

before the court of appeals gets to considering the decision in the matter.

Senator TYDINGS. I think that the point you are making is a good one with respect to loans in federally secured banks as you point out in second, third, and even fourth trusts. I had some trouble with your amendment, however, because I do not know whether or not it is constitutional or class legislation. I think that the point that you are making that perhaps the language of the bill might be limited to second, third, or greater periods of time trusts or lesser trusts would be worth while considering, because banks, savings and loan associations do not deal in second mortgage money. They deal in first liens against real estate. That would take care of your problem.

Mr. GUNTHER. We do not feel—Mr. Chairman, as you know, being connected with the banking group, there are times when in order for a debtor to secure a loan that is perhaps not all it might be, a bank will take—and we have taken and do hold some second liens, but they are not necessarily the ordinary course of business.

Senator TYDINGS. When you do it, you do it with the realization of the danger of the risk. It is not one which is recommended by banking authorities.

Mr. GUNTHER. Yes.

Senator TYDINGS. It is certainly prohibited by the savings and loan insurance associations. I think that your banking institutions would be protected under the normal course of operation if they deal in second and third trusts—then, they might have to take added precautions, because that is a far more dangerous risk, to be lending the depositors' money on.

Mr. GUNTHER. We do not lend it on second or third trusts. But in order to save a situation that might be getting a little bad, we do, occasionally, take a second lien on real estate. I think that would be true of any bank in the city. Thank you very much, Mr. Chairman.

Senator TYDINGS. Thank you, Mr. Gunther.

I will read into the record the definition of the annual percentage rate.

This definition has been rewritten to achieve greater clarity. The old definition described what was essentially the actuarial method for determining an annual rate, but it did not use the term "actuarial method." Many had difficulty in determining the intent. The new definition rather than describing the actuarial method, merely indicates it is the method to be followed. This is a well recognized term in the mathematics of finance and has also a long judicial history under the U.S. rule (*Story v. Livingston* (38 U.S. 359) 1839).

There are at least seven methods for computing the "simple" annual rate on the declining balance and though they all produce nearly similar results, the actuarial method is considered to be the most accurate. This method assumes that a uniform periodic rate is applied to a schedule of installment payments such that the principal is reduced to zero upon completion of the payments. The actuarial rate is such periodic rate multiplied by the number of periods in a year.

The definition also permits a creditor to simplify the computation by ignoring slight irregularities in the payment schedule, such as a deferred first payment, or one odd-sized payment. This will greatly simplify compliance while maintaining reasonable accuracy.

That is from the document entitled "Truth in Lending, 1967," report of the Committee on Banking and Currency, U.S. Senate, on S. 5, Senate Report No. 392.

That is in response to your question.