

percent per annum should not be specified as the maximum rate which could be imposed.

We hasten to remind the Subcommittee that a similar procedure was considered at some length in the Senate deliberations and was eventually rejected.

The position of the American Retail Federation, however, must remain the same and we cannot endorse any annualization on revolving credit accounts without all of the information necessary to determine an effective rate. As has been stated before, this can only come about after the transactions have all been completed, and not in advance.

Mr. HALPERN. How would you resolve the issue of discrimination against installment credit sources if revolving credit is to be exempted from the disclosure provisions of this legislation?

Mr. DESHAZOR. We will answer that, too, sir.

(The material referred to follows:)

Revolving credit is not exempt from the bill. The provisions covering revolving credit are carefully spelled out, and the only "exemption" for revolving credit applies to the statement of an annual rate on relatively short term purchases. Inasmuch as almost all installment credit is offered for longer terms—over 18 months to pay—there is no "exemption" under S. 5 for revolving plans which offer comparable terms.

Installment sellers who sell small items likely to compete with those offered on short term revolving plans have an "exemption" of their own under the terms of S. 5, if the finance charge of the contract is less than \$10. Thus, the provisions of the bill balance themselves out and work no particular hardship on anyone. There is, therefore, no real discrimination.

The reasonable distinction made by the Senate outlines the justification and reasons for the new category. The Senate Report reads:

"Section 4(d) (2) (C)—Disclosure method of determining the finance charge.— This paragraph requires disclosure of the complete method for determining the finance charge including the imposition of any fixed or minimum fees. Many department stores have minimum fees while bank check credit plans often have a 25-cents-per-check charge. By requiring separate disclosure of these charges, the new version also recognizes such charges cannot be included in the rate.

"The section also requires disclosure of the periodic rate. In addition, installment open-end credit plans, as defined by section 3(h), would disclose the annual percentage rate which would be 12 times the monthly rate.

"This provision reflects a major recommendation of the committee to exempt open-end credit plans from the annual rate, but to include installment open-end credit plans.

"Such plans are ordinarily used to finance large purchases and are distinguished from ordinary revolving credit by the extended length of time permitted for repayment and the maintenance of a security interest in the merchandise. Such plans would be covered if less than 60 percent of any amount of credit was payable in 1 year, or if the seller maintained a security interest, or if accelerated payments are applied to future payments.

"The purpose of this distinction is to eliminate any incentive to convert closed-end installment credit to revolving credit merely to escape annual rate disclosure. The amendment also provides greater comparability between installment open-end credit plans and installment closed-end credit plans. Smaller merchants who extend credit through installment contracts can compete on a comparable basis with the larger stores who use extended payment revolving credit." pps. 16 and 17, Report No. 392, Calendar No. 378.

The American Retail Federation thinks this reasoning is logical, and generally acceptable.

Mrs. SULLIVAN. Mr. Wylie?

Mr. WYLIE. I have just one question which Mr. DeShazor may have answered before I came in. I am sorry I was a little late.

You were here yesterday and heard us pursue several questions regarding revolving credit with Senator Douglas trying to point out that disclosure of an exact amount of interest was not possible carried