Mr. WALKER. I know that.

Mr. BINGHAM. I have a simple example here. The way they use these things, if your balance on the 1st of March is $100, and on the 5th of March you make a payment of $50, and on the 25th of March you make a purchase of $50, on April 1 your balance is again $100, so you are going to pay a dollar and a half on that one but the average, balance for that period is only $66, so you have been actually paying at an annual rate of 27 percent.

If that is not right I would like to be corrected. But that is the way I understand their plan.

Mr. WALKER. Now, I am going to ask Mr. Bailey to comment on that. I think it is the method which does vary.

Mr. BAILEY. Yes. I am not familiar with precisely how that company does it.

We levy the charge on the opening balance less any payments that have been received during that month.

Mr. BINGHAM. But that is not what the department stores do. You see, they levy that charge on the opening balance regardless of any transactions during the month, unless the account is wiped out, and then they don't charge anything. We are going to have testimony next week showing that because of this practice in some cases, the credit charges can run as high as 75 percent per annum.

Mr. WALKER. On S. 5 they can say their monthly rates are 1½ percent and we have to say our annual rate is 18 percent.

Mr. BINGHAM. I agree with you on that.

As far as the banks are concerned, how does it actually operate?

Mr. BAILEY. As I stated, if you purchase something this particular month of, say, $100, the first of next month we would bill you for your monthly payment, but include no service charge, because from the time of purchase until billing would be free, there would be no charge to you. And at the end of the following month—let's assume that you have made no purchases at all, and you paid $10 during the second month—on the second billing we would bill you again for the monthly payment. And at that time we would charge one and a half percent on $90. That was the balance that was left after you had made the payment.

Is that clear?

Mr. BINGHAM. So far. But what if you had also made a purchase during the second month?

Mr. BAILEY. That would not be service charged until the second billing after that purchase is made. The same procedure follows through.

Mr. BINGHAM. But you do give credit for the payment made during the month.

Mr. BAILEY. Yes, we do.

Mr. BINGHAM. You deduct that from the balance at the beginning of the preceding month?

Mr. BAILEY. Yes.

And I would like to comment on what Mr. Williams and Father McEwen were talking about. If the effective rate on the money that was actually used in the example that was quoted was less than 12 percent, 11 point something—this is what the person actually paid for the use of that money during the life of that contract, a year's