a violation of section 5 of the Federal Trade Commission Act, then this would be a traditional approach to these types of problems.

Mr. HANNA. Thank you very much. May I say in further edification that the gentleman who finds it difficult to make a distinction between stating a simple annual rate, and the testimony of the gentlemen who have been here before us this morning, I can assure you it is not difficult at all in connection between the two for it has to do with the magic of time. There is no problem in setting an annual rate. If it is 1½ percent per month it figures out to 18 percent applied rate. But there is a little thing about time. Mr. Barr testified about this and he very casually went over it and said, "Well, it is true that there is a certain grace period before the interest is applied." There are some purchases that are made in the middle of the month—in other words, you have got a 30-day applied interest rate on something you might have purchased 48 days ago. So you have got some days of grace. The difference between those who apply it and the simple interest rate approach, and those who say it is difficult lies in the days of the month that vary between purchase and payment because payment can come on the 10th one month, the 7th, the 13th, the 2d, the purchases can be made from any spectrum of one to 30 and there will be a variety of balances that peel out and there will be a variety of days in which the interest was actually applied as against when the purchase was really made.

Now, the argument is simply, on one side if you are going to make it a simple interest rate, you simply say to the businessman, "You have got to pretend you did not extend credit on any of the days except at the time you apply it." And their argument is that that is nonsense. "We are only doing this to maintain a sensible approach to bookkeeping. The cost of making it apply from the day they pick it up are such that we are better off to arbitrarily say 1½ percent a month and we do not understand that and we do not know what the argument is all about." If it is true that when they say they applied 1½ percent and they allow a variety of differences of gross for any one particular account, when the effect of interest is applied against that which is the total amount at any time you are going to come out with a variety of rates of 11 percent to fully the figure 18 percent. But my fear is this, gentlemen, that if you insist upon the figure 18-percent interest charge being stated, that will be the interest charge against everybody. They will say, "Well, we did not want to charge you that much but the Government insisted that we are going to charge 18 percent from the date of purchase." I think what we will have done is have increased the interest rate for a number of purchases.

I think, Madam Chairman, I have been thinking about this thing very seriously and I think that if you really wanted to make a contribution in this area, you leave the appropriate operator alone, and get to the bad ones and you can say anybody who is applying an interest rate action and talk about the thing—whose applied interest rate exceeds 18 percent, that they must report this actual interest rate or else have them report it as applied because that is the truth of the matter. That is the applied interest rate and not necessarily the effective interest rate and you will never get me to accept the fact that there is not a distinction between the applied interest rate and the effective interest rate, because anybody who knows the simple application of