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## Appendix C. State Supervisors' Opinions on the Ability of Financing Agencies to Convert Finance Charges to Effective Annual Rates

Table C-1 gives the opinions of state supervisors of Consumer Credit agencies on the ability of the personnel of financing agencies to compute effective rates with and without the aid of rate tables. Of the twenty-five who answered the question assuming no use of rate tables, twenty-two felt that relatively few financing agencies could determine effective rates. Of the forty who answered the question assuming the use of rate tables, twenty-four felt that the personnel in all financing agencies could determine effective rates, fourteen felt that most financing agencies could do so, and two felt that relatively few could do so.

The data in Table C-1 are admittedly fragmentary and do not provide conclusive evidence of the extent to which employees of financing agencies have the ability to compute effective rates with and without the aid of finance rate tables. Also the data do not cover employees of sellers.

Table C-1 suggests two points, however. One is the possibility that some financing agencies and—by extension—some sellers may not be able to determine effective rates. The other is the sharp contrast in the pattern of distribution of supervisor opinion of the ability of the agencies to determine effective rates with and without the aid of rate tables.

The stress supervisors put on the usefulness of rate tables or charts has a parallel in present practice. Financing agencies and sellers now rely heavily on rate charts to determine dollar finance charges in the manner required by existing laws. These charts usually include

one or more computational rates and give the dollar finance charges for varying maturities and loan sizes for each computational rate desired. Effective monthly or annual rates could be worked out and included in these charts. A chart covering one or several computational rates, e.g., an add-on rate of 7 per cent, could show the dollar finance charge and the effective monthly or annual rate for each computational rate for different maturity and loan size.<sup>1</sup> For example, on a rate chart for a computational annual add-on rate of 7 per cent which is based on the constant ratio formula for determining effective rates, the effective annual rate would be shown as 13.26

TABLE C-1  
State Supervisor Opinions on the Ability of the Personnel of Financing Agencies to Determine Finance Rates

Financing Agencies	Able to Determine Rates Without the Aid of Finance Rate Tables		Able to Determine Rates With the Aid of Finance Rate Tables	
	Number	Per Cent	Number	Per Cent
All	0	0	24	60
Most	3	12	14	35
Relatively few	22	88	2	5
Total	25 <sup>b</sup>	100	40 <sup>b</sup>	100

SOURCE: The question asked was: "Do you think financing agencies have personnel with sufficient knowledge to be able to determine accurately a monthly or yearly financing rate on any instalment credit transaction?"

	Without the Aid of Prepared Effective Financing Rate Tables*		With the Aid of Prepared Effective Financing Rate Tables*	
	Yes	No	Yes	No
a. All financing agencies?	Yes	No	Yes	No
b. Most financing agencies?	Yes	No	Yes	No
c. Relatively few financing agencies?	Yes	No	Yes	No

\*Effective financing rate tables are similar to bond yield tables.

<sup>a</sup>The difference between each total and 43 represents the number of supervisors who either failed to answer the question or gave an uncodable answer.

<sup>1</sup> For examples of tables containing effective rates, see *Financial Compound Interest and Annuity Tables*, Boston, 1947, and *Table for Converting Interest Rates into Discount Charges and Discount Charges into Interest Rates*, Chicago, 1958.

per cent for eighteen-month instalment credit transactions of all sizes. For other examples, see Tables B-1 and B-2.

It should be emphasized that any effective rates on rate charts are *ex ante* rates. Sellers and financing agencies cannot determine *ex post* effective rates when they extend credit for they cannot know to what extent, if any, borrowers will deviate from planned payment schedules during the life of the contract.

The cost of rate charts depends on a number of factors, including the number of computational rates included and quantity ordered. To give some idea of the cost of existing computational rate charts, one company currently (1964) quotes prices ranging downward from 20 cents a chart on purchases of twenty-five copies to  $3\frac{1}{2}$  cents a chart on purchases of 2,000. Each chart shows the dollar finance charge computed at the specified computational rate for varying loan sizes and maturities.