

Low-income market retailers reported an average rate of return after taxes on net worth of 10.1 percent. Rates of return on net worth varied considerably among general market retailers. Appliance, radio, and television 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 of return on net worth.

Data on profits reported above are limited and to some extent inconclusive. It does not appear, however, that low-income market retailers made profits which were substantially higher on the average than general market retailers. The high prices charged by low-income market retailers must have been accompanied in many instances by substantially higher costs arising from their method of doing business. Some of these costs probably arose from greater losses on credit sales. To some extent, costs may have been higher because of smaller volume and generally more costly and less efficient store operation.

CHAPTER III

CHARACTERISTICS OF INSTALLMENT CONTRACT ARRANGEMENTS

Sixty-five furniture, appliance, and department store retailers surveyed indicated significant use of installment contracts in financing customer purchases. In 1966, a total value of \$45.3 million in contracts were entered into by this group, equivalent to 30 percent of their total sales. The average value per contract was \$146. The average value for general market department stores was only \$100, while for general market appliance and furniture stores it was \$210 and \$359, respectively. The average value of contracts for low-income market retailers was \$140 (table III-1).

To understand better the current business practice with respect to the use of installment credit instruments, information was sought regarding contract assignment practices, rates of finance charges, and problems of default. Our findings on these subjects are summarized in this chapter.

TABLE III-1.—AVERAGE VALUE OF INSTALLMENT CONTRACTS OF 65 DISTRICT OF COLUMBIA RETAILERS, 1966

Type of retailer	All contracts	Assigned contracts	Unassigned contracts
All retailers.....	\$146	\$264	\$117
Low-income market retailers.....	140	298	124
General market retailers.....	147	261	116
Appliance, radio, and TV.....	210	212	141
Furniture and home furnishings.....	359	383	332
Department store.....	100	-----	100

Source: FTC survey.

Installment Contract Assignment

As a matter of practice, much installment credit is supplied indirectly by finance companies or banks rather than by the retailers directly involved in making purchase-loan transactions. Retailers have arrangements with one or more finance companies or banks to which, after credit approval, the conditional sales contracts or notes are assigned or discounted. The assignment may be coordinated with the purchase and delivery of the merchandise, or it may be made after the sale but before the first payment is due. In rare cases assignment may be made later.

When a contract is assigned by the retailer, the customer's financial obligation is shifted to the "holder in due course" and, under the law, the customer's legal obligation for payment is not to the retailer but to a financial intermediary.¹ This is true regardless of any subsequent dispute that may arise between customer and retailer involving the quality of the product.

Of the \$45.2 million in installment contracts reported for 1966 in the Commission's survey, \$15.8 million or 35 percent was assigned to finance companies and banks (table III-2). Among all retailers reporting installment credit sales, department stores alone assigned no contracts. General market appliance and furniture stores were most dependent on assignment and together accounted for 91 percent of all reported assignments. For appliance

¹ This is true when contracts are assigned *without* recourse. If contracts are assigned *with* recourse, they are returned to the retailer in case of default and he, rather than the assignee, bears the risk.