

clude that the sales techniques of these retailers are also an important factor. Low-income retailers have every incentive to continue these techniques since their risk of loss is substantially reduced by their virtually unopposed access to judgment and garnishment proceedings to enforce payment or secure repossession. The 2,690 actions taken by 11 low-income market retailers in 1966 suggests a marketing technique which includes actions against default as a normal matter of business rather than as a matter of last resort. At present, in the face of default, creditors can seek both repossession and payment of the deficiency, including various penalties. It may be appropriate to require creditors to choose one or the other of these legal remedies, and not to have the option of pursuing both courses simultaneously. Repossession would then fully discharge the merchant's claim. It is equally necessary to ensure that purchasers receive *actual* notice of any such proceedings and have legal counsel available to defend them in court. Perhaps, consideration should also be given to some form of negotiation before a court-appointed neighborhood referee as a compulsory prelude to a default judgment.

It is apparent that the solution to the problem of installment credit for the poor requires a variety of actions. A requirement that finance charges be clearly and conspicuously stated is a necessary but not a sufficient solution to the problem of installment credit for those consumers who are considered poor credit risks and are unsophisticated buyers. Among the complementary steps which might be considered are the following: (1) make reasonable credit more assessable; (2) provide counseling services which will encourage customers to practice comparison shopping; (3) equalize the legal rights of buyers and creditors in installment credit transactions; (4) encourage additional businesses to enter the low-income market; and (5) intensify consumer protection activities on both federal and local levels to eliminate all fraud and deceptions in the advertising and offering of credit.

CHAPTER I

INSTALLMENT CREDIT AND THE LOW-INCOME MARKET RETAILER

INTRODUCTION

As part of its continuing activities in the field of consumer protection, the Federal Trade Commission has undertaken a broad program to eliminate deception in the sale of goods and services through installment credit. Such deception can be a serious problem for consumers from all income groups. Abuses in the use of installment credit may fall most heavily, however, on the poor and disadvantaged. For this reason, the Commission felt it would be useful to obtain more detailed information about the use of installment credit by low-income consumers.¹ Such information will provide valuable assistance in planning future consumer protection activities.

This study is intended to provide objective information about installment credit practices, good and bad, as they affect consumers in the District of Columbia. A specific purpose is to compare the practices of retailers of furniture and appliances who sell primarily to a low-income market with those who sell to a more general market.

It should be made clear that the study is limited in scope. It does not attempt to provide information about all aspects of the operations of low-income market retailers. For instance, the quality and durability of products is not directly examined in this study. Nor is the matter of selling methods dealt with in detail. While these are interesting areas of investigation, it was not feasible to cover them in this report. The study focuses primarily on the following points:

- (1) Percent of sales made through installment contracts
- (2) Gross margins of retailers
- (3) Comparative prices charged by low-income market and general market retailers
- (4) Amount of finance charges
- (5) Relationships between retailers and finance companies
- (6) Legal actions taken by retailers on delinquent installment contracts
- (7) Characteristics of a low-income market retailer's customers.

¹This report was prepared in response to a resolution adopted by the Federal Trade Commission, July 25, 1966. The text of the resolution is included in the Appendix (p. 113).