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Part Two

The Electric Home and Farm Authority

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Organization and Operations of the Electric Home and Farm Authority

THE Electric Home and Farm Authority, a retail sales finance company owned and operated by the United States government, was organized in 1934 in accordance with an Executive Order of the President of the United States[1] "for the purpose of promoting and financing the sale of electric appliances." Initially a coordinate agency with the Tennessee Valley Authority, it was designed to aid in "developing and fostering an increased use of electric power through the double reduction of cost of electricity to the consumer and the cost of electrical appliances." The corporation, "having the power and functions of a mortgage loan company," was chartered under the laws of the state of Delaware. Capital stock of $1,000,000 was subscribed by the United States and the three directors of the Tennessee Valley Authority were appointed directors of the corporation as well.

On August 1, 1935 the Delaware charter was dropped and the Authority was incorporated under the laws of the District of Columbia. Capital stock was reduced to $850,000 and the management was transferred from the directors of the Tennessee Valley Authority to a board of eight trustees, all of whom, except the Administrator of the Rural Electrification Administration, were officers of the Reconstruction Finance Corporation. As reorganized, EHFA was no longer limited to the Tennessee Valley region but was now to cooperate closely with the Rural Electrification Administration

[1] Dated December 19, 1933.

and to make its services available over the entire country. The new charter was granted for only two years from August 1, 1935, but was renewed following the Act of Congress on January 26, 1937 which continued the life of the Electric Home and Farm Authority until July 1, 1939. It was further extended to July 1, 1941 by congressional action in June 1939.

These modifications in organization were not accompanied, however, by important changes in purpose. The aim continued to be the stimulation of sales of electric energy and appliances through reductions in (a) the cost of purchasing such appliances on the instalment plan, (b) the cost of electricity used in operating the appliances, and (c) the price of reliable electric appliances.

The Electric Home and Farm Authority was to provide instalment financing of electric appliance purchases on a fairly liberal basis—small down payments, maturities longer than usual, and low time payment charges—compared with the terms generally available to consumer instalment buyers at that time. The financing services were available only to purchasers who bought their electricity from utility companies which charged electric rates acceptable to the Authority and which had entered into cooperative agreements with EHFA. Purchases, limited to appliances certified as to quality by public or private testing agencies, were to be financed by EHFA through authorized dealers.[2]

Support for the plan was expected to come from diverse sources. First, it was thought that the more liberal financing arrangements would enhance the prospect of profit suffi-

[2] A few manufacturers responded to the efforts of EHFA to encourage the production of low-cost refrigerators. The Authority was also to attempt to increase the demand for electricity and for electric appliances by providing information service on the employment and advantages of electric appliances and by encouraging the use of a characteristic trademark on appliances which would assure purchasers of high-quality merchandise, but this activity was dropped entirely in 1935.

ciently to bring utilities, appliance manufacturers and dealers into cooperative agreements with the Electric Home and Farm Authority. Second, it was hoped that under this financing plan and by the aid of direct advertising and other publicity, utilities, manufacturers and dealers would find it to their own interest to reduce prices and secure more sales. Third, it was anticipated that the other consumer financing agencies would tend to ease typical instalment contracts so as to attract more instalment purchasers of electric appliances. Fourth, it was assumed that consumers would lend strong support to the program because of their manifest economic interest in low-priced electric appliances of high quality, easier and cheaper instalment financing services, and lower electric rates.

OPERATIONS

The mechanics of the plan, which have remained substantially the same from 1934 to the present time, are as follows: The purchaser, with the assistance of the dealer, fills out the conditional sales contract or chattel mortgage form and attached promissory note, makes the required down payment, and then pays the monthly instalments to the local utility company when he settles his monthly electric bills. The dealer sells the contract to EHFA and receives in cash the original unpaid balance (less a small reserve in some instances) directly from the Electric Home and Farm Authority or from the local utility company as agent. He remains, however, subject to recourse, i.e., he is liable to the Authority for the unpaid balance on the contract in case of default by the instalment purchaser.[3] In return for a small

[3] The dealer's application and repurchase agreement contains the following stipulations:

> "Effective as of the date any contract is accepted for purchase by you (EHFA), we will be relieved of our obligation to repurchase any contract, with reference to which and to the extent in which the property

fee (at first paid in part by the purchaser but later entirely by the Authority) the utility receives payments from the customer, makes advances to the dealer, and performs other functions incident to the business. The utility reports delinquencies to EHFA at least once a month, and the utility, dealer, and field representative of the Authority all bring pressure on the delinquent customer to make his payments or submit to repossession of the appliance. Advances to dealers and other outlays by EHFA are met from the original capital, from funds acquired by the sale of short-term notes in the open market and from surplus built up from earnings.

During the first four years of its existence, June 1934 to June 1938, the Authority financed 74,095 contracts with a face value of $11,640,452.[4] The growth is indicated by the increase in volume from $759,712 in 1934-35 to $6,028,377 in 1937-38. Outstandings increased in almost the same proportions, as may be seen from Table 23.

By June 1938, 206 different electric utilities had made agreements whereby their customers became eligible to use

securing the contract is damaged from fire, lightning, flood (meaning rising of navigable waters), cyclone, windstorm, earthquake, tornado, or theft ('theft' as here used meaning the secret and clandestine larceny of property by one without claim of right, title, or interest). It is understood that the release (from the dealer's obligation to repurchase) here mentioned will not be made under the following circumstances:

"(a) When losses are occasioned by the willful misconduct or connivance of the purchaser or the dealer, or both; (b) When contract does not conform to the warranties of the first paragraph of this agreement, or when any statement made by the purchaser contained in such contract was incorrect; (c) When repossession or settlement is made by us without your written consent; (d) When without written notice we effect substitution or replacement of equipment; (e) When equipment has been removed from place of original installation without your written consent."

[4] The number and dollar value of contracts purchased by months from June 1934 through June 1938 are shown in Table B-18. (All Appendix B tables are indicated as B-1, B-2, etc.) The volume of business grew rapidly in the spring of 1935, but fell off sharply during the last part of 1935 and the first quarter of 1936. This was a period which coincided with changes in the administration of the Authority. The next large rise occurred in the spring of 1937.

TABLE 23

NUMBER AND AMOUNT OF CONTRACTS PURCHASED, COLLECTIONS AND OUTSTANDINGS, FOR EHFA BY FISCAL YEARS 1935–38[a]

Fiscal Year	*Contracts Purchased*		*Collections*[b]		*Outstandings*[c]	
	Number	Amount	Number	Amount	Number	Amount
1934–35[d]	4,886	$ 759,712	120	$ 66,310	4,766	$ 693,402
1935–36	7,648	1,272,419	1,384	582,410	11,030	1,383,411
1936–37	22,460	3,579,945	3,203	1,159,993	30,287	3,803,363
1937–38[e]	39,101	6,028,377	10,207	3,077,210	59,181	6,754,530
TOTAL	74,095	$11,640,453	14,914	$4,885,923	...	...

[a] Fiscal year ending June 30.
[b] Includes collections on "other credits"; these aggregated for the four fiscal years $114,490, of which amount $90,779 represented unearned finance charges rebated on contracts settled prior to maturity.
[c] As of end of fiscal year.
[d] Includes 142 contracts for $14,291 purchased in June 1934.
[e] For 1938-39, 57,176 contracts for $8,360,558 were purchased; collections amounted to 22,297 by number and $5,241,148 by amount; outstanding as of June 30, 1939 were 93,960 contracts amounting to $9,873,940.

EHFA financing services. At the conclusion of the earlier fiscal years, 1935-37, cooperating utilities numbered 22, 41, and 99.[5] The utilities were confined to Tennessee, Georgia, Alabama, and Mississippi during the first year of the Authority's operation, but by the middle of 1938 utilities functioning in 32 states had entered into EHFA agreements and contracts had been purchased in 29 states.[6]

The 206 utilities which were cooperating by the middle of 1938 were of three general types: privately-owned (26), municipally-owned (70) and cooperative associations (110). It was estimated by the Authority that these utilities served about 2,750,000 domestic customers, about one-eighth of

[5] The utilities beginning cooperation in each fiscal year showed increases in their volume of contracts in succeeding years. The full list of cooperating utilities as of June 30, 1938 is given in Table B-16.
[6] See Chapter 6, Table 32.

the domestic electricity users in the United States. This figure represents the current upper limit of the EHFA market since the Authority's customers are drawn only from utilities with which it has cooperating agreements. With many private utility systems using their own schemes for financing instalment sales, with or without dealer outlets, a rapid expansion of the EHFA market seems unlikely.

Very few of the privately-owned utility systems of the country, which serve about 90 percent of the residential customers in the United States, participated in the EHFA plan. Over one-half of the 26 private utilities cooperating with EHFA were subsidiaries of one enterprise, the Standard Power and Light Corporation of Illinois, operating in Minnesota and Wisconsin. The Georgia Power Company and the Tennessee Electric Power Company, affiliated with the Commonwealth and Southern Corporation, were the private utilities which made the most extensive use of the Authority. Persons supplied with electric power by the privately-owned group of utilities cooperating with EHFA furnished about 40 percent of the Authority's customers from 1934 to 1938.

Twenty municipal plants accounted for over 50 percent of the Authority's customers, although utilities of this type served less than 10 percent of the nation's residential customers. Those which provided the largest number of persons using the Electric Home and Farm Authority's financing facilities were the plants of: Los Angeles, California; Jacksonville, Florida; Kansas City, Kansas; Richmond, Indiana; and Springfield, Illinois. Several municipalities in the Tennessee Valley also had agreements with EHFA.[7]

[7] The Tennessee Valley Authority sold power to municipalities and cooperatives in the region along the Tennessee River, and 99 of these utilities had arranged with the Electric Home and Farm Authority for instalment financing services by June 30, 1938. These "TVA utilities" constituted 30 percent of the number of utilities cooperating with the Authority from 1934 to 1938 and supplied 14 percent of the number of contracts purchased during the period.

Cooperative associations, many of which were organized under the guidance of the Rural Electrification Administration, joined readily with the Electric Home and Farm Authority in order to secure a wider use of electric power for electric appliances in rural areas. Indeed, most of the utilities which signed up with EHFA in 1937-38 were cooperative associations. Several of the cooperatives located in the Tennessee Valley obtain their power from the TVA. While EHFA contracts derived from these utilities constituted under 10 percent of the total for the years 1935-38, this proportion should increase with further development in the number and size of such associations. At the present time, this type of association supplies only a very small fraction of the nation's residential electric power consumers.

By the middle of 1938, 1,563 dealers were on the approved list of the Electric Home and Farm Authority, which had undertaken to handle their instalment paper only after examining their financial position. EHFA did not finance wholesale purchases of electric appliances by dealers.[8] Some dealers were dropped from the approved list in the course of the four years 1935-38, so that the total of 1,563 understates to some extent the number who made use of the financing service during the period. The number of approved dealers stood at 58 in 1934, at 324 in 1935, at 721 in 1936, at 1,101 in 1937, and at 1,563 in 1938.[9] Approximately half of the dealers on the approved list made sales financed by EHFA in each month. For example, during June 1938, only 868 dealers, 55 percent of the number on the list, furnished contracts to the Authority. This percentage had been typical for the 18 months after January 1937 when the keeping of

[8] As of January 31, 1939, 328 wiring contractors had made agreements which permitted them to use EHFA financing services. Only 53 wiring contracts for $5,338 were purchased from July 1938 through January 1939.

[9] As of June 30 each year. As of January 31, 1939, 1,923 dealers were cooperating.

detailed records was initiated.[10] There was an observable tendency, furthermore, for contracts to be concentrated among relatively few of the dealers. In June 1938, 5 percent of the dealers furnished 25 percent of the contracts to the Authority, 17 percent of the dealers 50 percent, and 38 percent of the dealers 75 percent.

By the end of June 1938 the Authority had placed on its approved list 338 trade names of 20 different types of appliances manufactured by 175 concerns. The principal types of appliances eligible were refrigerators, ranges, water heaters, water pumps, washing machines, ironers, vacuum cleaners, radios, and several kinds of electric farm equipment.[11]

FINANCES OF THE AUTHORITY

Total assets of the Electric Home and Farm Authority at the end of June 1938 were valued at $7,039,858, of which $6,754,530 were in instalment contracts and $230,190 in cash. The principal liabilities were $5,315,000 of notes outstanding, $497,057 of unearned income, and $234,860 of funds withheld from dealers as reserve. Reserve for losses was $93,290, surplus $51,821 and capital $850,000.[12] The Authority's original capital of $1,000,000—reduced to $850,000 in August 1935—came from the lump sum of $3,300,000,000 which was placed at the disposal of the President under the National Industrial Recovery Act of June 16, 1933. Additional funds came from earnings and borrowings. Although the Authority had an arrangement for borrowing from the Reconstruction Finance Corporation, it secured nearly all of its funds by the sale of short-term notes to banks, prefer-

[10] The percent active for June 1934 was 46.5; for June 1935, 50.9; for June 1936, 41.8; for June 1937, 53.0. For a longer period of time the percent active would rise, of course, since the same dealers are not always inactive.

[11] See Chapter 6, Table 28, for complete list. The Authority began to handle contracts for the purchase of gas appliances on the same basis in the middle of 1939.

[12] See Table B-17 for assets and liabilities.

ably those located in the states in which EHFA did business. The discount rates on these notes varied between 1 and 1½ percent. Earnings resulted exclusively from the time payment charge paid by the instalment purchasers of appliances. This charge was 5 percent per annum on the original unpaid balance, or 9.7 percent true interest.[13]

Money was paid out—with the United States Treasurer as deposit banker—for two broad purposes: first, for operating expenses; and second, to dealers for instalment contracts purchased by the Authority. Dealers remained liable to the Authority for unpaid balances on these contracts and were subject, according to their credit ratings, to a temporary reserve by the Authority of as much as 10 percent of the original unpaid balance on contracts purchased. Monthly instalments on the contracts were paid by the customers to the utilities cooperating with EHFA, and the utilities remitted the funds to the Authority.

EHFA keeps separate and full accounts and is relatively free from public subsidy. Its principal perquisites as a governmental agency seem to be free postage and general super-

[13] "Interest on the unpaid balance of the note, at the time of purchase of the contract by the Authority, is computed at the rate of five per cent (5%) per annum for the period the contract is to run, plus a booking charge of one dollar and a collection charge of one dollar per annum, and such amount is added to the unpaid balance of the note and the entire amount is payable in equal monthly installments. Effective August 10, 1936, the Authority reduced the finance rate to the consumer by absorbing the booking and collection charges paid to the utility, thereby establishing a flat rate of five per cent (5%) per annum on the unpaid balance of the contract computed as outlined above."—*First Annual Report to Congress, Electric Home and Farm Authority,* for period August 1, 1935 to June 30, 1936, p. 9. The agreement between the Authority and each cooperating utility provided that "In addition to the aforesaid One Dollar ($1.00) booking charge, Authority shall pay to Utility at the end of each month, for the service of collection and billing, the sum of twelve and one-half cents (12½¢) for each contract then being serviced by Utility in accordance with the terms of this agreement." Before August 10, 1936 the instalment purchaser paid most of the utility fees, but after that date he paid nothing in addition to the finance charge of 5 percent per annum on the original unpaid balance.

visory services rendered by the trustees. On the other hand its accounting system is probably more elaborate than one maintained by a private agency. Salaries comprise nearly three-fourths of the outlays; booking and collection fees to utilities and interest to banks are the other large items. Operating expenses per contract declined from $26 for 1934-35 to $9 for 1936-37 and for 1937-38; but the time payment charge (gross revenue to EHFA) per contract went down steadily from $24 in 1934-35 to $17 in 1937-38, while the volume of contracts increased rapidly over the same period. Approximately one-half of this decline in the time payment charge is accounted for by the fact that after August 10, 1936 customers did not have to pay collection and booking fees in addition to the regular finance charge. For both the fiscal years 1934-35 and 1935-36 the average fees paid by customers are estimated to be $3.58.[14] The remainder of the decline in the finance charge is explained by the falling off of average duration, since the other determinants of the dollar amount of the finance charge did not decline from 1934-35 to 1937-38: the time rate of charge remained constant at 5 percent per annum and the original unpaid balance varied irregularly but negligibly.

The Authority's expenses exceeded its income somewhat during the first two years of its existence when it was functioning as a promotional agency in cooperation with the Tennessee Valley Authority, but for the fiscal years 1936-37 and 1937-38 it showed a profit (after substantial reserves had been set aside against potential losses) amounting respectively to 1.1 and 4.2 percent return on the invested capital of $850,000 for these years. Equity funds (capital and surplus) amounted to 13 percent of total assets at the end of June 1938. This ratio, low as compared with that for private companies,

[14] This figure is composed of $1 booking fee, and $2.58 collection fee, calculated on the basis of the charge of $1 per annum on the average length of contract of 32.4 months (same for 1934-35 and 1935-36). See below, p. 112.

helped to make the rate of return on capital passably high.[15] Operating costs for the entire period 1934-38 were $826,271; gross income earned was $827,403 which left a net income of $1,132 exclusive of any reserve. Since some of the contracts financed during this period were still outstanding as of June 30, 1938, the statement on earnings fails to include some income from them not earned or credited, and some expenses on them not incurred or debited by that date.

This introductory chapter has surveyed briefly the origin and the operations of the Electric Home and Farm Authority. Chapter 6 deals with two broad aspects of the "pattern of demand" for instalment financing services, namely, the significant characteristics of the contracts and of the purchasers. Chapter 7 contains an analysis of the repossession experience of EHFA with special reference to the principal features of contracts and purchasers.

[15] See National Bureau of Economic Research (Financial Research Program), *Sales Finance Companies and Their Credit Practices,* by W. C. Plummer and R. A. Young (1940) Chapters 2 and 10.