ABSTRACT

THE KNOWLEDGE AND USE OF CONSUMER INSTALMENT CREDIT BY YOUNG MARRIED PEOPLE OF THE LANSING, MICHIGAN AREA

by Philip Basil Healey

Today's young married couples are the new users of consumer instalment credit. Their impact on the industry is becoming more evident every day. These young people marry at an age when they are beginning to climb the economic ladder. They have children earlier and in greater numbers than their parents.

Young married people desire the scale of living experienced by older groups in our society. One way of financing this demand is through the use of consumer instalment credit. Not all groups of young married couples view the use of instalment credit in the same way.

Two groups of young married people (ages 18-24) were surveyed. One group was resident and employed in Lansing, Michigan. The other group was married students of Michigan State University, East Lansing, Michigan. There were significant differences between these two groups in the use and knowledge of consumer instalment credit.

The Lansing group used instalment credit more frequently than the East Lansing group. The major use of instalment credit by the Lansing group was for the purchase of an automobile, while the most common use of instalment credit by the East Lansing group was for the purchase of household goods. The blue-collar workers of the Lansing

group used credit more frequently than either the Lansing white-collar workers or the students of the East Lansing group. Several reasons may be suggested for this result: (1) differences in incomes, (2) differences in environment, and (3) differences in living standards. Whatever the causes, young married couples are a complex segment of the consumer instalment credit market.

These young people expressed strong preferences for certain credit sources. They ranked the sources of credit as follows: (1) commercial banks, (2) credit unions, (3) sales finance companies, (4) retail outlets, and (5) small loan companies.

The major credit agencies in the Lansing, Michigan area were surveyed. This survey placed particular emphasis on the agencies' view of the market potential of young married people. Several conclusions were determined. First, little attempt was made to directly encourage these young people to investigate and use one particular agency for instalment credit. Second, the agencies did not follow any consistent pattern regarding the explanation of the instalment contract. Finally, most agencies applied different rules to a young person's application than to an older person's application. However justified, this difference was not explained to the young applicant.

The consumer's knowledge of credit agencies as well as the consumer's knowledge of instalment credit contracts was investigated. There was evidence of significant lack of knowledge in both of these areas. Two reasons may be suggested. First, the consumer did not appear excessively concerned with these questions. Second, the agencies appeared to believe that their existing business methods would adequately serve the new generation. Two features tend to make both of these views unrealistic. First, the rapid increase in the acceptance of and amounts of consumer instalment credit outstanding necessitates a better understanding by both parties. Second, the increased concern by various governmental bodies would lead one to the conclusion that methods will be changed either from within or without the industry.

The future of this industry seems assured. Few would doubt that consumer instalment credit will increase both in dollar amounts outstanding as well as an acceptable method of financing the standard of living of the new consumers. The intent of this thesis has been to contrast two groups of young married people who are or will be potential customers of this industry. The conclusion of this thesis is that significant use is made of consumer instalment credit by young married couples but significant lack of knowledge exists on both the part of these consumers and their suppliers.

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CHAPTER I

INTRODUCTION

The Thesis Problem

Credit financing is not of recent origin. Evidence has been found to indicate that credit was used in ancient China. In the middle ages, the House of Medici expanded and improved the use of international and domestic credit. Today in the western world, credit and credit institutions play a commanding role in the economic community.

Many studies have investigated the social, psychological, and economic effects of the growth of consumer instalment credit in the postwar United States. These studies have provided few answers, and have brought to view many unanswered questions.

One question concerns the knowledge and use of instalment credit by young married people. Today a young married couple is able to use instalment credit for almost any purpose. To question the wisdom of this use of credit is a subjective decision but to question the awareness of the young couple to the responsibilities assumed by the use of instalment credit is feasible.

The population of the United States has passed the 186 million level. If the present rate of population increase should continue, it will reach 214 million people by 1970. The rate of increase has not been the same for all age groups. In the period 1950-1960 the largest population increase occurred in people 17 years old and younger.

In the sixties, the most rapid growth will be in the number of people in their late teens and early twenties. By 1970, there will be

49 percent more people aged 18-21 and 40 percent more in the age groups 14-17 and 20-29.[1] These young people will dominate the market for consumer goods and services.

The central ages (18-24) of this group will comprise the majority of the newly married people. These young married couples will be starting to establish their homes. They will also be the new parents of our society. These three reasons, marriage, homes, and family, will accentuate their demand for the goods and services of the society. As these young people are getting established their wants will tend to exceed their income. As a result the need for temporary supplementary financing will be increased. The young married people 18-24 will be making demands of consumer instalment credit.

The structure of the consumer instalment credit industry has changed significantly over the past ten years. For example, the sales finance companies' share of automobile credit declined, while that of commercial banks and credit unions has risen. Conversely, the proportion of non-automobile consumer goods paper held by sales finance companies rose, while that of banks and retail outlets declined.

The organization of finance subsidiaries by producers has been a major factor in the reduction in the proportionate share of non-automotive consumer goods paper held by commercial banks. The importance of these finance subsidiaries will most likely continue to increase in the years ahead.

These two examples of the changes in the relative importance of the various credit institutions illustrate the changing market emphasis of these institutions. Although the consumer instalment credit market has realigned from the early postwar period, these changes cannot be

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[1]The Chase Manhattan Bank, Business in Brief, (New York 15, New York: Economic Research Department, 1962), No. 44, 11.

considered as permanent. The bases for future change lie in the changing composite of population as well as the apparent liberalization of instalment credit acceptability.

The importance of the new young consumer to the suppliers must be examined in the light of the future of the consumer instalment credit industry.

The major purpose of this dissertation is to investigate the knowledge and use of consumer instalment credit by young married couples and the awareness by the credit supplier of the full market potential of these young people. This investigation of the views and actions of both sides of this particular market will result in a better basis for forecasting this market's future. All too often one hears of the misuse of instalment credit by the demander or the supplier. It is thus in the interest of society to view objectively the degree of knowledge and the use of instalment credit by young married people. Similarly, better knowledge of the credit sources will be beneficial to society. An understanding of the motivations, prejudices, and knowledge of both demanders and suppliers will aid in better understanding of the industry and its customers.

There are several subsidiary purposes to this dissertation. The question of knowledge raises other interesting thoughts. What is the source of this knowledge? What is the use of the knowledge? What is the degree of interest in a better understanding of credit? Should credit buying be introduced in our schools? Part of this answer will be found by determining the amount of credit used versus the amount of credit training of these young people. Part of this dissertation deals with this subject of credit education.

Methodology

Two methods were used in this study. Determination of the industry changes were found through library research. The basic reference for these changes was the Federal Reserve Bulletin. The period covered by this study was from year-end 1951 to year-end 1961.

The knowledge and use of consumer instalment credit by young married people was found through direct interview. To build on a study undertaken six years ago by the Board of Governors of the Federal Reserve System the questionnaire used in this thesis was programmed to mesh with their questionnaire. The questionnaire used in this thesis was not as extensive as that of the Board of Governors as the scope of the study was more limited.

A random sample from each of two populations of young people was studied. Subjects in the first group were residents of Lansing, Michigan, married and of the age group 18-24. Subjects in the second group were students of Michigan State University, married, and between the ages 18-24. In both groups inclusion was dependent on the age of the husband.

The attitudes and the policies of the lending agencies in the Lansing, Michigan area also were surveyed by direct interview. The major banks, sales finance companies, consumer finance companies, and credit unions were included in the analysis. In each case an executive of the agency was asked to discuss the desired characteristics of young debtors as well as the agency's policy regarding the encouragement of young people. Efforts were made to discover the agency's method of informing its young customers of their responsibilities upon the receipt of instalment credit.

Limitations

It would be impossible to present a detailed discussion of the many and varied forces influencing the consumers and the credit agencies. This study is limited to showing the actual use of instalment credit for the purchase of consumer goods. In an attempt to show the consumers' attitudes, information is presented that relates the actual use of instalment credit to the income, employment, and education of the consumers.

The second limitation was imposed on this study because of the difficulty of determining the credit agency's policy from the answers of the agency's executive. In some cases the answers given by the executive reflected his own belief rather than the policy of the credit agency. A further restriction was presented because of the unwillingness of some of the agencies to discuss openly their credit policy.

Restrictions must be recognized because of the limited data available and the number of variables included in the available data. Further discussion of the statistical significance of the data is presented in the appendix.

Scope of the Study

The background and the introduction to this study are presented in Chapter I. Two factors made this study important: the increasing importance of consumer credit in our society, and the growing share of the young married people in this market.

Chapter II presents the national changes that have taken place in the consumer instalment credit market through the period 1951-61. This growth is viewed from total market as well as from the credit agencies' position. To show the inter-industry changes, the market penetration of each institution is discussed.

Chapters III and IV comprise the main part of this dissertation. Chapter III analyses the results of the survey of young married people in the Lansing, Michigan area. The data presented must be evaluated in light of the restrictions mentioned above. The first part investigates the characteristics of the young married couple. Section 2 presents the actual and preferential uses of instalment credit by these young people. The next section presents the use of and preference for various credit institutions as indicated by the survey groups. Credit rates and credit education are presented next, and an attempt is made to relate these preferences to the actual use of credit. The final section of this chapter presents a summary and evaluation of the consumer survey.

Chapter IV presents an analysis of the credit policies of the lending institutions in Lansing, Michigan. The two major parts of this chapter present the current policy regarding credit extensions to young people, and the promotional practices followed by these agencies.

Chapter V summarizes the findings of the study and presents recommendations.

The Role of Instalment Credit

In the ten years since the end of 1950, this nation has experienced a significant growth in the scale of living of its citizens. This growth is a reflection of the industry of the people. One intrinsic part of this industry is the vast use made of credit.

Credit, representing a trust, may be found in every facet of public and private commerce. One particular application of credit may be identified as consumer instalment credit. This term is defined as follows:

> If arrangements for repaying the debt include a financing charge, stipulate a series of regular, pre-scheduled amounts which will amortize the principal of the debt and the charge in a relatively

short period of time and if the arrangement is spelled out in a negotiable instrument which makes provision for legal action when there is default, the credit is considered instalment credit.[1]

This particular definition should include the understanding that the credit is incurred to finance outlays for consumption by the individual private consumer. In other words, the intent is to exclude credit for future commercial transactions and also mortgage credit.

The period discussed in this thesis is from year-end 1951 to year-end 1961. During this period consumer instalment credit outstanding increased from $15.3 billion to $43.2 billion. The average increase in outstandings was between $2.5 to $3.0 billion per year. This resulted in a rate of increase of slightly less than 10 percent annually.

During this period there were fluctuations in the rate of increase. In the period 1951 to 1953, the annual growth rate of consumer instalment credit outstanding varied from 25 percent (1951-52) to 2 percent (1953-54) to 25 percent (1954-55). In the period 1956 to year-end 1961 the annual rate of growth was around 10 percent annually. It was these differing rates of expansion that concerned economists when they viewed the role of consumer credit in the business cycle.

This expansion of outstanding instalment credit "has reflected the high level of expenditures for durable goods traditionally financed with instalment credit; an increase in the proportion of such goods

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[1]M. R. Niefeld, Niefeld's Manual on Consumer Credit, (Easton, Pennsylvania: Mack Publishing Company, 1961), 11.

Non-instalment credit includes single-payment loans from financial institutions, charge accounts from retail stores, credit cards, and service credit. The main distinction between instalment and non-instalment credit is the existence of one-step repayment as opposed to a schedule of repayment and usually the absence of finance charges.

bought on credit; and the extension of instalment credit to finance purchases of nondurable goods and services."[1]

In the early postwar years the rise in instalment credit outstanding, reflected primarily the sharp expansion in the purchase of durable goods, particularly automobiles. In the past few years there have been changes in the demand for goods which are reflected in changes in the composite of consumer instalment credit outstanding. "Automobile credit has accounted for a substantially smaller proportion, and personal loans for a substantially larger proportion of instalment credit growth. . . ."[2]

The quantitative growth of consumer instalment credit outstanding as well as the use of this credit has influenced society. "One question raised was whether instalment credit might be contributing to economic stability by fostering an excessively rapid expansion in output of automobiles and other consumer durable goods, to be followed by a contraction which would be transmitted to other important sectors of the economy."[3] A second question raised refers to the changes that the goods financed are having on the scale and standard of living of the citizens. Of particular importance are these changes on the young married couples.

In answer to the first question it may be pointed out that the economists have not as yet agreed on the economic impact of consumer instalment credit outstanding on economic stability, nor have they

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[1]Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, 48 (June, 1962), 683. All data on consumer instalment credit is available from the Federal Reserve Bulletin. Data included in this study is based on the Federal Reserve Bulletin unless otherwise noted.

[2]Ibid., 684.

[3]Board of Governors of the Federal Reserve System, Consumer Instalment Credit: Growth and Import, (Washington, D.C.: Federal Reserve System, 1957), Part I, V. I, 1.

agreed on the impact that instalment credit extensions have on the business cycle.

The answer to the second question requires careful analysis. This analysis will be presented in Chapter III. At this time it will suffice to indicate that the American consumer, both old and young, has a tradition of accepting innovations in his consumption pattern.

The basic role of consumer instalment credit in our society is to allow the consumer to even out fluctuations in his income, or if his income is steady, to allow him to meet emergency needs of his family. This means that if the consumer has to finance a car or a washing machine, which requires a lump outlay of cash in excess of his income, the use of instalment credit will permit such expenditures. The services of these goods will be consumed over a period of time and during this time he will be able to repay the instalment credit extended.

The wise use of consumer instalment credit benefits not only the individual consumer but also the entire economic structure of society. It makes possible mass production, mass distribution and a continuing rise in the scale of living.

CHAPTER II

SOURCES OF CREDIT

Introduction

Chapter II analyses the changes that have occurred in the consumer instalment credit industry. These changes have influenced the market relationships within the instalment credit industry as well as within the economy. In such a discussion recognition must be made of the influence that these changes have had on the consumer. No clear causal relationship may be stated between the demander and the supplier. This chapter will indicate the quantitative changes that have occurred in the industry as well as certain obvious reasons for these changes.

The organization of Chapter II will be as follows:

Introduction will discuss some of the historical aspects of the development of the consumer instalment credit industry.

The Aggregate will discuss the changes in the total consumer credit industry as well as the changes in instalment and non-instalment credit outstanding.

Market Penetration will discuss the relative and absolute changes in instalment credit outstanding held by the various financial institutions.

Conclusion will summarize the findings of the various sections.

Sources of Credit

The sources of consumer instalment credit are numerous. They range from the large, formal institution with complex arrangements to the small, single proprietor small loan business. The main interest of society lies in the more formalized procedure as the majority (in dollars of credit extended) of loans are from these sources.

The formal sources may be divided between financial institutions and retail outlets. As of the end of 1961, total consumer instalment credit outstanding was $43,163 billion. Of this total, financial institutions held $37,580 billion while retail outlets held $5,583 billion.[1]

The type of instalment credit extended may be divided between sales credit and cash credit. Sales credit is extended for the purchase of consumer goods and services. Cash credit, or a personal loan, is extended to the individual in the form of cash. The greatest proportion of this cash credit is used for the purchase of consumer goods and services or for the payment of some past debt resulting from the purchase of consumer goods and services.

Sales Credit

Retail dealers originate most of the sales instalment credit extended to consumers for the purchase of goods and services. Most dealers, however, do not hold these contracts until they are paid off, but sell all or part of them to a financial institution, usually a bank or a sales finance company.

"Long before the organization of sales finance companies, retailers were offering instalment credit to the purchasers of various consumer goods."[2] In earlier days many retailers held their own instalment paper because they hoped to encourage customers to purchase additional merchandise when they came in to make their instalment payments. To a great extent, retailers now discount most of their instalment paper.

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[1] Federal Reserve Bulletin, 740.

[2] Robert W. Johnson, Methods of Stating Consumer Finance Charges (New York: Columbia University Press, 1961), 43.

The major financial institutions extending consumer instalment credit are sales finance companies (including captive finance companies), commercial banks, consumer finance companies, and credit unions. As of the end of 1961, these institutions held $11,052, $16,843, $3,798, $4,352 respectively of consumer instalment credit outstanding.[1] The remaining $1,535 billion was held by other financial institutions. These other financial institutions include industrial loan companies, mutual savings banks, saving and loan associations and other lending institutions holding consumer instalment loans.

Sales finance companies are defined as those companies who "purchase instalment paper from others, usually retail dealers, rather than extend credit directly to consumers."[2] These companies were an outgrowth of the selling of goods rather than of moneylending. Their initial purpose was the financing of retail inventories. As time passed, they have decreased the importance of their initial purpose and have assumed the role of consumer financing.

Evidence of these functions is best seen in the automotive industry. Sales finance companies "provide funds with which retail dealers may purchase inventory from producers."[3] In its second function "the sales finance companies make it possible for the customer to buy a new or used car and pay while using the car."[4]

In the last few years there has been considerable discussion of the growth of finance companies affiliated with the producer.

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[1]Federal Reserve Bulletin, 740. Figures include sales credit as well as cash credit.

[2]Consumer Instalment Credit: Growth and Import, Part I, V. I, 36.

[3]Niefeld, 449.

[4]Ibid.

The controversy centers around the competitive force exercised by these affiliated (captive) finance companies. One such company is General Motors Acceptance Corporation. Independent finance companies maintain that the car manufacturer (G.M.) "uses pressures of various sorts to make certain its dealers sell the profitable retail contracts to the auto maker's finance company." [1] The controversy regarding the future of captive finance companies continues with no apparent solution.

Sales finance companies influence the economy in several ways. First, and most important, is their position as credit suppliers. Second, they are credit demanders. The debt structure of these companies "should consist of a sound mixture which means that some part of the external funds will be represented by net worth or equity funds, another part will be short-term debt made up largely of bank loans and commercial paper, and a third part will be long-term obligations, including senior and subordinated debt." [2] The proportions of the various methods of financing will vary from time to time and between firms. The important relationship is that these firms do marshal funds from various sources and then indirectly extend credit to consumers.

Commercial banks entered the field of consumer instalment financing slowly in the 1920's. The first personal loans department was opened in 1928 by the National City Bank of New York. In the next two years many other banks opened similar departments.

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[1]U. S. Senate, Judiciary Committee of the Senate, Subcommittee on Anti-Trust and Monopoly, Hearings, Automobile Financing Legislation, 86th Congress, 1st Session, 1959, 589.

[2]John M. Chapman, Frederick W. Jones, Finance Companies: How and Where They Obtain Their Funds, (New York: Columbia University Press, 1959), 38.

During the depression years of 1930- 33, many of these departments were closed as many bankers considered "instalment lending outside their proper field of activity."[1] Following the bank holiday in 1933, commercial banks expanded their consumer instalment credit outstanding. In the years following World War II they became active in this field and by the end of 1961 they were the largest supplier.

Credit unions differ from other major types of consumer lending agencies in that they are cooperatives. The cooperative movement goes back into history to such men as Robert Owen (1771-1858) and Francois Fournier (1772-1837). This movement has self-help as its credo. Credit unions existed in the United States for many years but their national prominence has expanded greatly in the postwar years. These institutions have significantly expanded their holdings of sales credit in the period 1951-61.

Consumer finance companies, also known as personal loan companies or small loan companies, hold relatively small amounts of sales credit. Their main area of credit holdings is cash credit.

Cash Credit

Personal loans or cash credit is extended to the individual often on an unsecured basis or signature basis. When security is required, it usually takes the form of a chattel mortgage on an automobile or household goods.

The commercial banks have increased their holdings of personal loans through the period 1951 to 1961. By the end of 1961, they held \$3,810 million in personal loans outstanding. Commercial banks have been very active in this market. By the end of 1961, they held approximately 34 percent of the outstanding credit in this market. Traditionally

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[1] Consumer Instalment Credit: Growth and Import, Part I, V. I, 36.

the banks have been active in this field but it is only in the postwar years that they have stressed their willingness via advertising, to make instalment personal loans.

Sales finance companies do not hold a great share of the outstanding personal loans. The main reason for this is their lack of contact with the borrowing public. These institutions are better known as extenders of instalment credit to the retail level of business. While the above is true, these institutions have increased their holding of personal loans from 8 percent to 11 percent through the period 1951-61. Many of the larger sales finance companies have recently increased their efforts to diversity in response to the reduction in holdings of automobile paper. These efforts have included the acquisition of new and existing small loan offices; expansion of plans to finance consumer expenditures for travel and education, for purchase of boats, mobile homes, and shell houses, and for home repair and modernization; and promotion of business loans.[1] As a result of these activities, the proportion of other consumer goods paper and personal loans held by sales finance companies has risen. It is to be expected that these institutions will be more active in personal loan extensions in the future.

Credit unions extend personal loans to their depositors (members). In this regard they act in a similar fashion to the commercial banks. The main difference is that a non-member can not receive a loan from a credit union. These institutions are active in extending personal loans and as their membership grows, they will become more important.

Consumer finance companies (small loan companies) specialize in small personal loans.[2] These companies have most of their assets in the form of personal loans paper. The method used in extending these

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[1]Federal Reserve Bulletin, 688.

[2]The maximum loan made by a small loan company varies among states. In Michigan the maximum is $500.

loans varies from institution to institution depending on the policy of the management. In some cases they refuse to extend credit to people under the age of 21; in other cases these companies feel that loans to young people are as secure as any other loan. It is difficult to state what percentage of the personal loans outstanding result from the actions of these small loan companies, as their holdings are not reported separately from the general classification of other financial institutions. It may be assumed that these consumer finance companies do hold a sizable percentage of the personal loans outstanding.

The other financial institutions provide significant funds to consumers on an instalment basis. Typically these institutions direct their efforts to serve one particular type of loan or type of debtor. As an example, savings and loan associations stress mortgage credit, but extend some instalment credit and make instalment loans in the form of repair and modernization loans. Generally these institutions serve only a small fraction of the short-term instalment demand. Nevertheless the importance of these institutions must be recognized.

These credit agencies have aided the growth of economic activity in the United States throughout the period 1951 to 1961. One measure of this national economic activity is personal consumption expenditures. During this period annual personal consumption expenditures have increased from $208.0 billion to $339.0 billion. This is an approximate increase of 65 percent.

As seen in Table I,[1] during the ten year period from 1951 to 1961, consumer credit outstanding increased from $22,617 million to $57,139 million, or by approximately 150 percent, while consumer instalment credit outstanding increased from $15,294 million to $43,163 million or by approximately 200 percent. It has been said that "an orderly long-range expansion of consumer credit has been, and is, a necessary and

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[1]Appendix A, Table I. (All tables noted are in the appendix.)

desirable means of promoting a higher standard of living, expecially because of its association in this country with the mass production and distribution of consumer durable goods."[1] The relationship is made clearer when it is appreciated that of the $339.0 billion in personal consumption expenditures, some $42.2 billion were expenditures for consumer durables (1961). Additional clarity is introduced as we read that "the economic importance of consumer instalment credit is indicated by the fact that approximately one-half of the 29 billion spent on consumer durable goods during 1950 was financed by the method."[2] Thus the link is forged. Consumer instalment credit directly influences personal consumption expenditures via the financing of consumer durable goods.

The Aggregate

The great growth in consumer credit outstanding has resulted in sizable shifts in the instalment credit industry. Chart 2-1 shows the absolute increase in (1) consumer credit outstanding, (2) consumer non-instalment credit outstanding, and (3) consumer instalment credit outstanding, as well as the relative position of these items for selected years. The first, and most obvious change is the division of consumer credit outstanding between instalment and non-instalment credit. In the period 1951-61, total consumer credit outstanding increased 2.5 times while consumer instalment credit outstanding increased 2.8 times. Instalment credit outstanding amounted to 68 percent of total consumer credit outstanding by the end of 1951 and 76 percent by the end of 1961.

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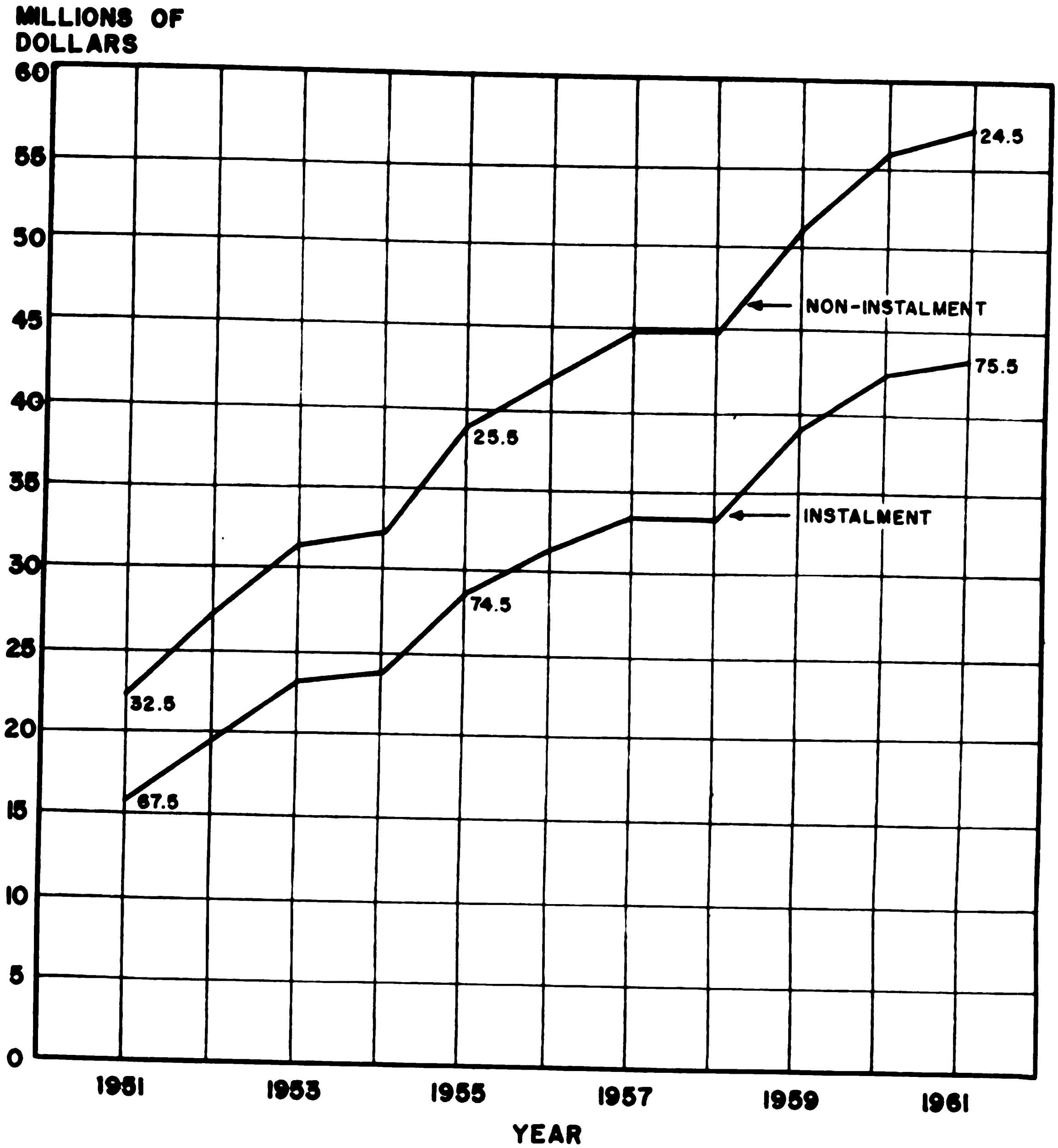
[1]U. S. Senate, Joint Committee on the Economic Report, Monetary Policy and the Management of the Public Debt, 82nd Congress, 2nd Session, Part I, 410.

[2]Ibid., 411.

CHART 2-1

CONSUMER INSTALMENT AND NON-INSTALMENT CREDIT OUTSTANDING

(ESTIMATED AMOUNTS; IN MILLIONS OF DOLLARS; IN PERCENTAGES; YEAR END 1951 - 1961)



SOURCE: SEE TABLE I, APPENDIX A

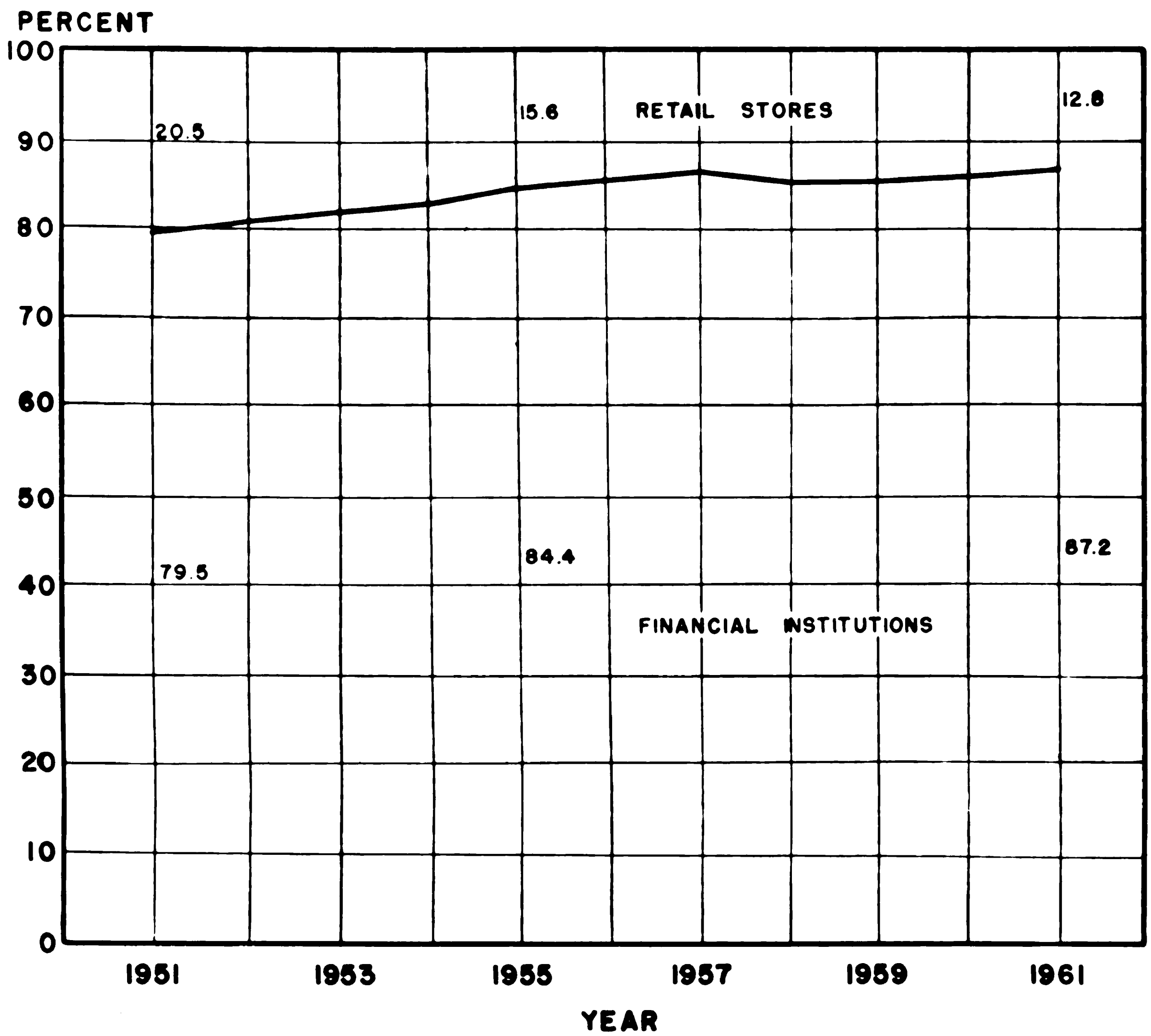
Lending Agencies

Table II shows the division of instalment credit outstanding between financial institutions and retail outlets in dollar terms. The former have increased their share of the instalment credit outstanding. In 1951 financial institutions held 79 percent of this market; at the end of 1961 they held 87 percent of instalment credit outstanding. While total sales instalment credit moves through retail outlets, it is important to note that these outlets have supplied a decreasing share of the credit. Of great interest to this thesis is the reason for this decrease. Chart 2-2 shows these changes in percentage figures. Although trend is obvious, one wonders to what conclusion this trend will lead. Will the result be the virtual elimination of retail outlets as sources of instalment credit? Chapters III and IV offer answers to these questions with particular attention directed to the growing importance of captive finance companies. At this point our interest is in the fact that financial institutions are the most important source of instalment credit outstanding.

Financial institutions may be subdivided into (1) commercial banks, (2) sales finance companies, (3) credit unions, (4) consumer finance companies, and (5) other financial institutions holding consumer instalment paper. Tables III and IV show in absolute and relative terms the competitive position of each of the above agencies. The first general conclusion is that the commercial banking system has been the single largest source of instalment credit outstanding through the period. By the end of 1961 the ranking of financial institutions in terms of consumer instalment outstanding was as follows: commercial banks, sales finance companies, credit unions, consumer finance companies and other financial institutions.

CHART 2-2

CONSUMER INSTALMENT CREDIT OUTSTANDING, HELD BY FINANCIAL INSTITUTIONS AND RETAIL STORES
(ESTIMATED AMOUNTS; IN PERCENTAGES; YEAR END 1951 - 1961)



SOURCE: SEE TABLE I, APPENDIX A

Chart 2-3 shows this ranking as well as the relative positions for specific years. Commercial banks have increased their instalment credit outstanding by more than $11 billion since 1951. Sales finance companies have expanded their instalment credit outstanding by approximately $7.4 billion. Credit unions have expanded their instalment credit outstanding by $3.7 billion.

It is significant to note that during the period 1951-61 credit unions doubled their relative share to 12 percent of instalment credit outstanding. Sales finance companies held constant their share from 1951-1961. During the same period commercial banks decreased their relative position from 48 percent to 45 percent. Comparison between these two years may be misleading as any cyclical variation is not shown. Such a variation may be seen as sales finance companies increased their holdings of instalment credit from 30 percent in 1951 to 35 percent in 1955. In the period 1955 to 1961 these companies decreased their holdings of instalment credit outstanding from 35 percent to 30 percent. Later in this paper this particular change is discussed.

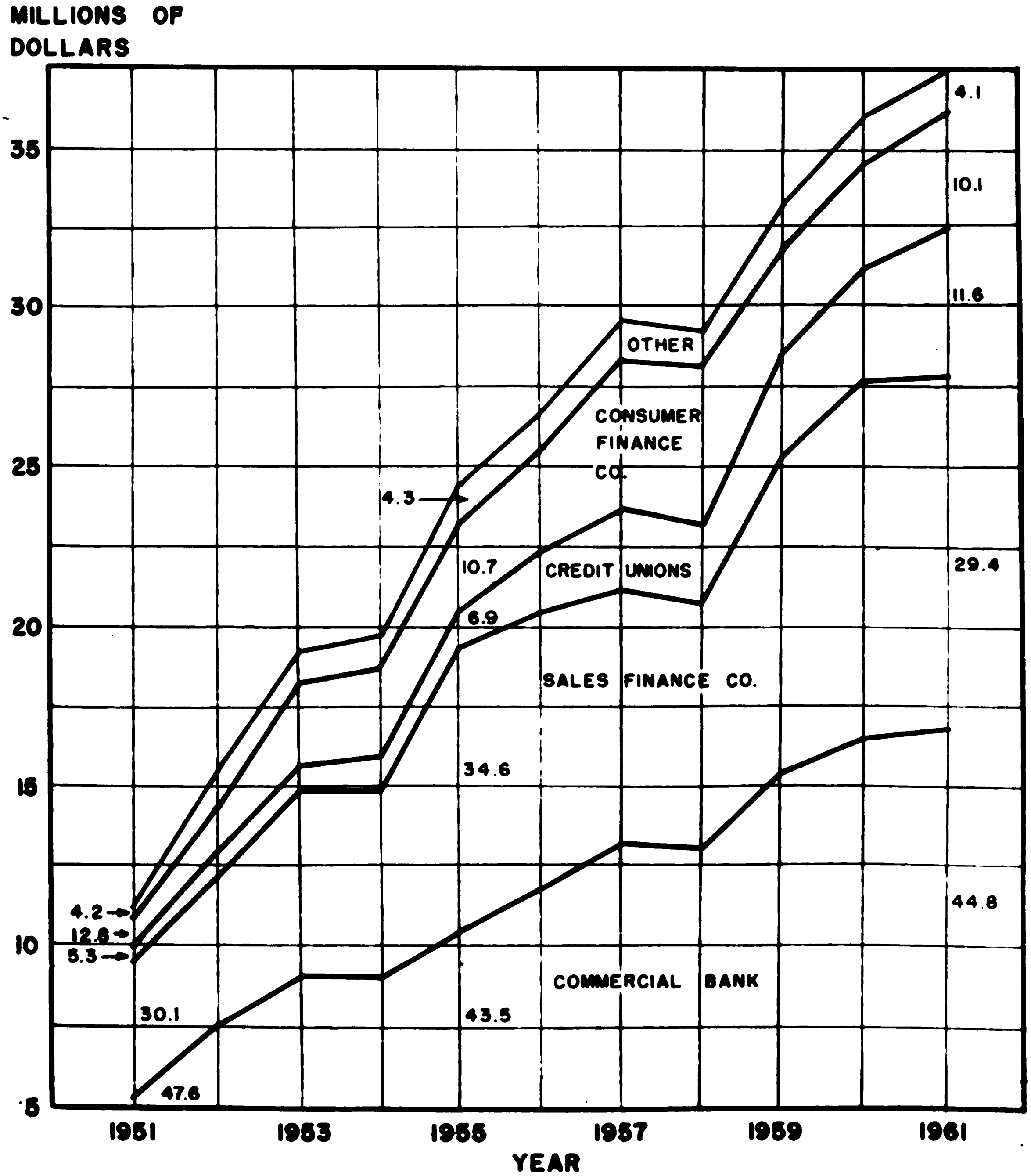
Instalment Paper Outstanding

During the period 1951-61 there were significant changes in the composition of instalment paper outstanding. Table V gives the absolute amount of these various types of instalment paper outstanding through the period. In terms of instalment credit outstanding the ranking of these types in 1951 was: (1) automobile paper, (2) other consumer goods paper, (3) personal loans, and (4) repair and modernization loans. During the period automobile paper increased 2.8 times, personal loans 3.4 times, repair and modernization loans 2.9 times, and other consumer goods paper 2.4 times. By the end of 1961 these types of instalment paper outstanding were ranked as follows: (1) automobile paper

CHART 2-3

CONSUMER INSTALMENT CREDIT OUTSTANDING, HELD BY VARIOUS FINANCIAL INSTITUTIONS

(ESTIMATED AMOUNTS; IN MILLIONS OF DOLLARS; IN PERCENTAGES; YEAR END 1951 - 1961)



SOURCE: SEE TABLE I, APPENDIX A

with $16,960 million outstanding, (2) other consumer goods paper with $11,771 million outstanding, (3) personal loans with $11,255 million outstanding, and (4) repair and modernization loans with $3,177 million outstanding.

The cyclical changes in the various types of instalment paper outstanding must be noted as well as the absolute changes. The absolute amount of automobile instalment paper outstanding showed the greatest cyclical changes. In 1954, 1958, and 1961 the amount of automobile paper outstanding was less than the prior year. These decreases were not uniform in absolute or relative amounts. The decrease in 1953-54 was approximately $\frac{1}{4}$ of 1 percent, in 1957-58 the decrease was approximately 8 percent, and in 1960-61 the decrease was approximately 3 percent. In each of these years these relative decreases followed a year of substantial increases, thus making the total cyclical swing of greater magnitude. Automobile instalment paper outstanding constitutes the largest share of total consumer instalment credit outstanding and also is the most volatile in cyclical movement.

Other consumer goods paper outstanding showed increases in every year from 1951 to 1961 except in 1954. During this one year the decrease was less than 1 percent. In all other years the increases would average about 8 to 9 percent. The pattern followed by other consumer goods paper was similar to that of automobile paper, but the variations were not as large.

The growth (2.4 times) of this market for instalment credit needs further consideration in light of the new credit methods available to the consumer. Many of these new plans (cheque credit and revolving credit) are not classified as instalment credit.[1] Even facing this new competition, the use of instalment credit to purchase consumer goods has significantly increased.

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[1]Charge account banking and the all-purpose credit cards are illustrations of the new type of non-instalment credit plans.

Repair and modernization loans showed increases in every year. In 1954 the increase was less than 1 percent. In the remaining years the increases would average approximately 10 to 12 percent. In 1958 when automobile paper outstanding showed its greatest decrease (8 percent), other consumers goods paper outstanding increased 2 percent and personal loans increased 4 percent; the increase in repair and modernization loans was 11 percent. In 1958 new construction decreased. It may be concluded that repair and modernization instalment loans operate to offset other cyclical variations. While these loans constitute the smallest identifiable segment of consumer instalment credit outstanding, they are an important use of this credit.

Personal loans showed a 240 percent increase through the period 1951-61. The average annual increase was approximately 15 percent. The cyclical variations in this market were less than in the other markets. This market was about as large as the market for other consumer goods paper and approximately $5.5 billion less than automobile paper outstanding. The degree of stability in personal loans was greater than in any other instalment paper market. It must be concluded that this form of credit had a stabilizing effect on the rest of the consumer instalment market.

Market Penetration by Financial Institutions

The relative market penetration by each financial institution will be analyzed by institution. The types that will be discussed are: (a) commercial banks, (b) sales finance companies, and (c) other financial institutions. Each institution will be discussed according to the type of consumer instalment paper held. These types will be classified as (1) automobile paper, (2) other consumer goods paper, (3) repair and modernization loans, and (4) personal loans.

Commercial Banks

In the period 1951-61, as seen in Table III, commercial banks increased their total holdings of consumer instalment credit outstanding from $5,771 million in 1951 to $16,843 million by the end of 1961. Their market penetration through this period showed a decrease. Table IV indicates that from 1951 to 1961 their share of the market decreased from approximately 48 percent to slightly less than 45 percent by the end of 1961.

Table 2-1 shows the commercial bank's market penetration by type of instalment paper held.

Table 2-1. Percentage of Consumer Instalment Credit Outstanding Held by Commercial Banks, Total, and by Type of Instalment Paper at Year End 1951, 1956, 1961

Type of Debt	1951	1956	1961
Automobile Paper	41	40	48
a. Purchase[1]	(42)	(65)	(64)
b. Direct	(58)	(35)	(35)
Other Consumer Goods Paper	30	29	23
Personal Loans	33	31	34
Repair and Modernization Loans	82	77	68
Total	48	44	45

Source: See Table I, Appendix A

[1]The method of acquisition is computed as a percentage of total automobile paper held by the commercial banks.

The commercial banks increased their penetration into the automobile paper market (Tables VI, VII). They decreased their market share in both other consumer goods paper and repair and modernization loans while holding relatively constant their share of the personal loan market.

Their penetration into the automobile market was relatively constant from 1951 to 1957 but, in the following years they increased their share to 48 percent by the end of 1961.

The important question is why the banks increased their penetration of this market. Two reasons may be suggested for this trend. First, the commercial banks advertised low bank rates on this type of instalment credit. Second, they decided on a policy of stressing these credits as a marketing policy.

There are two methods used to acquire this instalment paper. Direct negotiations cover the direct application of a potential customer to the bank for instalment credit. The purchase method means the bank buys already-negotiated instalment contracts. Commercial banks derive almost 2/3 of their automobile instalment paper held via the purchase method. The remaining 1/3 was acquired via the direct loan method.

The great stress on the purchase method causes one to question the effectiveness of their low finance charges on such instalment credit. Their advertising could be effective in several ways. The consumer may be attracted by these rates and thus negotiate directly with the commercial bank. The customer could request the automobile dealer to secure for him these low rates. The latter situation would result in a purchase agreement by the bank for this automobile instalment paper. Whatever the case, the banks do acquire substantially more of their automobile instalment paper holdings via the purchase method.

The commercial banks have steadily decreased their market penetration in the holding of other consumer goods paper (Tables VIII and IX). Their market share fell from 30 percent in 1951 to 23 percent by the end of 1961. Several reasons for this change may be suggested.

In the past years a number of new financing plans were introduced. Each of these plans had some effect on the distribution of other consumer goods instalment credit outstanding. Of greater importance in this particular market is the growth of finance affiliates of retailers and producers. The importance of sales finance companies, including these affiliates, is discussed below. Lastly, the unit amount of credit needed to finance these consumer goods is less than that needed to finance a new or average used car. As a result of this fact, commercial banks would probably prefer to handle the large units credits as they involve less difficulty than the smaller units of credit, even though the large units (automobiles) have a somewhat lower finance charge than the appliances.

Commercial bank penetration in repair and modernization loans showed the greatest percentage decline. In absolute terms this market is comparatively small (Table V) yet better than 2/3 of this market is held by commercial banks (Tables X and XI). It would seem logical to attribute the decrease in the share held by the commercial banks in part to the relative importance of this market. Repair and modernization loans amounted to only 7 percent of the total consumer instalment credit outstanding by the end of 1961. A second reason is the increased activity of the more specialized finance companies. These companies more than doubled their share of this market from 1951 to the end of 1961 (Table IV).

The market penetration of the commercial banks in the personal loans market remained about 33 percent through the period. In absolute terms the commercial banks increased their holdings from $1,122 million in 1951 to $3,810 million by the end of 1961. Although there has been no change in the market share of personal loans held by the commercial banks, they remain one of the major holders of this instalment paper (Tables XII and XIII).

Sales Finance Companies

Sales finance companies increased their holdings of consumer instalment credit outstanding from $3,654 million in 1951 to $11,052 million in 1961. Their share of this market increased from 30 percent in 1951 to 34 percent in 1956 and then declined to 29 percent by the end of 1961.

Table 2-2 shows the sales finance companies' market penetration by type of instalment paper held for selected years.

Table 2-2. Percentage of Consumer Instalment Credit Outstanding Held by Sales Finance Companies, Total, and by Type of Instalment Paper at Year End

Type of Debt	1951	1956	1961
Automobile Paper	48	50	39
Other Consumer Goods Paper	9	15	26
Personal Loans	8	8	11
Repair and Modernization Loans	5	5	2
Total	30	34	29

Source: See Table I, Appendix A.

The share of the automobile paper market held by sales finance companies has greatly decreased. They have also decreased their share of the repair and modernization loans, but increased their share of the other consumer goods paper and personal loans. Their share of the total market showed a slight decline through the period 1951-61.

Their penetration into the automobile market showed large fluctuations (Table VII). From 1951-55 they increased their share of this market from 48 percent to 51 percent. In the following years they experienced a significant decline to 39 percent by the end of 1961. One significant feature is the steady annual decline in share of the automobile instalment paper market following year-end 1955 to year-end 1961.

As mentioned earlier the commercial banks have taken a commanding share of the automobile market. It appears that most of the banks' gain was at the expense of the sales finance companies. The competitive force of the commercial banks in relation to the sales finance companies appears based on the ease of contact with the potential customers as well as the lower finance charges offered by the commercial banks.

Sales finance companies like the commercial banks purchase instalment paper from dealers. The banks had greater success in acquiring this paper by the purchase method than did the sales finance companies. In addition the commercial banks extended their direct automobile loans. The significant increase in market penetration by the commercial banks was primarily the result of their success in acquiring automobile instalment paper by the purchase method.

In the market of other consumer goods instalment paper the situation discussed above was reversed. In this case the sales finance companies greatly expanded their holdings as well as their market share, while the share held by the commercial banks declined. The share held by the banks declined from 27 percent to 23 percent while the share held by the sales finance companies increased from 9 percent to 23 percent in the period 1951-61. In addition to taking part of the market from the banks, sales finance companies appeared to have gained a market share from retail outlets.

In explaining the sales finance companies' gain two major items must be noted. First, the sales finance companies have greater contact with retailers than with the customers of the retailers; thus it is easier for the sales finance companies to negotiate purchases from the retailer than to deal directly with the consumer. Many retailers would welcome the opportunity to sell their instalment paper in order to free their capital for other business uses. This desire becomes particularly acute during periods of rising prices. At the same time, retailers recognize the necessity of providing instalment credit for their customers. Second, and more important, is the growth of captive finance companies. These companies are adjuncts to the producer but they are classified as sales finance companies. In the last ten years these captive companies have experienced significant growth.

The market share of personal loans held by the sales finance companies has increased through the period 1951-61 (Tables XII and XIII).[1] The increase of the sales finance companies in this market was matched by market share losses of other financial institutions. Even with this gain in market share the sales finance companies supply the smallest share to the personal loans market.

Sales finance companies showed a percentage decrease in repair and modernization loans held relative to the total outstanding. These institutions supply a small percentage of instalment credit to this market. It may be concluded that these institutions place their major market emphasis in areas other than repair and modernization loans.

Other Financial Institutions

In the period 1951-61, as seen in Table III, the consumer instalment credit held by financial institutions other than commercial banks

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[1]Certain individual sales finance companies have pushed into the personal loan field to such a degree that they are classified as sales finance companies only by reason of the fact that a slight majority of their receivables are classified as sales contracts. This has resulted in increasing difficulty in distinguishing sales finance companies and consumer finance companies.

and sales finance companies increased from $2,699 million to $9,685 million. The market penetration of these institutions increased from 22 percent in 1951 to 26 percent by the end of 1961 (Table IV). Included in the classification of other financial institutions are credit unions, consumer finance companies, industrial loans companies, mutual savings banks, saving and loan associations, and other lending agencies holding consumer instalment loans.

The major market change in this group occurred in the holdings of the credit unions. Through this period credit unions more than doubled their share of the consumer instalment credit market. They increased their share from 5 percent in 1951 to 12 percent by the end of 1961. Consumer finance companies decreased their share from 13 percent to 10 percent while other institutions held their market share relatively constant at 4 percent.

Table 2-3 shows the market penetration of these institutions in the total market and by types of instalment paper held.

These financial institutions have increased their market share in all fields of the consumer instalment credit market except in personal loans. In this one area these institutions have experienced a slight decline from 58 percent in 1951 to 55 percent by the end of 1961. They still hold the major share of this market.

In the automobile instalment market it may be assumed that the major share was held by the credit unions. Consumer finance companies have difficulty acquiring this type of instalment paper as they are limited in the maximum amount of credit they may extend. This limit is established by the various states. Through this period the average contract value for new cars increased. In early 1962 the average contract value was $2,500 for new cars. Used car prices rose through 1954-59, declined sharply in mid 1960 and rose again in 1961. Credit terms through the period eased and downpayments fell.

Table 2-3. Percentage of Total Consumer Instalment Credit Outstanding Held by Financial Institutions Other Than Commercial Banks and Sales Finance Companies, Total, and by Type of Instalment Paper at Year End

Type of Debt	1951	1956	1961
Automobile Paper	6	7	11
Other Consumer Goods Paper	5	7	6
Personal Loans	58	60	55
Repair and Modernization Loans	12	21	26
Total (all institutions)	22	23	26
Total (credit unions	5	7	12
Total (consumer finance companies)	13	12	10
Total (less credit unions and consumer finance companies)	4	4	4

Source: See Table I, Appendix A.

"Maturities of 30 months or more now account for almost one-third or more on 1959-62 model automobiles at commercial banks and about one-half of those at large sales finance companies."[1] It may be concluded that with these conditions the credit unions, of all those classified as other financial institutions, hold the greatest share of the automobile instalment markets.

These other financial institutions held the market share of a relatively small amount of other consumer goods instalment paper. This market was dominated by the retail stores. The reason for this domination would appear to be the result of consumer contact.

[1]Federal Reserve Bulletin, June, 1962, 687.

These institutions held 55 percent of the personal loan market by the end of 1961. The major individual holder of this market was the consumer finance companies and credit unions. The main interest of the consumer finance companies lies in this area. In mid 1960 total gross loans of consumer finance companies were $3,497 million. Of this total 84 percent were personal loans. Allowing for an increasing trend, consumer finance companies would hold approximately 50 percent of the personal loans held by these other financial institutions. As credit unions are important in this area, it may be assumed that they supply between 30-40 percent of the remaining share of personal loans held by these other institutions. In this market these two institutions are active competitors.

A share of the repair and modernization market was held by these other financial institutions. The total absolute amount outstanding held by these institutions was less than $900 million by the end of 1961. While these institutions supply part of this market, they are far from being the major suppliers.

Conclusion

The period 1951-61 was a time of many changes in our society. Many institutions were organized and many were liquidated. The consumer instalment credit industry was no exception. Table 2-4 shows the change in the number of sales finance companies, consumer finance companies, and other financial companies and the changes in the number of offices each of these companies had in 1955 and in 1960.

In the consumer instalment credit industry we have witnessed other significant changes. First, and from the national view, the greatest was the 200 percent increase in consumer instalment credit outstanding. The importance of this growth is amplified when this credit is associated with consumer expenditures.

Table 2-4. Changes in the Number of Firms and Offices of Sales Finance Companies, Consumer Finance Companies, Other Finance Companies in Mid 1955 and Mid 1960

Credit Agency	Number of Companies 1955	Number of Companies 1960	% Change	Number of Offices 1955	Number of Offices 1960	% Change
Sales Finance Companies	2620	2021	-23	5970	6431	8
Consumer Finance Companies	3180	2165	-32	8830	8947	1
Other Finance Companies	2200	1630	-26	3640	3205	-12

Source: Federal Reserve Bulletin, April, 1957, 393, October, 1961, 1141.

A second significant change was the growing importance of personal loans and the declining relative importance of other consumer goods paper outstanding. Automobile instalment paper and repair and modernization loans outstanding remained relatively the same percentage of total consumer instalment credit outstanding.

A third significant change was the growing relative importance of commercial banks and credit unions as holders of instalment credit outstanding. Of decreasing relative importance were sales finance companies. The other financial institutions have not varied significantly in their relative importance as holders of instalment credit outstanding.

A clearer picture of these intra-industry changes is shown in Table XIV. Table XIV shows the percentage of market penetration of each financial institution as a holder of instalment credit outstanding in 1951 and 1961. In other words, it shows the importance of each holder to each type of credit market.

The first conclusion is that commercial banks increased their market penetration in the automobile field and held constant their penetration in the personal loans field. They decreased their penetration in other consumer goods fields and significantly decreased their penetration in the repair and modernization field. Sales finance companies decreased their penetration in the automobile market, while their penetration in the repair and modernization market held relatively constant. They increased their market penetration in personal loans and showed a great increase in the other consumer goods market. Other financial institutions increased their market penetration in the automobile, other consumer goods, and repair and modernization markets while holding relatively constant their share of the personal loans market. Retail outlets decreased their market penetration in both automobile and other consumer goods markets.

Ranking these institutions as to their market penetration shows significant changes in the two periods, 1951 and 1961. Commercial banks were second in 1951 in the automobile market, but in 1961 ranked first. Sales finance companies, who were ranked first in 1951, were second by the end of 1961. The retail outlets remained first in both years in the other consumer goods market. Sales finance companies and commercial banks reversed positions in this market over the period. Sales finance companies in 1961 were second and the commercial banks were third. In the repair and modernization and personal loans market there were no changes in the ranking over the period.

Lastly, these structural changes were the result of variations in company policy and market practices. The commercial banks appear to have started on a policy of active control of the automobile instalment market. The credit unions have numerically increased and, at the same time, they have expanded their areas of operations into traditional markets of sales finance companies and consumer finance companies. As a result of this action of these two competitors, the sales finance companies and consumer finance companies have decreased their total market share even though they have increased their absolute holdings.

These national trends are of interest to this thesis as the material in this chapter will be used in Chapter III and IV as a basis of the changes that have taken place during the period 1951-1961.

CHAPTER III

YOUNG CONSUMERS OF INSTALMENT CREDIT

Introduction

This chapter analyzes the results of the survey of young married people in the Lansing, Michigan area.[1] Young people should be regarded as one of the most important sectors of the consumer instalment credit market. They are the emerging new consumers, newly married, and new parents of our society. Young people who are now between the ages 18-24 were not included in the 1957 Consumer Instalment Credit survey of the Board of Governors of the Federal Reserve System as at that time they were too young. As such their influence on the instalment credit market of tomorrow is still to be determined. It is the intention of this chapter to present the findings of a survey of these young people as to their use and attitudes towards instalment credit.

The organization of Chapter III will be as follows:

The Young Consumer will analyze the major characteristics of these people in the United States.

Economic Environment of the Lansing, Michigan area will be analyzed.

Survey Results of the young married people in the Lansing, Michigan area will be analyzed.

Conclusion will summarize the findings of the various sections.

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[1]The sampling procedure is described in Appendix B, and test of significance of proportions is described in Appendix C.

The Young Consumer in the United States

The United States' society experienced significant population changes during the 1950's. Total population increased from 151.7 million in 1950 to 180.0 million in 1960. This increase of 18.7 percent is expected to continue throughout the 1960's as birth rates remain high and death rates continue to decline.

The total number of married couples increased by 11.4 percent during the decade.[1] The increase in marriages led to an increase in the establishment of households. The establishment of households stimulated the demand for household goods--television sets, refrigerators, washers, dryers, and other consumer durable goods. This general trend will likely continue for at least the next decade. If other forces do not prevail, there is an excellent possibility that as the children born in the late 1940's reach maturity, the demand for consumer goods will accelerate.

What is the economic importance of young married couples? First of all, they are trying to set up a home. In the first few years of married life the tendency is for the couples to rent living space rather than to buy a house. Thus it appears that "young married couples tend to be more frequently in debt for cars and household equipment while mortgage debt is more important among older groups."[2]

Various factors influence the young couple in its use of credit. Differences in mores and customs among social groups result in differences in consumption patterns. The scale of living acceptable to

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[1]U. S. Department of Commerce, Bureau of Census, Statistical Abstract of The United States, 1962 (Washington, D.C.: U. S. Government Printing Office, 1962), 37.

[2]Consumer Instalment Credit: Growth and Import, Part I, V. I, 179.

one locale may not be acceptable to another. Many sociologists have commented upon the social forces in our society. One of these forces is commonly referred to as "keeping up with the Jones." In many cases this force is held up to ridicule as a false and sometimes destructive standard. It is not the intent of this thesis to evaluate this force but rather to recognize it for its economic value.

In the last decade, "more people have been marrying and starting families sooner; . . . more people are sharing in higher real incomes, . . . (more people have joined) the rush to the suburbs."[1] Table 3-1 shows the changes in the median age for first marriages in this country for selected years since 1940. The average of the husband was decreased by 1.5 years while the average of the wife has decreased 1.2 years.

Table 3-1. Median Age at First Marriage for Selected Years, by Sex

Year	Male	Female
1940	24.3	21.5
1947	23.7	20.5
1951	22.9	20.4
1956	22.5	20.1
1961	22.8	20.3

Source: U. S. Department of Commerce, Bureau of Census, Statistical Abstract of the United States, 1962 (Washington, D. C.: U. S. Government Printing Office, 1962), 72.

While the 18-24 age group is not large at this moment, within a few years two factors will affect the relative importance of this group.

[1] The New York Times, January 11, 1960, 47.

The first factor is the large teenage population that will be moving into the 18-24 ages. The second factor is the already mentioned decreasing average marriage age. The result of these factors will be an increasing number of new marriages by people who are less economically able to undertake the economic burdens of marriage. The eventual result will be that these young married couples will be forced into greater use of consumer instalment credit.

In this period, 1950-1960, the average money income of the head of a family under 35 years of age increased from \$3, 305 to \$5, 377.[1] Even after adjustment for the increase in the price level over the period, this represents an increase in real income of approximately 20 percent. At the same time the percentage of young people in our society has increased. The result of these facts is to increase the market importance of young married people.

The use of instalment debt by the above age groups indicates there is relatively little difference between the percentage in each group using instalment debt. Table 3-2 shows the relation of debt to selected age groups.

During the period 1951-1961, young people age 18-24 ranked third as users of instalment debt. First and second positions among all age groups were the age groups 25-34 and 35-44 respectively. In comparing the debt payment-income ratios of these three age groups, it was found that the highest ratio (22) was in the 18-24 age group. It was also found that as age increases this ratio decreases. Several reasons have been advanced for this trend. Income expectations are higher in young people than in older people. The young married couple has the additional need of instalment financing in order to establish a home. Typically, older groups with higher incomes will show a lower debt-income ratio than

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[1] Statistical Abstract of The United States, 1962, 331.

Table 3-2. Instalment Debt Outstanding Within Selected Age Groups 1950-1960

Percentage using debt in	Age 18-24	25-34	35-44
1950	60	69	58
1960	54	63	59

Source: 1960 Survey of Consumer Finance, (Ann Arbor, Michigan: University of Michigan, 1961), 158.

younger people. The important point is that the young people, 18-24, are important users of instalment credit.[1]

Is the family's use of credit sound and justified in view of its financial position? The answer to this question "rests on having a margin in income, over and above regular expenses, out of which they can repay the debt, or an assumption, geared to reality, that such a margin will exist in future income."[2] The extent to which a family may safely use its credit depends "not upon the laws governing family credit, but upon the care with which credit is extended by creditors, and the skill which the family displays in using it."[3]

In the future the age group 25-34 is going to diminish in relative size. This, along with the growing importance of a young age group who are on the threshold of the market, will result that the people, ages 18-24, will become the most frequent users of instalment credit.

[1] 1960 Survey of Consumer Finance (Ann Arbor, Michigan: University of Michigan, 1961), 152.

[2] Dorothy L. Book, Family Budget Counseling (New York: Family Welfare Association of America, 1944), 62.

[3] William Schafer, Social Case Work and Borrowers of Small Sums (Hartford, Conn.: The Connecticut Association of Personal Finance Companies, 1936), 8.

The peak of indebtedness over the life cycle appears in the early years of marriage. The age group 18-24 is today and tomorrow the young married couples of our society; thus they represent the most dynamic and important sector of the consumer instalment credit market.

These people provide the basic motivating force for the significant changes in use and market penetration of the various financial and other institutions supplying instalment credit to the consumer. To learn of this force a small survey was taken in the Lansing, Michigan area. The results of this survey are given in the third section of this chapter.

The following section will present a brief picture of the major economic factors which influence those living in the Lansing area.

Economic Environment

The metropolitan area of Lansing, Michigan may be described as having a triparte economy. The parts of this economy consist of (1) the government of the state of Michigan, (2) diversified industry, and (3) Michigan State University. The state government and the University directly employ but a small number in the area, yet they help to support many businesses through the purchase of goods and services. The chief industries in the Lansing area consist of motor vehicle production, machinery production, metal products, textile products, and printing.

The economic stability of the area depends to a great extent on the stabilizing forces of the state government and the University to offset any substantial fluctuations in the industrial sector. The automobile companies experience all the problems of strikes, layoffs, and overtime that exist in the industry in any locale.

The following data was taken from the 1960 U. S. Census of Population and included only metropolitan Lansing, Michigan. Table 3-3 shows the total population of Lansing divided by sex and selected age groups. From Table 3-3 it may be estimated that almost 100,000 people were in the employable age group 18-65. Table 3-4 indicates that in 1960 there were only 42,562 people gainfully employed in Lansing. The difference was that most people under 18 and over 65 were not working full time. Allowance must be made for housewives. Though the proportion working was increasing nationally, the majority was not employed outside the home. Allowance must also be made for the unemployable and those temporarily unemployed due to sickness and voluntary frictional unemployment.

Table 3-4 shows those gainfully employed in non-agriculture work. As there were only 104 people employed in agriculture in Lansing, our interest centers on the non-agriculture employment. Approximately 75 percent of this classification were non-selfemployed wage and salary workers. Of this total, approximately 33 percent were directly employed in the manufacturing industry. In this industry the largest group (approximately 70 percent) were directly employed by the automotive companies.

The automotive companies directly employed 7,546 people while the state government directly employed 8,698 people. The total number of people employed by Michigan State University (East Lansing, Michigan) was approximately 7,200. While the employee's domicile may not have been within the Lansing city limits, nevertheless the economic effect of this employment was felt in Lansing. An even greater economic stimulant was provided by the consumption expenditures of the 23,568 registered students of the University.

These three employer-consumers constituted the economic basis of Lansing, Michigan. This economic stratification resulted in a

Table 3-3. City of Lansing, Michigan Population, 1960

Total Population			169,325
	Male	83,532	
	Female	85,793	
Under 18 years of age			59,048
	Male	30,168	
	Female	28,880	
18-24 years of age			24,263
	Male	11,873	
	Female	12,390	
18-65 years of age			98,168
	Male	48,208	
	Female	49,960	
Over 65 years of age			12,109
	Male	5,156	
	Female	6,953	

Source: U. S. Department of Commerce, Bureau of the Census, U. S. Census of Population 1960, Michigan, (Washington, D.C.: U. S. Government Printing Office, 1961), 24-55.

Table 3-4. City of Lansing, Michigan Employment, 1960

Employment	Male	Female	Total
Non-agriculture	26,910	15,548	42,458
Private wages and salaries	20,188	10,853	31,041
Government workers	4,725	3,973	8,698
Self-employed	1,985	520	2,505
Unpaid family workers	12	202	214
Employed in industry			11,519
Motor Vehicle			7,546

Source: U. S. Department of Commerce, 24-244.

relatively stable society. The state business cycle was felt in Lansing but, typically, the cyclical variation was not as extreme as in other sections of the state.

In Lansing there were 27,551 families having a median income of $6,477, but a modal income of between $5,000 and $5,999. To earn this income approximately 75 percent worked 40 weeks or more.

Several conclusions may be found from the above figures. First, the median and modal incomes were slightly below that for the entire nation. Second, the percentage employed 40 weeks or more was higher than for the United States. It may be concluded that, because of the type of major industries in Lansing, the city enjoys a relatively stable economic environment.

Young Married People

Characteristics

Consumer instalment credit is used by all age groups. As mentioned earlier, young married people are among the most frequent users of instalment credit. It is important to determine the characteristics of this group in order to establish a basis for the analysis of their use of instalment credit. The findings presented below are the result of a random survey of young married people, ages 18-24, in Lansing and East Lansing, Michigan. One group was living and working in Lansing while the other group consisted of registered students of Michigan State University, East Lansing, Michigan. For discussion purposes, the two groups will be called Lansing and E. Lansing. The Lansing group was made up of non-students, working and married, in Lansing, Michigan. The E. Lansing group consisted of married students attending Michigan State University. The married students were included as within a few years they will move into higher income groups than the Lansing group.

The habits the students form while in university will be carried into their future life and will influence their future actions.

Table 3-5 shows the general characteristics of these two groups.[1] The average age of the husbands in both groups was approximately 22.5 years. The average of the Lansing wives was 20.7 years while the average age of E. Lansing wives was 20.4 years. The racial origin of the Lansing group was 89 percent Caucasian and 11 percent Negroid. The racial origin of the E. Lansing group was 91 percent Caucasian and 9 percent Negroid.

A greater percentage of the Lansing group (63 percent) had children than the E. Lansing group (46 percent). A greater proportion in the E. Lansing group had more children per family than the Lansing group. Several reasons may be advanced for these facts. This may be the result of a desire to finish their degree requirements and get a job before starting a family. The fact that the E. Lansing average child was older than the Lansing average child may be in part explained as being due to family planning and partially due to the difference in the number of children. The E. Lansing group has a different socio-economic background than the Lansing group. This background would have an effect regarding the desire for children.

Educational differences between the two groups are obviously different, because of the method of selecting groups. The majority of the Lansing husbands ended their formal education at the high school level while all of the E. Lansing husbands, because of the method of selection, completed high school. The average E. Lansing husband was in his junior or senior year at the University. Only 29 percent of the Lansing husbands had any university education.

The educational differences between the females of the survey groups were less pronounced than those of their husbands although the

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[1]The sample size was 80 for each group.

Table 3-5. Selected Characteristics of Young Married Couples in Lansing and E. Lansing, Michigan 1962 (percentages)

Characteristic	Lansing			E. Lansing		
	Sample size	Percentage		Sample size	Percentage	
Average age						
Husband	80	22.3		80	22.6	
Wife	80	20.7		80	20.4	
Race						
Caucasian	80	89		80	91	
Negroid	80	11		80	9	
Total		100			100	
Education						
Class last attended	80	Husband	Wife	80	Husband	Wife
High School		71	86		-	32
1st yr. university		6	5		9	15
2nd yr. university		3	-		11	19
3rd yr. university		5	-		23	9
4th yr. university		8	4		38	17
Graduate		6	4		19	6
Other		1	1		-	2
Total		100	100		100	100
Children						
With any		63			46	
With one		41			19	
With two (plus)		22			27	
Age of Children						
1-12 mos.		55			33	
13-24 mos.		30			44	
25 mos. and up		15			23	

direction of differences for the wives showed the same pattern that existed in the male groups.

Table 3-6 shows the occupations of the various groups divided into husbands and wives for each group. All (80) of the husbands in the

E. Lansing group were registered students of Michigan State University. Many of this group had part-time jobs. Classification of these jobs ranged from instructor to dishwasher. The main job held by each in this group was that of student. In most cases the main source of income was other than from the part-time job.

The husbands in the Lansing group (80) were divided between 40 percent white-collar and 60 percent blue-collar jobs.[1] This type of employment classification is used later as one criterion for the use of instalment credit. Following the typical employment classifications, the Lansing husbands' occupations were composed of 70 percent unskilled and clerical (56 men), 22 percent semi-skilled and skilled (18 men), and 8 percent professional (6 men) employment.

Table 3-6. Occupations Percentage of Group Employed Lansing and E. Lansing, Michigan, 1962 (N = 80)

	Lansing		E. Lansing	
Occupation	Husband	Wife	Husband	Wife
Students	0	0	100	15
Professional	8	8	0	19
Skilled	12	3	0	5
Semi-skilled	10	13	0	0
Clerical	35	21	0	23
Unskilled	35	1	0	0
Housewives	___	54	___	38
Total	100	100	100	100

See Appendix C for test of significance between proportions.

[1]Classifying employment in this fashion results in arbitrary decisions. A clerical worker in a production plant is considered to have a blue-collar job while his counterpart in the office is considered to have a white-collar job.

In both groups, the largest proportion of wives were housewives. In each group, few of the wives held part-time jobs. The major exceptions were teachers and nurses. The second major employment classification was comprised of clerical employment. A substantial proportion (15 percent or 12 wives) of the E. Lansing wives were full-time students, while none of the Lansing wives were students. Approximately twice as many of the E. Lansing wives had professional employment as had the Lansing wives. Approximately three times as many of the Lansing wives had skilled or semi-skilled employment as had the E. Lansing wives.

Table 3-7 shows the significant differences in housing between the two groups. The majority of E. Lansing married students lived in University-owned housing. The Lansing group was housed in apartments (45 percent), single dwellings (44 percent), and duplexes (11 percent). In this group, 40 percent were buying these accommodations while the remaining 60 percent were renting. For the majority of this group (45 percent), the dwelling was unfurnished when they took occupancy. For some 19 percent, the kitchen was the only part of the dwelling that was furnished. The remaining 36 percent were renting or buying an already furnished dwelling.

The E. Lansing situation was entirely different. The great majority (97 percent) lived in University-owned and furnished apartments. The remaining 3 percent (2 couples) lived in privately-owned and furnished dwellings. All of the E. Lansing group were renting. From the above, the assumption might be made that the E. Lansing group would have little demand for purchasing household goods since these young people could live with the furnishings available. However, it was common to encounter discontent with the existing university-supplied furnishings.

Table 3-7. Housing of the Survey Groups Lansing and E. Lansing, Michigan 1962

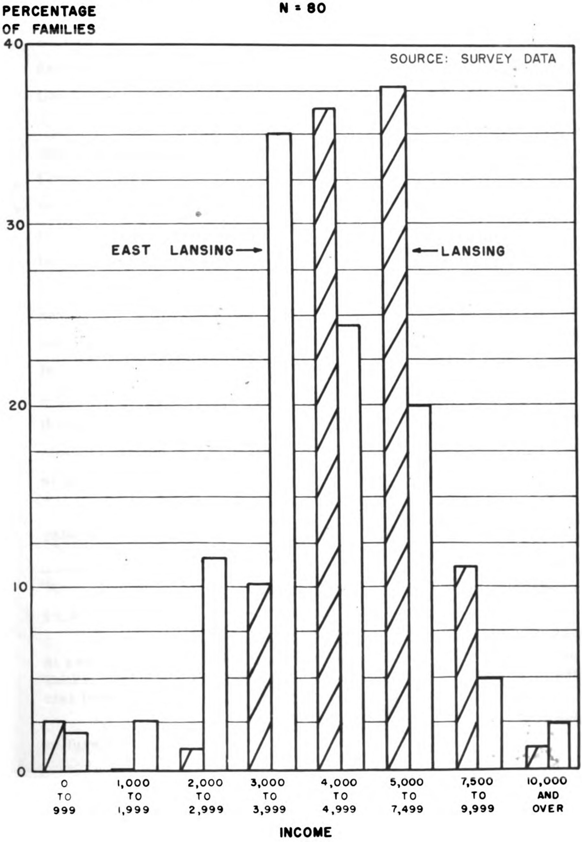
Housing	Lansing		E. Lansing	
	Sample size	Percentage	Sample size	Percentage
Types of Dwelling	80		80	
Apartment		45		97
Single Dwelling		44		-
Duplex		11		3
Total		100		100
Ownership				
Private		100		3
University		-		97
Total		100		100
Buying		40		0
Renting		60		100
Total		100		100
Furnishings when rented	48			
Completely		36		100
None		45		-
Kitchen only		19		-
Total		100		100

The monthly rent for these dwellings was approximately equal for each group. The E. Lansing group paid an average of $83 monthly; the white-collar Lansing group paid $78 monthly, and the blue-collar Lansing group paid $72 monthly. The rent paid by the E. Lansing group included utilities payments. This was not the case of the Lansing groups.

The family income (before tax) for the Lansing and E. Lansing groups is shown in Chart 3-1. This chart indicates that the family income range was from $1,000 to $10,000 per year for each group. The average income was between $5,000 and $7,500 per year for the

CHART 3-1

FAMILY INCOME BEFORE TAX OF YOUNG MARRIED PEOPLE SURVEYED IN LANSING AND EAST LANSING, MICHIGAN
(IN PERCENTAGES; 1962)



Lansing group and between \$3, 000 and \$4,000 per year for the E. Lansing group. The modal income was from \$5, 000 to \$7, 500 per year for the Lansing group and \$3,000 to \$4,000 per year for the E. Lansing group.[1] It is important to note that the majority of students derived the major part of their income from their parents. Few in the Lansing group received any support from their parents.

Chart 3-2 shows the savings of the survey groups.[2] The majority, approximately 45 percent (36 families) of both groups had savings under \$200. Of this total, approximately 80 percent (29 families) had either no savings or just enough to claim a savings account. The percentage of people in the remaining savings groups was approximately the same for each survey group.

The source of these savings was important. In the Lansing group savings were made from current income. In the E. Lansing group the majority of savings were the result of pre-marital savings or a gift. In a few cases, in this group, these young people were able to save from current income. The basic difference between savings held by these groups was that the Lansing group saved as a result of current income whereas the E. Lansing group's savings were the result of past or exogenous action.

Wealth in this study was considered to consist of the current market value of stocks and bonds (including savings bonds and real estate).[3]

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[1]Modal income for all families in Lansing, Michigan, 1960 was \$5,000 to \$5,999.

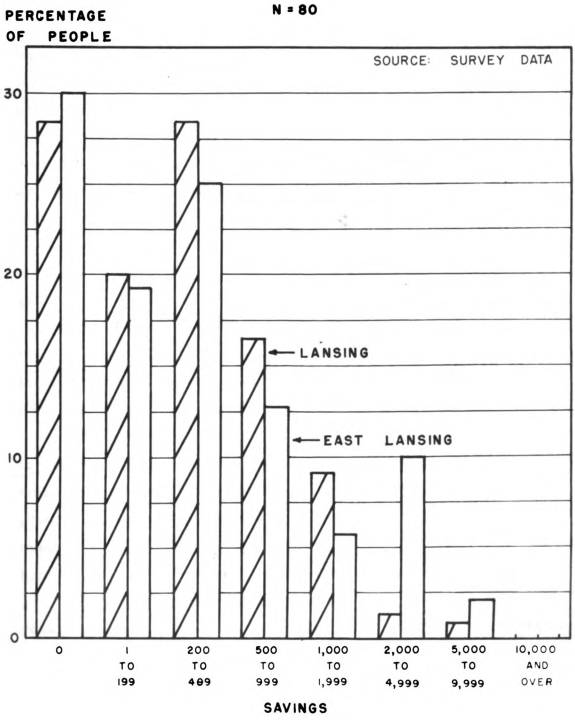
[2]Savings include savings accounts at commercial banks, deposits at credit unions, savings and loan associations, and Mutual savings banks. Savings did not include deposits in current accounts at commercial banks.

[3]Wealth as here defined excludes such items as personal holdings of furniture and fixtures.

CHART 3-2

SAVINGS OF YOUNG MARRIED PEOPLE SURVEYED IN LANSING AND EAST LANSING, MICHIGAN

(IN PERCENTAGES; 1962)



In the Lansing group the wealth held ranged from a savings bond of $17.50 to equity securities of $2,000. The average wealth holdings of this group was approximately $100 with 65 percent (52 families) having no wealth holdings. The situation in the E. Lansing group was quite different. The wealth held ranged from a savings bond of $17,50 to equity ownership of $30,000. The average wealth holdings were $778. If the one student who owned a $30,000 farm and accounted for 48 percent of the total student wealth was eliminated, the E. Lansing average was reduced to $403. Four students owned 72 percent of the total wealth of this group. If these four were eliminated, the E. Lansing average wealth was reduced to $220. Approximately 56 percent (45 families) of the E. Lansing group reported no wealth holdings.[1]

In analyzing the wealth holdings of these two groups certain differences appeared. The average wealth holdings of the E. Lansing group exceeded that of the Lansing group, even after adjustment, by 120 percent. Most of the E. Lansing group derived their wealth from their parents. The student received the $30,000 farm as a result of the death of his father. The majority of students having wealth items held between $1 and $250 and received this amount at marriage. As their domiciles were furnished by the University, there was little need to use these gifts to buy household goods. These students placed great emphasis on having some wealth to use after graduation. The Lansing group had a different situation. To a great extent they were financially independent of their parents. They were in the process of setting up a home; thus any marriage gifts had been used for this purpose.

What were the basic differences between these two groups of young married people? While approximately of the same average age, the Lansing group must depend upon its own initiative to find employment, housing, and financial support. These young people assumed full

[1]The median wealth in each group was zero.

responsibility as adults. The second group, E. Lansing, were students who, while assuming the responsibilities of marriage, still lived in a paternal atmosphere. Their living quarters were supplied by the University while a substantial part of their income was furnished by their parents. These young people lived in an isolated environment. It would be incorrect to imply that they were less mature than the Lansing group. Admitting financial dependency, these students did work extra hours to reduce this paternal burden.

As indicated by the above findings, the purchasing power of these two groups was determined almost entirely by their current income. The relatively low holdings of liquid assets indicated that these groups consumed almost all their current income. Thus any additional expenditure had to be financed through credit.

The potential demand for furnishings, automobiles and other consumer goods, along with the relatively high scale of current expenditures, would seem to indicate a demand for instalment credit.

Use of Instalment Credit[1]

Did these young people use instalment credit? The answer was an emphatic "yes." Table 3-8 shows the proportion in each group that used instalment credit.[2] The table also gives other divisions in the use of instalment credit. In the Lansing group 91 percent (73 families) were using or had used instalment credit while only 67 percent (54 families) in the East Lansing group were using or had used this type of

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[1]The term instalment credit is used in this chapter to include cash loans as well as sales instalment credit.

[2]The figures reported concerning the use of debt do not necessarily mean that the debt is currently outstanding. The questions concern only experience in the use of instalment credit. Past experience was included as well as current debt outstanding.

Table 3-8. Use of Consumer Instalment Credit by Young Married Couples, Lansing and E. Lansing, Michigan, 1962

Use of Instalment Credit	Lansing Sample size	Lansing Percentage	E. Lansing Sample size	E. Lansing Percentage
% of total				
Survey Group	80	91	80	67
Credit Users				
% of Credit used	73		54	
car only		28		34
other only		16		43
car and other		56		23
Total		100		100
total cars		84		57
total other		72		66
% of Credit users				
blue-collar		64		-
white-collar		36		100
Total		100		100
% of Credit used by				
blue-collar	47			
cars only		24		
other only		24		
cars and other		52		
Total		100		
white-collar	26			
cars only		42		
other only		12		
cars and other		46		
Total		100		

credit. In the Lansing group a greater proportion of this credit was used by the blue-collar workers (64 percent) than by the white-collar workers (36 percent). Of the total blue-collar workers surveyed, 98 percent (47 families) had used instalment credit as compared to 81 percent (26 families) of the white collar-workers.

The discussion of the use of instalment credit is divided into two parts, automobile instalment credit and all other types of instalment credit. Of the 73 families in the Lansing group who used instalment credit, 56 percent used it for both of the above purposes while 28 percent used credit for automobile purchase only, and the remaining 16 percent used this credit for other purposes than the purchase of an automobile. Of the 54 families in the E. Lansing group who used instalment credit, 23 percent used it for both purposes, while 34 percent used credit for automobile purchases and the remaining 43 percent used this instalment credit for the purchase of other goods.[1]

Combining the above figures, 57 percent of the E. Lansing group who used credit did so for automobile purchases and 66 percent for all other reasons. The same combined figures for the Lansing credit users showed 84 percent using instalment credit for automobile purchases and 72 percent for all other reasons.

The blue-collar workers comprised 60 percent (48 workers) of the Lansing group. Approximately 98 percent of the blue-collar workers used instalment credit. White-collar workers comprised 40 percent (32 workers) of the Lansing group. Approximately 81 percent of the white-collar workers used instalment credit.

Of the 47 blue-collar workers who used instalment credit, 52 percent used it for both purposes, while 24 percent used this credit only for car purchases and the same proportion used this credit for the

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[1]The term other consumer goods includes both consumer goods and services.

purchase of all other consumer goods. The pattern in the white-collar group was different. Of the 26 people in this group who used credit, 46 percent used instalment credit for both purposes, while 42 percent used this credit for the purchase of an automobile and the remaining 12 percent used instalment credit for the purchase of all other goods.

Many interesting facts may be determined from the above. First, the young couples working in Lansing used instalment credit more frequently than the students at Michigan State University. Second, blue-collar workers used more instalment credit than white-collar workers. Third, a greater proportion of the Lansing group used credit for both purposes than the E. Lansing group. Fourth, the Lansing group used more instalment credit for the purchase of an automobile than for the purchase of all other goods and services. This pattern was reversed in the E. Lansing group. Fifth, blue-collar workers used approximately the same amount of credit for both purposes while the white-collar workers used credit more frequently for automobile purchases than for the purchase of all other goods. Last, the proportion of blue-collar workers who used instalment credit for both purposes far exceeded that of the blue-collar workers who used instalment credit for only one or the other purposes.

The conclusion was that working people appeared to be more liberal in their use of instalment credit than did students.[1] Of all people surveyed, the blue-collar workers ranked ahead of all other instalment credit users.

The use of instalment credit is associated with the income level of the credit user. In 1960 it was found that in the United States "instalment credit was most frequent among spending units with an annual income of between $5,000 and $10,000."[2] Spending units with

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[1]Appendix C indicates that there is a significant difference in the use of credit between these groups.

[2]<u>1960 Survey of Consumer Finance</u>, 152.

incomes under $2,000 were generally debt free and those with incomes over $10,000 had debts less frequently than middle income groups.

Table 3-9 shows the specific use of which instalment credit is applied by income groups. Data in this table shows first that in the Lansing group more people used more credit for both cars and other uses than for either cars or other uses. The second point is that in the average Lansing income group, $4,000 to $7,499, a greater proportion used credit for both purposes than any other income group. Neither of these facts were true for the E. Lansing group.

The conclusion appears to be that the couples in the average Lansing income group are most consistent credit users than any other income or location group.

Non-Automobile Instalment Credit

The surveyed groups were asked if they had ever borrowed or purchased any item, except a car, on instalment in the past three years.[1] Approximately 67 percent (54 families) of the Lansing group and 45 percent (36 families) of the E. Lansing group answered "yes" to this question (Table 3-8). Additional questions were asked of those people who indicated that they had used or were using instalment credit. These questions concerned (1) the nature of the item, (2) the source of the credit, (3) the choice of the credit source, (4) the cost of the credit extended, and (5) the evaluation of the cost of the credit.

The items purchased using sales credit or personal loans were subdivided into "A" goods--washing machines, tables and chairs, beds and like household durable goods: "B" goods--televisions, radios, hifis, jewelry and other goods not essential to the establishment of a household. Table 3-10 presents this subdivision. The purchase of "A" goods

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[1]The question was phrased to include the borrowing of cash.

Table 3-9. Use of Consumer Instalment Credit by Income Groups, by Purpose Lansing and E. Lansing, Michigan, 1962 (% of income group)

Income Location	0 1,000	1,000 1,999	2,000 2,999	3,000 3,999	4,000 4,999	5,000 7,499	7,500 9,999	10,000 up
Lansing								
N				8	29	30	9	
Both	x			25	45	67	44	
Other	x		x	37	21	x	10	x
Cars				x	24	23	33	
Total				62	90	90	87	
E. Lansing								
N				26	20	16		
Both			x	12	20	25	x	
Other		x	x	31	35	25		
Cars	x			27	20	31	x	x
Total				70	75	81		

x These groups have insufficient respondents making the percentage non-significant.

Table 3-10. Use and Source of Consumer Instalment Credit for Purchase of All Other Goods Except an Automobile Lansing and E. Lansing, Michigan, 1962

Use and Source of Instalment Credit	Lansing Sample size	Lansing Percentage	E. Lansing Sample size	E. Lansing Percentage
Credit Users for	80	91	80	67
Other Purchases	73	72	54	66
Type of Purchase				
"A" goods	53	80	36	59
"B" goods		20		41
Total		100		100
Source of Credit				
Retail		70		58
Bank		4		16
Small Loan		9		7
Credit Union		17		5
Family		-		7
*Government		-		7
Total		100		100
Source of Credit	37			
White-collar				
Retail		80		
Bank		-		
Small Loan		10		
Credit Union		10		
Total		100		
Blue-collar	16			
Retail		65		
Bank		5		
Small Loan		10		
Credit Union		20		
Total		100		

"A" Goods - washing machines, stoves, beds, chairs, tables, lamps, rugs, refrigerators, sewing machines, kitchen equipment, clothes, and other durable goods needed to establish a home.

"B" Goods - jewelry, radios, televisions, hifis, clothes of a non-essential classification.

* - educational loans.

accounted for approximately 80 percent of the non-automobile instalment credit used by the Lansing group and 59 percent of the credit used by the E. Lansing group. The remaining 20 percent and 41 percent of the credit used by these groups was for the purchase of "B" goods.

These types of purchases are easily understood for the Lansing group, as they are setting up a household. While the E. Lansing group were not setting up a household, they did buy many household goods ("A" goods). The basic distinction of the purchases of these two groups was that the Lansing group purchased heavy durables such as beds, washing machines, and stoves, while the E. Lansing group purchased smaller durables such as lamps, sewing machines, and rugs. It would be incorrect to imply that these items mentioned were exclusive purchases of either groups.

The type of "B" goods purchased was similar for the two groups. There was one major difference. The Lansing group purchased more television sets (10 sets) than stereo sets (1 set) with instalment credit. This fact was reversed in the E. Lansing group (2 television sets and 7 stereos). It would be incorrect to imply exclusiveness to this pattern in either group.

Sources of Non-Automobile Instalment Credit

The question concerning the use of instalment credit was designed to determine the initial source of the credit extended to the consumers. The question <u>did not determine</u> who would be the ultimate holder of the instalment contract. In many cases the retail store might have been the initial credit supplier but not the ultimate holder of the note as it is common for the retail stores to discount their instalment holdings at a commercial bank or a sales finance company. It would be incorrect to interpret the following figures to mean that the institution mentioned was necessarily the ultimate holder in due course of this instalment paper.

Retail stores initially handled the greatest share of the instalment credit outstanding, 70 percent (37 families), in Lansing and 58 percent (21 families), in the E. Lansing group. Credit unions were second in the Lansing group, 17 percent (9 families), while commercial banks were second in the E. Lansing group, 16 percent (6 families); small loan companies ranked third, 9 percent (5 families) and commercial banks ranked fourth, 4 percent (2 families), in the Lansing group. Small loan companies, the family, and the government ranked equal in third place in the E. Lansing group.

The division of credit sources by type of employment presents several interesting facts. The white-collar worker used the retail outlet more often than the blue-collar worker. The blue-collar worker used the credit union twice as frequently as the white-collar worker. Each used the small loan companies in the same proportion.

From the above it would appear that retail stores initiate the majority of consumer instalment credit used by these young people for non-car purchases. The small remainder of this credit was supplied by all other institutions. The possible reasons for these facts are given below.

In the majority of cases, the young people interviewed cited "ease" and "convenience" as their major reasons for using the retailer as a credit source. This was not surprising when one considers the emphasis the retailer places on credit selling. Past experience influenced some of the buyers, while others indicated that personal contact was the determining factor. No finance charge was the reason given by some of the people interviewed for their choice of the retail outlet as a credit supplier for instalment purchases. A small proportion of the

E. Lansing group indicated that their choice was determined by the lack of credit facilities elsewhere. Chapter IV will discuss this consideration further.

Credit unions ranked second as the initial source of credit in the Lansing group. As mentioned, blue-collar workers used the credit unions more often than white-collar workers and also more often than students. The main reason given for using this source was that the applicant belonged to a credit union. In the great majority of cases, additional information was volunteered, such as: the rebate policy of the credit unions, the low finance charges, and the personal contact as the reason for the use of the credit union as a credit supplier.

Chapter II discussed the growth of credit unions nationally. The significant use of the credit unions by blue-collar workers in Lansing was understandable because of the close association of the credit unions to the individual company. Use of the Michigan State University credit union was restricted to the faculty and staff of the University; as a result, many of the E. Lansing group did not qualify for membership. The consumer image of credit unions was favorable. Credit unions might possess vast financial resources yet, to the consumer, they appeared as a small, friendly, fraternal organization.

Finance companies ranked third in each group as an initial provider of instalment credit. Four main reasons were given for this choice. These reasons were (1) only source available, (2) ease, (3) past experience, and (4) personal contact. Each reason received approximately the same percentage importance. While credit unions had a good consumer image, finance companies had a poor consumer image among non-users. This image was not warranted according to those who used instalment credit extended by these institutions. Later in this chapter this point will be discussed further.

Commercial banks provided a relatively small percentage of the instalment credit extended initially to the Lansing group while substantially more to the E. Lansing group. Nationally a large proportion of appliance paper contracts and other sales contracts have been purchased by the commercial banks. This could be the situation in the Lansing area.

Of those in both groups who used the banks for credit, some said it was easy to get credit from the banks, while others indicated that the low finance charges were the determining factor.

A small proportion in the E. Lansing group received their instalment credit from their families. This source ranked third for this group. Many of these young people said that they did not want to ask their families for instalment credit as they already received substantial assistance from the family.

Cost of Non-Automobile Instalment Credit

These young people were asked if they could recall the cost of the instalment credit they used. The majority said that they did not know, while a few said that there was no cost. The remaining respondents were equally divided between answers in percentage terms and in dollar terms. One fact stands out as a result of this question. It is the difficulty of assessing the reason for these answers. Several reasons may be suggested: the respondent was disinterested in such a question; he lacked understanding of the question; he lacked knowledge of an answer to this question.

Lastly, these young people were asked if they considered the cost of this instalment credit too high or fair. The majority in each group (90-95 percent) said the cost of the credit was fair.

Automobile Instalment Credit

The second and last set of questions concerned the use of instalment credit for the purchase of an automobile. Table 3-11 gives some of the answers to this question. Most of the young couples owned a car, 98 percent (78 families) of the Lansing group and 94 percent (75 families) of the E. Lansing group. Approximately 9 percent of the car owners in the Lansing group and 3 percent of the E. Lansing group owned two cars. The majority of the cars owned were fully paid for by the young couple. A larger proportion of the E. Lansing car owners (84 percent) had finished paying for theirs, as compared to 53 percent of Lansing car owners. A larger proportion (49 percent) of the Lansing group had a trade-in for the newer car while only 36 percent of the E. Lansing group had a trade-in. It would seem logical not to expect the students to have as high a proportion of trade-ins as the Lansing group because this was their first car. In both cases, where a trade-in was used, the average age of these trade-ins was 2 to 3 years.

The method of payment varied substantially between the groups. More of the E. Lansing group paid cash for their car than the Lansing group. The average price of the automobile purchased by the E. Lansing group was considerably lower than that of the Lansing group. For example, 23 percent of the E. Lansing students purchased a car priced at $400 or less. Only 8 percent of the Lansing group purchased a car in this price range. Both of these facts are partially explained by the income levels of the two groups. The Lansing group had higher incomes and could purchase a higher-priced car and could more easily assume the burden of instalment financing than the E. Lansing group. The students would have to request additional financing from their families if they entered into a large finance contract. This, many did not desire. Different social pressures influenced these groups. The Lansing group appeared to regard newer and more expensive automobiles

Table 3-11. Use of Consumer Instalment Credit for Purchase of an Automobile, Lansing and E. Lansing, Michigan, 1962

Use of Instalment Credit	Lansing Sample size	Lansing Percentage	E. Lansing Sample size	E. Lansing Percentage
Those having cars				
One car	80	98	80	94
More than one		9		3
Cars Paid	78	53	75	84
Cars not Paid		47		16
Total		100		100
New Cars		42		33
Used Cars		58		67
Total		100		100
Trade-in		49		36
Modal age of trade-in		2-3 yrs.		2-3 yrs.
Method of Financing				
Cash		20		57
Credit		80		40
Gift		-		3
Total		100		100
Average Price		$1,780		$1,226
Contract Length		24-36 mos.		24-36 mos.
Monthly Payment		$60		$50
Price of Car				
$400 or less		8		23
$401-$1000		22		21
$1000 or more		70		56
Total		100		100

as an indicator of their economic position, while the students appeared more concerned with filling the basic want of transportation. It would be incorrect, however, to imply that an automobile did not represent a status symbol for students.

Sources of Automobile Instalment Credit

Table 3-12 shows the sources of credit used to finance the cars purchased by the two groups. The table shows that the majority of students (16 families) dealt with a commercial bank to finance their automobiles while the Lansing group (18 families) dealt most frequently with credit unions. It is interesting to speculate about the market implications of this fact in light of the national trends presented in Chapter II.

Cost of Automobile Instalment Credit

The question about finance charges in automobile purchases was also asked in relation to instalment credit for non-automobile purchases. In general, the same type of answers was given by the groups. Again, over half of the respondents could not recall the finance charges; of the remaining group, the majority expressed the finance charges in percentage terms ranging from 5 percent to 18 percent. Illustrative reasons for these answers might be as follows: the young married couple might not have been interested in the question or might not have understood it; the other possibility was that the respondents might have lacked sufficient knowledge to answer the question.

Few of the young married people of this survey had requested cash credit. These few who did had used this cash for the purchase of household goods or an automobile. Tables 3-10 and 3-12 show that, while a small loan company may have been used as a credit source, there was a clear indication of the intended use of this credit. While these

Table 3-12. Source of Consumer Instalment Credit for Automobile Purchase Lansing and E. Lansing, Michigan, 1962

Source of Instalment	Lansing		E. Lansing	
	Sample size	Percentage	Sample size	Percentage
Source of Credit	61		30	
Bank		22		53
Sales Finance Co.		25		13
Retail		9		-
Credit Union		29		13
Small Loan		13		8
Family		2		13
Total		100		100
Source of Credit				
White-collar	24			
Bank		25		
Sales Finance Co.		33		
Retail		4		
Credit Union		25		
Small Loan		13		
Family		-		
Total		100		
Blue-collar	37			
Bank		20		
Sales Finance Co.		20		
Retail		13		
Credit Union		31		
Small Loan		13		
Family		3		
Total		100		

instalment loans do classify as cash loans, they appear more closely associated with known purchases than with the classification of cash loans. It was for this reason that no attempt was made to identify cash instalment credit as opposed to sales instalment credit.

Attitude Toward Instalment Credit

The young married couples, 80 couples in each group, were asked many questions concerning their attitude toward the use of instalment credit.[1] Table 3-13 shows the percentage of interviewees who said they might use instalment credit to buy the selected items listed.[2] It should be emphasized, however, that these are hypothetical questions and it is impossible to state that these young people have converted or will convert these attitudes into action. In the table there appears to be a group of items, automobiles, hospital bills, television sets, and kitchen fixtures, that the majority of the Lansing group would purchase using instalment credit. Approximately one-third of the Lansing group said they might finance education using instalment credit. A group of items, item 7 to 13, receive limited acceptance by this group as reason for the use of instalment credit.

With two significant changes the E. Lansing group had a pattern of preferences similar to that of the Lansing group. Instalment buying of television sets received only 29 percent acceptance by the E. Lansing group, but received 72 percent acceptance by the Lansing group. The E. Lansing group expressed a far higher preference for the use of

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[1]In questions expressing preferences there is a strong possibility that the answers received may be what the respondent would like to do or have. This is no proof of what he would do in any actual situation involving the expenditure of his own funds. If asked what kind of car he would like to purchase, the respondent might answer, a Cadillac. If the situation arose where the respondent had to buy a car he might buy a Ford because of the limitation of his income and wealth position. If asked where he would borrow $2,000, the respondent might place first the commercial bank (or any of the other institutions), but if he had to borrow this sum of money, he might go to some other source as he believed that the bank would not lend him this sum of money. The interpretation of all of these preferences questions must be viewed with this caution in mind.

[2]Appendix C may be used to determine if the differences in answers are significant. Appendix C table is based on N = 80.

Table 3-13. Potential Items That Might Be Purchased Using Consumer Instalment Credit, Lansing and E. Lansing, Michigan, 1962

Item	Lansing		E. Lansing	
	Sample size	Percentage	Sample size	Percentage
Automobile	80	98	80	89
Hospital Bills		94		57
Kitchen Fixtures		76		75
Television		72		29
Education		34		54
Clothing		19		9
Gas (car)		19		19
Travel		18		2
Fur coat		14		14
Living Expenses		13		18
General Bills		11		11
Holiday		9		6
Food		7		9

instalment credit to finance education than the Lansing group. Most likely the fact of the E. Lansing environment had some effect on this preference.[1] The need for instalment credit, in the majority of cases, exists only at the university level.

As mentioned earlier, the E. Lansing group tended to substitute stereo sets for television sets. This may account for the relatively low preference for instalment buying of a television set by this group.

In general, the table suggests that the young married couples of today have less of the prejudices against the use of instalment credit that characterized their grandparents and even their parents.[2]

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[1]The interviewer was a graduate student and this was known to the undergraduate interviewees. This may also have had an effect on the respondents.

[2]Consumer Instalment Credit: Growth and Import, Part I, Vol. I, 107.

Sources of Instalment Credit for Selected Items

The interviewee was asked where he would go to finance a new car, a used car, education, payment or consolidation of bills, and a television set, given his present circumstances and knowledge of credit sources. The results of this hypothetical question are shown in Table 3-14 for the Lansing group and Table 3-15 for the E. Lansing group. In each case, the main choice among available credit sources and the chief reason for their selection are listed.

It was obvious that the commercial banks held a popular position in the financing of all items except the television set. The main reason for this popularity reflected in part the respondent's belief in the 6 percent rate as a fair charge. Invariably the respondent expressed the bank's finance charge as 6 percent per year. It is difficult to be sure of the correct interpretation of this reply. Was the 6 percent per year synonymous with $6 for $100 per year or did the respondents believe that the 6 percent rate was the effective rate of interest of commercial bank instalment credit?

Second in popularity by the Lansing group were the credit unions. In this case, low finance charges and membership appeared to be the dominant reasons for use by these consumers. From earlier tables it was determined that blue-collar workers of the Lansing group used considerable instalment credit supplied by credit unions. In those actual cases there appears to be a strong personal attachment for the credit unions. Many people mentioned, as secondary reasons for the appeal of credit unions, the rebate policy, ease of making payments via payroll deductions, and the savings feature of credit unions. Credit unions nationally have experienced significant growth and public acceptance. This fact was also apparent in this survey.

The retailer held first place, in both groups, as a source for financing television sets. Ease and convenience were the reasons for

Table 3-14. Financing Selected Items Lansing, Michigan, 1962 (N = 80)

Item	Credit Source	Percentage Choice	Reason for Choice	Percentage Importance
New Automobile	Commercial Bank	56	Low interest	65
	Credit Union	29	Low interest	52
			Belong	45
	GMAC	11	Low interest	68
			Easy	30
	Other	4	-	-
Total		100		
Used Automobile	Commercial Bank	41	Low interest	66
	Credit Union	25	Belong	50
			Low interest	50
	Dealer	12	Easy	90
	Other	4	-	-
	Don't know	18	-	-
Total		100		
Education	Commercial Bank	26	Low interest	58
	Credit Union	16	Low interest	60
	School	25	Don't know	80
	Other	3	-	-
	Don't know	30	-	-
Total		100		
Payment of Bills	Commercial Bank	39	Low interest	63
	Credit Union	24	Low interest	50
			Belong	33
	Small Loan	12	They do it	58
	Other	6	-	-
	Don't know	19	-	-
Total		100		
Television	Dealer	63	Easy	52
			Convenience	24
	Credit Union	15	Low interest	50
			Belong	33
	Commercial Bank	9	Low interest	85
	Other	1	-	-
	Don't know	12	-	-
Total		100		

Table 3-15. Financing Selected Items E. Lansing, Michigan, 1962 (N = 80)

Item	Credit Source	Percentage Choice	Reason for Choice	Percentage Importance
New Automobile	Commercial Bank	76	Low interest	58
	Credit Union	8	Low interest	65
	Other	11	-	-
	Don't know	5	-	-
Total		100		
Used Automobile	Commercial Bank	63	Low interest	56
	Family	5	Easy	100
	Other	13	-	-
	Don't know	19	-	-
Total		100		
Education	School	40	Low interest	50
			Good terms	40
	Commercial Bank	16	Low interest	70
	Family	9	Easy	90
	Other	16	-	-
	Don't know	19	-	-
Total		100		
Payment of Bills	Commercial Bank	40	Low interest	72
	Credit Union	14	Low interest	35
			Easy	39
	Other	12	-	-
	Don't know	34	-	-
Total		100		
Television	Retail	36	Easy	58
	Commercial Bank	17	Low interest	85
	Credit Union	10	Low interest	50
			Belong	50
	Small Loan	11	Easy	68
	Don't know	26	-	-
Total		100		

this choice. In the E. Lansing group, the retailer held first place, but not the majority choice as in the Lansing group.

In only one category, payment or consolidation of bills, did the small loan companies receive significant choice. In this case, the major reason given was that they do make loans for such purposes.

A surprising proportion of the E. Lansing group answered that they did not know where they would go to finance the various goods. Several reasons may be advanced for these answers. First, as the questions were set in the environment of the interviewees' present circumstances, they may believe that, because of their low income, no one would advance them credit. Second, this reply could represent ignorance of the subject. Third, the "don't know" answer could possibly represent that the question was not within the realm of the respondents' interests. That is, to the students, the purchase of a new car might be ten years away, and as of the survey date, they had never considered the question.

Preferences Among Leading Agencies

The survey groups were asked a series of questions to indicate preferences among small loan companies, commercial banks, credit unions, and retail outlets as instalment credit sources. The answers to these questions are given in Table 3-16.[1] From this table one paramount conclusion is evident. In these hypothetical questions there was a strong reciprocal relationship between where they would prefer to do business and the cost of the credit extended. In other words, in the hypothetical situation, the cost of credit was a dominant factor in the choice of a credit source.

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[1]Which do you prefer to do business with, a small loan company, or a commercial bank, or a credit union, or a retail outlet; a commercial bank, or a credit union, or a retail outlet; a retail outlet or a credit union? Do you spend more money to get credit from a small loan company or a commercial bank, etc?

Other important facts may be determined from Table 3-16. In both groups, there is a strong hypothetical preference for commercial banks, credit unions, and retail credit suppliers as opposed to small loan companies. Credit unions are preferred to commercial banks and retail outlets. Commercial banks are preferred to the retail outlet as a credit source. The ranking of these four institutions would be credit unions, commercial banks, retail outlets and small loan companies.

A sizable proportion of the E. Lansing group answered "don't know" to the question shown in Table 3-16. It is difficult to determine whether this answer was the result of lack of knowledge of uncertainty. In any case, those who did answer followed the same pattern as the Lansing group. Table 3-17 reports the answers to more specific preference questions. The majority in both groups would use the commercial banks to borrow large amounts of money. Where the monetary amount was small, no one source was chosen by the majority of the respondents.

The following sources were given to the hypothetical questions concerning the frequency of borrowing cash. Commercial banks and credit unions ranked first and second in the replies of the Lansing group. Credit unions ranked first in the E. Lansing group concerning borrowing frequently but commercial banks ranked first with this group concerning borrowing only once a year. The family was third choice by the E. Lansing group in both questions. Small loan companies were preferred in neither situation by any sizable percentage of respondents.

A large proportion of the respondents volunteered the opinion that they did not wish to do business with small loan companies as they did not trust them.

The attitudes presented above are in part reflections of the individuals' knowledge of instalment credit as well as their parents'

Table 3-16. Preferences for Various Credit Institutions Lansing and E. Lansing, Michigan, 1962

Question	Lansing		E. Lansing	
	Sample size	Percentage	Sample size	Percentage
	80		80	
Which do you prefer to do business with?				
1. Small loan		1		5
Commercial bank		99		92
				3-a
2. Small loan		-		4
Credit union		100		82
				14-a
3. Small loan		6		10
Retail		84		70
		10-a		20-a
4. Commercial bank		32		25
Credit union		58		50
				25-a
5. Commercial bank		90		60
Retail		10		20
				20-a
6. Credit union		92		60
Retail		8		15
				25-a
Do you spend more money to get credit from				
1. Small loan		95		81
Commercial bank		5		5
				14-a
2. Small loan		90		69
Credit union		4		5
		6-a		26-a
3. Small loan		72		55
Retail		6		8
		22-b		37-b
4. Commercial bank		c		58
Credit union		c		15
				37-a
5. Commercial bank		c		7
Retail		c		60
				33-a
6. Credit union		c		2
Retail		c		62
				36-a

a. Don't know; b. The same; c. Only $\frac{1}{2}$ the survey was asked these questions.

Table 3-17. Preference for Various Credit Institutions Lansing and E. Lansing, Michigan, 1962

Question	Lansing		E. Lansing	
	Sample size	Percentage	Sample size	Percentage
A. Where would you borrow $2000?	80		80	
Commercial bank		67		63
Credit union		30		10
Family		2		23
Small loan		-		-
Other		1		4
		100		100
B. Where would you borrow $50?				
Commercial bank		21		13
Credit union		31		24
Family		35		46
Small loan		10		4
Other		3		13
		100		100
C. Where would you go if you had to borrow cash often?				
Commercial bank		50		21
Credit union		35		29
Family		5		21
Small loan		5		9
Other		5		20
		100		100
D. Where would you go if you had to borrow cash seldom?				
Commercial bank		55		35
Credit union		36		20
Family		4		16
Small loan		1		4
Other		4		25
		100		100

knowledge and use of consumer instalment credit. Table 3-18 shows these forces. Only a small proportion in each group had any formal training in matters relating to the use of instalment credit. The majority of parents in both cases had used instalment credit to purchase cars, but the majority had not used instalment credit to purchase household goods. A majority (78 percent) of the Lansing group believed that their parents would be favorable to their use of instalment credit. Less than a majority (49 percent) of the E. Lansing group stated this belief.[1]

The conclusions from this table are as follows: (1) the lack of training in an area as technical as instalment credit does not make for enlightened users; (2) with better training the young married couples would be better able to interpret the confusing statements made concerning this type of financial arrangements; (3) since most people are influenced by the actions of their parents, the conservatism in their parents will be reflected in the children; (4) the majority of the E. Lansing group believed that their parents would not agree to their use of instalment credit. As a result, these young people tended to be more cautious in their answers concerning the use of instalment credit than the Lansing group.

Naming Consumer Finance Companies

The young couples were asked if they could name a few (3) consumer finance companies. The figures below show the results of this question. Approximately 20 percent of the Lansing group did not know

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[1]Over 90 percent of the young married couples who had used instalment credit reported that their parents were favorable to the young couples' use of instalment credit. The remaining few reported that they did not know their parents' attitude on this question.

Table 3-18. Knowledge and Preference for Consumer Instalment Credit Lansing and E. Lansing, Michigan, 1960

Question	Lansing		E. Lansing	
	Sample size	Percentage	Sample size	Percentage
A. Have you had any formal education in consumer instalment credit?	80		80	
yes		9		19
no		91		81
Total		100		100
B. Did your parents use consumer instalment credit for cars?				
yes		78		71
household goods		48		31
C. What is your parents' attitude to your use of consumer instalment credit?				
favorable		78		49
unfavorable		13		38
don't know		9		13
Total		100		100

any such companies or named one or more companies that were not consumer finance companies. Twice as many, approximately 42 percent, of the E. Lansing group did not know any or named companies that were not consumer finance companies. Over one-half of the Lansing group were able to name two or more consumer finance companies while only one-quarter of the E. Lansing group were able to name two or more companies and this difference is significant.

Q. Can you name a few consumer finance companies?

	N = 80	Lansing Group	E. Lansing Group
percentage who named	0	16	21
	1	22	32
	2	36	20
	3	21	6
don't know		5	21
Total		100	100

These answers appeared to reflect a lack of awareness by the young people, especially the student group, of private loan sources. The young people who named a company that was not a consumer finance company gave evidence of their limited understanding of credit sources. The commercial banks were named by this group most often. A second important conclusion was that these people tended to consider all finance companies under the one heading: consumer finance company, sales finance companies, such as General Motors Acceptance Corporation, General Electric Acceptance Corporation, Sears Roebuck Acceptance Corporation, and others were considered to be in the same category as Household Finance and Pacific Finance Companies. Not only did this confusion indicate a lack of awareness by these young people, but also had important advertising implications for the companies involved. These consequences will be discussed in the next chapter.

The group of young people who named some consumer finance companies, 79 percent of the Lansing group and 58 percent of the E. Lansing group, named three particular companies most often. These companies were (1) Household Finance Corporation, (2) Associates Loans Company, and (3) Beneficial Finance Company. If the young persons had used a consumer finance company, this company would be mentioned first. In the case of young couples who had no experience with a consumer finance company, many would reply to the question by saying "Do you mean companies like H.F.C.?" To many of these young people, H.F.C. personified consumer finance companies. In contrast, few of the young people named a small private consumer finance company.

Two major conclusions may be determined from the above. First, a large proportion of the young married people do not know any consumer finance companies. Second, the best known companies are those that advertise extensively.

Conclusion

The young married couples of today use substantial amounts of consumer instalment credit. Prejudices that were important business considerations of the past years are now of minor importance in the young peoples' world. Young married couples are thoughtful and serious. They use instalment credit primarily for the purchase of household goods and automobiles. The goods purchased are, in general, necessities for today's scale of living.

The two groups of young married people surveyed had many similarities, yet differed in two basic ways: education and income. The importance of the educational differences will become more significant in future years. This future difference will appear in part as an income difference. The higher income groups are typically college educated people. The E. Lansing student group used less instalment credit than the Lansing group. The basic reasons for this are necessity and income. The E. Lansing group had its living accommodations provided by the University and had a lower income than the Lansing group.

The most common use of instalment credit by the E. Lansing group was for the purchase of household goods. In the Lansing group the most common use was for the purchase of an automobile. The above statement, while true, may be misleading, as a greater percentage of the Lansing group used instalment credit for the purchase of household goods than the E. Lansing group. It may be concluded that, while the Lansing group is comparatively a more important market sector today, this may not be true in the future.

It is significant to analyze where these young people get their credit. Table 3-11 showed that the retailer extended the greatest proportion of this credit for the purchase of other consumer goods. It must be appreciated that the importance of the retailer as a credit extender varies according to the occupation and income of the group. From an industrial, competitive view, such information is critical, as the future market penetration depends on this knowledge.

Table XIV (Appendix A) showed that, while the retailer ultimately held 44 percent of the credit extended for the purchase of other consumer goods, yet over the period 1951-1961 this percentage had decreased. The information provided by this survey indicated a greater percentage in the Lansing and E. Lansing area used instalment credit initially extended by retail outlets, than other sources. We must consider very carefully whether or not the results of this survey are indicative of a change in the national trend.

For the purchase of an automobile, the commercial banks extended the greatest amount in the E. Lansing group but ranked third in the Lansing group. The most important supplier in the Lansing group was the credit union. Comparing these findings to the national picture, as shown in Table XIV (Appendix A), to the local findings of Table 3-12 indicates significant differences. Commercial banks locally do not match the market position of commercial banks nationally. The same is true of sales finance companies. Retail outlets initially supplied a higher percentage of the local automobile market than they held nationally. The greatest difference is shown in the local market penetration of other financial institutions, especially credit unions. Should this local trend develop into a national trend, significant interindustry changes will occur.

The young people surveyed showed significant agreement not only in their actual use of instalment credit but also in their preferences for its possible use. In only two items did fewer than 10 percent of these young people believe instalment credit could not be properly used. These items were holidays and food. The reason for these rejections appears to be that currently it is unconventional to finance these items using instalment credit.

From questions concerning the young couples' preferences, it was found that they appeared interested in the cost of instalment credit. From an analysis of what these young people actually did, the cost of credit appears not as important as it might at first appear. Many reasons might be advanced for the above statement. First, they may consider ease and convenience as more valuable than a lower finance charge. Second, the young people may be influenced by the cost of credit but end up at one source because they are unable, or think they are unable, to obtain credit at another institution. Consequently, they end up at the cheapest source available to them. The fact that this cheapest available source charges higher rates than another institution does not prove that they are not motivated by the rate charged. Consequently, they may express a hypothetical preference for financing through a commercial bank but find that they would be unable to obtain financing from this source.

The young married couples expressed strong preferences for commercial banks and credit unions as potential credit suppliers.

They also expressed strong distrust of small loan companies. The meaning of these preferences is clear. The young people have determined relatively clear-cut images of the various financial institutions. It would appear logical to expect that the future actions of these people will reflect these images as well as the couples' past experience.

This chapter has indicated that the young married couples of today accept consumer instalment credit, in one form or another, as part of their everyday lives. This acceptance will continue and the market importance of this age group will expand.

CHAPTER IV

PRACTICES AND POLICIES OF LENDING AGENCIES IN THE LANSING, MICHIGAN AREA

Introduction

The attitudes and plans of young married people must be complemented by policy decisions of lending agencies before instalment credit is extended. It would be incorrect to assume that the various credit agencies of Lansing and East Lansing, Michigan, view the question of instalment credit extensions in the same way as does the borrower. It would be equally incorrect to assume that all credit agencies follow the same policies when considering credit extension to young married people.

It is evident that a common ground between the demanders and suppliers has been found. Chapter IV will identify, and if possible rationalize, some of the major issues facing the credit agencies in the Lansing, Michigan area.[1]

The organization of Chapter IV will be as follows:

Introduction

Institutional Recognition of Young Couples will discuss the credit agencies' common policies and attitudes concerning young married people as potential instalment credit demanders.

Desired Characteristics will survey the requirements that must be filled before instalment credit is extended to young married people.

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[1]The sampling procedure of credit agencies is described in Appendix D.

Responsibilities will analyze the awareness of the young consumer to the obligations associated with the extension of instalment credit.

Instalment Credit Promotion will analyze the promotional activities of the credit agencies in the Lansing, Michigan area.

Conclusion will summarize the findings of the various sections.

Institutional Recognition of Young Couples

The credit agencies in Lansing and East Lansing, Michigan have many common policies and attitudes concerning young married people, ages 18-24. One of these policies is the institutions' unwillingness to extend credit to people under the legal age.[1] The reason for this policy is obvious. A young person is not legally responsible for debt incurred before the age of 21. In the case of a young couple, not of legal age, who desire a loan, the procedure is to make the loan to a responsible adult for the young couple.[2] The responsible adult may be a parent or a friend over the age of 21.

If credit is extended to a responsible adult for the young couple, the financial position of the young couple is of limited interest to the credit agency as repayment must be made by the adult. One small loan company officer expressed his feeling on such indirect loans by saying that, if the young couple should default, the agency has two unhappy customers. The policy of most institutions concerning this type of loan is one of caution and, in fact, dislike for these loans. An old customer can bring pressure on the agency to extend credit to his child. In this case, the agency is forced to agree or automatically lose the business of the old customer. Few agencies like this kind of pressure.

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[1]In the state of Michigan, the legal age is 21 years.

[2]All the institutions require a co-signer if credit is extended to a minor.

The various Lansing financial institutions surveyed estimated that approximately 10 percent of their business resulted from credit extensions to young people ages 21-24. The main purpose of this credit was for the purchase of an automobile. Household goods ranked second as a reason for credit extensions. The East Lansing institutions, who service the University students, reported that the majority of instalment credit was extended for two reasons. These reasons are (1) living expenses, and (2) household purchases. The extension of instalment credit for the purchase of an automobile was secondary to the above reasons.

Table 3-9a indicated that the majority of students of the E. Lansing group used the commercial banks as credit sources for automobiles. The E. Lansing commercial banks placed automobile instalment credit in a secondary position. The answer to this apparent dichotomy was the basic reason why the students did not represent a significant part of the E. Lansing financial institutions' market. The students may have received their automobile credit from commercial banks but not the E. Lansing commercial banks. As students do not have a good credit rating, they tend to do business with the banks in their home town. The same idea applies to instalment credit extended for the purchase of other consumer goods.

In Lansing the financial institutions were more aware of the market potential of young people than the E. Lansing financial institutions. The degree of awareness did not reflect the national market potential of these young people. The credit unions and the commercial banks in Lansing showed little concern for these young people. The banks were interested in them after they "matured." This term the banks define as being 25 years of age and having economic and social maturity. Although it is incorrect to define a word in terms of itself, this is done by the commercial banks. This statement should not be interpreted as meaning that the commercial banks do not want to serve the young people. Instead, the commercial banks limited the credit available and applied different tests of credit worthiness to young people than to older people.

The credit unions were not as concerned with the young people as were other groups because these young people did not make up a large part of the credit union's membership. Industrial credit unions' memberships were, in part, determined by industrial seniority. As a result, the fear of lay-offs hurt the young persons' chances of instalment credit extension. In non-industrial credit unions, far more concern was expressed for these young people. In one Lansing credit union, (non-industrial), approximately 20 percent of its business was conducted with people under the age of 25. The majority of these loans were small personal loans. The manager of this credit union said that, because of the slowness of the credit union in the extending of credit, it was losing automobile loans to the commercial banks. As the young people used instalment credit mainly for automobile purchases, this represented a major part of the demand potential of these young people.

The greatest interest in the young married couple was expressed by the executives of the small loan companies. These executives estimated that from 10-20 percent of their total business resulted from young people of ages 21-24. The main reasons for these loans were (1) consolidation of bills, (2) personal loans, and (3) automobile loans.

It would seem desirable that all financial institutions should recognize the market potential of these young people, yet few were aware. Of those nominally interested in this market potential, none had initiated a program designed to attract this segment of the market.

Desired Characteristics

All of the financial institutions surveyed presented a set of requirements that must be filled before instalment credit is extended to young people. These requirements may be divided into two parts. The first part consists of general requirements that would apply to all groups. The second part consists of specific requirements that apply to all groups but have special meaning to the younger age groups.

Table 4-1 shows the first set of requirements. This table is divided into several sections, (1) personal identification, (2) present indebtedness, and (3) proposed credit extension. The personal identification questions consist of routine questions of name, age, dependents, residence and employment. The personal indebtedness questions are concerned with credit extended from all sources outstanding at the time of the application. This particular section will list the existing claims on the applicant's income and help indicate the applicant's ability to repay the desired instalment credit. Most executives of credit institutions believe that the large majority of people complete these questions truthfully. Unfortunately, there is no easy way to determine whether or not the applicant is telling the truth as there is no one credit exchange bureau in the area. The commercial banks and the small loan companies each have an exchange but there is little communication between them. The credit unions do not belong to any exchange nor do they contribute information to any exchange. The only way to find out is in the case of default and subsequent court action. This procedure is of little use in the extension of credit. As the executives point out, the majority of applicants are honest. At the end of one company's application form the following statement is prominently displayed. "We rely upon your good faith and the truth of your representations." [1]

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[1]If the applicant signs such a statement he is bound by the False Financial Statements Act. If the statement he makes is false, he is not relieved under the Personal Bankruptcy Act from paying.

Table 4-1. Requirements for Instalment Credit Extension, 1962

1. Personal Identification
   - a. Husband's name — Age
   - b. Wife's name — Age
   - c. Dependents — Ages
   - d. Residence Address
     How long at Present Residence
     Telephone Number
   - e. Rent Payments per month
     Mortgage Payments per month
   - f. Occupation — How Long on Job
     - Husband
     - Wife
   - g. Salary
     - Husband
     - Wife

     Other Income

2. Present Indebtedness
   - a. Loan Company — Total Amt. $ — Amt. Outstanding
   - b. Bank
   - c. Retail
   - d. Credit Union

3. Purpose of Credit
   - a. Purpose
   - b. Repayment Schedule
   - c. Security

4. Signature

The third group of questions concerning the proposed use of the credit extension was of importance to the institutions. The reason for extending instalment credit should be for some "worthwhile" purpose. Defining what is worthwhile and what is not is totally a subjective decision of the credit grantor. The executives of the various institutions were asked questions similar to those shown in Table 3-10. Particular emphasis was placed on the use of instalment credit for holidays and travel. The typical reply by the executives was that all of the items mentioned could be financed by instalment credit. Some of the executives stated that they felt that holidays were one of the most worthwhile reasons for the use of instalment credit. Whether or not they would extend instalment credit for this or any other purpose would depend on the credit worthiness of the individual.

It was very difficult for these executives to list what would not be considered a worthwhile use of instalment credit. These credit grantors stressed that the worthwhile aspect of the use of instalment credit must always be considered in relation to the applicant's ability to repay the debt. When pressed by the interviewer, the answers became vague. The conclusion would appear to be that, in this case as in the above, the final decision was subjective and only rough guide lines existed to help the executive in making his decision.

The second groups of questions were designed to probe the character of the applicant. The majority of young people had little, if any, past credit experience. Thus they had no credit rating. The institution desired character references from the applicant's employer, church, and friends. These references were some help but they did not answer the most important question: can and will the applicant repay the loan? The credit institution, in considering the young person's application, must, as one executive said, take a calculated risk on the integrity of the young couple.

These institutions considered the following as evidence of maturity. First, is the young person married? Several of the institutions would not extend credit to an unmarried person or to a young couple living common-law. These institutions believed that young married couples were better credit risks than unmarried young people. Second, does the young person have a steady job? Most institutions maintained that a steady job was evidence of maturity. Many institutions placed stress on the type of job. They questioned, is the job likely to be the young person's permanent position? This particular question pointed out the interest the credit agencies had in knowing how many job changes the young person had undergone.

The majority of companies followed a policy of informing the wife as well as the husband. In the case of a young married person applying for instalment credit, the agency felt that, if both parties were fully aware of the credit application, then it was an indication of agreement between the husband and wife. Agreement by both the husband and wife was deemed vital by the lending agencies. These agencies determined that, in some cases, the husband wished to purchase a present for his wife that was beyond his means. If the agency required that the wife be fully aware, the young man might change his mind and either decide against applying for credit or change the reason for the credit. In either case, that agency had accomplished its objective of guiding young married couples in the use of consumer instalment credit.

The agency's income was the result of successful credit extensions. To maximinize income, it may be desirable to refuse to extend credit to a young couple but by refusing and giving council the agency may establish greater rapport for future customer relations. The decision to refuse an applicant evolved around the three most critical questions. These questions were (1) the ability to repay, (2) the desire to repay, and (3) the security backing the credit extension.

The answer to the first question was, to a great extent, determined by the answers given on the application form.

The answer to the second question reflected the maturity and stability of the young couple. A few remarks are necessary to show the particular application of this question to young married people. Credit agencies desired that both the husband and wife know the amount and intent of credit extension. By this means these agencies believed that greater matrimonial harmony would result; also, the probability of the repayment of the loan would be increased. One of the main causes of default was the result of divorce. All the lending agencies surveyed reported that, while their loss ratio was low, divorce was a prime reason for these losses.

How does the lending agency decide whether or not the young couple would seek a divorce? There were several indications that helped to answer this question. First, the religious affiliation of the couple was used as an indicator. Members of the Catholic and Jewish religions were less inclined to divorce than members of the other faiths. Second, the income level of the couple was an important consideration. One of the main reasons for family problems stemmed from income problems. Third, the number of children of the couple was important. Children were a unifying factor in a marriage. However, in some cases, too many children created economic problems that tended to destroy a marriage. Last, these institutions considered the number of years the couple had been married. They believed that, if a marriage had survived the first four or five years, it would continue. The executives all agreed that, in general, there was no one set of factors that would determine a positive answer to this question. In the final analysis, the executives had to decide on the merits of the application.

The question of security was generally relatively simple to answer.[1] Most young people had limited security. Thus, credit extension was based on the character, ability, and intent to repay and not on the collateral of the young applicant.

The credit agency desired that all applicants be mature and aware of their responsibilities. The applications for instalment credit by young married couples were scrutinized with special care to determine if they were mature. Different rules did apply to the young couples than to older couples. In the final analysis, the decision rested with the executive of the lending agency.

Responsibilities

This section will analyze the awareness of the young consumer to the responsibilities associated with the extension of instalment credit. The views of the credit agencies concerning this question will also be analyzed.

Are the young people fully aware of the cost and repayment procedures of instalment credit? The answer to this question was "no." If the consumers are not aware of these matters, what is their main concern? The main concern of the consumers was the monthly payment and its relation to their budgets.

The executives of the credit agencies all agreed that the young people were mainly concerned with obtaining the instalment credit. These young people had decided that they wanted to satisfy some want. Because they lacked the necessary cash, they were forced to use some form of credit. In the process of receiving this credit they met with a representative of some credit agency. All the executives interviewed

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[1]Most agencies ask for security as an indication of willingness to repay more than for any collateral value.

expressed some concern of the lack of interest that many young people showed regarding the contract they had to sign to receive instalment credit. One executive stated that, in his opinion, there were two types of young customers. The first were aware of their responsibilities while the second were naive. He estimated that the first type would not comprise one-quarter of the total group. If this allegation is true then it means that the young married couples who used instalment credit were not aware of what they were doing, at least from the point of view of the costs and obligations concerned.

The executives of the credit agencies agreed that the required dollar down-payment for the purchase of the item and the monthly payments were far more important to the young credit users than the maturity of the credit extension and the total cost of this credit. As a result many executives stated that they had set as a company policy a required percentage amount as down-payment. This amount, in some cases, was higher than that required by the seller of the merchandise.

Many of the executives pointed out that in instalment contracts the total costs may not be computed until after the credit has been repaid. That is, the consumer agrees to pay a set amount (minimum payment) over a specific period of time. The consumer may repay faster than the contract demands. While the above is true, the question was asked, did the executives, as a matter of policy, clearly indicate to the consumers the total cost of the credit extended if the contract was explicitly followed? The majority of the executives stated that they did so <u>if the customers requested this information</u>. If there was fault to be allocated, it belongs to both parties of the contract.

In recent times considerable attention has been directed to the question of the costs of instalment credit. It is not the intention of this thesis to become involved in this issue. Instead, the findings of the survey will be analyzed and no attempt will be made to judge the appropriateness of the various methods of expressing or the comparability of finance charges.

The young married couples were asked to estimate the finance charges on a personal loan of $500 for one year from a commercial bank and a small loan company. The respondents were allowed to answer in their own terms. Table 4-2 shows answers to these questions.

In each group more of the respondents answered concerning the rate at commercial banks than at small loan companies. Each group placed the rate charged at the banks lower than the small loan companies. In each group a significant majority replied in percentage terms. As mentioned earlier, the correct interpretation of these percentage terms is not entirely clear.

Table 4-2 also shows that the young people considered the commercial banks' finance rate to be 6 percent. The executives of the commercial banks were asked to comment on the above findings. These executives all agreed that 6 percent was not the effective finance charge but they pointed out that, in this area, they no longer used this stated rate in their advertising. These respondents said that the 6 percent rate was nothing more than a traditional advertised rate that today was meaningless. This may be true but the young people appeared influenced by this traditional rate.

The executives were asked if they explained the finance charges to the young married people. Most of the executives stated that they did so <u>only if the young couple requested</u>. The reasons for this answer were many and varied. There appeared to be two main reasons. These reasons were, (1) that the young people were not interested, and (2) that the young people did not understand the rate structure.

These executives stated many times that the young couples were not interested in the costs of instalment credit. They were interested in knowing whether or not the monthly payments would fit their budgets.

Table 4-2. Knowledge of Cost of Credit by Young Married People, 1962

Finance Charges on $500 for one year.	Lansing N = 80	East Lansing N = 80
Common Bank		
A % answered in		
1. % terms	65	59
2. $ terms	29	25
3. don't know	6	16
B Most common		
1. %	6	6
2. $	25-30	30
Small Loan Company		
A % answered in		
1. % terms	59	47
2. $ terms	29	26
3. don't know	12	27
B Most common		
1. %	12	12-18
2. $	50-75	50-60

One executive said that when he started talking about the cost of credit, he could see that the young people were not interested and were not paying attention to what he was saying. This executive concluded that, if he believed that the young married couple could and would make the monthly payments, his job was completed. He also stated that every time he granted instalment credit to a young married couple, he did attempt to make them fully aware of the costs and repayment aspects of the contract. His feelings were stated above. The young married couple was not interested in knowing these facts.

Many of the executives believed it was meaningless to use percentage figures when discussing costs. Their position appeared to be that this was the only industry that talked of costs in annualized percentage figures. They believed that finance charges should be expressed in dollar terms. The expression most commonly used was dollars of costs per one hundred dollars of instalment credit extended per year.

These executives claimed that currently there was "some shopping around" by young people seeking instalment credit. If greater comparability could be introduced in this matter of costs, then the young people might show greater awareness of their actions.

There are many types of charges that enter under the general heading of finance charges. One such charge is an insurance premium.[1] This premium is designed to cover the instalment credit outstanding in the case of an accident or death of the payee. All of the agencies surveyed suggested to their young customers that such insurance should be carried. The young people in both groups, who used credit for the purchase of an automobile, were asked if their monthly payments included this insurance premium. Few of them were certain if such a premium was included. Those who did know that the premium was included were uncertain as to the amount of the premium. This situation emphasized the lack of awareness of the young people concerning instalment contracts. An executive of a credit union stated that the young people did not appear to want such insurance and those who took this insurance were not aware of its coverage.

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[1]Most credit unions have a contract with CUNA Mutual that insures the life of each eligible borrower in the amount of his loan balance up to $10,000. Certain states set a lower maximum. In general credit grantors desire that the debtor be insured against casualty and other claims which might impair ability to meet the debt payments.

Several conclusions may be determined from this section. First, the cost of instalment credit was not of major concern to the young users.[1] Second, all the credit agencies agreed that the young married couples were not as well informed as older groups. Third, these young people did not appear to understand finance charges expressed in percentage terms. Fourth, the majority of executives believed that finance charges should be expressed in dollar terms. Fifth, many of the young married couples were not fully aware of the type of charges included in the monthly payments of their instalment contract. In general, it may be concluded that the young married couples were not well informed and lacked understanding of the instalment contract they had signed.

Instalment Credit Promotion

This section will analyze the promotional activities of the credit agencies. These activities include formal educational programs and the more usual methods of advertising.

The most outstanding feature of this topic was the increased interest and activity by the various agencies and/or their trade associations in promotional work. Most of these agencies and associations followed a similar pattern in their promotional work; that is, much of their advertising was in the nature of general information advertising. This type of advertising was not designed to apply to a specific group but it was designed to promote one particular use of instalment credit. This use may be the purchase of an automobile, the payment or consolidation of debts or the purchase of other consumer goods and services.

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[1]This conclusion should be contrasted to the answers of the hypothetical questions where it was concluded that the finance charges were of significant importance.

None of these institutions surveyed had any direct advertising aimed at any one age group. In certain cases the advertising did apply to one group more than another. As an example, the advertising of instalment credit to finance a holiday would show a picture of two young people cavorting on horseback at a summer resort. This could hardly be considered as appealing directly to young people.

More appealing yet with limited coverage is the hand-out type of advertising. These small brochures were used extensively by all the institutions. Most of the pamphlets were printed under the auspices of the trade association or parent company with an overprint of the local institution's name and address. Many of the executives expressed the belief that this form of advertising was the most effective form for local advertising.

Generally these brochures stressed one point. One national consumer finance company published a series of small pamphlets under such titles as, "Your Children's Spending," "Your Health Dollar," "Your Food Dollar," "Your Shelter Dollar," and many others. From these titles it is evident that the message stressed the economical use of money for specific purposes. The brochures were educational in design but, at the same time, they clearly pointed out where the individual could go, should his current income not be sufficient to cover the proposed expenditures.

The National Consumer Finance Association, representing consumer finance companies as well as many other consumer credit agencies, made available to the general public a number of booklets on special aspects of consumer instalment credit. These booklets were prepared by leading authors in the field. They were not directly an advertising mechanism of any one consumer finance company. It would be incorrect to imply that the consumer finance companies, as financial institutions, did not benefit from such publications.

This national trade association made available class-room aids in the form of special kits of materials for student use. These kits included the necessary paper to prepare a personal budget and gave some indication of the procedure to secure instalment credit. Motion pictures, with and without sound, and film strips were also supplied. In all of these cases, the materials stressed one main idea with significant emphasis placed on the social aspects of credit. This form of promotion appeared to be more effective than newspaper advertising.

Possibly the most effective form of advertising by this sector of the industry was the willingness of the executives of the state trade association and the individual companies to speak to various groups on the subject of instalment credit. Some of the executives interviewed had done some of this type of lecturing. One executive had just returned from talking to a group at one of the local high schools. It was his contention that many of the problems mentioned earlier in this study were brought up at this meeting. This executive stated that these problems will not be dispelled by one meeting; rather, a concentrated effort must be made by all institutions in the industry to overcome traditional prejudices. He maintained that no one company can do the job alone nor can any one sector of the industry; rather, it must be a unified effort by all involved. He stated that, unfortunately, certain sectors of the industry were not interested in helping; rather they appeared to be following a policy of unconcern.

Certain defects in advertising must be noted. One institution stated in a brochure a list of critical aspects of instalment contracts. This brochure was well designed and carried an important message. What was the defect? The defect existed in that the institution did not follow its own advice. It stressed that the contract form should include, (1) total purchase price and time price of the item or contract, and (2) finance charges should be expressed in dollars. Neither of these items appeared clearly and distinctly on the instalment contract forms. Both of these items may be computed from the contract.

A second general type of defect in advertising was very common in newspaper advertising of this industry. The advertisement stressed that a person could walk in and in seconds walk out with a personal loan on a signature basis. In certain cases this might be true, but to imply that anyone may do so was misleading. It was this type of advertising that most annoyed the young married couples. Some of them tried to take advantage of this practice and found, to their embarrassment, that it was impossible.

It may be concluded that the institutions involved in the extension of consumer instalment credit were aware of the power of persuasive advertising. The various institutions and associations were cognizant of their public image and the social impact of their actions on the society. These institutions were making a sincere effort to increase and improve their promotional activities.

There was little promotional activity aimed at the young married couples in our society. These executives did not seem concerned that their advertising was not so directed. The belief appeared to be that it would be impossible to single out this age group in advertising, and also the general advertising appeared to accomplish the job.

Conclusion

The basic question that this chapter has tried to answer is whether the credit agencies are aware and concerned with the young married couples. The answer was a qualified "yes" to the former and a qualified "no" to the latter. This may seem inconsistent, and it is. The young people will be the major users of instalment credit in the future, while today they rank among the most frequent users of instalment credit.

The agencies who now and in the future supply instalment credit to these young people have assumed a passive attitude to this market sector. The basic reason for this attitude is one of age and income. Many of the young people, while married, are not of legal age. This presents certain contractual difficulties. Because these young people lack credit experience, the lending agencies are forced to seek other criteria of credit worthiness.

These special criteria may be described as seeking to determine the maturity of the young couples. Special emphasis was placed on questions designed to indicate the character, the employment stability, the matrimonial harmony, and the income stability of the young couple. It is important to appreciate that there is no absolute standard that may be applied to this or any other group. The executives all agreed that, even with all possible information, the success of the instalment contract depended on the individual receiving the instalment credit.

The young people interviewed did not appear to be concerned with the costs of the instalment credit they were using. Many reasons may be advanced. These young people were most concerned with the use of the credit. The initial downpayment and the monthly payments were next in importance. The credit agencies did not clearly indicate the cost of credit to these young people. As a result of the lack of interest and the lack of information supplied by the credit agencies, the young people were not well aware of the costs of instalment credit.

This chapter has indicated that the lending agencies are beginning to appreciate the necessity of promotional activities. These agencies have and are neglecting an important and growing sector of their market. This neglect cannot be continued or radical changes may occur in the national and local pattern of the consumer instalment credit industry.

CHAPTER V

CONCLUSION

The consumer instalment credit industry has experienced major changes in the period 1951-1961. The causes of these changes may be classified as internal or external. One internal cause resulted from competitive changes of the various lending agencies. The major external cause of change was in the public demand for the various types of instalment credit.

These structural changes of the consumer instalment credit industry have had and will have significant effects on our society. Similarly our society has had and will have effects on this industry. These external or demand changes indicate important shifts in consumer spending. Table 5-1 shows the amount of instalment credit by major part outstanding in 1951 and in 1961 as well as the percent increase during the period. The final column shows a forecast of these outstandings in 1971.

It is apparent that the most rapid expansion of instalment credit took place in personal loans and repair and modernization loans. The increase in personal loans amounted to 29 percent of the total increase in instalment credit outstanding during this period. In contrast, the growth in other consumer goods paper has lagged behind the growth of all other types of instalment credit outstanding.

How can these different rates of growth be explained? Can it be assumed that this growth pattern will continue in the future? Answers to these questions will be suggested to predict the future demand of the consumer instalment credit industry.

Table 5-1. Instalment Credit Outstanding by Major Parts for Selected Years* (in millions of dollars)

Type of Debt	1951	1961	Percent Increase	1971
Automobile	5,972	16,960	160	44,096
Other Consumer Goods Paper	4,880	11,771	140	28,250
Repair and Modernization Loans	1,085	3,177	192	9,278
Personal Loans	3,357	11,255	236	37,616
Total	15,294	43,163	182	121,720

*The final column in this table is based on the assumption that the same percentage increase that occurred between 1951-1961 will occur between 1961-1971.

The rapid growth in personal loans from 1951 to 1961 may in part be explained by the even higher growth in expenditures for services as opposed to durable and non-durable goods. Between 1951 and 1961 expenditures for services increased approximately 100 percent as compared to 62 percent for durable and 40 percent for non-durable goods. Personal loans are used to finance health, education, and welfare services as well as some repair and travel expenditures. It is important to note that each of these areas is becoming more important as a segment of consumer expenditures.

Extensive evidence exists in our society that adds proof to the above statements. It is now part of the lives of a great segment of society to make use of health services paid by instalment credit. Education is a necessity in our complex society. Welfare demands are in part met by personal instalment credit. Today's household is a maze of complex machinery. This equipment demands costly servicing that in part is financed by credit. Lastly, travel and holidays are easily financed by instalment credit. In summation, consumer demands for services of all kinds will most likely increase and cause further growth in personal loans.

Based on the above figures, personal consumption expenditures may approximate $550 billion by 1971. Of this amount, personal consumption expenditures for services may reach $275 billion. If personal loans increase at the rate between 1951-1961, by 1971 personal loans outstanding would be $37,616 million.

Table 5-1 showed the forecasted changes for total instalment credit outstanding and by type of instalment paper for 1971. The major importance of this table is that it holds all types of instalment paper outstanding to the same percentage increase that each type experienced through 1951-1961. The validity of such an assumption must be questioned.

As a result of the particular method of forecasting used in Table 5-1, the relative importance of each group changes. Table 5-2 shows these changes.

Table 5-2. Instalment Credit Outstanding by Major Parts for Selected Years (in percentages)

Type of Debt	1951	1961	1971
Automobile Paper	39	39	36
Other Consumer Goods Paper	32	27	23
Repair and Modernization Loans	7	8	8
Personal Loans	22	26	31
Total	100	100	100

Source: Table 5-1.

It is important to note that automobile and other consumer goods paper outstanding decrease in relative importance in the forecast. Repair and modernization loans remain approximately the same while personal loans outstanding increase significantly. If such a forecast is valid, it should have significant effects on the internal structure of the industry. The increasing importance of personal loans should result in more firms entering this area while the decreasing importance of automobile paper may have the result that one lending institution (type of lending institution) might monopolize this market.

Changes in the policies of credit institutions are apparent. Commercial banks are stressing automobile instalment credit. Sales finance companies and consumer finance companies are buying retail outlets and expanding in the field of personal loans. Retail outlets are stressing the use of instalment credit for personal services not traditionally financed by instalment credit. If each institution held the same relative position in 1971 as it did in 1961, the individual holdings would be as shwon in column 1, Table 5-3. If each institution maintained in 1961-1971 the same increase in market penetration as through 1951-1961, the results would be as shown in column 2, Table 5-3. It seems unlikely that institutions will follow either the same pattern of market penetration or growth of 1951-1961 through 1961-1971. What is the use of Table 5-3? This table indicates a probable range within which the market penetration of the various lending institutions may occur in 1971. This table also indicates the probable competitive emphasis that may exist by 1971. The forecast of Table 5-3 is premised on the accuracy of the forecast of Table 5-1. For this reason the consumer demand for instalment credit must be forecast.

As indicated earlier, young married couples are becoming the major users of instalment credit. A forecast of the 1971 market importance of young married people will greatly aid in forecasting the total consumer instalment credit market for the year 1971.

Table 5-3. Forecasted Instalment Credit Outstanding by Holders, By Major Part in 1971*
(in millions of dollars)

	Automobile Paper		Other Consumer Goods Paper		Repair and Modernization Loans		Personal Loans	
	1	2	1	2	1	2	1	2
Commercial Banks	19,600	22,500	6,500	5,370	6,400	5,200	12,780	13,150
Sales Finance Companies	15,900	12,250	7,350	12,150	464	464	4,196	4,966
Other	7,716	8,906	1,700	1,980	2,413	3,613	20,640	19,500
Retail	880	440	12,700	8,750				
Total	44,096		28,250		9,277		37,616	

*Column 1 is based on the assumption that each institution held the same relative position in 1971 as it did in 1961. Column 2 is based on the assumption that each institution maintained in 1961-1971 the same increase in market penetration as through 1951-1961.

The Consumer

It has been said that the future of a country belongs to young people. In 1970 the average age of the population in the United States will be about 24 years. The most rapidly growing age groups are under 24 years of age (Table 5-4). The economic importance of these young people already is significant but by 1970 it will have increased.

Table 5-5 shows the size of selected age groups for selected years from 1930-1960 and a forecast for 1970. Several important changes are evident from this table. First, the number of people in the age group 25 to 29 will increase. Second, the age groups 15 to 19 and 20 to 24 have a fluctuating growth yet have the most sizable growth. The meaning of this table is to stress the significant increase in numbers and thus the economic importance of young people between the ages 18-24.

Simple numerical weight is not conclusive proof that any one group will be more important than another in economic importance. Young people in the ages 18 to 24 typically comprise the newly-married couples of the society. The median age for first marriages has steadily decreased since 1940 (Table 3-1). The median age at first marriages by 1970 may show a decrease from 1960. Because of the decreasing median age, it is logical to expect that the age group 20-24 will produce the majority of children. Table 5-6 supports this belief, but at the same time indicates that the young people 20-24 are having an increasing reproduction rate while all other groups are following a downward trend in births per 1,000 families.

One conclusion is that the young person, 20-24, will most likely be married and have some children before he or she passes beyond this age boundary. Associated with marriage and family is a whole new

Table 5-4. United States Population by Selected Ages by Selected Years (in thousands of people)

Ages	1930	1940	1950	1960	1970
24 years and under (A)	58,479	56,895	62,582	79,806	103,754
Total population (B)	122,775	131,669	150,697	179,323	214,222
Percentage A and B	47.5	44.0	41.5	44.5	48.0

Source: U. S. Bureau of the Census, Statistical Abstract of the United States, 1962, 6, 24.

Table 5-5. United States Population by Selected Age Groups for Selected Years (in thousands of people)

Age Groups	1930	1940	1950	1960	1970
15-19	11,552	12,334	10,617	13,219	18,910
20-24	10,870	11,558	11,482	10,801	17,094
25-29	9,834	11,097	12,242	10,869	11,898
30-34	9,120	10,242	11,517	11,949	13,150
Total	41,376	45,231	45,858	46,838	61,052

Source: U. S. Bureau of the Census, Statistical Abstract of the United States, 1962, 6, 24.

Table 5-6. Live Birth Rate by Age of Mother for Selected Years (live births per 1,000 females)

Age		15-19	20-24	25-29	30-34
Year	1940	54.1	136.6	122.8	83.4
	1950	81.6	196.6	166.1	103.7
	1955	89.7	240.4	190.8	115.8
	1957	96.1	257.6	200.5	118.0
	1959	90.9	256.4	200.6	116.1
	1960	89.1	258.1	197.4	112.7

Source: U. S. Bureau of the Census, Statistical Abstract of the United States, 1962, 56.

complex of consumer wants. Since the young person is just beginning to climb the economic ladder, it is reasonable to forecast that his wants will exceed his current income. Either the young person will suppress some of these wants so as to live on a cash basis, or he must find some form of supplementary financing. The most likely source of this supplementary financing is one of the agencies that extend consumer instalment credit.

The two survey groups have the main characteristics of young married people nationally. The groups in Lansing and East Lansing, Michigan were in the age group 18-24. The majority were starting a family and were establishing a home. The national predictable value of this Lansing-East Lansing survey is dubious for reason of the sample size. Nevertheless, certain facts derived from this survey may be of use in indicating broad general national paths that the young couples may follow in the next ten years.

The use of instalment credit is widespread among the young people surveyed. Though one-half of the total surveyed were university students, two-thirds of these people have used or were using instalment credit. The other half of the survey group, the Lansing group, had greater experience in the use of instalment credit. Over nine-tenths of this subset of the total surveyed had used instalment credit. Within this segment it was established that a larger proportion of the blue-collar workers used instalment credit than the white-collar workers. From this fact it may be concluded that the ranking of credit users would be (1) blue-collar workers, (2) white-collar workers, and (3) married students. It may further be concluded that the students will shortly join the ranks of the higher income white-collar workers.

A further conclusion may be suggested from the above data. In all income groups, without exception, white-collar jobs in the 1960's made up a greater proportion of total employment for men and women than during the 1950's. At the same time, the ratio of blue-collar occupations to all jobs declined markedly in all age-sex groups.[1] In 1950 and in 1960 white-collar workers comprised about 47 percent of all occupations while blue-collar workers comprised 44 percent in 1950, but only 39 percent in 1960 of the total labor force. While blue-collar workers currently do use instalment credit more frequently than white-collar workers, the instalment credit grantors must recognize the developing situation that the proportion of blue-collar workers is decreasing. Thus, white-collar workers, and college students who will in time be among the higher income white-collar workers, will in the future comprise the major and most rapidly growing segment of the consumer instalment credit market.

From study of the types of instalment credit used, it was determined that the young married couples used mainly sales credit. A relatively small proportion used cash credit.

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[1]U. S. Bureau of Labor Statistics, Monthly Labor Review, LXXVIII (1961), 140.

Young married couples were extensive users of instalment credit to finance automobiles or household goods. This is a common characteristic of young people nationally. The implication of this fact is to stress that in the next ten years these newly-married couples will constitute a sizable demand for this type of credit.

While the survey was limited to a study of short-term instalment credit, it was, nevertheless, apparent that a sizable proportion of these people were using mortgage credit. This fact leads to the conclusion that both short-term and long-term demands for instalment credit will be significantly influenced by these young people.

Important facts regarding the potential demand of young people for instalment credit were determined from questions concerning types of uses of this credit. It was apparent that these young people had few prejudices against the use of instalment credit. A certain hesitancy existed in using instalment credit for travel and holidays. In a short time many expect greater acceptance of this use of instalment credit. The executives of the lending agencies were asked their opinion on this matter. They replied that they saw no reason why this use of instalment credit should not expand. This point needs to be stressed as it indicates that in the future the use of instalment credit will expand both in dollar volume as well as an accepted method of financing any consumer goods or service.

To emphasize the above statements, past studies have shown that older people are opposed to the use of instalment credit. It follows that as the older people disappear from the market they will be replaced by others having a higher acceptance of consumer instalment credit.

The main conclusion reached is that the young married couples of today will be the pattern makers of credit use of tomorrow. As these young people now accept the concept of instalment credit, there remains only the question of how great will be the increase in the demand for instalment credit. More and more young people view instalment credit in the same way as corporation credit. That is, they expect their social and economic world to expand and one way of accelerating this expansion is through the use of instalment credit.

The repayment of this debt is typically related to the monthly income of the borrower less his existing commitments. The cost of this debt does not appear to be of vital concern to him. A partial answer to this unconcern appeared to be the lack of information about the cost of the credit. A second part, and a more important part, was the belief in the greater utility of current consumption relative to postponed consumption. It would appear that so long as this utility concept was maintained, the lending agencies need fear no great decrease in instalment credit applications. A third part, and possibly the most important consideration, appeared to be the view that the cost of credit is just part of the price of the merchandise (time price) and is the same as delivery charges or salesman services. The young people want to know what the total cost will be and still more important what will be the monthly payments.

The Industry

The future of the instalment credit industry appears assured but many internal changes may be expected. The greatest single factor influencing this industry is the significant increase of public acceptance of consumer instalment credit. Less than a generation ago the use of instalment credit was considered by a substantial segment of society as synonymous with personal financial crises. To a great extent this belief has been replaced, even in part of the "older generation." Currently, national studies admit to this change. In essence these studies indicate a grudging if not willing acceptance of instalment credit by the older generations.

It is not with the general population that this study is concerned. Rather the attitudes of future customers were studied. As mentioned earlier, these future customers accept instalment credit as a part of their lives.

While it may be said that the future demand is assured, the question must be asked what are the individual credit agencies doing to attract a part of this demand? Relatively little effort is directly expended to attract the new users of instalment credit. Many valid reasons were advanced by the executives of lending agencies for this lack of effort. While these reasons may be valid in light of today's circumstances, will they be valid tomorrow? Since the demand exists today and will exist tomorrow, and as industry competition is active, the wisdom of any institution not appealing to the new customers must be questioned. Although toothpaste will be used in the future, will XYZ brand be used?

If the demand for instalment credit can be forecasted and segmentized, as in Table 5-3, far greater insight is possible. One type of instalment credit may serve as an illustration. Personal loans, as forecasted, will show considerable growth. The basic question seems to be who will service this demand. Will the commercial banks supply a third, while other financial institutions, mainly personal loans companies, and credit unions, supply more than one-half? Will the expansion of sales finance companies into this field be limited to about 10-15 percent? Although these questions cannot be dogmatically answered, yet for the individual credit agency they must be answered.

Part of the answer to this problem may already have been given. The individual bank, credit union, and personal loan company does little current promotional work designed to attract the young married couples. It must be admitted, however, that some of the national organizations representing these agencies are carrying out promotional programs. These programs are not designed for any select group within the society.

The Lansing area survey indicated that blue-collar workers were the most frequent users of instalment credit. These people received their credit from all sources, but credit unions supplied the greatest share. Credit unions generally are formed stressing some common bond.[1] If this bond should be hourly-rated employees, then the future of this group must be forecasted. Several possibilities should be considered. These are:

1. Will the total size of this group increase or decrease in the future?
2. Will labor disputes affect the active credit union membership and repayment practices of the members?
3. Will the existing members actively use the facilities of the credit union?

Answers to these and many other questions must be asked to arrive at a forecast of future demand.

All credit agencies face the problem of making themselves known to the public. It was determined from the survey that a substantial segment of the young people could not name any of the local small loan companies. While these young people knew the names of the commercial banks and knew of the existence of credit unions, they were unaware of the functions of and the names of small loan companies. The future of these personal loan companies hinges on public knowledge and acceptance of these institutions.

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[1]Credit unions appear to be going beyond their initial common bond. In the state of Michigan the expansion of credit unions has been significant. It appears that in some cases the only bond necessary to belong to a credit union is the desire to belong to a credit union. If these institutions decrease the importance of this common bond, it is possible that the legal view of these institutions will change. One immediate effect of this might be the loss of their preferential tax position and such a loss may have marked effects on their market penetration.

The vital problem facing all credit agencies concerns the means of enticing and holding customers. It is not surprising to encounter certain criticism of various institutions. The heritage of this criticism extends far into history. Most of the executives were familiar with this criticism and did point out that for the most part it was unwarranted today. If this criticism is unwarranted, why did a large proportion of the young people interviewed mention their lack of trust in some of these institutions? Among the answers that could be suggested, certainly the lack of effective promotion would occur.

Assuming a young married couple does apply for instalment credit, how are they received by the institution? Most institutions do not encourage persons under the legal age to apply for credit. Good reasons exist for this policy, yet many of these young people are mature and would make good customers. Reasons may be advanced for and against this policy, yet the fact is that the policy exists and is followed. For the young people under the legal age such a policy means that the institutions will not welcome them in the same manner that they welcome a person of the legal age. If a young person is refused a loan or is ignored by the institution, this treatment will have a continuing effect on relations in the future.

If a couple is of legal age, 21-24, typical and traditional questions are asked by the agency. What the couple does not know is that their answers are assessed differently from those of older people. Should an agency refuse credit, the young couple may feel that the institution is unreasonable and shows preference to other groups. It would seem appropriate for the agency to explain to the young couple that the standards applied against their application were different from those applied to older groups. It should further be explained that the differences were due to economic facts rather than simply the fact of age.

Do the lending agenciès desire unreasonable characteristics of a young couple? Generally the answer is "no" as there is not a great difference between the desired characteristics of any group. The distinction exists because typically the young couple lacks a credit rating. As a result, the agency knows relatively little about the credit worthiness of the young applicant. It would facilitate investigation and decision on a loan application if there existed a credit bureau to provide credit information to all credit agencies. Such a bureau would be of value to all agencies as well as to the applicants. This bureau, however, would aid only a small proportion but not the majority of young people as most lack credit experience.

The executives of the credit agencies stressed that the desired credit should be for a worthwhile purpose. A worthwhile purpose was never defined. To the interviewer it appeared that a worthwhile purpose really meant any purpose so long as the executive of the credit agency believed that the applicant could and would honor his contract. As a result, it was not necessary to define a worthwhile purpose. It must be noted that what could be deemed a worthwhile purpose for one applicant might be deemed not worthwhile for another applicant. The reason appeared not to be a question of credit use but rather a question of the credit worthiness of the applicant. In the final analysis, the executive of the credit agency had to make a subjective decision on the relative merits of the application. The term "relative merits" was used explicitly to indicate the haziness of the criteria used in appraising a credit application.

Are the young married people well informed concerning the use of instalment credit? The answer is "no." The next logical question is "should the credit agency try to improve this level of knowledge?" Some would maintain that as long as the applicant honors his contract there is no reason for the institution to be concerned. Others would argue that better-informed customers would mean a better business environment. The majority of executives interviewed appeared to feel that better-informed customers were desired but, at the same time they and their institutions were doing little to aid this cause.[1] Many of the executives believed that the young people were not interested in acquiring this information and consequently they made little or no attempt to inform their customers.

There appeared to be several opinions as to the method of disseminating this information. Some took the position that the best opportunity occurred during the interviewing of the applicant. The primary objection to this method is that only those applying would receive this information.

A second method would be the use of national and local advertisements. The effectiveness of this method was seriously debated on several critical points. Many would question the effectiveness of national or even local advertisements if they tried to teach as technical a subject as consumer instalment credit. Others seemed to feel that as instalment credit laws vary among states, any national advertising would be impossible. This criticism would not eliminate the use of local advertising. To counter the above criticism it may be pointed out that the mathematical and contractual techniques of instalment credit may be presented in an abstract form that violates no law.

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[1]There are notable exceptions to this statement, such as, the National Consumer Finance Association, Michigan Consumer Finance Association, National Foundation for Consumer Credit, and others.

It should be further noted that, as shown in Table 3-18, few of either groups had any formal training in consumer credit. The term "formal training" was used to determine if the interviewees had studied consumer credit in school. This educational deficiency should be corrected as the use of instalment credit is a fact of life. Initiation of such a change could be hurried by interested parents with help of the credit institutions on both the national and local levels.

It was suggested that one effective way of promoting the industry and the local company was through public and private speaking engagements. This method should produce better understanding of the industry and its executives but it is debatable whether or not it succeeds in better reaching a large part of the public.

Most of the executives of the credit agencies felt that if the entire industry expressed all charges in dollar terms on the total contract period, many of the difficulties would be eliminated. This procedure would allow the applicants to make better competitive comparisons. The executives emphasized that this change would make the industry more understandable as other industries expressed their charges in dollar terms.

Better understanding of the full responsibilities of instalment credit would be aided if the contract form was designed to indicate clearly total costs with the appropriate subdivisions. In all existing contract forms total costs may be computed. In automobile instalment contracts the costs are clearly listed and total costs are prominently displayed. It would seem advisable that this practice should be followed in all instalment contracts. If this should be done, much of the criticism could be alleviated, as the agency would clearly make known to the customer the full repayment total of the instalment contract.
At the time of the signing of the contract the executive should tell the applicant that, should he accelerate the repayment, the stated charges would be reduced. If, at that time, the applicant expressed a desire to know the amount of reduction in charge with a different repayment pattern, the executive could compute the application on the reduced maturity. The basic criticism was that the applicant did not know the total cost of his instalment credit. Reorganization of the contract form would correct this error.

A second criticism directed at many credit agencies was that the applicant did not know the reason for various charges in the contract. Part of this criticism could be eliminated if the applicant read his contract. The remaining could be eliminated by better and clearer organization of the contract form.

The credit agencies in the Lansing, Michigan, area did not appear unduly concerned with this growing sector of their market--young married people. They did not appear unduly concerned with the various criticisms directed against their industry by young people. It is entirely possible that the apparent lack of concern reflects the ever-increasing volume of business. On the other hand, it is entirely possible that the lack of concern could reflect the agencies' frustration in their attempts to counter this criticism. It is entirely possible that one company in one locale could increase its share of the local market by putting into operation some of the changes suggested above. Should this increase occur, the most probable result would be that others would apply the same techniques. In other words, the local problems in the industry could be significantly corrected by one company in the industry.

If no revision of existing business practices takes place, it is probable that the lending agencies will face increasing government action to correct some of the more glaring problems.

Future Relations

Tomorrow's is the market that we should consider today. The consumer instalment credit industry has not planned for this tomorrow although there are notable exceptions within the industry. Over the past fifteen years this industry has experienced generally high prosperity. In the past, competition, while keen, has not been of the type likely to develop in the years ahead. Two all-important trends are developing. First, young married people are emerging as the consumption leaders in our society. Second, the traditional competitive forces are changing within the instalment credit industry. In the future greater stress will be placed on non-price or service competition. The future structure of the instalment credit market will reflect these progressive changes.

Unrest is the only word to describe the feeling of today's young married couples. They are no longer willing to accept the standards of yesterday. They demand to be recognized. They demand to be informed. It is not enough to say young married people appear uninformed or naive regarding consumer instalment credit. These young people are in effect saying that they will do business with the institution that best satisfies their demand-needs. If young married people lack faith in an agency, a type of institution or all lending institutions, they will either find another source of supply of instalment credit or they will demand (and get) legal-political redress.

Today's young married couples are today's parents. They have accepted the responsibilities of adulthood. Today age is not pertinent to the question of responsibility. Young people want to use instalment credit. They are willing to accept the contractual obligation of debt. The use of this debt may, to an older group, appear immature, ill-advised and/or stupid, but to the users of this debt it is logical and gives evidence of their impatience with the standards of yesterday.

Our world changes and today's young married couples are the innovators of much social and economical change. This situation cannot be arrested. The economic community in general, the consumer instalment credit industry specifically, must voluntarily innovate or the social waves will crash upon this structure and force change.

Many credit agencies do not seem aware of the potential market force of the young married couples. Many of these institutions appear to be concerned neither in connecting traditional defects nor in stimulating the demand for their services by the young married couples. It appears that these agencies have decided that as they grew in the past, so will they grow in the future. Although this belief may be valid, can any industry logically make this assumption?

This industry is unique. Its basic product is dealing with the means of exchange. For this reason it cannot regard itself as similar to any other industry, nor is it so regarded by the general public. Regardless of the increase in public acceptance, its basic product remains unique and must be protected by unique forces.

What can this industry accomplish in customer relations? The most important act this industry could perform is to attempt self-regulation and self-improvement. It is incorrect to say that only the leaders must change. All in the industry must recognize that the reputation of the industry reflects the attitudes and character of all its members.

Changes are needed. It would be desirable if these changes were the result of industry action. Changes will take place. The question is "Who will initiate these changes?"

Many questions have been asked in this thesis. It is the author's hope that some of these questions have been answered. The author believes that, in this and in many other cases, the questions are more important than the answers. It is only by this means that a responsible public and an enlightened management may consider and act to produce the necessary accord in our changing society.

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APPENDICES

APPENDIX A

Consumer Instalment Credit Outstanding
Total, By Holder, By Major Part
1951-1961

Table I. Consumer Credit and Consumer Instalment Credit--1951-1961 (Estimated short and intermediate credit outstanding; in millions of dollars)

End of Year	Consumer Credit	Consumer Instalment Credit
1951[a]	22,617	15,294
1952	27,401	19,403
1953	31,243	23,005
1954	32,464	23,568
1955[b]	38,807	28,883
1956	42,262	31,648
1957	44,848	33,745
1958	44,948	33,497
1959	51,331	39,034
1960	55,737	42,588
1961	57,139	43,163

[a] 1951-1954, Federal Reserve Bulletin, December 1957, p. 1400.

[b] 1955-1961, Federal Reserve Bulletin, February 1962, p. 212.

Table II. Division of Consumer Instalment Credit Between Financial Institutions and Retail Outlets--1951-1961 (Estimated amounts outstanding; in millions of dollars)

End of Year	Financial Institutions	Retail Outlets
1951	12,124	3,170
1952	15,581	3,822
1953	18,963	4,042
1954	19,450	4,118
1955	24,375	4,508
1956	26,905	4,743
1957	29,078	4,668
1958	28,514	4,983
1959	33,359	5,676
1960	36,974	5,615
1961	37,580	5,583

Source: See Table I.

Table III. Consumer Instalment Credit, By Holder, 1951-1961[a]
(Estimated amounts outstanding; in millions of dollars)

End of Year	Commercial Banks	Sales Finance Companies	Credit Unions	Consumer Finance Companies	Other
1951	5,771[a]	3,654	635	1,555	509
1952	7,524	4,711	837	1,866	643
1953	8,998	5,927	1,124	2,137	777
1954	8,796	6,144	1,342	2,257	911
1955	10,601	8,424	1,678	2,623	1,049
1956	11,777	9,045	2,014	2,940	1,129
1957	12,843	9,487	2,429	3,124	1,195
1958	12,780	8,699	2,668	3,085	1,282
1959	15,227	10,108	3,280	3,337	1,407
1960	16,672	11,228	3,923	3,670	1,481
1961	16,843	11,052	4,352	3,798	1,535

[a]Excluding Retail Outlets

Source: See Table I

Table IV. Consumer Instalment Credit, by Holder, 1951-1961
(Estimated amounts outstanding; in percentages)

End of Year	Commercial Banks	Sales Finance Companies	Credit Unions	Consumer Finance Companies	Other
1951	47.6	30.2	5.2	12.8	4.2
1952	48.3	30.2	5.4	12.0	4.1
1953	47.4	31.3	5.9	11.3	4.1
1954	45.2	31.6	6.9	11.6	4.9
1955	43.5	34.56	6.9	10.8	4.3
1956	43.8	33.6	7.5	11.9	4.2
1957	44.2	32.6	8.4	10.7	4.1
1958	44.8	30.5	9.4	10.8	4.5
1959	45.7	30.3	9.8	10.0	4.2
1960	45.1	30.4	10.6	9.9	4.0
1961	44.8	29.4	11.6	10.1	4.1

Source: See Table III

Table V. Consumer Instalment Credit, By Major Parts, 1951-1961
(Estimated amounts outstanding; in millions of dollars)

End of Year	Automobile Paper	Other Consumer Goods Paper	Repair and Modernization Loans	Personal Loans
1951	5,972	4,880	1,085	3,357
1952	7,733	6,174	1,385	4,111
1953	9,835	6,779	1,610	4,781
1954	9,809	6,751	1,616	5,392
1955	13,437	7,641	1,693	6,112
1956	14,348	8,606	1,905	6,789
1957	15,218	8,844	2,101	7,582
1958	14,007	9,028	2,346	8,116
1959	16,209	10,630	2,809	9,386
1960	17,444	11,525	3,139	10,480
1961	16,960	11,771	3,177	11,255

Source: See Table I

Table VI. Automobile Instalment Credit, by Holder, 1951-1961 (Estimated amounts outstanding; in millions of dollars)

End of Year	Commercial Banks	Sales Finance Companies	Other Finance Institutions	Retail Outlets
1951	2,446	2,863	373	290
1952	3,262	3,630	452	389
1953	4,082	4,688	538	527
1954	3,937	4,870	539	463
1955	5,305	6,882	763	487
1956	5,726	7,166	954	502
1957	6,355	7,271	1,114	478
1958	6,184	6,165	1,152	506
1959	7,352	6,976	1,400	481
1960	8,136	7,284	1,665	359
1961	8,169	6,590	1,842	359

Source: See Table I

Table VII. Automobile Instalment Credit, by Holder, 1951-1961
(Estimated amounts outstanding; in percentages)

End of Year	Commercial Banks	Sales Finance Companies	Other Finance Institutions	Retail Outlets
1951	41.0	47.9	6.2	4.9
1952	42.2	46.9	5.9	5.0
1953	41.6	47.7	5.4	5.3
1954	40.1	49.7	5.5	4.7
1955	39.5	51.2	5.7	3.6
1956	39.9	49.9	6.7	3.5
1957	41.8	47.8	7.3	3.1
1958	44.2	44.0	8.2	3.6
1959	45.3	43.0	8.6	3.0
1960	46.6	41.8	9.5	2.1
1961	48.2	38.9	10.8	2.1

Source: See Table I

Table VIII. Other Consumer Goods Instalment, by Holder, 1951-1961 (Estimated amounts outstanding; in millions of dollars)

End of Year	Commercial Banks	Sales Finance Companies	Other Finance Institutions	Retail Outlets
1951	1,315	452	233	2,880
1952	1,751	680	310	3,433
1953	2,078	816	370	3,515
1954	1,880	841	375	3,655
1955	2,042	1,048	530	4,021
1956	2,464	1,277	624	4,241
1957	2,557	1,509	588	4,190
1958	2,269	1,717	565	4,477
1959	2,640	2,114	681	5,191
1960	2,759	2,739	771	5,256
1961	2,684	3,100	763	5,224

Source: See Table I

Table IX. Other Consumer Goods Instalment Credit, by Holder, 1951-1961 (Estimated amounts outstanding; in percentages)

End of Year	Commercial Banks	Sales Finance Companies	Other Finance Institutions	Retail Outlets
1951	27.0	9.3	4.7	59.0
1952	28.4	11.0	5.0	55.6
1953	30.6	12.0	5.5	51.9
1954	27.9	12.5	5.5	54.1
1955	26.7	13.7	7.0	52.6
1956	28.6	14.8	7.3	49.3
1957	28.9	17.1	6.6	47.4
1958	25.1	19.0	6.3	49.6
1959	24.8	19.9	6.4	48.9
1960	23.9	23.8	6.7	45.6
1961	22.8	26.3	6.5	44.4

Source: See Table I

Table X. Repair and Modernization Instalment Credit, by Holder, 1951-1961 (Estimated amounts outstanding; in millions of dollars)

End of Year	Commercial Banks	Sales Finance Companies	Other Finance Institutions
1951	888	63	134
1952	1,137	60	188
1953	1,317	46	247
1954	1,303	31	282
1955	1,338	28	327
1956	1,469	32	404
1957	1,580	31	490
1958	1,715	36	595
1959	2,039	72	698
1960	2,200	139	800
1961	2,180	161	836

Source: See Table I

Table XI. Repair and Modernization Instalment Credit, by Holder, 1951-1961 (Estimated amounts outstanding; in percentages)

End of Year	Commercial Banks	Sales Finance Companies	Other Finance Institutions
1951	81.8	5.8	12.4
1952	82.1	4.3	13.6
1953	81.8	2.8	15.4
1954	80.6	1.9	17.5
1955	79.0	1.7	19.3
1956	77.1	1.7	21.2
1957	75.2	1.5	23.3
1958	73.1	1.5	25.4
1959	72.6	2.6	24.8
1960	70.1	4.4	25.5
1961	68.6	5.1	26.3

Source: See Table I.

Table XII. Personal Instalment Credit, by Holder, 1951-1961 (Estimated amounts outstanding; in millions of dollars)

End of Year	Commercial Banks	Sales Finance Companies	Other Finance Institutions
1951	1,122	276	1,959
1952	1,374	341	2,396
1953	1,521	377	2,883
1954	1,676	402	3,314
1955	1,916	466	3,730
1956	2,118	570	4,101
1957	2,351	676	4,555
1958	2,612	781	4,723
1959	3,196	946	5,244
1960	3,577	1,066	5,837
1961	3,810	1,201	6,244

Source: See Table I

Table XIII. Personal Instalment Credit, by Holder, 1951-1961
(Estimated amounts outstanding; in percentages)

End of Year	Commercial Banks	Sales Finance Companies	Other Finance Institutions
1951	33.4	8.2	58.4
1952	33.4	8.3	58.3
1953	31.8	7.9	60.3
1954	31.1	7.5	61.4
1955	31.4	7.6	61.0
1956	31.2	8.4	60.4
1957	31.0	8.9	60.0
1958	32.2	9.6	58.2
1959	34.1	10.1	55.8
1960	34.1	10.2	55.7
1961	33.8	10.7	55.5

Source: See Table I

Table XIV. Consumer Instalment Credit Market Share and Percent of Assets by Holder, by Major Part, 1951, 1961 (in percentages)

Holder	Automobile Paper		Other Consumer Goods Paper		Repair and Modernization Loans		Personal Loans	
	1951	1961	1951	1961	1951	1961	1951	1961
Commercial Banks								
% of Mkt.	41.0	48.1	27.0	22.8	81.8	68.9	33.4	33.9
Sales Finance Company								
% of Mkt.	47.9	38.9	9.7	26.3	5.8	5.1	8.2	10.6
Other Financial Institutions								
% of Mkt.	6.3	10.9	4.8	6.5	12.4	26.0	58.4	55.5
Retail								
% of Mkt.	4.8	2.1	59.0	44.4				

Source: See Table I

APPENDIX B

Sampling Procedure of the Young Married People of Lansing, Michigan, and Married Students of Michigan State University, 1962

The sampling procedure used in this thesis was developed as follows. Two groups of young married people were selected. One group was resident in Lansing, Michigan and the second group was comprised of students of Michigan State University. A census of the student group was available from the registrar of Michigan State University. The Lansing group was found through the marriage records of the State Government of Michigan.

Using these marriage records, several problems became evident.

1. The records of marriages in Lansing were available,
2. but it was impossible to locate the names of the young people married outside Lansing but resident of Lansing, Michigan.
3. Secret marriage records were not available without special court permission.

As a result, only those married in Lansing were considered as potential interviewees for this survey.

It was determined from the marriage records that the number married were not the same for every month of the year. June ranked first every year followed by January in at least 80% of the years investigated. No monthly pattern could be discovered for the remaining months. A general season pattern was evident. Seasonally, marriages occurred as follows: summer, spring, fall and winter.

Selection of the young married people in Lansing, Michigan took place in November, 1961. Names by years were chosen as follows:

1. The sample size of 80 for each group was selected. (The sample size is explained below.)
2. In order to be within the age boundaries (18-24), in 1962, the young people had to be within age limits when married as follows:

Year Married	Age Married	1962 Age
1956	18	24
1957	18-19	23-24
1958	18-20	22-24
1959	18-21	21-24
1960	18-22	20-24
1961	18-23	19-24

3. Each marriage record was numbered, using a random number table, 240 numbers were chosen.
4. The reason for using 240 numbers was to allow for those who could not be located.
5. From the selected group of 240 names, the first 80 to be located comprised the sample.
6. Locating these people was through the use of the latest telephone book.
7. If a couple was not at the address listed in the telephone book, this name was submitted to the Michigan Bell Telephone Company who checked their Traffic Information Directory.
8. In the case where no address could be found, the name was dropped from the survey and the next in order selected was added.

The survey was conducted by direct interview. Thus it was necessary to acquire the couple's permission for the interview.

Initially, a telephone call to the couple was tried. This means was not successful, and was discontinued. The second procedure tried was sending a letter to the couple briefly explaining the intent of the survey (letter attached). Letters were sent on the Saturday before the desired interview. In the following week, the interviewer called on the couple in the evening, presenting ample identification. This procedure was successful.

Selection of the sample drawn from the university students of Michigan State University was easier than the Lansing group. A student directory was used. The directory indicated the student's class, age, marital status, and location. The married students (18-24) were numbered consecutively, and using random numbers 80 were chosen. The interviewer called in the evenings and Saturday afternoons. In no case was the interview refused.

The questionnaire (attached) contained twenty question areas. Within each area there were sub-questions. Due to the number of variables in the questionnaire a high degree of reliability on all questions could only be achieved using a large sample. Under the circumstances, this was impossible.

Family income was deemed the most important variable and the sample size was constructed on this variable.

The 1960 population census indicated the following for the State of Michigan.[1]

Population 18-24 Urbanized Lansing, Michigan

Males	11,873
Females	12,390
Total	24,263

---

[1]U. S., Bureau of the Census, United States Census of Population, 1960, Michigan, General Social and Economic Characteristics, 24-55.

In urbanized central cities,

67.2% of males 14 and over are married
62.8% of females 14 and over are married.

In urbanized Lansing, Michigan, estimated,

Number of males married	11,873 x 67.2	7,978
Number of females married	12,390 x 62.8	7,780
Total males and females married		15,758
Married population (18-24), 15,758 ./. 2		7,879
Assumed married population (18-24)		8,000

It was desired to know the average income $\pm$ \$500.00[2]

a. Find the standard deviation multiple (Z) with 99% confidence.
From area under the curve table 49.5% is 2.58.
Therefore sample mean $\pm$ 2.58 $\sigma_{\bar{x}}$ (std. deviation of the sample mean).

b. Since average income is within $\pm$ \$500.00
then 2.58 $\sigma_{\bar{x}}$ = \$500.00
$\sigma_{\bar{x}}$ = \$194.00

c. Since $\sigma_{\bar{x}} = \dfrac{\sigma_x}{\sqrt{N}}$ = \$194.00

d. Assume σ_x = \$1750.00

e. $\$194.00 = \dfrac{\$1750.00}{\sqrt{N}}$

$\sqrt{N} = 9.04$

$N = 81$

Sample size = 80

f. Assume sx = 1000.00

Therefore $s\bar{x} = \dfrac{sx}{\sqrt{N}} = \dfrac{1000}{9} = 111$

[2]John Neter, William Wasserman, Fundamental Statistics for Business and Economics, (New York, N.Y.: Allyn and Bacon, Inc., 1956), 320-322.

g. Substitute into:

$$\bar{X} \pm Z. \quad s\bar{x}$$

$$\pm \ (2.58)\ (111)$$

$$\pm \ \$286.00$$

h. Conclusion: Using a sample size of 80 results in a standard deviation of the sample of \$286.00 which is well within the limits of \$500.00

Personal Interview Sample - Statistical Significance

The following table is presented to indicate the interval estimate (approximately 95% confidence intervals) which includes the true mean. As the percentage of total sample decreases the interval estimate increases. With small subsamples (less than 50%) the interval estimate becomes large and probability of a normal distribution decreases.

The table was calculated using the standard error of a proportion giving a 95.45% confidence interval for estimating the true proportion of the population being sampled.

$$Sp = 2\sqrt{\frac{PQ}{N}}$$

P is the result to be examined and Q is the sum of all other results of the particular question. N is the relevant sample size.

Inferences drawn from the sample only apply to the Lansing and East Lansing groups. Certain general implications may be interpreted from the sample findings but extreme caution must be used due to the limited size of the sample.

To illustrate the use of this Table: In Table 3-4, 91 percent of the Lansing group used instalment credit. Thus, P = 91, Q = 9. In the Appendix Table, percent of total sample is 100% and read in column 10-90 (the nearest percentage). With 95% confidence interval, those who use instalment credit could range from 90 ± 7 percent or 83 to 97 percent.

Table I. Interval Estimate for Estimating the True Proportion of a Population

Percentage of Total Sample	Reported Percentages						
	50-50	40-80	30-70	25-75	20-80	15-85	10-90
50	16.0	15.0	14.0	14.0	13.0	11.0	9.0
55	15.0	15.0	14.0	13.0	12.0	11.0	9.0
60	14.0	14.0	13.0	13.0	12.0	10.0	9.0
65	14.0	14.0	13.0	12.0	11.0	10.0	8.0
70	14.0	13.0	12.0	12.0	11.0	10.0	8.0
75	13.0	13.0	12.0	11.0	10.0	9.0	8.0
80	13.0	12.0	11.0	11.0	10.0	9.0	8.0
85	12.0	12.0	11.0	11.0	10.0	9.0	7.0
90	12.0	11.0	11.0	10.0	10.0	8.0	7.0
95	11.0	11.0	11.0	10.0	10.0	8.0	7.0
100	11.0	11.0	10.0	10.0	9.0	8.0	7.0

MICHIGAN STATE UNIVERSITY East Lansing

Graduate School of Business Administration

Department of Accounting & Financial Administration

Dear Sir:

A graduate research worker in our department is conducting a survey to determine consumers' attitudes towards the use of installment credit. Your name has been selected by a random sampling basis from marriage records of Lansing, Michigan. Mr. P. B. Healey will call on you one evening in the near future to request your aid in answering a short questionnaire.

Let me assure you that your replies will be held in the strictest of confidence. When the survey is completed a report will be written presenting the results in summary form only.

Your cooperation in answering this questionnaire is important as the validity of the survey depends on the willingness of each of those chosen for interviews.

Respectfully,

James Don Edwards
Professor and Chairman

QUESTIONNAIRE January 2, 1962

Consumer Instalment Credit

P. B. Healey

1. Identification 1 2 3 4

2. Age Husband ______ Wife ______

3. Children no. 1 2 3 4 5 6 7 8 Circle one

   ages __ __ __ __ __ __ __ __ __

4. Education Husband ____________________

   Wife ____________________

5. Occupation Husband ____________________

   Wife ____________________

6. Now I have a few questions about your home.

   Type Apartment ______

   Single dwelling ______ Check one

   Duplex ______

7. Are you buying this house? Y N

   Are you renting it? Y N

   From the University? Y N

   Private? Y N

   When you arrived was this house

   completely furnished ______

   completely unfurnished ______

   kitchen only ______

8. <u>Consumer Instalment Buying</u>

   Which of the following would you purchase on instalment if you did not have enough cash or did not want to use your savings?

Car	Y	N	Hospital	Y	N
Clothing	Y	N	House	Y	N
Education	Y	N	Kitchen fixtures	Y	N
Food	Y	N	Living expenses as income drops	Y	N

Fur Coat	Y	N	Travel	Y	N
Gas (car)	Y	N	T.V.	Y	N
General bills	Y	N			
Holidays	Y	N			

9. If you were to use credit where would you go to finance:

	Source
Car (new)	1. 2.
Car (used)	1. 2.
Education	1. 2.
Payment or consolidation of bills	1. 2.
T.V.	1. 2.

10a. Can you name a few consumer finance companies?

1.

2.

3.

10b. Which would you prefer to do business with? A small loan company or a Why?

commercial bank	Y	N
credit union	Y	N
retail outlet	Y	N

Do you think that you spend more money to get credit from a small loan company than from a Why?

commercial bank	Y	N
credit union	Y	N
retail outlet	Y	N

If you were going to borrow a large amount of money where would you go   Why?

first

second

If you were going to borrow a small amount where would you go
Why?

first

second

If it were necessary for you to ask for cash loans often during the year where would you go first   Why?

second

If you had to make use of a cash loan once every year or so where would you go first   Why?

second

11. In the past three years have you borrowed or purchased any item on instalment?   Y   N

	No. 1	No. 2
What item?	____________	____________
What was the credit source?	____________	____________
Why did you select this source?	____________	____________
Did this source give you good service?	Y N	Y N
What was the length of this contract?	____________	____________
Did you know the cost of this credit?	Y N	Y N
What was it?	____________	____________
	$ or % per year	

(Try to get respondent to identify what he means by %)

Was the cost of this credit in your opinion too high ________
fair ________

Would you go back to this credit source   Y   N   Y   N

If no, why not?

12a. In your experience what would be your estimate of the finance charge on a personal loan of $500 for one year?

a. from a commercial bank $ %

b. from a small loan company $ %

(let the respondent answer in his own terms)

b. As you view the economy of today do you consider this year a good time for consumer to buy on instalment credit?

Y N

If no, why not?

c. Have you ever had the opportunity to compare the services provided by a commercial bank, small loan company and a credit union regarding the making of a loan? Y N

Which in your mind was the best source of credit?

Why?

d. The use of instalment credit has expanded approximately 20 times since 1945. Do you think that this is a good thing for the nation?

Y N

Why

13. Do you own a car? Y N

More than one car? Y N No. ______

Is it fully paid for? Y N

(Take each car individually and ask the following)

What make?	______	______	______
What year?	______	______	______
When did you buy it?	______	______	______
Was there a trade-in?	______	______	______
How long did you own the trade-in?	______	______	______
What was the full price of the new?	______	______	______
What was the downpayment?	______	______	______

13. (cont'd)

Was the downpayment covered by a trade-in? ______ ______ ______

Did you use credit? ______ ______ ______

What was the source of the credit? ______ ______ ______

What was the contract length? ______ ______ ______

What were the monthly payments? ______ ______ ______

What were the finance charges? ______ ______ ______

14. <u>Income and Wealth</u>

Are you making as much money this year as last year? Y N

Do you expect next year's income to be

higher _____ lower _____ same _____ than this year's?

15. Would you indicate by letter your family's current income?

A B C D E F G H Circle one

16. Do you own any stocks and bonds? Y N (Circle one)

What is the approximate amount by today's market?

Amount $____________

What is your monthly rent in mortgage payment $____________

17. Do you have a savings account? Y N Circle one

Would you indicate by letter the approximate amount?

A B C D E F G Circle one

18. Have you ever had any schooling in consumer credit? Y N

Where ____________ When ____________ How much? ____________

19. Did your parents buy their cars on credit? Y N

Household fixtures? Y N

20. Would you say that your parents attitude towards your use of

credit was favourable __________
unfavourable __________ Check one
don't know __________

APPENDIX C

Significance of a Difference Between Proportions

In testing significance of a difference between proportions, use is made of the sampling distribution of differences. The differences distribute themselves normally, therefore the standard error of the sampling distribution can be utilized to see whether any one difference between two unrelated proportions is significant.

For example:

Proportion or sample	1	2
	N = 80	N = 80
any proportion	p = .5	p = .8
	q = .5	q = .2

1. Set an estimate of the mean proportion from the two sample values (p and q).

$$\bar{p} = \frac{.50(80) + .80(80)}{80+80} = \frac{40+64}{160} = \frac{104}{160} = .65$$

$$\bar{q} = 1-\bar{p} = 1 - .65 = .35$$

2. Standard error of the difference:

$$Sp_1 - p_2 = \sqrt{\frac{\bar{p}\bar{q}}{N} + \frac{\bar{p}\bar{q}}{N}}$$

$$= \sqrt{\frac{(.65)(.35)}{80} + \frac{(.64)\,(.35)}{80}}$$

$$= .075$$

3. It can be shown that the product of the mean proportion ($\bar{p}$ and $\bar{q}$) will never be larger than .25

$$\begin{array}{ccccc} \bar{p} & x & \bar{q} & = & \bar{p}\bar{q} \\ .5 & x & .5 & = & .25 \\ .6 & x & .4 & = & .24 \\ .7 & x & .3 & = & .21 \\ .8 & x & .2 & = & .16 \\ .9 & x & .1 & = & .09 \end{array}$$

Therefore for a maximum standard error of a difference in proportion we can use .25 as the product of $\bar{p}$ and $\bar{q}$. Then

$$Sp_1 - Sp_2 = \sqrt{\frac{.25}{80} + \frac{.25}{80}} = \sqrt{.00312 + .00312}$$

$$= .079$$

Thus for a maximum standard error of a difference between two proportions (when N = 80) $Sp_1 - Sp_2 = .079$. Using this and assuming various differences the following table may be found using $\frac{P_1 - P_2}{Sp_1 - Sp_2}$.

Table I

$p_1 - p_2$	Standard Deviation From the Mean	$p_1 - p_2$	Standard Deviation From the Mean
.01	.12	.25	3.16
.02	.25	.26	3.29
.03	.37	.27	3.41
.04	.50	.28	3.54
.05	.63	.29	3.67
.06	.75	.30	3.79
.07	.88	.31	3.92
.08	1.01	.32	4.05
.09	1.13	.33	4.17
.10	1.26	.34	4.30
.11	1.39	.35	4.43
.12	1.51	.36	4.55
.13	1.64	.37	4.68
.14	1.77	.38	4.81
.15	1.89	.39	4.93
.16	2.02	.40	5.06
.17	2.15	.41	5.18
.18	2.27	.42	5.31
.19	2.40	.43	5.44
.20	2.53	.44	5.56
.21	2.65	.45	5.69
.22	2.78	.46	5.82
.23	2.91	.47	5.94
.24	3.03	.48	6.07
		.49	6.20
		.50	6.32

Thus a difference in proportions between two samples of 80 of .11 or greater is to be regarded as significantly different at the .10 level of confidence, while differences of .16 or greater are to be considered significant at the .05 level of confidence.

To illustrate the use of this table, refer to Table 3-13, item 5, education. The difference between those in the Lansing and East Lansing groups who would use instalment credit to finance an education is 20 percentage points.

$$p_1 - p_2 = 54 - 34 = 20\% \text{ or } .20$$

Referring to Table 1, Appendix C, a difference of .20 gives a value of 2.53 standard deviations from the mean. The probability of this difference occurring by chance is slightly more than 1%. Thus non-chance significance is implied. It may be concluded that the two groups have significantly different attitudes towards the use of instalment credit to finance an education.

APPENDIX D

Sampling Procedure of the Credit Agencies in Lansing and East Lansing, Michigan, 1962

The sampling procedure of the lending agencies in the Lansing, Michigan area was as follows. The main lending institutions of the area were contacted and an interview arranged with an executive of the credit department of each institution. The executives interviewed represented the following institutions:

The Bank of Lansing	Lansing, Michigan
Michigan National Bank	
American Bank and Trust Co.	
East Lansing State Bank	
First National Bank of	E. Lansing, Michigan
East Lansing Savings and Loan	
General Motors Acceptance Corp.	Lansing, Michigan
Household Finance Corp.	
Beneficial Finance Co.	
Public Loan Corp.	
Peoples Finance Co.	Williamston, Michigan
Municipal Employee's Credit Union	Lansing, Michigan
Lansing Automotive Federal Credit Union	
Michigan State University Credit Union	E. Lansing, Michigan

These institutions comprised the majority of all like institutions in the survey area. Each executive was asked the same set of questions. These questions were listed below:

1. What percentage of loan applications are in the age group 18-24?
2. What is the main purpose of the desired credit?
3. What is the average size of the application?
4. What are the characteristics of young married couples desired by your institution?
5. Are the young married applicants aware of the costs of the desired credit?

6. Do you attempt to explain the details of the contract?
7. Do you attempt to explain the costs of the credit to the applicant?
8. Does it appear that the cost of credit is of major concern to the applicant?
9. What does appear to be the main concern of the applicant relative to the contract?
10. What promotional activities does your institution have to inform young married people (18-24) of your instalment credit services?
11. Do you foresee a change in your promotional activities?
12. What is the main reason of default?

The amount of time spent in each interview varied from one hour to two and one-half hours. The questions stated above were used as a guide in the interview but they were not necessarily asked in the order indicated. In all cases the executive interviewed was 40 or more years old.

Most of the questions asked were designed specifically to encourage the executives to discuss a general area and to express their opinion on the general question.

All requests for interviews were granted. Most of the executives appeared willing to discuss the current and future policy changes that would affect their institution's practices concerning instalment credit services.