

Consumer Credit Code Subcommittee
of the
Committees on Commerce

Final Report

The Consumer Credit Code Subcommittee was created by Committees on Commerce during the 1969 interim study period. The following legislators were appointed to the Subcommittee:

Representative Stanley T. Shepherd, Chairman
*Senator Joseph Flatt
Senator Harold A. Thordsen
Senator J. Donald Weimer
Representative Trave E. O'Hearn
Representative Berl E. Priebe

*Resigned

The Subcommittee was assigned the study of the Uniform Consumer Credit Code as promulgated by the National Conference of Commissioners of Uniform State Laws. The Subcommittee was specifically assigned the responsibility to review the substantive provisions of the proposed Uniform Consumer Credit Code and to determine whether or not the Code should be recommended for adoption by the General Assembly.

The Subcommittee held two separate meetings and two joint meetings with the Subcommittee on Financial Institutions of the Committees on Commerce. The Subcommittee on Financial Institutions was studying a related topic on revolving credit, credit cards and check credit. The separate meetings were held on August 14 and October 10, and joint meetings were held on November 25 and December 9.

Due to the length and technical provisions of the proposed Code, the Subcommittee invited Mr. Neil Butler, a staff member of the National Conference of Commissioners of Uniform State Laws, to the first meeting to explain its major substantive provisions. The Subcommittee also invited representatives of consumer interest groups, retail business organizations, and banking and finance industry organizations to its meetings to present their respective views and recommendations. A list of the invited guests is attached to this report and by this reference is made a part thereof.

Some of the reasons cited by proponents of the proposed Code for recommending its adoption are as follows:

1. The Code would simplify, clarify, and integrate the law governing retail installment sales, consumer credit, small loans and usury.

2. The Code would exempt Iowa creditors from Federal enforcement of Truth-in-Lending and substitute Iowa administrative enforcement therefor.

3. The Code would mark a significant advance in protections for all credit consumers.

4. The Code would place interest rate ceilings at a level which would permit consumer creditors to extend credit to all types of credit risks.

5. The Code would protect consumer buyers, lessees, and borrowers against unfair practices by some suppliers of consumer credit with due regard for the interests of legitimate creditors.

Mr. L. Richard Freese, Jr., an attorney for J. C. Penney Company, prepared a document which was designed to analyze and compare the proposed Uniform Consumer Credit Code with existing Iowa credit statutes. This document was distributed to the members of the Subcommittee. A copy of this research document and proponent's statements are filed in the Legislative Service Bureau office.

Some of the reasons cited by opponents of the proposed Code are as follows:

1. The Code is an incredibly long, complex, cumbersome statutory maze which is uniformly weighted in favor of the creditor.

2. The Code would increase interest rate ceilings which will tend to become the effective rates rather than ceilings below which competition would determine the effective rates.

3. Current Iowa credit laws which are individually tailored to the various credit purposes, types of loans and methods of operation of consumer creditors have proven to be successful regulatory tools.

4. "Free entry" provisions of the Code which are designed to foster greater credit competition may be detrimental to the interests of consumers and creditors rather than beneficial.

5. There may be considerable merit to implementing a separate law which is designed to protect consumer rights without specific limitations to credit transactions alone.

A copy of statements in opposition to the Code which were presented by Mr. Alvin W. Jordan, Iowa Credit Union League, and Mr. Edward Berlin, an attorney for the Consumer Federation of America, are filed in the Legislative Service Bureau office.

At the December 9 meeting, the Subcommittee concluded that a continued study would be necessary to fully evaluate the provisions of the proposed Code. As a result, the Subcommittee recommends that the Committees on Commerce of the Sixty-third General Assembly provide for the continued study of the Uniform Consumer Credit Code and revolving credit, credit cards and check credit and that the present members of the Subcommittees on the Uniform Consumer Credit Code and Financial Institutions be appointed to the continued study.

Respectfully submitted,

Representative Stanley T. Shepherd, Chairman

Consumer Credit Code Subcommittee

Guest List

Mr. Neil Butler, National Conference of Commissioners of
Uniform State Laws
Professor Allan D. Vestal, Commissioner on Uniform State Laws
Mr. John L. McCabe, J. C. Penney Co.
Mr. L. Richard Freese, Jr., J. C. Penney Co.
Mr. Rick Raphael, J. C. Penney Co.
Mr. George J. Wallace, Associate Professor,
The University of Iowa Law School
Mr. Robert G. Whitley, Jr.,
The University of Iowa Law School
Mr. A. W. Jordan, Iowa Credit Union League
Mr. Peter Westergaard,
Iowa Consumers League & Iowa Credit Union League
Mr. Wendell B. Gibson, Iowa Bankers Association
Mr. Robert A. Krane, Iowa-Des Moines National Bank
Mr. Clarke E. Bailey, Director,
Industrial Loan Division, Office of Auditor of State
Mr. Elmer L. Burgeson, O'Dean Finance Company
Mr. Arthur E. Lindquist, Jr., Iowa Bankers Association
Mr. Frank A. Stewart, O'Dean Finance Company
Mr. O. A. Swartz, Siouxland Credit Corporation
Mr. Paul C. Eide, President, Iowa Industrial Loan Association
Mr. Larry L. Breeding, Dial Finance Company
Mr. Peter Henter, Iowa Retail Federation
Mr. Edward Berlin, Consumer Federation of America
Mr. Lloyd Jackson, Iowa Insurance Department
Mr. Edward Kallemyn, Mortgage Guarantee Insurance Corporation
Mr. William Vess, Montgomery Ward
Mr. John Bryant, Morris Plan Company
Mr. John E. Peterson, Dial Finance Company
Mr. George A. Wilson, Iowa Consumer Finance Association
Mr. George Lindeman, Commissioner on Uniform State Laws
Professor Richard F. Dole, Jr., Commissioner on Uniform State Laws
Mr. L. M. Fitzgerald, Massey Ferguson Credit Corporation

Comments of Consumer Credit Code Subcommittee Chairman

Mrs. Virginia Knauer, the President's special assistant for consumer affairs is facing an almost impossible task. Mr. Nixon's proposed consumer legislation would establish a new office of consumer affairs, to be headed by Mrs. Knauer. Her first order of business would be to coordinate all federal activities in the consumer protection field, helping to establish priorities to resolve conflicts.

All federal ACTIVITIES COVER A GREAT AMOUNT of ground. According to a survey, at least 39 federal agencies, offices and departments are engaged in one consumer activity or another, with many of them working in numerous fields.

To take only one of the better known programs, so-called "truth-in-lending", administration is scattered among ten different agencies:

- The Agriculture Department.
- The Bureau of Federal Credit Union.
- The Civil Aeronautics Board.
- The Comptroller of the Currency.
- The Federal Deposit Insurance Corporation.
- The Federal Home Loan Bank Board.
- The Federal Reserve Board.
- The Federal Trade Commission.
- The Interstate Commerce Commission.
- The National Commission on Consumer Finance.

Mrs. Knauer's task of coordination would be simpler if consumer protection were entirely new,

BUT IT ISN'T...

Consumers make up the biggest voting bloc of all, including absolutely everyone.

Over the years the agencies' operations have been encrusted with bureaucracy...so coordination will involve much more than devising the best way for government to proceed; it will mean that someone will either have to persuade--or force--a great many federal units out of old habits.

Even the best of businesses does not provide perfect products or services; that is, and will continue to be an imperfect world...everyone has his own horror stories.

The problems have actually grown with affluence since so many more items are offered and the average American is faced with many more decisions...lately inflation has made wrong decisions all the more costly.

Who, exactly, is going to see that consumers get what they've got coming to them...Mrs. Knauer's new office, in addition to pulling order out of the existing bureaucratic chaos, would initiate research, recommend program improvements and act as a sort of clearing house for consumer complaints.

Bear in mind this is federal government control...beyond that, the President proposes a new division of consumer protection in the Justice Department...there would also be a new consumer protection law, to be enforced by the Justice Department and U.S. attorneys around the land; consumers could go to court to seek redress for damages...and that's far from all...the Federal Trade Commissions would be "revitalized", consumer education would be expanded...in short, the federal government would get awfully busy in these areas.

The truth is that consumer protection, if it is to be effective, must be the work of diverse hands...for one thing, the best legal defense against consumer fraud, WHERE IT DOES EXIST, would be effective action, by STATE AND LOCAL GOVERNMENT...I doubt that the nation is quite ready for an army of federal policemen large enough to roam all the states.

Business, too, can and should police itself...it is the opinion among many of our businessmen that they had better pay considerably more attention to the matter of self-policing than we have in the past in order to dampen the pressure of federal government on us.

If states and localities don't want the federal government intruding ever more deeply into their operations many of them also will have to become better policemen.

If everyone does his part, this mission would not appear quite so impossible.

There is the situation as far as the federal government and Mrs. Knauer is concerned.

How about the states looking themselves over to correct flaws, if necessary, before the federal government moves in.

The consumer credit protection act of 1968 (Truth-in-lending law) directed the establishment of a national commission on consumer finance to study and appraise, the functioning and structure of the consumer finance industry as well as consumer credit transactions generally...the commission was charged with submitting a report to the President and the Congress by Jan. 1, 1971...the law provided that the commission would be composed of three U.S. Senators, three members of the House, and three public members, including the Chairman, to be appointed by the President.

The commission was authorized funds...but none were appropriated; and the President (1968) in the closing days of his administration appointed three public members, but failed to designate a chairman...thus, though the commission was named, it never became operative. Now the present President has appointed three new public members and has requested funds to activate the commission to accomplish its assigned mission...the appointments, however, according to some authorities, have created little enthusiasm among consumers generally.

As you well know, Credit is big business today...in fact, it is the American way of life.

Let me give you one example of one segment of this economy; CREDIT UNIONS. In December 1959, they had \$3.2 billion in installment credit...now (December 1969) they probably have \$11½ billion in installment credit. At the beginning of 1960, they had \$4.4 billion in savings...now they have \$13½ billion in savings...over half of their loans, savings, and assists came during the 1960's.

New Credit Cards...how will they effect our economy?... will they cause a surge of credit buying and cause a situation that will create a turmoil in the field of bankruptcy?

Late papers, TV and Radio have stressed the needs for uniform laws in the states to cover consumers...one paper had one entire page devoted to this subject...this only proves that soon consumers are going to get angry and look toward us for the answers. If we need to make changes to protect the consumers we had better find out as soon as possible...if we decide not to adopt the entire UCCC we should proceed to determine what should be done and that is the reason for our recommendation for further study. At no time have we given favor to one side or the other, and our only desire is to be fully informed of the existing conditions in the state of Iowa pertaining to the protection of the consumers.

/s/ S. T. SHEPHERD
State Representative