C O P Y

FEDERAL RESERVE BANK

OF CLEVELAND

Cleveland, Ohio

February 11, 1949

Mr. S. R. Carpenter, Secretary,
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Mr. Carpenter:

This is in reply to your letter of January 27 in which six questions were set forth with respect to the latest developments in the instalment credit field.

Our interim report enclosed herewith, consists of three parts.

The first part is a digest of the views of our Directors as expressed at the regular meeting on February 10. The concensus of the Cincinnati Directors was taken into consideration in the preparation of this digest. A letter from Mr. John T. Rohr, a Class A Director, not present at the February 10 meeting, is also included in this part. Mr. L. H. Lund, a Class B Director, likewise submitted a prepared statement, a copy of which is included herewith.

The second part is a summary of eight interviews with six local banks active in the consumer financing field and with two instalment finance companies. These interviews were made under the direction of our Credit Department.

The third part is a summary of interviews by members of our Research Department, with manufacturers of household appliances, dealers in appliances and furniture, and department store executives.

Very truly yours,

(Signed)
Ray M. Gidney
President

Enclosures

INTERIM REPORT
DIRECTORS' VIEWS ON DEVELOPMENTS
IN INSTALMENT CREDIT
February 10, 1949

1. With respect to regulated articles, is there evidence of recent undue inventory accumulation? If there is no general evidence, are there any unsatisfactory inventory situations for individual articles or makes of articles?

   There was some disagreement among directors as to the degree of "undue" inventory accumulation. There was some feeling that much of the rise in inventories of regulated articles is attributable to normal seasonal influences, as for example in refrigerators. Inventory accumulation seems to be more pronounced in stoves and used cars than in other regulated articles.

2. Are premiums still prevalent on "used" new cars and, if so, for what makes and about how much? To what extent is there increasing evidence of price or other merchandising concessions by sellers of automobiles, household appliances, and furniture? Does it appear that such tendencies are probably seasonal, or greater than could be explained by seasonal or other temporary influences?

   It was quite generally agreed that premiums on "used" new cars have virtually disappeared, except for a few of the lower priced 1949 models.

   Some greater than seasonal price concessions have appeared, particularly in the appliance field.

3. & 4. Are banks and finance companies showing increasing reluctance to handle any type of retail instalment paper? What explanations are offered for such tendencies?

   Is there any tendency for financing institutions to tighten credit lines extended to dealers for floor plan financing or other wholesale transactions?

   Comments were offered to the effect that national bank examining authorities had discouraged further increases in loans for financing the distribution of regulated articles (as well as loans for other purposes).

   Uncertainty of business outlook also has discouraged some lending. Dealers are urged to trim sails for more competitive weather.

5. Are reports becoming more frequent that dealers in durable goods lines are financially over-extended?

No comment by Directors at meeting other than that a few instances of over-extension are beginning to appear.

6. To what extent have there been lay-offs in manufacture and distribution of regulated durable goods? Have such lay-offs resulted from recent sales declines or from other factors, such as model changes, inventory-taking, supply shortages, etc.?

Lay-offs in manufacturing of regular durable goods believed to be almost wholly attributable to sales decline.

Confidential

REPORT OF INSTALMENT LOAN DEPARTMENT
THE TOLEDO TRUST COMPANY
SUBMITTED BY MR. JOHN T. ROHR, CLASS A DIRECTOR

1. We have found no evidence among our dealers of an overload of major appliances. Most of them are carrying one or two models of each make and re-ordering only as sold. Apparently they can receive immediate delivery. There is a tendency for the consumer to resist the present high prices and to wait for what they feel is a pending adjustment in prices. One dealer remarked that he has been approached several times by distributors to "load up" but has consistently refused. Small appliances (electric roasters, irons, fans, sweepers, etc.) have the pipe lines full. Also there are indications the manufacturers of major appliances are producing more than can be sold at this time with some of the products going into storage.

   It is apparent that automobile dealers in Kaiser-Frazer, Willys and Packards are becoming over stocked. Nash, Hudson, Studebaker and even Ford are becoming plentiful. It is reported that a new Ford can now be purchased immediately with no trade in. Chrysler models are scarce due to the change over. General Motors new models still have plenty of buyers.

2. Premiums on "used" new cars have practically vanished with the exception of a very small premium placed on the new 1949 model Chevrolet. Sales of used cars are very slow and somewhat more so than can be explained by seasonal influences.

   It is reported that some automobiles are offered by dealers with a free heater or radio. Nearly every major appliance can be purchased from a dealer with some sort of a discount or concession and we feel that sales may have been affected by the wait and see attitude of the public concerning prices. Also recent layoffs may have affected sales for they have been well publicized and many consumers feel that they might be next.

3. We have seen no reluctance on the part of the banks or finance companies in our district to handle retail installment paper with the exception of finance companies curtailing F.H.A. Title I loans, probably because their funds can be more profitably employed in loans carrying a higher rate of interest. Perhaps some banks, we have in mind our own, did not advertise for consumer loans during the past six to eight months because the government had asked that banks voluntarily curtail loans of an inflationary nature.

4.& 5. There has been no tendency in our district for financing institutions to tighten credit lines to dealers. As mentioned before, most dealers are not overstocked and appear to have their finances in rather good order - so there have been very few requests for floor plan loans.

6. Layoffs, other than those for model change overs, have as yet been very moderate and perhaps can be largely contained within these limits with better distribution methods. During 1948 banks were asked to voluntarily curtail consumer or inflationary loans and to feature loans for the purpose of production - perhaps the reverse should now be true and banks should be asked to feature consumer loans to further a better distribution of the nation's products.

C O P Y

February 9, 1949

Mr. Ray M. Gidney, President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Ray:

This is in reply to your letter of the 2nd, asking for information concerning Regulation W for the benefit of the Board of Governors at Washington. While the following comments are my own, I have drawn not only on my own experience but also on that of our Appliance Manufacturing Division, who handle the production and sale of our appliances; our Retail Finance Division, who are responsible for the instalment selling of all of our product; and our company economist, who has a broad knowledge of business conditions, and he in turn has used the facilities of one of our economic services in which we have great confidence.

Before answering the questions specifically, I would like to make a few general comments. Up until the last few months there has been no difficulty in selling appliances, particularly the major ones. Recently there has been some resistance, but the feeling on our part is that this resistance, while partly due to the return of a buyer's market, is also due to the return to a seasonal pattern in the sale of appliances. In prewar days appliances were generally sold retail -- 10 per cent in the first quarter of the year; 50 per cent in the second quarter; and 20 per cent each in the third and fourth quarters. It is our feeling that we are returning to this general seasonal pattern. While appliance sales are extremely slow this quarter, according to our belief there will be a substantial increase in the next quarter. Nevertheless, there is always the risk that we might be wrong. Also, this feeling of uncertainty permeates down to distributor and dealer level. Naturally distributors and dealers are reluctant to stock appliances at this time. Unfortunately, there is a dearth of warehouse capacity in the country and we, in line with other appliance manufacturers, must find ways and means of moving inventory, so that it will be available for the large sales anticipated during the second quarter. This problem has become so acute that two of the leading appliance manufacturers, who have their own finance companies, are offering free floor planning arrangements to their dealers as an inducement for them to stock appliances. We understand other manufacturers are also taking similar action in order to be competitive, and, not having our own finance company, we have been compelled to offer extended terms on these appliances, when the general practice has been--and we hope will continue to be--on a sight draft basis.

Now, coming specifically to your questions, I am answering them in the order given:

1. There has been some inventory accumulation during the last three or four months on most, if not all, of the major appliances. While this inventory accumulation will not prove to be serious if sales are normal during the second quarter, as explained above, it will become a serious problem if we have miscalculated our market. Naturally, a deterrent such as Regulation W gives our manufacturing people much concern in the event they are wrong in their estimate of sales.

2. The December 6, 1948 issue of the Wall Street Journal had a very good article on the premiums of the so-called "new-used" cars, briefly summarizing the comparison of the June 1948 and the November 1948 premiums, as follows:

	June 1948		November 1948	
Car Price Range	Dealers Avg. Dlvd. Prices	"New-Used" Premium	Dealers Avg. Dlvd. Prices	"New-Used" Premium
Up to $2,000	$1,732	$ 932	$1,872	$ 332
$2,000 to $2,500	2,320	728	2,430	145
$2,500 to $3,300	2,791	40	2,735	-320
$3,300 and up	3,518	1,384	3,808	- 38

This indicates a sharp reduction in the premiums. I can not speak for any price concessions on automobiles and furniture, but I do know there have been some in the household appliance industry, particularly in the large metropolitan areas, where this seasonal drop in sales has been greatest. This is particularly so in some of the brands of the newer companies that developed since the war. Radios regardless of name have taken a substantial reduction in both price and sales volume.

3. We are somewhat concerned on both the ability and willingness of banks and finance companies to finance appliance sales. As you know, we recently launched a campaign promoting an instalment finance plan for the use of banks. To date we have been very much encouraged with the interest and enthusiasm the banks have displayed in this plan. However, we are getting somewhat concerned as to whether or not the banks will have loanable funds available for consumer financing when the need develops--as we feel quite sure it will this year.

4. Up until now there has not been very much need for instalment financing. Credit lines, where established, had been on a conservative basis. However, now that there is greater need for consumer financing facilities, finance companies and particularly banks, must become more liberalized if they are to adequately service the demand for this kind of credit. There has not been much indication to date of their doing so. On the contrary, because of the expected shortage of loanable funds, the trend is toward tighter credit.

5. Nationally, we have no evidence that there is an increase in the number of experienced dealers who are financially over-extended. In some sections there has been a large increase in the total number of dealers. Most of these are new dealers who entered this field during the period of shortage when selling and advertising cost was at low level. It is quite probable that there will be some dealer failures in such areas, but not among the seasoned dealers.

6. According to newspapers and trade magazines, it would appear that a number of manufacturers of household appliances have to furlough a substantial number of their employees. It has been necessary for us to reduce production schedules on some of our products and other reductions are being considered at the present time. These lay-offs have been due entirely to recent sales decline.

As you know, I am against Regulation W. As I informed you before, I feel that the Government bodies, no matter how well-intentioned, act too belatedly on their regulations. I am convinced that, if left to themselves, the amount of credit extended by the manufacturing and financing institutions will seek a safe normal level.

For your information, I am attaching a copy of the sales bulletin of our subsidiary, Westinghouse Electric Supply Company, in which there is an article urging our dealers to prepare themselves for the difficult selling job ahead of them by making suitable arrangement to insure adequate instalment sales. This I am sending merely as an indication of the trend of the times--where our sales organization is very much concerned about the ability of our dealers to sell on a time basis at this time. I have only one copy of this sales organ, but will be glad to get more for you if you so desire.

Sincerely yours,

(Signed)
L. H. Lund,
Director

SUMMARY OF INTERVIEWS BY MR. GEORGE EXOO
WITH CONSUMER LENDING INSTITUTION IN
CLEVELAND, OHIO
FEBRUARY 7 & 8, 1949

Presented to Board of Directors February 10, 1949

1. With respect to regulated articles, is there evidence of recent undue inventory accumulation?

The eight institutions visited answered this question in the affirmative. Two qualified their statement to the extent that cars in the lower price bracket, such as, Ford, Chevrolet and Plymouth have no appreciable inventory accumulation.

2. Are premiums still prevalent on "used" new cars and, if so, for what makes and about how large?

This question was answered in the negative by the eight institutions visited. Two indicated there may be an exception with respect to the 1949 Chevrolet recently introduced.

a. To what extent is there increasing evidence of price or other merchandising concessions by sellers of automobiles, household appliances and furniture?

A general concensus was that no concession in price is in evidence with respect to automobiles although cars are not being "loaded" with extras as heretofore. Appliances are being sold at a discount and in some instances furniture.

b. Does it appear that such tendencies are probably seasonal, or greater than could be explained by seasonal or other temporary influences?

Greater than seasonal or other temporary influences. Condition attributed in part by institutions visited, to overpricing, credit controls, lower incomes, sales resistance.

3. Are banks and finance companies showing increasing reluctance to handle any type of retail instalment paper?

Four of the eight institutions visited answered in the affirmative, one to the extent that it has tightened on credit factors, and the other three indicated they would handle any sound credit.

a. What explanations are offered for such tendencies?

Business outlook, delinquencies are on the increase with risk of loss through resales, and uncertainty of employment.

4. Is there any tendency for financing institutions to tighten credit lines extended to dealers for floor plan financing or other wholesale transactions?

Six of the eight institutions visited answered in the affirmative. One was not engaged in this type of business, and the other indicated that there has been no change in its policy.

5. Are reports becoming more frequent that dealers in durable goods lines are financially over-extended?

   Five of the eight institutions visited answered in the negative, two in the affirmative and one was noncommittal.

6. To what extent have there been lay-offs in manufacture and distribution of regulated durable goods?

   The majority of the eight institutions visited referred to local manufacturers, such as Apex Electric and Manufacturing Company, P. A. Geier Company and the Weatherhead Company which had lay-offs publicized in the local newspapers.

   a. Have such lay-offs resulted from recent sales declines or from other factors, such as model changes, inventory-taking, supply shortages, etc.?

      Sales declines was attributed as the contributing factor by the majority of the institutions questioned.

1. With respect to regulated articles, is there evidence of recent undue inventory accumulation?

Bank No. 1 Yes, with respect to automobiles.
2 Yes, automobiles. Do not know about appliances and furniture.
3 Yes, with respect to automobiles, appliances and furniture.
4 Yes, with respect to automobiles because of Regulation W, and appliances and furniture because of seasonal influence.
5 Yes, with respect to automobiles, appliances and furniture at the retail and wholesale level.
6 Yes, with respect to new and used cars except Chevrolets and Plymouths and with respect to appliances and furniture.
7 Yes, with respect to appliances and furniture.
8 Yes, with respect to automobiles except the Fords, Chevrolets and Plymouths.

a. If there is no general evidence are there any unsatisfactory inventory situations for individual articles or makes of articles?

No answers.

2. Are premiums still prevalent on "used" new cars and, if so, for what makes and about how large?

Bank No. 1 Believe not. Dealers are having difficulty recovering their cost.
2 Hardly any except on the brand new models, like the Chevrolets.
3 Doubt it.
4 No.
5 None on high or medium priced cars. There may be some on the new 1949 Chevrolet.
6 Not prevalent but the situation still exists because dealers are trying to recover their cost.
7 Cannot answer.
8 No.

a. To what extent is there increasing evidence of price or other merchandising concessions by sellers of automobiles, household appliances and furniture?

Bank No. 1 Not in cars as yet although some dealers are not requiring accessories, etc. Appliances are being offered at a discount.
2 Some dealers are allowing more for trade-ins. Don't know personally with respect to appliances or furniture.
3 Wouldn't think so with respect to cars. Appliances are being advertised at a discount. Doubt it with respect to furniture.

4 In most cases, cars can be purchased without extras. Appliances are being sold at a discount.

5 Suspect most all appliances and furniture are being sold at a discount except in department stores.

6 To the extent that cars are not being loaded with extras and dealers are taking losses on used cars. Appliances being offered at a discount.

7 Appliances and furniture are being offered at discounts with allowances for trade-ins.

8 Have experience only with respect to automobiles. In the low price field there is none. With respect to the independents, there is a noticeable effort to find buyers and therefore concessions are made.

b. Does it appear that such tendencies are probably seasonal, or greater than could be explained by seasonal or other temporary influences?

Bank No. 1 They may be partly seasonal but only to a degree. The seasonal influence is not a major factor.

2 Other than seasonal, appliance dealers are being forced to pay their bills and they are forced to sell their merchandise.

3 Greater than seasonal influences. Prices are too high.

4 Greater than seasonal influences. Feel that Regulation W is responsible.

5 Partially seasonal but greater than seasonal influences.

6 It is a combination of influences. It is partly due to a return to (1) seasonal trend, (2) credit control, (3) over-pricing and (4) lower incomes.

7 It is more than seasonal. Merchandise is not moving. There is sales resistance.

8 Greater.

3. Are banks and finance companies showing increasing reluctance to handle any type of retail instalment paper?

Bank No. 1 No, there is no reluctance. Any sound dealer is still solicited and acceptable.

2 Yes, with respect to appliances because of the uncertain profit factor. With respect to television because of the uncertainty of the price structure. We will take all FHA credit we can get, and all the sound automobile credit we can handle.

3 Yes.

4 No.

5 Yes, because of the business outlook. Am interested only in the best credit risks.

6 Yes, don't think so. We still handle any sound credit.

7 To the extent that we have tightened on credit factors.

8 Yes.

a. What explanations are offered for such tendencies?

Bank No. 1 No answer.
2 For reason that loans on appliances are small and unprofitable.
3 Customers have over-bought.
4 No answer.
5 Because of the business outlook.
6 No answer.
7 Experience shows our accounts are getting slower and delinquencies are on the increase.
8 Because of (1) uncertainty of employment, (2) risk of loss through resale and (3) buyers resistance.

4. Is there any tendency for financing institutions to tighten credit lines extended to dealers for floor plan financing or other wholesale transactions?

Bank No. 1 Don't think so. We are as liberal as in the prewar period.
2 We think there is.
3 Definitely.
4 Yes.
5 We do not do this type of business.
6 Yes, principally to avoid large over-priced inventory.
7 Yes.
8 Yes.

5. Are reports becoming more frequent that dealers in durable goods lines are financially over-extended?

Bank No. 1 Yes, car dealers.
2 Wouldn't know.
3 Yes.
4 Car dealers, no. Appliance and furniture dealers, yes.
5 Not yet.
6 No.
7 No.
8 Speaking for automobile dealers, not yet.

6. To what extent have there been lay-offs in manufacture and distribution of regulated durable goods?

Bank No. 1 Yes, Apex and Weatherhead.
2 Yes, Apex and Weatherhead.
3 Apex.
4 Apex and Geier.
5 Apex, but question whether generally there is any appreciable lay-offs.
6 Only what we read in the newspaper.
7 We wouldn't know.
8 Not from our experience.

a. Have such lay-offs resulted from recent sales declines or from other factors, such as model changes, inventory-taking, supply shortages, etc.?

Bank No. 1 Overproduction.
2 Sales declines
3 Sales declines
4 Sales declines.
5 Sales declines
6 Wouldn't know. Imagine it would be sales declines.
7 No answer.
8 No answer.