

To escape annual rate disclosure for revolving credit, merchants and bankers used a shrewd argument on the Senate subcommittee considering Truth-in-Lending. A charge account customer, they said, often gets the use of their money at 1½% for more than one month. Someone who buys something shortly after his monthly bill has been made out, for instance, would have as long as 59 days of free time before incurring a service charge, because he would not receive his next bill, with the new item posted on it, for up to 29 days and would have 30 additional days after that to pay it. Therefore, the argument goes, a 1½% service charge does not accurately translate as 18% per annum and is usually lower.

The argument has a cute premise: Up to 59 days of credit time are available interest-free, but only on condition that the bill is paid in full on the 59th day. (In practice, you'd better pay it sooner or it might not be credited to your account in time to escape interest.) If you don't pay in full, time runs backward to the date of purchase.

Well, maybe an accountant can really make the calendar run in reverse. But one name for that sort of magic is account juggling.

The only reason for mentioning it here is that there are many different sets of rules for juggling revolving credit. Different stores use different rules, and they are not just playing games. A revolving charge account can cost considerably more at one store or bank than another, though both seem to be charging 18% annual interest.

Professor Richard L. D. Morse of Kansas State University has illustrated the situation dramatically in a recent pamphlet (see page 473). He demonstrates six different revolving credit billing systems, all of them examples of systems in use, and he showed how service charges can run more than twice as high in some stores as in others.

The drafters of the Senate Truth-in-Lending Bill recognized this obstacle to credit price comparisons. Their solution is to require each revolving credit contract and monthly statement to explain its billing system. The Federal Reserve Board, which will have to write the necessary regulations, has its work cut out. Here are excerpts from the contract applications of three mail-order houses explaining their billing systems:

Sears, Roebuck and Co.: "an amount of time price differential computed at 1½% of the balance at the beginning of each month billing period until the full amount of all purchases and time price differentials thereon are paid in full."

Montgomery Ward: "a time price differential or service charge of 1½% per month on the opening monthly balance of my account on amounts up to \$500 and 1% per month on amounts in excess of \$500."

J. C. Penney Co.: "a time price differential ('service charge') computed by applying the rate of 1½% to the unpaid balance of the cash sale price and any unpaid service charge on each of my monthly billing dates (pursuant to your then current billing schedule) commencing with the second monthly billing date following the date of purchase..."

If you knew as much about the subject as Professor Morse, you might be able to figure out (but not from statements like these) that a certain six-month series of transactions costing \$2.28 in service charges at Penneys could cost \$2.74 at Sears or Wards and upwards of \$5 at some other stores. Most people wouldn't get the message right away. A number of them, including a professor of economics and a professor of philosophy, have written to us within the past year or so. One person wrote: "I hate to admit after many years of using my Sears account that I was never aware of paying such a high rate of interest."

The point, of course, is that hardly anyone can fathom the billing methods of revolving charge accounts. Help is needed, and the need will become more and more pressing as banks and stores, spurred on by the availability of computerized billing systems, contend for revolving credit business. As this is written, time remains for the House Banking and Currency Committee to rectify the situation.

The House bill, sponsored by Rep. Leonor K. Sullivan, would put revolving credit back under full-disclosure provisions. With slight amending, it could assign the Federal Reserve Board to tackle the billing problem.