

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Sales Finance Companies and Their Credit Practices

Volume Author/Editor: Wilbur C. Plummer and Ralph A. Young

Volume Publisher: NBER

Volume ISBN: 0-870-14461-8

Volume URL: <http://www.nber.org/books/plum40-1>

Publication Date: 1940

Chapter Title: Abuses In Retail Instalment Financing, And Their Regulation

Chapter Author: Wilbur C. Plummer, Ralph A. Young

Chapter URL: <http://www.nber.org/chapters/c5663>

Chapter pages in book: (p. 227 - 243)

Abuses in Retail Instalment Financing, and Their Regulation

FOR many years the financing practices of the retail instalment system have been subjected to severe criticism. The system has been attacked for its ambiguous form of quoting finance charges to consumers, for the exorbitant charges it has sometimes imposed and for the various deceptive and misleading practices, verging on fraud and occasionally actually fraudulent, in which some participants in the business have engaged, abetted by consumer ignorance and inertia. The present chapter examines the abuses which underlie such criticism in relation to the remedies that have been adopted or proposed as means of dealing with them. A summary of court decisions pertaining to retail sales financing will not be attempted, however, nor will legislation which relates indirectly to this field be discussed.

So far only four states—Indiana, Maine, Michigan and Wisconsin—have taken legislative action specifically regulating retail instalment financing.¹ There are significant dif-

¹ Indiana, Retail Installment Sales Act; Maine, An Act Regulating Automobile Finance Business; Michigan, An Act to Regulate Retail Installment Sales Contracts Covering Motor Vehicles . . . ; Wisconsin, Law Relating to the Licensing of Motor Vehicle Dealers, Motor Vehicle Salesmen, Sales Finance Companies. In citations these laws are hereafter referred to as Indiana Act, Maine Act, Michigan Act and Wisconsin Act. Pennsylvania has a Consumer Discount Company Act which has somewhat the appearance of a general instalment sales law covering the regulation of sales finance companies. Section 17, however, exempts banking institutions and small loan companies, and states that the law does not apply to "any bona fide sale of personal property by a person regularly engaged in the sale of such personal property, wherein the purchaser may pay any part or all of the

ferences among these laws in regard to institutional coverage and administrative supervision. The Indiana law, the first to be passed (1935), applies in most of its provisions to the whole field of retail instalment financing, and requires the licensing of all businesses engaged in the purchasing of instalment contracts. The Maine law (1939) provides for the licensing of businesses engaged in financing time sales of motor vehicles. The Michigan law (1939) contains no licensing feature but it regulates instalment sales contracts covering motor vehicles. The Wisconsin law (1935, amended 1937) is also confined to businesses engaged in motor vehicle distribution, and it requires the licensing of dealers, salesmen, motor vehicle manufacturers and their representatives, and sales finance companies. The laws of Indiana and Wisconsin delegate to state supervisory authorities—the Department of Financial Institutions in Indiana, and the State Banking Commission in Wisconsin—broad powers of supervision over the conduct of business by licensees and also powers to issue such rules and regulations as may be necessary for enforcement. The Maine law is primarily a licensing act, and while the insurance commissioner can refuse to issue or renew a license after investigation if an applicant is not of good repute, or has been guilty of business practices that are fraudulent or unfair to the public, the law does not provide for general regulation or supervision.

Although only four states have taken specific legislative action in regard to retail instalment financing, such legislation has been proposed in several other states.² Also, there

purchase price in stated installments, nor to any such bona fide sale under a conditional sale contract, lease or bailment, wherein the purchaser, lessee or bailee has the option of becoming, or is bound to become, the owner of the property upon full compliance with the terms of the agreement." This latter provision has been interpreted by the State Department of Banking to mean that sales finance companies are not covered by the act. Thus the law applies only to industrial banking companies, although such organizations are not mentioned specifically by name.

² For an account of the proposals set forth in New York, for example, see

have been various attempts, both within and without the trade, to establish regulations which would apply to the entire business, throughout the country. Under the National Industrial Recovery Act the sales finance business itself attempted a codification of trade practices in 1933. This effort was unsuccessful, mainly because of an inability to reach agreement on the problems of dealer payments and finance company relationships with manufacturers, and the controversy was responsible for the formation of the Mid-West Finance Conference (now the American Finance Conference) as a trade association independent of the older National Association of Finance Companies (now the National Association of Sales Finance Companies). These two associations, however, have given serious consideration to the problem of self-regulation, and have devised lists of "approved trade practices" to assist in this purpose. Also, the Credit Management Division of the National Retail Dry Goods Association has striven to improve and standardize the practices of retail merchants in extending instalment credit, and to this end has collaborated with the other organizations that have similar aims.

There is an increasing conviction among sales finance company officials and retail dealers that some measure of uniform legislative regulation is needed in this field. Representatives of the National Association of Sales Finance Companies and of the National Retail Dry Goods Association are working on a draft of a new uniform conditional sales act, to be submitted to all trade associations interested in instalment credit regulations. Also, proposals have been made regarding a uniform law which would provide for the licensing of sales finance companies; possible provisions of such a law have already been drafted and, through the

"Installment Practices Under Fire—New York Attorney General and Legislators Urge State Regulation" in *Personal Finance News*, vol. 24, no. 10 (April 1940) pp. 17 ff.

medium of trade journals, submitted to the sales finance business for its consideration.³ Both of these proposed laws would be framed in such a way as to apply not only to sales finance companies and retail merchants but also to commercial banks, industrial banking companies and small loan companies, to the extent that they engage in the business of financing instalment sales.

In April 1938 the Federal Trade Commission, upon application of members of the automobile industry, held a conference regarding trade practices in that industry, and on this basis it has drafted proposals for the consideration of those interested;⁴ some of the proposals pertain to the business of sales financing in the automobile field. As a preliminary to a final draft of these rules public hearings on them were held on March 20, 1940. At the present time the predominant attitude of the industry is to favor self-regulation, without government participation.

In the following pages the provisions of these various existent and proposed laws and regulations will be discussed in relation to the specific abuses they are designed to correct.

AMBIGUITY OF RATE QUOTATION

In the days of the National Recovery Administration the Consumers Advisory Board was extremely critical of the usual forms of rate quotation in instalment selling, and tried unsuccessfully to have provisions inserted in the various codes proposed for the retail instalment field requiring

³ See Milan V. Ayres, "A Suggested Uniform Sales Finance Company Licensing Act" in *Time-Sales Financing*, vol. 4, no. 7 (July 1939) pp. 10-12; also "Comments on Suggested Finance Company Licensing Act" in *Time-Sales Financing*, vol. 4, no. 9 (September 1939) p. 7.

⁴ Federal Trade Commission, "Proposed Trade Practice Rules for the Automobile Industry," released February 19, 1940. For a comparison of these proposals with those adopted at the industry conference in 1938 see "Proposed Fair Trade Practice Rules for the Automobile Industry" in *N.A.D.A. Bulletin*, published by the National Automobile Dealers Association, vol. 12, no. 5 (March 1940) pp. 10 ff.

that charges be stated in the form of a percentage on the current unpaid credit balance; by this form of quotation consumers would be enabled to compare costs of alternative kinds of credit, and costs of the same kind of credit offered by different seller-lenders.

In recent years various state supervisory and legislative committees have considered the charge problem and have generally voiced agreement with the position taken by the Consumers Advisory Board. The Indiana Department of Financial Institutions, for example, recommended in 1935 that all charges other than insurance be stated as a percent per month of the unpaid credit balance, "in order that prospective buyers may determine readily the cost as compared with borrowing from a small loan agency."⁵ In 1936 the Massachusetts Committee on Consumer Credit, while approving as a vast improvement the percentage basis of stating finance charges introduced by the larger companies, stated that "any method short of an accurate, uniform statement of charges on a true interest rate basis, such as a percent per month on actual, unpaid balances, is unsatisfactory."⁶ In Wisconsin the Interim Advisory Legislative Committee to Investigate Finance Companies similarly reported in 1935 that a percent per month form of rate charge, like that recommended in the Uniform Small Loan Law, was the fairest way of acquainting the consumer with the facts, but stated that any immediate change to such a plan would be costly and "likely to work irreparable damage" to the sales finance business.⁷

Spokesmen for sales finance companies, however, stoutly

⁵ Report of the Indiana Department of Financial Institutions, *Indiana Consumer Finance Agencies* (ms. 1935) p. 44.

⁶ Report of the [Massachusetts] Committee on Consumer Credit (1936) p. 13. The Massachusetts Committee, p. 25, points out that this form of rate quotation has been approved by various social and economic groups.

⁷ Report of the [Wisconsin] State Banking Commission and Interim Advisory Legislative Committee to Investigate Finance Companies (1935) p. 42.

deny the need for an "effective interest" quotation of charges. They insist that for most purposes it is sufficient if the consumer knows the dollar amount of finance charge, and they affirm that there is a fundamental distinction between a time sale and a loan, a difference which makes it inappropriate to quote the finance charge as a rate of interest. Their position is of course based on the assumption that if charges were quoted as interest they would be interpreted as interest, and therefore be subject to laws regulating interest. They justify their present freedom from such regulation on the ground that their charges are necessarily higher than commercial interest rates, and on the ground that discount transactions, at rates higher than prevailing interest, are constantly entered into by banks and other commercial organizations. In this they have been generally upheld by the courts, which have declared that a discount transaction, such as that entered into by a sales finance company when it purchases an instalment contract from a dealer, is not an interest transaction.

No legislation thus far enacted attempts to stipulate the form in which the finance charge should be quoted to the consumer. The Wisconsin advisory report declared that in view of the legal and practical difficulties involved in requiring an interest form of quotation the most important immediate need was to state clearly to consumers the various elements of charge in instalment transactions and thus encourage a better informed competition. It therefore recommended that the state banking authorities should have power to impose definite requirements "to the end that the differential between the cash and the sale price be clearly stated in a memorandum to the consumer as well as finance charges, including any 'pack,' rebate, or reserve, and a separate statement of insurance charges."⁸ Also the Massachusetts

⁸ *Ibid.*, p. 61.

Committee on Consumer Credit recommended that these items be clearly specified in the instalment contract.

Of the existent laws those of Indiana, Michigan and Wisconsin require that the consumer be apprised in some detail regarding the various terms of the transaction, including actual insurance and the finance charge (in the Wisconsin act, any charge), and be furnished with a written copy thereof.⁹ Under the Wisconsin act two memoranda are required to be furnished to the purchaser. At the time an order is taken in a motor sales transaction the dealer must furnish the purchaser with a memorandum explaining the elements of the transaction. Since the dealer, however, may not be in a position to break down the overall charge into the cost of insurance coverage and the finance charge proper, the sales finance company is required to furnish a further memorandum within thirty days after acquisition of a contract, showing this breakdown and including a copy of the insurance policy or a certificate of insurance.¹⁰

The need for a separate statement of insurance charges is widely recognized, within as well as without the trade, and existing suggestions for a uniform finance company licensing act include a provision to this effect. As has been mentioned, it is now the practice—mainly of national companies—to state the insurance charge separately from the finance charge in new-car financing. And it is the practice of at least one large national company to state in rate charts for both new and used cars the dollar amount of charge; in new-car rate

⁹ Indiana Act, sect. 4; Michigan Act, sect. 2; Wisconsin Act, sect. (6) (b) and (e).

¹⁰ In the administration of the law it has been found, according to John F. Doyle, Supervisor of the Division of Consumer Credit of the Wisconsin State Banking Department (letter dated October 31, 1939), that when a contract is sold to or discounted with the finance company, the figures which the dealer submits have sometimes been materially altered from those in the memorandum he gave the purchaser, either in order to mislead the finance company as to the amount of the down payment that was received from the purchaser, or in order to obtain a pack on the finance charges.

charts the insurance premium is added to the original unpaid balance, and in used-car rate charts it is included with the finance charge.

EXORBITANT FINANCE CHARGES

Criticism of sales finance companies for exorbitant charges, both for financing and for insurance, is particularly widespread, especially in reports made on this subject by public groups. Efforts to regulate charges are often discussed, but so far only the Indiana law has attempted to set maximum legal rates. This law provides for the administrative determination of maximum charges, and this has been carried out by the Department of Financial Institutions. Its schedule includes a flat percentage charge on the original unpaid balance, varying from 2 percent (new merchandise) to 5 percent (used merchandise), plus a charge of 2 to 3 percent per month on the current unpaid balance;¹¹ and the law permits lawful fees, such as delinquency charges, in addition to the legal finance charge.¹² The constitutionality of these regulations has not been finally determined.

The Wisconsin act states that interest shall not be charged in excess of 15 percent per annum,¹³ but this provision is held to be meaningless since the state usury law prohibits any interest rate above 10 percent per annum; moreover, this clause refers only to interest transactions (such as the imposition of delinquency fees) and makes no specific provision as to the status of the finance charge that is added in a time payment sale.¹⁴ The State Banking Commission

¹¹ Indiana Department of Financial Institutions, *General Order No. 1* under the Indiana Act, pp. 1-6.

¹² Indiana Act, sect. 7.

¹³ Wisconsin Act, sect. (6) (h).

¹⁴ Letter from John F. Doyle, Supervisor of the Division of Consumer Credit, Wisconsin State Banking Department, October 31, 1939.

has ruled that documentary or filing fees may be included in the finance charge.¹⁵

The proposed uniform licensing law provides that finance companies should file, with a designated official, copies of their effective rate schedules, and that these schedules should be open to public inspection. They should show "the finance charge, and the insurance charge, or the sum of these two charges, or a method of computing said charges for every original unpaid balance and every period of time."

As to the matter of consumer protection against excessive insurance charges, legislation so far enacted generally sets standard manual premium rates as the maximum. The Indiana law makes no provision for maximum insurance rates, but provides that the instalment buyer may deduct from his last instalment payment any excess insurance premium over that fixed on insurance of like kind and amount in the published manual of a standard rating bureau designated by the retail seller.¹⁶ The Michigan law specifies that any retail buyer shall have the right to purchase his insurance from any person, and that no retail seller shall coerce, threaten or in any manner influence him in his choice of where he will buy.¹⁷ The Wisconsin law specifies that the premiums fixed shall not exceed rates fixed in the published manual of a rating bureau of recognized standing.¹⁸

Insurance charges, however, are regulated not only in sales finance company legislation but also in insurance legislation, and it is reported that in 1938 and 1939 insurance commissioners in twenty-eight states issued rulings requiring that rates and coverages be detailed to customers.

Regulation of dealers' participation in finance charges is another feature of the present laws. Under Indiana legisla-

¹⁵ Wisconsin State Banking Commission, Regulation of Licensees under the Wisconsin Act (1939) Rule 7 (g).

¹⁶ Indiana Act, sect. 5.

¹⁷ Michigan Act, sect. 2.

¹⁸ Wisconsin Act, sect. (6) (e).

tion the Department of Financial Institutions has ruled that dealer participation in the finance charge may not exceed 2 percent of the original unpaid balance on new merchandise and 5 percent on used merchandise.¹⁹ The Wisconsin law merely forbids unconscionable acts, but the State Banking Commission, which is responsible for regulation of motor vehicle sales financing under the law, has declared that dealer participation beyond 2 percent on new-car deals and 3 to 5 percent on used-car deals is unconscionable.²⁰

Efforts of the sales finance business itself to settle the problem of dealer payments have been complicated by the related problem of factory affiliations with finance companies, which will be discussed in Chapter 11. It was mainly these issues that caused the failure of the efforts made in 1933 to establish an NRA code for the sales finance business, the independent companies contending that the larger companies' suggestions regarding dealer payments would only intensify the "monopolistic" situation.²¹ In recent controversies over the issue the American Finance Conference, representing the independents, has taken the stand that all dealer participation should be eliminated from the finance charge by all companies, and has placed itself on record to that effect with the United States Department of Justice.²²

Both codes of trade practices drawn up by the two sales finance company associations condemn the dealer's pack, and the American Finance Conference code declares that there should be no "excessive dealer participation" in the finance charge. The proposals made by the Federal Trade Commission, which are intended, after conference with interested

¹⁹ Indiana, *General Order No. 1* (cited above) p. 6.

²⁰ Wisconsin, *Regulation of Licensees* (1939) (cited above) Rule 8 (c) (1).

²¹ For an account of the code hearings and the issues involved see David F. Cavers, "The Consumer's Stake in the Finance Company Code Controversy" in *Law and Contemporary Problems*, published by Duke University, vol. 2, no. 2 (April 1935) pp. 200-17.

²² Letter from F. V. Chew, Executive Vice President of the American Finance Conference, February 29, 1940.

persons, to be drafted into rules, provide that packing shall be construed as an unfair trade practice. And the suggestions for a uniform licensing act, which are being considered by the trade, provide for elimination of the pack and for limitation of the dealer's bonus to 1½ percent of original unpaid balance, or \$5, whichever is greater.

ABUSES IN CONTRACT ADJUSTMENT

In connection with the performance of instalment contracts criticism has been directed at abuses and lack of standard practice in regard to delinquency, refinancing and the refunding of excess finance and insurance charges occasioned by prepayments. Delinquency abuses consist mainly in the imposition of excessive delinquency fees, collection of which is obtained under the threat of preemptory repossession. Refinancing abuses consist in the practice of extending or refinancing distressed deals only with a finance charge at least as high as the original charge, or at some flat charge fixed in accordance with what the customer can pay, though some of the larger companies extend or refinance contracts at the legal rate of simple interest.²³ Refinancing abuses also trace back to the origin of the contract, when the purchaser may have been induced to join in a deal carrying for him impossible maturity and monthly payment terms, thus necessitating later refinancing, or may have been persuaded—with eventual refinancing similarly necessitated—to participate in a balloon contract, that is, one with a few monthly payments terminated by one large payment.²⁴ Failure to make propor-

²³ This difference in practice results largely from differing conceptions of the applicability of the legal distinction between a time-sales transaction and a loan of money.

²⁴ See Federal Trade Commission, *Report on Motor Vehicle Industry* (1939) p. 951. At least one automobile dealer, according to the Federal Trade Commission, makes all deferred payment sales on balloon notes in order to obtain the benefits of refinancing.

tionate refund of the unearned part of the finance charge and of the unexpired insurance premium charge in the event of prepayment of contract is especially stressed as a common abuse in all three of the state legislative reports on instalment financing which were referred to above.

Of the laws so far enacted only those of Indiana and Wisconsin deal specifically with these abuses in contract adjustment. The Indiana act provides that the seller may specifically contract for "lawful delinquent charges,"²⁵ and the Department of Financial Institutions has fixed delinquency charges on a flat scale graduated both by amount of payment delinquent and by number of days delinquent.²⁶ The Wisconsin law makes no reference to the problem, other than its general prohibition of any unconscionable practice.²⁷

For cases of purchaser difficulty in which refinancing might provide a remedy the Indiana law lays down no procedure. The Department of Financial Institutions has notified its licensees, however, that an unperformed contract may be modified by agreement of the parties in order to extend the time and manner of payment, so long as the finance charge does not exceed that which would have applied if the original contract had extended for the longer period.²⁸ Wisconsin finance companies are not allowed to make direct loans or to refinance accounts at financing charges in excess of 6 percent per annum simple interest (without contract) or 10 percent per annum simple interest (under contract) unless they are licensed as direct loan companies.²⁹

Refunding of unearned interest and insurance premiums is specified by both Indiana and Wisconsin laws or regula-

²⁵ Indiana Act, sect. 6.

²⁶ Indiana, *General Order No. 1*, pp. 6-7.

²⁷ Wisconsin Act, sect. (3) (a) 11.

²⁸ Notification to licensees by the Department of Financial Institutions, October 15, 1936.

²⁹ Wisconsin State Banking Department, Division of Consumer Credit, General Instructions to the Wisconsin Act.

tions thereunder. Indiana requires that a minimum of 1 percent per month of the finance ("discount") charge be refunded to the purchaser on each instalment prepaid, if prepayment is made of the balance of the contract, and also that there be a full rebate of the unexpired insurance premium.³⁰ Wisconsin regulations require a refund of unearned insurance, but companies are required merely to file a statement of their schedule of refunds.³¹

Both the efforts at self-regulation and the proposals for legislative and administrative regulation give considerable emphasis to provisions regarding contract adjustment. The trade association codes of fair practices, the proposed licensing act, and the Ford-Chrysler consent decree provisions regarding registration of finance companies³² all provide for limitation of delinquency fees. Provisions for rebate of finance charges and insurance premiums in case of prepayment are contained in the codes and the proposed law, and provisions limiting the charges for extending or refinancing a contract are contained in the consent decrees and the proposed law.

OTHER ABUSES

Many other business practices which have developed in conjunction with the instalment system have also been a source of criticism.³³ Hasty or peremptory repossession, for example, has been encouraged by the possibility of high reinstatement fees in the event that the purchaser reclaims his collateral, and in some states purchasers have had no protection of their equity in the event of unwarranted repossession and

³⁰ Indiana Department of Financial Institutions, *General Order No. 2* under the Indiana Act.

³¹ Wisconsin, Regulation of Licensees (1937) Rule 7 (c) and (e).

³² See Chapter 11, pp. 273-74.

³³ See in this connection the Massachusetts *Report* (cited above) pp. 41-45, and the Wisconsin *Report* (cited above) pp. 33-49.

resale. Some companies have been known to impose fees for services on purchasers who were erroneously traced as fraudulent fugitives or "skips."

Another practice severely criticized is that of the add-on contract, under which purchasers may finance an additional purchase before the original purchase is fully paid off, with both purchases serving as collateral security for the instalment note; thus in the event of default both purchases may be repossessed, even though payments may more than cover the unpaid balance on the original.³⁴

Still other complaints have been lodged against the instalment system for the practice, engaged in by some finance companies, of demanding extra security in the form of chattel mortgages on non-sale merchandise, endorsements of other parties, or wage assignments.³⁵ When such extra security is provided, the purchaser may be subject to considerable pressure to acquiesce in any delinquency or reinstatement fees that may be imposed.

Finally, the instalment system is criticized for such abuses as inadequate contracts, miscellaneous deceptions and outright frauds. In no area of the system are these aspects of practice more forcefully illustrated than in the automobile field in connection with insurance. In the first place, the dealer's pack has been tolerated in some cases as an addition to the insurance charge, simply because this charge affords a convenient spot to conceal the pack. Further, in some cases insurance specified under the instalment contract has not been actually provided and delivered. State insurance departments have reported that many such instances occur, but that discovery of the absence of insurance is not made until after an accident has occurred and the purchaser finds himself unprotected.

³⁴ Edward L. Greene, "Better Business Bureau Activities in Aid of the Time Purchaser" in *Law and Contemporary Problems*, published by Duke University, vol. 2, no. 2 (April 1935) p. 255.

³⁵ *Ibid.*, pp. 255-56.

Another complaint confirmed by state insurance departments is that insurance contracts are sometimes so written that protection is severely restricted under policy terms, though the purchaser is led by the policy title to assume a particular type of protection.³⁶ One of the companies examined by the Federal Trade Commission, in its investigation of the motor vehicle industry, made a regular practice of charging full conference rates for the usual type of protection but delivering only severely restricted protection; the difference, amounting on the average (58 deals, 1937-38) to about 21 percent of the amount charged, was pocketed by the finance company.³⁷ The Federal Trade Commission also mentions that when dealers or purchasers elect to place insurance elsewhere than through the finance company, the deduction from total finance charges allowed is often only the wholesale cost of the insurance to the finance company, not the entire retail premium.³⁸

A further set of problems arises because many companies place only single-interest insurance. The purchaser, knowing that the finance company retains an interest in the car until it is paid for and has insured to protect itself, is at times left with the erroneous impression that his interest too is protected. On the other hand, if he knows that he has no protection, and does not realize that the finance company has covered the car for single-interest insurance, he may place independently the insurance he wishes. In such a case, if he has an accident, it occasionally develops that a clause is included in his policy stating that the policy is void if the article is insured by another company; the purchaser is thus

³⁶ A committee of the National Association of Insurance Commissioners, charged with investigating insurance problems arising in connection with automobile financing, reported to the Association in 1938 that a uniform automobile insurance policy was an urgent need. At least one state insurance department, Illinois, now recommends the use of uniform policy and certificate forms, samples of which it can supply.

³⁷ Federal Trade Commission, *op. cit.*, pp. 1055-57.

³⁸ *Ibid.*, p. 964.

unable to collect for his loss. Insurance departments find themselves in a difficult position in such cases but are often able to persuade the two companies involved to agree to a division of the loss.

Most of these insurance abuses are eliminated when there is a clear statement to the purchaser, informing him not only as to the exact cost of his insurance but also as to the insurance coverage which is provided him. Provisions regarding such a statement are contained in the codes of trade practices, the proposed uniform law and the consent decree stipulations concerning finance company registration. Also the Federal Trade Commission proposals for trade practice rules to apply to the entire automobile industry stipulate as an unfair trade practice "any false, misleading or deceptive statements or representations . . . concerning insurance rates and coverage," as well as any such misrepresentation concerning "rates of interest or plans respecting methods of financing, finance charges, endorsements, repurchase agreements, or transfers of installment sales contracts." Finally, the recent widespread activity of state insurance commissioners, requiring exposure of rates and coverage and stipulating proper practices in regard to finance insurance, has already effected considerable improvement in this range of problems.

Abuses in the form of fraudulent repossession procedures, exorbitant collection fees and deficiency judgments, the requirement of wage assignments as additional security, and similar coercive practices have existed mainly in the "gyp fringe" of the sales finance business, and have been condemned in practically all of the proposed regulations.

RECORD OF PURCHASER COMPLAINTS IN WISCONSIN

An interesting commentary on the sources of instalment financing abuses in the automobile trade is provided by

the record of purchaser complaints, January 1, 1936, to November 10, 1939, to the State Banking Department under the Wisconsin act regulating the sales financing of motor vehicles.³⁹

Of a total of 1,043 complaints 59 percent were settled without a monetary adjustment; 38 percent entailed a monetary adjustment averaging \$61 in the purchaser's favor, while only 3 percent remained without satisfactory settlement. Of the total dollar volume of adjustments made in the purchaser's behalf, over three-quarters was attributable to cases which the State Banking Department found to involve dealers' ethics, while less than one-quarter resulted from sales finance company practices.

According to the experience of the Division of Consumer Credit of the State Banking Department, "sales finance companies are always willing to make an adjustment if we can show that they have been in error on any complaint that has been filed with this Department; whereas, the motor vehicle dealers have not in all instances learned that the good will of the purchaser is of more benefit to them than the monetary consideration that they would have to give them in the form of an adjustment."⁴⁰

³⁹ Data furnished by John F. Doyle, Supervisor of the Division of Consumer Credit, Wisconsin State Banking Department.

⁴⁰ Letter from John F. Doyle, November 13, 1939.