

A lot of sales will be lost if they begin quoting the annual percentage rate because people will think it is the rate of interest being charged; and (4) Paper will no longer be purchased from door-to-door salesmen.

Creditors Affected

The creditors were asked to indicate those for whom they believed the Directive might present serious problems. Thirty-three percent of the Manhattan creditors and 46% of the Junction City creditors did not think the Directive would give any creditors serious problems. The remainder named one or two creditors they believed might have problems with the Directive. None of the creditors listed were mentioned by more than five percent of the creditors in Manhattan nor by more than ten percent of the creditors in Junction City. The ones listed were finance companies, banks, jewelry dealers, fly-by-night salesmen, door-to-door salesmen, independent creditors, car dealers, retail creditors, mail order houses, loan sharks, and pawnshop brokers.

Effect on Servicemen Obtaining Credit

Nearly 50% of the creditors in Manhattan and Junction City said the Directive would have "no effect" on servicemen and their ability to obtain credit. One creditor said it will make it more difficult because they will be more selective in the contracts they buy. Another creditor said that the Directive adds more work, thus making it less attractive to deal with servicemen.

OBSERVATIONS

Most creditors considered the Department of Defense Directive to be neither unduly burdensome nor too difficult to understand. Some may have considered it not burdensome because they had found a convenient "loophole," and some "understood" who did not fully comprehend the Directive.

Approximately one-quarter of the creditors had adopted the DoD forms, and believed they were executing the Directive properly. They did not consider the Directive a burden.

Another one-tenth of the creditors had found a tolerable escape which allowed them to adapt the Directive to their own needs. They filled out forms only if the serviceman's credit worthiness was questioned. Or, they filled out a Certificate of Compliance after the contract was negotiated with the serviceman and needed assistance of the DoD with collection of the debt.

Another larger group who refinanced the credit they extended did not comply unless required to do so by their financing source. Few had been so directed, and so these creditors found the Directive to be of little effect. Evidently Standard of Fairness No. 3 is not considered to affect the holder of purchased credit paper.

Some creditors who said they understood the Directive, in fact, did not. When questioned about the finance charges being expressed as an annual percentage rate, they showed as evidence of their compliance their rate schedules, which were dollar add-on and not actuarial rate based. Others said their contracts provided for the finance charge to be expressed in dollars per hundred as required by Kansas statutes. Nevertheless, most creditors said the DoD Rate Table was not difficult to use and understand; it did not pose a threat to them or appear to be something they could not use.

Another major misunderstanding was the failure of creditors to include insurance premiums in the total finance charges. Instead, they included them as one of the charges to be financed. Although the Full Disclosure form is quite explicit in this regard, the practice of not including insurance as a finance charge will probably continue to be ignored until enforced by the DoD because (1) it would raise the disclosed rate so much in some cases as to give the appearance of exceeding the legal rate, and (2) servicemen might be discouraged from adding this insurance coverage, thereby reducing a profitable line of service being extended by the credit grantors.

Retailors seemed not to understand clearly their possible exemption from the requirements of Full Disclosure and Standards of Fairness for claims based on a revolving or open-end credit account. Such claims are exempt " * * * if the account shows the periodic rate and its annual equivalent and the balance to which it is applied to compute the charge;" (Section X, E). Since the Directive assumes monthly periodic payments, the annual equivalent is twelve times the monthly rate.