ratio rate is 17.5 per cent. If interpolation in the table is necessary, it is accurate. One twelfth of this rate is precise as a monthly rate. It will amortize the debt in exactly 8 months. The nominal rate (twelve times the monthly rate) shown in the table also would serve buyers in deciding between the competing offers of retail merchants. It should be remembered, however, that the rates shown in table 6 are nominal and not effective rates. To obtain the latter, one-twelfth of the rate shown in table 6 must be compounded for a year, as shown for the present-value method. This additional step is not necessary to serve the purpose of most buyers or borrowers.

Table 6 also may be used for computing the direct-ratio rate equivalent on installment loans. For example, if a finance company offers to loan $100 on repayment terms of $7.75 per month for 15 months, the finance charge is $16.25 (or 15×$7.75 . . . minus $100). The ratio of $100 to $16.25 is 6.154. By interpolation in table 6, it can be determined that the contract involves a (nominal) rate of 23.3 per cent.[14]

[14] 23.8−0.154(23.8−20.6)=23.3.