

Our main objection to S. 5 is that it exempts a large part of revolving credit transactions from having to disclose the annual rate. One of the arguments used to persuade the Senate Committee to exempt this segment of the industry was that revolving credit constitutes a very small percentage of all consumer credit. While this may still be true, the picture is changing every day. As Senator Douglas pointed out in his testimony before you, the amount of revolving credit jumped while the Proxmire Bill was under consideration from \$3.5 billion to \$5 billion. A member of the banking industry has predicted that in five years revolving credit will represent 50% of all consumer credit in this country. And if Congress passes credit legislation which gives revolving credit this special exemption, I predict it will rise even more rapidly. Merchants will be changing over to revolving credit as fast as they possibly can. And they could not be blamed for it, because otherwise they would be forced to operate under a law which discriminated against them in favor of their competitors.

I was glad to hear the representative of the American Bankers' Association say that "uniformity is essential if the consumer is to be given the means by which to compare costs of credit, and if the credit industry is to be permitted to operate with optimum effectiveness." And I join him in urging that you provide a "single, non-discriminatory system of time disclosure to be uniformly applied to all creditors and all types of credit," even though I disagree with the ABA in their preference for the monthly rate.

Another oft-repeated argument against the provision that revolving credit charges be disclosed by an annual rate is that to label a $1\frac{1}{2}\%$ monthly rate an 18% annual rate would not be true. I was unfortunately not able to be present when Dr. Wooley presented his tables, but I have heard others who tried to make the same pitch—namely, that consumers charged at a $1\frac{1}{2}\%$ monthly rate end up paying less than 18% a year, and therefore would not be getting the truth if they were told the annual credit charge was 18%. But none of these avid seekers of truth was ever able to prove that a $1\frac{1}{2}\%$ monthly rate was any truer than the 18% annual rate.

Credit costs should be calculated from the date the service charge begins, not from the date of purchase. If calculated in that way, the annual rate is always 12 times the monthly rate. This is the true basis for the charge, and we don't have to worry about the fact that consumers do not all pay at the same time during the period. Actually, if you pay on the first day after the charge is imposed, you may be paying not 18% for a $1\frac{1}{2}\%$ monthly charge, but as high as 540%. Such examples, of course, are never given. The important information for the consumer to know is the *annual rate* at which the charge is calculated, and when it begins. The ABA witness suggested that the monthly rate would give the consumer all the information he needed for comparing credit costs because "he could easily convert the monthly rate into an annual charge simply by multiplying by twelve" (p. 6). It really *is* that easy, and it should not be any harder for the extender of credit to make that multiplication than for the consumer to do it. Let's not mislead the consumer into thinking he is getting cheap credit by quoting a low monthly rate.

I have here a bill which is issued by one of the stores in this area which uses revolving credit. As you can see on the reserve side of the monthly statement, there is an explanation. In the lower left hand corner it states very clearly, "No service charge if payment in full received within thirty days of billing date." Item 4, on the right, states that the service charge is " $1\frac{1}{2}\%$ of the balance at the beginning of the monthly billing period." H.R. 11601 would require only one change—viz., that the Service Charge also be stated as 18% per year. It would be very easy for this store to make this change, and the new figure would be just as true as the one they now use. We feel it is important that the charge be stated as an annual rate for precisely the same reason given by the ABA witness—viz., that the consumer could then compare credit costs from different sources of credit. When I deal with this merchant, I have two choices. I can pay off the entire amount within 30 days of billing date and pay no service charge, or I can elect to defer payment and incur the charge. If I do not have the cash, before I can make an intelligent decision as to whether I should use the merchant's credit plan, or take the money out of a savings account, or borrow the money from a credit union and pay before the credit period starts, I must know the relative costs of these procedures. If I'm getting only 4% for my savings in a savings loan institution, it would be foolish to pay 18% for the use of credit at the store. But how do you compare 4% advertised by the savings institution with $1\frac{1}{2}\%$ stated by the store? What consumer could easily tell whether it is cheaper to