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NEW-AUTOMOBILE FINANCE RATES, 1924-62

ROBERT P. SHAY

INTRODUCTION

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

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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.

1. "Financing New Car Purchases," in *Consumer Instalment Credit* (Washington: Board of Governors of the Federal Reserve System, 1957), Part IV; and *Report on Motor Vehicle Industry* (Washington: Federal Trade Commission, 1939).

2. W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices* (New York: NBER, 1940), and G. Haberler, *Consumer Instalment Credit and Economic Fluctuations* (New York: NBER, 1942).

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