

The important point here is that the borrower has available for use, over the life of the loan, not \$1,000 but an average of \$542; because each monthly payment includes repayment of principal as well as interest. The Board believes that to state the standardized charge as applying to anything other than the average amount of credit available to the borrower would distort the true relationship between cost and benefit received. The Board is also convinced that it is preferable to state the charge in percentage rather than dollar terms, and on an annual basis rather than for some other period. This would facilitate comparison with other financial prices, such as the percentage charge on single-payment loans, the interest rate paid on savings accounts, and the yield available to investors on Government bonds and other securities. Thus, we are in basic agreement with the provisions of H.R. 11601 in these respects.

This year, for the first time since Senator Douglas introduced his initial "truth in lending" bill in 1960, the Senate has approved a credit cost disclosure bill. The objective of S. 5, as passed by the Senate, is to see that the consumer is provided with the information that he needs to make up his own mind about whether to borrow, and if so, where. It does not purport to impose rate ceilings or any other restraints on terms and conditions, but only to assure full disclosure. The Board agrees with this approach, and favors enactment of S. 5, although in one important respect we believe that the disclosure provisions of H.R. 11601 are preferable.

The provisions of H.R. 11601 relating to open-end credit plans—revolving credit—offer important advantages, we believe, over the comparable provisions of S. 5. Under the Senate bill, an annual percentage rate need not be disclosed for most revolving credit plans; although the percentage rate per period must be disclosed. To guard against the possibility that existing forms of ordinary installment credit might be converted to revolving credit in order to escape disclosure of an annual percentage rate, the Senate bill's exemption for revolving credit is limited to plans that meet three tests. To qualify for exemption a plan must require payment of at least 60 percent of the amount of the credit within 1 year, must not involve retention by the creditor of a security interest in property, and must provide for crediting prepayments immediately to reduce the balance due.

These compromise provisions were adopted in response to criticism by representatives of a segment of the retail industry, who argued that it would be unfair to require disclosure of an 18-percent annual percentage rate for revolving credit plans under which a monthly charge of 1½ percent was imposed, because that would ignore the "free ride" period between the date the sale was made and the last date on which the bill could be paid without imposition of any finance charge. Inclusion of the "free ride" period—that is, calculation of the annual percentage rate from the date of purchase rather than the date on which payment must be made to avoid a finance charge—would, it is true, produce annual rates below 18 percent where a monthly charge of 1½ percent is imposed. But an 18-percent annual rate is the exact equivalent of a 1½-percent monthly rate and is a fair and meaningful figure if one assumes that the credit begins at the end of the "free ride" period. We believe that this is the significant date from the point