

credit, prior to S. 5, were on S. 750 and it contained the yield concept. In my opinion, not until S. 5 was legislation proposed that was acceptable.

Enclosures: Appendix A, amended by R. L. D. Morse; Memorandum to Mr. McLean, March 8, 1967; Selected pages from Morse statement on S. 5.

APPENDIX A

AN ACTUAL CUSTOMER ACCOUNT FROM A DEPARTMENT STORE DEMONSTRATING CALCULATION OF ANNUAL SERVICE CHARGE RATE

Date	Purchase (payment)	Monthly service charge	Balance	Number of days	Daily service charge ¹	Dollar days
Feb 1	(\$15.00)		\$41.26	18	\$0.234	\$742.68
Feb 18			26.26	10	.083	262.60
Feb 28		\$0.48	26.74	31	.261	828.94
Mar 31		.40	27.14	21	.180	569.94
Apr 21	(15.00)		12.14	9	.034	109.26
Apr 30		.18	12.32	3	.012	36.96
May 3	13.00		25.32	10	.080	253.20
May 13	(12.32)		13.00	26	.106	338.00
June 8	11.00		24.00	22	.166	528.00
June 30	3.00	.20	27.20	31	.266	843.20
July 31		.36	27.56	20	.174	551.20
Aug 20	(27.56)					
Sept 6	3.08		3.08	3	.003	9.24
Sept 9	3.08		6.16	7	.014	43.12
Sept 16	4.12		10.28	35	.113	359.80
Oct 21	1.55		11.83	10	.037	118.30
Oct 31		.15	11.98	22	.083	263.56
Nov 22	(11.98)					
Dec 21	10.82		10.82	6	.020	64.92
Dec 27	14.01		24.83	35	.274	869.05
Jan 31		.37	25.20			
Total		2.14		319	2.14	6,791.97

¹ Daily rate equals 0.0315 percent.

Note: Average daily balance equals \$21.29, \$6,791.97 divided by 319; average daily service charge equals \$0.0067, \$2.14 divided by 319; annual service charge rate equals 11.49 percent, \$0.0067 times 365 divided by \$21.29.

KANSAS STATE UNIVERSITY, MANHATTAN, KANS., MARCH 8, 1967

MEMORANDUM TO MR. KENNETH A. MCLEAN, FROM RICHARD L. D. MORSE—RE: REPLY TO VANCIL TESTIMONY, PAGE 1100-1110, TRUTH IN LENDING, 1963-4 PART 2

1. Vancil restricts his testimony to the single question of the accuracy of the calculation of a 'simple annual rate' as provided under the terms of S. 750. And he limits his attention to revolving charge accounts.

His concern has been made *obsolete* by S. 5 because it does not require calculation of the simple annual rate. S. 5 requires disclosure of the periodic rate, its annual rate equivalent and the base to which the rate applied.

2. If Vancil were to testify on S. 5, he would favor it:

On page 1104 (mid-page) he says, "but I think the important thing to be disclosed to the consumer here is that the department store bases its charges on the balance in the account at the beginning of the month, it does not base its charge on the average daily unpaid balance."

He continues in same vein and concludes, "and I think disclosures ought to emphasize that the charge is made at a point in time rather than on the average unpaid daily balance."

After the Chairman's efforts to defend S. 750 as meaning exactly what Vancil held to be important, Vancil correctly responds that the bill (750) requires the *yield* expression to be determined "after the fact" (p. 1105) producing rate depending on the timing of the transactions during the month. Then he reinforces his concept: "But even more importantly, such a computation is not *operationally useful to the consumer...*" (*italic mine*).

On page 1109 he reiterates his opinion as to what constitutes adequate disclosure.

3. Vancil further assists the case for S. 5 by distinguishing "service charges" from "interest." On point No. 2, page 1108, he points out the difference in concepts: Interest is for the use of money over time; service charges are levied on the unpaid balance of the account at that date. Thus he says, there is no simple way of relating the service charge to an annual interest rate without going