Members present: McKissick, Lingenfelter, Branch, Dini, Hafen, Capurro, Poggione, Hilbrecht

Absent: Ashworth

Others present: Assemblymen Bryan and Olsen; Frank Cassas; Frank Fahrenkopf; Harry Struve; Don Cralle, Larry L. Bertsch; Robert G. Lewis; Dale N. Draney; Chuck Crawford; Keith W. Horner; Jerry Torvinen; Donna Greenspan; Robert J. Gowe; Harold P. Dayton; Pete Kelley; Ken O'Connell; Robert K. Beaman; J.W. Denser, M.D.; Frederick L. Hill; Clark J. Guild, Jr.; Wallie Warren; Sharon Greene; J.H. Thompson; Stephen S. Ahlquist; John H. Garvin; Robert V. Broadbent, M.D.; Chuck Crawford; Richard Brund; Richard Cavelle, M.D.; Jerald B. Felder, M.D.; Dr. Sargent; Dr. Don Lowden; Robert G. Lewis

Chairman McKissick convened the meeting at 10:35 a.m. First item for discussion was AB-555 - Reduces interest rate for retail charge agreements. Assemblyman Bryan spoke about the abuses that have occurred in credit practices. The ceiling for interest on accounts is now 1.8% and this is sometimes figured on previous month's balance without first deducting the payment made. Mr. Crawford appeared and submitted his statement which is attached to these minutes and shall become a part thereof. Assemblyman Olsen appeared in favor of this bill and stated they had requested an opinion from the attorney general to see that this bill would not be in violation of the 1.8% ceiling already set by statute. John Gates, Manager of Penney's and with the Retail Association, appeared in opposition to this bill. His statement is attached to these minutes and shall become a part thereof. John Garvin, Montgomery Ward, appeared and stated that there were 3 methods of charging interest: on the adjusted balance, average daily balance, and previous balance. He said the customer is protected by the Federal Truth and Lending Law and the Disclosure Law. He said there has to be competition in credit. Steven Alquist, J.C. Penney's, stated that the ceiling is 1.8% but most stores use the 1.5% It was brought out that 1.5% is the going rate for western states by competition. Penney's have lost 23 million in credit sales but this is less than 1% loss. Richard Brund, Joseph Magnim, appeared against this bill. He stated they could not operate credit sales if it were reduced to 1%. Frank Fahrenkopf appeared and brought an editorial from the Wall Street Journal which was about similar problems and legislation passed by other states. Fred Hill appeared and stated this bill would hurt the customer and small merchants as it would be difficult to get credit. Harold Dayton, small independent furniture store partner, stated this would particularly hurt the small merchant and the poor customer. He did state that the Truth in Lending Law hasn't done everything it should.

AB-579 - Requires county hospitals to carry liability insurance for physicians treating indigents. Dr. Broadbent appeared and stated that he was there on behalf of the Washoe County Medical Society and for Clark County Medical Society, stated they were in favor of this bill. He stated that indigents were treated free by the doctors and told how the rates for malpractice insurance had raised in his case from $150 in 1953 to $2,000 at the present time. He stated it is becoming increasingly difficult to obtain this insurance. Dr. Sargent appeared and stated the free medical performances by physicians is a large savings to the tax payer. He stated that he felt they shouldn't

be jeopardized by being exposed to possible malpractice suits by indigents. He stated that people being treated free are usually on welfare and lots of suits are settled out of court as "nuisance" but this causes the physician to pay higher fees or possibly have a hard time to get malpractice insurance. Dr. Richard Cavelle stated the difficulty in obtaining malpractice insurance and said he was almost forced to go to Lloyds of London. He stated the patient should retain the right to sue but the doctors should have this malpractice insurance to treat indigents furnished by the county hospital. Dr. Jerald Felder submitted his comments which are attached and shall become a part of these minutes. Dr. Dancer appeared in favor of this bill as he stated it was becoming difficult to get doctors in Nevada because of this problem. Dr. Sargent stated that his malpractice premium has gone up from $500 to $5,000. Dr. Lowden stated that anesthestist, stated that his field and that of plastic surgery is the highest rate. Also included in this high premium is brain surgery. When the doctors were asked who would write the insurance, they replied Professional Economic Service of New York. They will obtain a schedule of the premium. Mr. Hafen asked number of doctors who would be covered under this blanket malpractice insurance and was informed that 90% probably would. Most doctors treat indigent patients so they can practice in county hospitals. Only doctors over 55 are excluded from this free service. McKissick asked that the doctors get together and get a telegram as to cost of this insurance and get together with Gene Waite for the proper amendments. Sharon Greene, Nevada Hospital Association, appeared in opposition to this bill. She stated that the doctors should band together and pay a nominal fee if they can get the premium so cheaply. She stated that if the hospital paid the premium, this would be reflected in the paying customer's bill. It was brought out that this insurance cannot be obtained by a medical association. She stated that there is 24-hour coverage for doctors treating in the emergency room and only other doctors were called in when a specialist is needed. She also questioned getting a premium for $350 annually.

AB-747 - Prohibits pyramid promotional sales and "endless chains". Larry Struve, legal counsel for the Better Business Bureau of Nevada, appeared and submitted a copy of his remarks which is attached and shall become a part of these minutes. Also attached is a copy of a letter from the Reno City Attorney's Office speaking in favor of this legislation. John Cralle, Manager of the Reno Better Business Bureau, explained the need for this type of legislation. He stated that people were being bilked out of investments in these schemes which involves mainly their recruiting people to invest. The Attorney General's representative stated there is a need for this type of legislation and stated they would like them to be under the corporate shield, have provisions for forfeit the corporate charge and some provisions for return of monies to people. Dale Draney explained his experience with a local promotional sales group. He stated the promises of securing profits on money invested is not in the contract - just stated verbally. Robert G. Lewis who has invested in a promotional sales program submitted his facts on how this investment fails. It is attached to these minutes and shall become a part thereof.

MOTION BY CAPURRO FOR A DO PASS ON SB-50, SECONDED BY BRANCH AND MOTION FAILED TO PASS. Hafen, Lingenfelter, Poggione dissented.

MOTION BY DINI FOR AN AMEND AND DO PASS ON AB-747, SECONDED BY BRANCH AND CARRIED WITH POGGIONE ABSTAINING.

MOTION BY LINGENFELTER FOR AN AMEND AND DO PASS AND RETURN TO COMMITTEE ON AB-472, SECONDED BY DINI AND CARRIED.

MOTION BY CAPURRO FOR AN AMEND AND DO PASS ON AB-782, SECONDED BY DINI AND CARRIED.

MOTION BY CAPURRO FOR AN AMEND AND DO PASS ON AB-783, SECONDED BY DINI AND CARRIED.

Meeting adjourned at 12:40 P.M.

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ASSEMBLY

AGENDA FOR COMMITTEE ON COMMERCE

Date March 29, 1971 Time 10:30 a.m. recess Room 214

Bills or Resolutions to be considered	Subject	Counsel requested*
	IN LIEU OF PREVIOUS AGENDA	
AB-747	Prohibits pyramid promotional sales and "endless chains".	
AB-555	Reduces interest rate for retail charge agreements	
AB-579	Requires county hospitals to carry liability insurance for physicians treating indigents.	
AB-674	Repeals statute declaring firefighters' heart diseases as occupational diseases and compensable as such.	
SB-50	Provides that heart diseases of certain peace officers are occupational diseases.	

*Please do not ask for counsel unless necessary.

HEARINGS PENDING

Date_____ Time_____ Room_____
Subject_____

Date_____ Time_____ Room_____
Subject_____

STATEMENT CONCERNING REFORM OF RETAIL CREDIT PRACTICES IN NEVADA
DELIVERED BEFORE THE NEVADA ASSEMBLY COMMITTEE ON COMMERCE
BY CHUCK CRAWFORD, PRESIDENT OF "NEVADA CONSUMER'S COMMITTEE",
CARSON CITY,NEVADA MARCH 29,1971

GENTLEMEN:

I WOULD LIKE TO PREFACE MY REMARKS TODAY BY EXPRESSING MY APPRECIATION TO YOU FOR ALLOWING ME THE OPPORTUNITY TO COME BEFORE YOUR COMMITTEE TO RELATE THE VIEWPOINT OF THE "NEVADA CONSUMER'S COMMITTEE" REGARDING ASSEMBLY BILL 555.

IT IS OUR OPINION THAT THE AREA OF CONSUMER CREDIT HAS SEEN GREAT REFORM IN THE PAST TWO YEARS---REFORM IN THE INSTANCE OF THE FEDERAL "TRUTH IN LENDING" LAW AND IN THE MANY INSTANCES OF STATES TAKING THE INITIATIVE OF EXTENDING THE CONCEPTS OF FAIR ENTERPRISE AND CONSUMER SOVEREIGNTY TO THE AREA OF CONSUMER CREDIT.

BUT THE STATE OF NEVADA, I AM FORCED TO ACKNOWLEDGE, HAS FAILED TO MEET THE BASIC CHALLENGES OF CONSUMER PRCTECTION IN THIS AREA. IN NEVADA IS FOUND ONE OF THE MOST SUSCEPTIBLE ENVIRONMENTS FOR CONSUMER CREDIT ABUSE OF PERHAPS ANY STATE IN THE NATION.

ASSEMBLY BILL 555, AS YOU KNOW, ATTEMPTS TO PRODUCE A MORE FAVORABLE CLIMATE FOR THOSE CONSUMER'S WHO ELECT TO BORROW MONEY OR TO DEFER PAYMENT FOR GOODS THEY HAVE OBTAINED FROM RETAILERS UNDER SO-CALLED "OPEN END" RETAIL CREDIT AGREEMENTS. IF I MAY PRESUME TO INTERPRET THE INTENT OF THE BILL'S AUTHORS, MR. BRYAN AND MR. OLSEN, I BELIEVE THAT THIS BILL IS NOT SO LITERALLY AIMED AT THE RAW PERCENTAGES INVOLVED IN RETAIL CREDIT CONTRACTS AS MUCH AS WITH A REDUCTION OF THE ACTUAL COSTS THE CONSUMER IN NEVADA IS NOW PAYING FOR THIS TYPE OF CREDIT EXTENSION.

WHILE THE FEDERAL TRUTH IN LENDING LAW PREVENTS BLATANT FRAUD AGAINST BORROWERS IT, OF COURSE, CONTAINS VIRTUALLY NO DEFINITION OF FAIR RETAIL CREDIT PRACTICES. IT IS THROUGH THE INTENT OF A.B. 555 THAT WE WISH THE STATE OF NEVADA TO FOLLOW THE EXAMPLE OF MANY OTHER STATES IN ENACTING LAWS THAT PROHIBIT AND AVERT EITHER EXISTING OR POSSIBLE ABUSE OF THE RETAIL CREDIT CONCEPT.

SPECIFICALLY, WE WISH TO PROPOSE THE FOLLOWING STIPULATIONS TO BE INCLUDED IN A.B. 555:

(1) THAT THE MAXIMUM ALLOWABLE INTEREST RATE FOR A RETAIL CHARGE AGREEMENT MAY PROVIDE FOR A TIME PRICE DIFFERENTIAL NOT TO EXCEED A RATE OF 1.5% PER MONTH ON THE DEFERRED BALANCE.

(2) THAT COMPUTATION OF THE INTEREST TO BE CHARGED THE CONSUMER IN SUCH AGREEMENTS SHALL BE BASED UPON THE UNPAID BALANCE OF THE ACCOUNT AT THE TIME OF BILLING AND WITH CONSIDERATION OF PAYMENTS OR OTHER CREDITS MADE TO THE ACCOUNT PRIOR TO THE BILLING DATE.

(3) THAT, IN NO INSTANCE, SHALL THE RETAIL CREDIT AGREEMENT INCLUDE PROVISIONS THAT WOULD ALLOW THE LENDOR TO DEDUCT PAYMENTS FROM THE BORROWER'S SALARY IN THE EVENT OF DELINQUENCY OR DEFAULT WITHOUT RESORT TO DUE PROCESS OF LAW IN ORDER TO ESTABLISH THE VALIDITY OR EXTENT OF THE BORROWER'S OBLIGATION TO THE LENDOR AND IN ORDER TO DETERMINE THE MOST EQUITABLE MEANS OF COLLECTION.

(4) THAT, UNLESS SO-CALLED "REVOLVING CHARGE" ACCOUNTS OR OPEN END RETAIL CREDIT AGREEMENT MONTHLY BALANCE STATEMENTS ARE POSTMARKED WITHIN EIGHT DAYS OF THE STATED BILLING DATE, THE LENDOR CANNOT ASSESS A FINANCE CHARGE DUE TO DELINQUENT PAYMENT AS WOULD OTHERWISE BE AUTHORIZED UNDER DISCLOSED PROVISIONS OF THE AGREEMENT WHICH ALLOWS FOR A REASONABLE PERIOD IN WHICH FULL PAYMENT CAN BE MADE WITHOUT A PENALTY FINANCE CHARGE.

WE FEEL THAT A REDUCTION IN THE MAXIMUM INTEREST RATE FROM THE PRESENT RATE OF 1.8% PER MONTH TO 1.5% OR LOWER IS A REASONABLE FIRST STEP IN BALANCING CONSUMER NEEDS WITH INDUSTRY REQUIREMENTS.

WE RECOGNIZE, OF COURSE, THAT STATUTORY LIMITATION OF INTEREST RATES---IN EFFECT,PRICE FIXING--- MUST BE CAUTIOUSLY APPROACHED AND THAT THE ABILITY OF THE RETAIL CREDIT INDUSTRY TO MEET THOSE LIMITATIONS WITHOUT UNDUE HARDSHIP SHOULD BE CAREFULLY WEIGHED.

AN OBVIOUS ARGUMENT THAT THE RETAIL CREDIT INDUSTRY WOULD USE TO DEFEND THE PRESENT LIMITATION IS THAT THE INDUSTRY IS OFTEN NOT ABLE TO OPERATE PROFITABLY EVEN AT THE PRESENT COMPETITIVE RATE OF 1.5%. IN FACT, MANY CREDIT OPERATIONS HAVE NEVER OPERATED AT A PROFIT DUE TO THE HIGH OVERHEAD COSTS OF MAINTAINING CREDIT AND BILLING RECORDS REGARDLESS OF THE DURATION OR SIZE OF THE ACCOUNT. IN ADDITITION. THE NATURE OF MOST RETAIL CREDIT OPERATIONS MAKE THEM SOLELY DEPENDENT UPON THE VOLUMNE OF WORK CREATED BY THE HOST BUSINESS---AND THUS, IN MOST CASES,THE VOLUMNE OF SIMILAR WORK TO BE DONE NEVER APPROACHES THE POINT WHERE MORE EFFICIENT TECHNIQUES CAN BE USED TO REDUCE COSTS. YET ANOTHER ARGUMENT CAN BE PROJECTED THAT THE INCIDENCE OF DEFAULT AMOUNG RETAIL CREDIT BORROWERS IS HIGHER THAN IN OTHER PHASES OF THE CREDIT INDUSTRY. THIS FACT IS COMPOUNDED BY THE VIRTUALLY UNRECOVERABLE CHARACTER OF THE MERCHANDISE FOR WHICH THE CREDIT WAS EXTENDED.

HOWEVER, WITH A BIT OF SCRUITINY, THESE DEFENSES ARE NOT AS VALID AS THEY MIGHT APPEAR AT FIRST. THE PREDOMINANT WEAKNESS IS REVEALED WHEN ONE LOOKS AT THE VERY FUNCTION OF MOST RETAIL CREDIT OPERATIONS. WHAT WE FIND IS THAT MOST HOST BUSINESSES ARE HAPPY TO ABSORB RELATIVELY MINOR LOSSES IN THIS END OF THEIR BUSINESS BECAUSE OF THE VERY GREAT INCREASE IN THEIR SALES AS A RESULT OF CREDIT CONVENIENCE. ACCORDING TO ONE REPORT IN A CONSUMER CREDIT TRADE PUBLICATION, SEARS ROEBUCK HAS FOUND THAT ITS REVOLVING CHARGE CUSTOMERS SPEND MORE THAN THREE TIMES THE AMOUNT THE AVERAGE CASH CUSTOMER SPENDS. SHELDON FELDMAN, DEPUTY DIRECTOR OF THE FEDERAL TRADE COMMISSION'S OFFICE OF CONSUMER PROTECTION CONTENDS THAT THE MULTIPLIER MIGHT BE AS MUCH AS 4½ FOR CREDIT CUSTOMERS.

AS FOR THE INCIDENCE OF DEFAULT OF PAYMENTS AND THE UNRECOVERABILITY OF THE MERCHANDISE WHICH WAS OBTAINED ON CREDIT, FELDMAN ESTIMATED THAT THE HIGHEST LOAN MORTALITY RATE EVER REPORTED IN THE RETAIL CREDIT INDUSTRY WAS STILL UNDER 2% OF THE CREDIT VOLUMNE.

REGARDING THE INHERENT HIGH OVERHEAD COSTS OF THE RETAIL CREDIT INDUSTRY, IT WOULD SEEM THAT THERE ARE MANY ALTERNATIVES TO BE EXPLORED BY THE INDUSTRY THAT WOULD MOST CERTAINLY REDUCE THEIR COSTS. ONE WOULD BE TO SIMPLY REFER THE ROUTINE CREDIT CHECK AND BILLING FUNCTIONS TO BUSINESSES THAT SPECIALIZE IN THOSE TASKS AND WHO HAVE THE VOLUMNE TO WARRANT THE USE OF COMPUTERS AND OTHER, MORE EFFICINET PROCEDURES. YET, IN MOST CASES THIS ALTERNATIVE HAS BEEN REJECTED. WHY? BECAUSE THE HOST BUSINESS, AS I SAID PREVIOUSLY, KNOWS THAT THE CONVENIENT IN-HOUSE CREDIT OPERATION INCREASES SALES. AND YET THE CONSUMER IS EXPECTED TO SUBSIDIZE THIS PROGRAMMED INEFFICIENCY THROUGH EXORBITANT MONTHLY INTEREST RATES.

ANOTHER POINT THAT SHOULD BE BROUGHT TO YOUR ATTENTION, AND ANOTHER FACTOR CONTRIBUTING TO THE HIGH OVERHEAD IN THE RETAIL CREDIT INDUSTRY, IS THE VERY COMMON PRACTICE OF ALLOWING UP TO 30 DAYS TO PAY THE FULL AMOUNT DUE ON MERCHANDISE WITHOUT ANY INTEREST BEING CHARGED. THIS "FREE" OR "GRACE" PERIOD IN WHICH DEFERRED PAYMENT IS TREATED AS A CASH PAYMENT, HAS TO BE ABSORBED BY SOMEONE. IT IS, OF COURSE, PASSED ON TO THE PERSONS WHO HAVE ELECTED TO PAY FOR THEIR MERCHANDISE ON TIME.

AT THIS POINT COMES THE QUESTION AS TO WHY WE HAVE PROPOSED NO REDUCTION IN RETAIL CREDIT INTEREST RATES BELOW THE PRESENT COMPETITIVE RATE. THE ANSWER COMES FROM THE EXPERIENCES OF TWO STATES THAT HAVE SHARPLY REDUCED THEIR MAXIMUM ALLOWABLE INTEREST RATES IN THIS AREA. ARKANSAS WAS THE FIRST STATE IN THE NATION TO LEGISLATE LOWER RATES TO A MAXIMUM ANNUAL RATE OF 10%. IN A STUDY BY GENE LYNCH OF THE UNIVERSITY OF ARKANSAS WHICH WAS RELEASED IN 1969, A COMPARISON OF PRICES IN ARKANSAS AND HER ADJACENT STATES SHOWED THAT PRICES OF COMPARABLE MERCHANDISE IN NEIGHBORING STATES WAS APPROXIMATELY 4% LOWER. WHILE THE METHODOLOGY OF THIS PARTICULAR STUDY MAKES THE SPECIFIC FINDINGS SUSPECT, ROBERT MEADE OF THE NATIONAL COMMISSION ON

CONSUMER CREDIT CONTENDS THAT THE CONCLUSIONS OF THE STUDY 239
ARE SUBSTANTIALLY CORRECT.

IN THE STATE OF WASHINGTON, WHERE THE LIMIT WAS SET AT A 12% ANNUAL RATE, A SIMILAR AND MORE RECENT STUDY BY GUY GORDON OF THE UNIVERSITY OF WASHINGTON HAS SHOWN THAT PRICES IN WASHINGTON WERE NOT SIGNIFICANTLY ALTERED DUE TO COMPETIVE PRESSURE. HOWEVER, THE COSTS OF THE RETAIL CREDIT INDUSTRY WERE PASSED ON TO THE CONSUMER IN THE WAY OF OTHER CHARGES. FOR INSTANCE, IN SOME CASES PARKING---WHICH WAS FORMERLY NOT CHARGED FOR AT SOME DEPARTMENT STORES BECAME A NEW SORCE OF REVENUE. GIFT WRAPPING BECAME A COMMERCIAL VENTURE RATHER THAN A FREE SERVICE AS IT HAD PREVIOUSLY BEEN IN STILL OTHER STORES.

WHAT WE FIND, THEN, IS THAT THE CONSUMER WOULD FIND HIMSELF CONFRONTED WITH THE COSTLY RETAIL CREDIT OPERATIONS ONCE AGAIN WITH EVEN MORE INGENIOUSLY DECEITFUL CHARGES.

WE HAVE THEREFORE ATTEMPTED TO AVOID THE TRAP THAT BOTH WASHINGTON AND ARKANSAS FOUND THEMSELVES IN WHEN THEY MADE SUCH MARKED REDUCTIONS IN THE ALLOWABLE INTEREST RATES. INSTEAD, WE PREFER TO HOLD IN ABEYANCE ANY JUDGEMENT AS TO WHAT A FAIR RATE OF INTEREST IN THIS INDUSTRY IS. PERHAPS WHEN WE FIND OUT ABOUT THE EFFECTS OF A MORE MODERATE REDUCTION IN RATES AS WAS ENACTED BY PENNSYLVANIA LAST YEAR WE MAY BETTER UNDERSTAND THE TOLERANCE POINT OF THE INDUSTRY WHICH WOULD RESULT IN A TRUE REDUCTION TO THE CONSUMER.

HOWEVER, WHILE WE DO NOT ENCOURAGE ACTION BY THE LEGISLATURE IN RATE-SETTING, WE MUST EMPHASIZE THE IMPORTANCE OF REFORM IN THE ACCEPTED PRACTICES OF THE RETAIL CREDIT INDUSTRY.

OUR SECOND PROPOSAL, AS YOU RECALL, WAS TO ELIMINATE THE SO-CALLED PREVIOUS BALANCE METHOD OF COMPUTING MONTHLY INTEREST CHARGES. THE CREDIT INDUSTRY IS SIMPLY ABUSING THE CONSUMER WITH THIS TECHNIQUE. AS IT IS NOW, ALL MAJOR CHAIN DEPARTMENT STORES, WITH THE EXCEPTION OF J.C. PENNY'S, USE THIS METHOD OF COMPUTING INTEST. IF I MAY BE INDULGED, THE METHOD IS MOST EASILY EXPLAINED BY USING AN EXAMPLE. IF AN ITEM IS BOUGHT FOR A PURCHASE PRICE OF $100 ON THE FIRST DAY OF A MONTH AT AN INTEREST RATE OF 1.5% PER MONTH, AND A $50 PAYMENT IS MADE ON THE 15TH OF THE MONTH, WHEN THE INTEREST IS COMPUTED ON THE 30TH OF THE MONTH THE BORROWER PAYS AN INTEREST CHARGE OF $1.50. THE INTEST WAS COMPUTED WITHOUT TAKING INTO CONSIDERATION THAT HALF OF THE PRINCIPAL WAS RETURNED BY THE DATE OF BILLING. WE FEEL, AS DO MANY STATE LEGISLATURES, THAT THIS PRACTICE IS GROSSLY UNFAIR TO THE CONSUMER, AND MUST BE PROHIBITED BY LAW.

OUR THIRD PROPOSAL WAS TO ELIMINATE AUTOMATIC WAGE ATTACHMENT IN THE EVENT THAT A BORROWER BECOMES DELINQUENT IN HIS PAYMENTS OR DEFAULTS. WE CERTAINLY DO NOT STAND IN DEFENSE OF THOSE CONSUMER'S WHO SHIRK THEIR CONTRACTUAL RESPONSIBILITIES TO REPAY BORROWED MONEY OR PAY FOR MERCHANDISE, BUT WE FEEL THAT THE CONSUMER MUST RETAIN THE RIGHT TO LEGAL RECOURSE IN THE EVENT THAT HE EITHER DOES NOT OWE THE RETAILER OR HE DOES NOT OWE THE AMOUNT CLAIMED BY THE RETAILER. UNDER PRESENT CIRCUMSTANCES, THE RETAILER COULD PUT-IN EVEN AN OPEN END CREDIT AGREEMENT-PROVISIONS THAT WOULD ALLOW HIM TO GARNISH THE CONSUMER'S WAGES AND TAKE AWAY THE CONSUMER'S RIGHT TO CHALLENGE THE ACTION. WHILE THIS PRACTICE ON THE PART OF RETAILERS IS NOT COMMON, IT SHOULD BE PROHIBITED FROM EVER BECOMING A POSSIBLE ABUSE.

OUR FOURTH PROPOSAL, SETTING A MAXIMUM TIME PERIOD ALLOWABLE BETWEEN THE STATED DATE OF BILLING AND THE DATE OF POSTMARK WAS DESIGNED TO ELIMINATE THE FAIRLY FREQUENT CASES OF INTEREST BEING CHARGED CONSUMERS WHO PAY THEIR BILL AFTER THE "FREE" OR "GRACE" PERIOD HAS EXPIRED EVEN THOUGH THE CONSUMER MAY NOT HAVE RECEIVED THE STATEMENT OF CHARGES IN TIME TO AVOID PAYING THE PENALTY INTEREST RATE. MANY RETAIL CREDIT OPERATIONS COMPLY WITH THE TRUTH IN LENDING LAW TO THE EXTENT OF DISCLOSING THE BILLING DATE, YET DELIBERATY FAIL TO MAIL THE STATEMENTS FOR AS MUCH AS THREE WEEKS AFTER THE BILLING DATE. OF COURSE, THE GRACE PERIOD IS COMPUTED FROM THE DATE OF BILLING.

IF RETAILERS ARE REQUIRED TO MAIL THEIR STATEMENTS PROMPTLY AFTER THE BILLING DATE, THOSE WHO INTEND TO PAY THEIR BILL IN FULL AND TAKE ADVANTABE OF THE "GRACE PERIOD" WILL HAVE THE OPPORTUNITY AND WILL NOT BE TRAPPED INTO AN INTEREST CHARGE BY A CLEVER MANEUVER.

IN CONCLUSION, I WOULD ADD ONLY THAT WHAT WE HAVE ATTEMPTED TO SUGGEST TO YOU WITH THESE PROPOSALS IS THAT NEVADA MUST NOT BE NEGLIGENT IN ITS RESPONSIBILITY TO THE CONSUMER IN THE AREA OF RETAIL CREDIT AGREEMENTS. BECAUSE OF THE CONFUSING AND TECHNICAL NATURE OF CREDIT PROCEDURES THE CONSUMER IS TOO EASILY THE VICTIM HIS OWN HASTE IN SIGNING CONTRACTS OR MAKING VERBAL AGREEMENTS FOR THE PURCHASE OF MERCHANDISE OR THE BORROWING OF MONEY ON TIME. IN THE ABSENCE OF NORMAL COMPETITIVE PRESSURES OF FREE ENTERPRISE, THE STATE MUST TAKE THE INITIATIVE TO PREVENT ABUSE.

My name is John Gates. I am manager of the J. C. Penney store in Reno. I am here today as a representative of the J. C. Penney Company and the Nevada Retail Association of which the Penney Company is a member.

We are opposed to the enactment of Assembly Bill 555.

A realistic rate ceiling now exits in Nevada. To the best of my knowledge major creditors in Nevada now charge 1.5 per cent per month service charge as opposed to the maximum authorization of 1.8 per cent monthly. Competition in Nevada has set the rate below the maximum authorized.

If rate ceilings are fixed below costs incurred by a retailer to extend credit, he must adjust his credit practises. Thus, credit would not be as readily available; or to cover costs the retailer may raise his prices and charge for incidental services presently provided free or below cost. In the latter instance, the cash customer may well be in the position of subsidizing the credit customer.

It has been the policy of the J. C. Penney Company - and I feel sure this applies to other retailers in Nevada - to use credit plans as a service and not as means of obtaining more profit.

To begin with, it is not true that the Penney Company collects 18 per cent ~~interest~~ service charge per year. We do not collect at this rate because of the options which our charge customers have each month and because of the way we compute service charges.

Each month, a charge customer may decide to pay her balance in full within 30 days of the billing date. If so she does not incur any service charge. On the other hand, she may decide to spread out her payments over two or three months, in which case a service charge is added

to her next statement. Our method makes it possible for the customer to take from one to two months to pay without incurring service charges. About 20 per cent of our outstanding balances is collected each month, a pretty clear indication that many customers use their option to pay in full within 30 days.

The Penney Company sometime ago computed actual service charges over one full year and found that for customers who paid service charges the annual rate ranged from 0.8 to 17.1 per cent, with an average of 10.5 per cent. Our measurements were validated by our auditors.

In the course of the development of credit plans, the revolving charge account has become a modern way of dealing with credit purchases. The revolving credit system allows a customer to pay for goods while he has the benefit of the use of the goods.

Revolving credit is a convenient service to the customer and providing this service imposes additional costs upon the retailer. Establishing and maintaining credit services is extremely costly to the retailer. Furthermore, the retailer who provides benefits of credit ties up a portion of his capital. Money which might be invested in the business in other ways is used to finance the credit system. In addition to which interest charged by banks for use of money to finance charge accounts is no small matter.

These costs must ultimately be born by the retailer's customers. It seems only just to impose the cost of the credit system upon credit purchasers. In order for all customers to be treated fairly, the revolving credit system must attempt to pay its own way.

Should Nevada's prevailing rate be lowered to one per cent, we can predict what could happen.

In 1968, by referendum, the State of Washington lowered its ceiling on retail credit from 1.5 per cent to one per cent per month. About a year later thr University of Washington made a study of the situation and found that (1) credit was harder to get and more expensive; (2) prices of retail merchandise went up; (3) cash customers were found to be subsidizing the credit customer; (4) marginal credit risk customers were forced to use other means of financing that were far more expensive than the 1.5 per cent.

The one per cent rate ceiling passed by the State of Washington two years ago has not accomplished its desired purpose. I call to your attention, that this session of the Legislature in the State of Washington has introduced a bill raising the credit rate ceiling. The measure, as I understand it, has passed the House, is now before the Senate.

If this committee is interested, I have available a summary of the impact of consumer credit interest limitations in Washington State as well as a complete copy of the University of Washington's report compiled by the graduate school of business administration.

I urge defeat of AB 555. Experience in the retail business has convinced us that more and more customers want retail credit and are willing to pay a fair price for this service. The retail industry will only be able to continue to extend credit on its present basis if the existing realistic ceiling is maintained. Competition, which now exists in our free enterprise system, will keep the credit rate in Nevada below the maximum authorized.

Thank you for your time and consideration.

ATTACHMENT 3

Saving the Consumers

In legislatures around the land a drive is under way to save consumers from the "excessive" costs of retail credit. Like many such campaigns, this one may well do consumers much more harm than good.

As a story in this newspaper noted the other day, the target of the drive is the 1.5% a month interest rate that most retailers charge on the unpaid balances of charge accounts. Some states have already dictated a lower rate, and bills are pending elsewhere to accomplish the same objective.

The lower-rate drive is led by labor and consumer groups, as well as by consumer-conscious politicians. The reasons for their interest are at least understandable.

Perhaps the most obvious has been the general inflation of the cost of living, a trend that has included higher credit costs. In addition credit is much more widely used by Americans than it once was, so that the higher costs touch many more people.

At the end of 1929 consumer credit outstanding totaled only $6.4 billion, equal to only a little more than 13% of total retail sales for that year. At the end of last year, consumer credit outstanding reached the staggering sum of $126.8 billion, nearly 20 times the earlier figure. Last year's total, moreover, amounted to about 35% of 1970's retail sales.

Despite the heavy inroads of inflation, the average American is living a good deal better than in 1929, and intelligent use of credit accounts for part of the improvement. The other side of the coin, of course, is that credit has been a tremendous help to retailers in expanding sales.

When it comes to financing homes, automobiles and appliances, credit long has been on a sort of pay-as-you-go plan. Rates on mortgages and instalment credit have been adjusted frequently to reflect changing money market conditions, and credit in these areas has usually been a profitable product on its own.

Charge accounts and other types of general retail credit were another matter. Most smaller retailers shied away from credit entirely ("In God we trust; all others pay cash"). Larger stores offered free, open-account credit on the assumption—or hope—that customers would pay up at the end of the month.

Growing competition from larger stores and store chains in the 1930s began to force more and more retailers to offer credit. In those depressed years the struggle for sales was so bitter that few charged for the added service. The added cost did put some upward pressure on prices, but credit was so inexpensive that the additional cost was relatively small.

After World War II, interest rates began rising, along with all of the retailers' other costs. More and more retailers decided that they had to begin charging for the credit that they once gave away.

For many retailers credit still is anything but profitable. J. C. Penney, for instance, says it lost $23 million on credit operations in 1969 and probably a similar amount in 1970. Since credit is often essential to sales, retailers frequently are willing to accept certain losses, but there has to be a limit if they are to remain in business.

For a lot of retailers that limit will be exceeded if laws are passed to force down their interest charges. In states where rates have already been forced down, retailers have tried to recoup in various ways—by charging for parking, gift-wrapping and other formerly free services but chiefly by raising prices.

In effect, part of the cost of providing credit will be placed on customers who don't use it—on those who pay cash. The numbers of such people may be declining, but that hardly excuses doing them such an injustice.

Success in this drive for laws to force credit charges down thus will save few individuals money and will cost many people more. Maybe someone should find a way to save consumers from some of their self-appointed saviors.

Clash Over Credit

Consumers, Retailers Fight Over Bid to Cut Charge-Account Rates

Charges Called Exorbitant, But Stores Predict Rise In Prices If Interest Falls

50 Million Saving in a State

By JOHN A. PERSTON
Staff Reporter of THE WALL STREET JOURNAL

Consumers and consumer-conscious politicians are increasing their efforts to knock down the 1.5%-a-month interest rate that most retailers charge on the unpaid balances of charge accounts.

Such drives have surfaced off and on for the past 15 years—Arkansas cut its maximum annual rate to 10% from 18% in 1957 and Pennsylvania cut its maximum to 15% from 15% in 1965—but only recently has the movement gained nationwide momentum. The main spur was a ruling by the Wisconsin supreme court last October saying that stores there charging an 18% rate were violating the state's usury ceiling of 12%. Similar suits have since been filed in about a dozen other states, and legislation has been introduced in 11 more—including New York and California—to limit credit-card interest to as little as 12% a year.

The moves, if successful, could save consumers and cost retailers millions of dollars a year. This "represents an extremely serious threat to retailing," declares James Bliss, president of the National Retail Merchants Association. Many stores say they lose money on credit even at 18%, and Mr. Bliss says if the moves are successful prices will go up and credit will be extended to fewer persons.

The concerned retailers are counterattacking with a vengeance. In several states they are lobbying for new consumer-credit laws to raise the permissible annual interest to 24% on accounts with unpaid balances of $500 or less and to keep the rate at 18% on balances above $500. Utah and Oklahoma passed such laws two years ago, and Wyoming and Indiana approved similar measures only last month.

$50 Billion of Credit

The interest-rate battle centers on the revolving credit-card accounts typically extended by retail stores, oil companies and bank-affiliated credit systems, such as Master Charge or BankAmericard. These are so-called open-end accounts on which a customer can charge any number of purchases as long as he pays a specified minimum—as little as $10—each month. Closed-end, or installment, credit, usually used to buy cars, isn't involved in the dispute.

Last year's retail sales, excluding automobiles, groceries and liquor, amounted to $195 billion. About half that was bought on credit, it's estimated. Of that bought on credit, nearly 40% was bought on revolving credit accounts. Thus, using these figures, about $39 billion was charged on revolving charge accounts. The average balance in a Montgomery Ward & Co. re-

And that, of course, is a consumer's saving on just one account. Most middle-class consumers regularly use several credit cards. Joseph Davis, president of the Washington state labor council, figures that Washington residents save $50 million a year in credit charges now that Washington has lowered its annual rate to 12% from 18%. The change came in 1965.

Retailers' Views

Retailers say that lowering the interest charges is indeed a commendable goal, with just one drawback: it brings them losses. J. C. Penney & Co. recently disclosed that it lost $23 million on its credit operations in 1969 and probably lost a similar amount in 1970. Penney says it received $79 million in 1969 in "service charges" (the euphemism for interest) but that its expenses in connection with credit sales were $102 million. The costs were mainly administrative expenses and charges for borrowing money to finance the credit.

"Even under the best of circumstances there isn't a retailer around that makes nearly the return on investment from credit that could be realized by putting the money into some other business enterprise," asserts Gordon R. Worley, financial vice president of Mercantile Inc., the parent of Montgomery Ward. He says Ward's credit operations vary "from a modest profit to a modest loss, depending on the cost of money and other operating expenses."

Proponents of lower rates are unmoved by the retailers' arguments. "I'm not exactly

Please Turn to Page 8, Column 1

And Some Interest Rates Are a Mere 180% a Year

By a WALL STREET JOURNAL *Staff Reporter*

Not only do most retailers charge 18% interest a year on the unpaid balances of their credit-card accounts, consumers complain, but also the stores even charge interest on money the shoppers already have paid back.

That's because most retailers use the "previous balance" system of figuring interest charges. Suppose your unpaid balance at a department store on Feb. 1 was $100, and during the month you paid $90. Your statement on March 1 would show a balance due of $10, but an interest charge based on the full $100 balance, which at 1.5% a month would be $1.50. Applying that charge to the $10 balance actually due works out to an annual interest rate of 180%.

"I estimate that consumers are paying an extra $200 million a year in finance charges because of the previous-balance system," says Sen. William Proxmire (D., Wis.). He has introduced the Fair Credit Billing Act in the Senate to prohibit the previous-balance system and require the use of the "adjusted balance" method that does take partial payments into account when assessing interest.

Of the top five national retailers, only J. C. Penney & Co. and S. S. Kresge Co. use the adjusted-balance system.

Clash Over Credit: Consumers, Retailers Battle Over Rates

Continued From First Page

drowning in tears at retailers' stories they're losing money," says Mr. Davis of Washington labor council. "I know how you manipulate numbers to show anything want, and I bet that's what they're doin make their costs come out so high. An what if they don't make any money on cr That's just part of the cost of doing busi Retailers would be worse off without it. they know it--that's why they don't just giving credit."

Retailers concede that credit gener sales they wouldn't otherwise get. "A reg charge customer buys two and a half to t times more in a year than the average customer," says Edward S. Donnell, presi of Montgomery Ward. "I'd estimate that s of appliances, furniture, tires and other ex sive items would drop 35% to 50% if c were suddenly discontinued."

Like many other retailers, Ward's sale credit have increased to more than half o total volume from about 30% 10 years ago.

So retailers aren't likely to give up cr but they warn that it will be harder to get prices will be higher if they're forced to lo their interest charges. It isn't an empty thr A survey of Washington state retailers fo that 56% of them had raised prices by an a age of 5% specifically to compensate for lower interest charges.

"This has the effect of making the cash tomer pay for some of the costs of credit tomers; we don't think that's fair," says Donnell of Montgomery Ward.

The Washington study also found that s retailers began charging for services they viously had offered for free—such as ch cashing, gift-wrapping, layaway and parki and others had lowered the price they off on trade-ins.

Wisconsin retailers say they haven't ge ally raised prices yet, because of depre economic conditions and stiff competi They are raising credit standards consid bly, however, a trend also found in the W ington survey.

"We use a point system in determining customer is credit-worthy," says Paul T. mister, manager of the Montgomery W store in Kenosha, Wis. "Since October, w increased the number of points needed to q ify for credit by 15% to 20%. I've seen qui few people turned down recently who w have been given credit cards a year ago."

That's just fine with advocates of lo rates. Mr. Davis of the Washington labor c cil says, "The banks and retailers want rate high just so they can give credit to body who asks for it. Our members are g bill-paying people--why should we be s with high interest rates to subsidize people don't pay"

In those states where courts have or m rule interest rates usurious, stores have n to lose than future fees. In the past five mo in Wisconsin, over 200 individual suits and eral class actions have been filed seeking funds of past payments. If retailers lose suits, they could be forced to pay out mil

COMMENTS ON AB 579

ATTACHMNET 4

Objective of this testimony:

1. To draw attention to an inequitable position in which the doctor's of this state are placed. 250
   a. State law requires doctor's on the staff of county hospitals to treat indigent patients without charge.
   b. There is no protection of the doctor from malpractice suit brought by an indigent patient.
   c. The doctor has had, up until now, to risk his personal financial security to treat indigent patients.
   d. The doctrine of charitable immunity which protected doctors when the state law was passed has since been revoked by the courts.
   e. There is an increasing trend toward more frequent malpractice suits and toward higher judgements. Indigent patients are suing as readily as private, fee-for-service patients.
2. To encourage the passage of AB 579.
3. I represent only myself in this testimony. The opinions expressed are mine only.

Some Factors Involved in Considering Passage of the Bill:

1. Against passage:
   a. The cost to the hospital.
      1). Since the hospital is paid by the county for treating indigent patients this cost could be recovered from the properly responsible source.
   b. The difficulty for the insurance company to figure the rates on a heterogenous population of physicians.
      1). The techniques are available in the industry in the same fashion in which they presently compute rates for classes of physicians based on the type of practice in which they are engaged. I would not deny that there might be difficulties in the computations.
   c. Difficulty for the hospital in obtaining the insurance coverage.
      1). The physicians face the same problem.
   c. The fear that the hospital will lose its present liability coverage in the carrier is forced to assume the unwanted liability coverage of the physicians on the staff for treating indigent patients.
      1). There is nothing in the bill which forces the hospital to obtain all its insurance coverage from the same source (market).
2. For Passage of AB 579:
   a. I personally believe there is an ethical and moral responsibility for the community at large, as opposed to the select group of physicians only, to assume responsibility for the care of indigent patients, if such medical care is to be provided for them by government.
      1). The physician is faced with the choice of not practicing in a county hospital, (many times the only one available), or else compulsorily accepting any indigent patient which is assigned to him. This means he must either deny his patients the choice of hospital facilities, or he must, without recourse, expose himself to personal financial ruin.
      2). When he is already contributing his share by treating these patients without charge it becomes difficult to accept this further burden.
   b. Some insurance companies insuring physicians for professional liability do not cover the physician for patients he treats without charge. Therefore, the physician is not covered when he treats these indigents. In the absence of other protection it is only reasonable to assume that he must, when the risks become high enough, refuse to treat these patients.
   C. With the passage of time and the destruction of the charitable immunity concept there is an increased tendency to sue physicians. Therefore this protection is needed far more now than ever in the past.
   d. The financial aspects of professional liability would dictate the county assumption of this burden.
      1). Increasing costs are steadily pushing up the cost of medical care.
      2). General business expenses and take home pay are rising about 6% or more

per year because of steady, unchecked inflation.

b). The cost of professional liability insurance is skyrocketing. Using my own practice as an example I will cite the following statistics. In 1968 professional liability insurance cost $903 per year; in 1969-1970 it cost $1563. For the year 1970-1971 the cost will be $5291.52. (The latter figure is high because I had a bad surgical result which I reported to my insurance company. No suit has been filed yet my policy was not renewed. When I tried to get new insurance with a different company I was faced with a very difficult situation. No company wanted to accept me. The one that finally did accept me did so only with rather high rates. Even if no threat of a suit were present my rate for this year would have been approximately $2968.) As you can see the general rate of increase is almost double each year.

c). No businessman can afford to stay in business unless he passes on his increased costs to his customers or obtains government subsidy. The increasing threat of malpractice suits from the indigent population will increase the cost of practicing medicine. The question is, "Who should bear the cost? the physician? the other patients which the physician treats? or the community at large?"

(1). The physician is already accepting his share of the cost of treating indigents by contributing taxes as do the rest of the population, and in addition by contributing, for free, his services.

(2). The other patients of the physician are already undergoing financial difficulty trying to finance their own illnesses.

(3). The only logical one to accept the increased cost is the population at large:

i. They are the ones who voted to supply the care. Therefore they should be the ones to finance it.

ii. The increased cost spread among many would be hardly noticeable. Whereas, among the few the cost would be a heavy burden to bear.

Sincerely yours,

Jerald B. Felder, M.D.

Jerald B. Felder, M.D.

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ATTACHMENT 5

Harry Stroud
Legislative Letter Box Room

A.B. 747-- Outlawing Pyramid Promotional Sales 214

Topic: Most effective means of eliminating the abuses of pyramid promotional sales and "endless chains" is to outlaw such sales or chains.

I. 4 Basic Approaches Have Been Tried in Other States in dealing with Pyramid Promotional Sales:
of pyramid promotional marketing plans

A. Requiring registration/under state securities laws

B. Outlawing pyramid selling schemes under anti-lottery statutes

C. Prosecuting promoters of pyramid schemes engaging in fraud and misrepresentation under Consumer Protection Laws and Unfair Trade Practices Acts.

D. Outlawing pyramid promotional schemes or endless chains by statute.

CONCLUSION: On the basis of information received from attorney-generals, securities commissioners, and public officials in other states, the most effective way to protect the public from the abuses of pyramid promotional sales is to prohibit the preparation, operation, and promotion of a pyramid promotional scheme or endless chain.

II. Definition of a pyramid promotional scheme. (Note: To be more fully explained by other speakers.)

A. Involves a program or plan for the merchandising of propert

B. BUT, in order to participate in such a plan, a participant MUST PAY MONEY OR SOME OTHER CONSIDERATION FOR THE CHANCE TO RECEIVE ADDITIONAL COMPENSATION THAN THAT RECEIVED FROM THE SALE OF MERCHANDISE FOR PROCURING ANOTHER PERSON OR PERSONS TO PARTICIPATE IN THE SAME PLAN.

Note: The important point involved in a pyramid scheme is that a participant receives some remuneration simply by persuading another person to come into the program or after persuading another person to come into the program to receive remuneration when other persons participate in a program that are introduced to such a program by the person originally sponsored by the participant.

Example: A introduces B into a pyramid plan. B pays a sum of money to join the scheme, of which A receives a percentage of the money for "introducing " B to the program. B then persuades C and D to buy into the plan, and both A and B obtain "commisions" or a share of the money of C and D for sponsoring them or bringing them into the scheme. C and D then have the same opportunity to "make money by introducing other people into the program, and so forth. NOTE: THE PRIME MOTIVATION FOR JOINING THE PROGRAM IS NOT THE EXPECTATION OF PROFITS FROM THE SALE OF MERCHANDISE BUT THE COMMISSIONS TO BE EARNED BY BRINGING OTHER PEOPLE INTO THE CHAIN.

III. Inadequacy of other approaches to the control of pyramid promotional schemes:

A. Registration of pyramid schemes under securities laws: tried in-- (Not an exhaustive list)
Indiana, North Carolina, Michigan, Arizona, Ohio, and T

1. Theory behind the scheme: the sale of "distributorships" or the marketing plan of a pyramid promotional scheme is deemed to be the sale of a "security" under the applicable state securities law and therefore requires registration with the state securities commission before a pyramid scheme can be promoted in the state.

Note: Nevada State Attorney General"s Office has indica no such requirement regarding pyramid schemes exists in the securities laws of this State. Thus, no registrat now required.

2. Major problem with this approach: Courts are very reluctant to hold that "marketing plans" of a pyramid sche fall within the definition of a "security" subject to regi stration and thus there is little state authorities can do to supervise these schemes for the benefit of the public.

3. Other major problem: Even if a promoter of a pyramid scheme registers with the securities commissioner and promises to abide by the laws of the state with respect to the sale of securities (i.e. agreeing not to issue false or fraudulent information in connection with the promotion of the scheme), many states have been frustrat in correcting abuses arising after registration, when a promoter does not abide by the terms of his agreement with a securities commissioner or attorney general.

4. EXAMPLES OF THE FRUSTRATION IN OTHER STATES IN DEALING WITH MULTI-LEVEL DISTRIBUTORSHIPS AND PYRAMID SCHEMES I OTHER STATES:

a. State Securities Board of Texas; A. J. Ellisor, Director of Enforcement wrote on Feb. 18, 1971 that the Texas Court Supreme Court upheld a ruling th a multi-level chain distributorship was not a security and not required to register with the Texas Securities Commissioner. Mr. Ellisor concludes:

"The only effective way to stop this type of fraudu lent operation is to pass a statute which makes multi-level-chain referral operations illegal and puts felony penalties on violators. . . Some states, such as Texas, have proposals pending in the legislature prohibiting multi-levels by amendme of their consumer protection codes; some would amen the penal codes in the lottery section and others would amend the Securities Acts."

b. Attorney General of Michigan wrote on March 1, 1967 that a multi-level distributorship company engaging in a pyramid promotional scheme had presented a "revised" marketing plan after the Attorney GEneral's office brought suit for violation of the Michigan Securities law, which was approved by a lower court. He wrote:

"We felt the court erred, and have appealed. We based our assertions on general law of lotteries, fraud and the sale of a security under Michigan's Blue Sky Law."

Note: Pending the appeal, the pyramid scheme continues.

B. Anti-lottery statutes: Louisiana and Kentucky have held that a pyramid selling scheme constitutes a lottery under their state stautbes, as have Texas, Washington, Ore., Fla. &No Ca

1. Problem:/ Lottery is treated in the same manner as gambl in these states, where gambling is illegal.

EX: Louisiana Revised Statutes 14:90: "Gambling is the intentional conducting, or directly assisting in the conducting, as a business, of any game, contest, lottery or contrivance whereby a person risk the loss of anything of value in order to realize a profit. Whoever commits the crime of gabling shall be findd not more than $500 and imprisoned not more than one year."

On [illegible], 1971, the Attorney General of Lhaisiana has ruled in a formal opinion that a pyrami promotional scheme which has as its primary purpose the SALE OF DISTRIBUTORSHIPS and its secondary purpose the SALE OF MERCHANDISE waa a lottery under the above law. He states:

"As we view the matter, since the primary purpose of the subject pyramid selling plan is the selling of the product to other investors or members of the organization rather than to the public at large, a representation or the creation of an illusion that the primary purpose is to sell the product to the public constitute a false representation of the purpose of the plan and is therefore a deceptive business practice."

2. Nevada's lottery statute does not appear subject to this interpretation, and the Attorney General's office has informed me at this time that they do not feel a pyramid promotional scheme would be outlawed by our [illegible] anti lottery law.

C. Consumer Protection Laws and Unfair Trade Practices Acts: Enacted in most states --#x#### but not in Nevada.

1. Theory: A comprehensive consumer protection act prohibits certain unfair methods of competition or unfair and deceptive acts as defined in the act. Some of these acts include language that may outlaw pyramid promotional schemes.

EX: Penn's Define#s one unfair practice as:

"Promising or offering to pay, credit or allow to any buyer, any compensation or reward for the produ#rement of a contract of purchase with othe (passed in 1968)

The Penn. Attorney General has taken the position tha a referral selling scheme as appears in a pyramid promotional scheme is in violation of this law.

2. New York has gone the ##### farthest under a general consumer frauds act to restrict the operation of a company engaging in a pyramid promotional scheme and has entered an arrangement whereby the company mu return all money invested in such a scheme to those defrauded .

Problem: In the absence of a consumer protection law wit some indication that pyramid promotional #chemes are unlawful, nothing can be done. Nevada now has no such law.

D. Laws outlawing pyramid promotional schemes:

Enacted in: Iowa, Virginia, California, Wisconsin
(Several prosecutions underway Va. and Iowa).
Pending in? New Mexico and Maryland

NOTE: THE LANGUAGE IN A.B. 747 IS TAKEN FROM THE STATUTE IN CALIFORNIA AND ##########/ VIRGINIA AND PENDING IN NEW MEXICO.

Theory: Outlaw ## the operation or promotion of a pyram scheme by making it a misdemeanor. Also, make it possibl for those persons who have been defrauded by joining a pyramid scheme to recover their investments by voi#ding any contracts made in connection with the oppration of su a shheme.

1. Summary: An Iowa Court upheld the validity of this typ of statute in case where a permanent injunction was entered against the operators of a pyramid scheme. The Court said; ##

"The legitimacy of the application of the State's police power in such a statute, is that referral sales have been a fertile field for fraud. Such has been the

experience with such sales methods throughout the nation including Iowa. To say that such a statute is constitution is not to say that referral sales intrinsically cannot be legitimate and honest--doubtless many or some have been or are---it is simply to say that common experience indicates many are not and it is difficult to distinguish ## until after the fact. . . . It is simply to say that the situat is an apt vehicle for fraud and expereince show, unhappily, that it has been used often for fraud and that the general good will be better advanced by banning the fraud prone situation altogether although some legitimate dealings or situations are banned with it. Such is the situation with this statute which restricts . . . referral type sales. Accordingly, the constitutional attack on the statute is rejected." Judge James Denato, Ninth Judicial District of Iowa. Iowa vs. Koscot Interplanetary, Inc. et al.

End.

ATTACHMENT 6

OFFICE OF THE CITY ATTORNEY

CITY HALL
RENO, NEVADA

CLINTON E. WOOSTER
CITY ATTORNEY

ROBERT L. VAN WAGONER
RICHARD JOSEPH LEGARZA
JOHN AARON WHITE, JR.
ASSISTANT CITY ATTORNEYS

March 26, 1971

Re: Assembly Bill No. 747

Gentlemen:

Unfortunately, because of a trial commitment, I am unable to attend the hearing concerning Assembly Bill No. 747. I have authorized Mr. Robert K. Beaman, of the Reno Business License Department to present this letter to the Committee.

I feel strongly that legislation is needed in the area of consumer protection for the prevention of "pryamid" selling schemes, namely, the selling of distributorships for a consideration, with a commission to the person obtaining the new distributorship. Basically, it is my belief, that such selling schemes unless strictly regulated, amount to no more than a chain letter scheme. Unless such promotions are controlled and regulated by our State, injustices are bound to occur to the members of the general public who are solicited.

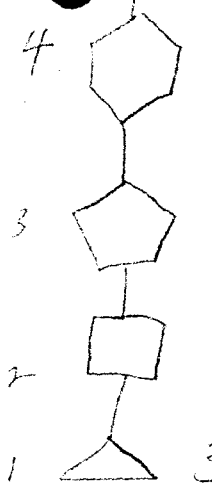
Many other states throughout the country have been confronted with this problem and have taken steps to outlaw such promotions. It is my belief that Nevada, likewise, should provide legislation in this area for the protection of the general public.

Sincerely yours,

ROBERT L. VAN WAGONER

RLVW:cd

220 10 month
Work yr



4 5000 — 1800 "2500" 1 every 4 weeks 1/4 2500 = 25,000

3 2000 600 "900" 1 every 2 weeks 1/2 1800 = 18,000

2 700 200 - "300" 1/2 week or 2 weeks 1/2 = 600 - 6,000

1 300 — 100 - 100 1 A week 1 = 400 - 4300

2500 2 1/4 days a month 53,000

5300 month

53,000 working 2 1/4 day's a week + taking 2 months a year off for Vacation

Me - 9 month 90 YR

Rest of them = 81 month 810 YR 15 months grapes

	Jan	Feb	March	April	May	June	7 months July	8 months
me	9	9	9	9	9	9	9	9
		81	81	81	81	81	81	81
			729	729	729	729	729	729
				6561	6561	6561	6561	6561
					59046	59046	59046	59046
						531414	531414	531,414
							4,782,726	4,782726
								40,000,000
							673,164	6,000,000
								5,000,000
							Total 5,912,180	51,000,000

9 | 90 | 819 | 7580 | 66,626 | 598,040

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28498

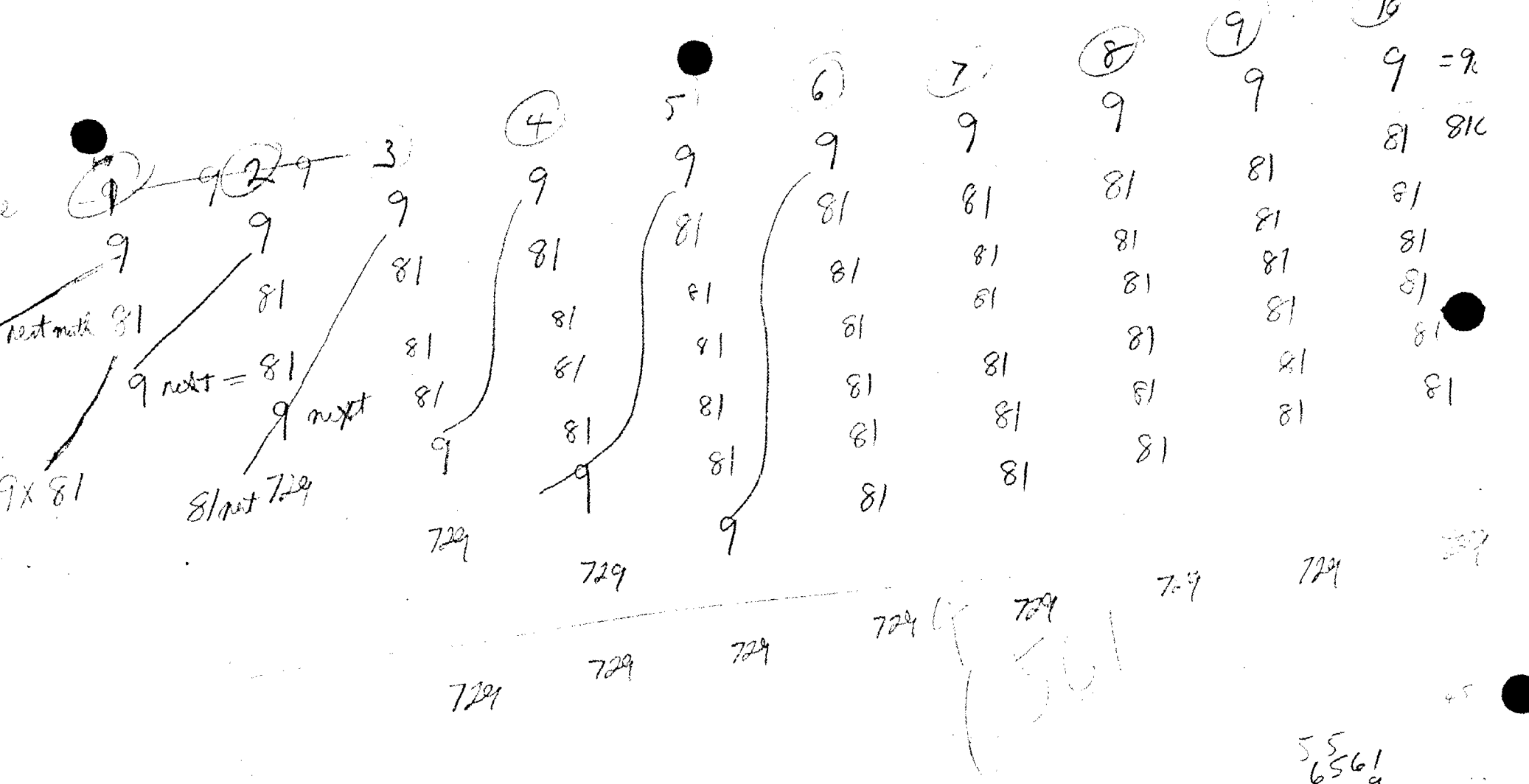
annuals 673,164

9 months

51 000 000
× 9
459,000,000 + 51,000,000 + = 500,000,000
× 9
4,500,000,000

10 months VACATION TIME

4,500,000,000 + 500,000,000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729 pupa a month = 7290 yr
6561 pupa a month = 65610 yr

E TO BE GREAT, INC! ● 350 WYMORE ROAD [illegible]NTER PARK ● FLORIDA ● (305) 647-7333

We Can Better Your Best

ENROLLMENT FORM

Date _____ ~~223~~

PLEASE PRINT AND GIVE COMPLETE INFORMATION

ADMINISTRATOR

NAME _____

ADDRESS _____

CITY _____

STATE _____ ZIP _____

S.S.No. | | | |

PHONE ( ) _____

I hereby certify that I have interviewed the below named Applicant:

_____
SIGNATURE

INTRODUCED BY (ADMINISTRATOR OR MANAGER)

NAME _____

ADDRESS _____

CITY _____

STATE _____ ZIP _____

S.S.No. | | | |

PHONE ( ) _____

I hereby certify that I have interviewed the below named Applicant:

_____
SIGNATURE

HOME OFFICE USE ONLY

[illegible]

HOME OFFICE USE ONLY

[illegible]

APPLICANT

NAME _____

ADDRESS _____

CITY _____

STATE _____ ZIP _____

S. S. No. | | | |

DATE OF BIRTH _____

PHONE ( ) _____

DATE _____

ADVENTURE I

☐ I hereby agree to enroll in the DARE TO BE GREAT, INC! training course for a total sum of $300. I understand I will receive SUCCESS ADVENTURE I, consisting of: Briefcase, cassette tape recorder, motivational tape cassettes and motivational material in notebook form. I further understand that by enrolling in this course, I shall have the opportunity to attend a two-day training seminar.

ADVENTURE II

☐ I have enrolled in the DARE TO BE GREAT, INC! training course, SUCCESS ADVENTURE I, and now agree to enroll in SUCCESS ADVENTURE II for the sum of $400. I understand this course consists of 12 additional motivational cassettes and motivational material in notebook form. In addition I will also be eligible to attend 12 advanced two-day training seminars.

MANAGER

☐ I have purchased the DARE TO BE GREAT, INC! training courses, SUCCESS ADVENTURES I and II, and now agree to purchase for the sum of $1300., the MANAGER'S SALES COURSE. I understand this course consists of six (6) cassettes and a sales demonstration kit. In addition I will also be eligible to attend a two-day sales training seminar.

NOTE: MAKE CASHIER'S CHECK PAYABLE TO DARE TO BE GREAT, INC!

I hereby certify that the above application is correct to the best of my knowledge:

_____ ✓ _____

SIGNATURE OF ADMINISTRATOR APPLICANT'S OK