H.R. 11602 does not meet with the full approval of all of our members. In fact, as brought out in testimony by NRMA before the Senate Banking and Currency Committee on June 23, 1967, there are sections concerning the distinction between open-end credit plans which we do not feel are conducive to developing a proper competitive situation within the industry. However H.R. 11602 represents a compromise developed from seven years of work and study. We would hope to further improve upon its provisions. However, if left with a choice between accepting H.R. 11602 or regressing to H.R. 11601 we express the view of the majority of our members, which would be acceptance of H.R. 11602.

STATEMENT OF NATIONAL RETAIL MERCHANTS ASSOCIATION SUPPORTING THE EXEMPTION OF CREDIT SERVICE CHARGES OF LESS THAN $10 FROM DISCLOSURE IN TERMS OF AN ANNUAL RATE

Governor Robertson recommended an exemption from annual rate disclosure of credit transactions under $100 or where the credit service charge is $10 or less. He said ". . . a small finance charge—in dollar amount—is not of great significance to the credit user regardless of the effective rate of finance charge."

The disclosure of credit service charges in terms of an annual rate may be desirable on large credit transactions, particularly where the terms of repayment extend for periods as long as five years. It has no meaning or importance on small sales with maturities of less than one year. For the small retailer careful control of costs is necessary to remain competitive. He has neither the personnel, the equipment, nor the time in connection with each small sale to convert credit service charges into an annual interest rate. His customers would neither appreciate nor tolerate the delay in being waited-on. Furthermore, such conversion and disclosure would be more confusing than helpful to the consumer.

Certain basic facts about credit should be considered. Most significant, there are fixed initial costs of processing each credit application and credit transaction which are constant regardless of the amount of the account balance or the amount of the particular purchase. Such costs include initial interviewing and credit investigation, clerical and bookkeeping costs, and collection expense. Because of small purchases these fixed costs are spread over a smaller dollar amount, they are disproportionate in percentage terms to the same costs on larger transactions. *The disproportionate fixed cost element of extending credit for short periods on small sales is an economic fact which cannot be disregarded, and it should be viewed properly as a service charge, rather than an interest charge for the use of money.*

If retailers who sell small-ticket items almost exclusively are required to quote a dollar and cents service charge in terms of a simple annual interest rate on transactions that liquidate in periods considerably shorter than one year, that rate would appear to be disproportionately high. It would place these sellers at a competitive disadvantage with those who include all or part of the credit costs in their cash pricing. *When such disclosure discourages customers from making the more valid comparison of time price against time price, they may find that in the end they have gotten poorer value for their money.*

Let us consider this illustration. A $12 soft-goods sale with a small service charge of $1.50 may pay out in three installments. A merchant who competes by maintaining a low cash pricing policy with minimal mark-up needs that service charge to defray the costs of extending credit. Yet, by quoting an annual rate of 75% he may lose a minor but important segment of his business. His customer, motivated by shock rather than reason, could pay as much or more by patronizing a firm that includes credit servicing costs in its original pricing. In this instance, the unwary shopper—most in need of protection—would be the most vulnerable.

Annual rate disclosure will adversely affect small retailers, and consumers as well, in another important respect. Nearly all retail installment credit plans allow the buyer to add subsequent purchases to his account. Retailers with small-ticket add-ons do not customarily refinance the entire package because of the time and expense involved. The credit service charge is imposed on each separate sale under its original terms and when the payment term of prior purchases is extended by virtue of add-on purchases, no additional service charge is assessed to the buyer for the extended time allowed. Should the seller be required to compute an annual rate on small sales of $100 or less, and be forced to bear the expense of this additional work, there would be no reason for him