

effit of the consumer's knowing the true annual rate or even the approximate annual rate. The interest of truth in lending—to help consumers stabilize the economy by the rational use of credit—would be largely defeated.

Merchants and bankers used a shrewd argument against annual rate disclosure on revolving credit. They said that a charge account customer often gets the use of their money for longer than 1 month—sometimes for almost 2 months—at a service charge of $1\frac{1}{2}$ percent. Thus, they argued, the service charge is a fee, not a periodic rate, and even if it were looked on as a rate it would translate to less than 18 percent per year. Their argument has a clever premise. Up to 59 days of credit are available interest free, but only on condition that the balance is paid in full by the 59th day. If it is not paid in full, time runs backward to the date of purchase. Well, maybe an accountant can really make the calendar run in reverse, but one name for their magic is account juggling.

The only reason for our mentioning it here is that there are many different sets of rules for juggling revolving credit. Different stores and banks use different rules, and they are not just playing games. A revolving charge account can cost considerably more at one place than at another, though both seem to be charging the same interest rate. Professor Morse of Kansas State University illustrated the situation dramatically in a recent pamphlet. He showed six revolving credit billing systems, all in current use, and he showed how service charges can run more than twice as high in some stores as in others.

The Senate truth-in-lending bill attempts to deal with this problem by requiring revolving credit lenders to explain their billing systems. H.R. 11601 takes the same approach. But explanations presently offered by the major mail-order houses fail to clarify their billing systems well enough for consumers to understand them, and we seriously doubt that any verbal explanation will permit consumers to identify the store or bank with the least costly system.

But I shall try to explain the problem to this committee, using the billing methods of Sears, Roebuck and Montgomery Ward, which I am told are identical, and that of J. C. Penney. I have prepared a written exhibit to go with this because I realize how hard it is to follow a discussion involving a great many numbers. Our exhibit shows calculations based on the premise—a fair one, we believe—that the J. C. Penney interest rate, charged on the adjusted monthly balance due, equals 18 percent per annum.

The basic difference between the Sears-Wards method and the Penney's method is in the definitions of the amount of credit outstanding. To give you a simple example:

Suppose I buy something for \$100 at each store, and I charge it. Sometime within the next 30 days or so they will each send me a bill. It will show an opening balance due of \$100. It will tell me to pay the \$100 or, if I want to go on the installment plan, to pay only \$10. Let's say I pay only the \$10. Next month, of course, I can expect to be assessed interest—or, as they prefer to say, a service charge or a time-sale price.

Sure enough, when next month's bills arrive, each shows a service charge. Each bill shows what happened to my account during the past