companies, four of which supplied 77 percent of the funding. General market appliance stores assigned virtually all of their contracts. Four finance companies took 90 percent of this paper. The pattern of assignments by low-income market retailers (who assigned only one-fifth of their paper) was less concentrated, with the top four finance companies accounting for only 65 percent of reported assignments.

Installment Contracts Unassigned

Of the $45.3 million in installment contracts reported for 1966 in the Commission's survey, $29.4 million or 65 percent was unassigned—held by the retailers themselves. The extent to which contracts were unassigned varied considerably by type of retailer. Department stores surveyed held all of their contracts; low-income market retailers held four-fifths (80 percent); and general market furniture stores held over two-fifths (43 percent) of the total value of their installment contracts. General market appliance retailers, however, held practically none (2 percent) of their installment paper (table III–2). In total, of 65 retailers reporting installment sales, 16 held all of their own contracts. They included 3 department stores, 8 of the 18 low-income market retailers, and only 5 of the 44 appliance and furiture stores.

Finance Charges on Installment Contracts

With one exception, the stated finance charges were calculated on an "add-on" basis by both low-income and general-income market retailers. This exception was a low-income market retailer who made no separate finance charges in calculating payments due on installment contracts. All of its sales were on a time basis and the price for these goods on the average was three times the cost of goods sold. This markup was somewhat higher than the average for low-income market retailers as a group, who, as a matter of course, added to their selling price additional charges for installment credit.

Other retailers used "add-on" rate charts to determine customers' monthly payments. No account is taken of diminishing balances over the period and, consequently, the "add-on" is not a true or effective annual rate. Table III–4 indicates that the average add-on rate for contracts assigned to finance companies and banks was 11.7 percent of the initial balance, and the average add-on rate for unassigned contracts was 10.7 percent of the initial unpaid balance.[1]

The true or effective annual rate that consumers were paying on these installment contracts was approximately twice the add-on rate.

TABLE III–4.—FINANCE CHARGES ON INSTALLMENT CONTRACTS ASSIGNED AND UNASSIGNED BY DISTRICT OF COLUMBIA RETAILERS, 1966

[Dollar amounts in thousands]

Type of retailer	Assigned contracts		Finance charges on contracts assigned to finance companies and banks		Unassigned contracts		Finance charges on unassigned contracts	
	Value	Percent of total	Percent add-on	Effective annual rate	Value	Percent of total	Percent add-on	Effective annual rate
Totals [1]	$15,818	100.0	[2] 11.7	[2] 21	[1] $27,174	100.0	[2] 10.7	[2] 20
Low-income market retailers [1]	1,441	9.1	13.4	25	[1] 3,596	13.2	[1] 12.5	[1] 23
General market retailers	14,377	90.9	[1] 11.5	[2] 21	23,578	86.8	[2] 10.4	[2] 19
Appliance, radio, and television retailers	8,323	52.6	12.9	24	143	0.5	10.1	18
Furniture and homefurnishings retailers	6,054	38.3	9.8	18	4,554	16.8	9.2	16
Department stores	None	None			18,881	69.5	10.7	20

[1] One low-income market retailer has been omitted, because it made no separate charges for installment financing.
[2] Weighted averages.

Source: FTC Survey.

[1] The new Maryland "Retail Credit Accounts Law," which went into effect June 1, 1967, establishes a maximum of $12 per $100 per annum that may be added to the principal balance on installment contracts that do not exceed $1,000. This is equivalent to a 22-percent effective annual rate of finance charges.