

FEDERAL RESERVE BANK
OF NEW YORK

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July 29, 1949

"PACKING" PRACTICES IN AUTOMOBILE INSTALMENT SALE FINANCING

**Banks invited to participate in trade practice conference called by
Federal Trade Commission in Washington on September 15, 1949**

*To all Member Banks in the
Second Federal Reserve District:*

The Federal Trade Commission recently announced that it has called a trade practice conference to be held in Washington, D. C., on September 15, 1949, for the purpose of establishing trade practice rules intended to eliminate or prevent so-called "packing" practices in the instalment sale and financing of automobiles. The Commission considers that these and related practices, which have been brought to its attention by members of Congress, Better Business Bureaus and the public generally, are of nation-wide significance and warrant the initiation of corrective steps through the medium of a trade practice conference. On the reverse side hereof is a copy of the statement which was released to the press on June 13, 1949, by the Federal Trade Commission.

Since banks constitute a significant factor in the purchase of automobile paper, the Commission desires that banks, as well as others concerned, participate and cooperate at the conference, and has asked the assistance of the Federal Reserve System in so informing all member banks. The Board of Governors of the Federal Reserve System believes that the opportunity to participate in the conference will be of interest to many member banks, and that they may be able to make helpful contributions toward the attainment of a uniform approach to the problem and a healthier competitive situation for all concerned.

Suggestions which any bank may care to make relative to the subject should be sent directly to the Federal Trade Commission, Washington 25, D. C.

Additional copies of this circular may be obtained upon request.

ALLAN SPROUL,
President.

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FEDERAL TRADE COMMISSION CALLS TRADE PRACTICE CONFERENCE ON AUTOMOBILE "PACKING" AND RELATED PRACTICES

The Federal Trade Commission will call trade practice conference proceedings to eliminate and prevent deceptive "packing" practices in the sale, and in the financing, of automobiles purchased on the installment payment plan.

Automobile dealers, financing organizations, automobile manufacturers and other interested groups concerned with the problem will be invited to participate in a trade practice conference in Washington, September 15, under the supervision of Lowell B. Mason, Acting Chairman of the Commission.

Acting on its own motion, the Commission authorized the conference proceedings after complaints from members of Congress, Better Business Bureaus and automobile purchasers indicated the "packing" of sale and installment contracts whereby fictitious amounts or overcharges are deceptively concealed from the purchaser, a practice said to prevail on a nationwide scale.

Wrongful aspects of the practice relate to the deceptive means by which the "pack" is accomplished through the concealment of facts from the buyer. It appears that the most effective means of eliminating concealed overcharges is the establishment of trade practice rules requiring that prospective car buyers, before they enter into an automobile purchase contract, be given an itemized breakdown of all items making up the total of the amount to be paid by the buyer under the contract, and the listing separately of finance and insurance charges. Thus the purchaser will know in advance the amount to be paid for each item for which a charge is made.

It is claimed that the concealment of the nature, size and extent of the overcharge in the monthly payments, by lumping finance charges and insurance, or otherwise, in the contract constitutes a concealment of a material fact. Many dealers in several cities have realized the importance of adequately informing the purchaser so that there will be full disclosure of all the material facts to the buyer. In a number of large cities the automobile dealers have endorsed the program of revealing all the items making up the contract cost and have agreed in the interest of discouraging unfair practices to make available to the automobile buyer information to which he is clearly entitled.

The September 15 conference will afford all segments of the industry concerned an opportunity to work out their problems in a friendly, cooperative proceeding, where the best thoughts of all are pooled free from compulsion, and to bring about, in cooperation with the Commission, the formulation of rules directed to the prevention of "packing" and related practices in the sale and financing of automobiles.

At the conference, members of the industry may propose such rules as they deem desirable and all matters presented will be considered and discussed, and the viewpoints of everyone who seeks to express an opinion on the subject duly recorded and considered.

Before the Commission finally approves any rules, a draft of the proposed rules will be made available to all affected or interested parties and they will be given an opportunity to present their views and suggestions thereon at a subsequent hearing.

ALAN SPROUL,
President.

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