

make an intelligent credit decision. Equally important, he can make a comparison with what he can earn on his savings.

Disclosure could be handled in a number of ways if comparing credit charges from one source with another source were the only objective. But many consumers also have another choice—they can borrow the money or they can use existing savings. In the latter case, consumers need a means of comparing the costs of credit with the earnings on their savings. In financial practice the earning power of savings is traditionally expressed as a percent per annum. Thus, it is reasonable to apply this same standard of comparison to consumer credit, to have the total cost of credit—including interest and other credit charges—expressed as a percent per annum on the unpaid balance. This is exactly the basis called for in H.R. 11601.

For years, businessmen have been accustomed to dealing with an annual percentage rate of return in making their own financial decisions. This bill would simply extend this principle to the area of consumer credit—and enable the American consumer to make informed choices in his use of credit.

The practical application of the annual rate requirement has been studied at length, and we have concluded that this requirement will impose no significant burden or difficulty with respect to the overwhelming majority of credit transactions in the United States. In fact, standardizing credit terminology will facilitate credit transactions.

We have had our Treasury staff prepare a set of tables that can be used to determine the annual percentage rate with a high degree of accuracy for even the most complicated credit transactions. In fact, given the reasonable tolerances of accuracy permitted by this bill, a simple one-page table will suffice for all but the most extreme cases. Such a table is already in use under credit regulations issued by the Department of Defense, and we have prepared a set of examples illustrating its applicability to H.R. 11601. Moreover, testimony before the Senate committee assures us that tables can be produced in quantity for widespread use by the credit industry once this legislation is enacted.

After I complete my prepared statement, I would be delighted to run through a few of these examples for the committee. Then, if you wish, I will take any credit transaction the committee would like to suggest and show how the annual percentage rate can be found in these tables. I am confident that this committee, like the Senate committee, will agree with me that if this ex-Congressman can figure the annual percentage rate, then there is simply no basis for the assertion that the provisions of this bill are unworkable.

There also is no justification for the claim that the annual rate disclosure requirement would prejudice lenders under State usury laws. The disclosure provisions of H.R. 11601 deal only with the annual rate of finance charges, not with interest rates. In fact the finance charge is defined to include many charges which clearly cannot be classified as "interest." In addition, the disclosure requirements would not change the legal status of existing credit charge practices. Credit charges which now are lawful under State usury laws would not become unlawful simply by reason of being disclosed to the consumer.

The truth-in-lending provisions of H.R. 11601 differ from S. 5, the bill passed by the Senate, in several respects. The Senate bill provides