

H. Vance Austin

There probably could not be a more appropriate time for me to be here talking about consumer representation through credit unions because at this moment the credit union movement is putting forth a peak effort to help consumers understand what they're doing when they use their consumer credit.

Just yesterday, the president of the Credit Union National Association and three other credit union leaders took the witness stand in a hearing before a U. S. Senate subcommittee to testify that consumer credit in this country has become so complicated and so confusing that the average consumer has no idea what kind of interest rate or finance charge he is paying.

The subject of their testimony was the so-called "truth in lending" bill which has been introduced in Congress by Senator Paul Douglas of Illinois.

The purpose of this bill is simply to require lenders and vendors to tell the truth for the first time about interest rates and finance charges. If passed by Congress, lenders and vendors of consumer credit would no longer be able to hide the true cost of a loan or charge account plan behind a mumbo-jumbo of confusingly stated interest rates and complicated finance charges.

Consumer Must Be Lawyer, Accountant And Mathematician

Senator Douglas hit the nail on the head when he had this to say when he introduced the bill early in the current session of Congress:

"In too many instances, today, the consumer who signs a document that places him in debt would have to be a lawyer in order to understand the fine print that spells out his rights and liabilities; and he would have to be an accountant or an expert in higher mathematics in order to compute in simple annual terms the cost of the credit. Altogether too often he is deceived into paying a higher cost for credit than he has been led to expect by the huckstering of fast-talking salesmen. True annual rates running as high as 30 to 40 percent are camouflaged in terms of rates which are seemingly modest because they are stated as monthly, rather than annual rates, and are further disguised in the form of fees, charges, discounts and the like - all of which make up the true cost of credit to the consumer."

In addition, Senator Douglas said that the average consumer cannot make rational choices in a free, competitive economy unless he is an informed consumer. And he said that the "truth in lending" bill (which already has drawn the support of 19 other Senators and a long list of Federal agencies, including the Federal Reserve Board) would restore consumer sovereignty to the American economy.

Credit Unions Endorse Douglas Bill

We in the credit union movement heartily approve Senatore Douglas' remarks and the Executive Committee of the Credit Union National Association has taken a strong stand in favor of the Douglas bill.

As those of you who are credit union members know, one of the primary purposes of the credit union movement is to educate its members in the proper use of all of their financial resources, including the wise use of their consumer credit. And we believe that the Douglas bill is one way in which all consumers can get this kind of education.

In an era when consumer credit has become a way of life for millions of families, it is imperative for their own financial welfare, that they not only know how to shop for the best available products but also that they know how to shop for the best available way of paying for those products.

However, when credit granters can hide the true cost of credit behind an amazing confusion of different interest rate plans, not to say anything about other finance fees and credit insurance charges, people pay excessive consumer credit charges without even realizing it.

It is important to note here too that I am not talking about the ignorant or semi-literate consumers when I say that people pay excessive interest and finance charges without the slightest idea of what they're actually paying.

Average Person Completely Unaware of Credit Costs

The treasurer of one of our larger credit unions, which incidentally serves top officers as well as enlisted men in one branch of our military service, recently pointed out that ignorance in consumer credit has little relationship to the average individual's level of intelligence or to his degree of education. In looking over the financial problems of this credit union's members, he discovered that high-ranking officers with the best possible educational background ran into troubled financial waters as easily as less educated enlisted men. In fact, in many instances, he found that the less educated, lower income, enlisted men frequently knew more about what they actually were paying because of their more frequent contact with credit merchants and because their easy payments usually represent a substantial portion of their pay checks.

Other credit union treasurers have found that the average person is blissfully unaware of the price he actually pays for credit and that he is so confused by the kaleidoscopic language and practices of the credit industry as to be completely incapable of sound judgement.

Millions Duped Out of a Week's Wages

As a result, there are millions of American families who are being duped out of a full week's wages each year by excessive consumer credit costs, and some pay even more. We know that our members are saving at least \$200,000,000 each year, by borrowing from their credit unions. In this day and age, when everybody talks in billions of dollars, that doesn't sound like too much, but consider how much additional and worthwhile purchasing it adds to our economy: That \$200,000,000 will pay for twenty thousand \$10,000 homes or one hundred thousand of the new economy cars or it could buy a year's groceries for two hundred thousand American families.

What I have been saying, however, is not meant to sound like a wholesale indictment of our country's credit-using consumers. There are, of course, many persons who know exactly what they're doing when they purchase on credit. The sad part of it is that they represent such a small part of our total population.

People Can Manage Their Own Finances

The history of the credit union movement, for example, has proved that people are fully able to manage their own finances, especially if they are given the true facts concerning the use of their money and their credit.

One of the disturbing facts about the consumer credit situation today is that this area of our economic activity has been overlooked for so long. Although it is true that there has been a consumer credit explosion since the end of World War II, consumer credit, in one form or another, has been in use for thousands of years.

In fact, credit, as you may know, is actually older than money. Many ancient credit extensions are recorded on stone tablets and papyrus. Interestingly, the terms of these transactions are much like ours today. And usually just as confusing. For example, a loan contract cut into stone in 595 B. C. in Babylon reads:

"One-half mina of silver, the possession of Nabu-usabsi (fortunately these men are not alive to hear me pronounce their names), the son of Nergal-usallim, son of Nur-Sin, is owed by Nabu-sar-ahesu, the son of Nabu-utirra. Yearly, upon one mina, ten shekels of silver shall accumulate. All his property in town and country, all that there is, shall be a pledge for Nabu-usabsi. Another creditor has no right of disposal over it until Nabu-usabsi gets his money, full repaid."

The full contract is slightly longer, but I think you get the general idea. With this as a beginning, it shouldn't be too surprising that consumer credit has evolved into such a mass of confusion today.

Consumer Credit is Nothing New

The custom of taking interest on loans also has its roots deep in antiquity. In the dawn of recorded history, for instance, the Laws of Manu set the charge for credit in India in 2300 B. C.; the Code of Hammurabi set interest rates in Babylonia in 1950 B. C., and the Twelve Tables outlined interest charges for Rome in 450 B. C.. So you can see consumer credit is nothing new. And neither are attempts to help regulate it so that consumers can understand it.

In our own country, consumer credit has always been with us. In fact, some historians claim that the colonial market was even more of a credit market than today's market. In those days, however, credit was usually a simple transaction between a seller and a buyer. Since then, the character of credit - and particularly consumer credit - has changed considerably. No longer is credit a courtesy offered by small businessmen to their customers with records either scratched on a small piece of scrap or not kept at all.

Instead, consumer credit is now a highly developed and highly profitable industry. Even the small storekeepers, who previously extended credit as a favor, are now in the credit business for the money they can make. The owner of a small men's clothing store in Los Angeles, for instance, recently urged other small businessmen to get into the credit business because he now makes more money on the income from interest and other charges on his credit plans than he makes on the clothing he sells!

Banks See Big Profits: Oppose Douglas Bill

Bankers who for years have shied away from personal loans to the average working man have also discovered that consumer credit plans can be one of their biggest money makers.

Although they still prefer to do business with the "carriage trade," the banking industry has recently come up with a fantastic array of installment credit and personal loan plans.

And even though the rates being charged by these banks are usually considerably lower than those of the credit merchants, small loan companies, and finance companies, it is significant to note that these banks are doing more to add to consumer credit confusion than they are to help people understand what they're doing when they use consumer credit in one form or another. And it is also interesting and significant to note that these banks, according to the American Banker, the official banking publication, have already come out in opposition to the Douglas "truth in lending" bill.

As things stand right now, the only financial institution speaking out in behalf of American families in the consumer credit market is the organized credit union movement.

Is Consumer Representation Necessary?

Is it important or necessary for consumers to be represented in the credit market? We think so. And we believe more people would think so if they knew something about the possible pitfalls involved in the excessive use of consumer credit.

I don't know how many of you read a recent article written by a pair of Associated Press reporters, but if you have, then I'm sure you understand what can happen and does happen frequently to people who get caught in the easy-payment trap set by unthinking credit merchants.

This particular story involved a 23-year-old Puerto Rican who lived in Chicago with his wife and four children. He earned \$66 a week, but his job was in jeopardy because of a garnishment threat. This young father - let's call him Joe - took what he thought was the easy way out just two months ago. He ate rat poison.

Chicago police investigating his death found an unpaid bill in his pocket with an added warning that if Joe didn't pay soon his employer would be notified. They also said that just before Joe died he explained that he was in debt up to his neck and couldn't go on any further.

The two AP reporters, looking into Joe's past, found that he owed only about \$700. In the area where Joe lived, the most common window decoration in the various stores was a one-word sign, reading "Credit."

Joe bought furniture, clothing and jewelry on easy time payments. He gave his wife a \$30 religious medal for Mother's Day, purchased on time payments. His employer reported that a finance company had garnished Joe's wages for \$80.20. An acceptance company requested garnishment for \$34.15 and a furniture store asked for garnishment to \$167.

In December, Joe bought a used \$200 television set for \$15 down and \$4 a week. The next day it wouldn't work. The repair men came three times, and each time they charged \$5. The TV set still wouldn't work. Joe missed a few payments, and he received a notice from the store that if he didn't pay \$45 by February 6, his employer would be notified. This was the warning police found in Joe's pocket after he was dead.

No One to Turn to For Help

The lesson to be learned from Joe's story is that consumer credit when used unwisely is a social evil as well as an economic evil. Joe simply had never been taught how to use consumer credit. And after he was so far in debt that he couldn't see a way out, he had no one to turn to. A bank wouldn't have lent him the money to consolidate his debts; not on Joe's \$66 a week. A small loan company or personal finance company would have looked at Joe's record and turned him down immediately. The only financial institution which could have helped Joe had he known about it would have a credit union. Unfortunately, there was no credit union to which Joe could belong.

How seriously should we take Joe's case history? How often could such a tragedy happen? We probably won't know until sometime in the future, but just two weeks ago it was reported at the National Installment Credit Conference that 99 percent of all fathers between the ages of 18 and 35 who earn between \$3,000 and \$5,000 are making some kind of installment payment.

I don't know how many of these young fathers are credit union members, but I do know that those who are will find an easier road ahead of them than those who have fallen into the hands of the "nothing down, few dollars a month" type of lender.

Credit Unions Are Service Organizations

Credit unions, like other cooperatives, are not in business to make money. Their primary purpose is to be of service to their members. Credit unions are more concerned over what a loan can do for a member than they are about what the loan can do for the credit union's balance sheet. Also, like other cooperatives, credit unions have a self-imposed responsibility to educate their members. In the case of credit unions, this education is aimed at a member's complete financial make-up. In other words, members are not only shown how to borrow wisely but also taught and encouraged to save wisely.

Plan Family Financial Counseling

One of the most promising developments in the history of credit unions in this country is the recent move toward providing members with better financial counseling. Much of this type of activity has been done in the past, but we hope to be able to do an even better and more widespread job in the future.

To augment some of the procedures and techniques that individual credit unions have used in the past, a specialist in family financial counseling has been added to CUNA's staff.

His job will be to develop a family financial counseling program that can be passed out from CUNA to the various state and provincial leagues and then on to our 26,000 credit unions. The end result, we hope, will be a fully trained financial counselor in each credit union, who will have had the training and experience to help each member formulate the best possible program for the use of his own financial resources.

The family financial counseling program is closely related to the year-old AFL-CIO consumer counseling program which is being carried out by the AFL-CIO Community Service Activities, and it is expected that these inter-related programs will at times be able to work hand-in-hand with each other.

Credit Union Sponsoring Cooperative Housing

In other areas, various segments of the credit union movement are taking an increasingly active part in the development of new programs to help credit union members and other consumers learn more about our present economy and cooperate with each other in solving some of its current problems.

For example, in New York, the New York State Credit Union League and the Municipal Credit Union, which serves thousands of New York city employees, are taking the lead in credit-union-sponsored cooperative housing for middle income families.

Work has already started on their huge Chatham Greene project. When completed at a cost of some \$8,000,000, this huge project will provide ultra-modern living quarters for 420 middle income families.

Directly across the street, these two credit union organizations will build another middle-income cooperative housing project consisting of two 25-story structures that will house 225 more middle income families.

Credit Unions Work With Other Consumer Groups

Another example of what credit unions are doing and will do more of in the future as they provide more and more representation for their members in a wider variety of consumer problems is an organization recently established in Michigan.

Called the Michigan Consumers Association, this organization was formed under the joint sponsorship of a number of organizations including the Michigan Credit Union League and Consumers Union. As a tribute to the great role that the Michigan Credit Union League has already played in consumer representation throughout the state of Michigan, Albert Marble, managing director of the Michigan League, has been named chairman of the Michigan Consumers Association. The group's primary purpose is to advise consumers on how to best use their money.

Still another example of what credit unions are doing in their growing task of consumer representation started in Illinois just a year ago and has already drawn nationwide attention.

Here a group of religious and welfare organizations joined with the Illinois Credit Union League in sponsoring an Institute on Fair Credit Practices and initiated a program to bring a halt to credit practices that victimize millions of American families. Part of their effort will be spent in educating Chicago families about existing credit traps, and part will be spent to help these groups form credit unions.

Consumer Representation in Other Countries

Consumer representation through credit unions is not limited just to the United States. In Canada, almost 14 percent of the total population are credit union members, and credit unions have long been one of the strongest forces in the protection of consumer interests.

I recently had the privilege of visiting Central and South American countries. In these areas, credit unions and other cooperatives are practically the only means consumers have of making their wishes known and their hopes for the future come true.

I was particularly impressed with a Catholic parish credit union in the small town of Puno, Peru, which, in just five short years, has brought about an unbelievable change in the standard of living of its members. This credit union has had an impact on almost every facet of life in this small community. It has helped purchase the only medical X-ray equipment in Puno. It has helped purchase all but one of the city's taxicabs and all four busses. It has sponsored the only modern housing cooperative in the city's history. It has helped start several small industries. And it has taken care of the daily needs of its members to such an extent that they are living better than they ever had.

Representation Through Education, Legislation and Research

How else do credit unions represent consumers in our economy and elsewhere? They do much of it in their daily work, without even thinking of it in terms of consumer representation. Every time a credit union helps get some person out from under the clutches of an unscrupulous money lender, it chalks up another strike against usurious interest rates and unethical finance charges. Every time a credit union makes a loan to a person badly in need of credit, it keeps another customer out of the clutches of the loan sharks. Every time a credit union signs up a new member - and starts him on a new path of saving and borrowing wisely - it wins another victory in its long fight against usury and economic waste.

Each credit union, through its association with other credit unions, in local chapters, state leagues, and the Credit Union National Association, is also undertaking a gigantic effort in the fields of education, legislation and research, which ultimately will benefit all consumers.

Thousands of Hours of Classroom Training

Let's take a closer look at each of these three areas - education, legislation and research.

In the field of education, through both printed and spoken words, credit unions are doing a tremendous job in training their members. The emphasis here, of course, is placed on their membership's personal finances. Inevitably, however, members look to their credit union for assistance in other areas of consumer economics. At most every credit union also distributes membership education materials. These pamphlets and booklets run the gamut from the excessive cost of credit to tips for home improvement and vacation trips. As a result, members look to their credit union for information and leadership in almost every sphere of their personal financial activity.

The credit union movement has also spent thousands of hours in the classroom, teaching its volunteer leaders and its career personnel how to handle other people's money and financial problems. During the past year alone, more than 750,000 hours of classroom and workshop instruction were offered to credit union leaders and employees.

Because of the fine results these classes have had among our credit union membership, many credit union leaders are now being invited into our country's colleges and vocational schools to teach night classes in family budgeting, consumer credit, and a host of related subjects. As a result, this effort is no longer limited strictly to credit union members. Thousands of non-members are also benefiting from the experience and knowledge of our credit union leaders.

Economic Democracy at its Very Finest

In addition, each of our 26,000 credit unions holds its own membership meeting one a year. All members are invited and encouraged to come - and attendance has climbed steadily each year. These meetings are truly economic democracy at its finest. Here each member, regardless of how much he has saved in his credit union or how much he has borrowed from his credit union, has one vote in his own economic future. Each vote cast helps to decide the future operation of his credit union - and each member who participates is taking an active part in providing himself with a more secure and untroubled financial future.

Representation in the Legislative Halls

Credit union organizations also represent all consumers each time they enter one of our nation's legislative halls.

Here they have helped to write many fine laws to protect credit union members and to enable credit union operations to keep in tune with the rest of our economy. Just last year, for example, the united credit union movement succeeded in obtaining a long list of vital changes in the Federal Credit Union Act. Many of the previous provisions in the Act were completely out of date, having been written into Act when it was originally enacted in 1934. Thousands of credit union members participated in our successful campaign to amend the Federal Credit Union Act, giving themselves invaluable experience in the democratic operation of our government.

But, possibly even more important, is the fact that every time the credit union movement succeeds in updating the laws that govern its operation, a new standard is set for other financial institutions to follow. And the standards the credit union movement sets are always in favor of the borrower - never the lender.

Our Growing Research

In the field of research, consumer groups have always lagged far behind commercial organizations. As a result of this research gap, consumers and consumer groups have been badly hurt. As you know, much research has been done on consumer motivation and behavior, but almost all of it benefits the seller and only a tiny part of it benefits the consumer. And even that tiny part that could benefit the consumer usually lies unused, collecting dust in the unpublished theses stacks of our university and college libraries or on the top shelf of some humanitarian's bookcase.

In the future, we hope to reverse the trend, and we have already taken several steps to do so. Suffice it to say, however, that the credit union movement as well as the Council on Consumer Information and all other organizations that represent the consumer first, last and always, need an abundance of well-planned and thoroughly carried out research. The facts that we gather, the hypotheses that we prove or disprove, the trends that we uncover, all of this information that can be obtained only through research will give us a better understanding of how the consumer operates, what his problems are, and provide us with a firm basis on which we can plan better programs for the years ahead.

Summing It All Up

To sum it all up, let me make these few points. Consumer credit is rapidly becoming one of the most important areas of consumer activity. National statistics show that outstanding consumer credit has grown from a little more than \$5 billion in 1945 to more than \$50 billion last year. By 1970, outstanding consumer credit is expected to reach the \$80 billion mark. The nation's top economists can't agree on whether this much consumer credit is good or bad. But they do agree on one thing: Mass consumer credit is necessary to mass production and mass distribution, and all three are vitally necessary in our expanding economy.

There are, however, disreputable forces at work in the field of consumer credit. These forces, if allowed to go unrestrained, can shackle millions of consumers and open a multi-billion-dollar drain on our economy. The consumer is desperately in need of representation in the consumer credit market.

By supporting such measures as the Douglas "truth in lending" bill and through its other activities in the fields of education, legislation and research, the credit union movement is now and will continue in the future to provide the consumer with at least one strong voice in the consumer credit market.

More than this, however, is needed. We need a gigantic cooperative effort on the part of all consumer organizations. We need to improve and expand our research on behalf of the consumer, and we need to maintain and expand our activities in the fields of education and legislation. Groups such as this, the Council on Consumer Information, can be particularly helpful.

Because even after all the facts have been collected and analyzed, there must be ways through which the consumer can be informed. All of the information and knowledge in the world can't help the consumer one iota if it isn't relayed to them. Or as Sidney Margolius, the well-known columnist on consumer problems, recently said, while speaking on behalf of the typical uninformed and befuddled consumer, "Somebody's got to tell us these things."

Credit unions are glad to join with the other organizations represented here in getting on with that telling.