

Mr. BINGHAM. Madam Chairman?

Mrs. SULLIVAN. Mr. Bingham?

Mr. BINGHAM. May I ask one more question of Mr. Klein to try to clarify a little further this problem of what can happen under this Sears, Roebuck, and Montgomery Ward type of account?

Could I ask you to make a quick calculation, Mr. Klein? Supposing on April 1, a given month, you have a balance of \$100 in the account. Five days later, on April 5, you make a payment of \$75 and then 20 days later, on the 25th of the month you make a purchase of \$75. At the end of the month your balance will be back up to \$100, but for 20 out of the 30 days you actually only have a balance of \$25.

Mr. KLEIN. Yes.

Mr. BINGHAM. You are going to pay under the Sears and Montgomery Ward plan, you are going to pay $1\frac{1}{2}$ percent of the \$100 balance. But actually on the basis of your average daily outstanding balance the rate is much higher than that, is it not?

Mr. KLEIN. Yes. If you don't confuse it in the future with what is on the bill when the bill opened, I think you will be a little clearer in your mind as to what is going on. These stores allow you 30 days to pay your bill in full without any service charge. Now, those new payments are on a new 30 days. But you must pay the whole bill in full, the new payments, and balance, to get rid of the service charge. What we are looking at is the previous month's transactions when you had a balance due, you paid a fair share of it. Because you wanted to be thrifty.

Mr. BINGHAM. It seems to me that the Penney system of using the current month's balance is a much fairer system—current month as far as payments are concerned—it is much fairer and much less likely to mislead the consumer than the Sears and Montgomery system. Would you agree with that?

Mr. KLEIN. I would make no characterization of fairness on either of these systems. The Penney system is less expensive. That is all we want to know, which is the least expensive. But both can be expressed as an annual rate, and that will give us the dope.

Mr. BINGHAM. It is interesting that you say it is less expensive, because they both say they are charging the same interest.

Mr. KLEIN. Which they are not.

Mrs. SULLIVAN. If you do not pay the balance due—that is, the purchase price plus service charge—then when they figure the service charge for the next payment date, do they charge a service charge on the previous service charge that is not paid?

Mr. KLEIN. Yes, they do. Penney's comes right out and says it in their contract, but others do, too.

Mrs. SULLIVAN. That is like compound interest.

Any other questions?

Mrs. DWYER. I have just one more.

I believe this could be directed to Mr. Meade on your Massachusetts law. Is the annual rate for revolving credit as contained in the Massachusetts law working because (a) it is accomplishing a worthwhile purpose, or (b) because it is minimus and consumers pay no attention to it and simply causes no one any trouble? What positive evidence do you have that many Massachusetts customers use annual rate as a yardstick to shop around and get the cheapest form of credit?