

CONSUMER COMPARISON

The difficulty the customer will face in comparing the costs of credit under the provisions of S. 5 can be illustrated by a comparison of similar transactions. For example, take a sale of \$400 to be repaid in 4 regular payments. On a typical revolving account, the customer would get the first month as "free time" with no credit service charge. The second month the credit service charge would be \$6.00, the third month \$4.50, and the fourth month \$3.00, for a total credit service charge of \$13.50. Under the provisions of S. 5, the customer would be told the credit service charge is $1\frac{1}{2}$ percent a month. On the same sale on an instalment account at a typical specialty store, the customer would get 90 days "free time". A "free time" period of 90 days is a general and widely used practice in independent furniture and other specialty stores. Therefore, by making four payments of \$100 each, one at the time of the transaction and one each 30 days thereafter, the customer would pay no credit service charge at all. Yet under the provisions of S. 5, the customer would have to be told that the credit service charge is 18 percent a year—merely because the store retains title (security interest) in the merchandise until it is paid for.

	Revolving, $1\frac{1}{2}$ percent, 30 days free time		Installment, 18 percent, 90 days free time	
	Amount	Credit charge	Amount	Credit charge
1st payment.....	\$100.00	0	\$100.00	0
2d payment.....	106.00	\$6.00	100.00	0
3d payment.....	104.50	4.50	100.00	0
Final payment.....	103.00	3.00	100.00	0
Total.....		13.50		0

There is no basic difference in the specialty store open-end revolving account and the large store open-end revolving account. What minor differences there are certainly do not warrant putting a whole new restrictive provision on this type of consumer credit. The distinction between these two types of credit is not in the area of title retention. The difference between them is in whether the entire credit service charge is computed at the time of the transaction and applied as an "add-on" to the amount to be financed, or whether the credit service charge is computed monthly and billed to the customer on her monthly statement.

To provide for truly universal application, not only should the two types of revolving credit be required to disclose their credit service charges in similar terms, but similar disclosure terms should apply as well to retailers who sell under conventional instalment credit plans.

DISCRIMINATION BETWEEN INSTALMENT AND REVOLVING CREDIT PLANS

It would be most unfair and confusing to customers to require retailers who sell on conventional installment plans to state an 18% *annual* percentage rate, while at the same time permitting retailers selling the same goods on an open-end revolving credit plan to state a *monthly* rate of $1\frac{1}{2}$ % even though they amount to the same thing. This would be a severe form of discrimination against retailers selling on conventional instalment sales contracts, particularly the smaller retailers who have not yet changed over to revolving credit.

A store using an open-end credit plan is not limited as to the type of merchandise that may be charged to it. All kinds of items can be charged, big ticket items as well as small ticket items. The big difference is that 80 or 90% of the goods sold in our specialty stores are durable goods whereas 80 or 90% of those sold in the large stores are consumable goods. For example, Mr. William M. Batten of J. C. Penney Company testified in the Senate that they had \$400 million on their regular revolving credit accounts and only \$40 million on their time-payment accounts.

The stated objective of the legislation has long been to enable consumers to shop for credit and to make meaningful comparisons of the cost of credit offered by competitors. Requiring one merchant to state an annual percentage rate on a mattress and box spring set, for example, and allowing his competitor across the street selling the same mattress and box spring set to quote only a monthly rate, is not the way to make it easier for consumers to shop for credit and make meaningful comparisons of the cost of credit.