

Participation and Holdback Arrangements.—In addition to recourse considerations, agreements between finance companies and retailers may specify participation or holdback fees. A participation arrangement, frequently referred to as a kickback, is a bonus given by a finance company to a retailer assigning a contract. This bonus involves some percentage return over and above the initial unpaid balance of the contract. It is the equivalent of the retailer and finance company splitting finance charges. Twenty-nine of the forty-nine retailers in our sample reporting installment contract assignments had a participation arrangement with one or more finance companies (table III-7). These returns to the retailer ranged between .5 percent and 5.0 percent of the amount of the unpaid cash balance.

TABLE III-7.—SPECIAL PROVISIONS INCLUDED IN CONTRACTUAL ARRANGEMENTS BETWEEN RETAILERS AND FINANCE COMPANIES OR BANKS

Type of retailer	Number of retailers assigning contracts	Number of retailers reporting				
		Participation arrangements			Holdback requirements	
		Participation (kickback)	Range of participation (percent)	No participation	Holdback by financier	Range of holdbacks (percent)
Low-income market retailers.....	10	4	1.2-2	6	5	5-30
General market retailers:						
Appliance, radio, and television retailers..	21	17	1.0-4	4	1	3-5
Furniture and home furnishing retailers..	18	8	.5-5	10	3	3-5
Department stores.....	(¹)					
Total.....	49	29	.5-5	20	9	3-30

¹ None.

Source: FTC survey.

Holdback arrangements may be viewed as the reverse of kickbacks. There were nine retailers who reported a holdback requirement by finance companies. This is a restrictive provision assessed upon retailers who are in a poor bargaining position and have generally poor-risk paper that they want to assign. Finance companies and banks in these cases are reluctant to take the contracts unless the retailer is willing to take less than the full amount of the initial unpaid cash balance. In other words, the retailer must literally "pay" the finance company or bank to take the assignment. This is a payment over and above the finance charges paid by the customer originally signing the contract. Holdbacks, which ranged from 3 to 30 percent were reported primarily by low-income market retailers. These payments are held in reserve by the financier until all contracts are liquidated. Losses are charged against this reserve and holdback payments are returned to the retailer only if the losses do not exceed the amount held back. Low-income market retailers were unable to assign a significant volume of installment contracts at less than 26 percent (effective annual rate) without some form of holdback arrangement. Other retailers assigning large quantities of paper, usually at 23 percent to 24 percent, for the most part, had no holdbacks charged against them.

Finance Charges on Unassigned Contracts

Sixty-five percent of reported installment credit was unassigned (table III-2). The volume of unassigned contracts on which finance charges were made (\$27.2 million) was heavily weighted by department stores who accounted for \$18.9 million or over two-thirds of the total (table III-4). Department stores were alone among retailers assigning no contracts. Installment sales amounted to 20 percent of their total sales.

Other unassigned installment credit was supplied by general market furniture stores and low-income market retailers. General market furniture retailers held \$4.6 million in contracts, equal to 43 percent of their credit sales and about 17 percent of total sales. Low-income market retailers held unassigned contracts of \$5.9 million, equivalent to 80 percent of all their credit sales and nearly the same percent of their total sales. For those low-income market retailers imposing separate finance charges on installment credit, the value of unassigned contracts was \$3.6 million, equal to 64 percent of this group's total sales, virtually all of which were on an installment credit basis.