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Repossession Experience

REPOSSESSION of a commodity purchased on the instalment plan is the mark of the purchaser's failure to meet his obligations under a time payment contract. Inasmuch as the Electric Home and Farm Authority has sought to encourage the sale of electric appliances by offering financing terms adjusted to the customer's circumstances, it is of particular interest to describe and analyze repossessions by cooperating dealers.¹ In spite of the fact that EHFA has recourse on its dealers for unpaid balances on instalment contracts in case of default by purchasers, repossession experience is important to the Authority because of its effect on the dealers themselves. If dealers find it necessary to make a large number of repossessions they are likely to become involved in

¹The recovery of the appliance by the dealer from the instalment purchaser is usually made at the instigation of the dealer but sometimes on the initiative of the purchaser. Delinquency is a less serious indication of poor performance on contracts. EHFA measures the failure of customers to make their monthly payments on the date specified by the delinquency ratio, which is the number of accounts delinquent on one or more instalments as a fraction of the total number of contracts outstanding as of a given time. The typical proportion of contracts delinquent as of the end of each month from 1934 to 1938 was about 7 percent, but the ratio varied from a low of 2.5 in August 1936 to a high of 10.2 in February 1938. Average annual delinquency (simple average of end-of-month ratios) was 7.5 percent for the fiscal year 1934-35, 5.9 percent for the fiscal year 1935-36, 6.2 percent for the fiscal year 1936-37, and 7.8 percent for the fiscal year 1937-38. The EHFA monthly statement contains a table showing the number and ratio of contracts over 30, 60 and 90 days delinquent according to the utilities which serve as collecting agents for the Authority.

In some cases of continued delinquency the dealer may extend the maturity of the contract if he thinks the failure to keep up payments will not become chronic, but EHFA has no tabulations on this subject. Some customers prepay their contracts; the only statistics available show that contracts amounting to \$90,779 had been prepaid from June 1934 through June 1938.

financial difficulties, and the Authority's investment in the instalment paper endorsed by them will be correspondingly weakened. Recourse on dealers means nothing if the dealers are not financially able to make good on the unpaid balances of defaulted contracts sold to EHFA by them.

The following discussion seeks to bring out the characteristics of contracts and purchasers involved in repossession cases as contrasted with those representative of the general body of contracts. Such analysis does not provide a sure guide to credit policy but it does help to point the way. The careful selection of risks by dealers and by EHFA credit examiners may serve in some degree to distinguish the body of transactions with which this study deals from the general body of instalment purchasers, but it must not be forgotten that although samples differ somewhat from one another, they are nevertheless the inevitable basis of any formulation of empirical credit standards.

The findings presented herewith are based primarily on the 1,049 repossessions which had occurred by June 30, 1938 on the 16,007 contracts purchased from January 1 through June 30, 1937. Since EHFA did not keep an exhaustive account of repossessions before January 1937, this is the most complete record of EHFA repossession experience available; data for the second half of 1937 and the first three months of 1938 corroborate the January-June 1937 record in every important respect. The repossession experience for January-March 1938 contracts is analyzed with reference to the income of purchasers, an item which the January-June 1937 records did not supply.²

The January-June 1937 contracts had been outstanding

²Repossessions were tabulated as of September 30, 1938 for the January-March and April-June 1938 contracts separately. First-quarter contracts were outstanding 7½ months on the average; they show more pronounced variations with reference to the characteristics considered in this chapter, and are used as the sample in some sections of the discussion to follow.

15 months, on the average, as of June 30, 1938, and it seems probable that the repossessions which had occurred up to that time represent approximately 80 percent of the final total of repossessions, even though some of the contracts extend into 1942.³ Similarly, the January-March 1938 contracts had been outstanding about 7½ months as of September 30, 1938, by which time, it may be estimated, less than 50 percent of the final total of repossessions had been reported.⁴

PERCENTAGE DISTRIBUTION OF REPOSSESSIONS BY NUMBER OF PAYMENTS MADE BY PURCHASER BEFORE REPOSSESSION

Closely related to the distribution of repossessions according to the number of months elapsed between date of purchase and date of repossession (Table 33) is their distribution according to the number of monthly payments made by the purchaser before repossession (Table 34). These two distributions diverge somewhat because EHFA accounts tended to have an average delinquency of three or four months before the dealers repossessed the appliances. This lag reflects in part the collection procedure of EHFA and in part also the dealers' reluctance to make repossessions in view of the fact that they are liable to EHFA for the unpaid balances on the defaulted contracts. If it is assumed that 80 percent of the repossessions on contracts purchased in January-June 1937 had occurred by June 30, 1938, it may be calculated that one-third of the repossession cases made none, one or

³ See Table 33.

⁴ The use of Table 33 as a forecasting device may be illustrated as follows: if the repossession ratio, say 2 percent, on a body of contracts which have been outstanding 9 months, is divided by 55 (the estimated percent of the projected final total of repossessions), the probable final repossession ratio is 3.6. A similar table can be built up on the basis of the experience of any credit-granting agency.

TABLE 33

CUMULATIVE PERCENTAGE OF ESTIMATED TOTAL REPOSSESSIONS ON CONTRACTS FINANCED BY EHFA, JANUARY 1937-JUNE 1938, BY NUMBER OF MONTHS ELAPSED AFTER PURCHASE^a

<i>Number of Months Elapsed After Purchase</i>	<i>Cumulative Percentage of Repossessions</i>
3	17
6	38
9	55
12	68
15	80
18	88
24	95
Over 24	100

^a Based on all repossessions reported to EHFA between January 1, 1937 and October 31, 1938 on contracts purchased between January 1, 1937 and June 30, 1938, tabulated by months. Cumulative repossession percentages were calculated for each month's contracts according to the number of months the contracts had been outstanding. These percentages were then averaged for all months and a trend line was fitted to the average values and extrapolated. Actual repossessions provide the basis for the percentages through 12 months; the remainder are estimated.

two payments, while two-thirds made eight or less payments.⁵

Data on the number of payments made as a percentage of the number of payments called for in the contracts shed additional light on the analysis of repossessions. On the average, the same sample of repossession cases made 12.2 percent of the number of payments for which they had contracted.⁶

⁵ Repossession cases were also cross-tabulated with reference to number of payments made and reasons for repossession, percent down payment, term of contract, amount of note, type of appliance, monthly income of purchaser, and monthly payment as percent of purchaser's monthly income. For most of these characteristics there is a rough tendency for the number of payments to vary inversely with the repossession percentage. Variations in the repossession percentages with reference to these characteristics are discussed in subsequent sections of this chapter.

⁶ See Table 35.

TABLE 34

CUMULATIVE PERCENTAGE OF ESTIMATED TOTAL REPOSSESSIONS ON CONTRACTS PURCHASED BY EHFA, JANUARY-JUNE 1937, BY NUMBER OF INSTALMENTS PAID BEFORE REPOSSESSION^a

<i>Number of Instalments Paid Before Repossessions</i>	<i>Cumulative Percentage of Repossessions</i>
0	18
1	26
2	34
3	41
4	48
5	55
6	60
7	64
8	69
9	73
10	76
11	78
12	80
Over 12	100

^a Based on 1,049 repossessions reported on 16,007 contracts. It was assumed that the 1,049 repossessions reported by June 30, 1938 constituted 80 percent of the final future total of repossessions; 1,027 had had 12 or fewer instalments paid; for most of the remaining 22 there was no information.

With the exception of the 6-month contracts, there is very little difference in the ratio of payments made to term of contract when the term is 30 months or less, but for the repossession cases with durations of 36 to 60 months the ratio is much smaller. However, since a large fraction of the relatively short-term contracts had been paid off by June 30, 1938, later repossessions will be predominantly on the longer-term contracts, so that in all likelihood the ratios of payments made to payments due will rise. This projected result suggests that purchasers who default on their contracts, whether the term be 12 or 60 months, tend to make about the same per-

TABLE 35

AVERAGE NUMBER OF INSTALMENTS PAID BEFORE REPOSSESSION, JANUARY 1937-JUNE 1938, ON CONTRACTS PURCHASED BY EHFA JANUARY-JUNE 1937, WITH PERCENT OF CONTRACT LENGTH AND PERCENTAGE DISTRIBUTION OF REPOSSESSIONS, BY LENGTH OF CONTRACT^a

<i>Length of Contract^b</i>	<i>Instalments Paid Before Repossession</i>		<i>Percentage Distribution of Repossessions</i>
	<i>Average Number</i>	<i>Percent of Contract Length</i>	
6 months	.3	5.6	.3
12 "	2.3	18.8	5.3
18 "	3.4	19.1	5.9
24 "	3.6	15.1	22.7
30 "	5.7	19.1	2.2
36 "	3.7	10.3	56.0
48 "	4.9	10.2	3.7
60 "	3.9	6.5	3.9
ALL LENGTHS	4.1	12.2	100.0

^a Based on 1,049 repossessions reported on 16,007 contracts.

^b Approximately 98 percent of the contracts were for these exact terms; those of intermediate length are included in the next higher group.

centage of total payments contracted for.⁷ A possible explanation of this pattern is that longer terms simply enable makers of given size contracts to spread their available funds over more payments, with the result that the ratio of payments made to payments scheduled tends to be maintained.

⁷ Tabulations were made showing cross-classifications of number of payments made as percent of number of payments contracted for with reference to percent down payment, term of contract, amount of note, type of appliance, monthly payment as percent of monthly income, and monthly income. Where a pattern is discernible, the ratio of number of payments to number called for tends to move inversely to the repossession ratio, so that the relatively bad cases are those in which a small fraction of the payments due have been made. The correspondence is not complete, however.

REASONS FOR DEFAULT AS STATED BY DEALERS

When dealers repossess appliances because purchasers fail to make their instalment payments, they also report to EHFA, according to a list prescribed by it, some of the underlying economic, social or other reasons for the defaults. Multiple

TABLE 36

PERCENTAGE DISTRIBUTION OF REPOSSESSIONS, JANUARY 1937-JUNE 1938, ON EHFA CONTRACTS PURCHASED JANUARY-JUNE 1937, BY REASON FOR REPOSSESSION^a

<i>Reason for Repossession^b</i>	<i>Percentage Distribution of Repossessions</i>
Unable to pay	22.6
Unemployment	15.1
Moved from district served by cooperating utility	12.4
Irresponsible	10.7
Able but unwilling	8.2
Illness in family	4.5
Dissatisfaction	3.7
Misunderstanding	1.9
Marital difficulties	.5
No information	20.4
ALL REASONS	100.0

^a Based on 1,049 repossessions reported on 16,007 contracts.

^b As stated by the dealer.

reasons are sometimes given; the reliability of the statements from either the purchaser's or the dealer's point of view may sometimes be questioned, and the categories themselves are often ambiguous, especially "unable to pay." Nevertheless the percentage distribution of cases according to these standard reasons for repossession may afford some clues as to why purchasers default, although they cannot be considered at all conclusive.⁸ Some of these repossession cases might have been

⁸ See Table 36,

predicted and the contracts rejected, but it is probable that many successful contracts would have been eliminated by the same stroke. Apparently most of the repossession cases arose from circumstances which could not have been anticipated.⁹

REPOSSESSIONS AS PERCENT OF CONTRACTS FINANCED

The 1,049 repossessions recorded by the end of June 1938 accounted for 6.6 percent of the 16,007 contracts purchased by EHFA from January to June 1937. A percentage so derived is called the "repossession percentage" or the "repossession ratio."¹⁰ The percentage just quoted is not, however, typical for all subgroupings of these contracts, and in the remainder of this chapter its most important variations will be discussed with a view to determining on what types of contracts and for what types of purchasers the repossession ratio is relatively high or relatively low. The answers to this broad question are confined for the most part to the presentation and analysis of the statistical material available from the EHFA accounts with reference to the following characteristics: down payment as percent of cash selling price, length of contract, amount of note, type of appliance, whether or not

⁹ Tabulations were made showing cross-classifications of the distribution by reason for repossession with reference to number of payments made before repossession, percent down payment, term of contract, amount of note, type of appliance, monthly payment as percent of monthly income, and monthly income. These breakdowns did not reveal substantial differences when the several classes of reasons were treated separately. The large percentage of cases under the unenlightening headings "unable to pay" and "no information" made judgments for these finer breakdowns virtually worthless. 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) Chapter 7, for a different interpretation of the same data.

¹⁰ The "repossession ratio," or more accurately, the "repossession percentage," is the *number* of repossessions per hundred of the *number* of contracts financed. Dollar losses on repossessions are not calculable for EHFA since it has full recourse on dealers for unpaid balances (less unearned finance charges) on contracts in default. EHFA is subject, however, to loss resulting from failures by dealers.

the purchaser was a farmer, monthly income of purchaser, and monthly payment as percent of monthly income.¹¹

DOWN PAYMENT AS A FACTOR IN EHFA REPOSSESSION EXPERIENCE

As percent down payment increases, the repossession percentage decreases. The drop in the repossession percentage

TABLE 37

REPOSSESSION EXPERIENCE OF EHFA THROUGH JUNE 1938 ON CONTRACTS PURCHASED JANUARY-JUNE 1937, WITH PERCENTAGE DISTRIBUTION OF CONTRACTS, BY PERCENT DOWN PAYMENT^a

<i>Percent Down Payment^b</i>	<i>Repossession Ratio^c</i>	<i>Index of Repossession Experience^d</i>	<i>Percentage Distribution of Contracts</i>
Under 10	9.0	+36	52.7
10-20	4.5	-32	31.0
20-30	2.8	-58	9.9
30-40	2.0	-70	4.0
40 and over	1.3	-80	2.4
ALL GROUPS	6.6	0	100.0

^a Based on 1,049 repossessions reported on 16,007 contracts.

^b Expressed in percent of cash selling price. Each level includes the lower figure and excludes the higher.

^c Number of repossessions per hundred contracts purchased.

^d Obtained by dividing each repossession ratio by the average percentage for all levels combined, and subtracting 100; the result shows the deviation of each level from the average of all levels, the plus indicating worse-than-average and the minus indicating better-than-average experience.

is particularly sharp for increases in the down payment from under 10 percent to over 10 percent of the cash selling price, as may be seen in Table 37.

¹¹ Repossessions on January-June 1937 contracts as of June 30, 1938 were used for all of these tabulations except those involving income and farm items, for which repossessions as of September 30, 1938 on January-March 1938 contracts were used.

The clear delineation of this tendency toward an inverse relationship between percent down payment and repossession ratio is demonstrated by its persistence through several cross-classifications of the data at hand. Even though contracts are grouped into different length-of-contract classes,¹² different amount-of-note classes,¹³ or different appliance classes¹⁴ the result is substantially the same. Moreover, neither differences in the monthly income of the purchaser nor differences in monthly payment as percent of monthly income appear to have had any significant effect upon the course of the repossession ratio through the various percent down payment classes.¹⁵ It may be concluded, then, that when a purchaser pays down a sizeable fraction of the purchase price he establishes in the article an equity so large that it tends to bind him to his contract.

LENGTH OF CONTRACT AS A FACTOR IN EHFA REPOSSESSION EXPERIENCE

As length of contract increases the repossession percentage increases also until the term of 30 or 36 months is reached; for contracts extending longer than 36 months it declines.¹⁶ This finding appears to support the EHFA policy of permitting longer terms and smaller monthly payments. It suggests, in addition, that contracts covering more than 36 months

¹² See Table B-1 showing cross-classification with reference to percent down payment and length of contract.

¹³ See Table B-2 for cross-classification with reference to percent down payment and amount of note.

¹⁴ See Table B-3 for cross-classification with reference to percent down payment and type of appliance.

¹⁵ See Table B-5 for cross-classification with reference to percent down payment and monthly income of purchaser. See Table B-4 for cross-classification with reference to percent down payment and monthly payment as percent of monthly income.

¹⁶ See Table 38.

TABLE 38

REPOSSESSION EXPERIENCE OF EHFA THROUGH JUNE 1938, ON CONTRACTS PURCHASED JANUARY-JUNE 1937, WITH PERCENTAGE DISTRIBUTION OF CONTRACTS, BY LENGTH OF CONTRACT^a

<i>Length of Contract^b</i>	<i>Repossession Ratio^c</i>	<i>Index of Repossession Experience^d</i>	<i>Percentage Distribution of Contracts</i>
12 months or less	4.3	-35	8.5
18 months	6.5	- 2	6.0
24 "	6.5	- 2	22.9
30 "	5.6	-15	2.6
36 "	7.5	+15	48.7
48 "	5.2	-21	4.7
60 "	3.9	-41	6.6
TOTAL	6.6	0	100.0

^a Based on 1,049 repossessions reported on 16,007 contracts.

^b Approximately 98 percent of the contracts were for these exact terms; those of intermediate lengths are included in the next higher group.

^c Number of repossessions per hundred contracts purchased.

^d See Table 37, footnote d.

(for combination sales only) were granted largely to customers adjudged to be superior risks.¹⁷

This pattern is not representative of the repossession experience for all types of appliances, however. Thus refrigerator contracts, which ran from 12 months or under to 36 months, show a steadily increasing repossession percentage as contract length increases; range contracts have an irregular

¹⁷ It is almost certain that repossessions on January-June 1937 contracts after June 30, 1938 will bring an increase in the repossession percentages for the terms of more than 36 months, but there is no accurate basis for judging the final effect. It seems likely, however, that the 48- and 60-month contracts will show lower repossession percentages than those running 36 months. The widespread practice of setting 30 months as the maximum term for refrigerator contracts in the second half of 1937 was accompanied by a shift of the highest repossession percentage to this duration class for contracts made during that 6-month period.

repossession percentage as duration increases from 12 months and less to 60 months; washing-machine contracts, limited to 24 months, tend to have a higher repossession percentage for longer periods; combination purchases, on the other hand, running from below 12 months to 60 months, have a declining repossession percentage as contract length increases.¹⁸ Obviously the maximum terms imposed by EHFA for purchases of different types of appliances affected the distribution of these appliances among the various duration classes.

When increases in contract length are considered for each of the different percent down payment classes individually, the repossession percentage for the smaller down payment classes indicates a definite downward trend as term increases, while for the larger down payment classes it shows only slight variation for different durations.¹⁹ Variations in monthly payment as percent of monthly income likewise make some difference in the repossession percentages for the diverse terms of contract: when the monthly payment as percent of monthly income is small, there is a tendency for the repossession percentage to show slight variation with changes in term, but when the payment-to-income ratio is large, the repossession percentage rises more rapidly with increases in the length of contract.²⁰ On the other hand, when changes in duration of contract are considered for different monthly-income classes and different amount-of-note classes the repossession pattern shows no systematic relationships.²¹

¹⁸ See Table B-7 for cross-classification with reference to length of contract and type of appliance.

¹⁹ See Table B-1 for cross-classification with reference to length of contract and percent down payment.

²⁰ See Table B-8 for cross-classification with reference to length of contract and monthly payment as percent of monthly income.

²¹ See Table B-9 for cross-classification with reference to length of contract and monthly income. See Table B-6 for cross-classification with reference to length of contract and amount of note.

AMOUNT OF NOTE AS A FACTOR IN EHFA
REPOSSESSION EXPERIENCE

As amount of note (original unpaid balance plus time payment charge) increases, the repossession percentage decreases slightly.²² Apparently amount of note has small influence on the repossession percentage; it is probable, however, that

TABLE 39

REPOSSESSION EXPERIENCE OF EHFA THROUGH JUNE 1938, ON CONTRACTS PURCHASED JANUARY-JUNE 1937, WITH PERCENTAGE DISTRIBUTION OF CONTRACTS, BY AMOUNT OF NOTE^a

<i>Amount of Note^b</i>	<i>Repossession Ratio^c</i>	<i>Index of Repossession Experience^d</i>	<i>Percentage Distribution of Contracts</i>
\$ 40- 100 ^d	7.0	+ 6	25.0
100- 200	6.4	- 3	50.2
200- 300	6.8	+ 3	19.4
300- 400	4.4	-33	3.8
400-1000	5.9	-11	1.6
ALL GROUPS	6.6	0	100.0

^a Based on 1,049 repossessions reported on 16,007 contracts.

^b Each level includes the lower figure and excludes the higher. EHFA financed no notes for less than \$40.

^c Number of repossessions per hundred contracts purchased.

^d See Table 37, footnote d.

instalment contracts for relatively large amounts—\$300 and more—are scrutinized quite closely by dealers and credit men before acceptance; if so, this preliminary sifting would tend to eliminate the weaker risks in the larger amount-of-note groups.

Length of contract also appears to have had some influence upon the repossession pattern according to size of contract.

²² See Table 39. Later repossessions may have the effect of raising the repossession percentages on larger contracts—which are also the longer contracts—in which case the repossession ratio would be approximately the same for all amount-of-note classes.

Contracts for less than 36 months show a decided tendency to have rapidly declining repossession ratios for increases in amount of note, but for 30-, 48- and 60-month contracts there is no evidence of important changes in the repossession percentage for increases in note amounts. In other words, amount of note seems to be of no significance in determining the repossession percentage for these longer contracts.²³ The relation between length of contract and amount of note is represented also by the monthly payment, which is the amount of note divided by the number of months the contract is scheduled to run. The tabulation of these data shows that contracts calling for monthly payments of less than \$8 have repossession ratios more than twice as high as those requiring monthly payments of more than \$8.²⁴ The implication here is that purchasers who make fairly large monthly payments have evidently satisfied themselves, the dealer and the EHFA credit men of their capacity to meet these substantial instalments regularly.

Increases in amount of note for different types of appliances treated separately are accompanied by irregular downward changes in the repossession percentage; only in the case of ranges is there a limited tendency for the repossession percentage to rise with increases in amount of note.²⁵ On the other hand, differences in percent down payment,²⁶ size of monthly income,²⁷ and monthly payment as percent of

²³ See Table B-6 for cross-classification with reference to amount of note and length of contract.

²⁴ The repossession ratio, based on 1,049 repossessions by June 30, 1938, on 16,007 contracts purchased by EHFA from January to June 1937, according to size of monthly payment runs as follows: under \$4, 7.1 percent; \$4-8, 6.7 percent; \$8-12, 3.2 percent; \$12-16, 4.2 percent; \$16-20, 2.0 percent.

²⁵ See Table B-10 for cross-classification with reference to amount of note and type of appliance.

²⁶ See Table B-2 for cross-classification with reference to amount of note and percent down payment.

²⁷ See Table B-12 for cross-classification with reference to amount of note and monthly income.

monthly income²⁸ seem to have had no systematic effect on the path of the repossession percentage through different amount-of-note classes.

TYPE OF APPLIANCE AS A FACTOR IN EHFA REPOSSESSION EXPERIENCE

When ranked according to the repossession percentage, the order of the five broad appliance groupings (as shown in

TABLE 40

REPOSSESSION EXPERIENCE OF EHFA THROUGH JUNE 1938, ON CONTRACTS PURCHASED JANUARY-JUNE 1937, WITH PERCENTAGE DISTRIBUTION OF CONTRACTS, BY TYPE OF APPLIANCE^a

<i>Type of Appliance</i>	<i>Repossession Ratio^b</i>	<i>Index of Repossession Experience^c</i>	<i>Percentage Distribution of Contracts</i>
Refrigerator	6.5	- 2	53.4
Range	3.2	-52	14.8
Washing machine	9.9	+50	12.7
Combination ^d	7.7	+17	11.7
Others ^e	6.6	0	7.4
ALL TYPES	6.6	0	100.0

^a Based on 1,049 repossessions reported on 16,007 contracts.

^b Number of repossessions per hundred contracts purchased.

^c See Table 37, footnote d.

^d Contracts for two or more appliances.

^e Includes water heaters, water pumps, milk coolers, cream separators, clothes ironers, farm motors, vacuum cleaners, dishwashers, waste disposal units, feed grinders, milking machines, radios and portable space heaters; on each of these the number of repossessions was too small to allow significant conclusions if tabulated separately.

Table 40) proceeds from high to low as follows: washing machines, combinations, "others," refrigerators and ranges.²⁹

²⁸ See Table B-11 for cross-classification with reference to amount of note and monthly payment as percent of monthly income.

²⁹ Radios, included with "others" in the present discussion because they were not financed in substantial numbers until 1938, had the highest repossession ratio of any type of appliance, according to the record of repossessions on January-March 1938 contracts as of September 30, 1938.

Repossessions terminated nearly 10 percent of the washing-machine contracts, about 7 percent of the contracts for refrigerators, combinations and "others" and only about 3 percent of the range contracts.

The ranking of the appliances according to the repossession ratio is not significantly disturbed by groupings of the contracts according to percent down payment,³⁰ term of contract,³¹ or amount of note.³² The cross-classification of the appliance distribution according to size of the purchaser's monthly income reveals that electric range purchasers had an average monthly income of \$158 while washing machine purchasers' stated monthly incomes averaged \$133; other differences were not large.³³ There appears to be no systematic ranking of the types of appliances according to the repossession percentage for contracts classified into groups by monthly payment as percent of monthly income.³⁴

REPOSSESSION EXPERIENCE ON FARM CONTRACTS

Farmers are the only occupational group whose repossession experience can be distinguished from that of the total body of contracts.³⁵ The repossession ratio for farm contracts turns out to be approximately the same as for all contracts; additional breakdowns show, however, that farm contracts differ from EHFA paper as a whole in the following respects:

³⁰ See Table B-3 for cross-classification with reference to type of appliance and percent down payment.

³¹ See Table B-7 for cross-classification with reference to type of appliance and length of contract.

³² See Table B-10 for cross-classification with reference to type of appliance and amount of note.

³³ See Table B-14 for cross-classification with reference to type of appliance and monthly income.

³⁴ See Table B-13 for cross-classification with reference to type of appliance and monthly payment as percent of monthly income.

³⁵ Available only on January-June 1938 contracts with repossessions calculated as of September 30, 1938; farm contracts comprised about 8 percent of all contracts during this period.

percent down payment has less effect on their repossession percentage; washing machines have the lowest ratio instead of the highest; and average number of payments before repossession is smaller.

PURCHASER'S MONTHLY INCOME AS A FACTOR IN EHFA REPOSSESSION EXPERIENCE

The higher the purchaser's monthly income, the lower is the repossession ratio. (See Table 41.) This finding indicates that size of monthly income is a significant criterion of the installment purchaser's ability to meet his monthly payments. By implication, moreover, it shows that income as a repossession

TABLE 41

REPOSSESSION EXPERIENCE OF EHFA THROUGH SEPTEMBER 1938, ON CONTRACTS PURCHASED JANUARY-MARCH 1938, WITH PERCENTAGE DISTRIBUTION OF CONTRACTS, BY AMOUNT OF MONTHLY INCOME^a

<i>Amount of Monthly Income^b</i>	<i>Repossession Ratio^c</i>	<i>Index of Repossession Experience^d</i>	<i>Percentage Distribution of Contracts</i>
Under \$ 50	5.0	+ 35	1.0
50-75	8.4	+127	4.0
75-100	6.7	+ 81	10.3
100-125	4.9	+ 32	22.5
125-150	2.6	- 30	16.3
150-200	2.8	- 24	22.4
200 and over	1.7	- 54	18.5
No information	2.6	- 30	5.0
ALL GROUPS	3.7	0	100.0

^a Based on 283 repossessions reported on 768 contracts, or approximately 10 percent of the 7,620 contracts purchased in the first quarter of 1938.

^b Each level includes the lower figure and excludes the higher.

^c Number of repossessions per 100 contracts purchased.

^d See Table 37, footnote d.

factor was not fully discounted by the EHFA-approved dealers and the EHFA credit men.

Cross-classifications bring out two interesting variations in the path of the repossession ratio through the income classes from low to high. One reveals that when the contracts in different percent down payment classes are considered separately, changes in the trend of the repossession percentage with respect to changes in monthly income are roughly similar, but that when the percent down payment is above 30 percent the effect of monthly income on the repossession percentage is relatively slight.³⁶ A second cross-classification indicates that when the monthly payment is less than 2.5 and more than 7.5 percent of the monthly income, increases in monthly income have no regular effect on the repossession percentage, but that when monthly payment as percent of monthly income ranges from 2.5 to 5 percent and from 5 to 7.5 percent, increases in monthly income are accompanied by a decline in the repossession percentage.³⁷ As regards differences in length of contract, amount of note, or type of appliance, it is found that as the purchaser's monthly income increases the repossession ratio declines.³⁸

MONTHLY PAYMENT AS PERCENT OF MONTHLY INCOME AS A FACTOR IN EHFA REPOSSESSION EXPERIENCE

Since monthly payment as percent of monthly income represents the relative drain of the charge on current income, it

³⁶ See Table B-5 for cross-classification with reference to monthly income and percent down payment.

³⁷ See Table B-15 for cross-classification with reference to monthly income and monthly payment as percent of monthly income.

³⁸ See Table B-9 for cross-classification with reference to monthly income and length of contract. See Table B-12 for cross-classification with reference to monthly income and amount of note. See Table B-14 for cross-classification with reference to monthly income and type of appliance.

TABLE 42

REPOSESSION EXPERIENCE OF EHFA THROUGH SEPTEMBER 1938, ON CONTRACTS PURCHASED JANUARY-MARCH 1938, WITH PERCENTAGE DISTRIBUTION OF CONTRACTS, BY MONTHLY PAYMENT AS PERCENT OF MONTHLY INCOME^a

<i>Monthly Payment as Percent of Monthly Income^b</i>	<i>Repossession Ratio^c</i>	<i>Index of Repossession Experience^d</i>	<i>Percentage Distribution of Contracts</i>
Under 2.5	2.4	-35	19.5
2.5-5.0	3.3	-11	47.1
5.0-7.5	5.3	+43	21.0
7.5-10.0	6.5	+76	4.8
10.0-22.5	4.0	+ 8	2.6
No information	2.6	-30	5.0
ALL GROUPS	3.7	0	100.0

^a Based on 283 repossessions reported on 768 contracts, or approximately 10 percent of the 7,620 contracts purchased in the first quarter of 1938.

^b Each level includes the lower figure and excludes the higher.

^c Number of repossessions per hundred contracts purchased.

^d See Table 37, footnote d.

might well be expected, unless the contracts were specially selected, that the repossession percentage would be relatively high when the monthly payment constituted a comparatively large percentage of the monthly income of the purchaser, and relatively low in the opposite case. Indeed, if other factors are passably equal, this measure would seem to provide the most adequate single test of the capacity of purchasers to meet their obligations.³⁹ As Table 42 shows, the repossession percentage did rise without interruption with increases in monthly payment as percent of monthly income until the latter reached 10 percent, but the surprising revelation is the fact that the movement was reversed for the group of contracts for which monthly payment amounted to more than

³⁹ Nevertheless monthly payment as percent of monthly income is no infallible guide to credit policy, for the report on monthly income may be false and the income itself curtailed or subjected to other demands upon it.

10 percent of monthly income. This reversal of the general pattern may be attributed to the small size of the sample or to the tendency of credit men to accept risks of such a type only when other factors are relatively favorable; perhaps both explanations apply here.

The repossession percentage increased slightly with increases in monthly payment as a percent of monthly income for the different down-payment classes considered separately,⁴⁰ the different amount-of-note classes,⁴¹ and the different types of appliance.⁴² Radios showed the least tendency to be affected by the latter variable. There was much more divergence in the reaction of the repossession ratio to increases in monthly payment as percent of monthly income for different length-of-contract classes and monthly income groups. For contracts extending over 18, 24, 30 and 36 months, increases in monthly payment as percent of monthly income were accompanied by increases in the repossession percentage, but for contracts of 12 months and more than 36 months the repossession percentage moved irregularly as monthly payment as percent of monthly income increased.⁴³ For installment purchasers with monthly incomes of less than \$125, the expected increase in the repossession percentage occurred as monthly payment as percent of monthly income rose. In sharp contrast, however, when the monthly income of the purchaser was more than \$125, the repossession ratio declined.⁴⁴ This measure may well serve as a useful tool in credit analysis, for it appears justifiable to conclude that

⁴⁰ See Table B-4 for cross-classification with reference to monthly payment as percent of monthly income and percent down payment.

⁴¹ See Table B-11 for cross-classification with reference to monthly payment as percent of monthly income and amount of note.

⁴² See Table B-13 for cross-classification with reference to monthly payment as percent of monthly income and type of appliance.

⁴³ See Table B-8 for cross-classification with reference to monthly payment as percent of monthly income and length of contract.

⁴⁴ See Table B-15 for cross-classification with reference to monthly payment as percent of monthly income and monthly income.

persons in the higher income groups can adapt themselves more readily to an augmented drain upon their income than can those in the lower groups.

In the foregoing analysis it has been found that the most marked variations in the repossession ratio for contracts purchased by the Electric Home and Farm Authority were conditioned by the percent down payment, the size of the purchaser's monthly income, and the size of his monthly payment as percent of his monthly income. It is possible, moreover, to observe a close relationship between EHFA's policy and its repossession experience. In line with its stated purpose of encouraging and facilitating an increased use of electricity, the Authority has provided markedly liberal financing terms to instalment purchasers of electric appliances. Nevertheless, the percent of its contracts which culminated in repossession has been relatively low. Experience, therefore, appears to vindicate the maintenance of low down payments, long maturities and a comparatively small finance charge. Although it did not seek to make a profit, EHFA was able to cover its costs out of income from instalment contracts, thus fulfilling its objectives without sacrificing business efficiency.