

**STATEMENT OF HON. JAMES L. ROBERTSON, VICE CHAIRMAN,
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM; AC-
COMPANIED BY CHARLES PARTEE, ASSOCIATE DIRECTOR, DIVI-
SION OF RESEARCH, FEDERAL RESERVE BOARD; AND ROBERT
CARDON, LEGISLATIVE COUNSEL, FEDERAL RESERVE BOARD**

Mr. ROBERTSON. I appreciate this opportunity to present the views of the Board of Governors on H.R. 11601, the "Consumer Credit Protection Act," and the related bills being considered by this committee.

I have with me Charles Partee, who is Associate Director of the Division of Research, and Mr. Robert Cardon, Legislative Counsel.

The Board believes that important social as well as economic benefits may be expected to flow from a more effective disclosure of credit costs to consumers. As reasonable and workable ways are found to accomplish this objective, the market system should function more efficiently. Existing trade practices generally fall short of the kind of disclosure that is necessary to enable potential borrowers to make informed judgments about the use of consumer credit. Providing consumers with the basic information they need to compare alternative credit plans and to compare credit costs with returns on their savings should not only help them in managing their money to better advantage, but should also strengthen competition, with resultant benefits for the economy.

The price system is a fundamental attribute of a free enterprise, competitive economy. The sale of goods and services in exchange for money is the method by which the vast majority of transactions are consummated, and permits a degree of specialization—with its resulting efficiencies—that otherwise would be impossible. And for this system to function most effectively, it is necessary that the prices at which goods and services are available be stated by the seller, and known to the buyer, in standardized, meaningful terms. It is in this way that the buyer can be informed of his options—among both competing sellers and competing services—so that he may use his purchasing power in what to him is the most desirable way.

Prices of goods and services are usually stated in money terms, but a meaningful price comparison requires also some knowledge about the service to be acquired; namely, quantity and, where applicable, quality and duration of use. When the service to be acquired is the use of consumer credit, quantity and duration of use are the important variables. Duration of use is the period for which the credit is extended, of course, and quantity is the amount of credit used on average over this period. It is customary in finance to standardize the time-period variable by stating price in terms of charge per year, and the quantity variable by stating price per hundred dollars.

Now it would be possible to meet this price specification standard by stating the price of credit as dollars and cents per hundred dollars borrowed on average per year. But this is a complex form of statement, and it produces exactly the same result as the use of a percentage rate; that is, on a 1-year loan of \$1,000, payable in equal monthly installments and carrying a charge of \$60 (a so-called 6-percent add-on loan), the charge per annum on the average amount of loan available to the borrower may be stated at the standardized rate of either \$10.90 per hundred dollars or 10.9 percent.