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Finance Charges

In an instalment transaction the purchaser thinks of the finance charge as the total differential between what he contracts to pay and what he would have paid if he had bought on a cash basis; in other words, he subtracts his original unpaid balance (cash selling price minus down payment) from the amount of his note and regards the remainder as the company's charge for financing his purchase. From the standpoint of the finance company, however, this amount represents several quite different items: the financing service proper; insurance; and provision for dealer loss reserve or other dealer participation.

In regard to these items practice varies between automobile and diversified financing. Within automobile financing it varies from company to company, and even more from one type of company to another; it varies also in the business of a single company—between new-car and used-car financing, between cars of different prices and contracts of different lengths, perhaps even between cars of different manufacturers. In the following discussion of finance charges the more important of these variations will be taken into consideration. As has been the case in other chapters the main problems are evident in the automobile field.

It should be borne in mind that the purchase of a sales finance contract is a discount transaction, and that the customer's note includes the charges for credit and service. This is in contrast to personal finance company lending, where the note covers only the principal, with charges stated as a monthly percent of current unpaid balance.

QUOTATION OF CHARGES IN AUTOMOBILE FINANCING

Sales finance companies customarily quote their charges in rate charts which show, in dollars, the total amount of note and the amount of monthly payment that will be required on any particular unpaid balance and any particular contract length. As a rule these charts are distributed only to dealers, but at least one finance company has widely circulated copies of its rate charts among automobile owners and prospective buyers. The amount of monthly payment required is of course the amount of note divided by the number of months the contract runs. The amount of note is the original unpaid balance plus the combined cost of financing service and insurance protection.

In used-car financing—and until recently also in new-car financing—it has not been customary to stipulate the amount of either of these two costs, though their aggregate amount can easily be computed by subtracting the original unpaid balance from the amount of note. Nor is there any indication as to the percentage that these costs amount to—neither the percent of original unpaid balance nor the percent of average credit outstanding during the period of payment. There are various reasons why finance companies have generally avoided any percentage expression of charges. For one thing, the consumer, they allege, is not interested in a percentage quotation. Another reason sometimes advanced is the complexity of expressing a charge on a declining balance in terms of its simple interest equivalent. A third reason is that since the charges involved in instalment sales financing are necessarily higher than in commercial lending, where the loan is paid in full at maturity, it has been thought that their quotation in percentage terms might lead to unjustified comparisons with interest charges prevailing in the field of business financing. Still another reason has been the desire to avoid confusion with the cash instalment loan field, for there customer charges—practically always expressed in percentage terms, though not as simple per annum interest—are commonly subject to legal regulation, whereas credit charges in merchandise sales are commonly viewed, and have been interpreted by the courts, as part of the sales price and not subject to laws regulating interest.

Table 52 is a copy of the rate chart which a local company employed in 1938 for used passenger automobiles. In general format this is the same as the charts used by most companies in the business, both for new and for used cars, except that it is customary to show, for each amount of unpaid balance, the corresponding amount of note as well as the corresponding monthly instalment. In a chart such as that reproduced here the amount of note can easily be computed, however, by multiplying the monthly instalment by the number of months. The charges indicated in Table 52 should not be interpreted as representative of customary charges in used-car financing. Some companies quote higher charges than these, some companies lower, even for business conducted in the same territory.

The variation to be found in the used-car rate practices of different companies is indicated in Table 53, which presents a comparison of the combined insurance and finance charges quoted on 12-month used-car contracts in 1938 by five sales finance companies, all charges applicable to the same metropolitan region. These figures are to be interpreted not as representing the finance charge proper but as representing the total price quoted to the consumer, including not only a charge for financing service but also a charge for insurance coverage. Since the cost of insurance is not quoted separately it is not possible to say what proportion of these charges is for insurance and what proportion is for financing service. There may be variation among companies in the amount of insurance coverage provided, as well as in the amounts

TABLE 52

USED PASSENGER CAR RATE CHART OF A LOCAL NON-RECOURSE SALES FINANCE COMPANY, 1938

Unpaid Balance	Monthly Instalment 24 Months	Monthly Instalment 18 Months	Monthly Instalment 12 Months	Unpaid Balance	Monthly Instalment 24 Months	Monthly Instalment 18 Months	Monthly Instalment 12 Months
$ 1	$ .06	$ .09	$ .18	$370	$21.22	$26.23	$37.50
2	.12	.17	.28	380	21.76	26.90	38.45
3	.18	.25	.38	390	22.30	27.56	39.39
4	.23	.32	.48	400	22.84	28.23	40.34
5	.29	.39	.58	410	23.37	28.89	41.28
6	.35	.46	.68	420	23.91	29.54	42.21
7	.40	.54	.78	430	24.44	30.20	43.15
8	.47	.61	.88	440	24.97	30.85	44.08
9	.53	.68	.98	450	25.50	31.50	44.98
100	No collision insur-		11.25	460	26.03	32.15	45.93
110	ance on balance		12.29	470	26.56	32.80	46.85
120	less than $150.00		13.30	480	27.09	33.44	47.76
130			14.30	490	27.61	34.09	48.68
140			15.29	500	28.13	34.73	49.59
150		11.00	16.25	510	28.65	35.36	50.49
160		11.72	17.20	520	29.17	35.99	51.40
170		12.43	18.14	530	29.68	36.63	52.30
180		13.14	19.05	540	30.20	37.26	53.19
190		13.85	19.95	550	30.71	37.89	54.09
200	11.75	14.56	20.84	560	31.22	38.52	54.98
210	12.32	15.26	21.84	570	31.73	39.14	55.86
220	12.89	15.97	22.85	580	32.24	39.77	56.75
230	13.46	16.67	23.85	590	32.75	40.39	57.63
240	14.02	17.36	24.84	600	33.25	40.99	58.50
250	14.59	18.06	25.84	610	33.76	41.62	59.38
260	15.15	18.75	26.83	620	34.26	42.23	60.25
270	15.71	19.44	27.81	630	34.76	42.84	61.11
280	16.27	20.14	28.80	640	35.26	43.45	61.98
290	16.82	20.81	29.78	650	35.75	44.06	62.84
300	17.38	21.50	30.75	660	36.25	44.66	63.69
310	17.93	22.19	31.73	670	36.74	45.27	64.55
320	18.48	22.87	32.70	680	37.23	45.87	65.40
330	19.03	23.54	33.66	690	37.72	46.46	66.24
340	19.58	24.22	34.63	700	38.21	47.06	67.09
350	20.13	24.89	35.59	710	38.70	48.05	67.92
360	20.67	25.56	36.54	720	39.14	48.64	68.76

Cars not more than 2 yrs. old—24 months—1/3 down
Cars not more than 3 yrs. old—18 months—1/3 down
Cars not more than 4 yrs. old—12 months—40% down

Rates include Fire, Theft and Collision (deductible specified below) for the full term of the contract. Balances below $150.00 do not include collision.

$50.00 DEDUCTIBLE—Chevrolet; Dodge; Ford; Graham 6; Nash 6; Oldsmobile 6; Plymouth; Pontiac 6; Studebaker 6; Terraplane; Willys; Lafayette.

$75.00 DEDUCTIBLE—Auburn 6; Buick 40, 50; Chrysler 6; DeSoto; Graham 8; Hudson; Hupmobile 8; Oldsmobile 8; Packard 6, 120; Pontiac 8; Reo; Lincoln-Zephyr.

$100.00 DEDUCTIBLE—Auburn 8; Buick 60, 80, 90; Cadillac; Chrysler 8; Hupmobile 8; LaSalle; Lincoln; Nash 8; Packard; Studebaker 8.

TABLE 53

DOLLAR AMOUNT OF COMBINED INSURANCE AND FINANCE CHARGES QUOTED ON USED CARS FINANCED UNDER 12-MONTH CONTRACTS BY 5 SALES FINANCE COMPANIES, 1938, AND INDEX OF VARIATION[a]

Company	*$100 Original Unpaid Balance*		*$200 Original Unpaid Balance*		*$400 Original Unpaid Balance*		*$600 Original Unpaid Balance*	
	Dollar Charge	Index of Variation	Dollar Charge	Index of Variation	Dollar Charge	Index of Variation	Dollar Charge	Index of Variation
A	$30.08	100	$47.92	100	$57.44	100	$ 73.44	100
B	32.12	107	50.08	105	65.00	113	89.04	121
C	37.40	124	53.80	112	64.40	112	84.60	115
D	30.56	102	49.00	102	58.76	102	74.76	102
E	35.00	116	50.08	105	84.08	146	102.00	139

[a] Taken from rate charts of the five companies, all the charts being applicable to the same metropolitan region. In the index of variation each company's charges are expressed in percent of those of the company quoting the lowest charges.

charged for insurance and for financing service, but in most cases the former difference is considerably less than the latter.

In used-car financing—and for some companies, primarily regional and local, also in new-car financing—it is still the general practice to stipulate in rate charts only the total amount of note (and its division into monthly payments), with no indication of the respective amounts to be allocated to the cost of financing service and of insurance protection. In the fall of 1935, however, General Motors Acceptance Corporation made a reduction in its financing charge for new automobiles, and in what was called the "6 Percent Time Payment Plan" changed its method of stating charges. This plan, confined to the financing of new cars, was quite generally adopted throughout the United States by motor companies and factory-related finance companies, and also, for competitive reasons, by some independent companies.[1] It provided that insurance (paid for by the customer but placed by the financing agency) be reckoned separately from the finance charge, and that the latter be computed on the insurance plus the original unpaid balance, at a rate of ½ percent a month, or 6 percent for twelve months. To illustrate, if the original unpaid balance is $400, payable in twelve equal monthly instalments, and the insurance is $25, the finance company charge is $25.50.

In the beginning the plan was widely advertised, but during 1936 the Federal Trade Commission issued complaints against the motor companies and their finance company affiliates, charging unfair methods in their advertising of the 6 percent plan. The Commission charged that the plan was not truthfully or accurately presented to the public because the advertising tended to convey to prospective purchasers

[1] In its *Report on Motor Vehicle Industry* (1939) p. 967, the Federal Trade Commission stated that "by the spring of 1936, practically the entire industry of financing installment sales of [new] motor vehicles was on the so-called 6-percent basis."

the idea that this was a 6 percent simple interest plan of financing, whereas it actually involved a much higher annual interest rate, since the 6 percent charge was figured on the full amount of the account originally financed, from the date of the transaction to the date the account was closed, regardless of the fact that the account was regularly amortized by monthly payments of equal amounts.

Most of the companies against which the Federal Trade Commission issued complaints signed agreements to "cease and desist"; they agreed not to circulate or to furnish to authorized dealers or distributors any advertising matter in which the expression "6 percent" is used, without giving equal prominence to an explanation making it clear that this rate does not mean 6 percent simple interest.

The General Motors Corporation, however, and its subsidiaries, including General Motors Acceptance Corporation, answered the complaint of the Federal Trade Commission by denying all charges Their answers were filed on December 23, 1936, and they declared that the new plan had been instituted in order to simplify the method of computing rates and to simplify the form of rate quotation, so that purchasers of General Motors cars might be protected from practices and abuses prevalent in the instalment selling methods of certain dealers; and General Motors contended that its advertising adequately explained that the 6 percent was not interest but was only a figure to be used in multiplying the unpaid cash balance in order to compute the amount of the finance charge. The Federal Trade Commission, after a final hearing, announced on December 8, 1939, that the acts and practices complained of are "to the prejudice and injury of the public and of competitors . . . and constitute unfair methods of competition." It ordered the General Motors Corporation and its subsidiaries to cease and desist from using the term 6 percent "or any other words, figures or symbols indicating percentage" in connection with finance charges when the amount of the charge is in excess of simple interest at that percentage rate, "calculated on the basis of the unpaid balance due as diminished after crediting installments as paid."[2]

It should be emphasized, however, that the issue in this case was the manner of presentation and not the merits of the 6 percent plan itself. In regard to the plan as such the Federal Trade Commission has declared that "if comprehended and applied by the prospective car purchaser [it] would not only enable him to compute the finance charges, the face amount of his installment contract, and the amount of each monthly installment but would enable him to detect any overcharge or 'pack' that the vending dealer might attempt to insert into the finance charges, and thereby to eliminate these packs."[3] Moreover, "the application of this plan constituted a substantial reduction from the rates of finance charge and interest that were in general use just previously."[4]

In new-car financing it is still the practice, especially of the national companies, to base the finance charge on a rate of approximately ½ percent a month, computed on original unpaid balance plus insurance, the latter based on standard territory schedules. Neither in rate charts nor in advertising, however, is the percentage rate mentioned. Insurance on used cars is such a variable item, even within a single territory, that it is considered impracticable to compile a schedule of exact rates to be employed as a basis for a separate statement of insurance charges in used-car financing. The rate charts of at least one company, however (General

[2] Federal Trade Commission, Docket No. 3001, "Findings as to the Facts and Conclusion" and "Order to Cease and Desist" (December 8, 1939). General Motors and General Motors Acceptance Corporation have filed notice of appeal on this order.

[3] Federal Trade Commission, *Report on Motor Vehicle Industry* (1939) p. 972.

[4] *Ibid.*, p. 1076.

Motors Acceptance Corporation), now specify for each transaction not only the dollar amount of monthly payment but also the dollar amount of finance charge. The new-car rate charts show the finance charge alone, but they also contain territory charts showing the exact insurance premium in that area for cars of various types and prices; the used-car rate charts show in dollars the combined cost of financing and insurance.

ACTUAL CHARGES IN AUTOMOBILE FINANCING

So far only quoted charges have been dealt with; but these are not always an accurate gauge of what the consumer is actually charged. For example, the dealer sometimes adds to the amount of the note a "pack" for himself; when this is done the pack is paid by the finance company to the dealer and is then collected from the consumer as part of the face amount of the contract. Differences between the finance charge to the consumer and that indicated by the rate chart may occur also because of errors made by the dealer against himself. Sometimes differences exist between quoted rates and actual rates because of deceptions; the company, for example, may provide the dealer with more than one rate chart, and the dealer may use the higher one in his dealings with the purchaser and the lower one in determining the amount of discount when selling the contract to the finance company.[5] Finally, special circumstances may sometimes lead to higher or to lower charges than those indicated in the rate chart.

The Federal Trade Commission, in connection with its comprehensive investigation of the motor vehicle industry,[6] has compiled data which indicate, for selected contract lengths, the actual finance charges made to purchasers of

[5] *Ibid.*, p. 970.
[6] The study was ordered by a joint resolution of Congress, April 13, 1938.

new and used automobiles during the years 1935-38, and also the constituent items in these charges. From about 60,000 financing transactions, selected directly from the books of finance companies by a method designed to prevent bias, the Commission compiled groups of samples for detailed tabulation. Financing transactions included in the samples originated in the eastern half of the country (North and South Atlantic regions and North and South Central regions), and occurred for the most part in months of greatest retail sales of automobiles during the period 1935-38. The data are classified according to whether the originating finance company was factory-controlled (General Motors Acceptance Corporation), factory-preferred (Commercial Investment Trust Corporation—including its subsidiary, Universal Credit Corporation—and Commercial Credit Company), or independent (a representative sample from each region), so that finance charge practices may be compared as between these types of companies.

The constituent items in the overall charge actually made to the consumer are primarily the finance company's provision for expenses and profit, the retail insurance premium, the dealer's reserve or bonus and sometimes also a pack for the dealer. Insurance is ordinarily required by, and also placed by, the company, but since in most cases it covers the purchaser's as well as the company's interest it is to be regarded more as a supplement to the financing transaction than as an integral part of it. The reserve or bonus is part of the charge as quoted by the finance company. The pack is an amount which is sometimes added by the dealer to the finance company's quoted charge and is then paid to him by the company. The genesis and implications of dealer participations in the charge are discussed more fully in Chapter 11.

Table 54 indicates the relative significance of the constituent items in the combined insurance and finance charges

TABLE 54

CONSTITUENT ITEMS IN COMBINED INSURANCE AND FINANCE CHARGES SHOWN IN SAMPLES OF 12-MONTH AND 18-MONTH NEW-CAR AND USED-CAR TRANSACTIONS FINANCED BY SELECTED GROUPS OF SALES FINANCE COMPANIES, 1936–38, IN PERCENT OF TOTAL COMBINED CHARGES[a]

Item	12-Month Contracts			18-Month Contracts		
	Factory-Controlled Company[b]	Factory-Preferred Companies[c]	Independent Companies	Factory-Controlled Company[b]	Factory-Preferred Companies[c]	Independent Companies
NEW CARS						
Finance company's provision for expenses and profit	42.6	32.1	36.6	49.0	40.4	46.2
Retail insurance premium	46.9	54.2	51.0	40.8	48.3	43.7
Dealer's reserve	10.4	9.5	2.5	10.2	8.6	1.6
Dealer's bonus	..	1.6	8.4	..	1.3	6.9
Dealer's pack[d]	.1	2.6	1.5	[e]	1.4	1.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
Number of transactions	1,456	2,142	2,488	2,019	3,890	4,590
USED CARS						
Finance company's provision for expenses and profit	45.3	48.8	54.4	48.6	55.2	61.3
Retail insurance premium	34.9	29.1	24.7	33.2	30.0	25.4
Dealer's reserve	18.3	15.7	6.4	15.7	9.9	2.7
Dealer's bonus	[e]	.7	12.7	..	.4	8.8
Dealer's pack[d]	1.5	5.7	1.8	2.5	4.5	1.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
Number of transactions	194	395	374	99	485	341

shown in the Federal Trade Commission samples of new-car and used-car transactions for 1936-38. Insurance charges are shown to have taken, on the average, 40 to 50 percent of the total charge on new cars, and 25 to 35 percent of that on used cars. On new-car transactions approximately 10 percent of the average charge went to dealers for reserve or bonus, but on used-car transactions the dealer's share was higher. All packs were "rigorously disallowed" by the factory-controlled company. The small percentages indicated as packs in its new-car transactions may be accounted for by recording fees, notary fees and documentary stamp taxes;[7] on its used-car transactions the percentages appearing as packs were somewhat higher, but the company states that these amounts are due to accounting irregularities and that if any genuine overcharge exists it is credited to the purchaser. The data in this table indicate that on the whole the dealer's pack amounted to a higher proportion of factory-preferred company charges than of other companies' charges. It is possible that the figures on factory-preferred and independent companies somewhat understate the dealer's pack and overstate the dealer's reserve or bonus, for in some cases the pack is wholly or partly concealed in these items.

The remainder of the overall charge, after provision for insurance and dealer participation, represents the proportion which the finance company receives for its expenses and

[7] See Federal Trade Commission report, *op. cit.*, p. 962.

[a] Based on Federal Trade Commission, *Report on Motor Vehicle Industry* (1939) pp. 982, 985, 1032, 1036, 1039, 1043, 1047, 1050.
[b] General Motors Acceptance Corporation.
[c] Commercial Investment Trust Corporation—including its subsidiary, Universal Credit Corporation—and Commercial Credit Company.
[d] A small part of the additions given as packs represented reimbursements to dealers for sums paid out for recording fees, notary fees and the like, but the remainder was pack, as this item is ordinarily defined. Packs were not allowed by the factory-controlled company; this company states that the appearance of such amounts is due to dealers' errors or accounting irregularities, and that if any genuine overcharge exists it is credited to the purchaser.
[e] Less than 0.1 percent.

profit. Actually, however, the finance company usually derives some profit also from the insurance premium, either in the form of commission or in the form of dividends or income from an associated insurance company. The factory-controlled company, though it provides the purchaser with insurance through another subsidiary of the parent corporation, does so at lower than standard rates. On new cars this company's provision for expenses and profit is shown to have averaged a higher proportion of the overall charge than did that of other companies, but it is likely that if insurance income were taken into account the variation among the three types of companies would be less than indicated in these figures. On used cars, where insurance premiums average a much smaller proportion of total charges, the factory-controlled company's provision for expenses and profit amounted to approximately the same proportion as in new-car financing, but for the other companies this item took a much larger part of used-car than of new-car overall charges.

The figures that have been cited pertain only to the content of charges and tell nothing about their comparative size. Since the amount of note varies from one transaction to another it is obviously necessary to express comparative finance charges in percentages rather than in dollar terms, and therefore the question arises as to what basis should be used for computation. The basis used in the sales finance business is the original unpaid balance plus insurance, but rates computed on this basis are comparable, of course, only for contracts of the same length. Moreover, such a rate, while it provides a convenient statement that is readily understandable and readily calculable, does not indicate the actual relative cost of the credit, since it refers to the amount originally owed, without allowance for the fact that this amount is continually reduced during the span of the contract. In the following discussion this rate will be presented, but it will be supplemented by its equivalent in annual percentage rate based on a credit balance that is regularly reduced at monthly intervals.[8] It has already been mentioned that among the courts that have had occasion to consider the problem it is the general consensus that sales finance company charges are not to be regarded as interest. But from an economic point of view credit charges, of whatever nature, are properly expressed in terms of the amount of credit extended, in relation to the time the credit is enjoyed.

It should be remembered that although both these rates represent only the rate of finance charge, that charge is computed by the company on the insurance coverage which is required of the purchaser as well as on the original unpaid balance of his purchase. The cost of this insurance varies not only according to the type and price of car and the territory in which it is bought, but also according to the practice of the finance company, and sometimes according to the circumstances of the particular transaction. Most companies, whether they place insurance through subsidiaries, through affiliated companies or through independent companies, provide protection at conference rates. The factory-controlled company, however, through another subsidiary of the parent corporation, provides insurance at rates about one-fourth less than standard.[9] Also, the insurance coverage may vary in different transactions: usually both the purchaser's and the finance company's interests are insured, but sometimes only the company's interest, and in this case the cost of insurance is normally, of course, very much less.

These and other variations in the amount charged for in-

[8] This basis is used also by the Federal Trade Commission in its expression of charges. See Table 55, footnote b, for the principles followed by the Commission in computing the annual percentage rate; the figures cited in the text are those arrived at by the Commission's preferred method rather than those arrived at by the alternative method which it recognizes.

[9] In 1939 this company organized another insurance subsidiary which is available to write business at manual rates where special circumstances exist. It is understood that when this is done there will normally be a reduction in the finance charge percentage.

surance may make significant differences in the dollar amount the purchaser pays, but such differences are not reflected either in the finance charge percentage or in the annual percentage rate which it implies. The inevitable variations in the dollar cost of insurance make it impossible to express this item accurately in percentage terms for purposes of comparison. Cash selling price is the most defensible basis for such an expression, but the resultant figures tell nothing of insurance charges in comparison with finance charges. If insurance is expressed in relation to the original unpaid balance plus insurance—the same base as that used for the finance charge—still another variable, the down payment, is introduced: insurance on a $1000 car, for example, may be 7 percent of original unpaid balance if the customer made only a $300 down payment, or 50 percent if his down payment was $900, as sometimes happens. Both of these bases have been used, however, in the following tables, the total cost of insurance on each sample of transactions being expressed, for purposes of approximate comparison, in percent of the total cash selling prices and, like the finance charge, in percent of the total amount of original unpaid balances plus insurance. In spite of the variables which they include these average percentages show a sufficiently consistent pattern to warrant their presentation as two rough indices of the relative cost of insurance, as reflected in these samples of actual transactions.

According to the data obtained by the Federal Trade Commission, finance charges, expressed in annual percentage rates, ranged in the years 1935-38 from less than 12 to nearly 20 percent on new-car transactions, the variation arising from differences in company practices and from differences in contract lengths; in relation to original unpaid balance, plus insurance, the finance charge ranged from 6 to 10 percent on 12-month contracts. These data are presented in Table 55. The charges of the factory-controlled company

TABLE 55

FINANCE CHARGE AND INSURANCE PERCENTAGES SHOWN IN SAMPLES OF NEW-CAR TRANSACTIONS FINANCED BY SELECTED GROUPS OF SALES FINANCE COMPANIES, 1935–38[a]

Type of Finance Company	*Finance Charge*		*Insurance*		*Number of Transactions*
	In Annual Percentage Rate[b]	In % of Time Balance[c]	In % of Cash Selling Price[d]	In % of Time Balance[e]	
		12-MONTH CONTRACTS			
1935					
Factory-controlled[f]	14.6[g] *13.7*[g]	7.6[g]	2.6	5.1	896
Factory-preferred[i]	18.2 *16.8*	9.4	2.7	5.3	556
Independent	19.4 *17.9*	10.0	2.6	5.4	447
1936–38					
Factory-controlled[f]	11.5 *10.9*	6.0	2.5	5.3	1,456
Factory-preferred[i]	12.4 *11.8*	6.5	3.6	7.7	2,142
Independent	13.6 *12.8*	7.1	3.5	7.4	2,488
1938					
Factory-controlled[f]	11.7 *11.2*	6.1	2.5	5.6	427
Factory-preferred[i]	12.3 *11.6*	6.4	3.7	7.1	803
Independent	13.0 *12.1*	6.8	3.5	7.6	878
		18-MONTH CONTRACTS			
1935					
Factory-controlled[f]	14.4[h] *13.4*[h]	11.0[h]	4.0	6.4	1,558
Factory-preferred[i]	17.0 *15.7*	13.0	4.5	7.0	926
Independent	19.6 *18.0*	14.9	3.9	6.3	613
1936–38					
Factory-controlled[f]	11.6 *11.0*	9.0	3.6	6.2	2,019
Factory-preferred[i]	12.1 *11.5*	9.3	5.4	8.7	3,890
Independent	13.7 *12.8*	10.5	5.0	8.2	4,590
1938					
Factory-controlled[f]	11.6 *11.0*	9.0	3.7	6.6	569
Factory-preferred[i]	12.0 *11.4*	9.2	5.5	9.0	1,664
Independent	13.0 *12.4*	10.0	5.2	8.6	1,660

TABLE 55 (*continued*)

Type of Finance Company	*Finance Charge*		*Insurance*		*Number of Transactions*
	In Annual Percentage Rate[b]	In % of Time Balance[c]	In % of Cash Selling Price[d]	In % of Time Balance[e]	
		24-MONTH CONTRACTS			
1935					
Factory-controlled[f]	12.9[i] *12.2*[i]	13.2[i]	4.3	6.8	118
Factory-preferred[j]	16.4 *15.2*	16.7	6.5	9.0	28
Independent	10.6 *10.1*	10.8	6.5	10.3	137
1936–38					
Factory-controlled[f]	11.7 *11.2*	12.0	4.5	7.1	512
Factory-preferred[j]	12.0 *11.4*	12.3	6.5	9.5	4,705
Independent	12.8 *12.1*	13.1	6.6	9.6	5,353
1938					
Factory-controlled[f]	11.7 *11.2*	12.0	4.6	7.3	119
Factory-preferred[j]	11.9 *11.3*	12.2	6.9	10.2	896
Independent	12.0 *11.4*	12.3	7.0	10.5	939

[a] Based on Federal Trade Commission, *Report on Motor Vehicle Industry* (1939) pp. 959, 968, 973-74, 976, 982, 985, 988.

[b] Rate of charge on the declining credit balance. In its report, cited above, the Federal Trade Commission defines "implied interest rate" as follows: "the monthly rate of interest is that rate which, applied to the original unpaid cash purchase price and to the successive reduced balances of the cash purchase price, . . . will just extinguish the unpaid balance with the application of the last installment," "each monthly installment being applied first to the extinction of the interest accrued during the month and the remainder of the installment to reducing the unpaid balance of the cash purchase price" (p. 952). The equivalent annual rate of interest implied in the finance charges "represents the interest on $1 compounded monthly at the monthly rate for 12 months" (p. 955). For the benefit of those who may object to this compounding process the Commission gives also an annual rate which is computed by multiplying the monthly rate by 12. In the present table both rates are given, the upper figure within the bracket representing the annual percentage rate compounded monthly, as described above, and the lower one (italicized) representing the alternative annual rate (12 times monthly rate).

Still another method of computing equivalent annual rates is contained in the formula $r = \frac{24c}{a(n+1)}$ in which c is the finance charge, a is the original unpaid balance plus insurance and n is the number of months the contract runs. This method is regarded by some statisticians as not so accurate as the are shown to have been consistently lower than those of the other companies during this period;[10] the charges of the independent companies were highest. In 1938 the charges of all companies were conspicuously lower than they had been in 1935—a development due primarily to the introduction of the 6 percent plan.

Table 56 presents for used cars financed by these companies in 1936-38 the same data as Table 55 contains for new cars. For all types of companies, and for both 12-month and 18-month contracts, finance charges are shown to have been considerably higher for used cars than for new cars, the annual percentage rates ranging in these years from about

[10] With a single exception: in 1935 the independents' charges on 24-month contracts were notably lower than those of either of the other two types of companies.

Commission's preferred method, but it has the advantage of being easier to apply, since it does not necessitate complex mathematical procedures. It gives results which fall between those arrived at by the two methods mentioned above.

[c] Finance charge in percent of original unpaid balance plus insurance.

[d] This ratio varies according to several factors, such as territory, coverage and finance company practice, but these figures may be regarded as rough averages of the cost of insurance in relation to the original cash price of the car.

[e] Insurance in percent of original unpaid balance plus insurance. This percentage can be regarded only as a very rough index of the average cost of insurance in relation to the original instalment debt. Even in dollar amount insurance varies according to territory, coverage, finance company practice and type and price of car; and in percentage terms, as expressed here, it varies also according to original unpaid balance. Moreover, on 18-month contracts insurance is sometimes for 18 months and sometimes for two years, the purchaser having the option of cancelation for the last half year after his contract with the finance company has been paid in full. But in spite of such considerations these averages show a sufficiently consistent pattern to warrant their presentation as a rough index.

[f] General Motors Acceptance Corporation.

[g] For 240 transactions entered into in 1935 after the 6 percent plan went into effect the finance charge averaged 6.1 percent; the annual percentage rate it implied was 11.6 and 11.0 percent respectively.

[h] For 383 transactions entered into in 1935 after the 6 percent plan went into effect the finance charge averaged 9.0 percent; the annual percentage rate it implied was 11.6 and 11.0 percent respectively.

[i] For 37 transactions entered into in 1935 after the 6 percent plan went into effect the finance charge averaged 12.0 percent; the annual percentage rate it implied was 11.7 and 11.2 percent respectively.

[j] Commercial Investment Trust Corporation—including its subsidiary, Universal Credit Corporation—and Commercial Credit Company.

TABLE 56

FINANCE CHARGE AND INSURANCE PERCENTAGES SHOWN IN SAMPLES OF USED-CAR TRANSACTIONS FINANCED BY SELECTED GROUPS OF SALES FINANCE COMPANIES, 1936–38[a]

TYPE OF FINANCE COMPANY	12-MONTH CONTRACTS					18-MONTH CONTRACTS				
	Finance Charge		*Insurance*			*Finance Charge*		*Insurance*		
	Annual Percentage Rate[b]	% of Time Balance[c]	% of Cash Price[d]	% of Time Balance[e]	*Number of Transactions*	Annual Percentage Rate[b]	% of Time Balance[c]	% of Cash Price[d]	% of Time Balance[e]	*Number of Transactions*
Factory-controlled[f]	25.3 *22.9*	12.8	2.9	6.9	194	17.5 *16.2*	13.3	4.5	6.6	99
Factory-preferred[g]	30.9 *27.2*	15.3	3.5	6.3	395	23.0 *20.9*	17.4	5.0	7.4	485
Independent	37.2 *37.9*	18.1	3.7	6.0	374	26.7 *23.9*	20.0	4.7	6.8	341

[a] Based on Federal Trade Commission, *Report on Motor Vehicle Industry* (1939) pp. 1032, 1036, 1039, 1043, 1047, 1050.
[b] Rate of charge on the declining credit balance. For explanation see Table 55, footnote b. The upper figure is the annual percentage rate compounded monthly, as described in Table 55, footnote b, and the lower one (italicized) is 12 times the monthly rate.
[c] Finance charge in percent of original unpaid balance plus insurance.
[d] This ratio varies according to several factors, such as territory, coverage and finance company practice, but these figures may be regarded as rough averages of the cost of insurance in relation to the original cash price of the car.
[e] Insurance in percent of original unpaid balance plus insurance. See Table 55, footnote e. In used-car transactions the cost of insurance is commonly added to the finance charge and is not, as here, expressed separately.
[f] General Motors Acceptance Corporation.
[g] Commercial Investment Trust Corporation—including Universal Credit Corporation—and Commercial Credit Company.

18 to 37 percent for the different types of companies and the different contract lengths; on 12-month contracts charges ranged from nearly 13 to 18 percent of original unpaid balance plus insurance. The relationships observed before for the three groups of companies are maintained here too, but in contrast to new-car financing, the percentage differential between the types of companies is here considerably greater on 18-month than on 12-month contracts. On 18-month used-car contracts the annual rate implied in the charges of independent companies was more than half again as high as that implied in the charges of the factory-controlled company.

That wide variations exist in the finance charges on individual transactions is evident from Table 57, which shows, for each type of company and for both new cars and used cars, the lowest and the highest charges shown in a sample of 12-month transactions. Thus a new-car transaction financed by an independent company is shown in which the annual rate implied in the finance charge was a negative 8.1 percent, the lowest cited in the table; there was also a used-car transaction, financed by an independent company, which carried a negative charge. At the other extreme may be noted a new-car transaction in which the finance charge amounted to an annual rate of 80.3 percent, and a used-car transaction in which it amounted to 132.1 percent. It should be remembered, however, that comparisons between groups are comparisons between extreme cases in those groups.

The considerable variations shown in this table may occur for several reasons. The very low charges are usually the result of a dealer's error in computation. The very high charges are caused for the most part by dealers' packs, sometimes also by an overcharge for insurance, through which the customer receives less protection than he pays for. In used-car financing a very high or very low percentage rate results often from the fact that used-car finance charges cus-

TABLE 57

LOWEST AND HIGHEST FINANCE CHARGE PERCENTAGES SHOWN IN SAMPLES OF NEW-CAR AND USED-CAR TRANSACTIONS FINANCED BY SELECTED GROUPS OF SALES FINANCE COMPANIES, 1935–38, AND ACCOMPANYING INSURANCE PERCENTAGES[a]

TYPE OF FINANCE COMPANY	TRANSACTION WITH LOWEST RATE OF CHARGE				TRANSACTION WITH HIGHEST RATE OF CHARGE				NUMBER OF TRANS-ACTIONS IN SAMPLES
	Finance Charge		*Insurance*		*Finance Charge*		*Insurance*		
	In Annual Percentage Rate[b]	In % of Time Balance[c]	In % of Cash Selling Price	In % of Time Balance[d]	In Annual Percentage Rate[b]	In % of Time Balance[c]	In % of Cash Selling Price	In % of Time Balance[d]	
					NEW CARS				
Factory-controlled[e]	8.6 *8.3*	4.5	...	....[f]	26.3 *23.5*	13.2	.9	2.2[g]	745
Factory-preferred[h]	.5 *.5*	.3	5.3	13.0[i]	80.3 *61.4*	36.3	4.3	18.1[j]	939
Independent	−8.1 *−8.4*	−4.5	6.7	43.1[k]	49.7 *41.0*	23.6	2.0	5.5[m]	999
					USED CARS				
Factory-controlled[e]	15.4 *14.4*	8.0	3.6	4.9[n]	51.4 *42.2*	24.3	...	....[o]	194
Factory-preferred[h]	.8 *.8*	.4	1.4	2.2[p]	110.0 *76.6*	46.1	3.1	4.3[q]	395
Independent	−7.3 *−7.6*	−4.1	19.0	22.8[r]	132.1 *87.2*	52.9	5.5	7.6[s]	374

[a] Based on Federal Trade Commission, *Report on Motor Vehicle Industry* (1939). In the samples containing these transactions all cars were sold on 12-month contracts. The used-car samples, which pertain to the years 1936-38, are identical with the sample of 12-month contracts in Table 56; the data on them are based on tables found on pp. 1032, 1036 and 1039 of the Federal Trade Commission report. The new-car samples, however, pertain to the years 1935 and 1938,

and cover not the entire eastern half of the country but only the following regions: 1935, North Central; 1938, North and South Central and North Atlantic. The data on these samples are based on tables found in the report on pp. 996-1020, *passim*.

[b] Rate of charge on the declining credit balance. For explanation see Table 55, footnote b. The upper figure is the annual percentage rate compounded monthly, as described in Table 55, footnote b, and the lower one (italicized) is 12 times the monthly rate.

[c] Finance charge in percent of original unpaid balance plus insurance.

[d] Insurance in percent of original unpaid balance plus insurance.

[e] General Motors Acceptance Corporation.

[f] Finance company did not place the insurance (see Federal Trade Commission report, p. 996).

[g] The major portion of insurance appears to have been placed by either the dealer or the purchaser (report, p. 997).

[h] Commercial Investment Trust Corporation—including Universal Credit Corporation—and Commercial Credit Company.

[i] The down payment was more than 60 percent of cash selling price, thus making for a high insurance percentage in relation to the base used here (report, p. 999).

[j] The down payment was more than 80 percent of cash selling price, thus making for a high insurance percentage in relation to the base used here (report, p. 1013).

[k] The down payment was more than 90 percent of cash selling price, thus making for a high insurance percentage in relation to the base used here (report, p. 1014).

[m] The down payment was nearly two-thirds of cash selling price and thus the insurance percentage, on the base used here, should have been relatively high. The fact that it was approximately average, while the finance charge percentage was much higher than average, indicates that the total charges included a greater insurance coverage than was actually provided (report, p. 1001).

[n] No irregularities apparent in the insurance charge (report, p. 1033).

[o] No insurance provided, since cash selling price was only $100; in such instances the finance charge is higher (report, p. 1034).

[p] In computing total charges (including insurance) the dealer committed an error against himself, and was charged with the amount of this error. It is not clear whether insurance coverage was coincidentally reduced (report, p. 1036).

[q] No irregularities apparent in the insurance charge (report, p. 1037).

[r] This transaction occurred in the New York area, where insurance rates are particularly high; in computing total charges the dealer committed an error against himself, and thus the purchaser obtained his car plus insurance for less than he would have had to pay if he had bought for cash (report, p. 1040).

[s] No irregularities apparent in the insurance charge (report, p. 1041).

tomarily comprise not only a percentage charge but also a flat dollar sum; this flat addition makes for a very high percentage rate when the unpaid balance is small, and for a relatively low rate when the balance is large. On very low-priced used cars it is customary to waive the insurance requirement and increase the finance charge, and this too, of course, raises the percentage rate, especially when the unpaid balance on such deals is small, as it usually is of necessity. A final explanation of high rates is accounting irregularities of one kind or another.

THE TREND IN AUTOMOBILE FINANCE CHARGES

Series representative of the trend of automobile finance charges over a period of years have never been compiled, and data adequate for such a purpose have not been assembled. From available information it has been possible to construct indices, however, showing relative variations of the insurance and finance charges on a single hypothetical transaction during the period 1924-38. These indices are presented in Table 58.

The finance charge data were obtained from a large sales finance company; annual premiums on required insurance were ascertained from insurance manuals through the courtesy of the National Automobile Underwriters Association. The combined charge, built up from these two sources, refers to the total cost of insuring and financing in Albany, New York, a $400 unpaid balance on a new Chevrolet car selling for $600, the contract running for 12 months. A change in the combined charge may reflect a change in the finance charge, in the insurance rate or in both.

Since insurance varies with make of car and region as well as with price it was necessary to standardize these factors as well as factors relating to the contract. Albany, New York,

TABLE 58

INDICES OF FINANCE CHARGES AND OF COMBINED INSURANCE AND FINANCE CHARGES ON A HYPOTHETICAL NEW-CAR TRANSACTION, FINANCE CHARGE IN PERCENT OF COMBINED CHARGE, AND INDEX OF THE GROSS TIME PRICE, 1924–38[a]

Year	*Finance Charge*[b]	*Combined Charge*[c]	*Finance Charge in Percent of Combined Charge*	*Gross Time Price*[d]
1924	105	87	75	99
1925	94	79	74	98
1926	98	108	56	101
1927	105	106	62	101
1928	105	106	62	101
1929	105	106	62	101
1930	105	108	61	101
1931	103	92	69	99
1932	124	122	64	102
1933	124	122	64	102
1934	108	111	61	101
1935	81	94	53	100
1936	80	84	59	99
1937	80	89	56	99
1938	81	93	54	99

[a] Based on an assumed contract, running for 12 months, covering a new $600 Chevrolet with an original unpaid balance amounting to $400, the transactions taking place in Albany, New York. Charges and insurance rates computed as of the end of the year.
[b] Computed from data furnished by a large sales finance company.
[c] Finance charge plus insurance for fire, theft and, after 1931, collision. Insurance costs computed from manual rates, supplied by the National Automobile Underwriters Association.
[d] $600 plus insurance and finance charge.

was chosen for the standard region because insurance rates there are neither exceptionally high nor exceptionally low. The price selected—$600 delivered—is purely arbitrary and at no time did it represent an exact price of a delivered Chevrolet in Albany. The fiction of such a price is necessary, however, in order to have a consistent series of insurance charges.

The insurance coverage underwent considerable change during the period included in the table. Most sales finance companies have always required fire and theft insurance. The most popular theft insurance at the present time is the so-called broad coverage, applicable to all losses, including loss of accessories or equipment. But before 1931 a limited coverage, with a $50 deductible provision, was more popular, and in some regions full coverage could not be obtained. This was true in Albany during 1924-29, and therefore for these years the theft insurance rates included in the table pertain to limited coverage.

Today collision insurance is usually required, but this requirement has been general only since 1932. Practices regarding collision provisions have not become standardized, and consequently they vary widely from company to company, and for individual companies from year to year. Even today some companies require no collision insurance; others require $50 deductible, others $25 deductible; and a few companies require complete coverage. Probably the most popular collision insurance requirement under current practice is the $50 deductible, and premiums on this basis have been incorporated in the table from 1932 on.

The index of the finance charge is fairly reliable, being based on the practice of a large sales finance company whose requirements of its customers were presumably fixed with an eye to competitive needs. The insurance series, however, is not altogether satisfactory as an indication of trends, because it might have been different in other areas. Thus the index of the combined charge, while it may be accepted as a fair reflection of actual practice, can be regarded in this way only with reservations.

With this qualification, the table reveals several striking tendencies. The index of combined charges shows a very sharp rise in 1926, and thereafter continues at a fairly even level until its abrupt fall and still more abrupt upswing in the depression years 1931-32. Its subsequent decline, though slightly reversed during 1937 and 1938, shows that the widely noted decrease in automobile finance charges during recent years has reduced total costs to levels approximating those that prevailed in the middle 1920's, but has not established new low levels. Account must be taken, however, of the fact that the combined charge included a broader insurance coverage after 1931 than it did before. Thus, for about the same total cost, the instalment purchaser in 1938 obtained a larger bundle of services than he did fifteen years earlier.

A comparison of the combined-charge index with that for finance charge alone indicates the relative importance of insurance as a reason for the variations that appear. In the first two years covered by these series the insurance cost constituted about one-quarter of the combined charge; from 1926 through 1934 insurance amounted, roughly, to a little less than two-fifths of the combined charge, and after 1934 it was somewhat more than two-fifths. Thus in this period the fraction of the combined charge that is represented by insurance shows a fairly steady increase. It appears that the sharp rise in combined charges in 1926 was due mainly to insurance, and that while insurance costs decreased in the following year the drop was almost counteracted by a rise in finance charges. Similarly, the conspicuous decrease in combined charges in 1931 was due mainly to a sharp fall in insurance costs, but the still more conspicuous increase of the following year resulted from substantial rises in both insurance and finance charges. In 1934 and 1935 it was finance charges, in 1936 and 1937 it was insurance, that produced the variations in combined charges; the slight rise in 1938 was the result of increases in both items.

There is a further feature of finance charge behavior which is of considerable significance in the competitive relationships of sales finance companies, to be discussed in Chapter 11. It should be noted here, however, that even wide swings in the combined-charge index make but a small difference in the index of gross time price. To cite the extreme swings in the two series, the combined-charge index rose from 92 in 1931 to 122 in 1932, and fell to 84 in 1936. The corresponding values in the index of gross time price for this new low-priced car were 99, 102 and 99. This disproportion between relative changes in the cost of instalment financing and the consequent relative changes in the total time price may explain in part the resistance of sales finance companies to active "price" (finance charge) competition, for no single sales finance company is likely to assume the lead in reducing customer finance charges unless it expects that even if competitors do likewise it will reap an increase in retail volume.

In retail instalment transactions charges for financing services and insurance are necessarily merged with the price of the commodity; since charges represent only a fraction of the total instalment price that the consumer pays, any percentage change in the finance charge will produce only a smaller percentage change in the total price paid. Unless potential instalment buyers respond in great numbers to small percentage decreases in total time price (that is, unless the elasticity of demand for instalment sales is very great), such decreases—resulting from a large percentage reduction in the combined charges—will only produce a lower gross income for sales finance companies. And conversely, if consumers are not significantly deterred by small percentage increases in total time price—resulting from large percentage increases in charges—the result will be a higher income for the finance companies. It would appear, however, that purchasers' response to percentage differences in the total time price is a variable factor. The trend of combined charges during the last decade, when the sales finance business had passed its initial period of rapid expansion, suggests a conclusion on the part of the trade that in severe depression years the number of potential instalment buyers will not be greatly affected by a higher level of charges, but that in years of recovery this factor may have a significant influence on business.

QUOTATION OF CHARGES IN DIVERSIFIED FINANCING

In diversified financing, too, charges are usually quoted as so many dollars of charge on specified original unpaid balances, although there appears to be increasing variation in practice. Retail financing plans of sales finance companies are necessarily in competition with plans of merchants who handle their own paper and have developed their own instalment practices, and data made specially available to us, covering a small number of leading department stores, indicate that predominant practice among such dealers is to charge a straight ½ percent per month on the original unpaid balance on appliances, furniture and other durable goods items. In diversified financing it is not customary to impose on the purchaser a special charge for insurance protection.

Table 59 presents a comparison, in terms of dollar amount and also in terms of annual percentage rate, of the quoted charges of twelve private companies and the Electric Home and Farm Authority; the charges shown here are samples taken from rate charts in use at various times during the period 1936-38. The lowest amount of original unpaid balance represented in these data is $50, though rate charts sometimes make provision for smaller balances, with a maximum contract length of 6 months.

For all amounts of unpaid balance and for all contract lengths the government agency, EHFA, showed an annual

TABLE 59

DOLLAR AMOUNT AND ANNUAL PERCENTAGE RATE OF FINANCE CHARGES QUOTED IN THE DIVERSIFIED FINANCING OF 12 SALES FINANCE COMPANIES AND ELECTRIC HOME AND FARM AUTHORITY, 1936–38, BY AMOUNT OF ORIGINAL UNPAID BALANCE AND LENGTH OF CONTRACT[a]

Company	*$50*		*$100*			
	12 Months		12 Months		24 Months	
National						
A	..	..	$ 9.68	(17.9%)	$15.20	(14.6%)
B	$7.00	(25.8%)	$ 8.96	(16.5%)	$15.20	(14.6%)
B[b]	*$9.04*	*(33.4%)*	*$11.00*	*(20.3%)*	*$17.36*	*(16.7%)*
C	$7.84	(28.9%)	$ 9.08	(16.8%)	$15.20	(14.6%)
C[b]	*$8.68*	*(32.0%)*	*$10.76*	*(19.9%)*	*$16.88*	*(16.2%)*
D	$7.00	(25.8%)	$ 8.96	(16.5%)	$15.20	(14.6%)
E	$7.00	(25.8%)	$ 8.96	(16.5%)	..	..
Regional						
F	$7.00	(25.8%)	$ 8.24	(15.2%)	$14.72	(14.1%)
Local						
G	$5.20	(19.2%)	$ 8.60	(15.9%)	$16.88	(16.2%)
H	..	..	$ 7.50	(13.8%)	..	..
I	$8.20	(30.3%)	$12.68	(23.4%)	$21.92	(21.0%)
I[c]	*$7.04*	*(26.0%)*	*$10.40*	*(19.2%)*	*$19.52*	*(18.7%)*
J	$7.00	(25.8%)	$ 9.56	(17.6%)	$14.96	(14.4%)
K	$7.84	(28.9%)	$ 9.08	(16.8%)	$15.20	(14.6%)
L	$7.00	(25.8%)	$ 8.60	(15.9%)	$18.80	(18.0%)
L[d]	*$8.56*	*(31.6%)*	*$10.16*	*(18.8%)*	*$22.16*	*(21.3%)*
EHFA	$2.56	(9.5%)	$ 5.00	(9.2%)	$ 9.92	(9.5%)

Company	*$200*					
	12 Months		24 Months		30 Months	
National						
A	$11.92	(11.0%)	$23.92	(11.5%)	$29.80	(11.5%)
B	$13.00	(12.0%)	$23.92	(11.5%)	$30.10	(11.7%)
B[b]	*$16.96*	*(15.7%)*	*$28.00*	*(13.4%)*	*$34.00*	*(13.2%)*
C	$15.04	(13.9%)	$23.92	(11.5%)	$29.80	(11.5%)
C[b]	*$18.28*	*(16.9%)*	*$27.52*	*(13.2%)*	*$33.40*	*(12.9%)*
D	$13.00	(12.0%)	$23.92	(11.5%)	$29.80	(11.5%)
E	$13.00	(12.0%)	$24.16	(11.6%)	$30.10	(11.7%)
Regional						
F	$12.04	(11.1%)	$23.92	(11.5%)	$29.80	(11.5%)
Local						
G	$16.96	(15.7%)	$34.24	(16.4%)	..	..
H	$12.00	(11.1%)	$24.00	(11.5%)	$30.00	(11.6%)
I	$21.40	(19.8%)	$34.00	(16.3%)	..	..
I[c]	*$16.96*	*(15.7%)*	*$29.20*	*(14.0%)*	..	..
J	$15.04	(13.9%)	$24.88	(11.9%)	$31.00	(12.0%)
K	$15.04	(13.9%)	$23.92	(11.5%)	..	..
L	$15.40	(14.2%)	$28.00	(13.4%)	..	..
L[d]	*$18.40*	*(17.0%)*	*$33.52*	*(16.1%)*	..	..
EHFA	$10.00	(9.2%)	$20.08	(9.6%)	$25.00	(9.7%)

TABLE 59 (*continued*)

Company	$300					
	12 Months		24 Months		30 Months	
National						
A	$18.00	(11.1%)	$36.00	(11.5%)	$45.00	(11.6%)
B	$18.00	(11.1%)	$36.00	(11.5%)	$45.00	(11.6%)
B[b]	*$24.00*	*(14.8%)*	*$42.00*	*(13.4%)*	*$51.00*	*(13.2%)*
C	$18.00	(11.1%)	$36.00	(11.5%)	$45.00	(11.6%)
C[b]	*$22.80*	*(14.0%)*	*$41.04*	*(13.1%)*	*$50.40*	*(13.0%)*
D	$18.00	(11.1%)	$36.00	(11.5%)	$45.00	(11.6%)
E	$18.00	(11.1%)	$36.00	(11.5%)	$45.00	(11.6%)
Regional						
F	$18.00	(11.1%)	$36.00	(11.5%)	$45.00	(11.6%)
Local						
G	$25.56	(15.7%)	$50.88	(16.3%)	..	..
H	$18.00	(11.1%)	$36.00	(11.5%)	$45.00	(11.6%)
I	$30.00	(18.5%)	$48.72	(15.6%)	..	..
I[c]	*$23.40*	*(14.4%)*	*$41.76*	*(13.4%)*	..	..
J	$18.96	(11.7%)	$36.96	(11.8%)	$45.90	(11.8%)
K	$18.00	(11.1%)	$36.00	(11.5%)	..	..
L	$21.00	(12.9%)	$39.00	(12.5%)	..	..
L[d]	*$25.50*	*(15.7%)*	*$45.00*	*(14.4%)*	..	..
EHFA	$15.00	(9.2%)	$30.00	(9.6%)	$37.50	(9.7%)

[a] Prepared by Leonard R. Koser of the staff of Electric Home and Farm Authority, and based on compilations of rate schedules in effect at various times during the period 1936-38. For the most part the charges given are those effective on September 1, 1937, and are full recourse unless otherwise noted. By "annual percentage rate" is meant the ratio of finance charge to average amount of credit outstanding during the year, expressed as a percentage. It is here computed according to the formula $r = \frac{24c}{a(n+1)}$. See Table 55, footnote b.

[b] Limited recourse, restricted to defaults within four months.

[c] Discount plan: a 2 percent discount is allowed on each instalment paid on or before date of maturity. The second set of figures assumes that 2 percent discount is allowed on each monthly instalment.

[d] This company offers a "term life insurance" plan, providing for the payment of unpaid balance of contract in case of death from any cause. A customer "electing" to take insurance pays the premium as part of finance charges.

percentage rate that varied between very narrow limits—from 9.2 to 9.7 percent—and in all categories this rate was lower than that of any private company. For the smallest balance represented in the table—$50, carrying a 12-month contract—the EHFA rate was 9.5 percent as compared with rates ranging from 19.2 to 28.9 percent for private finance companies which, like EHFA, accepted only full recourse paper. The differential between EHFA and the private companies was smaller on larger balances and on longer contracts; for a $300 balance and a contract running 30 months full recourse private companies showed an annual rate of 11.6 percent (in one case 11.8) as against EHFA's 9.7 percent. Among the private companies annual rates are shown to be more uniform for higher balances and longer contracts.

There has been a tendency in recent years for diversified finance companies to offer limited liability plans under which the liability of dealers is limited to the span of four or six monthly payments, provided those payments are made when due. Charges on two such plans, offered by national companies, are included in Table 59. In each case, for all amounts of original unpaid balance and for all contract lengths, an extra charge is assessed against consumers; this extra amount is presumably, though not necessarily, commensurate with the increased risk run by the finance company. A variation on such plans, with one rate schedule for standard-term contracts and another higher-charge schedule for substandard contracts, is in vogue with some companies.

Two other variations in the form of rate quotation are included in this table. Company I, a high-charge company, allows a 2 percent discount on each instalment paid on or before due date. Without the discount this company's straight charge runs substantially higher than those of other companies, but with the discount it approximates them fairly closely. Company L offers a term life insurance plan providing for repayment of the unpaid balance in case of customer's death for any cause. The customer, electing to take insurance, pays an excess charge presumably equal to the insurance premium rates.