

2. Penney's does function according to the set-up, using a monthly notification rate of $1\frac{1}{2}\%$ which, expressed annually, is 18%.
3. Since Penney's has no control over the consumer's use of their options to unload the debt between toll points, the only rate they can quote with validity is the notification rate.
4. Only the consumer can cause the collection rate to be lower than the notification rate. The bill should require disclosure of this option so the consumer can cause the collection rate to vary from the notification rate if it is his wish. This is an implied responsibility in subsection (F).

Conclusion:

S. 5 does provide meaningful and useful information for the consumer for making rational decisions.

Post Script - The set-up described above is that of Method II listed on pages 26-7 of Morse's Pamphlet 17 "Truth in Lending". In all cases the notification rate is 18%; the dollar costs range upward to almost 100% greater than the Penney Way. Other billings would show other dollar cost differences, as noted in footnote #3 on page 24. However, under many of these methods, a consumer approaching the toll gate could afford to borrow at rates much higher than 18% to avoid charges. For example, if the consumer in April under Method IV had paid \$49.99 more, he would have needed only 1¢ more to avoid the 90¢ service charge. Because he failed to pay the full \$60 for lack of the 1¢, he was charged 90¢. Had he had the penny one day earlier, he could have offset his 90¢ charge, and thereby would have earned a return on the penny of 9,000% per day or over 3 million per cent per year without compounding. Or, if he had waited the 29 days, the rate would still be over 100,000%.

From this perspective, the nominal "notification" rate of 18% is not an over-statement; it is the only statement that can be quoted which is meaningful and operationally useful to the consumer.