



**Credit
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**Credit Policies and Store Locations
in Arkansas Border Cities:
Merchant Reactions to a 10 Percent
Finance Charge Ceiling**

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**CREDIT POLICIES AND STORE LOCATIONS
IN ARKANSAS BORDER CITIES:
MERCHANT REACTIONS TO A 10 PERCENT
FINANCE CHARGE CEILING**

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PREFACE

For Texarkana, Fort Smith, and other Arkansas cities, a constitutional usury limitation of 10 percent was made applicable to all forms of credit in the state by an Arkansas Supreme Court decision in 1957. By contrast, those states bordering Arkansas have had a much more liberal limitation on finance charges. The response of firms and consumers to such regulations often takes time to observe, but in this case, nearly 20 years of data are available.

Without going into much detail; the effects of such regulatory differences on border city economies could be expected to include the following (all to varying degrees):

1. Arkansas businesses would extend less credit, primarily by eliminating credit to the riskier (higher cost) customers.
2. Arkansas businesses might elect to move out-of-state if credit is important to their business. Thus, major sellers of automobiles and durables might be expected to change locations.
3. Firms that are in the business of extending credit would also restrict it and tend to move their operations out-of-state, affecting jobs and the Arkansas tax base.
4. Where credit is important, Arkansas firms will have more difficulty competing with national retail chains and out-of state firms.
5. The total cost of goods bought on credit may be about the same in both states, but cash prices for such items will be higher in Arkansas since relatively large losses from credit operations will have to be covered by cash prices.

This study by Blades and Lynch provides an interesting and insightful documentation of these and related responses to the 10 percent ceiling. Although it is difficult to report findings from a case study in such a way as to make meaningful statistical tests, the border city study reported here offers some special advantages to the analyst. Most tests of the effects of restrictions on the credit industry use data from many states or regions. Although many variables may be included in the analyses, it is virtually impossible to control for the effects of differing economic conditions, differences in value systems among people, differences in conventions, relevant to the use credit, differences in related laws or regulations, and so forth.

The border city study, however, solves most of these problems. The relevant population is the same for parts of the city on either side of the state line so long as mobility is not restricted. Economic conditions and the industrial base will be essentially identical so long labor, capital, and consumers can move freely across the state line. In addition, differences in other factors like taxes, licensing, and so on are clearly known, and not simply approximated by classes "dummy variables." Thus, it is easier to isolate the effects of restrictions for those cities studied, but more difficult (in a statistical sense) to generalize the findings or test their significance.

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INTRODUCTION

In recent years legislatures and courts in many states have faced the question of changing their state's laws relating to finance charges on consumer credit. The probable results of these proposed actions have been the subject of a great deal of discussion in those states considering such changes in their usury laws.

Since Arkansas has long had a very low limit on credit charges by retail stores and other credit vendors, there has been widespread interest in the effects of Arkansas's usury ceiling.¹ Because of the general attention given to usury research conducted in Arkansas, a study was undertaken to examine in detail the special problems faced by retail merchants in those Arkansas cities bordering states that permit higher finance charges.

Arkansas is surrounded by six other states. In fact, 43 percent of the state's population now resides in the 29 counties that border neighboring states. Yet, for merchants located in some Arkansas cities the land of opportunity often appears to be just across the street or across the river. Retailers in Arkansas cities that border other states must compete with both Arkansas merchants and with those firms in neighboring states. If differences exist between the Arkansas laws and those of another state that govern retail practices, these variances usually cause a measurable effect on Arkansas merchants. One such difference of major importance is the law governing finance charges on retail credit.

In Arkansas, as in other states, consumers seek credit from vendors including department stores, automobile dealers, and furniture and appliance stores. However, unlike most other states, the maximum finance charge an Arkansas retailer can assess on credit sales is 10 percent per annum.² Given the state's ceiling on finance charges, for almost 20 years merchants and financial institutions throughout Arkansas have sought to adjust their operations to comply with the state's usury law. Moreover, adjustments to the usury ceiling have been especially important for merchants in Arkansas border cities, because these merchants face a special problem - competition from retailers in neighboring states.

The major purpose of this paper is to explore how merchants Arkansas border cities have handled the 10 percent limitation imposed on finance charges. The discussion which follows focuses on two Arkansas border cities - Texarkana and Fort Smith. In addition primary emphasis is placed upon two variables affected by rate differentials - store locations and retail credit policies.

RESEARCH METHODOLOGY

This paper is based on findings gathered from mailed questionnaires and personal interviews obtained from more than 150 merchants, bankers, and public officials in Arkansas border cities. Which much of the data was gathered in early 1972, a general update an expansion of the original research was conducted in the summer of 1974.

Usury ceilings directly affect the amount of interest and finance charges retail firms and financing institutions receive to cover their credit costs, automobile, furniture, and appliance dealerships, an, department stores were selected for study because they normally sell large volume of their goods on credit. It was thus felt that the owner and managers

¹ In 1957, the Arkansas Supreme Court ruled that retail credit is governed by the 10 percent usury provision in the Arkansas Constitution (see Sloan vs. Sears, 228 Arkansas 464, 308 S.E. 2d 8021957).

² The Arkansas usury provision is contained in the Arkansas State Constitution. This ceiling is 10 percent simple interest, and the Arkansas Supreme Court has held that finance charges are governed by the 10 percent limit.

of these establishments should be most aware of an, influence finance charge ceilings may have had on their business and credit practices.

The cities of Texarkana, Arkansas-Texas; Fort Smith, Arkansas Siloam Springs, Arkansas; and West Memphis, Arkansas, were included in the study. However, the decision was made to concentrate research on Texarkana, Arkansas-Texas, and Fort Smith, Arkansas, for several reasons. First, these were the only Arkansas border cities with e sufficient number of retail establishments to make meaningful research practical. Second, these cities contained retail firms of approximately equal size and number; therefore, it was felt that comparisons of the research findings would be possible.

For the cities of Texarkana, Arkansas-Texas, and Fort Smith, Arkansas, lists were developed of all automobile dealerships, furniture and appliance dealerships, and department stores. These lists contained a total of 76 firms in Texarkana, Arkansas-Texas, and 74 firms in Fort Smith, Arkansas. The lists were developed from city directories and telephone directories.

After reviewing secondary data sources and making exploratory visits to Texarkana and Fort Smith, questionnaires were prepared for distribution to automobile, furniture, and appliance dealers. The questionnaires were designed to provide both quantitative and qualitative data regarding the location of business firms, credit policies and practices, and opinions regarding usury regulations. (See Appendix 1 or questionnaire used.)

For Fort Smith merchants, copies of the questionnaires were mailed to all new car dealers, used car dealers, and furniture and appliance dealers. Approximately 35 percent of the questionnaires mailed to Fort Smith merchants were eventually returned. Unfortunately, the majority of the firms returning questionnaires were large merchants. To insure that firms of all sizes were included in the study, the decision was made to contact the nonrespondents through personal interviews. It was also decided that the most efficient means of gathering data in Texarkana, Arkansas-Texas, in terms of completeness of responses and time involved, would be to contact personally those merchants selected for the study.

In addition to retail merchants, officers of each bank in Texarkana, Arkansas-Texas, and Fort Smith, Arkansas, were informally interviewed. It was found that the bankers could provide additional useful information regarding the credit relationships between retailers and financing institutions.

Because of the time involved and the financial burden of the research, it was impossible to make the repeat visits necessary to contact every automobile, furniture, appliance dealer, and department store manager in Texarkana and Fort Smith. However, over 70 percent of the merchants originally listed for study were eventually reached. Although not all firms were contacted, a special effort was made to include firms of all sizes in the study. The authors are, therefore, confident that the results reported in this article accurately describe the conditions that were found to exist in Texarkana, Arkansas-Texas, and Fort Smith, Arkansas.

THE LOCATION OF RETAIL CREDIT FIRMS IN TEXARKANA, ARKANSAS-TEXAS, AND FORT SMITH, ARKANSAS

Texarkana, Arkansas- Texas

Texarkana is located on both sides of the Arkansas-Texas state line, 20 miles south of the Oklahoma boundary and 33 miles north of the Louisiana state line. Its land area and population of approximately 53,000 comprise an urban area which lies in two counties as well as two states. Highways, businesses, utilities, and recreational facilities serve the entire city without regard to political boundaries.

Although Texarkana, Arkansas-Texas, is divided into two political entities, the two cities cooperate in the operation of the fire and police departments, and the cities jointly own the water and sewer system serving residents of both jurisdictions. In addition, special attention has been given to the problem of maintaining approximately equal sales tax levels in the two cities.

The retail environments in the two cities, however, are vastly different. While Texarkana, Arkansas, contains approximately 40 percent of the Texarkana urban population, it accounts for a much smaller proportion of retail trade, especially insofar as credit sales are concerned. Food stores, service stations, hotels and motels, and discount houses are located throughout both cities, but most retail firms that sell a large portion of their goods on credit are now located in Texarkana, Texas. The trends in the location of credit-oriented retail firms within the city of Texarkana, Arkansas-Texas, may be observed in Table 1.

The original Texarkana business district was built at the junction of the city's four railroad tracks before the automobile became important. As in many other American cities, merchants began moving out of the downtown business district during the early 1950's to larger, cheaper sites on the fringes of the city and to shopping centers and strip commercial areas convenient to motorists. It was also during the 1950's that the Arkansas Supreme Court handed down a series of decisions that brought retail credit under the usury provision of the state's constitution.

The construction of shopping centers in Texarkana began in the early 1960's. There are now 11 shopping centers in Texarkana, Arkansas-Texas, which contain approximately 1,145,500 square feet of shopping space and cover 105 acres.

Of the 11 centers, six are located in Texarkana, Texas, and five are in Texarkana, Arkansas. The Texarkana, Texas, shopping centers cover approximately 79 acres and contain about 911,500 square feet of shopping space. Five of the six Texarkana, Texas, shopping centers have major credit-granting department stores as their principal retail outlets. With two exceptions, all of Texarkana's large department stores have outlets in shopping centers on the Texas side.

The five Texarkana, Arkansas, shopping centers are relatively all. They contain a total of approximately 231,000 square feet of shopping space and cover 26 total acres. Four of these five shopping centers have grocery stores as their principal retail firms.³

³ Shopping center data supplied by Sylvain R. Lange, executive director, North East Texas Economic Development District, Incorporated, Texarkana, Texas.

TABLE 1
THE LOCATION OF SELECTED RETAIL FIRMS IN TEXARKANA,
ARKANSAS-TEXAS, FOR THE YEARS 1955-1970

Year	Automobile dealers		Furniture and appliance dealers		Department stores	
	Texarkana, Arkansas	Texarkana, Texas	Texarkana, Arkansas	Texarkana, Texas	Texarkana, Arkansas	Texarkana, Texas
1955	13	25	11	20	4	3
1957 ^a	10	27	14	22	3	3
1960	9	26	8	21	5	4
1962	9	25	9	17	5	4
1964	7	31	7	17	5	4
1965	5	32	8	18	5	4
1967	6	35	8	20	5	6
1969	5	37	6	23	4	6
1970	4	39	6	25	4	8
1971	4	40	6	27	4	8
1972	3	40	6	29	4	9
1973	4 ^b	43	6	32	4	10

Source: Polk's City Directory of Texarkana, Arkansas-Texas, years 1955, 1957, 1960, 1962, 1964, 1965, 1967, 1969, 1970, 1971, 1972, 1973.

^a In 1957 the Arkansas Supreme Court ruled that retail credit is governed by the 10 percent usury provision in the Arkansas Constitution (Sloan vs. Sears, 228 Ark. 464, 308 S.W. 2nd 802 1957).

^b All are small used car dealers.

In view of the unequal distribution of credit-oriented firms between Texarkana, Arkansas, and Texarkana, Texas, merchants were specifically asked if the difference between the Arkansas and Texas usury ceiling was a factor considered when deciding to locate their firms within Texarkana.⁴ Of the 50 merchants interviewed in Texarkana, Arkansas, and Texarkana, Texas, 84 percent stated that the difference between the Texas and Arkansas ceilings on finance charges caused them to prefer a location in Texas or was an important factor considered in their choice of a business location.⁵

Six automobile dealerships and three furniture and appliance stores that at one time operated in Texarkana, Arkansas, are now located in Texarkana, Texas. When interviewed, these merchants said the Arkansas 10 percent usury ceiling was the major factor responsible for their move into Texarkana, Texas. At one time several new and used car dealers maintained outlets in both Texarkana, Texas, and Texarkana, Arkansas. This is no longer the case. These dealers reported the Arkansas usury limit had made it virtually impossible to maintain profitable operations in Texarkana, Arkansas; therefore, they ceased operations in Arkansas altogether. An interview with a Texarkana, Texas, real estate agent revealed that when national chain department stores began expansion programs in Texarkana during the early 1960's, these firms expressed interest only in locations on the Texas side of Texarkana. Again, the reason given for the preference of Texarkana, Texas, to Texarkana, Arkansas, was the higher allowable finance rates in Texas.

⁴ In Arkansas a noninstalment or single-payment contract can bear a maximum 10 percent annual percentage rate of interest. A note carrying a rate less than 10 percent cannot be legally discounted if the result is an effective rate of interest to the borrower above a 10 percent annual percentage rate.

An installment contract on which interest is precomputed (add-on interest) cannot carry an effective rate higher than a 10 percent annual percentage rate. When using the actual method of computation, the maximum permitted rate is \$5.50 per \$100 on a 12-month contract.

For revolving charge agreements, the finance charges assessed on monthly unpaid balances may not exceed .83 or 5/6 of one percent per month or a 10 percent annual percentage rate.

Retail credit in Texas is governed by the Texas Consumer Credit Code. This act became effective on December 31, 1967, and it now governs all aspects of retail credit in Texas. Listed below are the Texas finance rate ceilings that affect retail credit.

For installment sales contracts the maximum finance rates are as follows:

- \$12 per \$100 per annum for first \$500 (APR 21.45%)
- \$10 per \$100 per annum for next \$500 (APR 17.97%)
- \$8 per \$100 per annum for next \$1,000 (APR 14.45%)

For revolving credit arrangements the maximum allowable rate is as follows:

- 1% percent per month for the first \$500 of unpaid balance. (18% APR)
- 1 percent per month on the portion of the unpaid balance over \$500. (12% APR)

For motor vehicle credit the maximum rates are as follows:

- New cars: \$7.50 per \$100 per annum. (13.57% APR)
- New cars, prior model, and used cars not over two years old: \$10 per \$100 per annum. (17.97% APR)
- Used cars three and four years old: \$12.50 per \$100 per annum. (22.32% APR)
- Used cars four years old: \$15 per \$100 per annum (26.62% APR)

⁵ During the research other factors influencing business locations were also discussed. It was found that the state of Texas has no personal or corporate income tax - Arkansas does. On the other hand, sales and property taxes are somewhat higher in Texarkana, Texas, than in Texarkana, Arkansas. Texas also imposes an annual chain store tax, which Arkansas does not. Most credit granting merchants felt the differences between these items were relatively slight and had exerted little influence on their location decisions.

Fort Smith, Arkansas

Fort Smith is Arkansas's other major border city. Fort located in a giant horsehoe bend of the Arkansas River; and Texarkana, Fort Smith is situated entirely within the Arkansas. Fort Smith has grown from a small Army post to almost 63,000 inhabitants.

To date, merchants in Fort Smith have faced little corn from firms located across the Oklahoma border. No major cities ever existed along Oklahoma's eastern boundary, and Fort Smith continues to serve as the trade center for west-central Arkansas a central Oklahoma. Nevertheless, it is now possible for residents to shop in several small Oklahoma towns located within 20 miles of the city. In addition, since the late 1960's there has been increasing commercial development in the areas of Oklahoma immediately adjacent to Fort Smith. There are now four used car dealers, six consumer finance companies, and one large furniture and appliance store located just across the Oklahoma state line. Merchants in Fort Smith are increasingly aware of the possibility of additional competition from Oklahoma-based firms because of the Oki finance charge structure.⁶

Among the 60 retailers surveyed in Fort Smith, 65 percent reported that the difference between the Arkansas and Oklahoma ceilings on finance charges was a factor that would cause them to prefer a location in Oklahoma or it would be an important considered when choosing a business location.

In Fort Smith, four new car dealers expressed extreme dissatisfaction with the Arkansas usury ceiling. Of these four dealer stated that 1969 tight credit conditions had almost forced them to relocate across the Oklahoma border and three Fort Smith us, dealers reported that they were seriously considering relocation.⁷

One of Fort Smith's major furniture and appliance dealers reported his firm operated stores in Arkansas and Oklahoma, merchant stated that if his firm opened any additional stores would definitely be located in some state other than Arkansas sole reason given for rejecting Arkansas as a site for future expansion was the 10 percent usury ceiling. The owner of another large firm selling a broad line of goods, including appliances, stated he felt his firm could increase its appliance sales by 100 percent if higher finance charges could be levied. Therefore, this retailer reported he was actively considering the possibility of opening another store across the border in Oklahoma. Again, the Arkansas usury ceiling was given as the reason for preferring Oklahoma as an area of future expansion.

In the past, Fort Smith merchants have faced relatively competition from Oklahoma retailers, and even with restricted fin charges, most have preferred to remain within the city. Now however both Oklahoma and Fort Smith retailers are giving additional consideration to the area of Oklahoma immediately adjacent to Fort Smith as a possible

⁶ In July 1969, Oklahoma adopted the Uniform Consumer Credit Code. This law replaced other Oklahoma consumer credit statutes and let the sale of automobiles and other goods be covered by a set of general Uniform Consumer Credit Code rates. According to the Oklahoma statute, maximum rates of finance charge are set at:

- 30 percent a year to \$300 (APR)
- 21 percent a year on the unpaid balance above \$300 to \$1,000 (APR)
- 15 percent a year on the portion of the balance above \$1,000 (APR)

For revolving credit, if the billing cycle is monthly, the finance charge may not exceed 1% percent per month on the unpaid balance (18% APR).

⁷ It should be emphasized that Fort Smith, Arkansas, is bounded on the north and west by the Arkansas River and to the southwest by terrain that is very hilly. Consequently, the geography of the Fort Smith area has. always made it more difficult for Arkansas merchants to locate out-of-state than has been the case in Texarkana.

site for future expansion. As Fort Smith's credit granting retail firms face added competition from Oklahoma merchants, the temptation to move part or all of their operations into Oklahoma should be expected to increase.

AVAILABILITY OF RETAIL CREDIT FOR MERCHANTS

Furniture, appliance, and automobile dealers generate installment tracts that may be retained or sold if buyers are available. The marketability of installment contracts is particularly important to small and medium sized retail firms. In recent years, outlets available to purchase installment contracts have been sharply limited by the Arkansas usury limit.⁸ A major point often discussed by merchants in Fort Smith and Texarkana, Arkansas, was the impact of the Arkansas usury ceiling on dealer financing. Approximately 82 percent of the merchants contacted in Fort Smith and Texarkana, Arkansas, believed that Arkansas's usury ceiling had reduced the number and types of financial institutions available to them. Fort Smith retailers were particularly outspoken regarding this problem. One new car dealer in Fort Smith stated:

In the past we used the services of several lending companies but beginning in 1969, we were forced to go GMAC 100 percent as no other sources were available. As a result, GMAC became very selective about whom they would accept.

A Fort Smith used car dealer said:

As of now, I can only sell my paper to one bank and have no choice. If the bank says no to the contract, that is it.

Perhaps the most noticeable effect of the Arkansas usury ceiling been the reduction in the number of private sales finance companies that make credit available to retail firms in Fort Smith and Texarkana, Arkansas. In the opinion of the retailers contacted, the elimination of financing institutions has lessened competition among the remaining institutions.

In Fort Smith prior to 1969, two national and several private sales finance companies were actively involved in purchasing used car, furniture, and appliance installment paper. However, in 1969, when interest rates reached what was then an all time high, Arkansas 10 percent usury ceiling made profitable operations difficult for sales finance companies that must borrow the funds they lend 1970, national and local sales finance companies in Fort Smith sharply curtailed their purchases of retail installment paper. This situation was not unique to Fort Smith; sales finance companies throughout Arkansas were hard pressed to finance automobiles and household goods. Arkansas banks, also caught in the 1969 "credit crunch", were forced to reduce their financing of consumer goods. For example, major private sales finance company eliminated 14 of its 21 Arkansas offices, and the remaining smaller consumer finance companies in Fort Smith and Texarkana, Arkansas, moved to out-of-state locations.

Until the latest surge in interest rates Fort Smith and Texarkana; Arkansas, banks actively engaged in financing new car sales. In 1973 and 1974 less money was available in Arkansas because funds were shifted to institutions in neighboring states in response to higher rates of certificates of deposit.⁹ Used car loans were particularly hard

⁸ In Arkansas, a note carrying a rate less than 10 percent cannot be legally discounted if the result is an effective rate of interest to the borrower above a 10 percent annual percentage rate. *Hare vs. General Contract Purchase Corporation*, 220 Ark. 601, 249 S.W. 2d973 (1952).

⁹ "Arkansas: A Usury Law Dries Up Loan Funds," *Business Week*, September 29, 1973. "Arkansas: A Usury Law Dries Up Loan Funds," *Business Week*, September 29, 1973.

Moreover, two of Fort Smith's three banks and one of Texarkana Arkansas's two banks no longer financed any furniture or appliance sales. Only one Fort Smith banker reported that his bank financed furniture and appliances, but further stated that his bank had added no new dealer-customers since 1969.

Bankers in both Fort Smith and Texarkana, Arkansas, reported that the 10 percent usury ceiling had caused them virtually eliminate small loans. They stated that, given the 10 percent ceiling was almost impossible to break even on consumer loans and installment contracts of less than \$500. Consequently, given the 1974 monetary conditions, banks in Fort Smith and Texarkana, Arkansas now require potential borrowers to be established bank custom before loan applications are considered.

Credit Terms Extended by Financial Institutions

In Fort Smith, Arkansas, only commercial banks and manufacturer-affiliated sales finance companies purchase substantial quantities of installment paper sold by automobile, furniture, a appliance dealers. In Texarkana, Arkansas, merchants who sell installment contracts usually sell to manufacturer-affiliated sales finance companies and, to some extent, private finance companies in Texarkana, Texas. In Texarkana, Texas, commercial banks, manufacturer-affiliated finance companies, and more than 30 private finance companies are involved in making consumer loans and/or purchasing installment contracts from merchants.

Because of the usury ceiling, the number and types of financial institutions available to merchants in Arkansas's western border cities have been reduced. As a result, merchants in Fort Smith and Texarkana, Arkansas, are forced to sell installment contracts with full recourse against their firms. In addition, the retailers usually receive mall, if any, returns from their dealer reserve accounts when compared with Texarkana, Texas, firms.

When a retailer sells a contract to a financing institution on a "recourse" basis, it means that if the buyer defaults on payment, the merchant must pay the contract and attempt to repossess the merchandise. Under no-recourse agreements, if a buyer defaults, the financing institution, not the dealer, normally handles the repossession and absorbs any loss that may occur.

The survey of Texarkana, Texas, retailers revealed that approximately 55 percent sold their installment contracts without recourse. In these cases, all of the risk of nonpayment was shifted to the financing institutions. In contrast, all merchants contacted in Fort Smith and Texarkana, Arkansas, reported selling their installment contracts on a recourse basis. Selling contracts with recourse against the dealer is particularly distasteful to retailers in both Fort Smith and Texarkana, Arkansas. The following comments were received from Fort Smith, Arkansas, retailers:

A large appliance dealer in Fort Smith reported:

I have a radio and television sales and service business. I extend credit on service only. My sales are for cash only because I will not sell on credit when the contracts have full recourse against my business.

A Fort Smith used car dealer stated:

In most cases used car dealers have to take all the losses and expenses of getting cars repossessed and back on their lots. This will cost the dealer \$100 or more per car. This recourse against the dealer limits used car dealers on customers they will accept.

Another Fort Smith used car dealer reported:

We are losing sales to dealers in Muldrow, Sallisaw, and Poteau, Oklahoma. They (the Oklahoma used car dealers) advertise "no money down" and all risk is taken by the finance company. The Oklahoma dealers sign no recourse paper. Signing recourse paper breaks more Arkansas dealers than any other single factor.

Bankers in Fort Smith and Texarkana, Arkansas, stated that the Arkansas usury limit forced them to purchase installment contract a full recourse basis. In the opinion of these bankers, the 10 per usury ceiling had minimized or eliminated income necessary to absorb credit losses. Therefore, dealers are forced to bear the risk of nonpayment. On the other hand, in Texarkana, Texas, once a dealer established a record of selling installment contracts which produce credit losses, financial institutions usually agree to purchase dealer's paper without recourse.

Financing institutions in some states frequently put a fraction the dealer's finance charge into a special account. Under prescribed conditions, the dealer can draw funds from his "dealer reserve" account. How the reserve operates depends upon prevailing interest rates. Generally, if the contract rate is above the rate at which bank or finance company will buy the paper, then some part (usually one or two percentage points) will be either credited to a dealer reserve or paid to the dealer when the paper is sold. Arkansas, the selling dealers receive little or no finance charges dealer reserve credit; yet, the dealer still absorbs any credit losses because he must sell the installment paper with full recourse again the firm.

Merchants in both Fort Smith and Texarkana, Arkansas, were very critical of the dealer reserve situation. In fact, three new car dealers, four used car dealers, and two appliance dealers in Fort Smith stated that they had never received any return from their deal reserve accounts. In Texarkana, Arkansas, one appliance dealer stated that the only way he expected to receive anything from his dealer reserve was to go out of business. The following comments are typical of the views expressed by many of the merchants contacted in Fort Smith, Arkansas. A Fort Smith used car dealer stated:

The small dealer has to put down cash reserve, tie up his operating capital, and he draws no interest on his reserve. If he has \$100,000 in outstanding contracts, he has to have \$10,000 reserve which he cannot use nor draw interest upon. (Note: this refers to hold-backs from principal for creation of a lender protection fund.)

A Fort Smith new car dealer had this to say:

Two years ago (1969) the finance company I was doing business with was forced to discontinue sales finance service because of the high prime rate. I started doing business with a manufacturer-affiliated finance company in Little Rock. Other dealers in the area had to make similar changes. This has caused increased costs of operation on our part with the long distance involved. The finance companies are unable to pay dealers a reserve out of the limited finance charges. I estimate that I have lost \$12,000 in the past

year on reserves based on the difference between the Arkansas and Oklahoma interest rate which I could have made on the same dollar volume had I been located in Oklahoma.

One of the most important opinions of merchants in Fort Smith Texarkana, Arkansas-Texas, was that the credit policies of financial institutions subsequently influenced the credit terms retail s are able to offer their customers. Consequently, merchants in Fort Smith and Texarkana, Arkansas, are unable to extend the quantity and/or credit terms offered by firms in Texarkana, Texas.

THE EFFECT OF THE ARKANSAS USURY LIMIT ON THE AVAILABILITY OF CONSUMER CREDIT

To many Arkansas consumers the most important effect of the 10 percent usury ceiling has been to discourage retailers from offering credit. Retail customers may pay cash at the time of purchase or they may use some type of credit plan. If the decision is to use credit, the buyer may then choose from several credit plans available from either the retailer or a financing institution. Because the return from providing credit in Arkansas is small, merchants in Arkansas border cities were found not only to extend less credit than merchants in neighboring states, but also to impose more restrictive credit terms on any credit granted.

Throughout the United States furniture and appliance stores normally sell more than two-thirds of their goods on credit.¹⁰ These stores typically offer nonrevolving open book accounts, revolving charge accounts, fixed-time-period installment accounts, and bank credit card plans. In Texarkana, Texas, furniture and appliance dealers reported that approximately 72.0 percent of their total sales were credit. Furniture and appliance dealers in Texarkana, Arkansas, stated that 67.1 percent of their sales were credit sales. However in Fort Smith furniture and appliance dealers indicated that an even smaller percentage of their total sales were on credit. Furniture and appliance dealers in Fort Smith reported credit sales represented only 55.7 percent of their sales. In addition, Texarkana, Texas, new car dealers reported that 55.5 percent of their customers financed their purchases through their dealerships; but in Fort Smith, Arkansas, new car dealers reported that 51.7 percent of their customers financed their purchases through the dealership. Finally, three used car dealers and two furniture and appliance dealers in Fort Smith reported conducting a cash-only business. In contrast, all dealers in Texarkana, Arkansas Texas, reported selling at least a portion of their goods on credit.

All retailers contacted in Texarkana, Arkansas-Texas, and Smith, Arkansas, were asked if their state's usury ceiling had affected the amount of credit their firm extended. Among respondents approximately 38 percent of the merchants in Fort Smith and Texarkana, Arkansas, believed that the state's usury ceiling had, to a extent, caused their firms to limit total credit sales. Another percent stated that the Arkansas 10 percent usury ceiling had caused them to limit credit operations to some extent. At the same time retailer in Texarkana, Texas, where higher finance charges are permitted, felt the Texas ceilings on finance charges had restricted quantity of credit they offered.

New credit applicant rejections can be an important indication merchant's willingness to extend credit. Table 2 presents the nun of new car dealers in Texarkana, Texas, and Fort Smith, Arkansas that reported the percentage of new credit applicants rejected. New car dealers in Fort Smith had substantially higher rejection rates to dealers in Texarkana, Texas. The higher rejection rates applied to sale of both new and used cars. In fact, three Fort Smith new

¹⁰ Delbert J. Duncan, Charles F. Phillips, and Stanley C. Hollander, *Modern Retailing Management: Basic Concepts and Practices*, (Homewood, Illinois: Richard D. Irwin, Company, 1972), p. 519.

dealers reported rejecting more than 35 percent of their credit applicants. Four Fort Smith new car dealers stated that the Arkansas 10 percent usury ceiling was the major factor forcing their firms to maintain very high credit standards and rejection rates.

Rejection rates reported by used car dealers are shown in Table 3. As in the case of new car financing, dealers in Fort Smith were noticeably more selective in granting credit. Over one-half of the Fort Smith used car dealers contacted reported rejecting more than 25 percent of their credit applicants. Collection costs and bad debt losses can be substantial when extending credit for used car sales. Therefore, given the 10 percent finance charge ceiling, most of Arkansas's used new car dealers attempted to avoid the risk of possible additional credit costs inherent in selling to less creditworthy customers.

Rejection rates on new credit applicants, as a percentage of total credit applicants at furniture and appliance stores are shown in Table 4. Again, six Fort Smith furniture and appliance dealers reported generally higher rejection rates than did dealers in Texarkana, Texas. High credit standards and careful evaluation of credit applicants forced by the 10 percent usury ceiling were given as the reason for higher rejection rates in Fort Smith.

Effect of Usury Limits on Credit Terms

New car dealers, used car dealers, furniture and appliance retailers, and department store managers in Texarkana, Arkansas-Texas, and Fort Smith, Arkansas, were asked to comment on finance rate charged, the length of credit periods granted, and down payments required.

TABLE 2

**REJECTION OF CREDIT APPLICANTS BY NEW CAR DEALERS IN
TEXARKANA, TEXAS, AND FORT SMITH, ARKANSAS**

Rate of reporting rejection	For new car sales number of dealers reporting				For new car sales number of dealers			
	Texarkana, Texas				Fort Smith, Arkansas			
	#	%	#	%	#	%	#	%
0-5	4	40.0	1	10.0	2	18.2	1	9.1
6-10	3	30.0	3	30.0	3	27.2	1	9.1
11-15	2	20.0	1	10.0				
16-20	1	10.0	4	40.0	2	18.2	2	18.2
21-25					1	9.1	2	18.2
26-30			1	10.0			2	18.2
31-35								
36-40					2	18.2	1	9.1
Over 40					1	9.1	2	18.2
Total	10	100.0%	10	100.0%	11	100.0%	11	100.0%

TABLE 3

**REJECTION OF CREDIT APPLICANTS BY USED CAR DEALERS IN
TEXARKANA, ARKANSAS-TEXAS, AND FORT SMITH, ARKANSAS**

Rate of Rejection	Texarkana, Texas		Texarkana, Texas		Fort Smith, Arkansas	
	#	%	#	%	#	%
0-5%	3	20.0	2	66.7		
6-10%	5	33.3				
11-15%	2	13.3				
16-20%	1	6.8			4	25.00
21-25%	2	13.3			3	18.75
26-30%	2	13.3			4	25.00
31-35%					1	6.25
36-40%					1	6.25
Over 40%			1	33.3	3	18.75
Total	15	100.0%	3	100.0%	16	100.0%

TABLE 4

**REJECTION OF CREDIT APPLICANTS BY FURNITURE AND APPLIANCE DEALERS IN
TEXARKANA, ARKANSAS-TEXAS, AND FORT SMITH, ARKANSAS**

Rate of Rejection	Texarkana, Texas		Texarkana, Texas		Fort Smith, Arkansas	
	#	%	#	%	#	%
0-5%	9	62.50	2	33.3	3	16.7
6-10%	3	18.75			3	16.7
11-15%					1	5.5
16-20%	2	12.40	2	33.3	2	11.2
21-25%					4	22.4
26-30%	1	6.25	1	16.7		
31-35%			1	16.7	1	5.5
36-40%					3	16.7
Over 40%					1	5.5
Total	15	100.0%	6	100.0%	18	100.0%

Finance rates charged by Fort Smith and Texarkana, Texas, new car dealers are presented in Table 5. For both new and used car sales all new car dealers in Fort Smith reported charging the maximum Arkansas finance rate. In Texarkana, Texas, new car dealers charge higher rates than did Fort Smith dealers; however, six of Texarkana Texas's 10 new car dealers normally charged finance rates below the maximum Texas rate on new cars of 13.7 percent.

Credit periods offered and down payments required by new and used car dealers are shown in Tables 6 through 9. A credit term of 36 months was typically offered in the sale of new automobiles by both Fort Smith and Texarkana, Texas, new car dealers. In the case of used car sales, four new car dealers in Fort Smith stated that they normally granted an 18-month credit period. In contrast, Texarkana, Texas new car dealers reported offering 24-month credit periods on used car sales as the general rule.

A similar difference was found to exist in the percentage down payment required (see Tables 8 and 9). In the case of both new and used automobile sales, Fort Smith new car dealers reported significantly larger down payment requirements than did Texarkana, Texas, new car dealers. In fact, six Fort Smith new car dealers reported requiring over 20 percent down on the sale of used cars.

New and used car dealers in Fort Smith were well aware that credit terms offered to retail customers were directly affected by the terms of credit they themselves received from financial institutions. They further believed that the credit terms extended by the financial institutions still operating in Arkansas were highly restrictive. In nearly all cases, car dealers in Fort Smith felt that credit sales could be increased and more liberal credit terms granted if higher finance charges were permitted.

In Texarkana, Arkansas, all furniture and appliance dealers reported charging the maximum Arkansas finance rate. Only two of the furniture and appliance dealers contacted in Fort Smith reported charging less than the maximum Arkansas limit. However, in Texarkana, Texas, eight of the furniture and appliance dealers contacted claimed to levy finance charges below the maximum Texas rate. However, all Texarkana, Texas, furniture and appliance dealers who responded said they normally charged finance rates that were above the maximum Arkansas rate.

Furniture and appliance dealers in both Texarkana, Arkansas Texas, and Fort Smith typically offered open-book credit for 30-day, 60-day, and 90-day credit periods without finance charges. Many dealers also offered customers installment credit. Texarkana, Texas, dealers usually stated that their credit periods for installment contracts ran up to 36 months. In Fort Smith, most dealers said they tried to limit their credit periods on installment contracts to 24 months or less.

Most furniture and appliance dealers in Fort Smith and Texarkana, Arkansas-Texas, reported requiring a down payment on the sale of "big-ticket" items (see Table 10). There was little difference between down payments required by furniture and appliance dealers in Fort Smith and Texarkana, Arkansas-Texas, when customers described as average-risk credit customers were considered. However, in the cases of less creditworthy applicants, Arkansas merchants were found to prefer significantly higher down payments (see Table 11). Rather than simply rejecting an applicant for credit, five Fort Smith furniture and appliance dealers said they quoted credit terms as unattractive down payments or maturity to discourage potential credit customers from making a credit purchase.

In Fort Smith and Texarkana, Arkansas-Texas, all department stores offer revolving charge arrangements. Local department stores in Fort Smith and Texarkana, Arkansas, charged a finance rate of .83 percent per month on

the unpaid balance. This rate was charged to all revolving charge account customers regardless of their state of residence.

National retail chains were found to levy finance charges somewhat differently. These firms generally levy finance charges on each account according to the customer's state of residency. For example, if an individual in Texarkana, Arkansas, buys goods on credit from the chain's store in Texarkana, Texas, he is charged the Arkansas rate of .83 percent per month on the unpaid balance. In contrast, if a resident of Texarkana, Texas, purchases goods on credit from a national chain store in Texarkana, Arkansas, he is billed at the Texas rate of one and one-half percent per month on the unpaid balance.

Local and national chain department stores in Fort Smith and Texarkana, Arkansas-Texas, conduct extensive credit operations in both cities. Nevertheless, the management of one national chain department store reported the Arkansas 10 percent usury ceiling presented a major problem for that firm's credit operations. These difficulties have forced a restriction on the variety of credit arrangements to Arkansas customers. The firm's management said:

Because of difficulty we have encountered in the state of Arkansas, we are changing our system in our credit departments. We are going to a one-account concept whereby we will not precompute the finance charge, but will bill our customers each month on their outstanding unpaid balance at the rate of .83 percent per month. In every other state, we offer revolving charge accounts in addition to a contract for materials used in remodeling homes, whereby we offer a 60-month pay-out. On major appliances we offer a plan whereby the customer can take 36 months to pay for his purchase. On smaller items we offer a plan whereby they can take up to 18 or 24 months to pay off.

Moreover, the management of this firm recently stopped soliciting new credit accounts in Arkansas. The firm has eliminated credit advertising in newspapers and other media and special merchandise promotions to customers with existing accounts. Increased operating costs and inadequate revenues from Arkansas finance charges were cited as the reason for this action.

TABLE 5

**RATES OF INTEREST CHARGED BY NEW CAR DEALERS
IN TEXARKANA, TEXAS, AND FORT SMITH, ARKANSAS**

Interest rate (add-on rate)	Texarkana, Texas				Fort Smith, Arkansas			
	For new car sales number of dealers reporting:		For used car sales number of dealers reporting:		For new car sales number of dealers reporting:		For used car sales number of dealers reporting:	
	#	%	#	%	#	%	#	%
5.41%					11	100.0	11	100.0
5.42-5.9%								
6.0-6.4%	1	10.0						
6.5-6.9%	3	30.0						
7.0-7.4%	2	20.0						
7.5-7.9%	4	40.0	3	30.0				
8.0-8.4%			2	20.0				
8.5-8.9%			1	10.0				
9.0-9.4%								
9.5--.9%								
10.0% and over			4	40.0				
Total	10	100.0%	10	100.0%	11	100.0%	11	100.0%

TABLE 6

**CREDIT PERIOD NORMALLY OFFERED BY NEW CAR DEALERS IN
TEXARKANA, TEXAS, AND FORT SMITH, ARKANSAS**

Months to maturity:	Texarkana, Texas				Fort Smith, Arkansas			
	For new car sales number of dealers reporting:		For used car sales number of dealers reporting:		For new car sales number of dealers reporting:		For used car sales number of dealers reporting:	
	#	%	#	%	#	%	#	%
12 months								
18 months							4	36.4
24 months			9	90.0			6	54.6
30 months			1	10.0			1	9.0
36 months	10	100.0			11	100.0		
Total	10	100.0%	10	100.0%	11	100.0%	11	100.0%

TABLE 7

**CREDIT PERIODS NORMALLY OFFERED BY USED CAR DEALERS IN
TEXARKANA, ARKANSAS-TEXAS, AND FORT SMITH, ARKANSAS**

Months to maturity	Texarkana, Texas		Texarkana, Texas		Fort Smith, Arkansas	
	Number of used car dealers reporting					
	#	%	#	%	#	%
Do not sell on credit					2	11.1
Less than 12 months			1	33.3	1	5.6
12 months	5	31.25	1	33.3	4	22.2
18 months	2	12.5			4	22.2
24 months	9	56.25	1	33.3	6	33.3
30 months					1	5.6
36 months						
Total	16	100.0%	3	100.0%	18	100.0%

TABLE 8

**MINIMUM DOWNPAYMENT AS A PERCENT OF PURCHASE PRICE REQUIRED
BY NEW CAR DEALERS IN TEXARKANA, TEXAS, AND FORT SMITH, ARKANSAS**

Down payment as a percent of purchase price	Texarkana, Texas				Fort Smith, Arkansas			
	For new car sales number of dealers reporting:		For used car sales number of dealers reporting:		For new car sales number of dealers reporting:		For used car sales number of dealers reporting:	
	#	%	#	%	#	%	#	%
0-10%	8	80.0	2	20.0	3	27.2	1	9.1
11-15%	1	10.0	1	10.0	2	18.2		
16-20%	1	10.0	3	30.	4	36.4	4	36.4
21-25%			4	40.0	2	18.2	2	18.2
26-30%							3	27.2
Over 30%							1	9.1
Total	10	100.0%	10	100.0%	11	100.0%	11	100.0%

TABLE 9

MINIMUM DOWNPAYMENT AS A PERCENT OF PURCHASE PRICE REQUIRED BY USED CAR DEALERS IN TEXARKANA, ARKANSAS-TEXAS, AND FORT SMITH, ARKANSAS

Downpayment as a percent of purchase price:	Texarkana, Texas		Texarkana, Texas		Fort Smith, Arkansas	
	#	%	#	%	#	%
0-10%	3	18.75			1	5.6
11-15%	3	18.75			2	11.1
16-20%	2	12.50			5	27.8
21-25%	4	25.00			6	33.3
26-30%					1	5.6
31-35%						
As high as possible	4	25.00	3	100.0	3.	16.6
Total	16	100.0%	3	100.0%	18	100.0%

TABLE 10

DOWNPAYMENT REQUIRED FOR AVERAGE RISK CREDIT CUSTOMERS AT FURNITURE AND APPLIANCE DEALERS IN TEXARKANA, ARKANSAS-TEXAS, AND FORT SMITH, ARKANSAS

Downpayment as a percent of purchase price:	Texarkana, Texas		Texarkana, Texas		Fort Smith, Arkansas	
	#	%	#	%	#	%
0-10%	9	60.0	3	50.0	12	63.2
11-20%	3	20.0	1	16.7	3	15.8
21-30%	3	20.0	1	16.7	4	21.0
31-40%						
As much as possible			1	16.7		
Total	15	100.0%	6	100.0%	19	100.0%

TABLE 11

**DOWNPAYMENT REQUIRED FOR BELOW AVERAGE RISK CUSTOMERS AT
FURNITURE AND APPLIANCE DEALERS IN TEXARKANA, ARKANSAS-TEXAS,
AND FORT SMITH, ARKANSAS**

Downpayment as a percent of purchase price:	Texarkana, Texas		Texarkana, Texas		Fort Smith, Arkansas	
	Number of dealers reporting					
	#	%	#	%	#	%
Do not sell below average credit risk customers	1	6.7	2	33.3	3	15.8
0-10%	2	13.4	1	16.7	1	5.3
11-20%	4	26.7			2	10.5
21-30%	5	33.3	1	16.7	5	26.3
31-40%	1	6.7			3	15.8
As much as possible	2	13.3	2	33.3	5	26.3
Total	15	100.0%	6	100.0%	19	100.0%

CONCLUSIONS

Because of the Arkansas 10 percent ceiling on finance charges, retailers in Arkansas border cities compete at a disadvantage with out-of-state merchants. In neighboring states where higher finance rates are permitted, merchants and financial institutions find it possible to cover all or a large portion of their credit costs with revenues from finance charges on credit accounts. In Texarkana, Texas, for example, most retailers may choose among several financing institutions when selling installment paper or financing inventory needs. Many merchants in Arkansas border cities have only a limited number of financial institutions available to them. Automobile, furniture, and appliance dealers in Texarkana, Texas, also receive credit terms from financing institutions that are superior to those received by similar merchants in Fort Smith and Texarkana, Arkansas. The ability of Texarkana, Texas, retailers to cover more of their credit costs and receive favorable terms from financial institutions has influenced the amount and terms of credit granted to retail customers. In Texarkana, Texas, a lower proportion of customers are rejected for credit, smaller down payments are usually required, and longer credit periods are generally available to customers than in either Fort Smith or Texarkana, Arkansas.

Many would-be Arkansas customers who could not qualify for credit or obtain acceptable credit terms from Arkansas merchants have turned to financing institutions and retail firms located in neighboring states. Thus, the Arkansas rate ceiling has caused an immeasurable loss of retail sales to out-of-state firms. This problem is especially acute for customers who may be characterized as less creditworthy individuals. It is impossible to determine accurately the total amount of out-of-state shopping resulting from the Arkansas usury ceiling, but the average retail merchant interviewed in Texarkana, Texas, reported approximately 38 percent of his total credit sales were to Arkansas customers.¹¹ This flow of out-of-state shopping represents a loss of business and jobs by Arkansas-based retailers and tax revenues to the state and local governments.

In Texarkana, Arkansas-Texas, the 10 percent ceiling has been major factor contributing to the prolonged movement of retail firm out of Arkansas and into Texas and to merchants' preference of locations in Texas. In Fort Smith, it may be concluded that the Arkansas usury ceiling has had a much smaller impact on the locate of retail firms. Nevertheless, in Fort Smith, as in Texarkana, Arkansas Texas, a large percentage of merchants interviewed believed that the Arkansas usury ceiling was a factor of sufficient importance to cause them to prefer locations outside of Arkansas. If interest rates remain high and if the costs of conducting credit business continues to rise, retail merchants in Arkansas border cities will find it increasing difficult to extend credit under the 10 percent limitation on financial charges. If the usury ceiling is not adjusted to reflect the costs extending credit, then retailers in Arkansas border cities will without question be forced to give added consideration to out-of-state locations.

¹¹ In 1968 Gene C. Lynch of the University of Arkansas found that Arkansas residents purchased over nine percent of their appliances out-of-state. In the Texarkana, Arkansas, area, Arkansas customers were reported to have purchased almost 20 percent of their appliances in other states.

APPENDIX I

CONSUMER CREDIT SURVEY

Automobile dealers

IF YOUR RECORDS DO NOT PERMIT EXACT ANSWERS PLEASE ESTIMATE AS ACCURATELY AS POSSIBLE.

1. Type of automobile dealer?
(please check) New and Used vehicles
 New vehicles only
 Used vehicles only

2. Of the total number of automobiles and trucks you sell, what is the percentage division between new and used vehicles?
 % Are New vehicles.
 % Are Used vehicles.
 % Total
100%

3. In what year did your firm enter its present line of business?

4. In what year did your firm enter its present location?

5. Has your firm always been in its present location? Yes , No If No, where were you located before moving to your present location?

6. Does your firm also operate outlets in other states? Yes , No If Yes, How many and where?

7. Please check the following sales range given below which best indicates your total sales for the twelve-month period ending January 31, 1970, or other one-year period corresponding to your last complete fiscal year.
 Less than \$100,000
 \$100,001 to \$500,000
 \$500,001 to \$1,000,000
 \$1,000,001 to \$1,500,000
 \$1,500,001 to \$2,000,000
 \$2,000,002 to \$2,500 POO
 \$2,500,001 to \$3,000,000
 \$3,000,001 to \$4,000,000
 \$4,000,001 to \$5,000,000
 Over \$5,000,000

8. Of the motor vehicles you sell, approximately what percent of your customers:

- (A) _____% Pay Cash? (with money from their current income or savings)
 - (B) _____% Arrange their own financing through a bank or some other financing institution?
 - (C) _____% Finance their vehicle purchase through your dealership?
 - (D) _____% Arrange for financing in some other way?
 - _____ % Total
- 100

9. After you write installment contracts to finance the sale of new and used vehicles do you sell the paper or retain it?

	Sold to			Total
	Lenders	Retained	=	100%
Percentage of New Car Paper _____%		_____%		
Percentage of Used Car Paper _____%				

10. Of the total installment paper you sell to lenders what is the percentage distribution as between lenders to whom you sell the paper?

- _____ % To finance company affiliate or subsidiary of manufacturer (such as GMAC, Ford Motor Credit Co., etc.)
- _____ % To banks
- _____ % To private finance companies not connected with your firm or manufacturer (such as CIT, HFC, etc.)
- _____ % To finance company affiliate of your own corporate organization (not connected with manufacturer)
- _____ % other (please specify) _____
- _____ % total paper sold to lenders.

11. Have the Texas usury ceilings reduced the number and types of financing institutions available to purchase your installment contracts? (please check).

- _____ Yes, to a large extent
- _____ Yes, to some extent
- _____ No, or not very much

12. Does the paper which you sell to lenders include some type of recourse against your dealership?
Yes _____ No _____ (please check)

13. On the paper sold, is a dealer reserve created against which losses may be charged? Yes _____, No _____ (please check) if Yes, how is this dealer reserve created?

14. Do financing institutions return part or all of your dealer reserve after a period of time? Yes _____, No _____ (please check) If Yes, how is this done?
15. Do you use some type of "floor plan" to finance your inventory of automobiles? Yes _____, No _____ (please check). If Yes, with whom do you "floor plan"?
- _____ bank
 _____ manufacturer affiliated finance company
 _____ Other financing company (please specify)
16. If you do not use a "floor plan", how do you usually finance your inventory requirements?
17. What do your suppliers usually charge you for credit?
18. What is the usual length of maturity on credit you receive from your suppliers?
19. Do you feel the Texas usury ceilings have caused your firm any difficulty in obtaining funds locally, or otherwise, to finance your installment sales or inventory requirements? (please check)
- _____ Yes, to a large extent
 _____ Yes, to some extent
 _____ No, or not very much.
20. What are the typical contract features of installment paper written by you to finance motor vehicle sales?
- 20.A. For NEW vehicle paper:
- Typical contract rate of finance? _____%(add-on rate)
- Typical months to maturity on installment contracts?
- _____Months
- Minimum down payment as a percent of purchase price?
- 20.B. For USED vehicle paper;
- Typical contract rate of finance? _____%(add-on rate)
- Typical months to maturity on installment contracts?
- _____Months.
- Minimum down payment as a percent of purchase price?
21. Do you make any of the following types of credit insurance available to your customers? (please check type of insurance offered)
- _____Credit Life
 _____Auto Liability
 _____Disability
 _____Collision and comprehensive
 _____Other, (please specify)

22. Approximately what percent of your credit customers purchase one or more of the above types of insurance? _____%

QUESTIONS #23 THROUGH #27 ARE VERY IMPORTANT: PLEASE THINK CAREFULLY AS YOU ANSWER.

23. Do you feel the Texas usury ceilings have caused your firm to limit its total volume of credit sales? (please check)

_____ Yes, to a large extent
_____ Yes, to some extent
_____ No, or not very much

24. Do you feel the Texas usury ceilings have caused your firm to limit the amount of credit extended to would-be-customers with poor credit ratings?

_____ Yes, to a large extent
_____ Yes, to some extent
_____ No, or not very much

25. Please briefly describe the group or groups of credit applicants (now rejected as poor credit risk) that you could extend credit to if you were permitted to charge a higher finance rate.

26. At what rates do you feel the Texas usury limits should be set? If you could charge a higher rate, approximately how much additional credit would you be able to extend? Percentage increase _____%

27. At the present time, what are your rejection or turndown rates for new credit applicants? (Percentage of would-be auto or truck buyers whose credit does not qualify at your dealership?)

Rejection rate on: (A) Application to finance new vehicles _____%
(B) Applications to finance used vehicles _____%

28. On installment paper written by you during the last year, what were your estimated actual losses as a percent of total installment paper written?

29. Approximately what percent of your total credit sales are to customers from Arkansas?

30. If you again had the choice of locating your dealership in Texas or in Arkansas, would the difference in the states usury laws: (please check)

_____ Cause you to prefer to locate in Texas rather than Arkansas?
_____ Be an important factor in considering where to locate?
_____ Be only a minor factor in considering where to locate?
_____ Be considered, but probably have little influence on where you located?
_____ Not even be considered in your decision as to where to locate?

31. If you have time. I would appreciate any additional comments you may have regarding the possible effects of the Texas and Arkansas usury ceilings on your firm or other auto dealers in your community.

I THANK YOU FOR TAKING TIME TO FILL OUT THIS QUESTIONNAIRE.

Holland C. Blades, Jr.
College of Business
University of Arkansas
Fayetteville, Arkansas

CONSUMER CREDIT SURVEY
Furniture and Appliance Dealers

IF YOUR RECORDS DO NOT PERMIT EXACT ANSWERS, PLEASE ESTIMATE AS ACCURATELY AS POSSIBLE.

1. Type of store?
 Furniture
 Appliance
 Combination, Furniture & Appliance
2. In what year did your firm enter its present line of business?
3. In what year did your firm enter its present location?
4. Has your firm always been in its present location? Yes or No If No, where were you located before moving to your present location?
5. Does your firm also operate outlets in other states? Yes or No If Yes, How many and where?
6. Please check the following sales range given below which best indicates your total sales for the twelve month period ending January 31, 1970, or other one-year period corresponding to you last complete fiscal year.
 Less than \$100,000
 \$100,001 to \$250,000
 \$250,001 to \$500,000
 \$500,001 to \$1,000,000
 \$1,000,001 to \$1,500,000
 \$1,500,001 to \$2,000,000
 \$2,000,001 to \$3,000,000
 over \$3,000,000
7. What percent of your total sales is on a credit basis?
8. What types of credit plans do you offer your customers? (please check)
 Open book accounts (nonrevolving)
 Revolving charge accounts
 Fixed time period installment accounts
 Bank credit card plan
 Other, (please specify)

9. What annual percentage rate of finance or service charge do you assess on:
 A. Revolving charge accounts? _____%
 B. Installment charge accounts? _____%
10. Do you usually require your credit customers to make a down payment on "big ticket" items (refrigerators, washers, furniture etc.)? Yes or No. If Yes, what do you usually require as a percent of the total purchase price for:
 A. Average credit risk customers?
 B. Below Average credit risk customers?

11. Do you make any of the following types of credit insurance available to your credit customers? (please check)
 _____ Credit Life
 _____ Fire Insurance
 _____ Disability
 _____ Other, (please specify)

12. Approximately what percent of your credit customers purchase one or more of the above types of insurance?

QUESTIONS #11 THROUGH #17 ARE VERY IMPORTANT; PLEASE THINK CAREFULLY AS YOU ANSWER.

13. Do you feel that Texas usury ceilings have caused your firm to limit its total volume of credit sales? (please check)
 _____ Yes, to a large extent
 _____ Yes, to some extent
 _____ No, or not very much

14. Do you feel the Texas usury ceilings have caused your firm to limit the amount of credit extended to would-be customers with poor credit ratings?
 _____ Yes to a large extent
 _____ Yes, to some extent
 _____ No, or not very much

15. Please briefly describe the group or groups or credit applicants (now rejected as poor credit risks) that you could extend credit to if you were permitted to charge a higher finance rate.

16. At what rates do you feel the Texas usury limits should be set? _____% _____ (please state if you mean add-on or a simple annual rate.)
 If you could charge this rate, approximately how much additional credit would you be able to extend?
 Percentage increase _____%.

17. At the present time, what are your rejection or turndown rates for new applicants? (percentage of would-be customers whose credit does not qualify at your store)
- A. Overall rejection rate on new credit application? _____%
- B. Rejection rate for new nonrevolving open book accounts? _____%
- C. Rejection rate for new installment accounts. _____%
18. On the total credit extended by you during the last fiscal year, what were your estimated actual losses as a percent of total credit sales? _____%
19. Approximately what percentage of the credit that you extend do you sell to some financing institution? _____%
20. Among your credit accounts or contracts sold to financing institutions, how were the sales distributed? (Please show the approximate percentage distribution,)
- _____ % to finance company affiliate or subsidiary of manufacturer
- _____ % to private finance company not connected with your own firm or manufacturer (such as CIT, HFC, etc.)
- _____ % to finance company affiliate of your own firm (not connected with manufacturer)

TO BANKS

- _____ % accounts charged to bank credit cards
- _____ % credit sold to banks (not charged to bank credit cards)
- _____ % of total credit sold

100

21. Have the Texas usury ceilings reduced the number and types of financing institutions available to purchase your installment contracts? (please check)
- _____ Yes, to a large extent
- _____ Yes, to some extent
- _____ No, or not very much
22. If you sell contracts to financing institutions, do you usually sell at: (please check)
- _____ Face value
- _____ Face value less a fee
- _____ A discount from face value
- _____ A premium over face value
23. Does the paper which you sell to lenders include some type of recourse against your firm? Yes _____ No _____ (please check) If Yes, what type of recourse? Full-recourse or limited-recourses.
24. Is a dealer reserve created against which losses may be charged? Yes or No. If Yes, how is the dealer reserve created?

25. Do your financing institutions return part or all of your dealer reserve after a period of time? Yes or No. If Yes, how is this done?

26. Do you use some type of "floor plan" to finance your inventory requirements? Yes____ No _____ (please check). If Yes, with whom do you "floor plan?"

- _____A bank
- _____A manufacturer
- _____Affiliated finance company
- _____Other financing
- _____company (please specify)

27. If you do not use a "floor plan" how do you usually finance your inventory requirements?

28. What do your suppliers charge you for credit?

29. Do you feel the Texas usury ceilings have caused your firm any difficulty in obtaining funds locally, or otherwise, to finance your credit sales or inventory requirement? (please check)

- _____Yes, to a large extent
- _____Yes, to some extent
- _____No, or not very much

30. Do you make any of the following services available to your customers? (please check)

	Do you offer the service	Do you charge for the service
a.	Product delivery __Yes __No	__Yes __No
b.	Product installation __Yes __No	__Yes __No
c.	Product returns __Yes __No	__Yes __No
d.	Wrapping __Yes __No	__Yes __No
e.	Repair service __Yes __No	__Yes __No
f.	Other services __Yes __No	__Yes __No

31. Approximately what percent of your total credit sales are to customers from Arkansas?

32. If you again had the choice of locating your dealership in Texas or in Arkansas, would the difference in the states' usury laws: (please check)

- _____Cause you to prefer to locate in Texas rather than Arkansas?
- _____Be an important factor in considering where to locate?
- _____Be only a minor factor in considering where to locate?
- _____Be considered, but probably have little influence on where you located?
- _____Not even be considered in your decision as to where to locate?

33. If you have the time. I would appreciate any additional comments you may have regarding the possible effects of the Texas and Arkansas usury ceilings on your firm or other dealers in your community.

I THANK YOU FOR TAKING TIME TO FILL OUT THIS QUESTIONNAIRE

APPENDIX 2

A BIBLIOGRAPHY OF CONSUMER CREDIT RESEARCH FINDINGS IN ARKANSAS

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