

At Senate hearings last spring, witnesses for the NRMA and a number of other strong opponents of the bill concentrated their fire on one provision in particular. They sought to knock out any requirement for annual rate disclosure on revolving credit charge accounts. And they largely succeeded. Under the Senate bill, revolving credit as applied to most department store accounts and most of the new wave of revolving bank credit cards would continue to be labeled, as it usually is now, with a deceptively low monthly percentage figure.

Revolving credit is one kind of consumer credit most people are familiar with, whether or not they make a practice of buying on time. People who buy at all regularly in most department stores or from big mail order houses usually open charge accounts. It's convenient to pay the bill once a month, and, besides, there's usually no credit charge if you pay the bill within 30 days. Every customer, whether he pays cash over the counter or says charge it, foots the costs of 30-day credit as part of the overhead built into the price of the goods.

Of course, most stores offer a choice of paying in full or making a payment of, usually, 10% per month. It's what's called a "line of credit" or an "open-end" credit account. Each new purchase is added to the bill, and 10% of the total balance at the end of each billing period is all you have to pay ad infinitum—all, that is, except for a "small" monthly service charge. Many states set a service charge ceiling of 1½% per month, and stores almost invariably charge the maximum. A rate of 1½% a month equals an annual interest rate of 1½ times 12, or 18%.

The balance due on the nation's charge accounts has been running at \$10.5 billion. About \$3.5 billion is revolving credit. That's not much next to the total installment credit outstanding. But it is probably not an accurate figure at present, and it certainly won't be an accurate one in the future, because it omits, among other things, the revolving credit schemes now being heavily merchandised by banks. Until last year, bank revolving credit was probably not a major factor, although it has been on the scene at least since 1950. But in only the past year or two, according to the Federal Reserve Board, the number of banks issuing credit cards or operating open-end check credit plans reached 627, plus several hundred local banks acting as agents for large city banks' credit plans.

"The enthusiasm with which the supposedly conservative banking profession has greeted this relatively new consumer service is unparalleled in the pages of modern banking history," the American Bankers Association was told by a Chicago banker. And he explained why: "We are beginning with this first step to recapture a larger share of the credit business which heretofore conceivably could have fallen into nonbanking hands by default."

The bank credit card, unlike the department store card, can be used to charge purchases at many different stores—as many as can be recruited by the sponsoring bank. It is the poor man's version of the American Express or Diners' Club card. As *The Wall Street Journal* has reported, "Bank cards are issued largely to lower-income consumers . . ."

A number of Midwest banks, operating jointly, "mailed mounds of credit cards unsolicited to each other's customers and former customers, some 4 million families in all," the *Journal* said. C. A. Agemian, vice president of the Chase Manhattan Bank, told why in a recent speech:

"If you want to get cardholders, your card has to have value. The cardholder needs stores to use it at. If you want to attract merchants, you have to be able to show or promise them a healthy looking number of cardholding shoppers. What comes first, the chicken or the egg? To choke off competition, you must flood the market with cards. Everybody gets cards from every bank he does or does not do business with. People who may have a capacity to repay \$500 may have received cards from various banks that could permit them to charge up to \$3000 or \$4000!"

Were the final Truth-in-Lending law to exempt bank, department store and mail-order charge accounts from annual rate disclosure, it would quite obviously withhold from the consumer an important tool he needs to shop wisely for credit. Yet the Senate bill exempts those accounts, in most instances.

If the exemption is allowed to stand, only the monthly rate will be disclosed on most revolving credit deals. To compare the price of revolving credit with that of other forms of credit you would have to convert the monthly rate to an annual rate by multiplying it by 12. Many people don't know that, however, and they might assume that a 1½% service charge is lower than, say, the 12% annual rate generally charged by credit unions. There is thus some likelihood that the exemption would help accelerate the growth of revolving credit.