

TALK ON CONSUMER CREDIT PROBLEMS AS VIEWED

BY THE BETTER BUSINESS BUREAU

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From the viewpoint of the Better Business Bureau in interviewing and reviewing hundreds of cases on consumer credit misunderstanding each year, we seem to be living in an era in which the consumer's principal, and usually only concern, is not the total price of an article, or what it will cost him to buy on time, but simply "how much a month".

Perhaps the economy of our era is a trend toward a perpetual payment toward an equity in an article or commodity, which is as often as not exchanged for a newer or improved item at a higher price with additional financing costs long before the ostensible purchaser actually owns the original purchase.

I say this in a spirit of facetiousness, yet I have had certain auto dealers and other types of merchants advance this very theory and suggesting that their prolonged time payment purchase contracts, and offers to pay off balances and re-finance new cars, etc., for the same purchaser, results in the actual effect of a leasing agreement in which the purchaser never actually has title to the commodity which he uses.

Of course the economic fallacy here is the pyramiding cost of credit which by virtue of apparent reasonably met payments per month, blind the customer to the actual price he is paying.

Early in March of this year I was requested to testify before a Missouri Senate Committee, which is hearing two bills designed to regulate time payment charges and to license firms engaged in that business which presently in Missouri is completely uncontrolled, although thirty-five other states do have some type of either rate regulation or at least a requirement of full disclosure to the customer of the details of his transaction.

The most frequent cause of misunderstanding on the part of the general public, and this is as often as not fostered by the purveyors of the commodities in question, is a confusion between interest charges on loans which are regulated by law, and the so-called "time price differential" between the cash price of the commodity and time price, which is in our state and some fourteen others completely unregulated. The legal theory behind this type of transaction is that the seller in naming a time price for his goods, incorporates in the time price charges for the services for negotiating with a financing institution their various kinds of insurance, including credit life insurance, etc., and the purchaser then simply signs a promissory note for the total time price which, in turn, is discounted by the holder (the dealer) of the

note to a financing institution of his own choice. The finance company again, under the legal determination of an innocent purchaser in due course of a promissory note, proceeds to collect the face amount of the note in equal monthly installments.

Of course, the vast majority of responsible auto dealers and merchants engaged in this type of business insist upon a clear understanding with their customers and present them with written documentary evidence of each step of the transaction.

Unfortunately, the nature of this type of business attracts unscrupulous or indifferent firms into the field who take advantage of their unsuspecting customers.

The pitfalls are several and we will use automotive transactions as they are the most frequent instance of problems brought to the Better Business Bureau and likewise generally involve the greatest dollar amounts.

Frequently the customer is assured by an auto salesman that his payments will be so much a month, but that the details of the documents must be completed in the office, simply signs blank notes and mortgages on the assumption that his payments will be based on what the salesman assured they were. Very often the salesman's assurances are a simple division by the number of months desired of the cash price of the car. The finance charges, insurance and whatever else then are added on afterwards, without the knowledge of the customer until he receives his notification of payment due, often much higher than he thought, at a finance company with whom he has not previously dealt. In such circumstances, unhappily, the customer has no defense at law having agreed to whatever terms and covenants were in the original blank documents which he signed, and proving that they were blank at the time of signature is a very difficult and involved legal process.

Often such customers decide they would like to pay off the entire obligation immediately and refinance elsewhere. Unfortunately again, in our uncontrolled state, there is no obligation on the part of the finance company to rebate any part of the finance charge, other than the unearned premium on whatever insurance has been bought, and that again is cancelled out at what is known as a short rate or high premium cost.

We haven't touched upon the overall cost of such credit, and this sometimes takes on fantastic proportions. We had, for instance, an auto dealer advertising terms of \$3.00 per \$100 which we, and I suspect the general public assumed was \$3.00 per \$100 per year which, as you know expressed in terms of simple interest, is just short of 6% as the borrower, if it were a loan, would not have the full use of the full amount the full time, it being reduced in equal monthly installments. Actually, when we quized this dealer it turned out that he meant his advertised term, which were obviously very low in terms of today's money market, was \$3.00 per \$100 per month, or \$36.00 per \$100 per year,

approximately 72% in terms of simple interest and, as I have said before, there is no control whatsoever in Missouri over the inclination of an auto dealer to negotiate this type of transaction at this price.

The law presently before the legislature proposes a ceiling on rates for automobile purchasing ranging from \$7.00 per \$100 for new cars to \$15.00 per \$100 for older models. This proposed law, by the way, has been endorsed by the Missouri Automobile Dealers' Association who feel that the rates are adequate to carry on their business and bring a fair return to the finance company and likewise to the automobile dealer who does participate in time payment transactions. The proposed law would likewise require full disclosure of all items comprising the time payment price, it would require that the purchaser be provided with an itemized breakdown of separate charges for insurance, financing, etc., at the time of purchase and it will likewise provide for a specified amount of rebate to the customer in the event of advance payment of the obligation. A similar bill has been introduced simultaneously which will be designed to control, on a slightly different basis, the time payment purchases of furniture, and other household items, as well as for the regulation of the rate charged for the revolving credit charge accounts currently popular among major retailers.

To illustrate a few of the types of problems with which we are dealing, I have some excerpts from the recent presentation before the Missouri Legislature, in which we showed that a man purchased a 1956 automobile priced at \$995.00, paid \$200.00 down with a balance to finance of \$795.00. He was to repay, over a period of 24 months \$54.77 each month or \$1314.48. His financing cost was \$519.48 with no insurance. Under the proposed new senate bill his financing charge on this basis would have been \$206.70.

Another individual bought a 1952 automobile priced at \$375.00, paid \$50.00 down, left \$325.00 to finance. This was repaid over a period of four weeks at \$25.00 per week and 52 weeks at \$10.00 each or a total of \$620.00 for a financing cost of \$295.00 on a balance of \$325.00. Under the proposed legislation this charge would have been \$52.65. And so it goes.

People who come to the BBB usually come on this kind of problem after they have completely signed all of the documents pertinent to the case and there is little or nothing the Bureau can do to help them, as they are completely committed to the obligation.

Aside from the degree of control which this legislation may well exert over these problems, the very basic need is in the field of consumer education, it seems to us from the secondary schools on up, so the people will understand the actual cost of having the pleasure of using an article such as an automobile or major appliance before they actually own it. We do think that the legislation will take care of the almost absurd abuses which we have illustrated in the cases at hand.