I am pleased the debate over methods is settled in favor of the true rate, the actuarial rate.

I want to emphasize a point often overlooked: *This rate is usually not an annual rate, but is customarily so expressed.* It's natural or basic rate is whatever period is used for figuring interest. This periodic rate is annualized by being multiplied by however many such periods there are in a year. This annualized periodic rate is the quoted *nominal annual percentage rate.*

A bank advertising 5% per annum compounded quarterly actually means it pays $1.25 per $100 per quarter. That is, its basic rate is the periodic rate of 1¼% per quarter. After a year at this rate, the $100 will be worth $105.09, a yield rate of 5.09%. *Thus, we see that a 1¼% per quarter at 5% actually costs the bank and pays the customer 5.09%.*

The critical and basic rate is the periodic rate!

It is customary to quote nominal annual rates. These annualized rates are the only feasible way of comparing quotations for transactions having different payment periods and principal amounts. So the bill requires, quite properly, that all rates, whether for contract closed-end credit or for revolving open-end credit, be expressed as a nominal annual percentage rate. Note: If you are concerned, as I once was, that the consumer might be deceived by a nominal annual rate that fails to reflect the higher effective or yield rate as a result of compounding, I refer you to page 30 in *Consumer Credit Computations.*

7. The actuarial rate table used by the DOD has not caused any noticeable shock effect. Most of the creditors Miss Leonard interviewed found the table neither difficult to understand, nor to use. It is functional, particularly with the assumption provided in Section 202(f)(1)(B) for an odd payment, and well within the tolerance, especially with the amendment for Section 200(f)(1)(c) which suggest in the attached memorandum. As Mr. Barr's testimony demonstrates, it can be applied to a variety of irregular payments.

8. Revolving credit is the easiest form of credit to adapt to an annual rate. On page 20 of my *Truth-in-Lending* pamphlet I show how simply a Sears statement could be adapted to disclose the annual rate and the balance on which it is imposed. In most cases *only a printing problem* is involved to disclose the annualized rate and the balance to which it is applied to obtain the finance charge.

9. The problem the retailers and bankers raise is more fundamental than annualizing the periodic rate. The opponents are engaged in a *public confession of how understandardized* their present *practices* are.

Charls E. Walker of the American Bankers Association, testifying before the Senate Banking and Currency Committee, June 23, 1967, raises the point when he says:

". . . Clearly, we think, that in the case of revolving credit, disclosure on a monthly basis provides the consumer with a *more accurate* statement of the finance rate than is possible with an annual expression." (Italics added)

The annual expression is merely the periodic rate multiplied by the number of periods in a year. Multiplication magnifies, but does not distort!

He may have had in mind the "free ride" arguments so that, as Penney's testified, their average customer is paying only 10½% and not the 18% the bill would require to disclose. (Of course, I contend that Penney's charges 18% on all the credit they charge for; they get 0% on all other "credit").

If so, there are two points: (a) the operation of savings accounts at banks is very similar to that of revolving credit accounts. Neither the bank nor the customer knows, and there is no contract to specify how and when the money will flow into and out of savings. This is just like open-end credit accounts. Customers who withdraw before the interest bearing date give the bank a "free ride" use of their money, unless the bank pays interest to date of withdrawal, in which case the bank's rate advertising is "more accurate." Also the customer who saves as of the first of the month or quarter gives the bank 10 more days use of money than the customer who deposits on the 10th. Furthermore, when the bank advertises 5% and pays out amounts per $100 varying from $0 to $5.09, is the bank's advertising of its annualized quarterly rate accurate?

The first Consumer Advisory Council was quite explicit in its recommendation that the rates for credit should be comparable with those used by savings institutions. And this has been a cardinal principal expounded by the proponents of this bill.

If the "inaccuracy" to which the ABA objects is a result of the variety of systems in use by savings institutions with open-end savings plans or creditors