tracts with a total maturity of 18 months, 24 months, 36, and even 5 years. When you get into a 3-year contract the payments per month obviously would be less than if you elected to take a 2-year contract.

Mr. STEPHENS. Once you elect it you can tell exactly what the rate of interest is because each payment is going to be the same.

Mr. DESHAZOR. Exactly, that is right.

Mrs. SULLIVAN. Before I call on Mrs. Dwyer, I would just like to say that we can argue for the next 7 years, as the Senate committee did for the past 7 years, whether 1½ percent a month on the unpaid balance is an annual rate of 18 percent on that particular amount. No matter how you figure your service charge, whether on the beginning balance or the end of the month balance, there is a certain principal amount on which you charge a percentage rate for a period of 1 month.

Let us do it the way the mortgage companies do, each month you owe interest. You take the full amount owed, multiply it by the interest rate—5 percent or whatever it is—and then you divide it by 12. If you do the same thing on one of your revolving charges, multiply the unpaid balance by 18 percent, and then divide the result by 12, do you not always come out to the very same thing that you do by computing 1½ percent of the balance?

Dr. WOOLEY. No.

Mr. DESHAZOR. No.

Dr. WOOLEY. You do not, the simple reason being that that amount which is outstanding on the mortgage contract is the same throughout the month and in the revolving credit account it is not.

Mrs. SULLIVAN. But when you take your balance—whatever it is—and apply your percent of charge to it, what percent do you apply to that balance?

Dr. WOOLEY. You are applying 1½ percent of the end of the month balance.

Mrs. SULLIVAN. You come to the same thing if you multiply by 18 percent and divide by 12.

Dr. WOOLEY. That is not a percentage. That is 1½ percent of a balance. It is not 1½ percent interest on the outstanding balance throughout the month. There is a great amount of difference there.

Mrs. SULLIVAN. I think maybe we were taught the wrong method of figuring interest.

Mr. HANNA. Would the Chairman yield?

Mrs. SULLIVAN. I yield.

Mr. HANNA. I have been listening with interest to the discussions of both sides on this question, Doctor. It appears to me that the point of departure is in talking about interest rate applied and effective interest. The interest applied is obviously 1½ percent. You know what interest you are going to pay when you apply it. So if you are talking about just applied interest, there is no question that one side loses the argument because they say 1½ percent when applied is 18 percent a year, approximately, when applied. And you come back and talk about effective interest and say yes, but when you take into consideration the time at which the article was purchased and the time at which the interest was applied, then the length of time over which it was applied, you then figure that out on an annual basis which you have done on the chart, and you do not come up with 18 percent at all.