation in which the consumer bought multiple products at a single location such as a hardware store, a liquor store, or department store. However, I believe that the definition as stated in 803.(d)(5) should be expanded to include not only the name, city and state of the place of purchase, but also the location of the store, since many chain merchants have multiple locations within a single community. The inclusion of this locational information should be adequate to allow the consumer to reconstruct the details of the transaction.

803.(d)(6)

The inclusion of a requirement that the affected account number be reflected in each itemized monthly statement is duplicative (the monthly statement will contain the account number) without any substantive benefit for the consumer and, therefore, we recommend it be deleted.

803.(d)(7)

Since multiple accounts can be accessed through an EFT card, the requirement that the balance on each account be shown on each statement could, we believe, be extremely confusing to the consumer. In addition, for any number of reasons, a consumer might not want the balance information of all accounts to appear on the statement of one account. For example, while I may be very desirous of having my father completely apprised of the balances in our joint checking account accessible by an EFT card, I may not want him to have equal access to the balance relating to my savings account. Therefore, I suggest that the section as drafted be modified to require only the balances of the accounts detailed in the statement.

804. Amendment of electronic funds transfer agreements

804.(1)

As presently drafted, this section would require a 90 day advance notice of any change in an electronic funds transfer agreement. Since many changes affecting these accounts will be beneficial to the consumer, such as an increase of interest rates paid on savings deposits, we suggest that the 90 day advance notice requirement only be applicable to changes which would have an adverse effect on the consumer.

806. Purchase transactions806.(a)(2)

Again, we recommend that the right of reversal be limited to the purchase of goods or services in excess of \$50.00 for the reasons outlined earlier.

We also suggest that 806.(a)(2) be expanded to include a requirement that the consumer be notified of the person or department and telephone number which should be notified in the event a reversal is requested. In the interest of adequately and regularly notifying the consumer of this, we suggest that that information be printed on each statement as well as the name, department, address and telephone number of the person who should be notified should the consumer's card be lost or stolen.

806.(a)(3)

As indicated earlier, we believe there should be an exemption of this limitation on disclosure for information disseminated to appropriate parties in the process of error or dispute resolution.

806.(a)(4)

We do not believe that the inclusion of this provision will enhance the consumer's knowledge regardless of his account activity since, in the case of a transfer between depository accounts, it must be initiated by a specific consumer request and, in the case of automatic or overdraft loan privileges, the consumer already is covered by provisions in other statutes. However, its inclusion could increase the operating cost of EFT systems.

806.(a)(5)(C)

Again, we urge that the phraseology requiring a description of goods, property, or services purchased be deleted for the reasons outlined previously.

807. Transfer transactions807.(b)

We believe the inclusion in the requirements that the number of the affected account and the name of the financial institution be disclosed are unnecessary for the reasons outlined earlier and because the consumer certainly knows the name of the institution from which he requested and received his card.

808. Correction of errors

For the past year and a half, we have grappled with the problem of providing the consumer with adequate means for timely error correction and commend your efforts to include this provision within the statute. To date, we have developed no completely satisfactory solutions to the problem, but continue to try to balance the need for timely resolution with the time-consuming task of thoroughly researching the error. However, we do believe that the major stumbling block to the timely correction of errors is the receipt by the financial institution of adequate information from the affected consumer. Therefore, we suggest that the time periods specified within the statute not begin to run until the financial institution has received sufficient information to allow it to begin the process of error resolution.

As an example, several months ago a customer called to indicate that we had incorrectly credited his account \$20.00 for a \$200.00 deposit. At the time of our initial conversation, he was unable to tell me where or when the transaction took place or for that matter, what account was affected. While we were cognizant of the fact that an error had occurred in one of this customer's accounts, we were unable to proceed with our investigation until several weeks later when the customer brought his transaction receipt to the bank, at which point we were able to determine (1) which was the affected account, (2) when the deposit was made, and (3) within hours the error was corrected. However, we were unable to start until we had adequate information.

In Wisconsin at present reliance is placed on the desire of the financial institution to satisfy and keep its customers. This desire is greater in the case of debit accounts than charge card accounts since the loss of a customer with an EFT account reduces the deposits at the institution; loss of a credit card customer simply eliminates the possibility of additional loans to that customer. Thus far we have found that the mutual desire for timely error resolution has been effective and the customers well serviced without specific statutory assistance.

809. Preauthorized payments, deposits or transfers

While this section deals with the consumer's right to revoke a preauthorized transaction, we believe that this right of revocation should be more clearly defined and suggest that the definition include any timing limitations on the right of revocation and a requirement that the notice of the right to revoke a preauthorized transfer as well as the person, department, location and telephone number to

be contacted for the exercise of this right be incorporated in the EFT consumer agreement and included as a portion of the monthly statement rendered on the account affected by an EFT transaction. We suggest that in establishing the time limit for revocation that a financial institution be given a minimum of three business days, after it has received adequate information, to complete a requested revocation.

809. (a)(3)

An exception should be added so that the institution is not liable in the case of the preauthorized deposit of, for example, a dividend check which is dishonored by the drawer. The institution has no control over that situation.

809. (a)(6)(A)

The disclosure of the dates and changes required by this section would be impossible in the case of preauthorized deposits of, for example, dividends which may or may not be declared. The institution cannot be required to notify the customer of the dates when dividends will be deposited because it does not know.

810. Unsolicited electronic funds transfer capacity or credit capacity

While we concur with the drafters' desire to prohibit the unsolicited dissemination of electronic funds transfer access cards, we feel that the sections as drafted are unnecessarily expansive and burdensome on the issuing financial institutions. We do not believe that a requirement that the consumer sign his electronic funds transfer agreement will in any way assure a consumer's complete understanding of that agreement and suggest rather that a financial institution only be required to provide the consumer with a written agreement and possibly further require that financial institution to, on an annual basis, disseminate the agreement to all of its EFT customers in a manner similar to that required by other lending related statutes.

We also feel that the inclusion of the specified language in Section 810. (e) and other following sections that the dissemination of unsolicited cards is prohibited is of no real benefit to the consumer and may, in fact, detract from his ability to understand the essence of the agreement which he will establish with his financial institution. The appropriate regulatory agencies certainly can discover and stop

any unsolicited dissemination of these cards in their regular examinations of the affected institutions.

Finally, we believe that renewal and substitute cards should be excepted from Section 810.(b). There is no reason to require a consumer to apply to obtain a renewal or substitute card.

811. Liability of financial institution and consumer for losses

811.(b)(3)

While we strongly support the notion that the consumer should be clearly and regularly notified of his limited liability should his EFT card be lost and provided with regular reminders of the persons to be contacted, we do not believe that the inclusion of 811.(b)(3) will materially enhance the consumer's ability to contact his financial institution, and suggest that the cost of providing each consumer with a self-addressed, pre-stamped envelope could be extremely high with little or no offsetting consumer benefit. As we have stated earlier, we believe this end could better be accomplished by requiring the printing of the person or department to be notified on each account statement. If, in the opinion of the Committee, additional incentives are needed, then we would suggest that rather than a pre-stamped notification envelope, the issuing financial institution be required to reimburse the consumer for any postage cost related to notification.

Finally, we believe that since the affected financial institution will have liability for all losses in excess of \$50.00, the service providers have ample incentive to equip their customers with a means of timely notification in the hopes that such notification will minimize the financial institution's losses.

812. Discriminatory pricing prohibited

As drafted, it appears that this section might prohibit a merchant from offering a cash or cash equivalent discount to the customer who utilizes EFT cards for the purchase of goods or services. We believe that merchants should have that option as they now have.

I sincerely hope that the length and detailed nature of my commentary on Title I. of H. R. 8753 has not so overshadowed my testimony that my support of the substantive protections set forth in this bill is no longer readily apparent to the Committee. In the end, if electronic funds transfer systems are to grow and provide the high quality of customer service of which they are capable, the substantive protections suggested in Title I. of H. R. 8753 are essential. Equally essential to further EFT development will be the lack of legislative restraint on the service providers' ability to take advantage of new technological and operating innovations during the coming years.

Chairman ANNUNZIO. Thank you very much, Mr. Ruf, for your very enlightening statement.

Our next witness is Richard J. Baker, assistant vice president, Commercial National Bank of Peoria, representing the Illinois Bankers Association of Peoria, Ill.

Mr. Baker?

STATEMENT OF RICHARD J. BAKER, ASSISTANT VICE PRESIDENT COMMERCIAL NATIONAL BANK OF PEORIA, PEORIA, ILL., REPRESENTING THE ILLINOIS BANKERS ASSOCIATION

Mr. BAKER. Thank you, Mr. Chairman. We will be very brief.

Generally stated, it is our feeling that existing legislation and regulation provide adequate information and protection for the credit-card holder or applicant and that the dynamics of the consumer market will assure fair and equitable service pricing.

Given that position the act at best would be redundant, and its work would represent an intrusion of the Federal Government in the fundamental operation of the business enterprise, to the extent of mandating prices, dictating operational methods and prohibiting marketing techniques acceptable in other industries.

In the interest of brevity, we will forego comments on specific provisions of title II because we would simply be repeating concerns expressed in several previous statements before this subcommittee. We specifically refer to the testimony of Evan Housworth on behalf of the American Banking Association.

It is our hope, through diligent research in hearings such as this one, the subcommittee will realize that further regulatory restrictions of the credit card industry would be redundant, and that consumers, themselves, should determine which service charges, prices, or billing systems will prosper in today's market. I should have prefaced my remarks that I was addressing only title II of the act.

Thank you very much for your time.

Chairman ANNUNZIO. Thank you, Mr. Baker, for your short statement. Your position hasn't changed, and I appreciate that.

Chairman ANNUNZIO. We will now hear from David D. Baer, executive vice president, First National Bank of Freeport.

**STATEMENT OF DAVID D. BAER, EXECUTIVE VICE PRESIDENT,
FIRST NATIONAL BANK OF FREEPORT, FREEPORT, ILL.,
CHAIRMAN, ELECTRONIC FUNDS TRANSFER COMMITTEE, AS-
SOCIATION FOR MODERN BANKING IN ILLINOIS (AMBI)**

Mr. BAER. Mr. Chairman and members of the subcommittee, I am David D. Baer, executive vice president of the First National Bank of Freeport, Freeport, Ill. I am here today representing my own bank as well as a representative for AMBI. I am chairman of the electronic funds transfer committee for AMBI here in Illinois.

AMBI is an association of 230 banks representing some 82 percent of Illinois banking assets.

Our association believes that the structure laws in Illinois should be changed to allow some form of multioffice banking.

In addition, we are actively proposing to our own State legislature a bill which would encourage the development of electronic funds transfer systems within Illinois.

As I mentioned, I am also here as a representative of my own bank. The First National Bank of Freeport is approximately a \$100 million bank in a community of 30,000 in northwestern Illinois, approximately 30 miles west of Rockford, the second largest town in our State. We have developed our own modest, but important to us, both debit and credit card systems and, therefore, I feel I have some experience in the field in which to respond to your proposed legislation.

First of all, I want to compliment Congressman Annunzio for bringing these hearings to Illinois. I feel that you are addressing legitimate concerns regarding debit and credit cards and because of the structure laws in Illinois, I feel that we could be particularly affected by the legislation you are considering.

It is not my intention today to respond point by point on each section of your proposed bill. I have read some of the testimony you have already heard from prior witnesses and feel that it was adequately accomplished at that time. I would say to you that, in general, I would support the position as presented to you on September 23 at your hearings in Washington by Mr. Evan H. Housworth, who testified as a representative from the ABA. I feel that his testimony adequately covers my point-by-point reaction to the bill. My attempt today would be rather to interpret for you some of the banking and consumer developments which have occurred in Illinois.

Our bank has been involved in the credit card business since they were introduced nationally. Initially, we participated with one of the large banks. However, approximately 3 years ago, we reviewed our own market area and felt that we could better service our own customers if we were dealing with them directly. We invested what was, for us, a considerable number of dollars in equipment to emboss and encode the cards and took over the entire function ourselves. At the present time, we have in excess of 6,000 Master Charge cards outstanding, with total credit balances slightly in excess of \$800,000.

While these figures are very modest by comparison to the large banks, this is an important part of our banking business. The growth in both the number of cards outstanding, and in the balances outstanding, has come during the years that we have taken

full responsibility for making the credit decision on issuing the card and handling our customers who use them.

Our customers know us, and they know, if they have a problem or a question, we will react to their inquiries and make a sincere effort to resolve it to their satisfaction. We think we are doing a better job of responding to our customers' needs than a large bank a hundred miles away can do, and our customers seem to agree with us.

I would like to address one section of the bill in particular, that section dealing with country club billing. From an operation's point of view, this type of billing is much more complicated and much, much more expensive since paper sales slips must be retained, sorted, processed, routed, and returned to the customer at increasing mailing costs. I feel quite strongly that the information which is included on the so-called descriptive billing statement provides the customer with adequate information to identify each transaction.

When we first changed from the country club system to the descriptive method of billing, our bank experienced an increase in the number of inquiries. We had approximately 10 questions per month for the first 2 months after the change. This has now declined to less than two inquiries per month, on the average, directly related to the descriptive method of billing. The interesting observation I would offer is this: The people who have questions related to the descriptive billing procedure are the same people who had questions under the country club system. It all boils down to the fact that the customer should keep a copy of his sales slip or transaction record under either system. The individual who doesn't keep those slips now, didn't do it then, either—and he will have the same questions regardless of which system is used.

The Fair Credit Billing Act also protects the consumer in this area, in that it gives him the right to request a copy of a sales slip or a receipt for any transaction included on his billing statement. If his card-issuing bank is unable to produce a hard copy of the transaction, the customer is not liable for that particular item.

It would seem to me that this provision, alone, gives adequate protection to the consumer if a problem does occur.

I truly believe that credit cards are here to stay—as evidenced, if by no other way, by the fact that there are over 65 million cardholders in the United States today. AMBI estimates that there are 3.4 million bank credit cards held by Illinois citizens. These numbers would seem to indicate to me that credit cards have become an essential component of a way of life to a great many Americans.

In addition to credit cards, in the past year, my bank has installed two automatic teller machines, one in the outer lobby of our main bank, and the other at our second banking facility in an outlying shopping center within the 3,500-yard limitation we have here in Illinois. While this system is less than 1 year old, we have in excess of 7,800 cards outstanding, and the total dollar volume for the month of October was in excess of \$275,000.

What I am trying to show, gentlemen, is that in a small town, in a predominantly rural area, we have developed both a debit and a credit card system. We took the initiative to develop these systems and spent a large portion of our marketing budget in letting people

who live in our area know about these services. Those of our customers who are using our systems like them very much, use them actively, and in a good many cases, feel that they would not want to do without them. Once they try them, they find them convenient and helpful and they want us to continue them.

Concerning how your proposed bill would affect the debit card, I would offer the following comments: The one specific area I would like to address in this particular section concerns the mailing of unsolicited cards. I feel very strongly that the ability to mail out the card is important, and especially important to those of us in small banks, as it is imperative for us to have the ability to communicate with our existing customers. By mailing debit cards to our already existing checking account customers, and then through marketing efforts to encourage them to come in and get a demonstration and use the system, we, in our bank, are developing a market.

When we introduced the debit card, it was not even in existence in Rockford. Therefore, we had to tell the public what the debit card was. I don't believe we would be able to arrive at even these kinds of lines that we have today had we not been able to reach our already-existing customers through a large mailing project.

The use of a debit card allows those of us in small to medium-sized banks to expand our banking hours dramatically and improve customer convenience without increasing personnel costs. The customer who has a debit card, in most cases, has access to his accounts 24 hours a day, 7 days a week.

Another concern I have regarding this legislation is, that, in large part, it appears to be negative, perhaps even punitive. It seems that this bill is designed to protect the customer from the extremely small percentage of financial intermediaries who may, in fact, be abusing the consumer. It would appear to me that this very small minority will continue to find a way to abuse their customers within any law that might be passed, and that this legislation only acts as a hindrance to the vast majority of banks and other financial institutions who are attempting to provide services to their customers. I honestly believe, that the competitive market is the best way to police these abusers.

Why not encourage more banks and other financial institutions to enter into the market to offer these services? My experience has been that the more competition there is, the lower the price to the consumer, and the better the quality of the end product. If one bank or financial intermediary is, in fact, abusing his customers, the best way to solve that problem is to have a competitor available to offer the same service. If enough people move to the second provider, that first institution will either change its ways, or go out of business.

In addition, Congress and many States have already provided a full range of safeguards to protect the consumer.

What I am trying to say, gentlemen, is that in our bank, and in our market area, neither the debit card nor the credit card can ever reach the tremendous volumes that the large banks will produce. However, this kind of business can be important to banks of our size, and we think it differentiates us from some of our competitors. We feel that these services can make a profit for us as

well as provide useful services to our customers. On the other hand, if this legislation is passed in its current form, it would seriously detract from a small to medium-sized bank's ability to make a profit.

It appears to me that it is a bit like "throwing away the baby to preserve the bath water." Gentlemen, in our area, we are very proud of all the financial institutions and feel that we know our customers, our customers know us, and we are providing needed and wanted financial services; and debit and credit cards are among those financial services which are growing the fastest and being used in increasing numbers each month.

In summary, gentlemen, I feel that your proposed legislation is not needed and would not serve the purposes for which it is intended. I thank you for this opportunity to appear before you, today.

Chairman ANNUNZIO. Thank you very much, Mr. Baer. Our next witness is Kenneth A. Skopec, president of the Mid-City National Bank of Chicago.

Where are you located?

Mr. SKOPEC. Madison and Halsted Street.

Chairman ANNUNZIO. I used to be the Congressman of that district.

Mr. SKOPEC. I know you were, sir.

Chairman ANNUNZIO. It is good to have you with us.

STATEMENT OF KENNETH A. SKOPEC, PRESIDENT, MID-CITY NATIONAL BANK OF CHICAGO, CHICAGO, ILL., REPRESENTING THE ILLINOIS BANKERS ASSOCIATION

Mr. SKOPEC. It is nice to be with you.

Thank you, Mr. Chairman, and members of the subcommittee.

First of all, I do sincerely appreciate the opportunity to state my views on H.R. 8753. I would like to first indicate that my attitude toward the bill is not negative. Instead, the concept of EFTS is being studied by the National Commission on Electronic Funds Transfer and that committee has had a great deal of difficulty in coming up with its final recommendation, particularly on the many consumer issues.

While there is no doubt that there is a need for legislation to protect and safeguard the users and the operation of the EFTS system, it is my opinion that it is too early to introduce legislation which purports to settle problems which have not been totally defined.

I, therefore, respectfully suggest that before legislation is enacted, the final report of the National Commission of Electronic Funds Transfer be submitted and reviewed. If, however, it is the intention to finalize H.R. 8753 prior to the completion of the report, I would like to share with you some of my ideas and observations concerning the proposed bill.

SECTION 802(a)

The term "institution" refers to a bank, a savings bank, savings and loan, building and loan, or homestead association—including cooperative banks or credit unions. The section does not refer to

merchandise companies such as Sears, Roebuck or credit-card companies such as American Express.

SECTION 803(b)6

The consumer's right to permanently stop transfer of funds with respect to any purchase transactions before the close of the second business day beginning after the date of the purchase transaction. It seems that upon the transfer of funds from a consumer's account to a merchant's account, it is equivalent to a cash purchase. The rights given to a consumer on this arrangement will create the possibility of potential mischief and open the potential for extended abuse, particularly the ability to reverse transactions via a phone call to the bank.

SECTION 803(b)7

Such order shall remain in effect only if confirmed in writing by the consumer to the institution within 14 days of the phone order. It seems that this is much too long a time to wait for written authorization. At present most banks require written evidence on the stop payment of a check within 48 hours.

SECTION 806(a) 4, 5, AND 6

Whenever a purchase transaction requires a transfer of funds into a consumer's account to enable the transaction to be completed, an institution shall send a notification to the consumer within 5 days of the amount and source, including any applicable account number, of all funds transferred into an account to complete the transaction.

It seems that the purpose of EFTS is to eliminate much of the increasing amounts of paper transactions. Would this arrangement, as proposed, not be creating additional movement of paper?

Except as provided by paragraph 6, an institution shall directly or indirectly, furnish to the consumer a record at the time of the purchase transaction. Such record shall include: The date and amount of the purchase transaction; the account number of the consumer's account through which the purchase transaction occurred; a brief description of the type of goods or services purchased or extension of credit repaid; the name of the seller and the city and State in which the purchase transaction occurred; the name and address of the institution; if a purchase transaction is initiated other than at the point of sale, an institution shall, directly or indirectly, furnish a record to the consumer containing the information set forth in paragraph 5. Such record shall be mailed to the consumer before the close of the third business day beginning after the date of transaction.

SECTION 808(a)—CORRECTION OF ERRORS

In order to initiate an error correction or an account accessible under an electronic funds transfer agreement, a consumer, within 1 year of the last date of the time period covered by the monthly statement which relates to an alleged error, notify an institution in person, by phone or writing at the address disclosed under section

803(b)(9). The fair credit bill allows 60 days. Is the recommended year period much too long?

SECTION 809(5)

No institution may impose any charge or penalty on a consumer for terminating the institution's authorization to make any preauthorized payment, credit any preauthorized deposit, or make any preauthorized transfer of funds. When can the consumer terminate?

SECTION 809(6)(a)

The dates or time period when a consumer's account will be accessed for the purpose of making a preauthorized payment, deposit or transfer. If such date or time period is subject to change, the institution shall so notify the consumer before the change. How far in advance?

SECTION 811(b)

If a loss occurs as a result of an unauthorized transfer of funds from an account of a consumer by means of the funds transfer card, the consumer shall be liable for losses of not more than \$50. Why limit consumer liability if there has been a demonstration of negligence?

SECTION 811(3)

The institution has furnished the consumer with a self-addressed, prestamped notification to be mailed by the consumer in the event of loss or theft of the funds transfer card and a telephone number of the institution which the consumer may use to notify the institution in the event of loss or theft of the funds transfer card; mailing a notice generally would not be timely.

In addition, the cost of unused postage would be significant. Would it not be possible to have the notices sent postage guaranteed by the institution?

SECTION 811(6)(c)

For the purpose of subsection (b)4, a consumer notifies an institution by taking such steps as may be reasonably required in the ordinary course of business to provide the institution with the pertinent information, whether or not any particular officer, employee, or agent of the institution does, in fact, receive such information. What problems could develop in remote mailing?

Gentlemen, I have attempted to remain within the time provided to me and to refer to points in my opinion which have significant and broad implications. There are many others which are worthy of consideration and conversation. I would welcome the opportunity at some later date, or at your convenience, to discuss additional ideas more extensively.

Thank you.

Chairman ANNUNZIO. Thank you very much, Mr. Skopec, for your statement.

Mr. Wylie.

Mr. WYLIE. Thank you very much, Mr. Chairman. I want to thank our panel. We have gone from one end to the other, to complete regulation to no regulation and no law.

I believe that is Mr. Baker's position that we should forget about the whole thing.

Mr. BAKER. The position is that existing regulations are sufficient with regard to credit cards.

Mr. WYLIE. We don't really have any regulations as far as debit cards are concerned.

Mr. BAKER. You would have to speak to an expert about debit cards.

Mr. WYLIE. Mr. Baker, banks have offered a service now where if a person overdraws their checking account, they can sign up for—I use the word advisedly—an overdraft.

Mr. BAKER. We provide that. We call it overdraft banking.

Mr. WYLIE. Over in Washington they call that a Lance advance, but you do charge some interest.

Mr. BAKER. Yes, we do. We consider that credit.

Mr. WYLIE. You extend a line of credit?

Mr. BAKER. That is correct.

Mr. WYLIE. In some cases you charge for that extension or perhaps for each check you honor you charge a fee.

Mr. BAKER. We do not do that in our case. We advance funds to cover the overdraft and then charge interest on the amount advanced. In our case I think it is a \$50 minimum advance.

Mr. WYLIE. Some of the panelists here today suggested they were not in favor of mailing out unsolicited debit cards. You are in favor of being able to mail those out to your own existing account holders in your bank.

Mr. BAKER. That is correct, Congressman. We would not consider that particular type transaction a debit transaction, however, and to those particular customers who do have our overdraft banking, we did require them to apply for it.

In other words, the only ones we sent unsolicited were those that did not have this credit attached to their checking account.

Mr. WYLIE. You anticipated my next question.

Mr. BAKER. If I could reemphasize the point I made. In a rural area, in our community—and I think we are a good example of it—as I said, the debit card had not been introduced through Rockford, as yet, when we came out with it and therefore we had a tremendous education process. There happened to be the wives of a couple of our young officers who had been former employees. One will be one of our very best tellers, another had been in our new accounts area and they, we felt, knew 90 to 95 percent of our customers who walked through the door. We hired them because our customers were a little bit concerned about it and were a little frightened by it, but they knew these two girls and we hired them to give demonstrations and they would try to talk to as many of the customers as they knew who came in, take them over and give them a demonstration and we found it very successful.

Mr. WYLIE. Have you familiarized yourself with the recommendations of the National Electronic Funds Transfer Commission?

Mr. BAKER. Only very broadly and very briefly.

Mr. WYLIE. I have a copy of their document. It is quite large. I can understand why you haven't had an opportunity to be specific with it.

A marginal business facing the added cost of compliance with this new law could very well be forced into bankruptcy with the tragedy of more joblessness.

I think we must confine the bill to meet a real national problem if there be one and I think some legislation will ultimately pass on credit cards and debit cards, although you prefer there be none. If the problem is local in nature and within the purview of State legislation, then I suppose we ought to not get into the field.

I guess what I am saying is that the Federal Commission on Electronic Funds Transfers has recommended some legislation in this area. The National Commission on Paperwork has recommended some legislation which is not the same and it would seem that most of the people who have become acquainted with this area of electronic funds transfers, or debit cards have suggested there ought to be some safeguards in the mailing out of cards, the use of a personal identification number and with respect to the personal limits of liability.

You don't envision in your statement any kind of necessity or any kind of regulation needed in that area, is that what you are saying?

Mr. BAKER. Mr. Wylie, I forgot to preface my remarks by saying I was addressing myself specifically to title II. On a permanent basis it seems the basic liability for the use of a debit card by an authorized person is borne by the bank regardless of how he gets it.

It would seem to be a redundancy.

Mr. WYLIE. I think we made that clear.

Mr. Ruf, since your electronics payment is not instantaneous, it is not a true EFT system. You are suggesting in your EFT system payment is not made for 24 hours, is that correct, or the transfer not made for 24 hours?

Mr. RUF. I think I did. If I conducted an EFT transaction, it would just be completed—the actual transaction would be completed on our books tonight.

Mr. WYLIE. It is not an EFT or debit transaction if it isn't completed almost instantaneously at least, is it?

Mr. RUF. I think it depends. EFTS is a rather loose word.

Mr. WYLIE. The credit card comes within EFT.

Mr. RUF. Under certain circumstances, certainly. It depends on how the authorizations are provided.

One of the difficulties in drafting legislation as I see it is that virtually every banking transaction at some point in time today is done electronically.

Mr. WYLIE. Therefore, it becomes an electronic funds transfer mechanism.

Mr. RUF. We are using it as a check substitute, if you will, only the transaction is being completed that evening whereas, if the check were presented, whether or not it was completed that evening would depend on whether or not the merchant made a deposit.

Mr. WYLIE. Does everyone who uses your system know or is it made clear to them that they have the best instantaneous transfer and there can be under that system a stop payment arrangement?

Mr. RUF. They are notified of the right of reversal, which is broader than the right of stop payment in this instance.

I would hesitate to say our customers are aware of the fact that it is not instantaneous, but they are aware of the reversal.

I think it is perceived that the transaction is completed. In describing the system, I am having communication difficulty because of the jargon of the industry.

Mr. WYLIE. I am having a little difficulty with communications too because you have added a new perspective they haven't heard about up until now. You have a sort of hybrid system here which is not the kind of debit card envisioned by this bill or credit card envisioned by the bill, but it is something a little bit different where there is a cash transfer apparently at the time of sale or at the time of purchase, but the transaction isn't completed for a period of about 24 hours.

Mr. RUF. I don't think we are operating the hybrid system you envision. If you were dealing with an ATM network, most of them are offline, so the actual transaction on the books of the bank is not completed until that banker has gone and unloaded his machine and gotten the information contained therein out of the machine and transferred it to the bank's books of account.

In our case we are on line so when the transaction is completed a memo posting to the customer's account is made indicating a withdrawal has been made in the amount of \$50 and therefore reduces the available balance in his account. The actual posting isn't completed until that evening. I am not aware of any system that today is absolutely instantaneous.

The fact I made a \$20 withdrawal, there is a memo posted which reduced my balance so the next EFT transaction, if attempted, will recognize my balance has gone from \$200 to \$180. I say it is not completed until that evening. The actual recording of the transactions on the customer's account only takes place that evening.

Mr. WYLIE. How long has the administrative rule providing for stop payments been in effect in Wisconsin?

Mr. RUF. The rule became effective December 1, 1976.

Mr. WYLIE. Is your system of EFT an accommodation to their method of stop payment?

To the rule of stop payment in Wisconsin.

Mr. RUF. We have no rule on stop payment. We have a rule on reversibility. I guess there is a big difference between stop payment and reversibility.

Mr. WYLIE. There is a difference.

Mr. RUF. We have a rule on reversibility. That says that for three business dates following the date of transaction, it can be reversed.

In the stop payment which we view as being only applicable to paper-based instruments, the stop payment right is an undefined number of days determined by what length of time it takes the check to reach the bank of account.

Mr. WYLIE. Does your system of reversibility then lend itself to the rule on reversibility?

Mr. RUF. Yes. It is designed to accommodate that rule.

Mr. WYLIE. So it wouldn't necessarily have to be written into a Federal law?

Mr. RUF. No; I think what I have said is it has not created a problem for us. We have been able to develop and design our system without a severe adverse impact within the State of Wisconsin.

Whether or not that transfer should be expanded to a national authority I think is something that can only be determined by your committee and the Congress as a whole.

Mr. WYLIE. Maybe I can get a relatively short answer to this question. Do you think that nondeposit taking institutions could share in EFT such as finance companies and mortgage companies?

Mr. RUF. No.

Mr. WYLIE. You don't think so?

Mr. BAKER. No.

Mr. WYLIE. You don't think so either, Mr. Baker?

Mr. BAKER. I guess I don't see any reason why not. If they are part of the system. I am more inclined to let everybody in and control it afterwards.

Mr. SKOPEC. My answer would be yes, I think they should.

Mr. RUF. I think it depends on how you define the question. Obviously we want merchants to participate in the system but if participation means they are going to become the depository—

Mr. WYLIE. I rather felt you might say yes and the others say no because in the set-up that you have, you are going to be able to accommodate yourself to the nondepository institution.

Mr. RUF. Yes. I think I misunderstood your question then. We have many terminals in merchant locations. I thought you wanted to expand depository privileges to nondepository institutions and I am not for that.

Mr. WYLIE. No.

Mr. RUF. Our terminals are in merchant locations and we have good cooperation from merchants.

Mr. WYLIE. Do you think small bankers would prefer a stop payment provision or reversibility provision, Mr. Ruf? With that provision the big banks would be less likely to jump into EFT development and therefore less likely to encroach electronically on the small bank market?

Mr. RUF. I don't see stop payment as affecting the opinion of banks one way or another. It is more a merchant and consumer question than it is a bank question. We all live under the same set of rules. The inclusion of a reversibility provision would not change one way or another the comparative nature of our industry. There are concerns on the consumers' part for wanting it and on the part of particularly chain merchants for opposing it, but I think interestingly enough before the Senate Banking Committee, the Food Marketing Institute came out in favor of reversibility for their industry.

Mr. WYLIE. Mr. Chairman, thank you very much. I believe that is all the questions I want to ask right now.

Chairman ANNUNZIO. Mr. Fary.

Mr. FARY. No questions.

Chairman ANNUNZIO. Thank you very much.

I want to express again my appreciation to the panels. We have been working since this morning. We have listened to about 23 witnesses. These are fact-finding hearings. We intend to go to other

sections of the country, as I have stated previously. We are going to weigh this problem very, very carefully. Your testimony in representing your point of view, your contributions to the subcommittee are very useful in our discussions.

We have the responsibility of weighing just what we are able to accomplish in the subcommittee and the full committee. Nothing goes to the floor of the House until it goes through the full committee.

We appreciate your being with us. I assure you we understand the position of businessmen who say they have undergone too much regulation. We understand that, but there comes a time when there is so much criticism and the consumer—you might not see it because you are too close to the problem—you are doing business but the consumer is looking for safeguards. We are hoping that we can get some cooperation from the industry to help us achieve those safeguards.

There is nothing better than a satisfied customer. It is the job of this committee to try to bring your institutions and your customers closer together if we can, in an amicable way.

I thank you again for your testimony and bid you goodnight. Probably our next hearing will be sometime after January when you will be hearing more about the committee. Thank you very much.

The subcommittee meeting is recessed.

[Whereupon, at 4:53 p.m., the subcommittee was adjourned, subject to the call of the Chair.]



END