

aware of this problem, since we recognize that tolerances must be allowed if rate charts and tables are to be used in many types of finance computation and if the burden on lenders and merchants is to be left within reasonable bounds.

Indeed this is one of the reasons for our suggestion that the effective date of this legislation be delayed for at least one year after its enactment. Through staff work and consultations with the Advisory Committee (provided for by the bill), the industry and others, we hope to work out procedures specifying the use of rate tables and charts, or of other methods of computation, that will go as far as possible to simplify compliance with this aspect of the bill.

It is theoretically possible to reduce all computational problems to solutions by use of one elaborate set of tables, such as have been prepared by the Government Actuary of the Office of the Secretary of the Treasury, to a rate tolerance accurate to within $\frac{1}{4}$ of 1 percent. But such a procedure, though technically feasible, seems to us to present too complicated a task to be proposed for general use in the millions of consumer credit transactions handled by clerical personnel with widely varying skills.

The Department of Defense table to which you refer is much simpler. Partly this is because the tolerances of accuracy are widened to $\frac{1}{2}$ percentage point for effective rates between 5 and 8 percent, 1 percentage point for rates between 8 and 16 percent, and 2 percentage points or more for rates above 16 percent. But more important to the simplification is the fact that the table applies only to ordinary installment credits, i.e., contracts involving equal payments and equal time periods from payment to payment.

We are inclined at this point to think that it would be better to provide for a series of tables to be used in different situations. In an ordinary installment credit transaction, for example, if the lender knows the discount or add-on rate he wishes to charge, it is possible to convert this rate directly and without error (tolerance) to an effective rate by use of a simple table. This assumes that the amounts and timing of scheduled repayments are equal (within the definitions included in the bill) and that fees charged (in addition to the finance rate) are not significant. But if there are substantial fees so that the lender knows only the total finance charge, this too can be determined by use of a conversion table, accurate generally to within $\frac{1}{4}$ of 1 percentage point. Conversely, if the lender knows the effective rate of finance he wants to disclose, the associated total finance charge can be found by use of a table. Such tables are provided for use in Nova Scotia by the Financial Publishing Company of Boston, and should be readily adaptable to the needs of lenders in compliance with H.R. 11601.

When the terms of the installment contract are irregular in size of payments, repayment intervals, or rates charged from time to time, the computation problem is more difficult. There is no mathematical bar to compliance, so far as we are aware, but the necessary computations may be quite complex. Presumably, special-purpose tables can be developed for the more common kinds of irregular credits, but it seems likely also that considerable tolerances as to accuracy may be needed if compliance is to be achieved in all such transactions.

Both H.R. 11601 and S. 5 appear to provide ample latitude for tolerances as to accuracy in meeting rate disclosure requirements. For most regular transactions, involving a single known rate, a tolerance of $\frac{1}{4}$ percentage point is permitted; in actuality, such rates may readily be converted to disclosed rates with little or no error. For credits where the finance charge (rather than the rate) is known, the permitted range of tolerance is 8 per cent, which on a credit involving a 12 per cent effective annual rate would amount to about 1 percentage point, plus or minus; this appears ample. And for credits involving irregularities, H.R. 11601 states that "the Board may authorize tolerances greater than those specified in paragraph (2)," i.e., more than 8 per cent.

We are far from expert in regard to trade practices in the consumer credit field, and there probably are many variations in the computation of finance charges with which we are not acquainted. But if credit cost disclosure legislation is enacted and the Board is named to administer it, we will do our best to identify and study the various problems and to issue regulations that deal with them as equitably and simply as possible.

Sincerely,

J. L. ROBERTSON,
Vice Chairman.