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<sup>x</sup>Hearing on <sup>x</sup>Consumer Abuse in Low-Income  
Areas Held in Los Angeles CA on  
October 31, 1977

California Assembly Labor, Employment, and Consumer Affairs  
Committee, Sacramento

NCJRS

JAN 15 1981

ACQUISITIONS

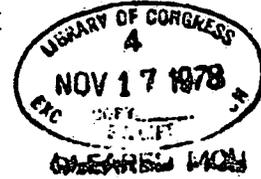
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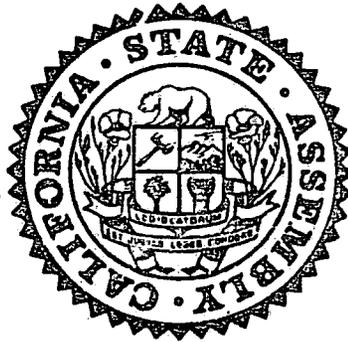
ASSEMBLY LABOR, EMPLOYMENT, AND  
CONSUMER AFFAIRS COMMITTEE

Hearing On



**CONSUMER ABUSE  
IN LOW-INCOME AREAS**

Los Angeles, California  
October 31, 1977



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Bill Lockyer, Chairman

Art Agnos  
Richard Alatorre  
Mike Cullen  
William E. Dannemeyer  
Jim Ellis  
Jack Fenton

Michael Gage  
Alister McAlister  
John Miller  
Dave Stirling  
Vincent Thomas  
Bruce Young

CONSULTANTS

Britton McFetridge

Greg Schmidt

Steve Holloway

Maria Husum, Committee Secretary

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The report contains the transcripts of a public hearing on consumer abuse in low-income areas of Los Angeles. The discussions deal with the types of consumer complaints that are frequently expressed by disadvantaged groups and possible ways of resolving the problems.

KEYWORDS: \*Consumer affairs, \*Low income groups, \*Meetings, \*Consumer fraud, \*Los Angeles(California).

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ASSEMBLY COMMITTEE ON LABOR, EMPLOYMENT, & CONSUMER AFFAIRS

October 31, 1977

ASSEMBLYMAN JACK FENTON: The Chairman has been delayed on the freeway, so I'll start because we're running behind already. Thank you all for being here. This hearing today is a study of the relationship between the retailer and the low-income consumer. Our idea in these hearings is to find out what is going on and what, if anything, we can do about it. After all, the more prosperous person tends to be more sophisticated and able to deal with rip-offs, yet so much that the consumer movement does seem to be directed toward the middle-income people instead of the poor. All right, our first witness today will be Shirley Goldinger.

For those of you who haven't testified before a committee before today, when you come up identify yourself and tell us who you are, your name and what you do. We'll appreciate it. Ready Shirley? While you're coming up I'll introduce the members. We have on our far right, from up North, Assemblyman Art Agnos and Assemblyman Mike Gage. The southern members will be here very shortly, I'm sure. I guess they got stuck in the traffic too.

MS. SHIRLEY GOLDINGER: Thank you, Mr. Chairman. My name is Shirley Goldinger. I'm the Director of Consumer Affairs for the County of Los Angeles and I represent a department that came into being in April of 1976. We haven't been in business for a long time, but I think we have an interesting track record to date in that we have received over 7,000

complaints, over 50,000 telephone calls relative to consumer problems, and have returned to consumers in restitution, contracts rescinded, and services redone about three quarters of a million dollars.

ASSEMBLYMAN FENTON: Shirley, have you been able to determine the economic level of the people for whom you perform these services? Do you have something on that?

MR. GOLDINGER: There is nothing on our complaint forms that indicates the socioeconomic level of the people who bring us their complaints. We have divided them according to districts in the county, however. The largest number are in the districts represented by Supervisor Edelman and Supervisor Hahn.

ASSEMBLYMAN FENTON: The only thing about Supervisor Edelman's district, which I'm in, is that it goes from East Los Angeles, which would be lower economic, out to Beverly Hills, which would be considered a little bit better off economically.

MS. GOLDINGER: A bit. That's correct.

ASSEMBLYMAN FENTON: Your department doesn't distinguish by economic group, apparently. Maybe someone else will be able to help us on that because that's the concern of the chairman and others, abuse in low income areas. But go ahead, Shirley.

MS. GOLDINGER: I have brought some cases with me from consumer complaints in low income areas that I'm going to speak very briefly about. The largest category of consumer complaints to date is still the one that's been around with us

in the Southern California area for years and is related to automobiles. The next one is mail order, which is coming up in a large number of complaints: people who send their money off and do not receive any goods in return for it. The third one, which is an area that is getting larger and larger all the time, is that to do with residences and tenant-landlord complaints. All of those affect lower income consumers.

ASSEMBLYMAN FENTON: Let me ask you, having been the author of the Three-Day Cooling-Off Period Bill, myself, about the extent of door-to-door sales. Listening to you, they occur minimally now, I guess, the door-to-door home sales that we used to have the big complaints about; you know, the siding and all that. That sales approach still used?

MS. GOLDINGER: Well, I think there is still some of it going on. There are definitely more door-to-door sales abuses in the lower income areas, where people are less mobile and so many people are selling things door-to-door. For example, one of the complaints that came to us from a number of people concerned individuals who sell photograph albums and pictures door-to-door. They may start out with a free coupon and pretty soon they've got the whole thing up to a \$300.00 contract and the buyer doesn't know how he got into it. He wants to know how to get out of it.

ASSEMBLYMAN FENTON: Shirley, do those contracts carry the three-day cool-off? You know, the one that my bill had, telling people that they have three days within which to change their mind?

MS. GOLDINGER: I would have to stop and read the

contract. I can do it at the end and get back to you.

ASSEMBLYMAN FENTON: All right, fine. I'm just curious.

MS. GOLDINGER: Ok. Appliances, furniture, and household remodeling and repair, in that order, are the next categories of problems that we see coming into our offices. Generally, we presuppose that a consumer knows that he or she should shop around for the best buy available, what we call comparison shopping. He or she should get all the facts on which to base a wise decision and know his or her rights in the event of an unsatisfactory transaction: where to go for help, how to respond to legal action. Low income consumers rarely meet any of these criteria. They lack, in many instances, the education, knowledge and sophistication to even recognize poor quality or substitution of one kind of good or service for another. I was at my office one day, after office hours, and the telephone kept ringing. I picked it up and a woman said to me, "My husband and I bought a car over the weekend. We went to look for a station wagon and the salesman said he sold us a station wagon. When we got home our neighbor said it was a hatchback. What do I do?" Well, I think all of us sitting here wonder how anyone could do this. But there are areas in which people, perhaps, do not know this difference and in the lower income areas many of the people in that area are sold things or defrauded and given things other than what they came to buy. The low income consumers are most prone to shop in their own neighborhood because of such factors as language difficulties, or because they want to walk to the store; perhaps it's a family in which the husband takes the car in the morning to get back

and forth to work and they have to walk to shop. Many times they will send children to shop. Many times they are afraid to shop in middle-or high-income areas for fear of being looked down upon and easy credit is offered to them in their own area. Many of those people rely on credit to buy food. They will send a child to the market to pick up a loaf of bread or a bottle of milk and tell him to tell the clerk, "I'll pay you on the weekend when I get my welfare check." And so, if you send children to the market to do shopping, it has to be close by because safety is a factor. Studies have shown that the poor do pay more for what they buy. In terms of food shopping, what's available to them many times is lower quality meat and produce that's on the verge of spoiling. In terms of furniture and appliance buying, in which there's been a study, they pay more for the easy credit, they pay more for the higher initial price tag before the credit costs are tacked on, and they're paying more because they're getting poor quality and less service.

ASSEMBLYMAN FENTON: What you're saying, Shirley, is that they don't have to go out of their area--the shopkeepers in their own area are the ones who are basically charging them more for these particular things or giving them less goods with less quality, etc.

MS. GOLDINGER: That is correct, yes. The poor are an easy target for unscrupulous sales techniques and their capacity to protect themselves from fraud and deception and misrepresentation is usually limited. Sometimes they're not aware, most of the time, that they're being defrauded. They

certainly aren't aware of their rights and many times they're afraid to say anything. Types of pressures, or high pressure sales tactics in their areas include misrepresentation of the price of goods, substitution of inferior goods for those that they selected and ordered, the sale of reconditioned goods as new, bait and switch sales, denial of the right to exchange merchandise, the promise of free merchandise, promise of refunds, and inducement of outright monetary gifts. Sometimes sales persons represent themselves as being government officials. We had a case of someone moving into the county from out of this area and being told that everyone in the county had to buy a water softening device. They bought one and then found out that there was no law in L.A. county saying that you must buy a water softening device. They were sold this by a door-to-door salesman and couldn't find the salesman afterwards. So misrepresentations are made in many forms. The poor are those who must make every penny count. They don't have a margin for error. Sometimes, in granting or in working towards getting more money in welfare for the poor, we would do just as well if we could educate them to get better value for their purchases. After all, if money is turned around and lost in terms of a poor transaction, that money isn't going to do them any good. There needs to be, not necessarily a formal type of consumer education for people who are in the lower income levels, but a way to teach people how to make better value judgements when spending their money. There needs to be some kind of consumer education that is meaningful to their problems and presented in a way that's most useful for them.

ASSEMBLYMAN FENTON: How would you do this with people? Sometimes the interest just isn't there. We can't legislate education as such, you understand. What we're trying to determine is whether there's anything legislatively we can do to solve these problems. What you're talking about is more administrative. Your group would have adult classes for consumers, maybe. How would you figure, Shirley, you might get people to come? You know, a lot of people probably don't like some of these stores, they just shop there as a matter of convenience. "We don't have money, we know we're paying more." But how would you interest them in going to classes?

MS. GOLDINGER: I think that if English is a second language, and it is for so many people in Southern California both in the Spanish-speaking community and in the large number of Asian people, then you have to give this education in their language. They should know that the law now says if a merchant negotiates a sale in Spanish he's got to give the customer a contract in Spanish, so that he or she will understand what it is they're signing. They have to be educated not to sign something that has blank spaces that someone else will fill in later. They have to be able to recognize a contract. I just finished testifying for a health spa hearing and so many people there said that they signed pieces of paper and didn't know it was a contract. They couldn't recognize the contract to begin with.

ASSEMBLYMAN FENTON: Well, I don't think we have too much of a language barrier today. For instance, in the East Los Angeles area, most of the business people will be speaking

Spanish to these people. But what you say about how you get them to read the contract and how you get them to understand it, that's our problem.

MS. GOLDINGER: It would be interesting to know in how many of the cases where they negotiate the contract in Spanish, people are getting a copy of it. It's a law that I would like to see enforced. It's one that the Legislature put on the books and we have no knowledge of whether that's being enforced. And so that is one thing that we need to know.

ASSEMBLYMAN FENTON: Your department doesn't send out people who are presumably consumers to go to some of these stores, do you? Do you do things like that?

MS. GOLDINGER: Yes, we are getting ready to do that kind of a survey. We have recently done a survey in another area and that one will be a good one. We have this complaint from a gentleman who bought a used 1973 Ford station wagon in 1976. He alleged that the vendor made oral misrepresentations as to the total price of the car, monthly payments and the interest. Furthermore, the consumer could only speak Spanish and at no time during the course of the transaction was the consumer offered a Spanish language contract. On the basis of that, we had the whole transaction cancelled. They were breaking the state law. Another complaint that we got in, that could use some looking into, is that people are sending goods to Mexico but they are never received. They're told at this end that it will be delivered there and we have cases in our files that show, after delays of one year, that the goods that were

sent were never delivered. This is a big problem with international carriers and people sending goods to Mexico from lower income areas.

ASSEMBLYMAN FENTON: Is it that the merchant isn't sending them out or is there a problem with delivery? What did you find?

MS. GOLDINGER: Well, they say that the Mexican government has changed many of the laws for transporting goods and so some things are sitting in warehouses somewhere. And so, a misrepresentation is made here in Los Angeles about what will take place upon delivery in Mexico. That, I think, has some international ramifications. Many times people do not realize that if they fail to make payments on some of the things they buy then these things may be repossessed. They don't understand that they will get a bad credit rating and maybe even suffer harassment that will result in the loss of employment. So they need to be educated as to what happens when one doesn't meet one's contractual agreements. In an FTC report on installment credit and retail sales practices, 93% of the total sales made in low income areas in furniture and appliances involved the use of installment credit whereas in middle and higher income areas it was 27%. That's a very telling figure; you can see that one of the reasons the shopping is done when it is is because they feel that it will be an easy credit situation for them. And without credit buying, they feel they cannot buy. Maybe people need to be educated to save or set aside money for making a cash purchase in a way that doesn't

tie up funds and put them in a situation where they may eventually end up in the courts with a repossession or garnished wages. Many times in poor areas large chain stores do not have branches, or there are a very limited number of discount stores. Such department stores are not available to them, so they cannot use these places as readily as people in middle and higher income. Another one of the things that we're concerned about in the department is the electronic fund transfer systems. At some point, and this is up the road but I bring it to your attention so you will watch the situation, the banks with branches in the low income areas may feel that it's to their advantage economically to take the branch office away and put in machine banking instead. That means that people in lower income areas will not have the benefit of going into banks and receiving at least some minimal financial counselling. They will be unable to borrow money close by from people that they know or are acquainted with and who know them and their problems. I bring it to your attention in hopes that you will watch for that kind of a situation and guard consumers against it. In some industries, now, the practice is to use zip codes in making economic decisions. One city, and it might be in your assembly district, was constituted as a separate city. It changed its zip code and consequently its insurance rates changed; they became lower. So, if insurance companies are basing ratings on zip codes, and if the credit departments of department stores are basing credit ratings on zip codes, I think this needs to be looked into because this is a geographical discrimination which hurts the poor. I think it's a necessary thing the

Legislature should be aware of. I think, in summary, that it is important to realize that the poor do pay more, that their goods are in most part inferior. They may not recognize it but they do need help and they need it from the State Legislature and from law enforcement agencies that enforce laws against consumer kinds of crimes. They need to know where to go for help--to agencies such as ours, the County Department of Consumer Affairs in Los Angeles. I thank you very much for giving me the opportunity to speak.

ASSEMBLYMAN FENTON: Thank you, Shirley.

ASSEMBLYMAN MICHAEL GAGE: Ms. Goldinger, I'm very sympathetic and I agree with almost everything you've said. Beyond consumer education, beyond the laws we have in existence on the books, what action do you recommend the Legislature take to better protect consumers in low income areas? I'm a little bit at a loss regarding actual legislative programs. What action would you recommend to the Legislature to take?

MS. GOLDINGER: Well, for one thing you should know if the laws that you have already passed are being enforced. Are efforts that have been made by consumer advocates and the Legislature to help people actually useful? Are we using all the tools that you have given us already? Can any of them be improved? Do any of them need to be reevaluated? Have some of them backfired in the way that...are they being used in the way that you had thought they would be used when you passed them? So I think perhaps you need to go back and take a look at some of those laws. There is a book that's put out by the

Attorney General; six books of the consumer fraud section of the consumer protection laws. I think one of the real shockers to me when I came to work for the county was to find out that nobody had ever prosecuted a case under Song-Beverly which was to protect people in California in terms of warranties and guaranties. So I think you need to go back and reevaluate that situation. That's one place to begin with. And then are other agencies that you have set in motion and in place to help consumers, are they doing this? Are all of these things that you have already done, are they being used to their maximum ability? And if not, why not?

ASSEMBLYMAN ART AGNOS: Ms. Goldinger, do you have any records of chronic abusers of consumers in low income areas?

MS. GOLDINGER: I'm sure we do, yes.

ASSEMBLYMAN AGNOS: What do you do about them? Do you publicize them?

MS. GOLDINGER: We are not a law enforcement agency, so what we do is we bring them to the attention of law enforcement agencies such as the district attorney's office for the County of Los Angeles and the district attorney's office for the City of Los Angeles.

ASSEMBLYMAN AGNOS: There wouldn't be any law enforcement required in simply publicizing the names of the chronic abusers as an abuser of consumers in their area.

MS. GOLDINGER: Our records are open so that that information is available.

ASSEMBLYMAN AGNOS: But you don't take any actions to publicize them, say, in the newspaper or release a report

that would indicate X company had been cited for a number of violations within a calendar year.

MS. GOLDINGER: No, we have not yet taken that kind of action.

ASSEMBLYMAN AGNOS: Thank you.

ASSEMBLYMAN FENTON: Then what you're advocating, to conclude, is that we take all the consumer protection laws that we have relative to city attorney, district attorney, and so forth, hold a study on that, bring the people in and say, "Hey, why haven't you done anything on the Song-Beverly, why haven't you done anything on the Fenton Three Day Bill, what's your results, what do you do, why and so forth? At this point, that's all we can do from what you say.

MS. GOLDINGER: I'm not saying that maybe things have not been done...

ASSEMBLYMAN FENTON: No, I understand. But to see, if they have problems, why they have them, and if necessary, as you say, to amend the laws if they need some help. Well maybe we'll get some word from our next witness, Mr. Pines, maybe can help us. Thank you very much, Shirley. Well, we'll take Mr. Bert Pines, the City Attorney, so he can get back to the city affairs. Come ahead, Bert. Maybe he can tell us why they haven't done anything under the Song-Beverly Act, Shirley.

MR. BURT PINES: Mr. Chairman, members of the committee, I want to thank you for holding this hearing. I'm the City Attorney of Los Angeles and as such have responsibility for prosecuting consumer fraud matters in the City of Los

Angeles. Our office prosecutes the vast majority of consumer fraud cases in the city and of course we handle the cases referred to us from the County Bureau of Consumer Affairs, the Police Bunko Forgery Section, the Health Department, Bureau of Weights and Measures, all the county and state agencies that do the investigative work. We have a staff of some seven attorneys. I set up this unit. I've been involved in the consumer fraud business prosecuting these cases for some four and a half years now and we've obtained millions of dollars in restitution for victims of fraud and have had a wide variety of experience in this area. I think it's particularly important for a committee like this to focus on consumer frauds against the poor and the elderly because those people are particularly ripe pickings for con artists who seek to prey upon their hopes and dreams, whether it's an undocumented worker who wants citizenship in the United States, or a person who wants an extra room for the kids or a person who wants educational material so their kids can have a better life. The poor and elderly are particularly vulnerable because they're not aware of a lot of our laws and customs. It's not easy for them to protect themselves. And often they're just prone to being over-powered by the con-artists. It's difficult for undocumented worker to come forward because he or she fears deportation.

It's difficult for a patient in a nursing home to come forward because he or she may feel retaliation. And that's why I think it's important for government..for your committee to take an active role in this area.

I want to begin my remarks by focusing on one particular area of abuse in our community that is particularly serious and those are the frauds against the Spanish-speaking community. We have a large Spanish-speaking community and they're prone to all kinds of frauds. Not only the consumer frauds that apply to all poor communities because people are unaware of their rights or disadvantage, but more prone because of the difficulties with the language, the unfamiliarity with our customs and in many cases of the fear of being deported or the result of that.

ASSEMBLYMAN FENTON: Is Shirley correct that there's never been any prosecution under the Song-Beverly Warranty Act?

MR. PINES: I'm not sure. We brought a number of prosecutions for fraudulent representations. I don't know if it's been under that act or not, but we've certainly prosecuted a lot of fraud.

Let me identify one area that's of particular concern to us and those are the frauds practiced by some immigration consultants in East Los Angeles. I think that's been an area of abuse and it's an area where there should be some legislative assistance. We've had a number of convictions in one case where the defendant was convicted of six months in jail. He operated at an immigration consultant firm that obtained \$200 from each illegal alien or undocumented worker regardless of whether they could qualify for citizenship and the agency represented that the agency could obtain citizenship or status for these people and of course it was a fraudulent

representation.

ASSEMBLYMAN FENTON: We don't license these people do we?

MR. PINES: No, you do not, and that's one of the things I urge you to consider.

ASSEMBLYMAN FENTON: Right.

MR. PINES: In another case, the immigration consultant got thirty days in jail because he obtained \$500 from a victim based on the representation that the consultant could obtain legal status for the individual within nine months. Even if the person could have qualified it would have taken twenty-eight months as a minimum. That's another example.

In another situation of a person operating an organization that catered to undocumented workers, he was convicted of fraudulent practices and sentenced to a year in jail. Here again, there were representations that they could obtain legal status when in fact, those representations were false. So, I think that's one area where the Legislature can do something. I think there's a strong case for requiring immigration consultants to be licensed. How far you want to go is up to you but certainly there could be some basic registration requirements, some basic security bond requirements, some basic inspection of records requirements so that the state would be able to see just what the person is doing and I urge you to consider that area.

ASSEMBLYMAN FENTON: Do you have that someone on your staff who can come up with a recommendation on that and I'm sure anyone of us, I'd particularly be happy to look into

it but I wouldn't know where to begin, whereas, your people who are more advertent may come up with suggestions from which we can take off.

MR. PINES: We'd be happy to put together a program in that area.

ASSEMBLYMAN FENTON: Would you? Because I know that's very bad--anybody who would just put a shingle out and put immigration consultant. The Federal has no regulations on them either?

MR. PINES: Well, they limit who can practice before the immigration service.

ASSEMBLYMAN FENTON: I know that, but I mean out in the street.

MR. PINES: No, and you've got a lot of people who, as you say, put up a shingle and call themselves an immigration consultant and then defraud people. Now, there are many who really do provide some good services. I'm talking about the bad apples. But I think there's a case here for licensing in that area.

In addition, while the Legislature has passed a law for providing for Spanish contracts where negotiations are in Spanish, that's Section 1632 of the Civil Code. There are many loopholes here.

First, the Spanish-speaking person has to request a copy of a Spanish contract. If the person doesn't request it, there's no obligation on the part of the retailer to provide a Spanish contract. And very often the customer's just unaware of his or her rights.

Secondly, this doesn't apply if the customer supplies his or her own interpreter. Now, what's an interpreter? In one case, it was someone's six year old kid who happened to speak English as well as Spanish, but obviously could not read the fine print. So I think that's an area where you've got to close a loophole. Next, the negotiations have to primarily be in Spanish. Well, it seems to me that if the negotiations are let's say 25% in Spanish but it's obvious the person still has trouble understanding English, there ought to be a complete Spanish translation given, regardless. I would suggest changing that part of the law. Next, this doesn't apply to a number of transactions and as a result, the law is not as comprehensive as it should be.

ASSEMBLYMAN FENTON: Such as, which transactions?

MR. PINES: I don't believe it applies to home improvement loans. There are other kinds of retail transactions that don't involve credit where it doesn't apply. We can give you some further recommendations in here but even though you have this law on the books, I submit to you there is real need for improvement. We had some hearings in East L.A. last year and two people came before us who had purchased new cars. In one case the individual wound up purchasing a Pinto for an overall price of \$8,000. The base price of the Pinto was around \$4,000 but added on to that were the maximum interest rate of 24% plus credit, life and disability insurance. The person just felt he had to buy that as well, did not understand the contract but wanted a new car. And you know, a new car is pretty important to poor people--again, playing upon

their hopes and dreams. In another case, an individual bought a Dodge van for \$14,000. And again, there were the credit, life, and disability insurance, as well as the maximum interest rate. They had English contracts and they didn't understand what was in those contracts. But, whether the law was followed or not, they were victimized, and I think that's an area that you have to look at. I urge improvements in both the area of licensing immigration consultants as well as closing some of these loop-holes in 1632.

Let me give you another problem. We invited a lot of state agencies to participate in these hearings with us to set up booths and tables so they could inform consumers what kind of services they provided, whether it was the Bureau of Auto Repair, or the agency that took care of home appliances or other kinds of agencies. Only one agency had any kind of complaint form in Spanish. Only one or two had any kind of informational materials in Spanish. You have a Bilingual Services Act but very few agencies are providing complaint forms and informational materials in Spanish and there is some question as to whether or not they have to even provide complaint forms in Spanish. So let's strengthen the teeth of that Services Act. Let's require complaint forms to be in Spanish. Let's also require that this material be available in many places easily accessible to consumers. It doesn't do any good to have all kinds of consumer laws on the books if the information is not available to linguistic minorities. Obviously, the Spanish-speaking people are among the largest, but there are other linguistic

minorities who speak a foreign language, don't have access to our system and can't enforce their rights. That's a third area where I urge you to take some kind of action. We filed with the Department of Consumer Affairs some recommendations relating to state policies and licensing policies for linguistic minorities. I would be happy to give a copy of that to you. Copies were also given to Leonard Grimes and his people and I know there have been some meetings but there is an area here for legislation and I would like to file this as part of the record.

ASSEMBLYMAN FENTON: The sergeant will make it part of the record.

MR. PINES: Thank you, very much. Now as far as other kinds of frauds in the Spanish-speaking community, I touched on the immigration consultants as a substantial one, but there are other kinds of scams, the sham marriage scheme goes on and on. People are being ripped-off for \$800, \$1,000, \$1500 for a sham marriage. Nothing ever comes of it; no one is given any kind of legal status.

ASSEMBLYMAN FENTON: What's that? I've been around a long time. There are a lot of complaints. Tell me what that one is.

MR. PINES: Well, basically an immigration consultant or other advisor says to the undocumented worker that he can obtain legal status for the person by the individual marrying an American citizen. So they go through a marriage ceremony.

ASSEMBLYMAN FENTON: Which isn't the law anymore either.

MR. PINES: It doesn't work; it doesn't work because the Immigration and Naturalization Service is on to these things and does require both parties to come forward and has a number of other regulations; so it really doesn't work, but in the process some poor alien has departed with \$800 to \$2,000 of his or her money in the view that this phony marriage was going to obtain citizenship. Phony ID cards are another thing that are commonly marketed, whether it's a phony green card or a phony so-called police identification card or something else and people are being ripped-off for \$25, \$50 or more through these kinds of practices in East Los Angeles. I think there, again, you see a group of people, particularly disadvantaged, being victimized by this kind of practice.

ASSEMBLYMAN FENTON: Burt, I want to interrupt for a minute to introduce the Chairman who probably just got out of a traffic snarl, Bill Lockyer. Did you get a little involved with our traffic there, Bill?

CHAIRMAN BILL LOCKYER: The subject of the next interim hearing will be car rental agencies, the tires they sell, and hydraulic jacks that don't work.

MR. PINES: I was just commenting before on the availability of consumer materials to Spanish-speaking and other linguistic minorities and in our survey of state agencies and boards, we found that only one agency had a complaint form in language other than English and of the 31 boards and agencies we surveyed, only the Bureau of Automotive Repair was in the process of creating a guide in Spanish and only the Bureau

of Repair Services actually distributed a consumer guide in Spanish. Now there may be some improvements in the last few months but the state is seriously deficient in promulgating materials for linguistic minorities. I think that is something your Committee can do something about and try to strengthen existing laws. Now, as far as other areas of consumer rip-offs, particularly in the poor communities, Shirley Goldinger mentioned a number of those. We find, on a continuous basis, door-to-door frauds. In many cases, they are just outright rip-offs. The salesman will get a deposit for something and never deliver, just abscond with the money. Whether you have a three-day cooling-off period or not, it doesn't make any difference. The person just rips-off the individual. In other situations, they sell magazines and educational materials with all kinds of gimmicks--sometimes on a free basis, where the person just has to pay for the postage. Other times they just have to pay to keep up the encyclopedia set. That continues to be a problem and again many people are not aware of this three-day cooling-off period. It would be nice if the media could do more in the way of public service announcements so more individuals could be aware of it. Sure, if it's on the contract, people may exercise those rights but very often it isn't and very often people are just being ripped-off and don't do anything about it.

ASSEMBLYMAN FENTON: Yes, I know, but if the culprit doesn't put it in the contract in the first instance there's nothing much we can do. That's why it would be useful to have greater public dissemination of information so people are aware

of their rights. In addition, we find that many people feel they have made a deal and it's a matter of honor and are unwilling to exercise this three-day option period. That's wrong. Very often they've been cheated, really taken advantage of, but they are unwilling to exercise that option. I don't know if you can do anything about that through legislation, but it continues to be an impediment to the full use of that cooling-off period. But on the whole, Assemblyman Fenton, I have to say that was good legislation and has helped a lot in improving the marketplace. I think you ought to be commended for that but I just wanted you to know that there still are problems in the door-to-door area.

ASSEMBLYMAN FENTON: Oh, there will always be a problem. What we're trying to do is to minimize, you'll never solve it 100%. We know that.

MR. PINES: Other areas that have to be noticed when it comes to frauds against the poor would be used car sales and misrepresentations of times that we find in that area. The same for furniture sales, whether they're bait and switch practices for selling new items, representing that the items are new when, in fact, they are used or some kind of other misrepresentations as to quality.

ASSEMBLYMAN FENTON: Do you find in your deal, for instance, that the Spanish-speaking salespersons do better in taking advantage of with them and the Black ones with the Blacks and the minorities with minorities--do you understand my question?

MR. PINES: Well, I certainly think that is the case with Spanish-speaking salespeople because they speak the language and they have the ability to relate to the customer and that's part of the problem--usually the negotiations are in Spanish and then you have an English contract.

ASSEMBLYMAN FENTON: So the person believes that because he is speaking to somebody in Spanish that they are going to treat them better and that's the way you find...

MR. PINES: Sure, that's the case. There are also the bank frauds against the elderly. Whether it's the phony bank examiner scheme or the pigeon drop. I think you're aware of these, but in the bank examiner's scheme, you'll have someone call up an elderly person and pretend to be a bank examiner that's auditing a local bank and again this is an elderly person that may have gone through the depression when the banks closed and is naturally concerned and they'll ask the elderly person to come in and draw out the money and see that the elderly gets all that he or she has in the bank and then hands it over to the "examiner" who finally represents that the "examiner" will put it back in the account. Of course, the money is never redeposited and the "examiner" is long gone.

ASSEMBLYMAN FENTON: What would you do about that?

MR. PINES: Again, it is the matter of educating elderly people about these kinds of schemes and I would hope that the media can do something about that.

ASSEMBLYMAN FENTON: If the bank had any concern at all with an elderly person when somebody came in with something like that, it would seem that you might sit them down with

somebody from the bank if they have some interest and start talking to these people.

MR. PINES: Certainly the bank should make some inquiries. But usually what the phony examiners will say is, "Don't tell the bank what you are doing because it's an audit and we don't want them to know", so you see how they are able to deter proper questioning. Then there's the pigeon drop, where supposedly some money is found and you know the rest, the elderly person is asked to assist and draw out his or her own money to show that he or she is honest and one way or the other the money gets to the thief and the person's long gone. Again, elderly people should be acquainted with these kinds of schemes because they are really vulnerable to them. There still is a certain amount of practicing medicine without a license that goes on in the poor communities and we obtain prosecutions regularly against quacks and other kinds of phony operators. There's the home improvement frauds. Again, people playing upon the dreams of people of a better home or a room for the kids and sometimes starting the work, sometimes not, but invariably the individual not getting what he or she paid for. That continues to be an area of concern. There continues to be high pressure collection practices, often by the retailer and not a collection agency. In one case a furniture company was threatening to arrest people who did not pay their bills, sending out official looking notices. In another case, a pharmacy was sending out notorized notices demanding the money. In these cases, we were able to obtain conviction but the high pressure sales tactics continue to go on. Auto repair

fraud is a problem in the poor community as well as in every other community of our city--people being ripped-off for phony auto repairs or insufficient repairs--lack of compliance with the basic laws you have. Those things go on and I think as long as people are unaware of their rights and don't have information available to them they are easy victims. One of the things that we in government have to do with the cooperation of the media I would hope, is to better inform people of their rights so they can bring them to the proper authorities and in the case of the Spanish-speaking victims, I think there are some areas that you can work on whether it's the licensing of immigration consultants or closing the loopholes in 1632 or doing a better job of getting state informational materials to these people. Those are all constructive programs that your committee can work on and have a significant result in our community with.

ASSEMBLYMAN FENTON: You say that you have instituted a seven person consumer fraud division. This Committee would appreciate it very much if somebody on there through your office would give us any recommendations that you may have, you having much more experience in it, where you think we might be able to do something legislativewise. It would be of great assistance to us.

MR. PINES: We'll be happy to give you some recommendations--specific recommendations...

ASSEMBLYMAN FENTON: Before January--we might be able to move at that time.

MR. PINES: Fine. On closing loopholes on 1632 and on licensing of immigration consultants our Linguistic Minorities Report, which I filed with the Committee, will give you some areas where you can concentrate on the dissemination of information to Spanish-speaking people.

ASSEMBLYMAN FENTON: If you or whoever you delegate will just set that out so that when we set it up then your people can come through.

CHAIRMAN LOCKYER: Could you comment, please, on whether there is any value to investigating whether structurally it makes more sense to have independent consumers agencies or part of the District Attorney's or City Attorney's function or does that matter, really, at all? Does it give a different tone, flavor, likelihood of reporting or anything else to both consumer activities and the professionals?

MR. PINES: Well, of course, the City Attorney and the District Attorney have the prosecution and law enforcement authority to bring matters into court and they have to service a wide variety of consumer agencies. I think it is important for City Attorneys and District Attorneys to have consumer units within their office because they are the only people that really can go into court with a criminal case. The Attorney General, of course, has concurrent civil authority to bring civil cases in the consumer area. So these public law offices have a definite role unless the County Bureau of Consumer Affairs has the legal ability to bring matters into court through one of these prosecution offices, they're not able to do a lot of other matters. Secondly, there are a number of consumer

agencies that aren't entitled that, but clearly the bunko forgery in the Los Angeles Police Department investigates auto fraud, other kinds of consumer fraud. Weights and Measures brings to us all kinds of misrepresentations from restaurants, from grocery markets, and so does the Department of Health. So there are many consumer agencies that bring us matters for enforcement. I also think it's useful to have a separate agency, whether it is in the city or the county, to handle a broad area of consumer frauds, and as long as there is coordination between all these agencies it works well. I can tell you that here in this county, we do have excellent cooperation and coordination, both between the public law offices involved, the AG, the DA, the City Attorney and the various consumer agencies. We keep each other abreast of what's going on, they keep common card files and through that there is cooperation and lack of duplication or overlapping.

ASSEMBLYMAN LOCKYER: So at least in your experience there is not a lot of duplication occurring in these series.

MR. PINES: No, not at all.

ASSEMBLYMAN AGNOS: What would you think would be a proper or appropriate threshold for including other linguistic minorities into these contractual arrangements or whatever their language might be for a second language in contracts or the kinds you arrange.

MR. PINES: I would certainly say it should be a substantial minority. We haven't come up with a number, we've generally just relied on language calling for programs where there is a significant number. Now, whether that should be

100,000 people or a certain percentage of the population, I don't know. We'll give that some more thought if you'd like. Because beyond the Spanish-speaking people there are many others and they have substantial problems as linguistic minorities.

ASSEMBLYMAN AGNOS: The question is, how many of them do there have to be before we begin to officially recognize them in some paperwork form if nothing else, like contracts or where they fit into the Song-Beverly thing.

MR. PINES: Good question. We have a very substantial minority population from Asia now in this community and throughout California.

ASSEMBLYMAN LOCKYER: Thank you, very much. The way in which we are hoping to proceed is to take account of people's airplanes and time problems; however, we're kind of hopeful that we might be able to manage hearing all of the prepared testimony this morning--that if we ran a little bit into lunch, we might hear from everyone and then be able to break and that might make it convenient for everyone. I guess what we want to do next is hear both Leonard Grimes and Charlotte Nyheim. Is this sort of a joint type project? However you want to do this.

MR. LEONARD GRIMES: Bill, it's a pleasure. Members of the Committee, I'm Leonard Grimes, Secretary for what is now known as the State Consumer Services Agency as a result of the Legislature's wisdom in changing the name and removing agriculture from my concerns, which I had no concern over in anything, but we are called State Consumer Services and I'm rather pleased by that because that is where the Agency is putting its

thrust in this whole concern about consumer services and I'm pleased to get an opportunity for the first time and not the last time, I hope, to come before a Committee that is concerned with these issues. I have prepared a few remarks relative to a report that the Agency is doing--in this case the Consumer Services Department itself--Consumer Affairs. We weren't quite happy with the final conclusions, we've asked staff to go back and tighten the report up a bit, so rather than release it today we will have it ready to go in the next week for rather broad distribution immediately to the Committee and anyone else who wants to get a copy of it but just as a sort of insight into it, I have a few comments. I might want to point out that since Bert Pines indicated he had prepared some suggestions for the Department, I wanted to assure the Committee that we have received it and have circulated it to some thirty eight boards and bureaus that we have that tend to regulate consumer affairs for them to take advantage of all the suggestions possible that are in Mr. Pines' report and I expect that we will get a great deal of benefit from it. This report deals with the problems of food delivery to the poor and as all of you know food is the basic necessity of life and a major item in the consumer budget. For the nation as a whole, food represents seventeen percent of the average consumer budget. The families below the poverty level it represents over forty percent. This means that residents of the inner city largely made up of the poor, disadvantaged, and minorities are paying more of their income for this basic necessity than the more affluent areas. And the poor pay more for food than those in economically better areas. The burden

of extra cost is being shouldered by the ones that can least afford it. You heard some comments earlier on this same issue. The question is not "does it cost more," but rather "why?" Numerous studies over the years have lent a wealth of testimony to validate the form. Prior speakers today have already mentioned it.

I want to briefly describe what we found to be some of the underlying causes and then offer some food for thought as to what steps, if possible, will alleviate the situation. We are all aware of the circular pattern of cause and effect that exists in the inner city areas. The conditions that cause the deterioration of the neighborhood are the same ones that keep food prices higher. We have only to walk down the streets of our poor neighborhoods to observe the general exodus of businesses from these areas, especially the more efficient, larger businesses. The simple answer is economics. The social issues and the bottom line of the accountant's balance sheet are brought into conflict and the social concern is losing. Those businesses that do remain, like the so-called mom and pop grocery stores, have no choice but to raise their prices for the service that they attempt to provide. The circle is vicious. Chain supermarkets are often pointed to as the culprits in this situation. They are accused of subsidizing their stores in the more affluent areas by exploiting the captive consumer in the inner city. The supermarket points to a host of reasons why it costs more to do business in this area. While some of these are valid business considerations, the greatest problem in my eyes is that they simply do not understand the market. A different

type of marketing mechanism is required in the inner city. One that is geared to the unique consumption patterns of inner city residents. Food marketing is not properly organized in the low income areas. The middle income consumer has the ideal situation of heavy competition, not only between stores of one type but also between alternatives. Residents of the inner city ghettos and barrios are, in effect, captive consumers. They have little or no choice about where they shop or what types of outlets they use. The high cost of entry into the inner city market does little to alter this situation. The real tragedy, however, lies with the inability of the chain store to identify with the community. They remain remarkably ignorant of the cultural differences that exist in the area and how these differences affect buying habits. Examples of this abound. The inner city resident is less mobile and often has to rely on public transportation. Public transportation, as we all know, is often unavailable to many, is getting increasingly expensive and is certainly not geared to be used for food shopping. The choice again is limited. Our report will point out that residents of low income areas are also less likely to read newspapers, television and radio being their primary source of information. I am especially aware of this among Blacks, for the major daily newspapers have scant coverage of activities in the Black community. The community newspapers do not have the resources to be an adequate substitute, although they try very hard. Yet newspaper advertising continues to be the major vehicle of the chain.

And then there is the prohibitive cost of television advertising itself. There are also differences in brand preferences and spending habits among low income people. The stores make the highest profits on nonfood and junk food type items. This is the kind of stuff low income people can't afford. It also points out a sad paradox: the most profitable item in the food store may be the most unnecessary. Failure to serve an area because people can only afford the necessities is truly nothing short of tragic. What this points out is that there are qualitative barriers between food distribution systems. Their orientation is solely toward the middle class and not the needs of low income people. At best this is due to indifference and insensitivity. At its ugliest it is quite frankly cultural discrimination. This is not an indictment of chain stores per se. They are not the only organization guilty of this blindness. Nor is forcing more chains to operate in low income areas necessarily the answer. The poor generally distrust the chain and their inability to be flexible has hampered attempts to build trust. Since the chain store does not recycle the money it receives from the community, the poor realize that it could contribute to further deterioration of the area. Another important factor to consider is the surging awareness of ethnic identity. As incomes go down ethnic pride becomes a more important factor. It seems logical then that any solution to the problem must include the people who live in the area. It would also appear that the traditional methods of distribution are not adaptable to the needs of low income areas. It would do no good whatsoever to destroy a larger service to create a

smaller one. Therefore, we must look for a different kind of arrangement that will meet the unique needs of low income groups. It is not merely the absence of supermarkets in the inner city that is the problem. It is the absence of alternatives in general that force higher prices on the low income consumer. If a solution is to involve the community, what form should it take? There are several alternatives. Buying clubs, co-ops, farmers' markets and the like. Most of these require an expertise that is often lacking in the affected area. Yet there are ways to make a joint venture work bringing involved community leaders together with the management expertise necessary. The most notable example of this type of joint venture is in Chicago between the Woodland Organization, a strong community organization, and Hilman's Markets. The Woodland group approached Hilman's and worked out an arrangement which involved the community in both control and profits. They entered into a management agreement that in effect hired Hilman's to manage and operate proposed supermarkets. In addition to the management fee, Hilman's received one-third share of the net profits. The balance goes to the community group to use in helping to solve some other ghetto problems. In operation since 1970, the store is marginally profitable and the organization has purchased a second store. Hilman's is to manage that one also. A similar joint venture is being started in New York City in the area of Bedford, Stuyvesant between a group of community organizations and Pathmark Supermarkets. Another is being instituted in Washington, D.C. between Giant Food Stores, a community organization, and

Community Economic Development Corporation which operates in three quarters of the inner city. A great deal of success in the Chicago experiment was due to the strength of the community organization. Whether this is the ultimate solution remains to be seen but the early returns of community involvement show promising signs.

CHAIRMAN LOCKYER: Leonard, can you help us know how that got kicked off? If in California that was a sensible thing to try to do, where would we hope the initiative would come from? From the Department or local...

MR. GRIMES: Well, some of the detail is in that report but usually in those kinds of joint ventures strong neighborhood groups come forward. They really have a passion about the problem. As you know, there are a lot of consumer-oriented organizations of people who are concerned. I think what really has to happen is, and what we can do governmentally, is to create a sense of approval, if you will. We don't necessarily have to have a lot of laws but if people get the sense they are not going to be stopped, they are going to be aided, then of course, they come forward rather rapidly. But essentially, I think that people would very quickly come forward to assist. And there were some earlier efforts right after the riots in the '60's. But as you well know in the Watts' area we had a situation but they weren't able to sustain because they did need some kind of help they weren't getting.

ASSEMBLYMAN FENTON: Isn't part of the problem in the Watts' area, East Los Angeles, that people run out of money and the only place they can get credit are in these stores

where the prices are high?

MR. GRIMES: Absolutely. No question.

ASSEMBLYMAN FENTON: How will we get around that? That's what I see is a problem that we can't legislate against.

MR. GRIMES: Well I guess what we're saying is that the typical delivery, economic delivery systems just doesn't work, not only for the kinds of food that are delivered but the very thing that you mentioned, you know, you and I both have been around long enough to remember the book. The local mom and pop stores have a book. You go in and they take the cash register ticket off and staple it in the book and, of course, what happens with the mom and pop person is that if they can't get a line of credit at the bank, they'll slowly go out of business if they can't cycle their loans out fast enough. Then there are possibly some aides in there which we get into that in a little bit.

There's a need for strong community groups to come forward. A management agreement could contribute greatly but there is also a need for greater sensitivity on the part of government.

I do not mean to advocate a whole rash of new programs but rather than reenforcement of energys in the existing ones. The question is: What can we do to facilitate this interchange to give it the opportunity to work? Most community organizations could qualify from the small business and minority business offices at the local and federal level. Business development organization exists in each of the state's metropolitan areas. Thus, the framework already exists to

bring the parties together. This is the question you asked me.

In order for community oriented venture to survive, however, there has to be a steady source of people to pick up where others leave off. A way to possibly insure this would be to set up training programs in the community owned stores to create a pool. These people would be committed to the neighborhood by their own roots. Programs in existence, such as CETA offer a readily available system of providing this kind of talent. Job creation in the private sector would be an additional benefit of this approach. The extension of life-line utility rates to distributors of basic necessities in low income areas is another example of this type alternative thinking. The Chicago experience shows that the success of the supermarket brought and sustained other businesses in the area. This provides an added incentive for this type of approach. We can also look at the tax structure to determine the feasibility of some sort of property tax relief for low income food distribution.

A recent study in the District of Columbia, indicates that revenue from corporate sales tax, that same distributor made more than offset the property tax loss.

Restrictive government standards, going back to what you were talking about, that are based primarily on cosmetic values, should be eliminated. Lower prices depend on easy access. Standardization causes waste and inflates cost in general food production. Odd sizes, brews, produce and direct marketing techniques do not mean lower quality. Fancy graded

products do not have significant nutritional advantage over others. For example, by settling for soda cans with no pop tops and peas that are a lighter shade of green, the grocery shopper can save ten to thirty-five percent on the price of nationally advertised food, and household basics according to the National Food Chain, Jewel Food Stores. It's an eastern chain. That chain has introduced a no brand name line of goods. The program features one size packaging strips of basics carrying no brand name and uses standard rather than a fancy or extra food fancy grade. The label is plain and carries no photograph. Instead of using full grain rice, they have, I think it's fifty percent broken kernels. But it eats just as well. The same is true of other cosmetic property.

Clearly, there are alternatives and present methods that are efficient. The Jewel Food Stores experiment in seventy-one stores, and is well worth our serious consideration.

The fact that high profit supermarket items are often not the most desirable, show a need for a consumer education program. This was brought up earlier. In addition to helping the poor make better informed choices, they have added values, supplying a greater awareness of nutritional value. My colleague will talk more about what we're doing educationally. The Department of Consumer Affairs should be placed in the position to distribute nutritional pamphlets through cooperative grocery stores in the inner city.

The Department of Education can also do a better job in providing nutritional training in schools. These two efforts could go a long way in altering unfortunate buying

patterns. Then, you move back to the bilingual thing, it's obvious then you're going to have to put it in the language the consumer understands.

These, then, are some of the alternatives, may actually reduce the high cost of inner city existence. They may not be the ultimate answer nor the only one. At best, I feel they are a small step toward easing one of the many inter-related problems besetting the urban poor.

They are also an example of how existing systems and energies can be utilized by redirecting their efforts toward more viable lines. In most cases, we don't need new laws any more than we need new bureaucracy. We simply need to enforce what we have more completely and intelligently. Nor, are the poor just subject to high cost of food. They are victimized by a great many other inner city problems--poor housing, crime, health care, delivery and high unemployment continue to plague low income areas. Efforts in these areas are also often hampered by problems similar to those mentioned in the area of food distribution. These are all issues that must be faced today and dealt with. But it won't be done, can't be done, until we sensitize ourselves to the real differences that exist between economic segments of our society and the cultural differences that are a part of them.

That's the end of the remarks.

Mr. Chairman, I might mention since EFT came up, Electronics Fund Transfer, the agency in conjunction with Business and Transportation, have an on-going task force, and I'm happy to report it's also funded task force, so I suspect that

it will continue to watch EFT activity. And we will be interfacing with your committee and others. Thank you, very much.

CHAIRMAN LOCKYER: I think Mr. Gage has a question.

ASSEMBLYMAN MICHAEL GAGE: Leonard, there are a couple of things of interest to me in your comments.

One, is the store in Chicago that's been operating now for six or seven years. Would you indicate it was marginally profitable or marvelously profitable? I wasn't sure.

MR. GRIMES: It was marginal.

ASSEMBLYMAN GAGE: But at least it was profitable?

MR. GRIMES: Yes.

ASSEMBLYMAN GAGE: Did it, in fact, have lower prices than other existing markets?

MR. GRIMES: In some areas. Let me put it this way. They were able to drive the price down by the kind of food grade that they were delivering. In other words, if they took the top grade or some of the junk food or whatever that they were going to sell they probably would be somewhere even or maybe a bit higher. There is this problem of being able to operate in a high impact area like that and keep the prices down. Insurance is going up. I know a market right here in town near my house where they have to have two security guards on duty at all times--one in the parking lot and one inside the market.

ASSEMBLYMAN GAGE: So that at least in some areas the prices were lower?

MR. GRIMES: Sure.

ASSEMBLYMAN GAGE: Did that, in fact, mean that the people that could patronize that market, paid less in terms of a percentage of their overall income? Were there any studies in that regard?

MR. GRIMES: I don't think the study went quite to that point but as I recall reading the summarized detail, there was some recognizable reduction in the amount of dollars they were putting out daily for food. Now, whether or not it is a percentage of their income going out, it's probably a minimal impact on that. I think what you're looking at is the whole economic concern of propensity to expend. You know, you're into that whole cycle of dollars. Poor people spend all their money eating, having some place to sleep and that sort of thing anyway. But if we can come up with a marketing system that provides them with choices, provides them with more than one place to get something, competition should then help us to drive down the cost. But initially, you can't cut it.

ASSEMBLYMAN GAGE: Did, in fact, other markets move into that area when they maintained--in other words, did they increase competition in the Chicago area?

MR. GRIMES: There was some stability where these markets picked up when some other stores came in and so forth, yes.

ASSEMBLYMAN GAGE: So, that it maintained some of the economic integrity of the area?

MR. GRIMES: You've got to keep people there. If they exodus, you've had it. And that's a promise.

ASSEMBLYMAN GAGE: Finally, the Jewel chain, that you indicated is now marketing, not necessarily lower quality but different types of the same goods.

MR. GRIMES: The quality is still there.

ASSEMBLYMAN GAGE: You know we have all sorts of phony marketing orders that require--all that garbage that limits what we can do right now that we may need to take a serious look at.

MR. GRIMES: Very definitely.

ASSEMBLYMAN GAGE: On the other hand, what stores are willing, besides this chain that you've pointed out, to market these goods? Do we find a market readily available? I think we might, but...

MR. GRIMES: You might. For example, I could just imagine that Ralphs or Safeway would propose this; they would be accused of all kinds of terrible discriminatory practices. I think that's the important marriage between a strong community based organization that can take care of the PR, take care of the community attitudinal problems. Then I think it will work.

ASSEMBLYMAN GAGE: One of the first likely complaints to emerge and having bruised or otherwise lower quality food in an area like that would be a charge of discrimination based on that.

MR. GRIMES: Oh, absolutely. If I were Vice President of a big chain you'd have to give me a lot of assurance before I'd take off on that. I don't think that we should charge the business corporation with the initiation of social adjustment. I think they'll get into it. We have to have other means to

assist them in doing this process. I don't want to sound too way off that.

ASSEMBLYMAN GAGE: I understand the problem and I'm looking for some answer too.

MR. GRIMES: Well, the report fortunately gets in with a little more depth and in there we'll have some suggested approaches, either sharpening up legislation reviewing, we've got these boards and commissions and you know that all of us over there are trying very hard to get them to loosen up and relax a little bit. You mentioned marketing orders. I think these are some of the areas.

CHAIRMAN LOCKYER: Mr. Grimes, just one last question which is one of the things I've heard from some contact with the consumer professionals, the network that's out there, county, city or whatever area.

There's a lot of interest in the idea of getting some state money since they think they're all struggling under super tight budgets. I've tried to explain that that seems to be common to all of our agencies wherever we are but there's a lot of interest in that and I'm curious if that idea has even been discussed at some meetings that you might have participated in and if there's any viability to it or it has just never come up or what?

MR. GRIMES: It does come up. We're all I guess as guilty as the locals, the city and the county, as well as the state and we're all in the process of attempting to find out where we can get funds to assist groups in doing things. I guess we've used this various Federal grant in some efforts

the CETA activities have been used. But, for example, the Department of Consumer Affairs for the state, has little or no grantable money. We do contract stuff like that but, I don't know. I think states ought to have a research and development budget. It's very possible that we need to be able to do some grantsmanship stuff on our own and not have to wash them. Go Fed and then wash it through all the time. The state is not investing in its own future enough in my opinion.

CHAIRMAN LOCKYER: I hope we can maybe pursue that and check that out.

MR. GRIMES: We certainly will look at it again. Mr. Chairman, thank you.

CHAIRMAN LOCKYER: Ms. Nyheim.

MS. CHARLOTTE NYHEIM: Mr. Chairman, members of the Committee. My name is Charlotte Nyheim and I'm Education Coordinator for the State Department of Consumer Affairs.

Basically, our philosophy at this department is to educate consumers to develop their own self-reliance in the marketplace and to be able to take individual and collective protective action.

By legislative mandate, we are responsible for developing consumer education materials and for working with other agencies in the development of those materials.

I've had placed before you some of the materials that we have developed in the last two and a half years. We approached consumer education from the viewpoint that we need to develop materials in a multidimensional way. We can't reach all of the people in any single fashion. Therefore, we've developed

written materials in the form of books and pamphlets, we've developed film, radio and television public service announcements, there are some scripts that are examples of radio PSA, and television PSA's. We have developed and are working on curriculum at this time and a newsletter insert education update to try to assist educators with developing their classroom experiences and also those who are working on community based education.

CHAIRMAN LOCKYER: Have you personally been with the department in doing some of this for awhile?

MS. NYHEIM: I was with this department for about two and a half years as education coordinator.

CHAIRMAN LOCKYER: You may now be a senior member in any one position.

MS. NYHEIM: Sort of, yes.

CHAIRMAN LOCKYER: Are you going to tell us once you print these things, where they go or how they get out there? Would you like to talk about that?

MS. NYHEIM: Well, we try to distribute them in as many ways as possible. As you've heard from Mr. Grimes, we do have a monetary problem. We are budgeted for the 78-79 year budget as for our printing and all our educational materials including our newsletter at nineteen thousand. The last I heard Berkeley Coop has a hundred and sixty thousand dollars a year for their education budget. We've been able to develop some of the things that we have as a result of some savings in other areas that we've been able to recoup and use for materials.

ASSEMBLYMAN GAGE: Did you say your entire printing.

and mailing budget was \$19,000?

MS. NYHEIM: Not mailing. That's printing budget which includes the newsletter.

CHAIRMAN LOCKYER: And the newsletter goes how often?

MS. NYHEIM: Bi-monthly.

CHAIRMAN LOCKYER: And how many people get that?

MS. NYHEIM: We have a mailing list now of about eight thousand including four thousand educators.

CHAIRMAN LOCKYER: That's included in that eight thousand are the four thousand educators?

MS. NYHEIM: Well, probably about thirty five hundred. We've just increased our mailings by about fifteen hundred educators, in the last couple of months.

CHAIRMAN LOCKYER: So that I understand the budget, \$19,000 to print. Can you mail or distribute separately from that though?

MS. NYHEIM: Well, the mailing budget is separate. I'm sorry I don't know exactly what that is but so far it's been adequate. We haven't had to hand carry it yet. At any rate, I was trying to make the point that we feel it's important to develop educational material in a multi-dimensional manner to try to reach people in as many ways as possible.

I had a lot of things to say to you about low income consumers and many of the things I was going to talk about have already been brought up in other statements. But, I would like to add a few things that I don't think have been covered to this point.

One of the things that we have to understand in trying

to deal with the problems of low income neighborhoods or consumers is that we can't just go in and say, okay, we're going to solve all your problems. Here's my magic wand and suddenly through either income supplements or our new protection of laws or even infusion of money into business development, etc. that will be an easy change because we're dealing with people who have problems that are much different and attitudes that are much different than the majority of the population of people who, because of being on very unlimited incomes, by necessity and in a very rational way need somewhat instant gratification. Therefore, they have a high use of credit. They don't know if their income is going to continue and certainly they have as great a psychological need as the rest of us to participate in the American dream so to speak. The types of needs that are created by the marketplace and advertising, etc. They might even have a greater need than the rest of us because they're deprived in so many areas.

There's a lot of compensatory consumption which really covers just what I've talked about. Buying to compensate for the lack of things in other areas--transportable status. If you're living in an area where it's totally impoverished, your housing conditions are unbearable, you don't have enough money for the necessities. Then, it's going to be very attractive to be able to buy a car no matter what the credit arrangements are or what the cost is, to be able to transport yourself out of that environment--clothes and other similar transportable goods.

Before coming to the department, I worked in

community nutrition and consumer education development and one of the things that I realized at that time, was that small successes are something that we had to be very pleased with when working in low income areas.

A very classic example of the type of problems or just classic low income consumer was a woman that I became very familiar with. Her name was Gladys. She lived in a house that was in the Gardenland area with no sidewalks. It was literally on the other side of the tracks. We had to go across the railroad to get over there. It was like night and day from one side to the other. In the rainy season there was mud surrounding her house. She was about forty-five years old, looked like she was in her late seventies or eighties. She relied very heavily on door-to-door sales people, not just for the purchase of goods but for social contact. It wasn't only just the door-to-door salesman coming in and being friendly, but also a way of getting to know what the rest of her neighbors were doing and so on. She relied on him to cash her subsistence check because she didn't have a checking account. My first middle class approach to some of her problems, well, get a checking account and then you can buy through Montgomery Wards catalog and so on. She didn't trust the bank. She didn't want to put her money there. But she did trust a door-to-door salesman. She bought such purchases as a large service for eight of china, where I can't imagine a time when she'd ever use more than two service, stainless pots and pans, religious artifacts, clothes that she had in her closet that she'd never have an opportunity to wear. But this was her way in her meager

existence of some kind of gratification. She had a tremendous amount of spunk. She went on a rent strike because for a whole winter she didn't have heat. Her heater was malfunctioning. But she didn't have the basic information to call P.G.&E. to come out and check it.

So, I think there are a lot of Gladys' out in the world and the problem is how do we meet their needs. I'm not sure. But there are a number of ways that we can approach consumer education for the low income person. The best way probably is through one to one interaction. Getting out there and talking with them. Better than that, is to train people who are from the community to act as consumer counselors or consumer educators. It's a very, very expensive endeavor. You reach a few people with a lot of resources. And, as we know, we never have that many resources but it probably is the best way.

There's a formal primary and secondary education, adult education and so on. I don't think enough has been done in California yet in that area. I think we're very lacking in coordinated efforts at the state level in consumer education. At this time, most of the consumer education around the state is done in an autonomous manner. You may have three programs going on in three different corners so to speak. One won't know what the other one is doing. There is no real direction from the state level except through vocational education. Most of the money is funded through federal funds and for the most part, it has come through home economics which is great. They've done a tremendous job on what they've been doing.

But I like to think that consumer education should be

what I call, vertically and horizontally integrated into the classroom. We're educating to deal with a day-to-day existence and those things that we have to rely on in terms of our basic skills. The person has a diploma and doesn't know how to read a contract to buy a car what good does it do in the long run. So, I think it should be integrated from kindergarten all the way up through as far as you can go. And vertically, horizontally through all of the disciplines. Why can't we have consumer problems in math? Why can't we have English that relates to consumer issues? Why can't we have a totally integrated social studies across the board and up and down?

One area that we could attack in terms of doing this is in the textbooks. There's no criteria in terms of consumer education. Why can't we, as the textbook selection process goes on, make sure that they reflect good sound consumer principles?

CHAIRMAN LOCKYER: Charlotte, are there any specific interagency groups or regular contact going on between Consumer Affairs and the various people that are responsible for curriculum development and textbook review and things of that sort that would help to try to accomplish those things?

MS. NYHEIM: As a matter of fact, we just had a very interesting situation that came up in about the last two months. It was brought to our attention that a math series had been adopted by the State Board, was full of examples of junk food. It was like, two and three Tootsie-rolls makes how many. And in some cases, even the child, in the workbook, had to write out Tootsie-rolls or Coca-Cola or what have you.

In addition, there was a great deal of industry examples, rather than just an airplane, it was PSA and so on. So, it was a form of brainwashing in advertising through the textbook and the state adopted system.

We went to the Board of Education and testified, along with Consumer's Union, and they have now established criteria to ban the depiction of junk foods or commercial advertising in textbooks. I mean it's bad enough they get it on television all day but to get it in the classroom in the textbooks, that's been adopted by the State, that's really too much. So, we are going to be doing that even more and we hope that our influence will be heard but I certainly want you to be aware of the problem and sometimes the wheels turn very slowly.

When we first brought up the issues of junk foods, they said well, it's a seven year adoption process and it's going to take us three years to get much done and so on. And it ended up they could do it this year and develop the criteria for this year's adoption.

CHAIRMAN LOCKYER: So, I guess the answer is, there is a regular kind of contact going on.

MS. NYHEIM: Yes. We've also been asked to work in an advisory capacity in curriculum development. But what I see is that there's home economics, business, math, but there's very little total coordination. Consumer education is in vocational education.

CHAIRMAN LOCKYER: How do we create that?

MS. NYHEIM: I think that it would be worth looking into to see if there couldn't be a bureau of consumer education

or something where we could tie in and start developing a real state policy in the area of integrating it into the classroom. Because after all, almost everyone goes through that system and it seems to me a long term solution in terms of consumer education. Both for low income and middle class. None of us are exempt from consumer fraud. Considering problems or sometimes lack of information. I just bought a house, I don't know what I signed, to tell you the truth. I hope it's okay.

ASSEMBLYMAN GAGE: Charlotte, apparently the bulk of your job is aimed at educating the educator.

MS. NYHEIM: Well, it's multi-dimensional. As I said, we try to... That's one of them. Because of our resources, we've decided that we need to do that as much as possible.

ASSEMBLYMAN GAGE: I can understand that but it's like you would have your greatest impact there. Clearly, I guess, you work with the educators in that area and also organized groups of one sort or another. Consumer groups, Department of Consumer Affairs of Los Angeles, Those types of groups and organizations. Do we do anything, does your office have any role in actually educating the consumer? I guess, the reason I ask the question is I've been looking at most of the literature and I don't really think that it's going to impact a lot on street folks. I don't think most people in low income areas are going to read this. That's just my gut reaction. I think we ought to take a page out of a politician's notebook and somehow make something a little more grabbing than any of these things. I quite frankly doubt if very many low income consumers would wade through much of this.

MS. NYHEIM: I agree with you and I was going to bring that up because it's well documented that low income or people with language difficulties--minority, do not gravitate towards the printed word. That's why we've tried to do some things in the area of media work and we certainly want to do more. My feeling is that the best way to reach them is through the media. For the most part they have income scarcity but at times surplus and therefore they listen to the radio and watch television much more than other groups of people. We figured we could reach about 95% through the media. We've made a limited effort and so far we have had three PSA's that went out about a year ago and public service announcements are difficult to measure because we never know how often they are being shown by the particular stations. But, we do get feedback because one of them is tied in with a landlord-tenant pamphlet and since that PSA has been out our landlord-tenant pamphlet has gone up. We have four more that are ready for distribution now throughout the state. Unfortunately, none of them are in Spanish but we are planning on doing that in the future. These are all 30 to 60 second spots. They are tied in with more information. There is a tag on the end about--each one of them has a pamphlet that goes along with it, and we also are going to be, and have in the past, distributed radio public service announcements throughout the state to various stations. My feeling is that's the best way to at least trigger some sensitivity to the kinds of problems that can occur.

ASSEMBLYMAN GAGE: Do you know which stations utilize your PSA's? Have you sent them to every radio station in the

state? Every t.v. station? What sort of systematic effort do you have?

MS. NYHEIM: As I said, it's difficult to know because if everyone asks the station when it sends in a PSA to give them information about how many times it is played and whether it was prime time, we can't get that too readily. But one thing we did do with the last set was send a card and have them return to us to get some feedback as to whether they were going to use them and how often they thought they would and how long a time period they would be used. We are developing criteria and research methodology right now to try to evaluate all of our materials and to see what works best with what group and how effective they are, both in content and in distribution. And we are going to try to get a federal grant for that. If we don't we may come to you. I might add that adult education is a good place to reach those people who have already come through the regular system and the Bureau of Adult Education within the State Department of Education is in the process of following up on a Northcutt study that was done from the University of Texas where they found that 30% of the adults are deficient or do not have the minimum functional competency to deal with consumer economics. Thirty five percent do not have additional or just have very basic consumer competency. And that is in all the skills of math computation and writing skills, etc. So the Department of Education has, in adult education, commissioned for this study and the total results should be coming up in about a year. And that should be helpful in both knowing where the problems are, what the client groups are and how

they can meet them in adult education. Newspapers are good if the consumers read them. And, we have put some columns in many of the ethnic presses. They are called consumer forum columns but a lot of consumers don't even subscribe to newspapers and, once again, we get into the problem of the printed word. I might also say, in relation to the Spanish speaking, that the Compleat catalogue that you have in your packet is being translated into Spanish. This catalogue has been used in a number of classrooms. We have distributed 75,000 in about the last year and a half. Landlord and tenant is, of course, also in Spanish. Sales Tactics is being produced in Spanish. It's at the printer's right now. Other publications that we are in the process of developing are being produced in Spanish. We also have a consumer action curriculum that is going to use the Compleat catalogue that will be in Spanish.

ASSEMBLYMAN GAGE: Is relating at all to nutrition education, or is that somewhere out of your domain?

MS. NYHEIM: We have been involved in it, as Mr. Grimes reported on the low income food study. I'm also on the Council for Food and Nutrition where we are trying to look at state policy and come up with evaluations and plans. Up to this point, we really haven't put out nutrition education materials. I guess there is so much that is available that that was one area we felt was being fairly well covered until we could meet some of the other demands. We usually base our material selection on the highest number of complaints where we feel there is the greatest need and lack of information. Another thing I wanted to mention that I think is important

is the point of sale information. This has been referred to briefly but we really need to get easier to read contracts. The co-signer's bill that came out that was effective in '75 is an important asset to particularly low income, because they get caught into co-signing and they don't understand that they are liable for the complete debt. It's my understanding from talking to bankruptcy trustees that's one of the greatest causes for bankruptcy or filing Chapter 13 is getting overextended by going in and three or four people signing for a neighbor and thinking that maybe they will only be responsible for part of it. But that has a component of Spanish language and the disclosure on the contract.

ASSEMBLYMAN ART TORRES: Are you familiar with the bill that was recently passed in New York to remove the legalese language from rental agreements?

MS. NYHEIM: I wasn't specifically. I guess I have heard and read different places that that's kind of in the wind.

MR. TORRES: Well, it's now law in New York and Assemblyman Agnos and myself and a few others have introduced a bill in the Legislature for this coming session similar to New York's proposal to deal with landlord tenant agreements as an example to move in the direction of removing the legalese common-law language that confuses so many people as to their rights and make it into plain English. The comments I have gotten from most lawyers is that the bill is so wordy and legalese in origin that they don't know how to understand it.

MS. NYHEIM: I'm happy to hear that for my own purposes as well as everyone else's.

ASSEMBLYMAN TORRES: We will advise you so you can begin organizing support. You're from?

MS. NYHEIM: The State Department of Consumer Affairs.

ASSEMBLYMAN TORRES: ...State Department to help us. organize support with other legislators to support that.

MS. NYHEIM: We would be very happy to. In addition, there needs to be information not just on the contracts but at the point of sale. A good example of this is the Bureau of Automotive Repair sign. It has to be in all registered repair facilities that right there gives the rights and also gives this toll free telephone number to call if a person has a problem. It's my feeling that good consumer legislation always has disclosure components in it and most of the things that California has passed up to this point have included disclosure provisions. Basically, I think there needs to be a greater amount of coordinated consumer education in the regularly structured school system; increased teacher preparation so they will know how to teach it; use of the media backed up by printed materials and generally what are efforts that are necessary to promote self reliance with full recognition of the particular problems that people are dealing with at the low income level.

ASSEMBLYMAN AGNOS: I'm going to ask you the same question I asked the district attorney. What would you consider to be the threshold where you would kick in other linguistic minorities into bilingual materials, be they contracts or pamphlets that you prepare or anything else?

MS. NYHEIM: Are you speaking about the Spanish as opposed to Korean, Tagalog?

MS. NYHEIM: That's a difficult question to answer because so far we have only been barely able to meeting Spanish-speaking and that is estimated at about 18 percent now in California. It's difficult, I don't know.

ASSEMBLYMAN AGNOS: So, would you say when the Filipino population reaches 18 percent in this state that we should have it in Tagalog?

MS. NYHEIM: I think if the research is available we should meet the needs of all the populations in California.

ASSEMBLYMAN AGNOS: Think about that.

MS. NYHEIM: As a matter of fact it's very interesting. We were contacted by the Korean Institute, I guess, in Los Angeles and they want to translate our consumer catalogue, the Compleat catalogue into Korean. And that's going to be an interesting term. We have also had requests for this catalogue from Japan and other countries and all across the nation.

ASSEMBLYMAN AGNOS: All I'm saying is, where does the state kick in; if you are doing it for Spanish-speaking at 18 percent would you do it for Korean-speaking people at 18 percent? Or what's the threshold? Below that, certainly.

CHAIRMAN LOCKYER: You have just lowered the threshold probably, by expressing concern about that.

ASSEMBLYMAN AGNOS: Well, for example, I have a district that has about six or seven linguistic minorities ranging from five to twenty five percent and they are always asking for this kind of material and I'm just wondering where the state, with its resources, will help them. You don't have to answer that now but you might think about it and talk with your own

personnel about it because I think we are going to have to deal with that question, because they are going to say, "You are doing it in Spanish, why don't you do it for us? We are the same percentage," if they are, or when they reach it.

MS. NYHEIM: That brings up the whole budget question again, and I think there needs to be some recognition about what can be done and the real need for budgeting in this area.

CHAIRMAN LOCKYER: Okay, thank you. Alex?

MR. ALEX SALDAMANDO: Thank you, Mr. Chairman and members. My name is Alex Saldamando. I am an Assistant District Attorney with the District Attorney's Office in San Francisco. I'm with the Consumer Fraud White Collar Crime Unit which receives 3,600 to 3,700 consumer complaints per year or a little over 300 a month. We are set up maybe a little differently than a lot of units. We have what is called a mediation unit which is staffed by interns of both law students and college students who actually try to mediate complaints that we receive if it looks like that is a possibility. If that fails then we consider litigation or some other approach. We have also just started going out to the neighborhoods trying to reach principally the lower income by the use of a complaints mobile which apparently has been very effective in Chinatown. We are having some problems in some of the other areas which we are trying to straighten out. My interest in low income issues, for those of you who may not know my background, stems from the fact that I was, prior to coming to the District Attorney's Office, a legal services attorney first with San Francisco Neighborhood Legal Assistance Foundation in the Mission office

which was a lot of Spanish-speaking people, and then with California Rural Legal Assistance which also has a lot of Spanish-speaking people in rural areas.

I have been asked to talk about consumer credit issues this morning. I was glad to hear Ms. Goldinger point out that approximately 93% of low income people have some kind of dealings with installment contracts and that's what I would like to focus on. First, very quickly and sort of in anecdote fashion, I would like to relate to you the kind of person we are up against out there. We put a man away on a home improvement fraud. He got three months. He got out and agreed to talk to our unit, our interns, to tell them how a confidence man operates. It was very enlightening to them I think. First of all, he said he picks on low income and picks on the elderly. And he said if he sees a no trespassing or no peddlers sign he goes up to the door because he feels he can sell that person something. His approach is to try to sell you anything, fix your lightbulb, anything to get your confidence. He says once he's got your confidence he's going to sell you something. He says the only reason we caught him and were able to put him away was because he used to be a licensed contractor and he lost his license. He operates primarily in the Sunset area of San Francisco. He has now left town. His parting shot to the students was, "How do you think I'm doing? Do you think I could go on the college lecture tour and talk about being a confidence man?" He was conning the students as he went, and in fact he said he would be in contact with us to

try to have us help him set up his lecture tour. So that is the kind of person you may be dealing with.

ASSEMBLYMAN FENTON: Did he con you into doing it?

MR. SALDAMANDO: He conned one of our investigators into taking him into the airport, that's for sure. Well, consumer credit installment contracts. There are basically two types we are dealing with -- the Reese-Levering, or automobile sales contracts and all the others for goods and services which are covered under the Unruh Act. We are also dealing with loans principally to the necessitous borrower which would invoke then the personal property brokers, the industrial loan brokers and the Small Loan Act. These all of course are subject to Truth-in-Lending. They may or may not be subject to Mr. Fenton's Three-Day Cooling-Off Period Bill. They may or may not be subject to Song-Beverly, and I will try to develop that a little. My focus will be not so much on the flagrant abuses but on the practices by which creditors are permitted to systematically exact inflated or unnecessary charges or engage in practices which may be legal but which are unfair under the circumstances.

First, I would like to discuss the type of contract which is usually the biggest money investment for a low income person. That is the purchase of an automobile, and that is regulated by the Reese-Levering Act. Most people need, especially rural areas, that automobile to get to work because there is very bad or non-existent public transportation. And this is also the area where the buyer is most likely to receive

the least fair treatment. This area is characterized by form contracts and high pressure sales and I've got a form contract. This is being used by some auto dealers in the San Francisco area this year. This is the contract that a borrower, a person who purchases an automobile, has to sign. I also have a copy, for any of you who would like to see, of the Civil Code 1632 Spanish translation of a contract which is similar in form to this one but it is based on a slightly different version of this type of contract. Now, as may be evident, if you look at these contracts they tend to be complex, elaborate, long, very confusing and they are presented to people on a take-it-or-leave-it basis. I have never seen a case yet, and I have been practicing for seven years now in low income areas, where someone has been able to modify one of these form contracts. And I think this raises some real serious questions as to how far disclosure is going to carry you. California is probably in the forefront in a lot of this, a lot of translation of documents, and disclosures to low income people, particularly the Civil Code 1632, bills like Mr. Fenton's bills which prohibit door-to-door solicitation, etc. Not only are these contracts presented on a take-it-or-leave-it basis, but they often impose major obligations on a consumer, none of which is disclosed on the front side. They require consumers to maintain property insurance or vendor single interest insurance or physical damage insurance on the particular vehicle that is purchased often times at an exorbitant cost and incidentally is something we are looking into now. For example, we've got several cases where the property insurance alone is running

about 20 percent of the unpaid balance of the contract per year. There is no control over this type of insurance. We are probably going to be making some efforts to bring in the Department of Insurance or somebody else to look into this area. This may be an area where the Legislature might also be interested in looking. These form contracts, on the reverse side, tend to have a provision which excludes all warranties unless expressly made. Now what this does and I think this deals with a question that Mr. Fenton raises, why aren't people using the Song-Beverly Act. One of the reasons you can't use Song-Beverly is that, unless there is a warranty, Song-Beverly does not apply. So these contracts specifically exclude any protection you might get under Song-Beverly, especially when you couple it with the next provision which is often in these contracts, and that is a provision which says that no oral modifications are valid unless they are reduced to writing. Now this is the bane of anybody buying an automobile, especially a used automobile. This leads me into my next area of discussion, which are the sales tactics and they can best be summarized by saying some salespeople, and I'm not saying all do, but some salespeople tell you whatever you want to hear. If you want to hear it's a good car they will tell you it's a good car. If you say, "Do I have warranties on this?" they will tell you "Yes, you have warranties." If you point out that the language of the contract differs from what they are telling them, they say "Don't worry about it. It's taken care of." But obviously that previous provision says that if you don't modify it orally it's not valid. Typically, when the customer comes back to

complain and says," But, hey, the salesman told my differently," well, that salesman is never available. You are dealing with the credit manager or somebody who says, "Sorry, it's not in the contract," or "it wasn't in there; therefore it's not valid," Or, they sell warranty protection which--we have some policies where they are selling warranty protection for one year for about \$175 to \$200 which excludes just about everything that could go wrong with your car. It's very difficult to collect under these things. Or, they service them very badly. We have had both situations. We also have, in this sales approach, an overselling. Some sellers encourage buyers to purchase automobiles which the buyer cannot really afford. And there are several reasons for this. The first one is the seller loads up the contract and by loading up the contract, I mean the seller sells the vehicle at the maximum annual percentage rate which is 21.5% under the Reese-Levering. They often inflate the price of the vehicle, especially if it's a used vehicle. Someone testified that a Pinto was sold for \$8,000 and that's a little high but it is not impossible. They will give you a low trade-in value. We have a case where a woman went back to the dealer where she bought the first car, was given a lot of trouble and said "I want to trade it in for somebody else. Well, she still owed \$900 on the contract so they gave her only \$700 trade-in on a vehicle which was worth about \$1,200. So, she ended up, rather than trading the vehicle, owing them another \$200, when you work out the entire transaction. And then on top of this, dealers tend to sell what can be very expensive insurance

coverage. The vendor single interest policy which can run about 20 percent of your unpaid balance, credit insurance which can be 10 to 15 percent of your contract and both of these insurances benefit the creditor, are required by creditors. In other words, the carrier is obtained by the creditor but it is paid for entirely by the buyer and the seller, at least in the area of credit insurance, can get up to 35 percent of the premium as a commission. The Department of Insurance has held some hearings in February where they propose to--it would have the effect of reducing the commission that the creditor could get from the sale of credit insurance. Senator Robbins introduced the bill which would nullify this regulation if it ever comes down. That's SB 1260 which has just passed the Senate and will probably be on the Assembly side, although I imagine it will go to Finance, Insurance, and Commerce and not this particular Committee for which I think you should be thankful because I think it is a headache of a bill. This is the part of the auto sales transaction which really upsets people. I tried to explain it to someone--that that's the law and the people are dismayed, they are outraged and they are bitter at this. This is that if you default on the payment the dealer can repossess the vehicle and can often sell it for what is less than the retail value and then come back and sue you for deficiency judgment.

There was an Alameda County study done in 1971 through 1973 which was reported in the Stanford Law Review of the April 1975 issue where it was pointed out that dealers who

were selling these vehicles on a wholesale basis as opposed to retail basis were only deriving 50 percent of the retail blue book value of a used car or 61 percent of the retail value of a new car versus the 75 percent value on a used sale if you were forced to sell retail, i.e., put it back on the lot and sell it or 95 percent of the retail value if you again were forced to put it on the lot. The effect of this is that there is no compunction for dealers to really do other than to wholesale the vehicles and because there is a deficiency judgment they can then come back and sue you and take you to court and collect whatever they didn't collect on this wholesale transaction. Thus, it's almost impossible for an automobile dealer to lose although there are some who lose--I'll recognize that but it's not that easy. Contracts are loaded up, cars are repossessed and sold at less than the fair market value of the vehicle and the person is sued for deficiency judgment and on top of that gets attorney's fees and costs. Attorney's fees can run 30 percent of the unpaid balance. It's all legal. And, as I pointed out, when you explain to someone that the fact that the car has been repossessed and sold is not going to be the end of their agony because the creditor is very likely going to be able to come after them for deficiency judgment.

ASSEMBLYMAN GAGE: If someone has credit insurance that required credit insurance they could still repossess and use deficiency judgment?

MR. SALDAMANDO: The credit insurance only kicks in if you become disabled or die. And the purpose of it is to continue your payments should you become disabled or die.

ASSEMBLYMAN FENTON: They can't be required to pay credit insurance.

MR. SALDAMANDO: Mr. Fenton, I don't normally like to disagree with legislators.

ASSEMBLYMAN FENTON: They might do it by innuendo, but I think directly they can't...

MR. SALDAMANDO: No, I will disagree with you for this reason. You cannot require someone to buy credit insurance in a loan transaction, but there is no such prohibition on requiring people to obtain credit insurance in a Reese-Levering type of transaction. The Finance Code specifically prohibits a lender, a personal property broker, industrial loan broker, from requiring the purchase of credit insurance as a part of a loan.

ASSEMBLYMAN FENTON: Right, a loan. That's what they're getting here.

MR. SALDAMANDO: No, this is a retail installment sale of an automobile which is not prohibited that way. It would be if, instead of the dealer selling the vehicle, you went down to Friendly Finance, got a loan which was used to pay off the vehicle and then you would really owe money on just the loan. In that case the lender could not sell you credit insurance because the law prohibits--well he could sell it to you--but he could not require that as part of the loan. If you like, I can lay out the memo for you.

ASSEMBLYMAN FENTON: I wish you would.

MR. SALDAMANDO: I'll do that.

ASSEMBLYMAN FENTON: I buy a car and go to get credit,

right? First I buy a car and they can require me to carry insurance which is fine. That's no problem. Now I go to get the loan. They can require me to get credit insurance?

MR. SALDAMANDO: No, they cannot.

ASSEMBLYMAN FENTON: Well, who requires me to get the credit insurance?

MR. SALDAMANDO: The dealer can require you to get the credit insurance as part of selling you the vehicle under the Reese-Levering in the contract but you've got to treat them as two separate transactions. If you are buying from a dealer the dealer can require you to purchase credit insurance. If you are not buying from a dealer...

ASSEMBLYMAN FENTON: You mean if you are borrowing from the...

MR. SALDAMANDO: Borrowing from the dealer through the retail installment contract because all that is is that you are paying the \$3,000 or whatever you are paying for the car back in monthly installment payments.

ASSEMBLYMAN FENTON: Directly to him, you mean?

MR. SALDAMANDO: Yes.

ASSEMBLYMAN FENTON: If he's carrying you not outside you mean.

MR. SALDAMANDO: Right. I'll write you a memo.

ASSEMBLYMAN FENTON: All right, thanks.

MR. SALDAMANDO: Now, before I leave the area of automobile transactions, I would like to point out another problem which I am sure you are going to face next session,

if the bill ever gets over there from the Senate. That is the automobile insurance costs to comply with financial responsibility as opposed to any property insurance. There was a Senate I. and F.I. hearing on this issue back in January 1977, where it was pointed out to the Committee there that automobile insurance can be about \$800 in Los Angeles. I talked to an insurance agent in San Francisco who told me that in the Mission the coverage might cost you \$1,500 if you were not a terrific risk.

ASSEMBLYMAN TORRES: I paid \$1,200 a year because of where I live for ten percent use of my car because I happen to live in East Los Angeles.

ASSEMBLYMAN LOCKYER: Just the supplement on your state car?

ASSEMBLYMAN TORRES: Yes.

ASSEMBLYMAN LOCKYER: You don't have any other auto?

ASSEMBLYMAN TORRES: No.

ASSEMBLYMAN LOCKYER: We were just discussing the same thing. It's not quite that high but it is really extraordinary for ten percent.

ASSEMBLYMAN TORRES: I moved from Boyle Heights because I couldn't get a loan to buy a house in East Los Angeles because it was red-lined and we had to move to Chinatown, which we liked, in the District. They let us in, and we won't bring down the neighborhood, and I was paying \$800 a year in Boyle Heights and it rose to \$1,200 when we moved to Chinatown.

MR. SALDAMANDO: I think Mr. Torres is having worse luck than apparently the average Los Angeles motorist, but I think what this points out, and it's being reflected again in the uninsured motorist situation where it is creeping back up again. We are back up to almost 20 percent of California motorists are driving around uninsured. There were some efforts to institute no-fault in California. Mr. Fenton had a bill; McAlister had a bill; Mr. Foran had a bill and now Senator Garamendi has a bill, SB 499, which is still sitting in the Senate, as a means of trying to reduce the cost of auto insurance.

ASSEMBLYMAN FENTON: You're talking about no-fault?

MR. SALDAMANDO: Yes, sir. I pointed out your bill.

ASSEMBLYMAN FENTON: Let me say that one of my biggest opposition for no-fault came from consumer groups.

MR. SALDAMANDO: That's correct, and for cost control reasons, Mr. Fenton. But I think at some point the Legislature is going to have to look into the possibility of perhaps subsidizing low income people who cannot afford to lay out 30 or 40 percent of their annual income for insurance or perhaps a state insurance plan or something. I think it is a headache that is going to be with you for awhile.

The second area of installment contracts is the Unruh Act type of contract for goods and services. The consequences in this type of contract are not so severe because the creditor cannot repossess whatever is sold to you. It can only sue you for the unpaid balance. Because of this, I think the problems that at least I've seen in this area are

not as bad as the ones I've seen in the automobile insurance area. Now, we do have some instances of overpricing, especially of appliances. We have a lot of problems in the home improvement contract area where people are having to fix up their homes and they don't know what they're doing and they are falling prey to a lot of unlicensed and disreputable contractors. We've had a lot of trouble with some of these what I call upward-bound or self-improvement type of services--that is, people want to read better, the speedreading type of situation and modeling agencies. At this point, I was not aware of Mr. Fenton's Three-Day Cooling-Off Bill but we're going to be using it I think very successfully in the speedreading case where the person is coming up and signing people up in their home and so your bill will apply perfectly here because they're not giving the notice, so I think we're going to be able to help a lot of people with that.

One of the problems with translations of the contracts, if you'll look at the contract that is being passed around, is that it's very difficult for people to understand the contract regardless of what language it is in. California has a fairly decent co-signer warning but unfortunately the warning oftentimes comes too late for some people since it does not have to be given until at the time the contract is signed. There is no Three-Day Cooling-Off period. The FDC is proposing hearings at which they would require a Three-Day Cooling-Off period and I think that probably will be adopted. By then, they will apply in California.

I had this fairly elaborate presentation prepared on the small loan business in California, but in the interest

of time, I think I will defer to some of these other witnesses. It can be a problem in California. The Legislature is going to have to wrestle with the rates we're being charged again next year because the two-year bill that Senator Dills passed a couple years will expire.

We pointed out at some hearings held by Mr. McAlister on the Rule of Seventy-Eight, that they overcharged the California consumers, by using the Rule of Seventy-Eight as a means of rebating unearned interest charges, is about \$40 million a year just in the personal property broker and industrial loan broker type of loans. I think you're going to have to deal with that as well next session.

In conclusion, I would like to emphasize that there are a number of reputable, honest, business people out there who are not trying to gouge consumers. It must be difficult for some of them, especially if they're a little strapped for money to stand by and watch some of the rip-off artists take business away from them by all these faults and misleading types of representations. I think one thing that's going to have to be done, before too long, is that there's got to be some means of streamlining the types of contracts the consumers are being required to sign and there is no one that can really understand what they're entering into. I don't even know if consumer education can help you beyond a certain point. There's going to have to be a very serious look at, maybe by the Federal Government, FTC or by the state in cutting out a lot of the unnecessary verbiage that confuses what's really occurring in these contracts. I think, further, to

attempt to restrict the overcharging and overselling particularly of insurance, the Legislature is going to have to deal with the fact that it is in the self-interest of many creditors to sell the stuff, since they are receiving commissions as I pointed out thirty-five percent in credit insurance and I don't know what in property insurances. It's not regulated at all and I think that avenue is going to have to be either restricted or greatly shut-off to prevent those creditors who are selling the policies because it's good for their profit margin and not necessarily good for consumers. Thank you, very much. I'd be happy to answer any questions you might have.

CHAIRMAN LOCKYER: Questions from members? Anyone out there that has a burning one to ask Alex? Thank you.

MR. HERSCHEL ELKINS: I know you're all hungry. Herschel Elkins, Deputy Attorney General, in charge of the Attorney General's Consumer Protection Unit. I'll try to cut down the comments.

We receive complaints from the public in a number of ways. We find out about information in a number of ways. One is directly from the public. The major complaints we receive is mail order, particularly out-of-state problems. Out-of-state people complaining about California companies, California companies complaining about out-of-state companies because we're the only agency that they would normally go to there.

Problems of auto sales, of repeated repair of a problem of maybe within the warranty period and have to go back again and again and again.

Short stocking where the product is advertised and is not available and then one particular problem that affects poor people that has not been touched upon by anyone here at all and has not been touched upon by anyone that I recall ever. As a matter of fact, we have a bill that is, tried to get rid of some of this problem. It used to be a problem that affected only middle income and high income families and it has to do with the vending machine, the rack and the work-at-home schemes. The approach essentially is the people who have dead-end jobs or who are on Social Security or the elderly and see inflation going up and they see the problems connected with all the goodies around that they are unable to get and they are convinced that they should pay anywhere from \$800 to \$8,000 for ten vending machines and the idea essentially is that these vending machines be placed in various stores and they do all the work, you need no expertise whatsoever, and you simply go around and collect the money each week. The same problem in regard to work-at-home schemes and racks.

ASSEMBLYMAN GAGE: What was it--work-at-home schemes and what?

MR. ELKINS: Racks. Instead of the vending machines things that are placed on racks in stores and the raising of worms and all sorts of things which I'll get to in a minute which are considered somewhat esoteric but are not. Now, the majority of the people that we've examined are in low and low income groups. People for example, have borrowed money on their homes and because of the rapid rate of inflation, any one who owns a home, no matter how poor an area, usually has

some equity in it, borrowed from their relatives, borrowed from every finance company around to try to dig up a couple of thousand dollars and then discover misrepresentations that are made.

We have had complaints, not 200, but complaints against 200 companies in this past year in California, very few of which are now in business. Most of which soon disappear, and we rarely ever get a complaint until the company, of course, goes under. In fact, we rarely get complaints, which is one of the big problems particularly in low income areas. There's distrust of government and a lack of calling in complaints.

We have gone in, for example, when the landlord has complained that someone had left leaving the rent due and here was one of these vending machine schemes and we went in and found something like 180 individuals, each who are to pay \$2,500 for these vending machines, none of which even received these machines and they were almost all in low income areas. This is a problem area.

Another problem area that we now have is an area, again, that no one has talked about and these are very difficult cases. We brought one so far and we have a series we're about to bring and that's in regard to home foreclosures. If a person owns a home and can't make the payments and he's behind on a payment, he gets this Notice of Intent to Foreclose. This gives him 90 days to make up the payment. That has to be filed with the county. The moment that's filed, on his front door appear people and brochures and pamphlets telling how they can get out of this forfeiture problem.

Let me give you an example of a person who came in on Friday to our office. Individuals, both on Social Security, people apparently about eighty years old. They owned a home. They owned \$1,800 back payment. They had \$1,400 of that. They only needed \$400 more. However, this notice was sent. They could have easily handled the matter. They could have gotten the additional \$400. They had ninety days to get it. They could have gotten an extension from the bank but instead, they signed a document where they turned over this money to an individual who is licensed as a lender, sold the house to this individual. They didn't realize they did this, of course but it's all in the document. They didn't read it. It's in simple language and it's not complicated legalese. It's very simple language. They sold the house to them. They're renting the house back from the individual at the same rate that they were paying for their rent, taxes and everything else. And then they have an option within two years to buy it back again at a substantial increase. But if they miss any payment by 15 days, they lose their option. So, they lose all the protections the Legislature has given to them. This is not uncommon. We were told it didn't exist since we started and now we've got about 10 companies engaging in this in Orange County and Los Angeles County. In fact, we even have advertisements from the newspaper, how to take advantage of people in foreclosure.

The problem is that the documents are all there if you read them. We've had complaints from courts, from a judge who said look, someone...

ASSEMBLYMAN FENTON: These companies you say are licensed?

MR. ELKINS: Some of them are licensed, for example, as brokers but the agency that licenses them says that this activity is not covered by the license.

ASSEMBLYMAN FENTON: And there is no way that you could bring pressure on them as a licensee?

MR. ELKINS: No, what we're going is trying to gather enough information to sue them as we are. One of the problems is we don't get the complaints til people have left their homes. You can't even find them and the basic problem with poor people buying automobiles or homes or anything else is they don't remember what happened and they make very poor witnesses. You call them in and say what happened? Well, the guy was going to lend me some money and he was going to take care of my loan, but it says right here you're selling the property to him. It says, "I sell the property to". You can't even argue that it was written in another language or written in complicated language. Well, they didn't really read it. This is what in fact they were told. And when we can gather up enough to show that this is a pattern, we sue. But, it's an area that no one has really looked into carefully because the activity by the people is not covered. Some are real estate brokers, they're licensed as real estate brokers, but this is a sale to them directly, they're not covered. Some are brokers or lenders under other licenses and can't be covered there.

A third problem is frozen meat. A food problem. You find now, a number of poor people who, for example, are told

that they can get all the meat that they need at less money than they're paying now on monthly payments. So, they're not paying any more than they are now, and they're sold the forequarter or the hindquarter or entire side of beef, or two sides of beef, and it's supposed to last them for six months.

Series of misrepresentations are being made. As a matter of fact, in one of the companies that we sued, the salesman in one particular case called in to his manager and said, "These people aren't going to buy, they can read." The people are almost always poor, and what happens is, and this is where legislation might very well be needed. We don't have it in specific form, but let me tell you what some of the problems are. People are told that buying meat at seventy-nine cents a pound--for example, hanging weight. Hanging weight means the weight you got it on the hoof and with the meat they sell, which is yield five usually, where we're used to prime choice and goods, the people aren't used to yields. Yield 1 and 2 don't have much fat, yield 5 is all fat. So, they lose maybe 40% on fat. If they come into the place, they are switched to another product because you take one look at that stuff and you'd never buy it. And then they discover that when they listed the Porterhouse and the T-Bones and the steaks and everything else and then on the bottom they listed hamburger and the stew, they don't tell you you're getting one Porterhouse and a couple of T-Bones and 60% stew. There is no requirement that the list be in order of the number. There is no requirement that they list the approximate loss. In some of the injunctions we're getting against these companies, we are re-

quinn, then to the things that we have done. We tell people what the loss is, what they're really buying. But the problem is that the people are going from door-to-door and what they're doing from door-to-door, in order to get out of your bill, is they're telling them, you really have to come down to the plant and they get switched there. The transaction occurs at the plant, not in their homes. The solicitation is in the home.

The problem, of course, with the Three-Day Cooling-Off period is it doesn't help there because they don't even know what they've got until the meat is delivered. The meat is never delivered during the three-day period. Almost all companies comply with that Three-Day Cooling-Off Period Bill, even the companies that are really suspect. They don't deliver the goods for a period of three days or more and, of course, by that time it is too late. But the consumers often don't even realize what happened. They get short-weighted quite often, they don't get the products they ordered. A great deal of a problem area in this area of frozen meat.

Other problems, it was mentioned for example, regarding the immigration. This is a difficulty. If you think the problem of the poor not complaining is bad, the problem of people who are here illegally is even worse because how can they testify. There is always a fear that they're going to be sent back despite our protestations and it's not our intent. Besides they don't trust government. They come from countries that sometimes government was not always on their side.

The problems, therefore, are that we cannot find the

complaints. We have brought these cases in regard to the immigration ones and some of them alone, some of them in conjunction with the City Attorney, some of them we turned over to the City Attorney, some they found on their own. But finding the people is almost impossible. So we have to go out and dig for some of this stuff ourselves.

Now, let me cover a couple of things very briefly-- the Song-Beverly Act. What Shirley said is not really accurate. We are prosecuting the Song-Beverly Act. For several years we had some problems because it was preempted by the federal government which has a habit of preempting almost everything. But it's no longer preempted. We got that exemption. But even during that period, we argued that they misread what the federal act is and we have been bringing action. And we have been warning tremendous numbers of companies. The difficulty is we don't get "no" complaints, no one has ever complained of a violation of Song-Beverly to us or any other agency we know of. They don't know, for example, that if they buy a water heater and the water heater is in their home and the warranty says if something goes wrong, dismantle it and send it back to Massachusetts that that's a violation of California law. That if you buy something that is unreasonable to return, the company has to go out to your house and fix it or it has to pay. Now, it says in the warranty you have to send it back. So, why would they complain to anybody? They don't have the information. If we had the information, it would take us a week to bring the action. I mean we could do it very, very rapidly if we have it. The problem is, of course, there are

probably thirty or forty bills that the California Legislature has passed that do not involve a particular agency or regulations under that agency or specific remedies--even criminal remedies quite often. Our office can, under the general fair competition sections bring these actions if we know about them, but we often just don't know about them.

ASSEMBLYMAN FENTON: Remember my bill I passed that said when you have a warranty item and when it goes in for repair the number of days it's in you don't have it tacked on to the warranty? Has that worked at all?

MR. ELKINS: That's an interesting thing. Again, people don't know about it. For example, they take an automobile in, and this is the problem with automobiles. You take it in and it takes two months to fix. We did have a couple of people who did know your bill and they said, "Look, you didn't do it in this period of time." The guy says, "Look, the only part I got is in Japan. I've looked everywhere. I don't have it. You want to take the car back, you can take it back. But if you want me to fix it, you'll have to wait here for a month." Then after it's fixed, they come back again the next week and the next week and the next week. Whenever it's come to our attention, we contacted the company and said, "Look, there's an extension period." Often, as a matter of fact, the dealers are willing to extend it for a period of time. The problem is, with an automobile, it's your means of transportation. You're not in a good bargaining position. You bought a lemon. It goes in again and again and again, and about the fifth or

sixth time you're a little frustrated. So, you take in in somewhere else where you know they'll fix it, when you pay them for it.

There are problems, the dealers blame the manufacturer. They say they don't pay us enough for the warranty work. The manufacturers blame the dealers, saying they're making more money than they should on the other repair work, they should be doing this.

The Song-Beverly has a lot of good things in it. We'll bring over the next two months about maybe a dozen actions against companies violating the Song-Beverly Act and hopefully that will publicize the problem and will also convince companies to comply with it. That's a technique that we have used.

In regard to the Credit Life and Disability, because Assemblyman Fenton raised that question. I'm unaware of any automobile dealer that has required Credit Life and Disability. They have required liability. In fact, there's usually a box which says I understand that I'm asking for this and is not required, Credit Life and Disability. Strangely enough, there are a number of people and particularly poor people who want the Credit Life and Disability. They ask for it and are angry if the company doesn't sell it to them at those outrageous rates because they're afraid of what's going to happen if they're disabled or whatever.

Now, in regard to the translation. We have, for example, a thing that goes out called On-Guard in English, Spanish, and now it's in Japanese. I assume we could also put it out in Chinese and Portuguese and Korean and a dozen

other languages. I'm not sure that that many people read it. If they're sophisticated enough to read the material that goes out, they probably don't need the material. We try and we try to get some of the material out. In regard to the Spanish Language Contracts, one of the problems there is that the Spanish Language Contracts are often written by professors in universities and it's not straight Spanish. So, I think the English would help probably even more.

Under the present law they don't have the contract given to them. They have a right to see a typical copy of it and people just don't normally ask for it. By the way, sometimes the Legal Aid Groups are angry when the individual does give the copy in Spanish. Many Legal Aid people have told me that if they have a person who speaks only Spanish and got a contract in English and they go to court and say to the judge, look, this man was given a contract in a language he doesn't even understand, they have a better chance than if a person is given a contract which they are not going to read anyway, or wouldn't understand anyway. So, they feel, in effect, it may be a way of taking away the defense and doesn't give the person anything because he isn't trained to read it or doesn't understand what the terminology means. I don't know, it's all guesswork and no one has any statistics on this. I could obviously spend a great deal of time. I wish I could, but I know you're all hungry and I'd like to end with that and see if there are any particular questions that you have.

ASSEMBLYMAN GAGE: The first instance of rate or incidence of problems you face you cited as interstate in one

way or another.

MR. ELKINS: Yes.

ASSEMBLYMAN GAGE: Is your office limited substantially in what you can do in those instances or do you have authority?

MR. ELKINS: We have authority but let me tell you one little story. I'm not too sure what we can do to help. We sued a company that was in Ohio, doing business in California. That is they sent in hundreds of thousands, millions of things into California--mail order. We got an injunction. The company went bankrupt. The Bankruptcy Court, by the way, protects people who cheat consumers unfortunately too often. Anyway, the company then went to Illinois. A new company. Same man but new company. He did no business in Illinois. He only did business out of the state so Illinois wouldn't have any jurisdiction over him. We got a Preliminary Injunction here against him which he violated. So, we went to the San Francisco District Attorney's Office. We went to the Grand Jury. We got an indictment, felony, misdemeanor, contempts, all these things put together. Went to the Governor and got extradition, got extradition from the Illinois Governor. Now, it's going through the courts. It will go to the state courts, they'll go to the federal courts. It'll be three years before we get him here. But this technique is one that we're hoping to use to convince people out of the state that we have some means of effectuating our judgments. What do you do when you get a judgment against a person in Illinois or New York or New Jersey, how are you going to enforce it and that is a difficult problem.

Jurisdiction we have. We have brought many actions against out-of-state companies. If the company is big enough so it wants to continue the business it complies, and we've gotten very heavy penalties.

We've even brought actions against California companies competing with other California companies doing business out of the state because it is a practical matter that's a very difficult to get to anybody unless they're here. But the out-of-state problem is awfully difficult as a practical matter and I just don't know how we solve it. The federal government has virtually no interest in bringing actions on these interstate matters. Unfortunately, the federal government has passed bills, some of which have preempted ours and then has provided no enforcement. I wish that the postal authority statutes were better and that the U. S. Attorney would show some interest in bringing these actions. Then perhaps we could do more.

CHAIRMAN LOCKYER: Thank you very much, Herschel. Toby Rothschild is next, then Kathie Mabie is our last witness unless there's anyone here that I'm not aware of.

MR. TOBY ROTHSCHILD: Mr. Chairman, members of the Committee, my name is Toby Rothschild and I'm the Executive Director of the Legal Aid Foundation in Long Beach. I've been in Legal Aid work for eight years now in both East Los Angeles and Long Beach and have specialized in problems of consumers and debtors. The specific topic that I want to direct this morning is the area of problems that are faced by senior citizens. Long Beach, as you may well know, is very heavily populated by seniors. I think the most recent study shows it

to be the largest per capita population of seniors of any major city in the country.

Seniors face the same basic kinds of problems really that other consumers do. The main difference is they have slightly different manifestations. Many of these are caused by the fact that they're particular factual situations. Many of them are homeowners, they've lived in the same home for thirty or forty years or whatever and owned their own homes. Many others, because of housing costs and the like, are mobilehome owners or purchasers.

Another fact which creates a lot of their problems is that many of them have a nest egg, unlike many of the lower income people. Many of the seniors who are on small fixed incomes do have a nest egg that they've saved for their whole life to do something with.

This combination of facts leads to a whole number of unique problems really that are faced by seniors. A couple of them Herschel referred to a few minutes ago, the business opportunities problems; a person is retired, just receiving Social Security and their approach to invest what little nest egg they have to buy the vending machines or the other business opportunities.

Another area that is a major problem is the area of home repairs. I think that was somewhat addressed. Let me just expand on it a little. As I indicated, many of these homes the people have lived in for thirty or forty years. They are beginning to have some problems with them and people come around to their door and say you really need this repair.

Alex was commenting earlier to me about a situation they had in San Francisco where a person came around to the door and said we've taken an infrared photograph of your neighborhood and it shows that there's substantial heat leakage from your house and you really need to insulate your house. It wasn't true but it managed to sell. We've had two or three cases of tree trimmers coming around saying, you have this big tree, it's going to fall over, get diseased, or whatever, it needs to be trimmed. I'll trim it for you for \$25. He trims the tree and comes back to collect the \$400 bill. What do you mean \$400? Well, it's \$25 a foot and I took eight feet off of the tree. The people pay it because they don't realize that there's a choice.

There's a follow-up problem and it was some of the things that again, Herschel, referred to and that is a person needs to pay for these repairs, they refinance the home, their income is limited and they fall behind in the payments. It leads to the Notice of Foreclosure and all of a sudden you've got the problem Herschel mentioned before of the refinance assistance. Some of them are the kind he described. We had one case where a person was told that you pay your money into us and we'll accumulate it for you and then as soon as you have enough to pay off the amount that owe we'll pay it over to the D.A., I guess it was in that case, for you. Essentially, all they were doing was serving as a bank. For this privilege, not only did they not pay any interest but they charged eight percent of the total balance that was eventually going to be

paid in. So that the first eight percent that you paid in went totally to them for their services of acting as a bank.

Mobilehomes, problems with the quality of construction and failure to honor the warranties, frequently the manufacturers are in distant places. The dealers may or may not be around to honor the warranties that are provided. There are all sorts of laws in that area. It's another area where enforcement is extremely difficult.

Another area in a consumer related field, relating to housing, would be problems of tenants and there are some problems in that area that are particularly difficult for seniors because landlords know exactly when it is that seniors are getting more money. They know when the social security checks are going up. It's amazing how often the rent increases come when the day that the Social Security increase comes and in the same amount.

One other problem I would want to point out, in the interest of keeping it short, would be the area of hearing aids and other health related problems. It's an area where there's been some attempts of legislation I know of in the past few years. The federal government has now come out with some regulations on hearing aid sales, but as a whole the number of problems of cases that we get in the hearing aid area is just enormous. With that, I would be glad to respond to whatever questions there may be.

CHAIRMAN LOCKYER: I only have one. It may be one that I should have perhaps asked privately rather than in a public testimony. I'm just beginning to try to get familiar with the different Consumer Protection Agencies in various

localities and I'm curious about your feelings about the Long Beach City Agency and where they seem to be particularly helpful or particularly, maybe, uninterested in a certain type problem or something like that and wondered if you might share any results of your experiences in working with them.

MR. ROTHSCHILD: I think that one of the primary problems the Long Beach agency has is the same problem that we have and Herschel has and all the rest of us have, and that is very limited resources to tackle an extremely complex problem. We have begun recently coordinating much more closely with them to try to prevent some of the overlap. There are certain things they can do better than we can and others that we can do better than they can to try to coordinate some of those efforts. I think that overall they have been very effective in those areas they have done work in but beyond that, they just have not done as much as I would like to have seen. I think a lot of that is money.

CHAIRMAN LOCKYER: O.K. Thank you, Toby. Kathie?

KATHIE MABIE: I'm Kathie Mabie, a Consumer Analyst from Santa Cruz County and President of the California Consumer Affairs Association and I was asked to talk about consumer education in Santa Cruz County. I would like to share that as of February of this year, we are under the District Attorney's Office and do operate autonomously. We have a staff of three people, two advisory and one clerical person to cover a population of 180,000. We receive 300 to 325 complaints and phone calls a month and we try to encourage consumers to go back to the business and let business resolve their problems before

getting involved. We have other things going on besides our extensive education program. We publish a quarterly newsletter, give speeches to the community, have outreach offices and have a monthly radio series going. We do have 20% of our population that is retired. They are experiencing difficulty in deciding to retire to Santa Cruz now and the cost of living has gone up tremendously in our community and housing has become extremely expensive as there is very little available in Santa Cruz. That's a brief background about our office and I would like to go into my testimony directly.

Santa Cruz County Consumer Affairs has been in the forefront with consumer education since 1974. Our office feels consumer education is one of the keys to curbing the problems in the marketplace. We feel by making the general public aware of pitfalls in purchasing goods it will make it easier for them to say no to tempting deals that turn out to be frauds. We have presented educational programs in the following areas, educated a workshop which focus was to present practical materials for classrooms, to instructors at secondary and college levels, Spanish-speaking and low income workshops. The focus there was to acquaint these people with offices who can assist them with common consumer problems. I would like to share here that the best way to meet your low income people is to take it to where they are meeting and I have found that the health clinics in our community are the best places to take these programs because you have a captive audience and the low income people aren't going to come to you. I have done workshops on automotive concerns, focusing on rights

and responsibilities, consumers, tenant-landlord relations focusing on the rights and responsibilities of both tenants and landlords and an advertising seminar which was the first in the state for business people. The focus was to familiarize local business with advertising laws and what Santa Cruz County expects in the business advertising in the county. Today I will share two ongoing programs we have in Santa Cruz County. These programs are Small Claims court workshop and mediation. I will begin with Small Claims Court. We began our program on a trial basis two years ago and it has proven to be our best program. Small Claims Court is the people's court for all people, no matter what their income level is. Before our program began, we found people afraid to use Small Claims Court, especially the low income, poorly educated and retired. Our workshop is presented twice a month on a drop-in basis and by appointment for those who can't make the workshop. If they can't make it at the present time, we allow them to come in by appointment. I have worked with local judges in setting up a program and find them always appreciative of the assistance the workshop has offered in court and I will show you now some transparencies and I believe transparencies are an easy way to communicate because anybody in my office can carry an overhead projector and anybody can use the transparencies and we have set it up in a before going to court basis.

ASSEMBLYMAN GAGE: Do you find these in terms of pamphlet form or booklet form a distribution in communities?

MS. MABIE: No. We don't have the budget, but anybody is welcome to have a copy of our transparencies and our

workshop is available in our main office plus in the Watsonville office. We're the second smallest county in the state and we do cover about 500 square miles but we don't have the problem that you do in...

ASSEMBLYMAN GAGE: What percentage of complaints come from students at UCSC?

MS. MABIE: Relatively small complaints. The UCSC campus is kind of a city to itself in Santa Cruz and the people pretty much stay on the campus. But anyway it is set up before going to court and due to the lack of time I will just go and show you and let you read for yourself and then we go and actually present the case to the judge and then after judgment. This is a very critical area because people don't realize that they have rights after the judgment has been granted and they are unable to collect, so my main purpose in telling them about this is so they know that we can assist them in getting their judgment collected.

ASSEMBLYMAN AGNOS: In the district I represent in San Francisco I had that prepared in pamphlet form and distributed it to 80,000 households in my district with newsletters that every legislator is authorized to send to their districts several times a year.

MS. MABIE: I'll go talk to Assemblyman Mello on this.

ASSEMBLYMAN AGNOS: I think he's the kind of person who would be delighted to do it and you might also refer him to the fact that I've done it and some other legislators have already done it in a recognizable form. In fact, if you'll write to my office, I'll be glad to send you a copy of what we did.

MS. MABIE: Ok. I sure will. That's great to hear. I think the consumers feel they need the assistance in putting their information together. I think that's a fantastic idea. Unfortunately we operate on a \$50,000 a year budget and try to do an awful lot of education in that budget and sometimes our printing of materials is what suffers. Our workshop is presented in an informal manner, 10 to 15 minute presentation, on what the court expects, assistance is offered on an individual basis and each person's case is discussed and suggestions are made on as to what evidence they may need in court. For the person who needs more assistance because they have difficulty speaking or writing English we spend more time with them and help them prepare their outline and other materials they need to take to court. We point out that Small Claims Court isn't like Perry Mason but a more informal courtroom setting where the judge is interested in hearing their case. For those people who are apprehensive, we suggest going a couple of days before their hearing and sitting in on a court session. There are many problems that can't be resolved by this office because there is no right or wrong in the law and so we must refer it on to Small Claims Court. Before we began our workshops, many of our low income and retired people would drop the case rather than go to Small Claims Court. With the assistance of our workshops, these people will go to Small Claims Court to try and recoup money that is taken from them in an unfair manner. It is a relief for these people to know that they can go to court for \$4.50 without an attorney.

Unfortunately, the low income and retired people are very trusting and often get stuck with purchases they can't afford or that are useless. Encouraging these people to use Small Claims Court is very important so that they can recoup part of the many dollars lost each year in unscrupulous sales transactions in the marketplace. I am one person in the consumer movement who feels the Small Claims Court level should be raised to a \$1,000.00 because so many people who can't afford attorneys lose this amount each year in shoddy transactions. If the claim was raised, these people would have the opportunity to recoup a more realistic amount of the dollars they lose. The common problems that retired people take to Small Claims Court are incomplete mobile home transactions, unnecessary health insurance, home repairs and rent deposit returns. Low income common problems are tenant-landlord relations, used car purchase and auto repair problems. At this point I am going to go into our mediation and we have formulized our mediation program about 2½ years ago. Mediation is offered when two parties want to settle a dispute but are unable to. We invite them in under the following conditions, that each party be willing to compromise and that it take place in our office which is neutral territory. A mediation is set up where each person has an opportunity to share their problem uninterrupted. Then we discuss the things that were brought up in each person's statement of what has happened, look at compromises, and then set up a timetable for the problem to be resolved. Every mediation that has been done by our office so far has been resolved. Our education programs that are incorporated into our tight budget, the programs have

made consumers more aware of their purchases in the marketplace and I feel that for a retired population that times have changed drastically from their business days when a verbal agreement was all that was necessary, to now when any agreement in the marketplace needs to be in writing. These people need consumer tips before they get ripped-off and the best place to provide them with this information is at the retired community centers throughout California. We, at the local agency level, try to provide services to these centers but we are responsible to the entire county. My suggestion to you is when funding retirement centers to include funds for consumer education for these people. Low income and Spanish-speaking people need information and programs taken to them. In Santa Cruz County we have taken it to the health clinic where people wait for services for 3 and 4 hours. The information needs to be presented in a simple and entertaining manner. That concludes my testimony.

I had a couple of comments on things that were said today and you asked earlier about some of the things that can be done rather than legislation or to help solve some of the problems and as you heard some of our attorneys here, it is very difficult to file a lot of the consumer cases and I think as we think of consumer legislation, we need to allow consumers to file for things in Small Claims Court other than just damages which they are allowed to at this point. An example is in tenant-landlord law consumers are allowed to file for \$200 in punitive damages. In Santa Cruz County until recently, the judges wouldn't award \$200.00 punitive damages because they really didn't think the consumer was injured and some of our

judges say they still don't agree with the terminology but they are beginning to see that when landlords aren't returning deposits that it's only fair that the consumer have some kind of financial adjustment made. I would also like to tell you as an educator on a part-time basis at the Community College, that consumer education needs to begin in kindergarten. I teach adults from 18 to 60 and I'm teaching them many things they should have known a long time ago and are learning a little bit late in life. I will put in a pitch for the State Complete Consumer Catalog I use as a textbook in my classroom.

**CHAIRMAN LOCKYER:** Any questions? All right, thank you Kathie. Is Ruth Robinson here? Did you want to say something too? Come on forward.

**RUTH ROBINSON:** My name is Mrs. Ruth Robinson and I am PR for ANC Mothers Welfare Rights Organization. My concern is, and it's been the concern of some of a number of clients we have had in our office is that you're talking about consumer fraud and I'm greatly concerned about the poor people who have bought houses under HUD, under the various programs and six months to a year after they have lived in the houses, the houses start falling apart and they have nobody to go to as a recourse to get satisfaction to get the houses fixed up and I want to know what you are going to do about this because, myself for an example, I bought my house through HUD and there were a number of things wrong with my house because I watched it being rehabilitated and my father at that time was a licensed contractor. He saw things that were wrong and he said "well, don't worry about it because it won't pass inspection". But

the house did pass inspection and I bought the house. I didn't have a washer and dryer when I moved in. I got one about 5 years later. Six months after using my washer and dryer, I found out that the water that emptied out was running out up under my house. And the pipe that came from that pipe was just an empty pipe hanging out from under my house and it wasn't connected to the sewer, but the house passed inspection. So there has to be somebody on the take somewhere for these houses to pass inspection.

CHAIRMAN LOCKYER: It's a question that frequently comes up whether large contracting jobs are occurring whether it's houses or other major construction and are not being adequately inspected. One of the hearings we are having this fall later on is to try to start looking at that system of whether consumers are protected or not. With respect to this specific one, when it's a HUD property, since that's a federal program, we're going to have to check in with the Feds to see if they have a way of tightening up their procedures. But what I'd like to suggest, Ruth, is I have your address and phone and I will make sure that someone from the federal office contacts you about at least that particular problem.

MRS. ROBINSON: I contacted them after I found out it had happened and they told me there wasn't anything they could do about it.

CHAIRMAN LOCKYER: Well, let me check and if that's what they say, then that's what we'll tell you.

MRS. ROBINSON: The problem's been solved now, but

what I'm saying is I had to spend money out of my own pocket to fix something that should have been fixed before the house was even sold. I have light switches that don't even connect to anything.

CHAIRMAN LOCKYER: We need to have some kind of better inspection programs presumably and we're beginning to start looking into that issue ourselves.

MRS. ROBINSON: I think they owe the poor people especially who buy houses under these programs, some type of recourse to go to when they buy a house and it slowly starts falling apart and then you call them and they say there's nothing they can do about it.

CHAIRMAN LOCKYER: Presumably, people assume when they have the ok. of a federal agency that it's been checked out and that sort of thing.

MRS. ROBINSON: I can remember back in the '50's when you bought a house through HUD it meant something. You had an A-1 house but now, buying a house from HUD doesn't mean any more than if you have a 6 year old child come in and inspect it. This is bad.

CHAIRMAN LOCKYER: Thank you, Ruth. Anyone else? Otherwise, I think we are ready to wrap it up for the day. What we do is review the comments everyone has made and try to look for possible legislative remedies that we might have introduced in the form of a bill next year and so that process will begin now with careful scrutiny and thought about the testimony that's been given. I would just like to thank those of you who did

testify for participating and those who have an interest in  
this area for joining us and hope that you will stay in contact  
with the members of the Committee and staff so that we might  
continue to do our job. Thanks a lot.

END

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