Honorable R. M . Evans
Board of Governors
Federal Reserve System
Federal Reserve Building
Washington 25, D. C.

August
16
1948

Dear Governor Evans:

Re: Credit Terms in Connection with Automobile Instalment Sales

First, on behalf of our group which met with you last Friday, may I express to you their appreciation for the attentive hearing accorded us and for the generous amount of your time which you devoted to the discussion of possible credit terms for automobile instalment sales under your anticipated consumer credit regulation. We trust that our visit with you will provide you and your colleagues with a better understanding of the problems of the automobile sales financing industry and the possible adverse effects which credit controls could have upon this industry, if all factors pertaining thereto are not considered in connection with the imposition of such controls.

For your convenience and by way of a record, we should like to summarize briefly the points presented to you orally last Friday, and which points, we believe, should be considered in setting up your regulation to control automobile instalment sale credit, if and when such regulation is promulgated.

<u>First: Retail automobile instalment sale credit is not overextended at this time.</u> Your own reports indicate that on May 31, 1948, retail automobile outstandings held by sales finance companies were only 19% above the 1939 year-end level, and that these outstandings were still thirty points below the 1941 year-end level. When the increase in the price level of automobiles during the past few years is considered (prices are up some 50% to 60%), it is clear that the unit volume of automobile instalment contracts outstanding is still far below that of the 1939 or the 1941 level. When these outstandings are considered as a percentage of disposable income out of which such outstandings may be liquidated, the comparison is also very striking. Such outstandings, as of the end of May 1948, were only eight tenths of one per cent (.8) of the current annual rate of disposable income for 1948. This figure compares with 2.11% as of the end of 1941. On

this comparative basis, such outstandings are only about 38% of what they were in 1941.

Second: It is important that any regulation pertaining to automobile instalment sale credit should not interfere with essential private transportation for workers. Few people who have not studied this matter of private automobile transportation realize the extent to which workers in industry and commerce are dependent upon privatedly-owned automobiles for transportation. A recent survey among personnel managers of factories located in the Detroit area, shows that from 40% to 85% of the workers employed in each of these factories use their own cars to get to work - many of these workers transport other workers also. Another survey made among ninety-four war plants, selected at random, show that 73% of the employees employed in these plants drive their cars to work. Studies in still other cities show the following percentage of workers using their own cars to get to work in the cities named: Chicago suburbs, 45.5%; Fort Wayne, Indiana, 49.3%; Fort Worth, Texas, 51.9%; Massillon, Ohio, 67.3%; Hagerstown, Maryland, 73.0%; Providence, Rhode Island, 78.6%. There are 2137 American communities with a population of 2500 to 10,000 that have no public means of transportation whatsoever. Approximately, eleven million people live in these communities. Add to this group the thousands of hamlets below this 2500 size and the number of people dependent upon private transportation is even greater.

Third: Any terms or conditions imposed under credit controls should be such as to make it possible for workers, or others dependent upon private automobile transportation, to secure dependable transportation. The average industrial worker cannot use more than 25% to 30% of his current income to meet his instalment obligations. In normal times approximately 50% of new car purchases must use instalment credit and 60% to 75% of used-car purchasers must use such credit. Although these percentages are somewhat below these figures at the present time, a very large number of persons, particularly those in the lower income groups, must use this means of purchase. Under the present price levels terms must be such as to produce monthly payments which can be met.

Fourth: Automobile instalment sale credit regulation should take into account the normal historical pattern which has existed, and which now exists in connection with such credit. These controls can and should be adapted to existing selling and marketing patterns. At the present time under a free market credit terms and retail automobile sales practices group themselves around the following classes of vehicles: (a) Post-war model cars and (b) Pre-war model cars. Post-war model cars further divide themselves, naturally, into two groups: (1) New cars and current model used cars (including the current year model and the preceding year model) and (2) late model used cars (models ~~two~~ over years of age and not over four years of age.). Pre-war model cars likewise divide themselves, naturally, into two groups, (1) 1941 and 1942 models and (2) 1940 models and older. These groups are easily identifiable and the use of these four classes should not involve any administrative difficulties insofar as regulation is concerned.

Fifth: We would suggest that terms and down payments pertaining to the sale and financing of electrical household appliances should be geared to and comparable with the terms pertaining to furniture and other household goods. The average householder considers the refrigerator, washing machine and other appliances as much a household item as he does other pieces of furniture used in the household. It, therefore, seems inconsistent to require stricter terms for the acquisition of such appliances, than those required for the acquisition of furniture and similar types of goods.

Our Request: In view of the above facts, we respectively suggest and request that your regulation to control consumer instalment credit, insofar as it relates to automobiles, embody the following:

1. That automobiles for purposes of determing down payments and terms be divided into the four classes noted above.

2. That the following terms be made applicable to each of the classes noted, namely:

For Post-War Cars

(a) New cars and current model used cars - 1/3 down with maximum maturity of twenty-four months.
(b) Late model used cars - 1/3 down and maximum maturity of eighteen months.

For Pre-War Cars

(a) 1941 and 1942 models - 1/3 down and fifteen months maximum maturity
(b) 1940 models and older - 1/3 down and twelve months maximum maturity

Cordially yours,

AMERICAN FINANCE CONFERENCE

Thomas W. Rogers
Executive Vice President

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