retailers reported the highest rate of return after taxes, 20.3 percent of net worth. Next in order were furniture and home furnishings retailers with 17.6 percent and department stores with 13.0 percent on net worth.

Assignment of Installment Contracts

Low-income market retailers typically held their installment contracts and did not assign them to finance companies or banks. Only one-fifth of the total contracts were assigned by low-income market retailers. Among general market retailers, appliance stores assigned almost all (98 percent) of their contracts to finance companies and banks. General market furniture stores assigned somewhat more than half of their contracts (57 percent.) Among the retailers surveyed, only the department store category involved no contract assignment.

Finance Charges on Installment Contracts.[1]

There is considerable variation in the finance charges of D.C. retailers of furniture and appliances, particularly among the low-income market retailers. Most of the retailers surveyed determined finance charges in terms of an "add-on" rate based on the unpaid cash balance. When calculated on an effective annual rate basis, finance charges of general market retailers varied between 11 percent and 29 percent, averaging 21 percent when contracts were assigned and 19 percent when retailers financed their own contracts. Finance charges by low-income market retailers imposing such charges ranged between 11 percent and 33 percent per annum, averaging 25 percent on contracts assigned to finance companies and 23 percent on contracts the retailers held themselves.

One low-income market retailer made no separate charge for installment credit. All of his finance charges were, in effect, included in the purchase price. Other low-income market retailers kept finance charges below the actual cost of granting credit. This practice of absorbing credit costs can give the illusion of "easy" credit, but the customer may be paying a great deal for such installment credit in the form of much higher prices.

Judgments, Garnishments and Repossessions by Retailers

One of the most notable facts uncovered by the study relates to the frequency with which a small group of retailers utilized the courts to enforce their claims with respect to installment contracts. Eleven of the 18 low-income market retailers reported 2,690 judgments in 1966. Their legal actions resulted in 1,568 garnishments and 306 repossessions. For this group, one court judgment was obtained for every $2,200 of sales. In effect, low-income market retailers make extensive use of the courts in collecting debts. While general market retailers may take legal action as a last resort against delinquent customers, some low-income market retailers depend on legal action as a normal order of business.

Conclusions

Installment credit is widely used in marketing appliances and home furnishings to low-income families. Often these families purchase durable goods, such as furniture, television sets, and phonographs through the mechanism of "easy" credit. Low-income market retailers specialize in granting credit to consumers who do not seek or are unable to obtain credit from regular department, furniture, or appliance stores. As a group, low-income market retailers made about 93 percent of their sales through installment credit.

The real cost of this "easy" credit is very dear, however. Primarily it takes the form of higher product prices. Credit charges, when separately stated, are not notably higher than those imposed by general market retailers. Though some low-income market retailers imposed effective annual finance charges as high as 33 percent, others charged much less or nothing at all. Markups on comparable products, however, are often two or three times higher than those charged by general market retailers.

The findings of this study suggest that the marketing system for distribution of durable goods to low-income consumers is costly. Although their markups are very much higher than those of general market retailers, low-income market retailers do not make particularly high net profits. They have markedly higher costs, partly because of high bad-debt expenses, but to a greater extent because

[1] These are finance charges as reported by D.C. retailers on their installment contracts. They do not necessarily reflect actual costs of granting installment credit.