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HB 46

Tape No.

7

Date

2/27

Members Absent: Kelley

Testimony

Mr. Fink - This bill would substantially reduce the service or interest charge on two kinds of accounts. First, revolving charge accounts such as BankAmericard. The current rate would be lowered from 18 to 15% for up to \$300 worth, and to 12% above that. Second, contracts for trailers, snowmobiles, and cars are currently just under 20% under \$1000 and 16% for over that amount. This would be lowered to 12% for amounts up to 10,000 dollars and to 8% for amounts over that. The act deals with personal items, items used by the family. Originally the bill was passed before in 1966, but was then amended and the interest rates added. At the time, Governor Egan was in office, and he subsequently indicated he didn't understand that he had raised interest rates, he didn't intend to raise interest rates, he thought he was lowering them, because you can read from the kind of language you have here that when you take 5/6 of 1 percent etc. it's very confusing as to what you're talking about. The rate charged now by most credit card companies would have to be reduced by this bill. The State of Washington four years ago by initiative changed the rate to 12% from 18%. At the time everyone said it was terrible, now BankAmericard still works, the state has not been hurt. At this point Mr. Rhodes asked if we are talking about people who don't pay their bills on time on extended credit, is that it? No, this has to do with regular rates. But beyond the 30 days where they don't charge, their rates are too high, even though rising rates have been occurring for the last 20 years, its way past time we should be reversing that trend. Why? Because, 1) interest is one thing that shouldn't be allowed to go strictly on supply and demand because it accumulates in a small number of hands, and 2) many institutions are licensed by the state, if the state limits the number of institutions who can lend money by franchise, then they have the obligation to see that rates they charge aren't too high. Most states have limits.

Commissioner Motley reviewed the bill and said that basically it reduced the interest rate from 18 to 15 and 12 depending. If one agrees with Mr. Fink's premise that interest rates fall within the need of regulating, we regulate to a certain extent, we set an upper limit. This bill has an upper limit. The question then becomes "what is an excessive profit?" We don't know he said. Another thing he wanted to mention, The impact of this bill may be a side effect that could restrict new credit or credit extension. He hoped to have for the committee a comprehensive breakdown of the state's policy and what they've done, for any subsequent hearings.

He thought we should examine the state of Washington's history on it. If you make a subsequent loan withing the parameters of 18% interest, there is Y amount of profit or moneys above expenses, when you reduce it to 15 or 12 % you reduce the number Y, it means that possiblibly you might have to tighten up your credit application procedures. He didn't know whether that could be quantified or not, that's why we need to research the State of Wash.'s experience. Another thing, he said, we in Alaska like to think that we are unique, and nine times out of 10 we're not, but one interesting thing he noted was that when Bankamericard got started here in Alaska it came in for some rough sledding right at the beginning. The reason it did was because the national trend that outfits like Bankamericard use to account for a lot of their profit is the interest charge, In Alaska it was found that we seemed to have two kinds of people, the people who paid right on time within 30 days, and people who never paid. There was very little middle ground. This middle group pays a service charge or interest after 30 days and that is where most of the profit is made.

Mr. Wolfe from Wolfe's Home Furnishings was here to speak for himself. From indications he has had from several companies that buy his paper, that if this bill passes, they would not only be very cautious on which accounts they do take, but that probably they would ask for a discount on his priciple paper so that in marginal profits areas it would be discounted about 5%. He said he didn't beleive anybusiness could stand this. It is quite evident in Wash- ington he said what has happened to stores, since the bill passed there. One of the largest appliance stores in the Northwest has over 6 stores and now they are completely out of business. They claim that this bill killed them. There are many other businesses that do not have the high profit items that would suffer tremendously if it should go into effect, not because they didn't get the interest, but because of the discount they had to take on the initial sale to get rid of the paper, and that would be particularly hard for the smaller businesses in our state. His business is basidly centered on installment contracts, probably 70% of his sales are involved in installment plans. There would be no more 60 to 90 day contracts. Mr. Fink asked him if he carried his own paper, and Mr. Wolfe answered that he did, whereupon Mr. Fink asked if he used Bankamericard and Mastercharge or does he sell his contracts to a bank or credit company? Mr. Wolfe answered that competitiondemands that they accept any kind of credit. These however are all at a discount to the dealer, they also have thier own contracts which he sells to the bank. Mr. Fink asked if they(Bankamericard etc.) dis- counted his paper or do they take an interest discount? Yes. So they are making 18% plus what they disount to the dealer.

Don Magnusson read testimony which is attached to this.

ALASKA MOBILE HOME ASSOCIATION
505 W. Northern Lights Blvd.
Anchorage, Alaska 99503

February 15, 1975

Rep. Bob Bradley
Chairman House Commerce Committee
Pouch V
Juneau, Alaska 99801

Re: HB-46

Dear Bob:

The Alaska Mobile Home Association is much alarmed over HB-46, which would limit the interest rates that could be charged by lending institutions for installment loans. The mobile home industry is totally dependent upon such loans for all sales of mobile homes.

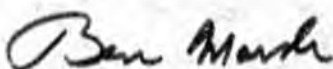
We consider this bill extremely dangerous to us. We have been advised by our regular lending institutions that should this bill become law, that no loan funds would be available for mobile home loans. Available funds would be channeled to more advantageous loans, such as commercial and mortgage loans. It is clear that passage of this bill would put all the mobile home dealers in the state completely out of business.

At the present time mobile home sales are running at about 60 per month in Alaska. At \$20,000 average price for unit, this amounts to a \$14.4 million per year industry, and growing. Several thousand persons make their living in this industry, and thousands more depend on it for their housing. The consequences of bringing mobile home sales to a halt would be disastrous indeed.

Enclosed are a couple of sample letters from local banks. I suspect the same problems would be encountered by other sectors of the economy, such as automobiles recreational vehicles, boats, and snow machines.

The Alaska Mobile Home Association requests that this bill not be reported out of committee. We will have a representative present at your hearing at 8:00 A.M. Wednesday, February 26, in room 203 Assembly Building. If there is a change in this schedule please notify me.

Sincerely,



Bernard L. Marsh, Executive Secretary
Alaska Mobile Home Association

cc: Gale Kincaid, President AMHA

BLM/ap



PEOPLES BANK & TRUST

POUCH 7007 • 8TH AVENUE AND G STREET • ANCHORAGE, ALASKA 99510
TELEPHONE (907) 279-7511

GORDON W. CATCHING
VICE PRESIDENT AND LOAN OFFICER

February 4, 1975

Mr. Bernard L. Marsh, Executive Secretary
Alaska Mobile Home Association
505 W. Northern Lights Boulevard
Anchorage, Alaska 99503

Dear Mr. Marsh:

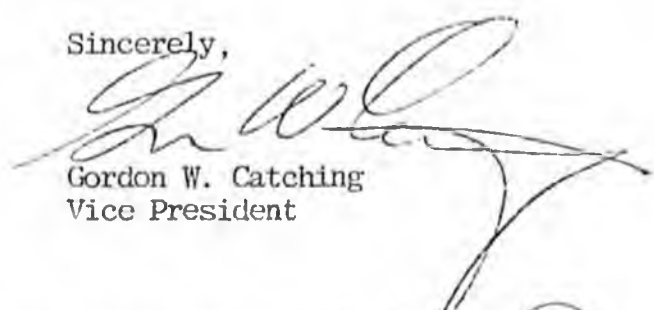
We write to convey our feelings concerning House Bill #46, and particularly the disruptive affect that we believe the passing of such a bill might have on the Alaskan mobile home industry.

As you know, most mobile home dealers conclude the financing of their sales in their shop and have an arrangement whereby they may sell that contract to their bank of account or to such other bank as may be interested in purchasing the deal. It is difficult for me to foresee the time when contracts would be attractive to banks if financed under the provisions as limited by House Bill 46. The provision under line 24, which limits those loans that exceed \$10,000 to a rate that would give an effective yield of less than 8% simple, would, in my opinion, render such contracts unsaleable, at least for the foreseeable future.

We are always concerned about legislation that might quite possibly force legitimate lenders out of a field of activity. If this happens, it seems that the illegitimate sources of financing then have a field day. It seems almost unbelievable that an interest rate structure would be proposed for mobile home financing, for example, that would place the yield at a lower rate than is now enjoyed by those who extend FHA or VA insured loans.

Our concern is real. Not only for our own opportunities to provide financing at realistic rates, but for those sellers of goods who must have a place to finance the wares they sell.

Sincerely,


Gordon W. Catching
Vice President

GWC/pm



THE FIRST NATIONAL BANK OF ANCHORAGE

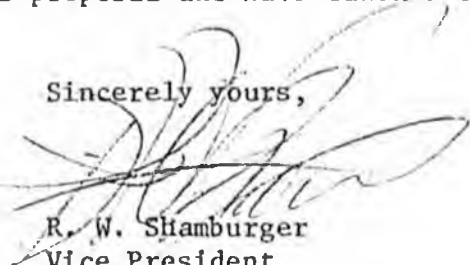
February 6, 1975

Mr. Bernard L. Marsh
Executive Director
Alaska Mobile Home Association
505 W. Northern Lights
Anchorage, Alaska 99503

Dear Mr. Marsh:

In answer to your letter dated February 5, 1975, concerning the HB 46, which was introduced by Rep. Tom Fink and assigned to the Commerce Committee for hearing, this bank has taken steps and contacted the bank's representative Mr. Ken Hume. From our interpretation of the Bill, we are definitely against this proposal and have taken steps to protect our interest.

Sincerely yours,



R. W. Shamburger
Vice President

RWS:jst



Mc Mahan's!

FURNITURE STORES

Mailing Address:
P. O. Drawer W
Santa Barbara, CA 93102
Phone: (805) 965-6591
Telex: 653-450

19 East Ortega Street

Santa Barbara, California

February 19, 1975

Mr. Donald R. Magnusson
Executive Director
ALASKA RETAIL ASSOCIATION
c/o Baranof Hotel
Juneau, Alaska 99801

Dear Mr. Magnusson:

I am writing this letter to put forth our strenuous objections to any regulation by the State of Alaska to limit consumer financing interest rates to less than 18% Annual Percentage Rate on balances less than \$1,000 and 12% Annual Percentage Rate for that portion of a contract over \$1,000.

Our company has eight stores in California and one store in Anchorage, Alaska and has been in business under the same management since 1945. Approximately 80% of our business is done on credit which provides a much needed service to the community. During the years of 1969, 1970 and 1971 we operated one store in the city of Bremerton, Washington. We had done some market research and determined that Bremerton had a population profile which would be ideally suited to a credit furniture operation such as ours. Opening the store was an experiment to determine if the State would have opportunities for future expansion.

Sometime shortly after we opened our Bremerton store, the Washington State Legislature passed a law limiting the interest rate on consumer financing for our type of retailing to 12% Annual Percentage Rate. As you may know, the Unruh Act in the State of California provides for 18% APR for balances less than \$1,000 and 12% APR for that portion of the amount financed which is over \$1,000.

Even though this law was passed, we continued to operate our store in Bremerton hoping that we could still generate a return on investment sufficient to remain in business in that state. Unfortunately, due to the imposition of the interest limitation we had to close that store in January of 1972.

During part of the time, I personally was managing the Bremerton store so I can give you my experiences first hand which led to our decision to stop doing business in Washington.

We have three basic objections to any attempt to limit the interest rate, two of which have to do with the affects of such a law on the public and the third having to do with the ability of a business to generate the profit necessary to remain in operation compared to other alternatives.

Taking each objection individually:

→ 1. Lowering the interest rate adds to inflation:

Enclosed are two advertising circulars from January of 1970 (they were picked at random - all others demonstrate the same point). The one with the lower prices is the circular which we distributed in California. The one with the higher prices is the one which we distributed in Bremerton, Washington. The sole reason for the difference in these prices was that it was an attempt on our part to compensate for the reduction in interest income by making a larger gross profit on the merchandise itself. I know for a fact that this practice was not limited to McMahan's and that other major chains and merchandisers followed exactly the same strategy. For example, one month we distributed a circular which was produced by a manufacturer. This circular was distributed not only by McMahan's but by other merchandisers in Washington and California and there was a similar price differential between the California prices and the Washington prices. Let me emphasize that this differential was not a result of the added freight since that difference was almost insignificant, but was solely an attempt on the part of retailers to offset the lower interest rates.

Note that the cash purchaser suffers since under current laws we cannot offer a discount for cash. Therefore, the cash purchaser ends up paying the higher price for the merchandise.

→ 2. A limitation on the interest rate discriminates against the marginal credit buyer:

I suspect that one of the intentions of the Washington State Legislature was to give the credit purchaser a break; unfortunately, the exact reverse occurred in that the marginal credit buyer (the one who needs the credit the most and is the highest risk) is the most adversely affected.

Knowing that there is a diminished profit in the credit operation, one must become especially discriminating in granting credit. To give you a specific example: In December of 1970 we turned down 14.1% of the applicants for credit in the state of Washington and only 8.7% for all the credit applicants in the state of California. That is to say, that we had to turn down 5% more people in Washington due to the fact that we could take less risks in approving credit since there was a smaller margin between the cost of credit and credit income to offset credit losses due to bad debts.

→ 3. A lower return on investment makes doing business in a state with an interest limitation less attractive than states with no such limitation:

To make this point clear, let me cite a specific example: Our store in Bremerton, Washington did approximately the same amount of business as our store in Simi, California and both stores in December of 1970 had an almost identical operating profit. We define operating profit as that profit before any credit operation is taken into consideration including interest income and interest expense.

The net profit, however, was significantly different in that the Bremerton store lost money whereas the Simi store made money. This made the state of Washington very unattractive to us.

Some other figures which may be of interest and underscore this problem are that the ratio in December of 1970 between interest income and accounts receivable was .8% in Bremerton whereas it was 1.3% in the California stores. Comparing interest income as a percentage of sales, it was 5.1% in Bremerton and 9.9% in Simi.

As I have mentioned, we closed our store in January of 1972 in Bremerton since our experiment did not prove to be a profitable one. I can honestly say that our only reason for closing that store was due to the interest rate ceiling. If the State of Washington were to repeal its interest rate limitation and enact a statute similar to the one in California, or the existing one in the state of Alaska, we would not hesitate to reopen stores in the state of Washington.

In closing the store, we had to layoff approximately ten employees and I feel that there are many people in the State and in Bremerton in particular, who are not able to take advantage of the service provided by a credit furniture business such as ours.

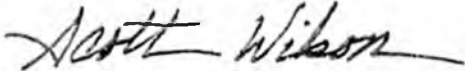
I understand that the Alaskan Legislature is considering lowering the interest rate from 18% down to 15%. Let me emphasize that any such readjustment would have consequences similar to those I have outlined above.

We are delighted to be doing business in Alaska and plan to open two additional stores within the next twenty-four months, one store in Anchorage and an additional store in Fairbanks. Certainly, if the consumer interest rate were lowered we would reconsider our decision and it is entirely possible that we would be forced to close our business in Anchorage just as we were forced to close our business in Bremerton, Washington. This would be extremely unfortunate not only from the company's standpoint but from the public's standpoint in that we would have to layoff the fifteen people whom we employ in our Anchorage store and the people who currently enjoy receiving credit from our company would probably not be served.

Mr. Donald R. Magnusson
February 19, 1975
Page 4

If I may be of any further help in answering any questions or providing more material, please don't hesitate to let me know since we are quite anxious that this regulation not be passed.

Very truly yours,

A handwritten signature in cursive script that reads "Scott Wilson". The signature is written in dark ink and is positioned above the typed name.

Scott Wilson
President

SW/gm
Enclosures

STATEMENT OF
DON MAGNUSON
EXECUTIVE DIRECTOR OF ALASKA RETAIL ASSOCIATION

HOUSE BILL 46

HOUSE BILL 46 WOULD AMEND THE ALASKA RETAIL INSTALLMENT SALES ACT BY REDUCING THE ALLOWABLE FINANCE CHARGE THAT MAY BE MADE ON ALL RETAIL INSTALLMENT SALES. WE ARE OPPOSED TO HOUSE BILL 46 FOR TWO PRIMARY AND INTERRELATED REASONS.

FIRST, AS A DEVICE TO LEGISLATE EFFECTIVELY THE PRICE OF CREDIT IN AN AREA WHERE OTHER GOODS AND SERVICES ARE SOLD, IT IS ILLUSORY AT BEST. UNLESS THE LEGISLATURE WANTS TO EMBARK ON A COMPREHENSIVE PROGRAM OF SETTING PRICES ON ALL OF THE MERCHANT'S GOODS AND SERVICES, ANY RATE CEILING ON RETAIL CREDIT WOULD SIMPLY RESULT IN AN EQUIVALENT INCREASE IN THE PRICE OF OTHER, UNREGULATED, GOODS AND SERVICES. THE PREVALENT RETAIL RATE ESTABLISHED IN THE COMPETITIVE MARKET IN ALASKA AND MOST STATES IS 1- $\frac{1}{2}$ % PER MONTH. THIS IS TRUE EVEN THOUGH SOME STATES, SUCH AS NEVADA, UTAH, ILLINOIS, KENTUCKY, OKLAHOMA AND MAINE, EITHER ALLOW A HIGHER CEILING THAN 1 - 1/2% OR IMPOSE NONE AT ALL. COMPETITION IN THIS AREA HAS WORKED AS AN EFFECTIVE DETERMINANT OF RATE FOR THE ULTIMATE BENEFIT OF THE CONSUMER.

FUNDAMENTALLY, YOU CANNOT SET THE PRICE OF SUCH CREDIT EFFECTIVELY WITHOUT A CORRESPONDING INFLUENCE UPON THE PRICE OF OTHER GOODS AND SERVICES OFFERED BY THE RETAILER.

SECONDLY, WE FEEL YOU SHOULD BE INFORMED THAT MOST RETAILERS ARE NOT MAKING A PROFIT ON THEIR FINANCE CHARGE REVENUES. CREDIT IS EXTENDED AS A MEANS OF INCREASING SALES VOLUME AND TO MEET COMPETITION.

HOWEVER, CONTRARY TO POPULAR IMPRESSION, REVENUE GENERATED BY FINANCE CHARGES IS NOT A "BOTTOM LINE" NET PROFIT FIGURE. SUCH REVENUE IS A GROSS RECEIPT ITEM AGAINST WHICH RETAILERS MUST DEDUCT SUCH CREDIT RELATED COST ITEMS AS (A) THE COST OF BORROWING MONEY FROM FINANCIAL INSTITUTIONS; (B) NEW ACCOUNT DEVELOPMENT AND CREDIT INVESTIGATIONS; (C) PAYROLL; (D) RENT; (E) SUPPLIES; (F) COMPUTERS AND (G) COLLECTION COSTS AND WRITE OFF ON UNCOLLECTIBLE ACCOUNTS. NUMEROUS ECONOMIC STUDIES (SOME OF WHICH CAN BE MADE AVAILABLE TO YOU) CLEARLY SHOW THAT FOR MOST RETAILERS SUCH COSTS EXCEED THEIR FINANCE CHARGE REVENUES. HB 46 WOULD FURTHER REDUCE SUCH REVENUES SUBSTANTIALLY BELOW THE EXISTING COST STRUCTURE.

THE STATE OF WASHINGTON OFFERS A FAIR EXAMPLE OF THE ADVERSE ECONOMIC CONSEQUENCES THAT FOLLOW AN ARTIFICIALLY IMPOSED LOW RATE CEILING. IN THE GENERAL ELECTION OF NOVEMBER 1968, WASHINGTON VOTERS APPROVED A MEASURE SIMILAR TO THAT SET FORTH BY HB 46. THEREAFTER, IN 1970, THE GRADUATE SCHOOL OF BUSINESS OF THE UNIVERSITY OF WASHINGTON PUBLISHED A REPORT ON THE IMPACT OF THIS INITIATIVE UPON WASHINGTON'S ECONOMY. THIS REPORT SERVES AS EVIDENCE THAT THE VOTER'S PREFERENCE FOR A LOW RATE (WHICH SOUNDS AWFULLY APPEALING ON ITS FACE)

DID NOT GIVE HIM THE BENEFIT DESIRED, E.G. A LOW COST OF CREDIT. ALTHOUGH RETAILERS' RESPONSES VARIED SOMEWHAT, IT WAS CLEAR THAT THE MAJORITY OF THEM REACTED BY RAISING PRICES ACROSS THE BOARD OR ON CREDIT-SENSITIVE ITEMS. THE REPORT STATES ON PAGE 24-25 THAT:

". . . THE MAJORITY (56%) OF RETAILERS SAID THAT THEY RAISED PRICES ON ALL MERCHANDISE ON THE AVERAGE OF 5% IN RESPONSE TO THE PASSAGE OF THE INITIATIVE 245."

FURTHER:

". . . SIXTY-FOUR PERCENT OF FURNITURE AND APPLIANCE DEALERS SAID THAT THEY RAISED PRICES ON 'CREDIT-SENSITIVE' ITEMS. THIRTY-ONE PERCENT OF DEPARTMENT STORES SAID THAT THEY DID THE SAME."

IT WAS ALSO SIGNIFICANT FROM THIS REPORT THAT THERE WAS A TIGHTENING OF CREDIT ON THE LOWER END OF THE ECONOMIC SCALE WHICH DURING THESE TIMES WOULD IMPOSE SUBSTANTIAL PROBLEMS FOR LOW INCOME CONSUMERS. I UNDERSTAND THAT OTHER ECONOMIC STUDIES SUCH AS PROFESSOR GENE LYNCH'S STUDY ON THE ARKANSAS SITUATION, AND PROFESSOR STUCKI'S REPORT IN UTAH SUBSTANTIATES THE UNIVERSITY OF WASHINGTON'S REPORT.

YOU MIGHT ALSO BE INTERESTED IN THE CONGRESSIONALLY FUNDED STUDY THAT WAS PUBLISHED BY THE NATIONAL COMMISSION ON CONSUMER FINANCE ENTITLED "CONSUMER CREDIT IN THE UNITED STATES". ALTHOUGH THIS STUDY RELATED TO THE ENTIRE BROAD SPECTRUM OF

CONSUMER CREDIT, IT IS SIGNIFICANT THAT AS TO THE ISSUE RAISED BY HB 46, THIS COMMISSION STATED THE FOLLOWING ON PAGE 107 OF ITS REPORT:

"THERE IS NO LOGICAL REASON TO SELECT ANY TYPE OF PRODUCT OR SERVICE SOLD BY A RETAILER AND LEGALLY REQUIRE IT TO BE SOLD AT A LOSS. WHEN CREDIT IS SELECTED AS THE REQUIRED LOSS LEADER, THE BURDEN OF SUBSIDY FALLS PRIMARILY ON CASH BUYERS, SOME OF WHOM MAY HAVE BEEN UNABLE TO OBTAIN CREDIT. THUS STATE LAWS THAT PUT THE PRICE OF CREDIT BELOW COMPETITIVE RATES ARE FORCING BOTH THE WEALTHY AND THE LESS AFFLUENT, WHO DO NOT USE OR CANNOT OBTAIN CREDIT, TO SUBSIDIZE THE USE OF CREDIT BY OTHERS. SUCH LAWS ALSO ATTEMPT TO DISCOURAGE THOSE WHO CAN OBTAIN CREDIT FROM USING CASH TO BUY GOODS. IN THE COMMISSION'S VIEW, LOWERING RATE CEILINGS ON REVOLVING CREDIT BELOW 1-1/2% PER MONTH HAS ON BALANCE BEEN CONTRARY TO THE BEST INTEREST OF CONSUMERS."

THE CENTRAL POLICY ISSUE THEREFORE IS WHO SHOULD PAY FOR THE COST OF EXTENDING CREDIT. WE BELIEVE THAT THOSE WHO UTILIZE THE SERVICE OF CREDIT SHOULD BEAR THE COST BURDEN. THIS OBJECTIVE HAS BEEN LARGELY REALIZED TODAY IN ALASKA. HB 46 COULD, IN LIGHT OF NUMEROUS ECONOMIC STUDIES, SHIFT THAT COST BURDEN TO THOSE WHO DO NOT WISH TO PURCHASE ON CREDIT.

CREDIT BUYING TODAY IS AN ESTABLISHED FACT OF ECONOMIC LIFE. IT HAS BEEN A MAJOR FACTOR BY WHICH SUBSTANTIAL ECONOMIC

Magnuson 2/26/75
HB 46 (5)

GROWTH HAS BEEN ACHIEVED IN THIS COUNTRY. THE SYSTEM CERTAINLY HAS ITS CRITICS AND INDIVIDUAL EXAMPLES OF CREDIT-ABUSE CAN BE CITED. HOWEVER, WE BELIEVE THAT BEFORE THIS COMMITTEE ESTABLISHES A LOW PRICE CEILING FOR CREDIT, WITH ITS ATTENDANT ADVERSE CONSEQUENCES, IT OUGHT TO BE AWARE OF THE SUBSTANTIAL BODY OF ECONOMIC OPINION DEALING WITH THE ADVERSE RESULTS GENERATED BY LOW RATE CEILINGS.

IN CONCLUDING, I HAVE TAKEN THE LIBERTY OF ATTACHING TO MY STATEMENT A SUMMARY STATEMENT AUTHORED BY PROFESSOR LYNCH OF THE UNIVERSITY OF ARKANSAS ON THE ECONOMIC IMPACT OF THE WASHINGTON RATE CEILING UPON THAT STATE'S ECONOMY.

EFFECTS OF INITIATIVE 245:
Summary Statement

ADOPTION OF INITIATIVE 245 HAS IMPOSED MAJOR PENALTIES: UPWARD PRICE PRESSURE, REDUCED CREDIT AVAILABILITY, SMALL MERCHANT PROFIT SQUEEZE, AND LOSS OF BUSINESS FROM THE STATE.

The maximum one percent monthly service charge imposed on various types of consumer credit by passage of Initiative 245 in November 1968 is indefensible both in theory and in fact. The National Commission on Consumer Finance, in an exhaustive study to the President and to Congress stated, "Forced reduction in the decreed maximum rate on revolving credit to 10 percent per annum (as in Arkansas) or from 1½ percent to 1 percent per month (as in Minnesota, ... and Washington) have a twofold effect on consumers. First, credit sellers may make less credit available ... or second, they may try to make up the loss in income from some other source."¹ The Commission further noted that, "... on balance, rate ceilings are undesirable when markets are reasonably competitive."² With over ninety commercial banks and literally hundreds of credit unions, finance and small loan companies, and retail outlets providing credit in the State of Washington, competition appears to be adequate.

THE RESERVE OF SMALL ADJUSTMENTS TO 245 HAS BEEN EXHAUSTED.

Specific impacts of Initiative 245 are documented in a study published by the University of Washington in 1970³ and are supported by current information. Firms report discontinuing free check cashing; charging for deliveries or increasing charges; instituting fees for layaways; discontinuing layaways; or discontinuing in Washington while maintaining service in Oregon and Idaho; exacting minimum service charges on charge accounts; discontinuing open charge accounts; and reducing employee discounts on major appliances. While in some cases services once available to consumers have been completely eliminated, in other cases the credit buyer has benefited from Initiative 245 by forcing the costs of miscellaneous services to bear directly on all users. Undoubtedly too, lenders subject to the rate limitation have become more efficient in administering credit. Certainly many small merchants, as reported in the attached Lynch study, have found temporary relief by accepting one or more of the bank credit card plans.⁴

MAJOR IMPACTS OF 245 ARE BOTH INEQUITABLE AND DETRIMENTAL.

The U of W study noted the following, "... the burden of supplying a service (credit), the cost of which may exceed the price that can be charged for it, seemed to have fallen on the merchants and possibly the banks. Banks and merchants have taken many of the small steps that can be taken but their basic problem is still unresolved because its solution requires more than that. The rate ceilings will have to be raised or banks and merchants will have to reduce costs and/or increase revenues from other sources."⁵ And the National Commission report flatly states, "The effect of restrictive rate ceilings is to limit the number of borrowers who qualify for legal credit and reduce the amount of credit supplied. Sales credit rate ceilings may cause creditors to shift a portion of the finance charge into the cash price ..."⁶ The U of W survey identified not only an increase in rejection rates on new credit applicants at banks, retailers, and auto dealers; a forced move of financing to banks, credit unions, and small loan companies; but also an increase in cash prices to maintain total revenue from sales and the provision of credit.⁷ The Commission

report states, "Retailers must make a profit on their total sales of goods and services (including credit services) to remain in business. The only real issue is who should bear these credit costs -- credit buyers or cash buyers."⁸ Credit operations of retailers, at best, typically do not cover costs. A Touche, Ross, Bailey, and Smart 1967 report on consumer credit costs in Washington once again verified that fact -- not only for thirty-day accounts but also for revolving credit and long-term installment accounts.⁹ Obviously, provision of credit by retailers is considered an indispensable sales tool. At the same time, further restricting rates chargeable, when not offset by operating efficiencies and service repricing, must be made up by higher sales prices -- not just for credit customers but all customers, including those increasingly unable to obtain credit. The U of W survey reported, "The majority of retailers ... raised prices on all merchandise on the average of 5 percent in response to the passage of Initiative 245."¹⁰ Automobile dealers continue to maintain gross margins by hiking all auto prices as revenue from financing has declined;¹¹ a major retailer continues to charge \$5.00 more for appliances in Washington than in Oregon and Idaho. Is there any compelling reason why the Washington experience should differ from that of other states with artificially low rates? In an eight-state price survey in 1968, Arkansas (which has a 10 percent limit) was found to have higher cash prices than neighboring states which have 18 percent limits. The average markup appeared to be about 5 percent.¹² This is not inconsequential. Sales volume of Washington retailers typically offering credit has been estimated at just under \$5 billion in 1972. If only half of these had raised their prices 5 percent the added cost to the consumer was close to \$120 million.¹³

CONDITIONS HAVE NOT STABILIZED, BUT CONTINUE TO DETERIORATE.

With every year that has passed since adoption of Initiative 245, the twelve percent limit imposes further hardship in the face of rising costs. The prime rate, at 6½ percent in December 1968, now stands at 9½ percent. With inflation expected to be a continuing problem, there is every reason to expect money costs to retailers -- and to banks -- will continue at relatively high levels. The cost squeeze intensifies as operating efficiencies are more difficult to realize; as service repricing options are exhausted; as flexibility to raise cash prices further is limited. Particularly impacted are the consumer who can least afford to do without credit and the small retailer whose cash price ceiling is set by the majors or border-state competition.¹⁴

Credit card competition among banks has lowered merchant discounts since 1968. Increasingly, however, the small merchant faced with continuing cost hikes is finding Washington banks can pare discounts no further with service charges restricted. Either merchants discontinue the credit option or send their business out-of-state, where low discounts are offset against higher service charges. While not conclusive, evidence suggests Initiative 245 is not only limiting credit availability and raising cash prices, but also restricting the growth of business in the state. Between 1968 and 1971, the number of auto dealers in Washington fell 7 percent while the number in Oregon fell only 2 percent and in Idaho remained even. Excluding dealers in King and Snohomish Counties (which suffered a recession in 1969 and 1970) the number still fell by 7 percent. For home furnishings dealers, the number in Washington (excluding King and Snohomish Counties) remained barely level, while climbing 2 percent in Oregon and 3 percent in Idaho.¹⁵

FOOTNOTES

1. Report of the National Commission on Consumer Finance, Consumer Credit in the United States, U.S. Government Printing Office, December 1972, p. 105.
2. Ibid., p. 108.
3. Graduate School of Business Administration, University of Washington, The Impact of A Consumer Credit Interest Limitation Law, Washington State: Initiative 245, Seattle, 1970, pp. 20-25.
4. Lynch, Gene C., The Economic Impact of a Twelve Per Cent Finance Charge Ceiling, University of Arkansas, Fayetteville, 1973, p. 8.
5. University of Washington, Impact of Consumer Credit, pp. 25, 26.
6. National Commission, Consumer Credit, p. 113.
7. University of Washington, Impact of Consumer Credit, pp. 20-25
8. National Commission, Consumer Credit, p. 106.
9. Touche, Ross, Bailey and Smart, Study of Consumer Credit Costs in Retail Stores in Washington, Washington Retail Council, 1967.
10. University of Washington, Impact of Consumer Credit, pp. 24, 25.
11. Washington State Automobile Dealers Association.
12. Lynch, Economic Impact, p. 10.
13. Derived from: State of Washington Department of Revenue, Quarterly Statistical Report of the Revenue from Excise Taxes, May 1973, pp. 10, 11.
14. Lynch, Economic Impact, p. 11.
15. Derived from: U.S. Department of Commerce, County Business Patterns, Washington, U.S. Government Printing Office, 1968, 1971.

ALASKA RETAIL COUNCIL

ANALYSIS OF CONSUMER CREDIT COSTS
IN RETAIL STORES IN ALASKA

AUGUST, 1968

SCHMITZ & KLINE
CERTIFIED PUBLIC ACCOUNTANTS
206 NATIONAL BANK OF ALASKA BLDG.
JUNEAU, ALASKA 99801

August 21, 1968

Alaska Retailers Association
Anchorage, Alaska

Gentlemen:

We have completed our analysis of the costs of consumer credit in retail stores in Alaska. The analysis is based on a study of costs of consumer credit for the State of Washington for the fiscal year ended January 31, 1966 prepared by Touche, Ross, Bailey & Smart, a national accounting firm.

Our analysis used the Washington data as compiled and set forth in the enclosed report, converting the data to costs and conditions faced by retail merchants doing business in Alaska. For comparative purposes we have included statistical results of the Washington study with this analysis. We used cost conversion methods which we deemed conservative and appropriate in setting forth costs of credit in total and by type of credit account.

In our opinion, based on the data compiled by Touche, Ross, Bailey & Smart of the costs of consumer credit in retail stores in Washington, the attached exhibits and report comments fairly present an analysis of credit costs for retail merchants doing business in Alaska.

Schmitz & Kline

Certified Public Accountants

ALASKA RETAIL COUNCIL

REPORT ON CONSUMER CREDIT COSTS IN RETAIL STORES
IN ALASKA

CONCLUSION:

The conclusion to be drawn from the analysis of consumer credit costs in Alaska is that providing credit to the consumer is costly. This conclusion is in direct conflict with the common opinion that extending credit is a profitable business for the retailer. As set forth in Exhibit I, the average cost of credit per \$100.00 of credit sales is \$3.15 in excess of revenues derived from credit charges. Credit costs for Alaska are approximately 19% higher than Washington's.

SCOPE:

The basic study prepared by Touche, Ross, Bailey & Smart was conducted on three main types of accounts:

(1) Regular (30 day) charge account -

This category comprises those customer accounts on which no service charges are assessed, but which require payment of the account balance within 30 days of billing date.

(2) Revolving credit accounts -

This category includes the many multi-transaction, small unit sales types of accounts that permit payment of the account balance over a period of several months. Accounts offering an option payment feature, whether used or not, are included under this category. Service charge rates used by the participants were consistent, with a 1-1/2% charge on the outstanding account balance at a given day of the month.

(3) Long-term installment accounts -

This category includes several types of accounts which are basically similar as to length of credit repayment terms, unit sales activity and the size of each transaction. Included in this category are special promotional 30-60-90 day accounts for which there are no service charges. For the other types of installment accounts the number of transactions handled per year is significantly lower while the size of the average transaction is significantly higher. The length of the repayment period

SCOPE (continued):

is also generally longer than that for a revolving credit account. The service charges made for installment accounts were not uniform.

METHODOLOGY:

The study criterion, as used by Touche, Ross, Bailey & Smart for the Washington study, was to identify as credit costs only those costs which the store could eliminate if the credit function were discontinued, assuming no change in total store sales volume. By applying this criterion, expenses of providing services to credit customers were segregated from those of providing services available to both cash and credit customers. Total identified credit costs were then allocated by major type of credit account. Service charge revenues were also segregated by account type to permit comparison of service charge revenues with credit costs by major account type.

COST GROUPING:

In their Washington study, Touche, Ross, Bailey & Smart grouped credit costs in seven categories. The first three (new account costs, account servicing costs and account collection costs) represent those costs most directly identifiable with the credit operation. They represent the costs of obtaining new customer accounts, the costs of the day-to-day servicing of active customer accounts and the costs of the collection effort required on accounts with payments in arrears. Lists of items included in these three major categories are presented in Appendix A.

The fourth category represents interest on the capital required to finance customers' outstanding receivable balances. This is a direct cost for without credit there would be no receivable balances to finance and, therefore, no need for capital to finance them. An 8% rate was used in determining study results. This is considered a conservative rate for cost of capital. Since the actual cost of capital for the typical merchant is frequently higher than 8%, the "excess of cost over revenue" has been recomputed at the bottom of Exhibits I and II, using cost of capital rate of 10%, 11% and 12% for Alaska.

The fifth category is space and equipment costs. It depicts the cost of space used for credit activities as well as the cost of office equipment used in the credit operation. The sixth category covers the cost of the additional sales people required to handle credit customers. This additional cost results from the added sales check preparation time and credit authorization work necessary when a sale is made on credit rather than cash. The

COST GROUPING (continued):

seventh category (management expenses) represents that portion of general management expenses assignable to the credit operation. It represents the costs of service provided to the credit department by various other service activities within the store.

Although not incorporated in the study results, an additional cost category could be termed "other credit costs". This category is used to assure recognition of the fact that store costs, in addition to those specifically identified in the seven categories listed, are affected by the existence of the credit function in a store. The existence of credit affects the entire character of the store and of its expense structure. It results in the incurrence of additional costs, some of which are not susceptible to specific measurement. Among these "other credit costs" are the costs of handling extra merchandise returns and the extra deliveries required by credit customers as compared to cash customers. These and certain other costs are definitely credit costs since they contribute toward increasing total store operating costs. While recognition of their existence is important in assessing the costs of credit operations, no specific amounts are shown in study results for these costs since they could not be measured with the necessary degree of accuracy.

CONVERSION FACTORS AND ASSUMPTIONS:

In order to convert the data developed by the Washington study to Alaska conditions the following conversion factors and assumptions were used -

(1) Service Charge Revenues -

Service charge revenues for Washington and Alaska were set forth as both being the same per \$100.00 of sales. Both Washington and Alaska have the same service charge maximums which are allowed by law. In discussing this subject with personnel with national retail stores operating in Anchorage, they confirmed that the rates charged in their Alaska stores were the same as those charged in the Washington stores.

It would seem valid to assume that if anything, service charge revenues per \$100.00 of credit sales would be lower in Alaska than in Washington. Long-term credit to consumer for merchandise purchases is relatively new and it is probable that Alaska merchants as a whole do not charge for credit or extend the length of repayment over as long a period of time as Washington merchants. An example is a Juneau department store which does not have a service charge for credit but will probably start charging for credit in order to extend account repayment over a longer period of time, thus being more competitive with other merchants.

*new
charge
in Wash.
12*

CONVERSION FACTORS AND ASSUMPTIONS (continued):

(2) Credit Costs -

- (a) All credit costs as determined by the Washington study were reduced 15% in order to reflect higher sales prices of individual merchandise in Alaska. Since costs are presented in relation to \$100.00 of sales, it follows that there would be less units sold in Alaska per \$100.00 of sales and therefore less credit costs associated therewith because of the fewer transactions involved. The one cost exception to this would be the cost of interest (capital) which would have no relation to the number of transactions involved in \$100.00 of sales.

The 15% sales price differential was arrived at by utilizing three sources. The first source was comparing individual sales prices of merchandise sold by a national retailer in its Anchorage store with its Seattle area stores; the second source was price statistics for cities in Alaska published by the U.S. Department of Labor, Bureau of Labor Statistics; the third source was the opinion of individual merchants involved in retail sales.

- (b) All costs of credit except interest as determined by the Washington studies were adjusted upwards to reflect higher salaries and operating costs in Alaska. Salaries are assumed to be 35% higher in Alaska than in Washington for comparable positions. This assumption is supported by (1) the Anchorage store of a national retailer which gives an automatic 40% raise to all personnel transferring from Washington to Anchorage as a "cost of living" allowance (2) a Juneau merchant's salaries which are 35% higher than the average of salaries paid to department store personnel as determined by national statistics (3) the experience and opinions of various Anchorage retailers whose opinions were solicited in this regard.

Operating costs other than salaries were considered to be 16% higher than comparable Washington costs. These higher costs were derived from two sources (1) from an analysis of the operating costs of the Anchorage store of a national retailer as compared to its Washington stores (2) from statistics set forth in the Indexes of Intercity Differences in the Cost of Equivalent Goods and Services for various Alaskan cities as compared with Seattle, Washington, published by the U.S. Bureau of Labor Statistics.

CONVERSION FACTORS AND ASSUMPTIONS (continued):

In order to convert Washington costs of credit to Alaska costs, an assumption had to be made as to what percentage salaries were to total operating costs when related to costs of credit. In reviewing several retailers operating statements we found that salaries comprised from one-half to two-thirds of total operating costs. In reviewing the expense components of the main groupings of costs of credit (See Appendix A) we came to the conclusion that salaries comprised at least two-thirds of the total credit costs. When the increased salary costs (35%) are combined with increase operating costs (16%) the weighted average increase is 29% for those cost groupings that are composed of both salaries and other operating expenses.

- (c) Interest costs for the average of accounts receivable investment were computed at 8% instead of the 6% used for the State of Washington. Most short-term business loans in the State of Alaska are made at 8% and for the present, 6% loans (with rare exceptions) are a thing of the past. Actually, investment in accounts receivable balances could be termed capital investment and when considered in this light, 8% is a low return on investment.

Using the above factors and assumptions, Washington credit costs were converted to Alaska costs as follows:

New Accounts Costs - Reduced 15% for unit sales price differential and the balance increased 29% for higher salaries and other operating costs;

Account Servicing Costs - Reduced 15% for unit sales price differential and the balance increased 29% for higher salaries and other operating costs;

Account Collection Costs - Reduced 15% for unit sales price differential and the balance increased 29% for higher salaries and other operating costs;

Interest Costs - Increased 33-1/3% (From 6% to 8%);

Credit Space and Equipment Costs - Reduced 15% for unit sales price differential and the balance increased 16% for other operating costs increases;

Additional Salespersons' Costs due to Credit - Reduced 15% for unit sales price differential and the balance increased by 35% for higher salaries;

Management - Reduced by 15% for unit sales price differential and the balance increased 35% for higher salaries.

LIMITATIONS:

Because of a shortage of available time, personnel and cost limits, we were unable to conduct an Alaskan study such as that prepared by Touche, Ross, Bailey & Smart for the Washington Retail Council. Because of the above mentioned limitations, we deliberately approached the conversion factors and assumptions in a conservative manner. Because of our conservative approach, we believe that the factors and assumptions utilized to convert Washington costs of credit to Alaskan costs of credit are valid and present fairly the cost of credit in Alaska.

In addition to the Washington study, there are also available costs of credit studies prepared for the Maryland Council of Retail Merchants, Inc. and one for the National Retail Merchants Association. All of the above studies support the conclusion that providing credit to the consumer is costly.

ALASKAN RETAIL COUNCILREPORT ON CONSUMER CREDIT COSTS IN RETAIL STORES IN ALASKACOSTS AND SERVICE CHARGES FOR CREDIT ACTIVITY

	<u>Credit activity per \$100 of credit sales</u>			
	<u>All accounts</u>	<u>Regular (30-days) accounts</u>	<u>Revolving credit accounts</u>	<u>Long-term installment accounts</u>
CREDIT SALES	<u>\$100.00</u>	<u>\$100.00</u>	<u>\$100.00</u>	<u>\$100.00</u>
SERVICE CHARGE REVENUES	<u>\$ 4.40</u>	<u>\$.01</u>	<u>\$ 6.97</u>	<u>\$ 6.06</u>
CREDIT COSTS:				
New account	\$.48	\$.23	\$.46	\$.93
Account servicing	2.13	2.33	2.08	1.93
Account collection	1.32	.85	1.65	1.33
Interest @ 8% of average accounts receivable investment	2.89	1.27	3.45	4.45
Credit space and equipment	.15	.20	.16	.05
Additional salespersons' costs due to credit	.18	.20	.18	.14
Management	<u>.40</u>	<u>.34</u>	<u>.44</u>	<u>.42</u>
TOTAL CREDIT COSTS	<u>\$ 7.55</u>	<u>\$ 5.42</u>	<u>\$ 8.42</u>	<u>\$ 9.25</u>
EXCESS OF COST OVER REVENUE	<u>\$ 3.15</u>	<u>\$ 5.41</u>	<u>\$ 1.45</u>	<u>\$ 3.19</u>
EXCESS ASSUMING COST OF CAPITAL INVESTMENT (INTEREST) IN ACCOUNTS RECEIVABLE BALANCE AT:				
10%	<u>\$ 3.88</u>	<u>\$ 5.73</u>	<u>\$ 2.32</u>	<u>\$ 4.31</u>
11%	<u>\$ 4.24</u>	<u>\$ 5.89</u>	<u>\$ 2.75</u>	<u>\$ 4.86</u>
12%	<u>\$ 4.60</u>	<u>\$ 6.05</u>	<u>\$ 3.18</u>	<u>\$ 5.42</u>

EXHIBIT II

ALASKAN RETAIL COUNCIL

STUDY OF CONSUMER CREDIT COSTS IN RETAIL STORES IN ALASKA

TOTAL CREDIT COST COMPARISON - CREDIT ACTIVITY PER \$100 CREDIT SALES

	<u>Alaska Participants</u>	<u>Washington Participants</u>
CREDIT SALES	<u>\$100.00</u>	<u>\$100.00</u>
SERVICE CHARGE REVENUE	<u>\$ 4.40</u>	<u>\$ 4.40</u>
CREDIT COSTS:		
New account	\$.48	\$.43
Account servicing	2.13	1.90
Account collection	1.32	1.17
Interest @ 8% (6% for Washington) of average accounts receivable investment	2.89	2.17
Credit space and equipment	.15	.15
Additional salespersons' costs due to credit	.18	.15
Management	<u>.40</u>	<u>.35</u>
TOTAL CREDIT COSTS	<u>\$ 7.55</u>	<u>\$ 6.32</u>
EXCESS OF COST OVER REVENUE	<u>\$ 3.15</u>	<u>\$ 1.92</u>

STUDY OF CONSUMER CREDIT COSTS
IN RETAIL STORES IN WASHINGTON

APPENDIX A

LIST OF EXPENSES INCURRED BY RETAIL STORES
IN PROVIDING CREDIT SERVICES TO CUSTOMERS

New accounts costs:

Credit salaries related to opening new accounts
Employee benefits on above salaries
Postage on new account correspondence
Credit supplies and unclassified expenses
Charga-plate costs and services for new customers
Credit research services of credit bureau

Account servicing costs:

Billing salaries
Bill adjustment salaries
Employee benefits on above salaries
Postage on customer statements
Accounts receivable billing supplies
Bill adjustment supplies
Accounts receivable balancing differences
Replacing lost or stolen charga-plates
Addressograph services for credit or accounts receivable purposes
Equipment rental and maintenance costs on
equipment used primarily for the credit function
Related credit costs (costs which are in part directly
associated with rendering credit services) -
Sales audit salaries

Cash office salaries in handling collections
Mail service salaries
Statistical salaries
Employee benefits on above
Telephone cost related directly to credit operations
Taxes on net asset value of equipment and furniture
used in credit
Insurance premiums paid on accounts receivable balances
Supplies and expenses related to credit operations
Sales audit
Cash office
Mail service
Sales books and credit books used on selling floor

Account collection costs:

Collection salaries
Employee benefits on above salaries
Postage on collection (dunning) mail
Collection supplies and unclassified expenses
Credit bureau services related to collection problems
Collection agency fees
Bad debt expense (net of recoveries)



NATIONAL
Bank of Alaska

Main Office: Box 600 • Anchorage, Alaska 99510 • 507/272-5544

Fink

March 6, 1975

Representative Bob Bradley
Room 203 Assembly
Pouch E
Juneau, Alaska 99801

Re: House Bill 46--Act amending the Alaska Retail Installments
Sales Tax

Dear Bob:

House Bill 46, introduced by Representative Tom Fink, is simply an act to reduce the existing interest rates on retail installment sales, and the retail charge program of which our credit cards program operates within the state.

This bill not only effects credit card programs, but also all companies who have financing programs to aid the consumer in purchasing items.

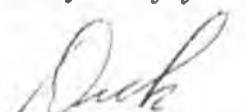
The rates proposed in the bill simply make it impractical to continue such programs.

Unfortunately, a bill such as this, that supposedly is intended to benefit the consumer, will create hardship on the person it is designed to help by drying up the availability of funds.

I will be in Juneau soon and will be happy to explore this bill with you personally or the committee at your discretion.

If I can offer any additional information, I will be happy to do so. We are opposed to this type of legislation and request that it be reviewed in depth by your committee.

Very truly yours,


Richard T. Hall
Vice President

Bob we have 60,000 credit cards out to Alaskans. Mastercharge has extensive acceptance too. The rates can not be all bad - Dick

Sears, Roebuck and Co.

PACIFIC COAST LAW OFFICES

900 SOUTH FREMONT AVENUE

ALHAMBRA, CALIFORNIA 91802

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CHARLES P. MCKENNEY 576-4058

March 11, 1975

Honorable Bob Bradley
Chairman, House Commerce Committee
Pouch V
State Capitol Building
Juneau, Alaska 99811

Dear Representative Bradley:

At the end of the hearing on HB 46 last week, Representative Fischer asked me what Sears' delinquent account experience is. You will remember I had said that this is one of the costs of granting credit. I was not able to answer Representative Fischer's question at that time but submit the following for your information.

Nationally, at the end of 1973, there were 168,560 Sears credit accounts delinquent three or more monthly payments. The number of defaulted accounts (less than one full monthly payment received during the previous six months) totaled 4,338. The provision for uncollectibles, after recoveries from charged off accounts, and the related percentage to credit sales was \$45 million, which was .6% to credit sales.

Sears' experience in Alaska compares with these figures. In various studies I have seen which set forth retail industry statistics, the figures indicate that Sears' experience is slightly better than most. Therefore, an industry average would be closer to 1%, as a fair estimate.

I appreciated the opportunity to appear before the Committee. If you or any Committee member have further questions, we will be happy to try to answer them.

Sincerely yours,


Charles McKenney

CM/sm

cc: Rep. Helen Fischer
Don Magnuson

File

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF COMMERCE

OPR: Miles
2532

OFFICE OF THE COMMISSIONER

POUCH D — JUNEAU 99801

March 20, 1975

File

The Honorable Bob Bradley
Alaska State House of Representatives
Pouch "V" State Capitol Building
Juneau, Alaska 99811

Dear Bob:

Attached is information concerning HB 46, an act amending the Alaska Retail Installment Sales Act.

The Department of Commerce opposes this bill. It appears that passage of HB 46 would:

1. Raise the cost of goods and services to the consumer as well as the retailer;
2. Reduce consumer credit lines and make new credit and credit extensions most difficult;
3. Hamper the availability of credit for "marginal" consumers;
4. Increase down payments on many items;
5. Increase requirements for consumer insurance.

Should you wish additional material or comment, feel free to call on me at any time.

Sincerely yours,

L. A. Motley

Langhorne A. Motley
Commissioner

LAM/pc