

of view of a customer who is considering whether to pay the entire balance and avoid any finance charge.

In eliminating the revolving credit exemption, the sponsors of H.R. 11601 have recognized the importance of providing consumers with a standardized method of comparing credit costs, and have avoided giving one type of creditor an unfair competitive advantage over another.

In addition to rate information, knowledge of the specific accounting practices employed by the store is necessary for accurate comparison of credit costs in the case of open-end credits. Though it is impossible to calculate in advance the influence of such differing practices on effective finance charges, the consumer should at least be alerted in clear and unambiguous language to the differences that may exist. Thus, the Board has recommended, and both the Senate bill and H.R. 11601 require, that information disclosed on all open-end credit plans must include the duration of any free period allowed, the method of computing the balance against which the finance charge is imposed, and minimum or special charges—if any.

Such information would be disclosed in some detail when the account is opened, and, in addition, a brief disclosure of the essentials would be required in the monthly bill.

We believe that this information would give the credit user a picture that is fair to the store, informative to the customer, useful in comparing charges from store to store, and broadly comparable to other rates charged for credit or paid on savings.

With the exception of the provisions on revolving credit, however, the Board believes that the Senate-passed bill is preferable to H.R. 11601. As we see it, the major differences, insofar as disclosure is concerned, relate to real estate credit, insurance premiums, transactions involving small finance charges, and effective date.

We believe first-mortgage loans on real estate should be exempt, as provided in S. 5, because there is already reasonable disclosure in this field and disclosure requirements developed for relatively short-term credit are inappropriate for loans with maturities of 20 to 30 years. To require that the annual percentage rate be recomputed to reflect costs incidental to the extension of credit would involve particularly troublesome questions in first mortgage lending because of the number and variety of the costs assessed at closing, many of which would be incurred, in whole or in part, by a prudent cash buyer if no credit was extended. While it would be possible to spread discounts and other credit-related costs over the life of the contract as a part of the annual rate of finance charge, we feel that this might tend to mislead the borrower. Such charges are in the nature of "sunk cost" and are borne in full by the borrower whether the loan is repaid in 1 year or 30. To require disclosure of total dollar finance charge, including interest payable over the whole life of the contract, might be more misleading than helpful. The present value of a dollar of interest to be paid 20 to 30 years hence is substantially less than 1 dollar, and relatively few first-mortgage contracts appear to be carried all the way to maturity.

The Board does believe, however, that second mortgage loans, land purchase contracts, and similar transactions should be covered. Such credits typically are extended for much shorter terms than first mort-