The Impact of Truth in Lending On Automobile Financing — An Empirical Study

I. INTRODUCTION

In 1960, former Senator Paul Douglas of Illinois introduced his first Truth in Lending Bill — a statute designed to bring reform into the consumer credit field. The bill was in response to what Senator Douglas had labeled the "organized confusion of credit."[1] The confusion stemmed from the fact that there are three principal methods of stating a finance rate: the monthly system, the add-on system and the discount system. These methods are neither comparable with each other nor with the simple annual rate on the declining balance. Faced with these incomparable and confusing methods of measuring credit cost, the consumer was justified in leaving interest rate determinations to mathematicians.

After repeated efforts, supporters of the truth in lending concept saw their efforts come to fruition in the form of the Consumer Credit Protection Act of 1968, Title I of which is popularly known as the Truth in Lending Act.[2] The essence of the Act was the requirement that the lender disclose the annual percentage rate on the loan, because, it was argued, this provided the most meaningful standard

[1] P. DOUGLAS, IN OUR TIME, 105 (1968). [Hereinafter cited as DOUGLAS].

[2] 15 U.S.C. § 1601 *et seq.* (1970), Title I of the Act is commonly referred to as the Truth in Lending Act.

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with which to measure the cost of credit.[3] Disclosure of the annual percentage rate would hopefully play numerous functions. Senator Douglas argued that disclosure would: (1) provide a simple yardstick for comparison shopping; (2) permit immediate recognition of good and bad buys; and (3) afford a direct comparison with the alternative of using liquid assets. In addition, he offered a broader economic rationale contending that price conscious buyers shopping for credit would lead creditors to compete in terms of credit price.[4]

Inasmuch as the Act sets out several distinct goals, it is necessary to clarify what particular area this study seeks to examine. Impact of the Truth in Lending Act involves actual consequences — the responses of individual consumers. Impact could conceivably be examined from several perspectives. One of the expressed purposes of the Act is to enhance competition among financial institutions. Whether the Act has had a substantial impact on credit competition is a significant question but not a fundamental one. Similarly, the effect the Act has had on the consumer's continued use of credit is important, but not fundamental. What is essential, however, is the individual consumer's response to disclosure. The Act assumes that consumers will actually shop for credit when provided with a meaningful and uniform standard or, at a very minimum, are sufficiently aware and concerned to decide whether to use credit at all. This vital assumption of the Truth in Lending Act is psychological; it is an assumption that has been virtually untested; it is the focus of this study.

This study examines the assumption that consumers are sufficiently motivated to concern themselves with the cost of credit and, based on disclosure, make rational decisions concerning credit use. In more specific terms, the study hopes to give some insight into the degree of concern associated with credit costs. Do consumers even consider the cost of credit when making a retail purchase? Assuming this to be true, how do they manifest that concern—by comparing monthly payment schedules or interest rates? Given consumer interest in credit cost, there are other problems associated with the assumption that

[3]The annual percentage rate is a time rate relating the finance charge to the dollars in use over a specified period (a year). Other time rates, add-on rates for example, might have been used in the Act, but they were rejected because it was felt that it might mislead consumers into believing their credit was less expensive than it really was. The source of the "understatement" of these other time rates lies in relating the amount of the finance charge to the initial unpaid balance, when in fact the unpaid balance declines with each periodic payment. The annual percentage rate, therefore, provides a better index of the real cost of credit. R. JOHNSON, R. JORDAN, W. D. WARREN, ATTORNEY'S GUIDE TO TRUTH IN LENDING, 36 (1969) [hereinafter cited as ATTORNEY'S GUIDE].

[4]DOUGLAS, *supra* note 1, at 116.

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disclosure will be useful to the consumer. Are consumers able to comprehend all that disclosure entails or is it an unintelligible and meaningless formality? Because the Truth in Lending Act is a protective measure it is important to evaluate exactly whom the Act protects. Impact or effect may vary significantly along lines of social class.[5] Although these problem areas are far from exhaustive, they clearly indicate a need for empirical research to assess the impact of the Truth in Lending Act.

II. AUTOMOBILE FINANCING AS A TRANSACTION SUITED TO THE USE OF MEANINGFUL DISCLOSURE

The sweeping coverage of the Act[6] made it necessary to focus on a particular type of transaction—a type of transaction that would both lend itself to the informed use of disclosure and provide insight into consumer behavior in other types of transactions. To this end, this study focuses on automobile financing. Automobile financing was chosen over other particular types of transactions for two primary reasons. The automobile financing transaction is well suited to the entire philosophy of disclosure, and the easy access to the names of purchasers lent itself to this type of study. Other types of transactions were considered but were disregarded.

A. THE NATURE OF PARTICULAR FINANCING TRANSACTIONS

1. REAL ESTATE TRANSACTIONS

Real estate transactions were ruled out as involving a somewhat unique transaction.[7] It involves a much larger obligation extending over a longer period of time. It involves special problems such as disclosure of the interest rates in terms of "points",[8] and the special

[5]Professor Homer Kripke has argued that disclosure will accomplish very little because the middle class buyer has already learned where credit is cheapest. Kripke, *Consumer Credit Regulation: A Creditor Oriented Viewpoint*, 68 COLUM. L. REV. 445, 455-69 (1968). He also believes that for the low income consumer disclosure is a wholly inadequate solution to the credit problem. Kripke, *Gesture & Reality In Consumer Credit Reform*, 44 N.Y.U.L. REV. 1, 5-7 (1969).

[6]*See* Felsenfeld, *Uniform, Uninformed and Unitary Laws Regulating Consumer Credit*, 37 FORDHAM L. REV. 209, 210 (1968); 15 U.S.C. § 1639 (1970).

[7]*See* Benfield, *The Effect of Credit Regulation on Real Estate Transactions* 25 BUS. LAW. 501 (1970).

[8]*Id.* at 502.

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three-day rescission rule which does not apply to any other type of transaction.[9] Another aspect that makes the real estate transaction unique as regards the Truth in Lending Act is that the sale of real estate is generally accomplished in distinct steps. Financing is quite often handled separately from the purchase, thus creating a situation in which shopping for credit could be more easily accomplished.[10] Because of this factor and the others it was decided that the real estate transaction was too isolated from other types of credit transactions and hence a study of this area would not be generally applicable to the mainstream of consumer credit activity.

2. RETAIL SALES AND OPEN-END CREDIT ARRANGEMENTS

Before the passage of the Act the argument was advanced that rate disclosure would be meaningless in open-end credit transactions or small retail sales transactions.[11] It was generally agreed that rate disclosure was both plausible and feasible in closed-end credit transactions.[12] However, cited as a prime example of a transaction where rate disclosure would contribute to "improving the consumer's ability to shop more wisely,"[13] was automobile sales. Therefore it was concluded that the retail sales transaction would not be the best to study.

3. AUTOMOBILE SALES TRANSACTIONS

It was concluded that if Truth in Lending is going to provide "a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit,"[14] it would best be shown through a study of the automobile sales transaction. That is, if the

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[9]*Id.* at 506; 15 U.S.C. § 1635 (1970).

[10]R. JORDAN & W. D. WARREN, *Disclosure of Finance Charges: A Rationale* 64 MICH. L. REV. 1285, 1296 (1966) [hereinafter cited as WARREN].

[11]*Id.* at 1305-1315, 1318. The argument against time rate disclosure in open-end transactions is that if disclosure is to be meaningful it must occur before the contract is made. "In some situations it is not possible to make accurate time rate disclosure at the inception of the transaction. There are two common examples: revolving charge accounts and check credit plans." *Id.* at 1305 (Footnotes omitted). Arguments against time rate disclosure in small retail sales revolve around three main themes: 1. The buyer is more interested in shopping for price and quality than for credit; 2. time rate disclosure is not accurate in cases of irregular contracts or in consolidation of contracts; 3. retailers can arbitrarily bury the finance charge in the cash price.

[12]*Id.* at 1314.

[13]*Id.*

[14]15 U.S.C. § 1601 *et seq.* (1970).

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purposes of the Act are not achieved in this type of transaction, they will not be achieved in those transactions already suspected of not being responsive to the desired effects of rate disclosure.[15]

In addition to the conclusion that the automobile sales transaction was particularly suited to test rate disclosure, focusing on this transaction had an additional benefit. Automobiles are generally financed from several different types of lenders. This variety of possible lenders, or arrangers of financing, provides an excellent opportunity to shop for credit if one is so inclined. This variety is limited in respect to open-end credit, such as department store charge accounts or bank credit cards, where interest rates are more or less standardized.[16] Therefore, if shopping is to occur through a comparison of annual percentage rates it is more likely to occur in the area of automobile financing, where, because of the substantial amounts involved, it would be in one's economic self-interest to seek alternative sources of credit.

Moreover, the study of the auto sales transaction is appropriate for another reason; automobile financing makes up the largest classification of credit in the United States.[17] Out of 122.5 billion dollars of outstanding loans and credit in 1969, 36.6 billion dollars were tied up in automobile financing.[18] Of the approximately 20.5 million cars purchased in 1969, 53 percent were financed, and out of 7.5 million new cars purchased in 1969, 66 percent were financed.[19] These figures emphasize the widespread use of credit in this field, and the large number of people involved.

B. ACCESS TO NAMES OF PURCHASERS

Another compelling reason for choosing automobile financing was that the names and addresses of automobile purchasers are a matter of public record.[20] This made it relatively easy to pick a representative sample to study. No other type of transaction offered this advantage. The names and addresses of purchasers are recorded in the

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[15]A finding that car purchasers did not shop using annual percentage rates would be strong evidence that disclosure also had no effect in those transactions where comparison shopping is more difficult.

[16]WARREN, *supra* note 10.

[17]U.S. Bureau of the Census, STATISTICAL ABSTRACT OF THE UNITED STATES: 1970, 451 (91st ed. 1970).

[18]*Id.*

[19]*Id.* at 456.

[20]CALIFORNIA VEHICLE CODE §§ 4000, 4150 (West 1963).

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real estate transactions, but in order to cover a sufficient geographic area many county recording offices would have to be searched. In retail sales and open-end credit arrangements there is no satisfactory way to obtain a list of consumers. There are no public lists where such transactions are recorded.[21] The automobile transaction was, then, not only well suited to test the Act but provided an efficient vehicle for such study.

III. THE SAMPLE

The sample of more than 2,000 new car purchasers was drawn from the twelve counties making up the San Francisco Bay Area.[22] In terms of population density,[23] *per capita*[24] income and urban-rural

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[21]The searching of U.C.C. Article 9 financing was ruled out as too restrictive and time consuming.

[22]The counties included are: Alameda, Contra Costa, Marin, Monterey, Napa, San Benito, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano and Sonoma.

[23]

County	*Population*	*Population Density (per square mile)*
Alameda	1,051,100	1433.2
Contra Costa	560,900	765.6
Marin	203,600	391.4
Monterey	244,900	73.7
Napa	80,800	102.6
San Benito	18,800	13.5
San Francisco	706,900	15570.5
San Mateo	550,400	1232.4
Santa Clara	1,032,600	794.1
Santa Cruz	120,100	273.1
Solano	174,800	211.7
Sonoma	204,100	127.3

Statistics are taken from 1970 CALIFORNIA COUNTY FACT BOOK, COUNTY SUPERVISORS ASSOCIATION OF CALIFORNIA 16, 20 (1970).

[24]

County	*Per Capita Income, 1968*
Alameda	$4381
Contra Costa	3429
Marin	4345
Monterey	3839
Napa	3135
San Benito	3509
San Francisco	6063
San Mateo	5010
Santa Clara	3992
Santa Cruz	3490
Solano	3329
Sonoma	3047

Id. at 32.

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mix, this area is fairly diverse and gives a good cross section for the analysis.[25]

The more than 2,000 purchasers in the sample represent all the non-commercial new car purchasers during the week of October 8-14, 1970. This period was not so remote from the time of the study that the purchasers would have forgotten the details of their particular transaction. This period is immediately after the introduction of the 1971 models.[26] Consequently, two classes of purchasers can be identified: those who desired the new 1971 models and those who sought to take advantage of the year end sales on 1970 models. While these two groups cannot be quantified, it does add to the breadth of the sample.

This study does not include any used car purchasers. Although the used car purchaser makes up a large percentage of the total retail automobile market, on an individual basis the financial commitment does not equal the financial commitment of a new car purchaser, and this commitment may affect the individual's motivation for credit shopping. In 1969, for example, 33.5 households out of every one hundred purchased a car, for a total expenditure of 36.5 billion dollars.[27] Breaking down these figures between new and used car purchasers, 12.2 families purchased a new car, 20.6 purchased a used car.[28] However, 24.5 billion dollars were spent for new cars, or an average of 3,031 dollars, and 12.0 billion dollars were spent for used cars, or an individual average of 941 dollars.[29] In this same year only 49 percent of used car purchasers financed all or part of the purchase price,[30] compared to 66 percent of new car purchasers. The individual commitment of the used car purchasers places this category more closely to that of retail commodity sales, where, as was indicated, comparison shopping concerns price and quality, rather than annual interest rate on a finance charge.

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[25]For a brief description of the physical characteristics and economic activities of each of the counties see PAST, PRESENT, FUTURE CALIFORNIA INFORMATION ALMANAC 517-611 (1969).

[26]The fact that the period chosen fell within the General Motors Strike, which began Sept. 15, 1970, will have no effect upon this study. During the week studied, G.M. retail dealers had not felt any substantial effect on their inventory and, hence, their sales at this time were little affected. See FORTUNE, Oct. 1970, at 14; NEWSWEEK, N. 18, 1970, at 83.

[27]*Supra* note 17, at 547.

[28]*Id.*

[29]*Id.*

[30]*Id.* at 546.

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IV. METHODOLOGY

Inasmuch as this study is an analysis of the impact of the Truth in Lending Act upon consumers of credit, the initial methodological decision concerned how best to elicit the necessary information from a sufficient number of persons. It was decided that for the purposes of this study a structured interview of a large number of consumers spread over a fairly large geographic area would produce the best results.

A. USE OF A STRUCTURED INTERVIEW

The structured interview's prime function is standardization of the interviewing process by means of a questionnaire.[31] Standardization not only increases reliability, but it has added advantages in terms of efficiency; it affords savings of time and labor. Further, the analysis can be formally built into the questionnaire.[32] The decision to use a structured interview also fit the basic plan of research, that is, to test the existing theories and hypotheses concerning consumer behavior upon which the Truth in Lending Act is based. This analysis is not concerned solely with discovery; it is also concerned with testing hypotheses.[33]

Some of the advantages in using a questionnaire as the primary research tool may also be definite drawbacks. While the analysis may be built into the questionnaire, this may create the problem of imposing the investigator's categories upon the informant. It has been pointed out[34] that the bias of the researcher is implicit within the framework of the questionnaire.

While these criticisms are no doubt valid, they seem to be of less force here. Two methods were employed to try to eliminate the bias of the researcher from the questionnaire. First, the questions were focused primarily on the objective behavior of the consumer. Those questions which asked for a subjective response, *e.g.*, why the consumer did or did not shop for credit, were left in part open ended, so that the informant could himself clarify any ambiguity he might find

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[31] G. SJOBERG & R. NETT, A METHODOLOGY FOR SOCIAL RESEARCH 193 (1968).

[32] *Id.*

[33] *Id.*

[34] "The bias of the researcher is implicit within the framework and the detail of a questionnaire . . . . The answers to the questions are not answers to the questions asked but to what the subject thinks is being asked . . . ." W. WARNER & P. LUNT, THE SOCIAL LIFE OF A MODERN COMMUNITY 56 (1941).

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in the question. Therefore, by keeping the questions very short and simple and by focusing largely on the consumer's behavior, most problems involving any latent ambiguity in the questions were avoided. The second method used in trying to eliminate researcher bias from the questionnaire was not to develop and use our own categories in building the analysis but to use those implicit in the Truth in Lending Act. By designing the questionnaire so that each informant merely described how he went about financing his purchase, each respondent put himself into one of the categories.

B. USE OF A MAILED SELF-ADMINISTERED QUESTIONNAIRE

The second methodological question concerned the most effective method of administering the structured interview. In making this decision four factors were considered: (1) the type of information required, (2) the precision of the hypotheses, (3) the accessibility of respondents, and (4) the type of respondent reached.[35] An analysis of these factors led to the conclusion that a mailed, self-administered questionnaire would be appropriate for the purposes of this study.

1. TYPE OF INFORMATION REQUIRED

The type of information required for this study was information concerning how consumers went about financing their new automobiles. The body of data needed was not extensive, because it focused very sharply on one transaction. Therefore, it was not necessary to probe in depth the responses of individual consumers. In addition, it was felt that a greater degree of frankness could be obtained by the use of an anonymous questionnaire than by a face to face interview, since at times individual informants might be called upon to admit their ignorance of certain facts.

2. PRECISION OF HYPOTHESES

As has been noted, this study is seeking to test certain hypotheses underlying the Truth in Lending Act. A reading of the Truth in Lending Act makes clear that the framers of the Act made some basic assumptions about the American consumer. These assumptions may be precisely stated in terms of hypotheses and, therefore, are capable of being tested by the use of a self-administered questionnaire.

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[35]W. GOODE & P. HATT, METHODS OF SOCIAL RESEARCH 170 (1952) [hereinafter cited as GOODE].

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3. ACCESSIBILITY OF RESPONDENTS

In order to pick a more representative sample, a fairly large geographic area was chosen. This decision made the use of a mailed questionnaire almost imperative. Furthermore, in studying consumer behavior[36] it is desirable to contact a fairly large number of persons. This made the mailed questionnaire the logical choice.

4. TYPE OF RESPONDENT

Mailed questionnaires have definite disadvantages. The major disadvantage involves the response bias that seems inherent in such a research tool.[37] In the first instance, it must be clear that it is impossible to obtain a response representative of the whole population by using this technique. A minimum necessity is the ability to read and write.[38] Also, while the number of persons who cannot answer a question may be small, the number who will not is very large. Both of these groups bias the sample in a known direction.[39] Marked differences exist between respondents and non-respondents to a mailed questionnaire. The tendency to respond seems to be associated with the interest in the subject matter, higher socio-economic status, and higher education.[40]

The mere existence of a biased sample is certainly not a fatal defect. However, in this case, the bias cannot be measured. This is the greatest weakness of the mailed questionnaire and it is this defect that makes it an inappropriate tool for sampling the entire population. This study, however, did not need the entire population as its universe. If the disclosure required by the Truth in Lending Act is to have an impact on any consumers it should be on those who respond to a questionnaire. The response bias inherent in this mailed questionnaire helps to pick out the group of consumers who will most likely be affected by the law and thereby makes it easier to assess the initial impact of the law.

C. METHOD OF ANALYSIS

The questionnaire[41] was designed to enable each respondent to des-

[36] *See* A. Blankenship, CONSUMER AND OPINION RESEARCH (1943).

[37] *See Response Bias in a Mail Survey,* 11 PUBLIC OPINION QUARTERLY, 594 (1948).

[38] GOODE, *supra* note 35, at 173.

[39] *Id.*

[40] C. REUSS, *Differences Between Persons Responding and Not Responding to a Mailed Questionnaire,* 8 AMERICAN SOCIOLOGICAL REVIEW 433 (1943).

[41] The questionnaire is set out in full in Appendix A, *infra.*

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cribe his particular transaction. The purpose of these questions was to place each respondent into a particular category and then to see what relationship different variables had to these categories. These categories were derived basically from a reading of the "Declaration of Purpose" section of the Truth in Lending Act. That section states:

> The Congress finds and declares that economic stabilization would be enhanced and that competition among the various financial institutions and other firms engaged in the extension of consumer credit would be strengthened by the informed use of credit. The informed use of credit results from an awareness of the costs thereof by consumers.[42]

Therefore, the respondents were first broken down into those who were concerned about the cost of credit and those who were not. Those who were not concerned were outside the scope of the Act, because it is inconceivable that the disclosure of interest rates would have much impact on them. The "unconcerned" were broken down into two additional groups, those who were concerned only with the aspect of monthly payments and those who were not concerned with cost in any respect. It can be said that those persons who concerned themselves with either the size or the number of monthly payments were concerned with financing. However, in terms of the Act, they were not concerned about the cost of credit.

Those persons who were concerned about the cost of the financing they were obtaining were placed in one of four categories. Two factors were used to make this breakdown: (1) whether the consumer went to more than one lender to shop for credit, and (2) whether the consumer made his selection of financing based on the true cost of credit, *i.e.*, the annual percentage rate.

The Truth in Lending Act states that competition among lenders will be strengthened by the informed use of credit. This implies that consumers will shop for credit, and thus is a basis for two of our categories: shoppers and nonshoppers. The Act also states that in order for consumers to use credit in an informed manner; they must be aware of the cost of credit. As has been pointed out the only sure way to compare credit costs is by the use of the annual percentage rate.[43]

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[42]15 U.S.C. §1601 (1970).

[43]The original author of the Truth in Lending Act, Senator Paul Douglas, concluded that only through a comparison of annual percentage rates could informed shopping take place. "It is simply impossible to make an adequate comparison only on the basis of dollars when the amounts of the down-payment or length of the contract are varied. Thus, the notion that consumers can intelligently shop around without information on the rate of the finance charge is simply not true. The rate is indispensable for intelligent choice . . . ." Douglas, *supra* note 1, at 114.

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Therefore, the use of the annual percentage rate by the consumer to make his decision became the basis of two more categories: informed and uninformed consumers. Thus, by combining these factors we were able to distinguish six separate categories into which the respondents were placed. These six categories are: (1) those not concerned with credit cost, (NC); (2) those concerned only with monthly payments, (MP); (3) those concerned who did not consider the true cost of credit, thereby acting in an uninformed manner, and did not shop—the concerned uninformed non-shopper, (CUN); (4) those concerned who did not consider the true cost of credit but did shop—the concerned uninformed shopper, (CUS); (5) those concerned who did consider the true cost of credit, by basing their decision, at least in part, on the annual percentage rate, but did not shop—the concerned informed non-shopper, (CIN); (6) those concerned who did consider the true cost of credit and shopped—the concerned informed shopper, (CIS).

Briefly, these persons were categorized in the following manner. In order for a person to fall into the "concerned" classification he had to respond that he either considered interest rates important when he was looking for his car,[44] or that he compared the rates at various lenders,[45] or that he at least was aware of the going interest rates and was thereby able to determine that he was getting a good deal.[46] A failure to respond as indicated above would place the consumer in the not concerned category. One who replied only that he compared monthly payment schedules[47] would be placed in the concerned only with monthly payments category.

In order to place a person in the shopper or non-shopper classification, each respondent was asked: "Did you inquire at more than one place concerning financing the purchase of your car?"[48] This question takes the broadest definition of shopping.

Finally, persons were placed in the "informed" category if they answered affirmatively any of the questions which asked if they used the annual percentage rate to determine where the best loan was available.[49]

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[44]*See* question 9E in questionnaire Appendix A, *infra.*

[45]*See* questions 11A and 11C in questionnaire Appendix A, *infra.*

[46]*See* questions 12A and 12D in questionnaire Appendix A, *infra.*

[47]*See* question 11B in questionnaire Appendix A, *infra.*

[48]*See* question 10 in questionnaire Appendix A, *infra.*

[49]*See* questions 11A and 12A in questionnaire Appendix A, *infra.*

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The questionnaire also sought to determine each respondent's age,[50] income,[51] education,[52] and financing experience,[53] along with the amount financed[54] and place of financing.[55] This was done in order to discover those variables which influence consumer behavior.

Two remaining objectives were to evaluate the consumers understanding of disclosure[56] and to assess the extent to which the requirements of the Act are being met by extenders of credit.[57]

Using this basic classification scheme a questionnaire was developed and pretested on a sample of 100 consumers. This trial run was followed up by a series of telephone interviews to the same group of consumers. Using the results of this test a second questionnaire was developed and sent to 2,150 consumers. Of these 2,150 questionnaires, 468 were returned giving a return rate of 21.7 percent.

V. ANALYSIS OF DATA

A. CHARACTERISTICS OF THE RESPONDENTS

To better understand the results of this study, it is important first to discuss the over-all characteristics of the 468 people who responded to the questionnaire. By this discussion, it is possible to determine those variables which have an effect on consumer behavior.

1. INCOME

Individuals with income in excess of $10,000 made up slightly more than 60 percent of the respondents, while only six percent made $5,000 or less.[58] In terms of the categories discussed above, the largest group of the six percent under $5,000 were those not concerned with credit cost but with monthly payments. The 60 percent over $10,000 fell predominantly into both the concerned informed non-shopper, and the concerned informed shopper categories.[59] Although

[50] *See* question 15 in questionnaire Appendix A, *infra.*

[51] *See* question 17 in questionnaire Appendix A, *infra.*

[52] *See* question 16 in questionnaire Appendix A, *infra.*

[53] *See* question 14 in questionnaire Appendix A, *infra.*

[54] *See* question 3 in questionnaire Appendix A, *infra.*

[55] *See* question 1 in questionnaire Appendix A, *infra.*

[56] *See* questions 4 and 5 in questionnaire Appendix A, *infra.*

[57] *See* questions 2, 6 and 7 in questionnaire Appendix A, *infra.*

[58] *See* Table I, Appendix B, *infra.*

[59] *See* Table II, Appendix B, *infra.*

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the percentages of each income group in relation to the particular categories did not reveal widespread differences, the data does indicate a movement in the direction of more informed use of the disclosure information as one moves up the income scale.

It is also important to note that 59 percent of those making less than $5,000 were under 25 years of age.[60] The lowest income group, therefore, is dominated by the young rather than the "hard core" poor.

2. *EDUCATION*

In regard to the education represented by the respondents, six percent had not graduated from high school, while roughly 73 percent had had some college.[61] In terms of the categories the data indicates that no matter what the educational level, the highest percentage of each level fell into the concerned informed non-shopper, or concerned uninformed non-shopper categories.[62] Consequently, education seems to have had little weight in determining the behavior of the respondents.

An interesting factor is that 69 percent of the lowest income group responded that they at least had had some college.[63] While education generally did not appear to have too great of an effect, it may account for the rather large percentage, 20.8 percent of those under $5,000, who were placed within the concerned informed shopper category.[64]

3. *AGE*

The respondents were rather evenly distributed as regards age.[65] Those under 30 made up 34 percent of the sample while those over 40 totaled 40 percent, the balance falling between these two age groups. Likewise, with the exception of those under 25, the highest percentage of each age group fell into the concerned informed shopper or non-shopper categories.[66] As with education, age classifications do not provide a significant explanation for distinguishing the different categories.

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[60]*See* Table III, Appendix B, *infra.*
[61]*See* Table IV, Appendix B, *infra.*
[62]*See* Table V, Appendix B, *infra.*
[63]*See* Table VI, Appendix B, *infra.*
[64]*Supra* note 59.
[65]*See* Table VII, Appendix B, *infra.*
[66]*See* Table VIII, Appendix B, *infra.*

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4. PURCHASING EXPERIENCE

Another variable used to describe the respondents was the number of cars that each respondent had financed in the last five years. This variable was chosen since it was felt that the speed with which consumers became aware of the Truth in Lending Act may well be a function of how frequently they use credit. By far most of the respondents had financed one or no cars within this time period, 62 percent.[67] This 62 percent was evenly distributed throughout the categories,[68] with some increase in the two informed categories. The remaining 38 percent fell more regularly into the informed categories. The figures are not so spread as to enable one to positively conclude that this variable was instrumental in category placement. They do indicate a trend toward increased consumer awareness as the number of cars purchased increases.

5. AMOUNT FINANCED

Another area of interest concerned the amount financed. It appears that the great majority finance a fairly large proportion of the purchase price; over 60 percent financed in excess of $2,000, while a mere eight percent financed less than $1,000.[69] Except for those who financed less than $1,000, the highest percentage for each amount fell into the two informed cagegories.[70] The highest percentage for those under $1,000 was in the not concerned category. The data does indicate a trend towards the increased likelihood of informed use as the amount financed increases; the higher the amount financed the greater the differences in percentages between the informed categories and the others. The conclusion to be drawn from the trend is that the amount financed does effect consumer awareness of the cost of credit.

6. PLACE FINANCED

The respondents were evenly split concerning the place of financing. Approximately 38 percent arranged financing through the dealer from whom they purchased their car; 34 percent allowed a bank to handle the financing directly; 26 percent obtained their loan from a credit union.[71] The breakdown among the categories is far more revealing. The highest percentage of those who financed through a

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[67]*See* Table IX, Appendix B, *infra.*

[68]*See* Table X, Appendix B, *infra.*

[69]*See* Table XI, Appendix B, *infra.*

[70]*See* Table XII, Appendix B, *infra.*

[71]*See* Table XIII, Appendix B, *infra.*

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dealer were those in the not concerned, or concerned with monthly payment categories. Conversely, the highest percentage of those who financed through banks or credit unions were in the two informed categories.[72] In addition to having the highest percentages in the two informed categories, the difference between the informed categories and the others among those who financed through banks or credit unions was considerable. Consequently, those who financed through banks or credit unions showed a marked increase of informed use of the disclosure information. This is significant since it is generally agreed that banks and credit unions give more favorable deals.

7. CONCLUSION

Among the variables discussed, income, purchasing experience, amount financed, and place financed seemed to have an effect on determining who were concerned with credit costs, and who were informed as to the nature and use of the annual percentage rate. On the other hand, there seemed to be no significant relationship between age or education and the probability that one will consider credit terms at all while purchasing a car. The various education and age groups are fairly evenly divided between the concerned and not concerned categories.

Income is one important factor in predicting whether or not a person will be concerned with credit costs and informatively use the disclosure of the annual percentage rate. This is an important factor when viewing other transactions. Since low income people are less likely to be concerned with credit cost, it is conceivable that in small retail sales there is also a lack of interest in credit costs; it being more likely that low income people use credit in this type transaction more often than higher income people. This finding is disturbing. The Truth in Lending Act seems to benefit the richer portion of the population because of their predisposition to be concerned with credit costs rather than the less rich portion whose need for intelligent use of credit is concededly greater.

The relationship between the amount financed and the increased likelihood of being concerned with credit also gives some insight into the impact of the Truth in Lending Act. It would be expected that persons involved in large transactions, such as the real estate transaction, would be more concerned with obtaining favorable credit terms than those persons in small financial transactions such as the retail sale. Because those involved in smaller transactions are generally

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[72] *See* Table XIV, Appendix B, *infra.*

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those in need of credit cost awareness, at least more so than those who have the financial resources to be involved in the larger transaction, the Act appears to be of benefit to that class in less need of assistance.

The fact that the place of financing was a factor in determining whether or not one was concerned with financing is at least a hopeful sign. 53.2 percent of those who financed through the dealer fell into the four concerned categories.[73] However, only 27.3 percent of all who financed through a dealer made this decision on an informed basis. 82.6 per cent of those who financed through a bank were in the concerned categories, 58.7 per cent of the total made the decision on an informed basis. 86 percent of those who utilized credit unions were concerned with credit, of which 65.4 percent made this decision on an informed basis.[74] It is clear that those concerned with the cost of credit tend to frequent those lenders which presumably offer more favorable interest rates and base their decision at least partially on knowledge of annual percentage rates. Thus it appears that the Truth in Lending Act has the effect of showing some consumers where to obtain favorable credit terms.

Finally, the trend toward increased awareness associated with the number of cars financed within the last five years indicates that education in the nature of particular transactions is an important ingredient in establishing the informed, use of credit. Many of the comments in the questionnaire indicated that this particular transaction was a learning experience with respect to Truth in Lending. Therefore, as more consumers become involved in certain credit transactions, and become educated as to what to expect, we should be able to look ahead to increased awareness in the future.

B. AWARENESS OF THE ANNUAL PERCENTAGE RATE

If in fact one is concerned with credit costs and is to make an informed decision concerning his particular loan it is imperative that he make use of annual percentage rates.[75] Two questions were designed to test the consumer's understanding of the concept of the annual per-

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[73]*Id.*

[74]A larger number of persons may have been placed in the "informed" categories than the definition actually warrants. This is because a high percentage of the respondents were unable to accurately state their annual percentage rate. *See* Subsection B., *infra.*

[75]DOUGLAS, *supra* note 1, at 114.

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centage rate,[76] that is, his ability to distinguish the annual percentage rate from other interest rates.[77]

1. KNOWLEDGE OF PARTICULAR APR

The first question simply asked the consumer to state the annual percentage of his particular loan. Close to 70 percent of all respondents stated that their annual percentage rate exceeded 8 percent.[78] 52 percent indicated that their annual rate was in excess of 10 percent. These figures are encouraging because they indicate that a substantial percentage of the respondents has not confused the add-on rate with the annual rate, assuming that an annual percentage of less than eight percent is practically inconceivable in automobile financing.

Comparing the answers to this question with the various categories shows that 31 percent of the concerned informed shoppers stated unrealistic rates, *i.e.,* below 8 percent; 37 percent of the concerned informed non-shoppers stated unrealistic rates.[79] These figures indicate that approximately one-third of those in the two informed categories, those who claimed to have used the annual rate in arranging their financing, probably did not do so. If they cannot distinguish add-on from annual interest it seems unlikely that they did in fact use the annual rate. For these consumers the Act is not preventing the uninformed use of credit. These people either erroneously believe they are comparing annual rates, or erroneously believe they know the going rates in terms of annual percentage rates and conclude they are getting a good deal. The Act obviously has not provided them with workable information, although they believe it has. It can only be hoped that as these consumers engage in more transactions they will determine that they have incorrectly understood and applied the information disclosed to them.

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[76]*Supra* note 56.

[77]Not only is the concept of annual percentage rate important in comparing the various credit terms available to the consumer, but it is also important in terms of whether one should use credit at all. Warren, *supra* note 10, at 1295. As one respondent commented:

> My wife and I wanted to purchase a new Volkswagen Bus a year and a half ago, but the interest rate on the car loan was too much for us (about 6%). Instead we saved the monthly cost in a Savings & Loan Association, earning 5%. Eventually we had enough saved to buy a new 1970 Volkswagen Bus. We paid cash for the car. We feel we have saved at least 11% — 5% savings interest and 6% we would have had to pay interest on the loan.

[78]*See* Table XV, Appendix B, *infra.*

[79]*See* Table XVI, Appendix B, *infra.*

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2. ABILITY TO DETERMINE ANNUAL PERCENTAGE RATES

Question number five asked the consumer to estimate the annual percentage rate on a $100 loan paid back in twelve monthly installments where the contract, or add-on rate was six percent. This question was designed as an abstract problem to test consumer ability to differentiate between add-on and annual rates. Close to 30 percent responded that the annual rate was six percent or less, an incorrect answer.[80] This is some evidence that these consumers did not understand that by paying the loan off in monthly installments they had effective use of the money for less time and consequently a higher interest rate than six percent. 24 percent gave the correct answer of nine to twelve percent and an additional 17 percent responded with an answer of 12 percent or over (an answer in the right direction). 15 percent admitted that they did not know. The sort of misunderstanding surrounding interest rates is pointed out by one rather confused consumer:

> I attempted to get a loan (bank) at approximately 6 1/2 percent, from a bank other than one I actually financed the car at. That venture fell through and I obtained my present loan at what I was told would be around 7 1/2-8 percent. However, when I saw my Truth in Lending disclosure statement the annual percentage rate was 12 percent. Kind of confusing to me and I still don't really understand the situation.

Approximately two-thirds of those in the two informed categories gave an incorrect response to this question.[81] This high figure leads one to suspect that the informed consumer, while he may have used the annual percentage rate, really did not understand its concept. This high figure, however, may also indicate that a high percentage of those who fell into the informed categories were in fact not informed. In addition, only 16 percent of all respondents were able to give a correct response to both questions.[82] It is at least encouraging that two-thirds of those who answered both questions correctly were in the informed categories.[83] In effect, approximately 75 percent of the informed categories were not able to give the two correct responses.

3. CONCLUSION

The data from these two questions emphasizes the inability of

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[80] *See* Table XVII, Appendix B, *infra.*

[81] *See* Table XVIII, Appendix B, *infra.*

[82] A "correct" response to question 4 was an annual percentage rate in excess of 8%. A correct response to question 5 was "9-12%."

[83] *See* Table XIX, Appendix B, *infra.*

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many of the respondents to accurately assess their own knowledge. It is at least open to question whether many of those who said they used annual percentage rates actually understood what this percentage figure meant, or in fact used it. As mentioned earlier, to avoid uninformed use of credit the annual percentage rate must be used. It is doubtful whether the informed group has actually avoided the uninformed use of credit. It is likewise doubtful, therefore, that the Truth in Lending Act has succeeded in its purpose[84] for many of those who indicated that it had.

C. THE UN-CONCERNED CATEGORY

Shifting focus to the 16 percent who did not consider credit terms, one is moved to question why these individuals did not bother to concern themselves with the cost of their loan. Of this group that was totally unconcerned with the cost of credit, 42.9 percent indicated that they trusted the lender to give them a good deal and therefore did not inquire elsewhere. 34.3 percent indicated that they knew that rates were the same all over and 22.8 percent said that they had no basis on which to compare rates.

No particular income group made up an unusually large percentage of those not concerned nor does any particular age nor education group make up a significant part of the unconcerned group. Those who financed least were likely not to be concerned (31.7 percent of those who financed less than $1000 were not concerned while the corresponding figure for those who financed over $3,000 was 16 percent). Further, this unconcern with credit terms manifested itself in the place of financing; of those financing through the dealer, 27 percent were unconcerned compared with only about ten percent of those who financed through banks or credit unions.

D. THE CONCERNED ONLY WITH MONTHLY PAYMENTS CATEGORY

Those who considered credit only in terms of monthly payment schedules constituted approximately eleven percent of the respondents. For these consumers the interest rate is unimportant; the important consideration is whether the monthly payment can be fit into their budget. The monthly payment group more likely represents those who have little or no overall concern with what money costs in the

[84] 15 U.S.C. § 1601 (1970).

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long run; if they can meet each monthly payment, the credit terms are acceptable regardless of the interest rate charged. It is possible for persons to be concerned with the cost of credit and willingly pay higher interest in order to obtain a more favorable monthly payment schedule. They may be forced into the economic position of having to make these smaller payments. On the whole, however, it does not actually matter whether or not persons are not concerned with the cost of credit at all or whether they are concerned but are in no position to obtain a better deal. For both groups disclosure of the annual percentage rate is a meaningless gesture.

There is a strong relationship between a low income and the probability that one will be a member of the monthly payment group. It is not surprising that 29.2 percent of the low income group fit into this category while only 6.3 percent of the high income group was similarly situated. Also it seems that the young are more likely to consider monthly payments, but this can probably be explained by the lower income of the younger group.

Labeling consumers as either concerned or not concerned with credit costs defines the broad categories in which the Truth in Lending Act may have some significance. Those who were concerned may find disclosure helpful in obtaining the best financing while to those who were unconcerned disclosure is likely to be meaningless.

E. COMPLIANCE WITH THE ACT

Another object of this study was to examine if in fact the mechanical requirements of the Act are being carried out and what their effect was on the consumer's ability to use the information and intelligently shop for credit.

1. TIME AND WRITING REQUIREMENTS

The Truth in Lending Act requires that disclosure shall be conspicuous.[85] Over 90 percent of the sample indicated that the loan terms, including the annual percentage rate, were written down for them.[86] The Act also requires that disclosure come before the loan agreement is consummated.[87] Once again, over 90 percent indicated that disclosure was made before the signing of the final agreement.[88] Compliance with the technical requirements of the Act may be even

[85] 15 U.S.C. § 1631(a) (1970).

[86] *See* Table XX, Appendix A, *infra*.

[87] 12 C.F.R. § 226.8 (1970).

[88] Table XXI, Appendix A, *infra*.

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greater than indicated by these percentages, because some individuals indicated they felt disclosure had taken place after signing only because they were not informed orally prior to signing.

While the letter of the law has been complied with, there is some indication that not all extenders of credit are living up to the spirit of the law. One party noted:

> Salesman deliberately lied when asked percentage rate—said 7 percent. Concealed actual rate on contract sheet with thumb until after signature of buyer.

Another party commented that he had to threaten "no sale" in order to get any financing information from the dealer. What this individual was complaining about, and his complaint was echoed frequently, is the failure of the lender to state the annual percentage rate during oral negotiations. There is a very strong indication from the comments that it is common practice for the lender to quote the add-on, as opposed to the annual rate, when asked what rates he gives. When it comes time to sign the agreement the lender enters the annual percentage rate on the contract or loan agreement in full accord with the law. Keeping in mind that one of the primary purposes of the Act was to provide a common vocabulary and standard measure of interest, it is indeed ironic that one party should write:

> I was confused because people talk in terms of annual interest, contract interest, etc. If everyone used only one and the same reference for disclosing interest confusion would be reduced and a solid basis for comparison could be established.

This sort of confusion appeared common and it is therefore not surprising that some consumers rely on verbally stated add-on rates to shop for credit. The practice of quoting add-on rates destroys much of the benefit of stating the effective rate on the written form. One can argue that the consumer can still choose not to sign the agreement once he sees the effective rate, but such freedom is highly circumscribed by the fact that psychologically the consumer may feel he has already made a deal. 40 percent of the respondents indicated that disclosure came less than ten minutes before signing the agreement with an additional 27 percent gaining disclosure only an hour before signing. When disclosure is in such proximity to signing, the pressure to go through with the deal can be tremendous.

Seven percent of the respondents stated that they would have shopped for credit but did not because disclosure came at a time in negotiations during which it was impossible to compare rates or look for other sources of credit. Of that group 37.5 percent had disclosure within 10 minutes of signing, 31 percent within an hour while only 9 percent had more than an hour between disclosure and signing.

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While far from conclusive, these percentages give some idea of the relationship between time of disclosure and the willingness to step out of a deal. When disclosure of the annual percentage rate comes immediately before signing, there is less likelihood of a consumer avoiding a "bad" deal. Several comments support this contention. As noted by one consumer:

> Effective interest rate disclosure is significant only if such disclosure is made sufficiently prior to signing of the loan and/or purchase agreement to allow the purchaser to delay purchase and seek lower interest rates.

Another comment:

> Disclosure tends to keep retailers "honest" however it is presented at a time during closing when merchandise desired is all but signed for on the loan agreement.

The Truth in Lending Act assumes that a consumer who is provided with a standard measure of the cost of a loan will make a self-interested and economical decision. This rationale implies that a consumer should be provided with the "true" price far enough in advance of closing to enable him to act in his own self-interest. The data indicates that this is often not the case. It would, therefore, seem reasonable to require at least an hour differential between disclosure and signing.

Professor William D. Warren has pointed to another possible area of difficultly with the Truth in Lending Act. He states:

> Congress and the board (Federal Reserve Board) require that the creditor disclose to the consumer a great deal of information, so much in fact that Senator Douglas's original concept of giving the consumer the "simple annual interest" rate as a standard for doing comparison shopping in credit is in danger of being buried under an avalanche of technical exposition. The risk the government runs in requiring the exhaustive disclosure prescribed by the board's regulation is that the consumer (even one interested in reading the disclosure) will be hopelessly confused by the volume of print.[89]

Information from the questionnaire was insufficient to support or discredit Professor Warren's hypothesis. Only two percent of the respondents indicated that they did not shop because disclosure was too confusing to be an effective means of comparing credit costs. However, there may be many consumers who attempted to shop and were also confused. The comments seem to indicate that confusion

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[89]ATTORNEY'S GUIDE, *supra* note 3, at 65.

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might relate more to understanding procedures for computing interest rates than the volume of disclosure. One comment stated:

> Disclosure needs some basic examples—probably in 6th grade math language rather than in the "legalize" now used.

This seems to suggest that the disclosure process should in fact educate those who otherwise would not understand the concept of an annual percentage rate. While there is certainly a great deal of confusion surrounding this concept, it seems highly impractical for disclosure to serve such a purpose.

F. SUMMARY — THE IMPACT OF DISCLOSURE

The express purpose of the Act is to assure a meaningful disclosure so that the consumer will be able to compare more readily the various credit terms available to him.[90] The Act is not intended to set maximum or minimum interest rates; it is a disclosure law which requires lenders to disclose to the borrowers, by the use of standard language, the rate of interest which they are being charged. The entire philosophy is imbued with the notion that consumers will, in fact, act in their self-interest and compare terms which are available to them. Those who have been critical of Truth in Lending have argued that this assumption is a false one, that consumers by and large are not interested in comparing credit terms and that disclosure is, therefore, meaningless.[91]

The results of the study indicate that approximately 73 percent of all respondents were concerned with credit costs.[92] Although these individuals had the potential to benefit from disclosure a substantial number of these consumers seemed to ignore the essence of disclosure—the annual percentage rate.

Some individuals indicated that they determined their loan was good on the basis of add-on rates. Although not a truly reliable guide to comparative shopping, add-on rates may be helpful in directing consumers toward more reasonable rates. This group, the concerned uninformed shopper, comprised twelve percent of the respondents. For them, disclosure of the annual percentage was not of aid in financing their purchases.

Another twelve percent of the respondents said they were concerned but neither utilized annual percentage rates nor actively shopped. For this group, the concerned, uninformed, non-shopper, the Act had little effect. These are the people the Act should reach. The Act has failed to motivate these people into affirmative action. The prevailing opinion of this group was that they were generally aware of going interest rates, not annual percentage rates, and were

[90] 15 U.S.C. § 1601 (1970).

[91] Warren, *supra* note 10.

[92] Table XXII, Appendix B, *infra*.

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able to determine they were getting a good deal. It was precisely this type of inaction the Act was supposed to eliminate.

This is not to say that the Act for the above two groups cannot function more effectively. We have noted problems with disclosure; the fact it often comes too late and is frequently confusing. Another problem is that of education. Disclosure cannot be truly significant until many more consumers are capable of comprehending interest rates in general. Such a process of education is a long and perhaps fruitless effort. It nevertheless must be made. A similar effort must be made to inform the public of what Truth in Lending requires. The practice of emphasizing the dollar amount of monthly payments rather than the annual rate restricts the growth of public awareness of actual cost. Such improvements, and many more, must be considered if the Act is to be made more effective.

Eleven percent of the respondents indicated that they were concerned only with monthly payment schedules. In one view, concern with monthly payments does not represent interest in obtaining the best credit terms because monthly payments do not relate to the cost of credit. It may be, however, that this is the means whereby unsophisticated consumers gauge the cost of credit. It may also be the means by which certain people, because of their economic status, must determine the particulars of their individual loan. Whatever the reason, disclosure will not be of assistance.

Almost 17 percent were not concerned at all with credit costs. Truth in Lending cannot protect those who are indifferent to the cost of credit, nor can it help those who, because of indifference or ignorance, are not aware of the credit available to them. It cannot help those who cannot recognize a percentage rate even when it is disclosed to them. Of course many individuals have only a single source of credit available to them. For these individuals disclosure is a mere formality. But few individuals are in this position. In the automobile industry almost any consumer with a small down payment can get credit since the lender may retain a security interest and because deficiency judgements give the lender even more security. In general, it seems that those persons who were unconcerned with credit terms were unconcerned because they were simply not aware that it was possible to get better credit terms by shopping around, or because they did not care. 42 percent of this category indicated they were not concerned because they trusted the particular lender. Whether the Act can ever be successful in reaching this category is doubtful. It will take a great deal of education to move these people out of their self-imposed complacent position.

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Finally, the study revealed that about 50 percent of the respondents believed they were concerned with credit cost and made an informed decision. As discussed previously, the rather poor showing on questions four and five leads one to suspect that many of these people have incorrectly assessed the state of their knowledge. In any event it is clear that for some the Act has had a beneficial impact. These figures also point out that a substantial portion of consumers are in fact concerned with credit and interested in comparing credit terms. For them disclosure is not meaningless. However, the fact that many of these people were in high income groups forces us to conclude that the Act has been of assistance to those less in need of help.

VI. CONCLUSION

One banker commented on his questionnaire that he felt the general public was indifferent about disclosure. Although only a minority of those who returned questionnaires used disclosure to the fullest, this bank official would probably be surprised at the number actually concerned about credit costs. As those who are concerned engage in more transactions the statistics indicate they will make better use of disclosure in the future. Several of the comments indicated that the process of financing coupled with disclosure was a learning experience; they did not shop this time but certainly would in the future.

This study has given some insights into the impact of the Act. It is clear that, although beneficial to many, it has not yet reached the vast majority of the credit using public. The Act has failed to provide self-motivation. Disclosure is being made and to concerned people. Yet, the majority has not yet avoided the uninformed use of credit. Until the consumer public realizes the concept of the annual percentage rate and its potential the Act will continue to assist only those who in all probability were not in need of its benefits.

Joseph O. Egan, Jr.
James T. Freeman
Howard M. Simon

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APPENDIX A

THIS QUESTIONNAIRE IS ANONYMOUS -
DO NOT SIGN YOUR NAME
CIRCLE THE ANSWER YOU THINK APPROPRIATE

1. From whom did you finance?
   a. Financing arranged through the dealer from whom you purchased the car.
   b. Direct loan from a bank or savings and loan association.
   c. Direct loan from a finance company.
   d. Direct loan from a credit union.
   e. Direct loan from a private party.
   f. Other means: ______
2. Were the terms of the loan, including the annual percentage rate, written down for you?
   a. Yes b. No
3. Approximately how much of the total cost did you finance?
   a. Less than $1000. d. $2000-3000
   b. $1000-1499. e. Over $3000.
   c. $1500-1999.
4. What was the annual percentage rate of your loan? ______
5. If you borrowed $100 and had to pay back $106 over one year in 12 monthly installments, the contract interest rate is often stated as 6%. What would be the annual percentage rate on this transaction?
   a. 6% or less. d. 12.01% or over.
   b. 6.01% to 9%. e. Don't know.
   c. 9.01% to 12%.
6. How was the annual percentage rate disclosed to you?
   a. On a separate individual disclosure form.
   b. On the same form as the retail installment contract.
   c. On the same form as the loan agreement.
   d. Don't remember.
7. Estimate the amount of time between the disclosure of the annual percentage rate and the signing of the loan agreement or sales contract:
   a. Less than 10 minutes.
   b. 10 minutes to 1 hour.
   c. More than 1 hour.
   d. Disclosure came after signing of sales contract or loan agreement.
8. Did you go to more than one dealer before you purchased your car?
   a. Yes b. No.
9. Which of the following did you consider important while looking for a car? (Circle as many as apply.)
   a. Sales price d. Particular make, model, color, etc.
   b. Monthly payments. e. Interest rate on loan.
   c. Trade-in value for your old car. f. Other (Please explain) ______
10. Did you inquire at more than one place concerning financing the purchase of of your car?
    a. Yes. b. No.
11. If you DID inquire at more than one place concerning financing, was this in order: (Circle as many as apply)
    a. To compare rates disclosed to me in terms of annual percentage rates in order to find the lowest cost of financing.
    b. To compare monthly payment schedules in order to find the schedule best suited for me.
    c. To compare interest rates in general.
    d. Other (please explain): ______

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12. If you DID NOT inquire at more than one place concerning financing, was this because, (Circle as many as apply)
    a. Knew the going rates in terms of annual percentage rates and was able to determine that I was getting a good loan.
    b. Trusted lender would give me a good deal.
    c. Knew that financing rates were roughly the same all over.
    d. Generally aware of going interest rates and was able to determine I was getting a good deal.
    e. Had no basis to compare rates.
    f. Other (Please explain) ____________________
13. If you DID NOT inquire at more than one place, but wanted to, was this because: (Circle as many as apply)
    a. The information disclosed was too confusing to be an effective means of comparing credit costs.
    b. The information disclosed came at a time during negotiations such that it was too late to compare or look for other credit.
    c. Did not know where else to go to obtain credit.
    d. Other (Please Explain) ____________________
14. Previous to this particular car, how many cars have you financed within the last five years?
    a. None
    b. 1
    c. 2
    d. 3
    e. More than 3.
15. What is your age?
    a. 25 or under
    b. 26-30
    c. 31-40
    d. 41-55
    e. Over 55
16. What was the highest grade of school completed?
    a. Grade school (8th grade) or less.
    b. Some high school.
    c. Graduated from high school.
    d. Some college.
    e. Graduated from college.
17. What is your average yearly income?
    a. Under $5000.
    b. $5000-7999.
    c. $8000-$9999.
    d. $10,000-$14,999.
    e. $15,000 or more.
18. Please comment on the significance of disclosure in your transaction. (Was it helpful or not? Was it clear or confusing? Was too much disclosed or too litte? Please make any comments you feel are appropriate.)

TABLE I

INCOME DISTRIBUTION (QUESTION 17)

Under $5,000	$5,000-$7,999	$8,000-$9,999	$10,000-$14,999	$15,000 or more
6.3%	12.6	16.9	33.3	30.9

Total 100%
n=462

TABLE II

INCOME — BEHAVIORAL CATEGORIES (QUEST. 17 — CATEGORIES)

	Under $5,000	$5,000-$7,999	$8,000-$9,999	$10,000-$14,999	$15,000 or more
CUS	12.5%	7.3	22.4	10.0	10.6
CUN	12.5	14.5	7.9	14.0	9.2
CIS	20.9	9.1	18.4	24.7	26.0
CIN	8.4	29.1	25.0	25.2	32.4
MP	29.2	16.4	14.5	9.3	6.3
NC	16.7	23.6	11.8	16.8	15.5
Total	100%	100%	100%	100%	100%
n=	24	55	76	150	148

TABLE III

INCOME DISTRIBUTION — AGE DISTRIBUTION (QUESTION 17 - 15)

	Under $5,000	$5,000-$7,999	$8,000-$9,999	$10,000-$14,999	$15,000 or more
25 & Under	58.6%	41.4	21.8	7.1	0
25-30	13.8	13.8	29.5	25.9	12.6
31-40	0	13.8	24.4	22.8	33.6
41-55	13.8	15.5	15.4	32.4	46.9
Over 55	13.8	15.5	8.9	11.8	6.9
Total	100%	100%	100%	100%	100%
n=	29	58	78	154	143

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TABLE IV
EDUCATION DISTRIBUTION (QUESTION 16)

Grade School (8th grade or less)	Some High School	Graduated High School	Some College	Graduated College
2.2%	3.9	21.1	33.8	39.0

Total 100%
n=465

TABLE V
EDUCATION DISTRIBUTION — BEHAVIORAL CATEGORIES

	Grade School	Some High School	Graduated High School	Some College	Graduated College
CUS	—%	6.2	9.7	14.5	12.9
CUN	22.3	31.3	11.9	6.5	12.9
CIS	11.1	12.5	22.7	22.8	22.4
CIN	44.4	12.5	27.9	26.2	27.4
MP	11.1	12.5	13.9	15.7	5.5
NC	11.1	25.0	13.9	14.3	18.9
Total	100%	100%	100%	100%	100%
n=	9	16	93	153	179

TABLE VI
INCOME DISTRIBUTION — EDUCATIONAL DISTRIBUTION

	Under $5,000	$5,000-$7,999	$8,000-$9,999	$10,000-$14,999	$15,000 or more
Grade School	3.5%	6.9	2.6	0.6	1.4
Some High School	6.9	5.2	1.3	6.5	1.4
Graduated High School	20.6	29.2	24.2	24.6	13.3
Some College	48.4	34.5	38.7	39.0	21.7
Graduated College	20.6	24.2	33.2	29.3	62.2
Total	100%	100%	100%	100%	100%
n=	29	58	78	154	143

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TABLE VII
AGE DISTRIBUTION (QUESTION 15)

25 and Under	26-30	31-40	41-55	Over 55
14.8%	20.0	23.7	30.8	10.7

Total 100%
n=465

TABLE VIII
AGE DISTRIBUTION — CATEGORIES

	25 and Under	26-30	31-40	41-55	Over 55
CUS	10.9%	18.6	11.3	8.5	14.5
CUN	14.1	10.9	10.3	11.5	10.5
CIS	17.2	24.1	18.6	24.3	25.0
CIN	23.4	24.1	25.3	35.0	16.7
MP	25.0	3.3	14.9	6.4	12.5
NC	9.4	18.5	19.6	14.3	20.8
Total	100%	100%	100%	100%	100%
n=	64	91	107	140	48

TABLE IX
PURCHASING EXPERIENCE DISTRIBUTION

None	1	2	3	More than 3
31.8%	29.9	21.5	11.2	5.6

Total 100%
n=465

TABLE X
PURCHASING EXPERIENCE DISTRIBUTION — CATEGORIES

	None	1	2	3	More than 3
CUS	17.7%	10.6	7.0	14.0	7.7
CUN	12.8	12.0	10.0	6.0	15.4
CIS	21.9	24.0	22.0	20.0	15.4
CIN	18.4	28.6	33.0	28.0	38.4
MP	12.1	10.6	9.0	16.0	7.7
NC	17.1	14.2	19.0	16.0	15.4
Total	100%	100%	100%	100%	100%
n=	141	133	100	50	26

TABLE XI
AMOUNT FINANCED DISTRIBUTION

Less than $1,000	1,000-1499	1500-1999	2000-3000	Over 3000
8.2%	10.6	18.3	40.1	22.8

Total 100%
n=462

TABLE XII
AMOUNT FINANCED DISTRIBUTION — CATEGORIES

	Less than $1,000	1,000-1999	1500-1499	2000-3000	Over 3000
CUS	7.9%	14.3	7.6	15.7	10.8
CUN	7.9	12.3	19.2	7.9	13.7
CIS	7.9	16.3	30.2	21.9	23.5
CIN	23.6	28.6	20.2	29.7	27.5
MP	21.0	6.1	11.4	10.6	8.8
NC	31.7	22.4	11.4	15.2	15.7
Total	100%	100%	100%	100%	100%
n=	38	49	79	179	102

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TABLE XIII
PLACE OF FINANCING DISTRIBUTION

Dealer	Bank	Finance Co.	Credit Union	Private Party
38.4%	34.0	1.4	26.2	—

Total 100%
n=466

TABLE XIV
PLACE OF FINANCING DISTRIBUTION — CATEGORIES

	Dealer	Bank	Finance Co.	Credit Union	Private Party
CUS	14.7%	11.6	—	9.9	—
CUN	11.2	12.3	33.2	10.7	—
CIS	17.2	30.3	16.7	16.5	—
CIN	10.1	28.4	16.7	48.9	—
MP	20.0	7.1	16.7	3.3	—
NC	26.8	10.3	16.7	10.7	—
Total	100%	100%	100%	100%	100%
n=	169	155	6	121	0

TABLE XV
KNOWLEDGE OF PARTICULAR APR

6% or less	6.1%-8%	8.1%-10%	Over 10%
17.7%	12.6	18.0	51.7

Total 100%
n=391

TABLE XVI*
CATEGORIES — KNOWLEDGE OF PARTICULAR APR

	CUS	CUN	CIS	CIN	MP	NC
6% or less	19.1%	10.0	20.7	22.6	11.2	12.5
6.01-8	10.6	20.0	10.2	14.2	11.2	10.9
8.01-10	12.8	17.5	20.7	29.2	8.3	6.2
Over 10	57.5	52.5	48.4	34.0	69.3	68.4
Total	100%	100%	100%	100%	100%	100%
n=	47	40	87	106	36	64

TABLE XVII
ABILITY TO DETERMINE APR

6% or less	6.01-9	9.01-12	12.01 or Over	Don't Know
30.2%	13.0	24.0	17.5	15.3

Total 100%
n=463

TABLE XVIII*
CATEGORIES — ABILITY TO DETERMINE APR

	CUS	CUN	CIS	CIN	MP	NC
6% or less	36.4%	32.0	26.5	26.9	32.6	32.4
6.01-9	12.7	17.0	12.2	11.8	12.3	14.9
9.01-12	18.2	15.1	29.6	34.5	16.3	17.6
12.01 or over	14.5	17.0	18.5	17.6	16.3	18.9
Don't Know	18.2	18.9	13.2	9.2	22.5	16.2
Total=	100%	100%	100%	100%	100%	100%
n=	55	53	98	119	49	74

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TABLE XIX

CATEGORIES — CORRECT RESPONSE TO QUESTION 4 AND 5

	CUS	CUN	CIS	CIN	MP	NC
Correct Response	7.6%	7.6	25.3	40.4	5.2	13.9

Total 100%
n=79

TABLE XX

RESPONSE CONCERNING WRITING OF APR

Yes	No
92%	8%

Total 100%
n=459

TABLE XXI

RESPONSE CONCERNING TIME OF DISCLOSURE

Less than 10 min	10 min to 1 hour	More than 1 hour	After Signing
40.0%	27.3	23.2	9.5

Total 100%
n=444

TABLE XXII

BEHAVIORAL CATEGORIES

CUS	CUN	CIS	CIN	MP	NC
12.2%	11.7	21.8	26.7	11.1	16.5

Total 100%
n=453