NEW-AUTOMOBILE FINANCE RATES, 1924–62

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INTRODUCTION

MEASUREMENT AND EXPLANATION of the cost of automobile credit, which comprises some two-fifths of the instalment credit outstand-

I am particularly indebted to John M. Chapman, of Columbia University, and to Geoffrey H. Moore, of the National Bureau, for their assistance. Other members of the National Bureau staff who reviewed earlier drafts and made constructive suggestions are Ralph L. Nelson, Joseph W. Conard, Phillip Cagan, Wallace P. Mors, Paul F. Smith, Philip A. Klein, F. Thomas Juster, and Jacob Mincer. Thanks are also due to Marion B. Folsom, Nathaniel Goldfinger, Harold G. Halcrow, and Theodore O. Yntema of the National Bureau's board of directors.

Members of the advisory committee of the Consumer Credit Study who assisted in the planning and criticism of drafts of this study are Paul W. McCracken (chairman), University of Michigan; Gordon E. Arcen, Associates Investment Company; Frank Barsalou, Pacific Finance Corporation; Dorothy S. Brady, University of Pennsylvania; John M. Chapman, Columbia University; Mona Dingle, Division of Research and Statistics, Board of Governors of the Federal Reserve system; Bertrand Fox, Harvard University; Raymond W. Goldsmith, Yale University; Robert E. Lewis, First National City Bank of New York; Roger F. Murray, National Bureau of Economic Research; Roland I. Robinson, Michigan State University; Herbert Stein, Committee for Economic Development; Van Buren Thorne, Jr., General Motors Acceptance Corporation; and William L. Wilson, C.I.T. Financial Corporation.

Others who formerly served on the advisory committee are George Dimmler, George W. Omacht, Sidney E. Rolfe, and LeRoy A. Weller.

Special acknowledgment is due the financial institutions and governmental agencies that contributed data to the study. Particular mention should be made of the help given by Donald P. Siegel, Associates Investment Company; Allen S. Brush and Robert F. Murphy, General Motors Acceptance Corporation; Edmund G. Benser, C.I.T. Financial Corporation; LeRoy A. Weller and Richard Warfel, Pacific Finance Corporation; Mona Dingle, the Board of Governors of the Federal Reserve System; and Irston Barnes, Federal Trade Commission.

Statistical assistance was faithfully and competently given by Florence Liang and Geoffrey M. Durbin, of the National Bureau. James F. McRee, Jr., edited the manuscript, and H. Irving Forman drew the charts.

The Consumer Credit study was made possible by research grants from four finance companies: Associates Investment Company, C.I.T. Financial Corporation, General Motors Acceptance Corporation, and Pacific Finance Corporation. These institutions are, of course, not to be held responsible for any of the statements made or views expressed herein.
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ing, have been largely neglected by serious students for many years. There have been sporadic investigations of consumer credit, including credit costs, by state legislatures and by branches of the federal government, but few have resulted in the formation of representative estimates of credit costs whose levels and fluctuations may be compared with those in other credit sectors. This report presents measurements of new-automobile finance rates and some explanation of their behavior as a preliminary portion of a more detailed investigation of the structure of rates in automobile financing. This, and the later work, hopefully, will fill a gap in economic knowledge of levels and changes in automobile finance rates.

This report analyzes changes in automobile finance rates between 1924 and 1962. In formulating the basic rate series, data were developed from two comprehensive earlier investigations1 of new automobile financing costs during 1935–38 and 1954–55. Additional survey data were gathered by the National Bureau to cover 1956–62. Information provided in earlier National Bureau studies2 made it possible to extrapolate new auto finance rate levels on an annual basis from the survey data back in time to 1924. Although the resultant series is closely related to rates of groups of four large sales finance companies,3 the fact that the operations of these companies are quantitatively important and national in scope suggests that they represent rate movements affecting new automobile credit markets generally.

The plan of this report is as follows: Initially, methods of financing automobile purchases are reviewed and their relative importance appraised. Second, the finance rate concept is defined and aspects of its measurement discussed. Third, for 1954–55 (the only period in which data exist for all types of credit agencies), average finance rates are presented by method of financing, type of credit agency, term structure, and region. Fourth, the sales finance portions of the 1954–55 data are viewed in relation to data in other years. Fifth, the movement of large sales finance company rates between 1924 and 1962 is investigated and compared with movements in interest rates and automobile credit. The report concludes with a summary and evaluation of findings.


3. In bench-mark years, the four large company groups are not identical (see Table 6).