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TABLE IV-12

CREDIT LIFE INSURANCE IN FORCE
1958-1969

	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
Washington												
Number (000)	954	865	759	772	688	637	559	516	526	504	440	337
\$ Amount (000,000)	927	855	740	717	583	526	443	391	364	337	286	212
Oregon												
Number (000)	793	707	582	697	646	505	443	413	389	441	377	326
\$ Amount (000,000)	1202	1077	941	934	877	790	680	621	532	478	393	289
Idaho												
Number (000)	292	275	259	205	177	189	170	133	106	105	126	96
\$ Amount (000,000)	326	304	267	231	205	204	191	154	121	116	113	80
United States												
Number (000)	79,372	75,860	71,183	70,090	63,178	58,017	52,856	47,620	45,262	43,479	39,422	35,004
\$ Amount (000,000)	83,788	75,881	66,952	62,672	56,993	49,933	43,555	38,011	33,493	31,183	26,680	21,474
Per Cent Change in dollars		+13.3	+6.80	+10.0	+14.1	+14.6	+14.6			+17.0	+24.0	+9.0
Per Cent Change in number											+13.0	+13.0

Source: Life Insurance Factbook 1969-1958 (New York: Institute of Life Insurance).

At the time of the interviewing program, there was little indication of changes in other credit-related fees and charges.

One concluding remark on the behavior of the businessmen with reference to the issue of cost and revenue adjustments seems warranted. The evidence at hand suggests that their reaction to the passage of Initiative 245 did not necessarily take place immediately after the law went into effect, although there was a great deal of talk about it at the time. The adjustments which have taken place appear to have gone on throughout the year and it is quite possible that some adjustments still remain to be made. This seems to be due in part to the fact that many businessmen, particularly in the smaller firms, were unable to ascertain the precise effect of the law on their operations while others were unable to reach a decision about what to do in the face of the effect of the law on their operations. The survival of all of the firms studied however may well require an adjustment to the changed environment.

In spite of the imposition of fees and charges and the potential cost savings involved in the processing of loan transactions, personal loans for small amounts, no matter how small the risk associated with them, are not very profitable for banks in the face of current high money costs. The maximum rates the banks are allowed to charge under existing state laws is 12 per cent simple interest. The usury law has prevented banks from raising their interest rates above 12 per cent on direct merchandise loans and Initiative 245 holds bank credit cards to 12 per cent in the face of a rapid and substantial increase in their cost of money. Whether the banks actually would raise their rates if they had the opportunity to do so is a question. The evidence at hand strongly suggests that they would have raised their rates if they had been able to do so. If the present high cost of money persists and the 12 per cent revenue ceiling remains in effect, it is quite possible that some banks might drop bank credit cards if net income from this source of business is not forthcoming. One possibility for additional bank revenue would involve a direct annual charge to the consumer for the privilege of using the bank credit card services.

Credit cards are still in use because of the very substantial investment that the sponsoring banks have made in them, because of hopes that either the price of money will come down and/or the interest ceiling will be revised

upward and because of a feeling among bankers that credit cards are going to grow in importance in the future. In the long-run, however, banks may be unwilling to bear the burden of supplying a service the costs of which equal or almost equal and, which may ultimately exceed, the price that can be charged for it.

It is also reasonably apparent that the retail merchants are either not making money or actually losing money on that part of their business that they do on a credit rather than on a cash basis. However, it seems even less likely that the affected retailers will be able to dispense with loan arrangements between themselves and their customers, even in the face of this lack of profitability or outright loss. The merchants have by now done many of the things they can do to maximize their credit revenue and reduce their credit costs. Additional adjustments will have to be made in the area of product price increases or product cost and service reductions. The sale of automobiles and, to a slightly lesser extent, household furnishings and major appliances, depend heavily on purchasers who must borrow in order to buy. Borrowing money for a good reason is now a socially accepted practice in the United States; it is an absolute necessity for the survival for some types of businesses. It is no exaggeration to suggest that the whole American economy would be seriously shaken and many of the largest firms in the automotive, furniture, and appliance industries forced into bankruptcy along with thousands of retailers if no loans were available to consumers for the purpose of purchasing these items. The cost of credit sales will simply have to be absorbed in one way or another by the ultimate consumer. This is not to suggest that it is a matter of indifference how this burden is borne nor is it meant to suggest that it will be borne equally by all consumers.

Effects on Consumers

Positive effects. The primary effect of Initiative 245 insofar as individual consumers are concerned is that the cost of direct or indirect merchandise loans, the use of bank credit cards and interest charged by merchants has been either held at or reduced to 12 per cent per annum. In view of the rapid and substantial increase in the cost of money (the prime rate increased from 6.25 per cent in December, 1968 to 8.50 per cent in June, 1969) and the costs of

operating a credit card service and a credit department, it seems quite likely that the banks would have increased their charges above 12 per cent on direct merchandise loans and stayed at--or raised to--a charge of 18 per cent on bank credit cards. Further, most retail merchants would have kept finance charges at or raised them to 18 per cent. The evidence for this statement is, of course, largely circumstantial but it appears quite convincing.

The reduction in gross profit margins due to the reduction in interest rates has also probably worked to the advantage of consumers by encouraging businessmen to strive for greater efficiency in their operations in order to achieve cost reductions and thereby re-establish the gross profit margins in effect prior to the passage of Initiative 245. On the other hand, there is no assurance that if businessmen could achieve greater profitability through efficiencies that they would pass on the benefits to their customers.

Negative effects. The effect of the law is, however, uneven and there appear to be groups of consumers who have suffered adversely from the effects of the law. Cash customers, for example, have received no benefits and, on the other hand, they are in all likelihood paying somewhat higher prices. Those persons who were on open book accounts prior to the passage of the law and who are still in the same category have been affected in essentially the same manner as have cash customers although they are still being subsidized by cash customers to some extent.

There are those who must now pay more for the money that they borrow because banks and merchants will no longer lend to them at the new lower rates. Also included in the category of persons adversely affected are those who were on open book accounts prior to the passage of the law and who are now on revolving credit accounts or some other basis which requires them to pay 12 per cent interest.

Finally, there are those who must forego making purchases of products that require loans because of an inability to borrow from any source on terms that would permit the buyer to handle repayment of a loan out of future income.

Credit eligibility problems. After the passage of Initiative 245, retailers and financial institutions tightened up on the granting of credit to reduce potential losses in the form of bad debts and credit and collection expenses. First, there were some retailers who went out of the business of financing

their own customers. Eleven of the 63 general merchandise, furniture and appliance retailers who responded to the question stated that they changed to a policy of making the customer arrange his own financing. This meant essentially that none of their previous credit customers were eligible for credit. Similarly, of 37 retailers who offered 90-day open book credit prior to the initiative, 5 cancelled the plan entirely, 6 more reduced the time period from 90 to 30 days, and two others reduced the time period to 60 days.

Of the 30 auto dealers who sold new cars, 22 reported tightening the eligibility rules for credit, and of the 46 dealers handling used cars (including dealers selling both new and used) 36 tightened up on eligibility rules. For seven of the dealers this meant cancelling out whole categories of people who might have received credit prior to the Initiative. Two-thirds of the other retailers reported that they were rejecting applicants whom they would have accepted prior to the passage of the law. This was also borne out by the fact that all of the merchants interviewed showed a 9 per cent increase in credit application rejection rates during the second quarter of 1969. New and used auto dealers reported even higher rejection rates. Whether a credit eligibility criterion was income, length of residence, time on a job or repayment history, it was likely to be made tougher after passage of Initiative 245.

There are also indications that bank credit cards are being issued in a more discriminating manner. Based on a survey representing 95 per cent of the bank credit card business in the state, Table IV-13 shows that rejection rates on new applications for major bank cards were up sharply in the last six months of 1969. The rejection rate was significantly higher in each of these months over that of the same month in 1968. The increase in 1969 over 1968 was 2.2 per cent in July, 11.4 per cent in August, 8.4 per cent in September, 10.7 per cent in October, 6.1 per cent in November and 13.0 per cent in December. Although the rejection rates were lower in 1969 than 1968 for each of the first six months, the total rejection rate for the year was 4.1 per cent higher in 1969.

Shortened maturities. The specific effects of all of the policy changes that have been made by banks, retailers and finance companies in connection with indirect loans can be inferred from the nature of the changes that have been instituted. The effect of the shortening of the loan repayment time

TABLE IV-13

BANKCARD APPLICATIONS RECEIVED AND
DECLINED--WASHINGTON, 1968 & 1969

	1968 Applications			1969 Applications		
	Number Received	Number Declined	Per Cent Declined	Number Received	Number Declined	Per Cent Declined
Total	60,860	23,758	39.0%	132,595	57,203	43.1
January	3917	1597	40.7	6612	2459	37.2
February	3140	1370	43.6	5387	2100	39.0
March	3074	1342	43.7	7525	2685	35.7
April	4435	1961	44.2	9160	3622	39.5
May	4103	1757	42.8	9982	4064	40.7
June	4512	1845	40.9	16770	6717	40.1
July	5084	2097	41.2	12801	5559	43.4
August	5372	2042	38.0	12132	5993	49.4
September	5997	2242	37.4	13108	6005	45.8
October	8831	2784	31.5	12857	5430	42.2
November	5931	2396	40.4	12126	5636	46.5
December	6464	2325	36.0	14135	6933	49.0

period, for example, has been to increase the size of the consumer's monthly payment. This means that most consumers are able to borrow less than they were able to prior to the enactment of the law. The reported increase in downpayment requirements also serves to inhibit the sale of products sold on credit in much the same way--by shortening maturities.

The question of the size of the consumer's monthly payment is important because it is one of the credit related variables that the consumer frequently determines by choice. As pointed out before, this choice is constrained by the consumer's ability to repay the loan. The size of the monthly payment on a given purchase has been shown to be the key decision variable considered by some classes of consumers. Juster and Shay point out that financial institutions establish normative maturity limitations and the tendency is for some consumers to seek the longest contract maturities.

Notwithstanding the desire for long maturities on the part of many consumers and the opportunity that it represents to increase borrowing power, the desire of the merchants to minimize their costs of doing business on a credit basis and the income constraint both work to the disadvantage of lower income members of the community.

A consumer faced with purchasing a product requiring higher monthly payments and if these monthly payments are more than he can manage, can seek an adjustment in product quality level that may effectively reduce the total price of the merchandise and loan with the objective of reducing his monthly payments.

Increased down payments. There are several forces at work expanding downpayment requirements. First, retailers have made a conscious attempt to shorten maturities in order to reduce the amount of the discount that they must contend with on indirect paper sold to financial institutions and to improve their credit turnover. Second, higher downpayments serve to minimize high risk customer transactions. While customers who can afford large downpayments are not always better credit risks than those who can afford only a small downpayment, merchants believe, with some justification, that by following this procedure their risks are minimized. Twenty five per cent of the non-automotive retailers indicated that they had increased their downpayment requirements on credit purchases by an average of 15 per cent subsequent to the enactment of Initiative 245. Many retailers no longer offer "no downpayment" credit

arrangements. A number of retailers indicated that they required an additional 15 to 20 per cent down from those buyers whom they regarded as marginal risks. It also seems inevitable under these circumstances that at least some consumers would try to meet the retailer's downpayment requirements as well as the financing of the balance from small loan companies at rates higher than those offered by the retail merchants prior to the enactment of the law.

"Mousing." An illustration of the manner in which these changes in lending policies affect low income consumers is the practice of "mousing." If the consumer does not have enough money to meet the downpayment requirements for an automobile, for example, he may be obliged to borrow from one or more consumer finance companies using such items as his furniture as collateral for the loan. Then, if he is unable to obtain financing from a bank directly or indirectly for the balance of the purchase price, he may go to a finance company and use the auto for collateral to obtain a loan to cover the balance. Since these small loan companies are not limited by the 12 per cent restriction, and since the rate of interest they charge the consumer is inversely related to the size of the loan, the buyer who has to go through this practice of mousing ends up paying a larger sum of interest than he would if he obtained the loan in a single transaction from the dealer, a bank or through a sales finance company.

Several automobile dealers in the field survey indicated that "mousing" was more frequent after the passage of Initiative 245 than it was before. The records of one of the dealers surveyed showed that in his case at least increased downpayment requirements had apparently led to an increase in mousing. While the proportion of automobile buyers in this category is still small, i.e. less than 5 per cent, the proportion of automobile purchasers utilizing small loan companies for at least a part of their loan requirements exceeded 50 per cent in the case of this particular dealer.

The following quotation suggests that this is not an isolated example. "The squeeze is especially apparent in used cars . . . auto dealers have to guarantee repayment of the loans they submit to lending agencies . . . dealers are now telling purchasers of older used cars that the customer must finance the cars through small loan companies."¹

¹*Seattle Times*, December 18, 1969.

Role of banks. There has been, for a number of reasons, a definite reluctance on the part of banks to take over auto dealer paper in 1969 as compared with 1968. Banks typically had a policy of full recourse prior to the passage of Initiative 245, with some exceptions for "quality" paper. The banks might insist that dealers had to repurchase cars which were repossessed by banks. The losses to the bank were recovered from the dealers reserve account. Repurchase agreements are limited as to time (90 days, for example) so that if a bank fails to repossess within the time limit, the dealer is no longer obligated. Six dealers reported a tightening on recourse, usually by extending the time limit on repurchase agreements from 90 to 120 days. This, in turn has encouraged auto dealers to screen their credit sales customers more carefully. Naturally, some credit customers will suffer from this selective procedure. Although the volume of auto dealer paper decreased in 1969, the average value of each loan increased by about \$100.

In comparing 1969 with 1968, it is seen that new direct bank auto loans decreased 11.8 per cent in number and 8.6 per cent in volume. Yet the average loan size increased by 3.5 per cent. New indirect bank auto loans declined 10 per cent in number and 5 per cent in volume. Average loan size increased 5.1 per cent. Personal secured and unsecured direct bank loans declined 25 per cent in number and 12.9 per cent in volume. Direct personal loans increased 16.2 per cent in average size. New indirect bank loans for appliance, home equipment and home furnishings purchases declined 40.9 per cent in number and 33 per cent in volume. The average size increased by 13.3 per cent. New indirect loans for marine boats and motors declined 6 per cent in number and increased 25 per cent in volume. The average size of bank loan for this purpose increased 33.1 per cent. This suggests that the decrease in the number of loans was not across the board but the cutoff was made at the lower tail of the distribution of loans by size resulting in a fewer number of loans but loans with a larger average size. This phenomenon is even more apparent in the case of direct loans.

Direct loans from banks to consumers for the purpose of an automobile purchase also decreased in number in 1969 when compared with 1968 while the average size of a loan in 1969 increased by almost \$200. This indicates that banks have become even more selective in screening borrowers who come to them directly.

The rising cost of money to the lending institutions has undoubtedly intensified the effect of restricting the price that these same institutions can charge for the money that they lend.

In general, it is obvious that a low ceiling on the amount that can be charged for loans has encouraged lenders to reduce their risks by discriminating against those borrowers who are viewed as less creditworthy.

Summary

In sum it appears that people who are new in the community and are new on their jobs with relatively limited incomes and who wish to buy major appliances or older automobiles are being hit hardest by the law. In spite of what appear to be reasonable expectations to the contrary these people have also experienced difficulty borrowing money, at least in the short run, from relatively higher cost, higher risk-bearing financial institutions such as small loan companies.

The first hypothesis relative to credit was, "Banks and merchants are doing less business on a credit basis." All evidence is that credit declined both absolutely and relatively. Direct consumer loans declined and indirect consumer loans through banks and finance companies have declined because the financial institutions are less willing to loan at the new price ceiling. Increases in the lenders' cost of doing business, particularly in the cost of money, has intensified the problem. The net result has struck with special severity at furniture, appliance and used auto retailers.

The second hypothesis was, "Lenders are diverting business to the most profitable types of loans or credit arrangements." Banks have switched more credit to their bank credit cards, which are considered more profitable than instalment or direct merchandise loans, and have raised the minimum size of loan they will grant. Retailers have switched customers from instalment to revolving credit, they have shortened their open-book time periods and/or have divested themselves of some or all of their credit business by switching customers to bank credit cards or to other forms of outside credit.

The third hypothesis was "Small loan companies are doing more business." This does not appear to hold in absolute terms, since total volume has declined. In relative terms, however, there appears to be a shift toward

small-loan companies since in a totally declining market they declined less than the average whereas bank and retailer credit declined much more than the average. It is possible that they too became more selective in granting credit, because they showed a sharp increase in profitability in 1969 relative to any recent year.

The fourth hypothesis was, "Credit losses have decreased." Because businessmen's records on costs tend to be sketchy and because they often were reluctant to reveal what they regard as proprietary information about their operations, it was difficult to ascertain the extent to which lenders have been able to reduce their costs of transacting business on a credit basis. There were some cases of substantial reductions in costs, but their number was insufficient to warrant conclusions. The evidence gathered suggests that there are limits on the extent to which businessmen can seek relief from the loss in credit revenues by means of cost reductions. Most credit grantors, particularly large retailers and financial institutions, appear to have embarked on cost-cutting programs and have engaged in efforts to maximize credit income to the extent permitted by law.

A fifth hypothesis was, "More poor people have been affected by the new law than middle or upper-income people, and marginal standing from a credit standpoint has been redefined to exclude some individuals classified as higher risks." It is possible that creditworthy consumers have benefited from a decrease in allowable interest charges from 18 to 12 per cent per annum on consumer credit. The actions taken by financial institutions and retailers, however, tend to be at the expense of the lower income people, particularly those considered marginal credit risks. The tightening of credit granting criteria, the raising of the minimum amount eligible for credit, the increasing of downpayment requirements and the shortening of maturities all strike hardest at poor people. Those most affected are the people who were literally excluded from markets and those who were shunted off to small loan companies by retailers. The legal interest schedules of small loan companies, as high as 36 per cent per year, worked a hardship on consumers formerly able to get regular retail or bank credit.

The sixth hypothesis was, "Financing charges other than interest rates have increased." Although the new law reduced the basic service charge from

\$15 to \$10 or 1 per cent per month, some firms have instituted minimum service charges where before there were none. The charge for overdraft plans on credit cards has increased--in one case it was doubled. The increased requirement that consumers take out credit insurance has raised the effective costs of borrowing well above the 12 per cent prescribed by law. Retailers now pay a discount on indirect paper (cases were reported of discounts as high as 5 per cent) where before they received a commission ("participation"). Such costs must eventually be paid by the consumer in some way.

The final hypothesis was, "Businessmen have become more strict in the application of rules on delinquent accounts." Whereas these rules were often not utilized prior to the passage of the Initiative, they were brought to bear as a cost-cutting measure after the law took effect. Some consumers receiving credit, or eligible for credit, prior to the law were dropped. These effects were part of the result of the general tightening of credit availability in response to the law but the increases in levels of wholesale interest rates also contributed.

In sum, credit has become less available, it may cost less in terms of interest on revolving and instalment credit for creditworthy consumers, it costs more for creditworthy customers whose open-book privileges have been cancelled or reduced, it costs more for many low-income marginal-risk consumers, it has been denied to some poor people who formerly were eligible for credit and in retail stores it was being subsidized by cash customers at the time of the field work for this study.

CHAPTER V

PRODUCT RELATED IMPACTS

Product Related Hypotheses

The product-related hypotheses established at the outset of this study were as follows:

Prices of merchandise frequently sold on credit have gone up.

Different products and different businesses have been affected in different ways by the new law.

Leasing of merchandise frequently sold on credit has increased.

The passage of Initiative 245 imposed direct limitations upon the credit related policies of retailers. Secondary and somewhat indirect effects were also imposed upon the product related decisions of retailers. That is, the credit related policy restrictions were, in effect, imposed on the retailer by law, and he therefore adjusted his business operations to the new situation using the balance of his marketing options--his product related policies. For example, changes were made in pricing and service policies to compensate for changes in the credit area.

The imposition of a price ceiling on all credit customers had two important effects on retailers. First, it represented a potential 33 1/3 per cent decrease in finance income in some transactions. In many cases this represented a substantial portion of the firm's total gross and net profits. Second, with such a decrease in income it became imperative for the retailers to attempt to reduce costs, increase total revenues, or both.

Product Related Decisions: Prices

Essentially a retailer places a price on his service, product and credit terms. Each represents a revenue-generating and cost-incurring activity. When the contribution of one component is restricted, the burden of adjustment rests

on the other components. When credit income is significantly reduced by legislation the businessman's response can be expected to be in the form of cost reductions and an attempt to increase the revenue-generating capacity of the other activities in his business. Hence, prices may be increased on products and services. Within the context of such adjustments, attempts may also be made to reduce costs as well. In the matter of product price, per se, prices may be raised on items usually sold on a credit basis, on all items, or on some selection of credit-sensitive and/or non-credit-sensitive items.

In this study, retailers are divided into two major groups: auto dealers and others. The "others" include general merchandise retailers (department stores), and furniture and appliance retailers. The "other" retailers are covered first in this report.

The majority (56 per cent) of retailers (other than auto dealers) included in the sample of Washington retailers indicated that they raised prices on all merchandise on the average of 5 per cent in response to the passage of Initiative 245. A somewhat larger majority (64 per cent) of furniture and appliance dealers stated that they raised prices on items usually sold on credit. Thirty-one per cent of the department stores also raised prices for products usually sold on credit.

In a response which was less direct, but which had the net effect of raising prices to consumers, retailers stated that they were adjusting their merchandise offerings to obtain higher average mark-ups than existed prior to Initiative 245. Such adjustments can be brought about by changing to suppliers whose suggested retail prices include a higher percentage of gross margin for retailers, by obtaining suppliers whose wholesale prices permit a higher gross margin at accepted local retail price lines, or by replacing stocks with items whose unit prices are higher than those of prior offerings. This last approach will increase the gross margin per unit in dollars without raising the percentage of gross margin realized. Gross margins, of course, are affected by both cost and revenue factors. For example, increased efficiency in buying brought about by tighter controls, better inventory information, or more accurate selection can increase realized gross margin with no change in initial price mark-on rates. The greater efficiency in buying reduces losses from

markdowns in price that are made necessary by slow rates of turnover such as occur from overbuying or from errors in the selection of merchandise.

In general, it appears that there was no single pattern of response among retailers but price increases came mostly in the form of general price increases rather than singling out specific products. A retail sale may now require a trade-in whereas prior to Initiative 245 no trade-in was required. Or, in the case of pricing trade-ins, the retailer may now offer less for the used item. A few of the price increases noted above were in the form of changes in such product related charges.

Some retailers instituted charges for services which were provided for consumers free of charge prior to Initiative 245. Product-related charges for services formerly furnished free of charge have been assessed on check cashing, wrapping and packaging, lay-away, delivery, product installation, product service contracts and parking. In some cases, where charges had existed on such services, the charges were increased. In parking, for example, some stores ceased validating parking tickets so that the consumer had to pay the regular parking charge rather than obtaining it free through validation. In other cases, the charges for parking which was under the control of retailers were increased. Some stores placed substantial charges on product installation, where this service had been free. The new charges may not actually have covered the installation costs to the store, but they represented net price increases to consumers.

Implications for the Consumer. If price increases in product and product related services just compensate for the revenue cost by reducing the interest ceiling on credit extension then the typical credit customer has not been affected appreciably. However, those who pay cash for their products and services may now pay more.

The consumer who trades in a used appliance may well expect to receive less for it because of a change in trade-in policies by retailers. As mentioned above some consumers can now expect to pay for services that were provided by the retailer without charge prior to Initiative 245. Quite probably all consumers are paying totally a higher price for products and services as the passage of the Initiative appears to have encouraged price increases.

These price changes were also very probably facilitated by the then recent growth in the state's economy and the generally high level of employment prevailing at the time the law was enacted.

Product Price Decision Verification: Appliances

In an attempt to gather concrete evidence on whether or not retailers were raising prices as they said they were in response to Initiative 245, three surveys of prices on major appliances were conducted. They took place in April and August 1969, and January, 1970. Stores in Seattle, Spokane, Portland and Los Angeles were included in the first two surveys, but the January survey covered only Los Angeles and Seattle. Seattle was considered sufficiently representative of the state of Washington that it was deemed unnecessary to include Spokane. Portland, Oregon was included initially on the theory that its location in another state and at some distance (around 170 miles) from Seattle would provide an independent market for comparison purposes. Executives of chain retailing organizations were of the opinion, however, that Portland prices were strongly influenced by Seattle prices and that they might tend to follow Seattle trends regardless of the reason for the Seattle price trends.

The surveys were made in eight to ten large department and appliance stores in each of the cities visited, and the same stores were used in all surveys. The purpose of the surveys was to obtain the prices on six types of major appliances in order to compare the trends of these prices during the 9-month period in question. Working from a list of model numbers and descriptions provided by the comparison shopping bureaus of large stores, the prices were obtained by inspecting price books of major appliance departments and checking price tags on the merchandise or, in the few cases where price books were not made available, by inspecting the price tags alone. This method was modified for the third survey as described below.

Important difficulties were encountered because of several uncontrollable variables facing the price shoppers which made the task of locating identical models difficult. One major difference in the Seattle and Los Angeles markets was the dominance of electric appliances in some categories (cooking ranges and clothes dryers) in the former, and gas appliances in the latter. Another major

problem was that of model changes. Some appliances that were priced in April, for instance, did not exist in August, or if they did exist, they were placed on sale because of newer models in the market. This limited the usefulness of price comparisons from quarter to quarter, and reduced the number of identical models to a point where no statistical tests for price changes could be applied.

The initial survey in April used the comparison shopping list as a guide in the selection of appliance models. In August, an attempt was made to duplicate exactly the April survey by visiting the same stores and pricing the same models. However, because of the obstacles mentioned above, this met with only partial success. In an attempt to overcome this weakness in January, as many appliance models as possible were obtained in both Seattle and Los Angeles. This "shotgun" approach proved much better than the use of the comparison shopping list with respect to the number of comparable models in both cities. In the last survey, the number of identical models for most appliances was increased significantly. However, since most of the January models were different from the two earlier surveys, no statistically significant price trend analysis of particular appliances is possible with the available data.

In analyzing the available prices of identical models that could be found during each survey, the average price of each type of appliance is shown for Los Angeles and Seattle in Table V-1.

The models recorded in each appliance category for Los Angeles and Seattle were exactly the same for the first two surveys. Unfortunately, although in the January survey it was possible to obtain a much larger number of identical models in the two cities, these models were not the same as those obtained during the April and August surveys. This hampers comparing price trends for the 9-month period.

Since the trends of retail sales volumes might be expected to influence price trends, retail sales data are provided here as economic background. In a declining market, price competition might be expected to lower prices, and vice versa. The retail furniture and appliance sales trends from 1968 to 1969 in the state of Washington and the United States are shown in Table V-2. Table V-3 presents a month-by-month comparison of department store sales in selected western cities.

TABLE V-1

AVERAGE PRICES OF MAJOR APPLIANCES
LOS ANGELES AND SEATTLE

Item	April, 1969			August, 1969			January, 1970		
	N	L.A.	Seattle	N	L.A.	Seattle	N	L.A.	Seattle
Dishwashers	4	\$197	\$198	4	\$193	\$194	9	\$209	\$218
Ranges	1	200	210	1	190	198	4	262	265
Washers	4	210	223	4	213	228	26	227	236
Dryers	2	182	162	2	183	173	12	194	204
T.V.	2	400	415	2	410	425	30	353	375
Refrigerator	6	363	371	6	362	372	34	354	359

Source: Field surveys.

TABLE V-2

FURNITURE AND APPLIANCE GROUP SALES^a
 WASHINGTON STATE vs. NATIONAL
 (in millions of dollars)

	United States			Washington		
	1968	1969	Per Cent Change	1968	1969	Per Cent Change
1st Quarter	3663	3774	+3.0	62.8	62.5	- .6
2nd Quarter	3884	4084	+5.1	61.9	64.9	+5.0
3rd Quarter	4284	4144	-3.3	69.1	67.7	-2.0
4th Quarter	4709	4712	+0.6	77.7	75.4	-3.0
Totals	16540	16714	+1.1	271.5	270.5	- .4

^aUnadjusted for seasonal variation.

Source: Washington: Department of Revenue, Olympia. United States: Department of Commerce, "Survey of Monthly Retail Trade."

TABLE V-3

DEPARTMENT STORE SALES IN SELECTED AREAS (TABLE 10-UNADJUSTED
(Department of Commerce Monthly Sample Data)
(all numbers in thousands)

SASA's	12 months 68 vs. 67	(1st Qtr.)				(2nd Qtr.)				(3rd Qtr.)			(4th Qtr.)		1968 vs. ANNUAL 1969	
		Dec. 68 Dec. 67	Jan. 68 Jan. 69	Feb. 68 Feb. 69	6 months Jan.-June 1968-1969	Mar. 68 Mar. 69	April 68 April 69	May 68 May 69	June 68 June 69	July 68 July 69	Aug. 68 Aug. 69	Sept. 68 Sept. 69	Oct. 68 Oct. 69	Nov. 68 Nov. 69		Dec. 68 Dec. 69
1. Los Angeles-Long Beach (Los Angeles County)	+5%	+6%	102260 106239 (+4%)	93174 96550 (+4%)	+6%	108874 116192	118717 127107	123908 130884	121142 130024 (+7%)	124955 137946	127015 139714	119502 131508	124276 134192	150256 160657	241784 269542	+8%
2. Eugene, Oregon (Lane County)	+7%	-3%	1777 1587 (-11%)	1745 1691 (-3%)	-2%	2183 2094	2137 2231	2287 2357	2357 2317 (-2%)	2390 2365	3015 2746	2541 2499	2268 2350	2556 2436	4137 4308	-1%
3. Salem, Oregon (Marion & Folk Counties)	+5%	-5%	1759 (+3%)	1643 (-4%)		2018 2064	2234 2259	2235 2313	2258 2260 (0)	2442 2405	3134 2847	2411 2429	2377 2486	2509 2533	4065 4228	+1%
4. Portland, Ore.-Wash. (3 Oregon Counties Clark County, Wn.)	+6%	+1%	10511 10806 (+3%)	10326 10204 (-1%)	+5%	12241 13212	12766 13957	13509 14659	13812 14115 (+2%)	13065 13752	16166 15888	13329 14297	14075 15378	16547 16523	25739 27813	+5%
5. Seattle-Everett, Wash. (King & Snohomish Counties)	+17%	+6%	21601 23166 (+7%)	20394 22753 (+12%)	+8%	25297 27604	26080 27839	28871 30859	27431 29733 (+9%)	27073 29397	35067	28891 30503	31128 32267	35816 36935	56398 62822	+7%
6. Spokane, Wash. (Spokane County)	+10%	+19%	4426 4586 (+4%)	5016 5089 (+1%)	+9%	5693 6264	5795 6601	5996 7141	6583 6900 (+5%)	6160 6688	7676 7802	6797 6967	7789 8061	7734 7884	12578 13283	+6%
7. Tacoma, Wash. (Pierce County)	+19%	+1%	5661 5845 (+3%)	5956 5893 (-1%)	+6%	6790 7290	6954 7319	7925 8333	7233 8178 (+13%)	7484 7923	9059 9627	7704 8023	7957 8013	9527 9731	14966 15971	+5%
II. CITIES																
1. Bellingham, Wash.	+29%	+72%	(+60%) 390 545	(+31%) 391 511	+53%	487 744	525 757	558 910	510 507 (-7%)	529 848	663 1068	542 904	565 915	1069 1051	1522 1794	+41%
2. Seattle, Wash.	+11%	-4%	(+2%) 14901 14235	(-6%) 13177 12997	0	15676 15801	15739 15782	17482 17399	16242 16446 (+1%)	16404 16719	19964	16997 17562	18480 18602	20715 20580	31910 34196	+2%
3. Walla Walla, Wash.	+3%	-8%	(-2%) 309 302	(-5%) 322 306	+1%	433 406	425 441	439 458	420 451 (+7%)	432 420	489 484	412 406	428 423	460 412	687 701	-1%
4. Yakima, Wash.	+5%	(-2%)	(-4%) 1285 1239	(-7%) 1363 1266	+2%	1681 1736	1641 1725	1876 1875	1794 1913 (+8%)	1781 1834	2217 2174	1802 1957	2047 2136	2240 2178	3243 3430	+2%

Source: U.S. Department of Commerce: Current Business Reports--Monthly Retail Trade
(1968 and 1969--monthly issue)

As a general rule, price levels in the Seattle area seem to be somewhat higher than the Los Angeles area. This holds fairly consistently for all three periods, but it would be difficult to conclude increases have been more pronounced in Seattle during the 9-month period than in Los Angeles. One exception to this is dryers. There was about 1.5 per cent increase in August from April in Seattle, while the price remained unchanged in Los Angeles. Another exception is that dryers are the only appliance that showed a lower price level in the Seattle area during April and August. However, with only two identical models to compare, very little can be said about this difference. The January, 1970 survey conveys a greater confidence in the average price levels because of the larger number of identical appliances. Here, the price level still shows a trend similar to the two earlier surveys for all appliances.

Since our interest is in the general price level, a second approach to the collected data was the use of some kind of an aggregate price index of all appliances for the two cities. In combining all appliances, we obtained the following:

TABLE V-4
AGGREGATE PRICES OF MAJOR APPLIANCES
LOS ANGELES AND SEATTLE

	April		August		January	
	L.A.	Seattle	L.A.	Seattle	L.A.	Seattle
Total Price	\$5166	\$5274	\$5172	\$5314	\$32785	\$34062
Number of identical models	19	19	19	19	115	115
Average price per model	\$ 273	\$ 277	\$ 273	\$ 280	\$ 285	\$ 296
Seattle price as a percentage using L.A. as a base, each period	<u>100</u>	101	<u>100</u>	102.5	<u>100</u>	104
Percentage price change, using both cities as base	0%	0%	0%	1%	4%	7%
CPI--all items, nationally		126.4		128.7		131.3
CPI for household furnishings, nationally		116.9		118.5		120.0

Source: Field surveys.

The table above shows that prices in the Seattle area for appliances in general have increased at a somewhat higher rate than Los Angeles and the national average. This may be a matter of speculation, but there is no economic reason that would suggest a higher rate. In fact, economic conditions in Seattle should force an opposite trend since there was substantial unemployment in the Puget Sound area in January 1970. But with this type of limited information, we cannot conclude that Initiative 245 has been the cause of the price increase in the Seattle area. The difference is not significantly large enough for drawing such a conclusion. On the other hand, the relatively higher prices for appliances in Seattle does tend to corroborate the survey responses of the appliance retailers.

Auto Retailer Pricing

Since there are some characteristics of auto retailing which differ from those of other types of retailing, and because auto purchases are usually the second-largest single purchase items for consumers (purchase of a house is larger, of course, and for non-home-owners rent payments are normally higher than car payments), auto prices are considered separately. Further, it was possible to obtain certain kinds of data on autos not available for other forms of merchandise.

Tables V-5 and V-6 summarize the findings relative to auto price changes by dealers interviewed in our sample. These reflect changes that were said to have taken place during the first three months of 1969.

TABLE V-5
NEW CAR PRICE CHANGES
WASHINGTON STATE, FIRST QUARTER 1969

Type of Dealer	Amount Given	Average Increase of 5.3%	Average Increase of \$56.-	Total Dealers	Per Cent
New car dealers				30	100%
Increased price	3	6	4	13	43
No price increase				17	57

TABLE V-6
 USED CAR PRICE CHANGES
 WASHINGTON STATE, FIRST QUARTER 1969

Type of Dealer	No Specific Amount Given	Average Increase of 11%	Average Increase of \$64.0	Total Dealers	Per Cent
Used car dealers				46	100%
Increased price	5	9	5	19	41
No price change				27	59

Note: A new-and-used car dealer's response is recorded in Table V-5 with respect to his new cars, and in Table V-6 with respect to his used cars.

Almost one-half of the dealers in each category indicated price increases on the autos that were sold. The dealers apparently did not attempt to increase their revenue by means of increasing prices on other products or services. Only 4 out of 39 respondents indicated that they had done so. Three new-car dealers increased delivery charges by an average of \$30 and one dealer increased his service contract charge by \$2. For used cars, the change was primarily a price increase in the car purchased because some of the services offered to new car buyers are not usually offered to used car buyers. Four used car dealers (10 per cent) did reduce their warranty liability on service contracts by shortening their commitment time period or by changing service terms. However, an indirect price increase for both categories was levied by means of offering the prospective buyer a lower trade-in allowance for his old car. This practice was expressly mentioned by 4 or 5 dealers in our sample.

A more comprehensive investigation of price changes was made using secondary source data. Data were recorded for all the Chevrolet, Ford, and Plymouth models that were sold at the Seattle Auction during the periods January through August of 1968 and 1969. For purposes of comparison the same kind of data were secured from Denver, Colorado, where the 12 per cent interest restriction does not exist. These are wholesale prices which the dealers pay

for the cars they buy at the auction. The results are shown in Table V-7 which follows.

TABLE V-7
WHOLESALE AUCTION AVERAGE AUTO PRICES
SEATTLE AND DENVER
1968 and 1969

Age	Model	Seattle		Denver	
		Number Sold	Price	Number Sold	Price
<u>1969</u>					
0	69	543	\$2554	198	\$2570
1	68	1741	2179	503	1963
2	67	759	1493	842	1551
3	66	345	1140	453	1170
4	65	243	932	371	942
5	64	158	707	228	675
6	63	100	475	180	471
<u>1968</u>					
0	68	262	2497	69	2653
1	67	931	2164	384	1974
2	66	862	1506	547	1557
3	65	656	1193	393	1216
4	64	385	981	181	937
5	63	284	707	164	691
6	62	137	544	132	483

There seemed to be slightly lower wholesale prices in Seattle for older used cars in 1969 when compared to Denver. Although this sample covers a sufficiently large number of automobiles, no conclusions can be made about the behavior of these prices except that, in general, used car prices at the wholesale level are lower in 1969 than they were in 1968 in both cities. However, it will be recalled that 41 per cent of the Washington used car dealers interviewed stated that their prices increased at the retail level. When dealers pay less for their purchases, they might be expected to keep retail prices unchanged, or even to lower them and pass some of the benefit on to the consumer. Initiative 245 forced upon the dealer a loss of revenue from interest

income. Viewed in this light, his behavior may be more understandable. A price increase at the retail level, or even no price change for that matter, is one possible way of recouping interest income losses.

Although no average retail prices on these autos were available, this higher retail margin on used cars was substantiated from another sample that covered about 15 per cent of all used cars sold in the state of Washington. These unpublished statistics become more impressive when they are compared with similar retail prices in Oregon which does not have the 12 per cent interest limitation. The data show the dealers in Washington were making an average of \$18 more on each used car sold in 1969 than in 1968. This represents a 13 per cent increase in 1969 over 1968. Dealers in Oregon were only making an average of \$13 more, or 9 per cent. On new cars, dealers in Washington were making only \$11 more (2.7 per cent), compared to Oregon's \$23 (7.9 per cent). The reader will recall that of those dealers interviewed (Tables V-5 and V-6) 43 per cent of the new car dealers stated that they had raised prices by 5.3 per cent, whereas 41 per cent of the used car dealers raised prices by 11 per cent. These two samples are not strictly comparable since the interview survey covered the first quarter changes, whereas the second sample covered the whole of 1968 and 1969; however, the evidence in both takes the same direction.

This is not surprising. This phenomenon will be discussed more fully under the section on "Credit Availability." A brief explanation is that banks in 1969 were still willing to finance new or newer cars at 12 per cent. However, pressure was building on used-car financing. The results of this pressure in terms of the losses in finance income reported in our survey appear in Table V-8 below.

TABLE V-8
FINANCE INCOME FROM AUTOS

	% Increase or Decrease in 1969 from 1968	
	Used Cars	New Cars
Seattle	-41.7%	- 7.0%
Washington	-51.1	-13.7
Oregon	- 2.9	- 1.0

Several dealers expressed the opinion that this lack of financing availability was the cause of depressed prices at the wholesale level, especially, for older used cars. On the basis of such remarks, Table V-9 was revised in the following fashion:

TABLE V-9
AVERAGE WHOLESALE AUTO PRICES
SEATTLE AND DENVER, 1968 AND 1969

	1969		1968	
	Number of Cars	Average Price	Number of Cars	Average Price
Late model used cars (0,1,2,3 yr. olds)	3388 (1996)	\$1980 (\$1669)	2711 (1393)	\$1752 (\$1630)
Old model used cars (4,5,6 yrs. olds)	501 (779)	\$ 770 (\$ 755)	806 (479)	\$ 810 (\$ 724)

Note: Prices and number of cars enclosed in brackets are for Denver, Colorado.

The implications here seem fairly obvious. The older model car which a consumer purchases in Seattle costs him a relatively higher price than if he were to buy a later-model used car. One can safely assume that the majority of buyers of older used cars belong to lower income groups than those who can purchase newer model cars. If this is correct, the impact of Initiative 245 does not seem equally distributed, and its adverse effects are being borne by the lower-income consumer to a greater extent than by more affluent consumers.

Auto Sales Volumes

Published data that directly relates to the behavior of auto sales in Washington for purposes of a scientific analysis are scarce, and what is available leaves something to be desired for purposes of comparison with other state and national figures. Nevertheless, an attempt was made to assemble available information that is of some benefit in the presentation of an overall automobile market picture.

Few dealers in the survey volunteered information on their sales volumes. Of those few, five reported no change in the sale of new cars and nine reported that sales of used cars dropped by about 8 per cent in the first quarter of 1969 when compared with the same period in 1968, but no inferences can be drawn from figures obtained from such a limited response for purposes of analysis. The data obtained from the Department of Revenue for the State of Washington shows only a slight gain of 0.2 per cent in auto dealers' sales (unadjusted) for the year of 1969 over 1968 while the United States automotive retail sales grew 2.5 per cent.

TABLE V-10

AUTOMOTIVE RETAIL SALES^a
WASHINGTON vs. UNITED STATES
(in millions of dollars)

	1967	1968	% Change Over 1967	1969	% Change Over 1968
Washington					
First Quarter	--	\$222.592	--	\$225.482	+1.3%
Second Quarter	--	\$242.423	--	\$256.619	+5.8%
Third Quarter	--	\$238.536	--	\$233.933	-1.9%
Fourth Quarter	--	\$221.718	--	\$210.942	-4.9%
Total Annual	\$918.926	\$925.269	+ 0.7%	\$926.976	+0.2%
United States	\$ 58,273	\$ 65,261	+12.0%	\$ 66,922	+2.5%

^aSeasonally unadjusted sales include new and used car dealers plus tire, battery and accessory dealers.

Source: Washington: State Department of Revenue. United States: Automobile Manufacturers Association, "Annual Automobile Facts and Figures."

Table V-10 shows a substantial sales decline in the third and fourth quarters of 1969 that virtually wiped out any annual sales growth in Washington.

Numerically, the number of used cars reportedly sold in Spokane in the first quarter of 1969 was 12 per cent less than the same period in 1968, which

in magnitude agrees with published figures of 10.5 per cent decrease found for the three Spokane dealers included in this survey. However, Seattle showed a 5.5 per cent increase in the number of used cars sold at the auction for the first half of 1969 over the same period in 1968. Overall, this may suggest a slight depression of used auto sales in Washington. However, any depression may just as easily be in response to general economic conditions nationally. For instance, according to "Automotive News" sales of used cars in 1969 dropped 100,000 units below the 1968 total, but new car registrations were about 43,000 units above the 1968 level. It is not possible, therefore, statistically to isolate the effects of the passage of 245 from other economic variables when potentially the degree of change is this small, when subscribing to the assumption that the trend of auto sales in Washington should more or less follow the national trend.

Dealership Terminations

Information gathered from dealers during last summer's survey shows that in an effort to cut costs and to survive, one new and used car dealer mentioned that he had to release eight salesmen. Another used-car dealer reported that both cash and credit sales were down, and the only way he was able to stay in business was by terminating the services of one full-time and two part-time salesmen. A third new and used auto dealer advertised close-out sales and mentioned specifically in his advertisements that one of the main reasons for going out of business was Initiative 245. A manager of a new and used car dealership said that his former used car business had to be terminated, and that now he was working on a salary for another dealer. He also mentioned the names of five dealerships that had gone out of business. These and a few others were brought to our attention during interviews with automobile dealers. A fifth used car dealer confided that he expected to be forced out of business in a few months because of Initiative 245. Since the interview period in the summer of 1969 some other dealerships were terminated.

Opinions expressed in the press by businessmen blamed Initiative 245 for auto industry problems. For example, during a panel discussion in a statewide press conference, Mr. Jenkins, Chairman of the Board of Seattle-First National Bank stated, "Washington State's Initiative 245 has made credit card business

unprofitable, is forcing auto dealers out of business, is damaging the real-estate industry, and must result in higher prices."¹ There was disagreement with the above contentions from another source. Joe Davis, President of the Washington State Labor Council responded by listing several factors that have influenced business, "Boeing has reduced its work force by almost 17,000; the national administration has deliberately set out to increase unemployment as an anti-inflationary weapon; construction starts have declined some 30 per cent, and inflation has cut into the wage gains received by the working men and women of the state."²

The president of the Seattle Automobile Dealers Association, Pat Goodfellow, has indicated several possible reasons for the closure of three or four major dealerships in the Seattle area in the past year, the reorganization or regrouping of seven or eight more and the failure of "countless" used-car dealers: high inventories; a cost of financing those inventories that "is out of sight"; increasing overhead; growing size of dealerships; a sluggish response to rapidly changing economic conditions; the credit squeeze created by rising interest rates charged dealers while Initiative 245 limits dealer interest charges to buyers to 12 per cent per year; the area's economic slowdown. "Initiative 245 would have been more tolerable under the interest rates we had three or four years ago," Goodfellow said.³

In reviewing the records of the Department of Motor Vehicles in Olympia during the months of June through December (no records were available for earlier months in 1968), it was learned that there were 171 new dealership applications in 1968 and 174 in 1969. In looking at the number of cancellations of dealer licenses for the same period, there were only 119 terminations in 1968 compared to 201 in 1969. (These data appear below in Table V-11.) One would suppose that the bulk of these are used car dealers. Usually, a business that deals with new cars has stronger financial backing.

¹*Seattle Times*, October 8, 1969.

²*Seattle Times*, January 11, 1970.

³*Seattle Times*, December 18, 1969.

TABLE V-11

NEW LICENSES AND TERMINATIONS OF AUTO DEALERSHIPS
JUNE TO DECEMBER, 1968 AND 1969

	1968	1969	Total
New Applications	171	174	345
Terminations	119	201	320

As far as the consumer is concerned, this may be a healthy sign if these businesses are terminated because of inefficiencies and high operating costs. But if Initiative 245 is the cause of such an adverse impact in this area, the consumer, in the long run, will have fewer alternatives and choices. His bargaining power may be reduced, and he may become "captive" to fewer competitors. The passage of time will be required to determine whether this decrease in competition injures consumers.

A Chi-square test was run on this data to determine whether there was a significant difference in the proportion of terminations between 1968 and 1969. The results give us a value of Chi-square equal to 11.03. This is significant at the 0.01 level.

The reader is cautioned that no claim is made that this significant increase in dealership terminations is due to Initiative 245 alone. Economic conditions in Seattle, high interest rates, and the general auto market can also be considered as contributing factors.

The reporting of dealership cancellations and new applications in Olympia is made on a monthly basis. As mentioned earlier, only the last seven months of 1968 were available, but all twelve months of 1969 could be obtained. These were as follows in Table V-12.

These monthly data present an interesting phenomenon. We suggest that a market which is in equilibrium, or which is in a reasonable position profitwise, will show a positive reaction manifested by new entries in response to exits out of the market. If the industry is in equilibrium, we should theoretically expect the number of new entries to correspond to the number of terminations

TABLE V-12

NEW LICENSES AND TERMINATIONS OF AUTO DEALERSHIPS
 JANUARY TO DECEMBER, 1968 AND 1969

Month	1968		1969	
	Terminations	Applications	Terminations	Applications
January	--	--	19	37
February	--	--	34	32
March	--	--	36	31
April	--	--	20	32
May	--	--	31	41
June	0	36	27	20
July	14	19	27	41
August	0	34	27	34
September	42	16	43	23
October	20	29	32	22
November	37	17	35	23
December	6	20	10	11

Source: Washington State Department of Motor Vehicles

and, in fact, in a profitable market, new entries should even exceed exits until an equilibrium is reached. This suggested the application of a rank correlation test between the number of cancellations and the number of entries. After consideration of several alternatives, it was found that using a one-month lag in new applications for both 1968 and 1969 gave the best fit. This can be justified in terms of the real world situation. We cannot realistically expect new applications to respond to terminations spontaneously. Some such

cases may exist, but the majority of new entries would reasonably lag behind terminations. Not only does the process involve search and investigation on the part of the new applicant, but also the administrative procedures of licensing consume some time. On the basis of a one-month lag, the correlation coefficient for the last seven months of 1968 was a positive 0.56, and for the twelve months of 1969 was a negative 0.62.

The correlation coefficient for 1968 is not significant at the 0.05 level (it would have become significant if its value was 0.67, or if we had all 12 months of 1968), but it should not be completely disregarded. Actually it is the sign of the coefficient rather than the magnitude which is of most interest. The positive value in 1968 suggests that a high number of cancellations was associated with a similar number of new applications. And when cancellations were low, new applications were likewise. Such response is likely to happen in an equilibrium market.

Turning to the negative correlation coefficient in 1969, we find it significant at the 0.05 level. The negative sign can have two possible explanations with respect to the magnitude of exits and new entries. If low exits are accompanied by high new entries, the market would have to be highly profitable for such behavior to manifest itself. But the lack of increase in new applications in 1969 over 1968 (for the last 7 months of both years where a comparison can be made) does not support such an assumption. On the other hand, the negative sign can also mean that high cancellations are accompanied by low new entries, an indication of a depressed market. Such an assumption would have more support when we recall that for the last seven months of 1968 terminations amounted to 119, and in 1969 for the same period they were 201.

Again, no implication can be made that the depressed market is solely due to the effect of Initiative 245. It is necessary to remain aware of other economic factors in 1969 both on the national and local levels.

The standard deviation from regression shows a value of about 0.24. If the residuals from the true regression line are normally distributed, then b is normally distributed also with mean B and standard deviation equal to 0.24

To test the hypothesis that $B = B_0$, i.e. to see if the value of the coefficient is significant and makes a contribution in explaining new applications, we can use the t ratio:

$$t = \frac{b - B_0}{s_b} \quad \text{with } n - 2 = 10 \text{ degrees of freedom}$$

$$t = \frac{0.58 - 0}{0.24} = 2.41$$

This value of t is significant at the 0.05 level. ($t_{.05(n-2)} = 2.23$) The coefficient of determination (R^2) is only 0.36. In other words we can attribute only 36 per cent of the variation in applications to cancellations. This value suggests the presence of other variables such as disposable income, employment, . . . etc. that may help explain the remainder of this behavior. It is proposed, therefore, that if further work is done in this area, a more comprehensive analysis of other economic variables may shed further light on this situation.

Leasing. At the time of the field interviewing program, it was not possible to discern any significant shift toward leasing programs in response to Initiative 245. There were only four automobile dealers who indicated that they were attempting to promote leasing, and two additional dealers expressed plans to promote leasing in the future. It seems logical that more dealers might move to leasing programs since the law does not regulate this activity. Of the dealers interested in leasing, however, several mentioned that they were interested in leasing for "its own sake" and not because of Initiative 245.

Data from a number of banks which finance dealer leasing of automobiles (Table V-13) show that in 1969 the number of leases financed increased by about one-sixth, and the dollar volume of lease financing increased by one-third over 1968. The average dollar size of the leasing finance contracts increased by about one-sixth.

In early 1970, there was an increase in the number of auto dealer advertisements which stressed leasing. Several of these presented two options: a long-term lease at a relatively low rate with no mileage charge, and a lease-purchase plan with higher rates and a mileage charge and specific purchase prices consumers would pay on conversion of the lease to a purchase. At this juncture, the lease plans appear more as positive sales devices than as defensive responses to financing problems created by the interest limitation law.

TABLE V-13

AUTOMOBILE LEASING
A SAMPLE OF BANKS FINANCING LEASING PLANS
STATE OF WASHINGTON
(thousands of dollars)

	1968		1969		Percentage Change	
	Number	Dollar Volume	Number	Dollar Volume	Number	Dollar
New	3503	13,093	4040	17,439	+15.3%	+33.2%
Outstanding	7310	19,698	8571	24,727	+17.2%	+25.5%

Average Dollar Size
of Contracts

New:	1968	\$3738	Percentage Change = <u>+15.5%</u>
	1969	\$4317	
Outstanding:	1968	\$2732	Percentage Change = <u>+5.6%</u>
	1969	\$2885	

For consumers, the main attraction of the leasing plans appears to be the opportunity to start driving a new car without a downpayment. The long-term lease plans have the additional advantage that the rental costs are as low as, or lower than, normal monthly payments on outright purchase. Perhaps the most significant change observable is that leasing formerly seemed aimed at business and professional customers, whereas the current advertising is aimed at consumers. With available evidence, it is not possible to attribute increases in leasing to Initiative 245.

Summary

In this chapter on product related responses of retailers, it has been pointed out that retailers who have suffered losses in credit income or who have seen credit revenues turn into credit losses can be expected to make up these

losses in other ways. Some of the ways relate directly and indirectly to the handling of credit itself and are discussed elsewhere. This chapter concerns itself with product related policies and decisions such as pricing, pricing of ancillary services, adjusting assortments, changing gross margin rates and/or generally improving merchandising efficiency.

The first product-related hypothesis posited in this study was, "Prices of merchandise frequently sold on credit have gone up." The majority of retailers responded that they had raised prices on all merchandise to make up for their losses on Initiative 245. Others raised prices on specific items usually sold on credit. In either case, the price rises negated the proposed benefits of the law, which were to lower the cost of credit and provide a net saving to consumers. Where prices were raised only on credit-sensitive items, the credit customer paid more for the goods. Where all prices were increased, the credit customer had to pay more for everything he bought in the store, whether he in fact charged everything he bought. The cash customer, of course, subsidized the credit customer by paying all of the price increases and receiving none of the benefits of interest limitation.

In addition to direct price changes, retailers sought to lower costs and increase revenues by instituting charges, or raising the level of charges, on ancillary services such as check cashing, wrapping and packaging, delivery, product installation, product service contracts, lay-away and parking.

In auto retailing, it was possible to get some external verification of the respondents assertions that prices had gone up on both new and used cars, but that they had gone up relatively more on older used cars. Even where prices may have remained stable, auto dealers were able to raise their gross margins on these older cars because their wholesale prices had declined. Further, higher gross margins were achieved by allowing relatively low trade-in allowances.

The second hypothesis was: "Different products and different businesses have been affected in different ways by the new laws." It can be seen in this chapter that items usually or frequently bought on credit, particularly autos, furniture and appliances, have been affected differently than items normally purchased for cash. Considerable adjustments were in evidence in the sale and financing of "credit-sensitive" items. In many cases, the actions of

respondents to raise prices to make up for lost interest revenue fell equally on all products in retail stores; i.e., the majority of the respondents raised prices on all merchandise. Other businesses raised prices on the credit types of items themselves. Still other merchants felt that the nature of competition on items such as major appliances prevented raising prices on these items. They were concerned that consumers could compare prices too readily, and that sales would be lost. In the auto retailing industry, there were differences between dealers and between products. Prices were raised proportionately more on used cars than on new cars, and gross margins were increased more on the used cars. In the sections of this report on financing, it is pointed out that banks quit financing cars older than a specified number of years, and this created special problems for businesses and consumers. The incidence of retailer mortality fell most heavily on used car dealers, and there were cases of new car dealers blaming Initiative 245 as one cause of going out of business. There were no cases reported of retailers other than auto dealers who failed in business as a result of Initiative 245, although there may have been some.

A third hypothesis was, "Leasing of merchandise frequently sold on credit has increased." The provision of leasing options by new car dealers appeared to increase, but it was not possible to attribute this to Initiative 245. There was no apparent increase in leasing of other consumer products.

The auto data supports conclusions in other parts of this study that the impacts of the Initiative fall more heavily on the lower income consumers. Other portions of the study show that credit became less available to lower income people and that they were likely to pay a much higher interest rate if they were able to get credit at all. The analysis of auto pricing demonstrated that prices on older autos have increased proportionately more than prices on newer autos. Since it is logical to assume that older autos are bought principally by lower income, less creditworthy consumers, the consumers at the bottom of the scale suffer on both the price of autos and on their costs of credit.

The increase in dealer mortality and the apparent decline in new business formations to replace failing businesses may not seem of immediate concern to consumers. Yet, for whatever effect this has on consumer welfare, the trend definitely represents a diminution of competition in auto retailing.

CHAPTER VI

GENERAL CONCLUSIONS

The conclusions are summarized in the Summary of Findings at the beginning of this report (Chapter II). In general, it can be stated that the impacts of Initiative 245 reached consumers primarily through the medium of business responses to the law. Businesses which dealt in consumer credit tended to lose revenues and profits because of the 12 per cent per year limit on the charge they could make for credit. The defensive measures taken by businesses involved increasing costs for some or all consumers and making credit more difficult for some to obtain. The law provided a rationale for raising prices, tightening upon credit, and other practices detrimental to consumers. Those who expected benefits from the Initiative probably did not foresee such effects on consumers.

Poor people were hurt most by the effects of the law. Some of them formerly able to obtain credit from certain sources were shut off from these sources. Some were unable to make purchases because their credit applications were refused. Some auto customers probably were shut out of the market because they could not make the increased downpayments or the monthly payments on shortened maturities. Some who obtained credit paid more for it than they would have paid for it before the law was passed.

Some cash customers were forced to subsidize credit customers through paying relatively higher prices for goods purchased. Some creditworthy customers pay more interest than before the law because their free credit time periods have been reduced. Some creditworthy customers of stores which, on the goods these customers bought did not raise prices enough to counterbalance losses in credit revenue, may have received a net reduction in the total cost of buying on credit. Those who benefited most were those who could buy merchandise on credit at less of a price increase than the drop in credit revenues and who did not buy anything in credit-granting stores for cash.

There were, of course, significant changes occurring in other economic factors during the period of the study. Many of the actions taken by retailers and financial institutions might have been influenced to some extent by tight

money, the increasing prime rate of interest, deteriorating economic conditions and inflation. The fact that a recession was developing in the state of Washington affected the external data used to verify the impacts of Initiative 245. The unemployment rate which was rising, particularly in the Seattle area, and the consequent weakening in incomes and demand, undoubtedly induced some measures quite the opposite of initial responses to the Initiative--and some measures which took the directions to be expected in response to the Initiative.

Additional research which might provide useful information would be to follow up on price movements over extended periods of time. Toward the end of this study it was found that certain sources of price information might be available for periods of several years. The same sources could provide data on downpayments and maturities. Further, although tests involving consumer interviews proved a failure in this study because of the inaccuracy of consumer answers, some means might be devised to derive meaningful information from consumer interviews.

If additional time and resources were available, relevant information might be obtained from a more detailed study of automobile data. For example, studies of the legal ownership of autos might show changes in financing patterns. Consumer interviews of persons whose cars were recorded as purchased through consumer finance companies might provide data on the practice of "meating" (the use of multiple personal loans not formally connected with the auto purchase to put together auto downpayments).

Finally, if the law is changed again to allow higher interest or service charges on consumer credit, a follow-up study could more fully determine the relationships between rate limitation and its impacts.

APPENDIX

EXPLANATION OF TERMS*

Consumer finance company (or "small loan company"). Consumer finance companies are firms set up under special legislation to make it easier for people with relatively poor credit standings to borrow money. In the state of Washington, these firms are permitted to charge three per cent per month (36 per cent annual interest) on loans up to \$300, one and one-half per cent (18 per cent annual) on loans between \$300 and \$500, and one per cent per month (12 per cent annual interest) on loans over \$500. Loans may be made directly to consumers or may be made indirectly through retailers.

Sales finance companies. Sales finance companies (also called "captive finance companies") are set up by manufacturers to provide indirect financing for retailers of their products, although they may finance the sale of products other than their own. Examples include General Motors Acceptance Corporation and General Electric Credit Corporation.

Direct loan. The terms "direct loan," "personal loan" and "consumer loan" are generally used interchangeably in this report to apply to a loan having the following characteristics:

1. it is made to a consumer;
2. it is made by a specialized financial institution, such as a bank or small loan company;
3. it is made for a designated purpose;
4. the maximum amount is limited by the policy of the lender and, in most states, by statute; and
5. it is to be repaid in installments.

For a more detailed explanation of terms, see: Robert H. Cole, *Consumer and Commercial Credit Management*, Third edition (Homewood, Illinois: Richard D. Irwin, 1968); Elvin F. Donaldson and John K. Fahl, *Personal Finance*, Fourth edition (New York: The Ronald Press, 1965); and Richard P. Ettinger and David E. Golieb, *Credits and Collections*, Fifth edition (Englewood Cliffs, New Jersey: Prentice Hall, 1962).

Indirect loan. "Indirect loans" are loans made by financial institutions to finance merchants' sales of durable goods--such as automobiles and household appliances--on the installment plan. The operation is, in effect, "indirect lending" by the financing agency to the consumer.

In "indirect" financing of installment sales, the prospective customer makes application for credit to the dealer or merchant, not the financing agency. The dealer interviews the customer and collects the basic credit information. He then clears the application with the financing agency, which usually makes a credit investigation, although the dealer may himself perform this task.

The customer has no contact with the financing agency until after the sale is made--the merchant handles all the details of the transaction in much the same way that an installment sale is made in a department store. The customer usually makes a downpayment, and agrees to pay the balance of the sale price, plus credit costs, in equal installments. He signs a promissory note and a conditional sales contract, chattel mortgage,* or bailment lease.*

The indirect lending activities of small loan companies are generally referred to as the purchase of conditional sales contracts, while indirect lending activities of banks are generally designated as indirect loans.

Recourse plans. Sales finance companies and banks finance retail installment sales under several different "recourse" plans.

(a) No-recourse or non-recourse plans place all the risk on the financing institution. If the customer (debtor) defaults, the agency repossesses the goods and stands any loss. Dealers operating under no-recourse plans are generally inclined to submit to their financing agency the credit applications of all prospective customers except obviously impossible risks. Consequently, financing agencies generally limit no-recourse plans to dealers and retail customers with

*When one purchases goods and executes a chattel mortgage as security for the purchase price, title to the goods passes from the seller to the buyer as a consequence of the sale and back to the seller by virtue of the chattel mortgage. The seller thus holds legal title until final payment is made. In the bailment lease, title to the goods remains with the seller until the final payment has been made and then it is purchased for a nominal sum which is usually waived by the seller. When the conditional sales agreement is used, title to the goods remains with the seller until the last payment has been made.

good credit ratings. (As a general rule, finance companies handle retail installment sales under this plan.)

(b) Limited recourse plans divide the credit risk between the retail dealer and the financing agency.

(c) Full recourse plans place all the credit risk on the retail dealer. If the customer (debtor) defaults, the financing agency reassigns the contract to the dealer, who bears whatever losses are involved. (As a general rule, banks finance retail installment sales under this arrangement.)

Credit life insurance. While there are several variations of credit life insurance, the basic objective is always the same--it is meant to assure full payment of a loan in the event of the death of the buyer. Health and/or accident provisions are sometimes included in the policies or else in separate insurance policies.

Participation. The term "participation" refers to the practice whereby a financial institution shares the interest proceeds from an indirect loan or a conditional sales contract with the retail dealer. Thus, on an indirect loan of \$100, the dealer receives from the financial institution \$100 plus a certain percentage, generally called "participation rate," of the interest on the loan.

Discount. The term "discount" refers to the practice whereby a financial institution charges the dealer a certain rate per annum for making an indirect loan or purchasing a conditional sales contract. Thus if a small loan company buys a \$100 conditional sales contract, it will pay the dealer not the face amount of the contract, but rather \$100 less whatever annual rate of discount it is charging at that particular time. (If a 3 per cent annual discount is charged, the dealer will receive \$97, assuming the contract has a one year maturity. If the contract has a two year maturity, the dealer will receive \$94.)

Flipping. The term "flipping" refers to the practice among loan companies of converting a conditional sales contract to a direct loan. While a maximum simple interest rate of 1 per cent per month can be charged on a conditional sales contract as a result of Initiative 245, a simple interest rate of 3 per cent per month can be charged on direct loans of amounts less than \$300, 1½ per cent per month on amounts between \$300 and \$500, and 1 per cent per month on amounts over \$500.

Mousing. The term "mousing" is used in the retail auto industry to denote the practice of dealing with consumers who are unable to make downpayments. The consumers are sent to two or more consumer finance companies to obtain a series of small personal loans. These loans are not connected formally with the auto purchase, and the auto is used as collateral only on the balance remaining after the downpayment is made. In the state of Washington, the remaining balance--as a retail purchase--incurs a maximum interest rate of 12 per cent per year, but the series of personal loans used to put together the downpayment may cost the consumer as much as 36 per cent annual interest.

Questionnaires

ECONOMIC IMPACT OF INITIATIVE 245 - SURVEY

AUTO DEALERS

1. Type of Dealer: Please check category which best describes your operation.

a. _____ New and used vehicles

b. _____ Used vehicles

Firm: _____

Name of Person(s) interviewed: _____

Position: _____

Address: _____

Phone: _____

Date of Interview: _____

No. _____

ECONOMIC IMPACT OF INITIATIVE 245

QUESTIONNAIRE FOR AUTO DEALERS

This group of questions will deal with changes you may have made in direct response to Initiative 245 (either the passage of the initiative or its taking affect on 12/5/68) when dealing with consumers.

Circle Response

1. Have you increased the average selling prices on

a) new vehicles	Yes	No
b) used vehicles	Yes	No

If yes, by how much?* _____
 (*trade-in price change?)

2. Have you increased prices on other items in response to Initiative 245 (i.e., parts, service, TBA)? Yes No

If yes, identify _____

3. With respect to the following product related charges, do you charge for

	No Change		Prior to Initiative 245 (before 12/5/68)		In Response to Initiative 245 (since 12/5/68)	
			Amount		Amount	
a) product delivery	_____	Yes No	\$ _____	Yes No	\$ _____	
b) service contracts	_____	Yes No	\$ _____	Yes No	\$ _____	
c) product guarantees (warranties)	_____	Yes No	\$ _____	Yes No	\$ _____	
d) other product related services						

Identify _____
 (handling, check cashing, make ready, etc.)

Comment:

4. With respect to the following credit related fees and policies, do you require

	<u>No</u> <u>Change</u>			<u>Prior to</u> <u>Initiative 245</u> <u>(before 12/5/68)</u>			<u>In Response to</u> <u>Initiative 245</u> <u>(since 12/5/68)</u>
				Amount			Amount
a) a service fee (minimum)	_____	Yes	No	\$ _____	Yes	No	\$ _____
b) a loan fee	_____	Yes	No	\$ _____	Yes	No	\$ _____
c) an investigation and credit report fee	_____	Yes	No	\$ _____	Yes	No	\$ _____
d) credit insurance	_____	Yes	No	\$ _____	Yes	No	\$ _____
e) cash/credit differential	_____	Yes	No	\$ _____	Yes	No	\$ _____
f) late payment fee	_____	Yes	No	\$ _____	Yes	No	\$ _____
g) other? Identify _____							

Comment:

5. In response to Initiative 245 do you now promote auto leasing instead of purchasing?

Circle Response

Yes No

Comment:

6. Do you intend to promote more auto leasing in response to Initiative 245?

Yes No

If yes, why?

7. What is your policy with respect to recourse on credit paper.

Before passage of Initiative 245:

If yes, to what extent _____

In response to Initiative 245:

If yes, to what extent _____
(repurchase agreements)

8. When selling paper to banks, what was the participation rate or discount rate

Prior to Initiative 245? _____

In response to Initiative 245? _____

Comment:

9. Have you changed the credit eligibility rules for consumers in order to reduce expected losses in response to Initiative 245?

Yes No

Specify rules changed: New: _____

Used: _____

10. Do you now reject applicants for credit whom you would have accepted before Initiative 245 took affect?

	Prior to Initiative 245 (before 12/5/68)	In Response to Initiative 245 (since 12/5/68)
--	--	---

Yes _____ No _____ Rejection rate: _____

If yes, why?

11. Do you now advertise or promote the availability of credit (same _____ more _____ less _____) in response to Initiative 245?

What have you done?

12. As far as you can determine, what has been the impact of Initiative 245 upon consumers?

13. For border cities

a) To your knowledge, have local customers increased their purchases from out of state

in response to Initiative 245: Yes _____ No _____

in response to Initiative 245: Yes _____ No _____

14. Would you please give us a sample of the type of consumers you rejected as marginal credit risks? (names)

Prior to Initiative 245

In Response to Initiative 245

15. What is the minimum downpayment as a percent of price you require from credit buyers in the following situations?

		<u>Prior to Initiative 245</u>		<u>In Response to Initiative 245</u>	
superior credit risk:	new vehicles	_____	_____%	_____	_____%
	used vehicles	_____	_____%	_____	_____%
average credit risk:	new vehicles	_____	_____%	_____	_____%
	used vehicles	_____	_____%	_____	_____%
below average credit risk:	new vehicles	_____	_____%	_____	_____%
	used vehicles	_____	_____%	_____	_____%

16. Capacity to pay at time of application: What were the monthly payments as a percentage of monthly take-home pay which best describe your marginal consumer credit applicant?

Prior to Initiative 245

In Response to Initiative 245

17. What per cent of your consumer auto financing is done by:

	<u>Prior to Initiative 245</u>		<u>In Response to Initiative 245</u>	
	<u>New</u>	<u>Used</u>	<u>New</u>	<u>Used</u>
Your firm	_____	_____	_____	_____
Banks	_____	_____	_____	_____
Finance Companies	_____	_____	_____	_____

18. What is your average credit turnover?

	<u>1st Qtr. 1968</u>	<u>1st Qtr. 1969</u>
Credit sales	_____	_____
Accounts Receivable	_____	_____
Comment:		

19. Number of Loan Payments: What was the percentage of loans with the following maturities?

	<u>Prior to Initiative 245</u>		<u>In Response to Initiative 245</u>	
	<u>New</u>	<u>Used</u>	<u>New</u>	<u>Used</u>
Single payment	_____	_____	_____	_____
6 months	_____	_____	_____	_____
12 months	_____	_____	_____	_____
24 months	_____	_____	_____	_____
36 months	_____	_____	_____	_____
More than 36 months	_____	_____	_____	_____

20. What dollar volume of your business was done:

	<u>1st Qtr. 1968</u>		<u>1st Qtr. 1969</u>	
	<u>New</u>	<u>Used</u>	<u>New</u>	<u>Used</u>
on cash basis	_____	_____	_____	_____
on leave basis	_____	_____	_____	_____
on credit basis	_____	_____	_____	_____
total sales	_____	_____	_____	_____

21. Has your finance income changed?

	<u>1st Qtr. 1968</u>	<u>1st Qtr. 1969</u>
a) Gross finance income	_____	_____
b) Bank or finance company discounts (costs)	_____	_____
c) Net finance income	_____	_____

Comment:

ECONOMIC IMPACT OF INITIATIVE 245

RETAIL ESTABLISHMENTS

I. Type of Retailer: Please check the one category and sub-category(s), where appropriate, which best describes your operation.

- a. general merchandise store
 department store
 limited price variety store
 miscellaneous general merchandise store
- b. apparel, accessory store
 men's clothing, accessories
 women's clothing, accessories
 family clothing, accessories
 shoe store
 other apparel, accessories
- c. furniture, home furnishings
 furniture, home furnishings
 household appliance, radio, television, music store
- d. retail hardware
- e. home and auto supply
- f. other (please list the three most important items.)

Firm: _____

Name of Person(s) interviewed: _____

Position: _____

Address: _____

Phone: _____

Date of Interview: _____

No. _____

ECONOMIC IMPACT OF INITIATIVE 245

QUESTIONNAIRE FOR RETAILERS

1. What kinds of credit do you extend to consumers?

	Prior to Initiative 245 (before 12/5/68)		After Initiative 245 (since 12/5/68)	
	Yes	No	Yes	No
a) installment credit	Yes	No	Yes	No
b) revolving credit	Yes	No	Yes	No
c) open book credit	Yes	No	Yes	No
d) bank credit cards	Yes	No	Yes	No
e) other _____				

2. Since the passage of Initiative 245 (11/68) have you encouraged the consumer to switch from one form of credit to another?

Circle One

Yes No

If yes, switch from _____ to _____
 _____ to _____

Comment:

3. Have you in response to Initiative 245 selectively increased prices

Circle One

a) on credit sensitive items (those usually bought on credit)?

Yes No

b) on all merchandise?

Yes No

c) Other _____
 (specific items for example)

d) comment:

4. With respect to the following product related charges, do you charge for:

	Prior to Initiative 245 (before 12/5/68)		After Initiative 245 (since 12/5/68)		No Change
	Yes	No	Yes	No	
a) product delivery	Yes	No	Yes	No	_____
b) product installation	Yes	No	Yes	No	_____
c) product returns	Yes	No	Yes	No	_____
d) service contracts	Yes	No	Yes	No	_____
e) product guarantees (warranties)	Yes	No	Yes	No	_____
f) other product related services					

Identify _____
(handling, packaging, wrapping, check cashing, etc.)

Comment:

5. With respect to the following credit related fees and policies, do you require

	Prior to Initiative 245 (before 12/5/68)		In Response to Initiative 245 (since 12/5/68)		No Change
	Yes	No	Yes	No	
a) a service fee (minimum)	Yes	No	Yes	No	_____
b) a loan fee	Yes	No	Yes	No	_____
c) an investigation and credit report fee	Yes	No	Yes	No	_____
d) credit insurance	Yes	No	Yes	No	_____
e) cash/credit differential	Yes	No	Yes	No	_____
f) a one-time set up fee for new accounts	Yes	No	Yes	No	_____
g) late payment fee	Yes	No	Yes	No	_____
h) changed loan maturities	Yes	No	Yes	No	_____
i) other? Identify					

(e.g., filing fee)

Comment:

6. Have you changed the average down payment/sales price ratio in response to Initiative 245?

		From		To
Yes	Increase	_____ %		_____ %
	Decrease	_____ %		_____ %

No, remains unchanged

Comment:

7. Have you in response to Initiative 245 reduced the actual time period of

a) service contracts	Yes	No
b) merchandise guarantees and warranties	Yes	No

Comment:

Do you carry your own retail sales financing? Yes No

If no, go to question 11.

8. Have you in response to Initiative 245 changed the average time periods over which you are willing to extend credit?

		From		To
Yes	Increase	_____ mos.		_____ mos.
	Decrease	_____ mos.		_____ mos.

No, remains unchanged.

Comment:

9. Do you now reject applicants for credit whom you would have accepted before Initiative 245 took affect?

			Prior to Initiative 245 (before 12/5/68)	In Response to Initiative 245 (since 12/5/68)
Yes	No	Rejection Rate	_____	_____

If yes, specify rules changed _____

Comment:

10. What proportion of your total consumer credit sales is financed through

	<u>Prior to Initiative 245 (1st qtr. 1968)</u>	<u>After Initiative 245 (1st qtr. 1969)</u>
a) your firm	_____ %	_____ %
b) bank loans	_____ %	_____ %
c) bank cards	_____ %	_____ %
d) finance companies	_____ %	_____ %

Comment:

11. Has your total volume of sales changed? Compare the first quarter of 1968 with the first quarter of 1969.

	<u>1st Qtr. 1968</u>	<u>1st Qtr. 1969</u>
a) volume of total sales	\$ _____	\$ _____
b) volume of credit sales	\$ _____	\$ _____
c) ratio of credit/total sales	_____ %	_____ %

Comment:

12. Has your finance income changed? Compare the first quarter of 1968 with the first quarter of 1969?

	<u>1st Qtr. 1968</u>	<u>1st Qtr. 1969</u>
a) Gross finance income	\$ _____	\$ _____
b) Bank or finance company discounts (costs)	\$ _____	\$ _____
c) Net finance income	\$ _____	\$ _____

Comment:

13. What is your average credit turnover?

	<u>No Change</u>	<u>1st Qtr. 1968</u>	<u>1st Qtr. 1969</u>
Credit Sales	_____	_____	_____
Accounts Receivable (As of March 30)	_____	_____	_____

Comment:

14. To your knowledge, have local customers increased their purchases from out of state

In response to Initiative 245: Yes _____ No _____

In response to other factors: Yes _____ No _____

15. As far as you can determine what has been the impact of Initiative 245 upon

a) consumers? _____

b) your own business? _____

16. Please give us a sample of the type of consumers you rejected as marginal credit risks? (Names)

Since the passage of Initiative 245

17. Capacity to Repay: What were the monthly payments, at time of application, as a percentage of monthly takehome pay which best describes your marginal consumer credit applicant?

Prior to Initiative 245

In response to Initiative 245

ECONOMIC IMPACT OF INITIATIVE 245 - SURVEY

CONSUMERS

(Note: This questionnaire was used experimentally but was found to be unproductive.)

Hello. I am _____ . I am a Research Assistant in the Graduate School of Business Administration at the University of Washington. We are conducting a study to determine what the impact of Initiative 245 has been upon the consumers in our state. You may recall that this Initiative reduced the maximum allowable interest rate charged for consumer credit from 18 per cent (1½ per cent per month) to 12 per cent (1 per cent per month). We are interviewing consumers like yourself and we need your help in answering a few questions to see how this new law is working out.

ECONOMIC IMPACT OF INITIATIVE 245 - SURVEY

CONSUMERS

Since the passage of Initiative 245 in December 1968:

Circle Response

1. Have you attempted to purchase an appliance, furniture, or car? Yes No
2. Did you finally purchase the item? Yes No
- a) If no, was it because you could not obtain financing? Yes No
Please explain. _____

(fine out avenues he attempted)
- b) If yes, what was the item(s)? _____ new _____
used _____
- (1) If used, did you first intend to purchase a new item? Yes No
- (2) Explain (could obtain lesser financing) _____

3. How did you pay for the item?
- a) cash _____ If cash, savings _____ cash on hand _____
- b) why cash?
- c) credit _____ Who financed it? _____
(retailer?)
- d) If not financed by retailer, was it your first choice? Yes No
- e) If no, explain _____

4. Do you have a revolving charge account? Yes _____ No _____
If no, have you recently applied for one? Yes _____ No _____
- Comment:

5. Have you had any credit privileges denied? Yes ___ No ___
By retailer? _____
Bank _____
Finance company _____
Were you given a reason? Yes ___ No ___
What was the reason?
6. Have retailers encouraged you to lease the item rather than purchase it?
Yes ___ No ___
7. If a retailer refused you credit, were you encouraged to obtain the whole
_____ or part _____ of the amount from another source? Yes ___ No ___
If yes, who? Bank _____ Finance Company _____ Other _____
8. This time last year, was it easier for you to get credit before passage of
Initiative 245? Yes ___ No ___

ECONOMIC IMPACT OF INITIATIVE 245 - SURVEY

FINANCIAL INSTITUTIONS - FINANCE COMPANIES

I. Type of financial institution: Please check the one category and sub-category, where appropriate, which best describes your operation:

- a. _____ bank
 _____ federal charter
 _____ branch
 _____ state charter
 _____ branch
 _____ mutual savings
- b. _____ finance company
 _____ branch
- c. _____ credit union
- d. _____ savings and loan
- .

Firm: _____

Name of Person(s) interviewed: _____

Position: _____

Address: _____

Phone: _____

Date of Interview: _____

No. _____

ECONOMIC IMPACT OF INITIATIVE 245

QUESTIONNAIRE FOR FINANCIAL INSTITUTIONS

1. What were the monthly payments, at time of application, as a percentage of monthly takehome pay which best describes your marginal consumer credit applicant?

	<u>Prior to Initiative 245</u>	<u>In Response to Initiative 245</u>
a) direct loans:	_____	_____
b) indirect loans:	_____	_____

2. What is your overall rejection rate for:

	<u>Prior to Initiative 245</u>	<u>In Response to Initiative 245</u>
a) direct loans:	_____ %	_____ %
b) indirect loans:	_____ %	_____ %
c) credit cards:	_____ %	_____ %

3. In response to initiative 245, have you changed your policies with respect to:

	<u>No Change</u>	<u>Prior to Initiative 245 (before 12/5/68)</u>		<u>In Response to Initiative 245 (since 12/5/68)</u>	
		<u>Amount</u>		<u>Amount</u>	
a) a minimum service fee - direct loans	_____	Yes	No	_____	Yes No _____
- credit cards	_____	Yes	No	_____	Yes No _____
b) a loan fee					
- direct loans	_____	Yes	No	_____	Yes No _____
- credit cards	_____	Yes	No	_____	Yes No _____
c) an investigation and credit report fee					
- direct loans	_____	Yes	No	_____	Yes No _____
- credit cards	_____	Yes	No	_____	Yes No _____
d) credit insurance					
- direct loans	_____	Yes	No	_____	Yes No _____
- credit cards	_____	Yes	No	_____	Yes No _____

	<u>No Change</u>	<u>Prior to Initiative 245 (before 12/5/68)</u>		<u>In Response to Initiative 245 (since 12/5/68)</u>	
		<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>
e) a one-time set up fee for new accounts					
- direct loans	_____	Yes	No	Yes	No
- indirect loans	_____	Yes	No	Yes	No
f) late payment fee					
- direct loans	_____	Yes	No	Yes	No
- indirect loans	_____	Yes	No	Yes	No
g) Others? Identify (filing fees)	_____				

4. When you buy credit paper from retailers, do you discount? Yes _____ No _____
 If yes: (a) what was the rate prior to Initiative 245? _____
 (b) what is the rate in response to Initiative 245? _____

Comment:

5. In response to Initiative 245, have you changed your policies regarding recourse on indirect loans?

6. As far as you can determine what has been the impact of Initiative 245 upon:

a) Consumers? _____

b) Retailers? _____

c) Financial Institutions? _____

7. What was the volume of consumer loans in each of the following loan categories?

	<u>1st Qtr. 1968</u>	<u>1st Qtr. 1969</u>	<u>No Change</u>
a) <u>new car purchases:</u>			
direct loans	\$ _____	\$ _____	_____
indirect loans	\$ _____	\$ _____	_____
b) <u>used car purchases:</u>			
direct loans	\$ _____	\$ _____	_____
indirect loans	\$ _____	\$ _____	_____
c) <u>appliances and household goods</u>			
direct loans	\$ _____	\$ _____	_____
indirect loans	\$ _____	\$ _____	_____
d) <u>boats and marine goods</u>			
direct loans	\$ _____	\$ _____	_____
indirect loans	\$ _____	\$ _____	_____
e) <u>travel and vacation</u>			
direct loans	\$ _____	\$ _____	_____
f) <u>consolidated debt</u>			
direct loans	\$ _____	\$ _____	_____
g) <u>total direct loans</u>	\$ _____	\$ _____	_____
h) <u>total indirect loans</u>	\$ _____	\$ _____	_____

ECONOMIC IMPACT OF INITIATIVE 245 - SURVEY

FINANCIAL INSTITUTIONS - COMMERCIAL BANKS

I. Type of financial institution: Please check the one category and sub-category, where appropriate, which best describes your operation.

- a. bank
 federal charter
 branch
 state charter
 branch
 mutual savings
- b. finance company
 branch
- c. credit union
- d. savings and loan

Firm: _____

Name of Person(s) interviewed: _____

Position: _____

Address: _____

Phone: _____

Date of Interview: _____

No. _____

ECONOMIC IMPACT OF INITIATIVE 245

QUESTIONNAIRE FOR FINANCIAL INSTITUTIONS - COMMERCIAL BANKS

1. What were the monthly payments, at time of application, as a percentage of monthly takehome pay which best describes your marginal consumer credit applicant?

	<u>Prior to Initiative 245</u>	<u>In Response to Initiative 245</u>
a) direct loans:	_____	_____
b) indirect loans	_____	_____

2. What is your overall rejection rate for:

	<u>Prior to Initiative 245</u>	<u>In Response to Initiative 245</u>
a) direct loans:	_____ %	_____ %
b) indirect loans:	_____ %	_____ %
c) credit cards:	_____ %	_____ %

3. In response to Initiative 245, have you changed your policies with respect to:

	<u>No Change</u>	<u>Prior to Initiative 245 (before 12/5/68)</u>	<u>In Response to Initiative 245 (since 12/5/68)</u>
		Amount	Amount
a) a minimum service fee			
- direct loans	_____	Yes No _____	Yes No _____
- credit cards	_____	Yes No _____	Yes No _____
b) a loan fee			
- direct loans	_____	Yes No _____	Yes No _____
- credit cards	_____	Yes No _____	Yes No _____
c) an investigation and credit report fee			
- direct loans	_____	Yes No _____	Yes No _____
- credit cards	_____	Yes No _____	Yes No _____

	No Change	Prior to Initiative 245 (before 12/5/68)		In Response to Initiative 245 (since 12/5/68)	
		Yes	No	Yes	No
d) credit +					
- direct loans	_____	Yes	No	Yes	No
- credit cards	_____	Yes	No	Yes	No
e) a one-time set up fee for new accounts					
- direct loans	_____	Yes	No	Yes	No
- indirect loans	_____	Yes	No	Yes	No
f) late payment fee					
- direct loans	_____	Yes	No	Yes	No
- indirect loans	_____	Yes	No	Yes	No
g) Others? Identify (filing fee)	_____				

4. When you buy credit paper from retailers, do you discount? Yes ___ No ___
 If yes: (a) what was the rate prior to Initiative 245? _____
 (b) what is the rate in response to Initiative 245? _____

Comment:

5. In response to Initiative 245, have you changed your policies regarding recourse on indirect loans?

6. As far as you can determine what has been the impact of Initiative 245 upon:

- a) Consumers? _____

 b) Retailers? _____

 c) Financial Institutions? _____

7. What was the volume of consumer loans in each of the following loan categories?

	<u>1st Qtr. 1968</u>	<u>1st Qtr. 1969</u>	<u>No Change</u>
a) <u>new car purchases:</u>			
direct loans	\$ _____	\$ _____	_____
indirect loans	\$ _____	\$ _____	_____
b) <u>used car purchases:</u>			
direct loans	\$ _____	\$ _____	_____
indirect loans	\$ _____	\$ _____	_____
c) <u>appliance and household goods</u>			
direct loans	\$ _____	\$ _____	_____
indirect loans	\$ _____	\$ _____	_____
d) <u>boats and marine goods</u>			
direct loans	\$ _____	\$ _____	_____
indirect loans	\$ _____	\$ _____	_____
e) <u>travel and vacation</u>			
direct loans	\$ _____	\$ _____	_____
f) <u>consolidate debt</u>			
direct loans	\$ _____	\$ _____	_____
g) <u>total direct loans</u>	\$ _____	\$ _____	_____
h) <u>total indirect loans</u>	\$ _____	\$ _____	_____

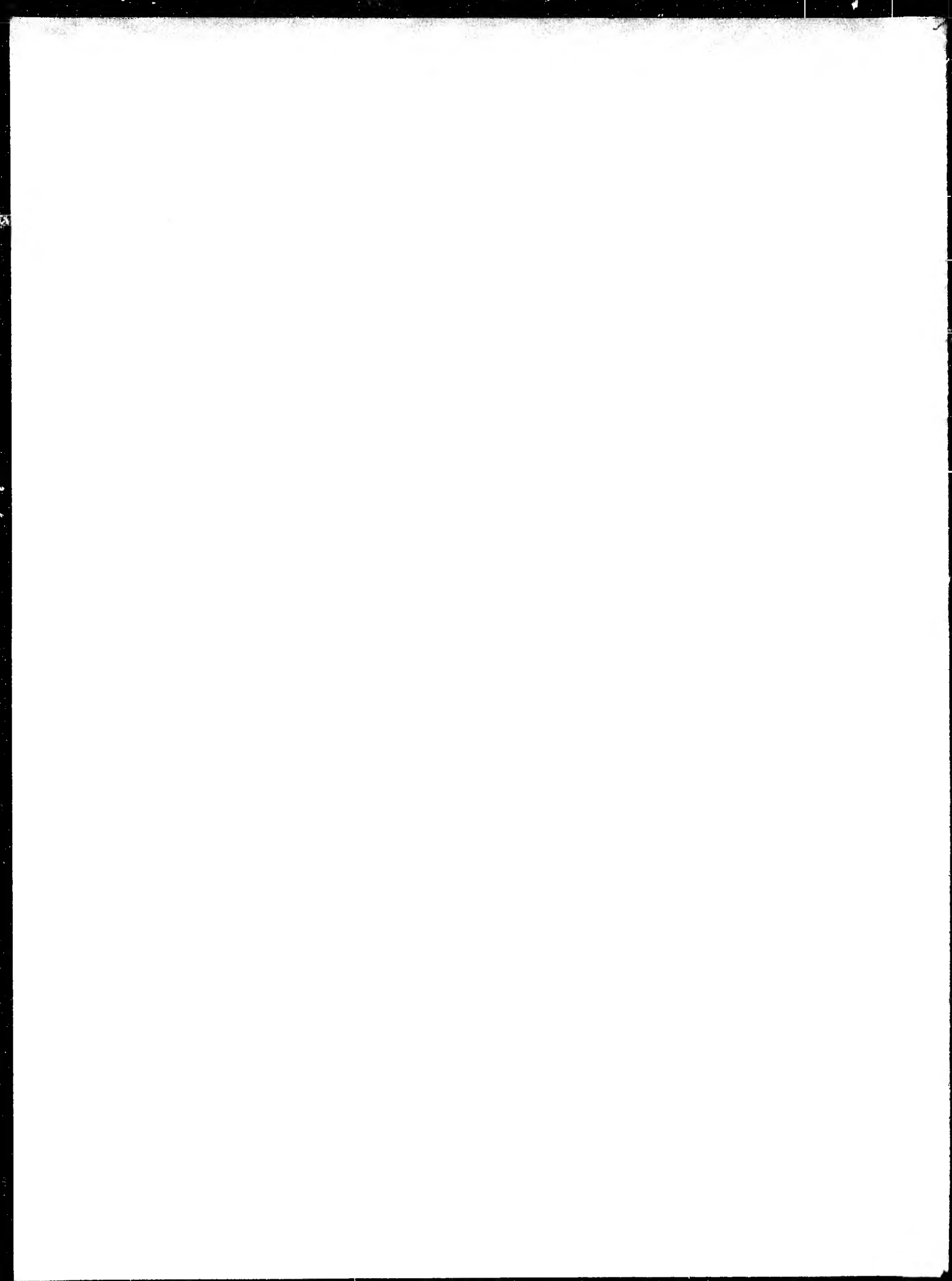
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1/27/72

Representative Bill Moran:

All the members of the Senate Commerce Committee will be out of town tomorrow and therefore will not be able to attend your Joint Judiciary and Commerce Committee meeting on HB 174 and HB 453. Thanks for the invitation.

Sen. Ron Rettig



JUNEAU ALASKA

*Cliff Will you please handle this for our committee. See to it that it be in Senate. Thank you
Row*

Alaska State Legislature

House

JUDICIARY COMMITTEE
Pouch V
Juneau, Alaska 99801
January 26, 1972

*File
HB 174*

Honorable Robert H. Ziegler, Sr.
Senate Judiciary Chairman
Pouch V - Capitol Building
Juneau, Alaska 99801

Re: HB 174 - Uniform Consumer Credit Code
HB 453 - Relating to Consumer Credit

Dear Senator Ziegler:

The House Commerce and Judiciary Committees are sponsoring a joint public hearing on House Bill 174 (Uniform Consumer Credit Code) and House Bill 453 (Relating to Consumer Credit). As the title of House Bill 174 suggests, it is the draft prepared by the National Conference of Commissioners on Uniform Laws. I have been informed that House Bill 453 was drafted at the Boston College Law Center pursuant to a grant from the Office of Economic Opportunity.

The hearings will be held in the House Conference Room, beginning at 1:30 p.m. on Friday, January 28, and will continue over into Saturday as need may require.

The National Conference has made available Neil Butler, Esquire, of Denver, Colorado, and Richard Wheatley, Esquire, of Stillwater, Oklahoma. I understand that these members of the bar are particularly qualified to discuss House Bill 174.

Norm Banfield will be leaving for Europe this weekend. As a courtesy to him, Jay Kerttula and I have agreed to convene our respective committees immediately upon adjournment of the House on Thursday, January 27. It is my understanding that Mr. Banfield wishes to testify in favor of House Bill 174 and in opposition to House Bill 453. We hope to have Mr. Banfield's testimony taken also in the House Conference Room.

On the assumption that the Senate Commerce and Judiciary Committees will have some bill under consideration pursuant to House action, Mr. Kerttula and I invite the attendance and participation of your committee members at the above session. We also request that you make the fact of such hearings known to other members of the Senate by announcement on the Floor.

Honorable Robert H. Ziegler, Sr.
January 26, 1972
Page 2

In the interest of time, I am designating a copy of this letter for Senator Rettig. I hope he will not be offended that I have not written to him separately.

Sincerely,

William J. Moran
Chairman

cc: Honorable Ron Rettig
Senate Commerce Chairman

Alaska Retail Association

Box 1727 Anchorage, Alaska 99510

Phone: 272-4222

HB 174
HB 453

January 14, 1972

President:

John W. Walls
Barb's Florists
Anchorage, Alaska

Vice-President:

S. G. "Jerry" Nerland
Nerland's Home Furnishings
Anchorage, Alaska

Secretary-Executive Director

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Nome:

Frank A. Couch
Northern Commercial Co.

Rep. William J. Moran
Alaska State House
Pouch V State Capitol Bldg.
Juneau, Alaska

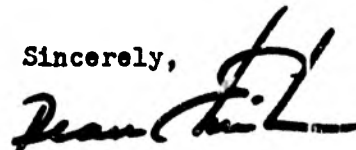
Dear Representative:

We are once again recommending the passage of the Uniform Consumer Credit Code which has been introduced in the House as HB 174.

This proposal, which was drafted by the National Conference of Commissioners on Uniform State Laws, would serve to eliminate the vast majority of problems extant in the area of consumer credit law. It provides for concise regulation of the consumer credit industry, has consumer protection provisions which go well beyond those available under present Federal or State law and would provide for healthy competition among credit grantors. This increased competition will serve to insure an adequate supply of credit to all segments of our society.

We would appreciate you taking a few minutes from your very busy schedule to read the enclosed booklet, entitled "Questions & Answers on UNIFORM CONSUMER CREDIT CODE". We are certain you will find that UCCC answers many of the problems related to consumer credit.

Sincerely,



Dean Ehrich
Legislative Agent

DE:kt
Enclosure

HOUSEHOLD FINANCE CORPORATION
RESULTS OF SMALL LOAN OPERATIONS IN ALASKA
1968 - 1969 - 1970
(Exclusive of Income from Contracts Purchased)

	<u>1968</u>	<u>1969</u>	<u>1970</u>
Loans outstanding at beginning of year	\$1,512,601	\$1,838,691	\$2,453,776
Loans outstanding at end of year	1,838,690	2,453,776	2,409,209
Average loans outstanding	1,675,645	2,146,233	2,431,493

Expenses of Operations

<u>Classification</u>	<u>Amount</u>			<u>Percentage of Average Loans Outstanding</u>		
	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Advertising	\$16,576	\$17,176	\$11,730	0.99	0.80	0.50
Bad Debts	30,490	30,452	53,217	1.82	1.42	2.19
Rent	38,314	34,891	36,940	2.35	1.63	1.52
Salaries	100,748	111,737	121,334	6.01	5.21	5.00
Supervision	39,058	43,195	50,481	2.33	2.00	2.12
State and Local Taxes	29,470	28,027	29,026	1.76	1.30	1.20
Federal Income Taxes	134,774	162,333	130,301	8.00	7.56	5.77
Telephone and Telegraph	27,800	32,394	26,583	1.66	1.50	1.09
Legal, Postage, Supplies, etc.	28,815	30,104	30,635	1.72	1.40	1.26
	<u>\$446,050</u>	<u>\$490,310</u>	<u>\$490,250</u>			

Interest rate required on loans to pay expenses, exclusive of interest on borrowed funds	26.64%	22.82%	20.65%
--	--------	--------	--------

Average Assets Used Each Year

	<u>1968</u>	<u>1969</u>	<u>1970</u>
Average assets used in business	\$1,787,706	\$2,280,363	\$2,569.106

Net Profit Percentage

1968 Net profit of \$128,275 ÷ assets used of \$1,787,706 = 7.18% return on investment
 1969 Net profit of \$157,686.30 ÷ assets used of \$2,280,363 = 6.91% return on investment
 1970 Net profit of \$134,538 ÷ assets used of \$2,569,106 = 5.24% return on investment

\$2,569,106

HOUSEHOLD FINANCE CORPORATION

1968 Operating Statistics

Percent of Average Loan Balance Spent for:

	<u>Average Amt. Loaned Per State</u>	<u>Salaries</u>	<u>Rent</u>	<u>Adv.</u>	<u>Admin.</u>	<u>Taxes</u>	<u>Deprec.</u>	<u>Bad Debts</u>	<u>Other Exp.</u>	<u>Total</u>
Alaska	\$ 1,732,164	5.79	1.87	1.01	2.27	2.22	.34	1.43	2.78	17.71
Washington	\$ 21,110,000	3.37	.69	.72	1.92	.48	.19	1.75	1.45	10.58
Oregon	\$ 4,627,000	3.47	.85	.75	1.86	.58	.10	2.81	1.82	12.24
California	\$162,429,000	3.59	.73	.55	1.92	.97	.19	1.73	1.43	11.11
U. S. Average	\$ 6,512,000	3.53	2.07	1.04	1.72	.35	.13	.81	2.19	11.84

HB-174

JUDICIARY COMMITTEE
Pouch V
Juneau, Alaska 99801

January 26, 1972

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Senate Judiciary Chairman
Pouch V - Capitol Building
Juneau, Alaska 99801

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HR 453 - Relating to Consumer Credit

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