

TABLE III-6.—ASSIGNED INSTALLMENT CONTRACTS DISTRIBUTED BY EFFECTIVE ANNUAL RATE OF FINANCE CHARGE

[Dollar amounts in thousands]

| Effective annual rate of<br>finance charge<br>(percent) | Value of contracts at each effective annual rate for— |                     |                          |                     |                        |                     |
|---------------------------------------------------------|-------------------------------------------------------|---------------------|--------------------------|---------------------|------------------------|---------------------|
|                                                         | Low-income market retailers                           |                     | General market retailers |                     | All retailers combined |                     |
|                                                         | Value of<br>contracts                                 | Percent of<br>total | Value of<br>contracts    | Percent of<br>total | Value of<br>contracts  | Percent of<br>total |
| 29.....                                                 | \$283                                                 | 19.6                | \$99                     | 0.7                 | \$382                  | 2.4                 |
| 27.....                                                 | 23                                                    | 1.6                 |                          |                     | 23                     | .2                  |
| 26.....                                                 | 480                                                   | 33.3                |                          |                     | 480                    | 3.0                 |
| 24.....                                                 |                                                       |                     | 3,535                    | 24.6                | 3,535                  | 22.3                |
| 23.....                                                 |                                                       |                     | 4,576                    | 31.8                | 4,576                  | 28.9                |
| 22.....                                                 | 627                                                   | 43.5                | 1,137                    | 7.9                 | 1,764                  | 11.2                |
| 17.....                                                 |                                                       |                     | 3,105                    | 21.6                | 3,105                  | 19.6                |
| 15.....                                                 | 14                                                    | 1.0                 | 2                        | ( <sup>1</sup> )    | 16                     | .1                  |
| 14.....                                                 |                                                       |                     | 460                      | 3.2                 | 460                    | 2.9                 |
| 13.....                                                 |                                                       |                     | 115                      | .8                  | 115                    | .8                  |
| 11.....                                                 | 14                                                    | 1.0                 | 635                      | 4.4                 | 649                    | 4.1                 |
| Rate not available.....                                 |                                                       |                     | 713                      | 5.0                 | 713                    | 4.5                 |
| Total.....                                              | 1,441                                                 | 100.0               | 14,377                   | 100.0               | 15,818                 | 100.0               |

<sup>1</sup> Less than 0.1 percent.

Source: FTC survey.

**Recourse Arrangements on Assigned Contracts.**—Most commonly, finance companies, in accepting assignment of installment credit contracts from retailers, reimburse the retailer for an amount equivalent to the unpaid cash balance indicated on the contract. In the simplest type of transaction, the finance company's income from providing credit is equivalent to the stated financing charge and is designed to cover all costs of credit, collection, and risks of default.

In fact, however, there are many possible variations on this type of transaction. A number of these variations were uncovered in the course of our survey. The first and simplest relates to the question of recourse. Typically, contracts assigned to finance companies are on a non-recourse basis. In such circumstances the finance company assumes all risks associated with default and is solely responsible for any proceedings to enforce satisfaction of the debt.

Assignment, however, may be on a recourse basis, in which case the retailer assigning the contract in effect guarantees it in the event of customer default. In terms of total value, almost all contracts on a recourse basis involved banks serving general market furniture retailers.<sup>1</sup>

More than 50 percent of total assignments [and 73 percent of assignments to finance companies] were at rates yielding effective annual finance charges of 23 to 24 percent (table III-6 and appendix table A). The highest yielding non-recourse assignments to finance companies were by low-income market retailers. Fifty-five percent of such assignments yielded 26 to 29 percent. Assignments with the lowest finance charges (17 percent or less) involved, for the most part, banks who took paper on a recourse basis (appendix table A). The latter's activity, however, was limited almost entirely to contracts involving sales by general market furniture retailers.

<sup>1</sup> There were instances, however, when finance companies took assigned installment contracts only on a recourse basis. These were usually on contracts assigned by low-income market retailers.