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Center**

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**Changes in Finance Company Personal Loan Policies
Following Enactment of the Wisconsin Consumer Act
1977**

**Changes in Finance Company Personal Loan
Policies Following Enactment of the Wisconsin Consumer Act
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Synopsis:

The paper analyzes the data and information received from two surveys of consumer finance companies. The objective of the surveys was to document possible changes in finance companies' delinquency and loss experience and loan policies that might have resulted from the restrictions on creditors' remedies embodied in the Wisconsin Consumer Act (14CA). One survey applied only to finance companies operating in Wisconsin and attempted to document changes in delinquencies, losses, and policies that occurred subsequent to enactment of the WCA. The other survey was of national finance companies, and attempted to provide a base for comparing their Wisconsin and national operations.

Analysis of information received on the surveys supports the following conclusions:

- (i) Most companies operating in Wisconsin tightened credit availability after enactment of the Wisconsin Consumer Act. Most cited the WCA (either directly or indirectly) or increased losses (or inadequate returns) as the reason for their actions.
- (ii) Most rate changes subsequent to enactment of the WCA followed changes in legal rate ceilings. However, one company noted a decreased willingness to reduce rates for better customers thereby suggesting that those customers indirectly subsidized increased losses in other phases of its operations.
- (iii) A number of companies indicated that they had changed their policies toward the type of personal loans that they favored with larger loans and real estate secured loans gaining favor and small loans, loans secured with household goods, or loans purchased from others generally losing in favor. This tendency was reinforced by rate changes, made around the time of enactment of the WCA, that favored larger, longer maturity loans.
- (iv) The proportions of loans made to new customers declined slightly after enactment of the WCA (but still remained above the national average).
- (v) Credit insurance was much more likely to be associated with personal loans made in Wisconsin than in the nation as a whole. This could have reduced the riskiness or increased the net yield of Wisconsin lending, but no systematic pattern was found that credit insurance use either systematically increased finance company profits in Wisconsin or was associated with severe creditor remedy restrictions in other parts of the nation.
- (vi) Delinquency rates and losses were lower in Wisconsin than in the nation as a whole (possibly because low rate ceilings kept finance companies from taking substantial risks in their Wisconsin lending). However, Wisconsin delinquencies and losses increased after enactment of the WCA. In addition, a higher proportion of Wisconsin delinquencies were long-term than in the nation as a whole, and gross losses were higher relative to delinquencies. This suggests that it was more difficult for the national finance companies to cure or collect on delinquent debts in Wisconsin during the early stages of delinquency. Nonetheless, somewhat unexpectedly, recoveries on charged-off Wisconsin debts were somewhat higher (proportionately) than in the nation as a whole.

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Overall, the data suggest that Wisconsin consumer finance companies experienced increased delinquencies and losses and reduced credit availability (particularly to marginal risk borrowers) after enactment of the WCA.

Changes in Finance Company Personal Loan Policies Following Enactment of the Wisconsin Consumer Act

I. Hypothesized Impact of the Wisconsin Consumer Act

The enactment of the Wisconsin Consumer Act (WCA) in 1973 limited creditors' remedies in Wisconsin in a manner that was similar in many respects to the proposed FTC trade regulation rule. In particular, the classes of goods and amount of income that could be taken as security were limited, wage assignments were restricted (with consumers given the right of recession), confession of judgment clauses in contracts were prohibited, attorney-s' fees were prohibited (except in certain classes of, largely real estate related, transactions), waiver of defense clauses and holder-in-due course provisions were eliminated for purchase money loans and lender-merchant related transactions, default charges were severely limited, contractual waivers of consumer rights were prohibited, and security interests, collateral disposition, and deficiency judgment processes were restricted and regulated.

Since creditor remedy restrictions come into play only in the event of default, they should have their greatest effect on markets with the highest relative risk of default. Because customers of finance companies are likely to have a higher probability of default than borrowers from banks and credit unions, one would expect finance company direct cash lending to be more strongly affected by remedy restrictions than credit union and bank lending.

Insofar as remedy restrictions reduced creditor profits, by raising defaults and collection costs, lenders would either withdraw capital from the industry or attempt to restore their profitability by reducing risk and losses on increasing finance rates and related revenues,

Thus, it is hypothesized that remedy restrictions on finance company direct cash lending would likely induce (a) rate increases, insofar as that was possible given existing rate ceilings, (b) restrictions on credit availability, particularly to riskier customers, or (c) changes in finance company loan and collection policies to minimize risk or maximize the chance of recovery on bad debts in the new regulatory milieu. Because many finance companies charge legal maximum rates, adjustments in rates would not likely be great. Thus, the bulk of response to changed creditors' remedies would likely be in one or both of the latter two forms.

New collection and loan policies would ordinarily not be as efficient as policies adopted in the less restrictive former regulatory environment. Otherwise, they most likely would have already been adopted to increase profits in that environment. Thus, finance companies that adopted new collection and/or loan policies in response to the Wisconsin Consumer Act would likely experience increased collection costs unless they simultaneously took action to reduce total default risk by restricting credit availability.

Consequently, the most likely result of creditor remedy restrictions on finance company direct cash lending would be a restriction in credit availability--often accompanied by changes in collection and/or loan policies (other than those mandated by law) designed to reduce creditor risk in the new regulatory environment. Because of rate ceilings, changes in loan rates (except for those mandated or allowed by rate ceiling modifications) are a less likely response to remedy restriction. However, some rate changes in response to regulation might be made by companies that offered below ceiling rates. In addition, because the rate ceiling changes that

were made tended to increase the relative appeal of larger longer maturity loans, some change in the composition of consumer lending could be anticipated to follow enactment of the WCA.

II. Data Collection

To gather information on possible adjustments in finance company lending in response to the enactment of the Wisconsin Consumer Act, the Credit Research Center designed a questionnaire and cover letter that was distributed to all finance companies operating in Wisconsin by the National Consumer Finance Association in November 1975. The questionnaire was designed to ascertain whether finance companies had changed their policies on loan rates or credit availability after enactment of the WCA. It also attempted to determine if finance companies experienced increased delinquencies or losses, or increased difficulty in resolving delinquencies promptly. Finally, it attempted to determine if finance companies might have attempted to reduce risk by granting credit only to customers with established repayment patterns after enactment of the WCA. A copy of the questionnaire is attached as Exhibit A.

Sixteen companies--including both national and local Wisconsin finance companies--responded to the questionnaire. One respondent, however, did not provide detailed answers to the policy-oriented questions, noting only that, "Since we only have two branch offices in the state of Wisconsin, and it is our intent to sell these branches as soon as possible, we have only completed Pages 3 and 4 of the questionnaire." Also, one respondent did not provide detailed information on delinquencies and another respondent, that commenced operations in 1974, could not provide useful comparative responses. Thus, 14 usable responses were received on the policy portion of the questionnaire and 14 usable responses were received on the data portion.

In addition, (similar) supplementary data applicable to Wisconsin and other states were obtained in a survey of national finance companies mailed out at the same time (Exhibit B).

III. Analysis of Responses

A. Changes in Credit Availability

Two sets of questions designed to elicit responses relating to credit availability were included on the questionnaire. They were: "3. Since 1972, has your firm had to tighten its lending standards overall, or has your firm been able to loosen its lending standards somewhat, or have they stayed about the same?

- Standards have been substantially liberalized.
- Standards have been moderately loosened.
- Standards have remained about the same since 197_(go to Question 4)
- Standards have tightened somewhat.
- Standards have tightened substantially.

3a. What were the major reasons for changes in standards?

- (1) _____
- (2) _____
- (3) _____

and,

"4. Do you use a formal point score evaluation system to help make lending decisions?

- YES
- No

4a. (If Yes) Has the minimum score required for considering an application changed since 1972?

- YES, INCREASED
- NO CHANGE
- NOT APPLICABLE - THE POINT SCORING MODEL HAS BEEN SUBSTANTIALLY CHANGED
- YES, DECREASED

4b. If Yes, Why?

- (1) _____
- (2) _____
- (3) _____

Overall, the responses to the questionnaire were consistent with the theoretical expectations. In response to question 3, all finance companies indicated that they had reduced credit availability. Five respondent companies indicated that their credit standards had "tightened substantially," eight indicated their standards had "tightened somewhat" either directly or, in one case, indirectly, by emphasizing lower risk loans, and only one company indicated that their credit standards had remained the same-and that one reported an increase in credit score limits ("to compensate for factors which (are) not now permitted under ECOA"). No companies indicated that standards had eased.

A large portion of the reasons given (in response to question 3a.) for the increase in credit standards could be related, either directly or indirectly to the effects of the Wisconsin Consumer Act.

Six of the companies that raised credit standards cited new laws as a reason for their policy changes. Their comments, which are quoted below, are instructive. In particular, as a rationale for their increases in standards, they stated that the major reasons for their actions included:

"Changes in law--(Consumerism),"

"Change in collection laws-making them-more liberal for the consumer,"

"Wisconsin Protection Law,"

"Difficulty in operating with new collection laws under Wisconsin Consumer Act,"

"Increased charge-off due to law restrictions on available 'exempt' security coming from the increase in bankruptcies. Loss of a portion of the previous new customer market,"

"Again, we have emphasized real estate secured because of the consumer oriented W.C. Act."

These comments suggest that the effects of the passage of the Act may have been to (i)increase collection expenses, delinquencies, and losses, (ii) induce finance companies to emphasize types of loans, such as real estate secured loans, which are likely to be large and less risky, and where the collateral taken is not proscribed under the Act and (iii) possibly eliminate a portion of the new customer market.

Because the WCA might have affected finance companies' policies on credit availability indirectly, by changing their loss and delinquency experience, a tally was also made of the number of times that companies cited losses and delinquencies, or a desire to reduce losses and delinquencies, as a rationale for raising credit standards. Such citations might indicate that passage of the WCA may have had an indirect influence on credit availability. When such citations were tallied, it was found that five finance companies which did not cite the Wisconsin Consumer Act (plus two that did) explicitly cited losses or delinquencies as a reason for raising credit standards. Thus, 11 of the 13 companies that tightened credit standards cited as their rationale either the passage of the Wisconsin Consumer Act or a desire to control losses and delinquencies. Of the remaining two companies, one indicated that the tightening of standards resulted from a desire "to require closer look at lower range of business" and the other reported

overall standards have remained about the same since 1971; however, due to emphasis placed on larger loans and/or real estate loans, there has been some automatic upgrading of the borrower profile and tightening of lending policies. Another factor which probably indirectly influenced or created an automatic upgrading was a relocation of a majority of branches from the downtown metropolitan areas to the suburbs.

Since both of these motives are consistent with those cited by creditors who explicitly referred to the Wisconsin Consumer Act as a major reason for changing standards, it is possible that the Wisconsin Consumer Act contributed either directly or indirectly to every respondent's decision to tighten lending standards.

Additional evidence of credit restrictions was given in answer to the credit scoring questions (4, 4a, and 4b) on the questionnaire. Of the nine respondents that reported scoring systems in operation prior to 1975, seven reported increases in their minimum cutoff scores. One of the other two reported an update of the system, with attendant changes in borrower acceptance and rejection probabilities, in July 1973. Some of the score increases were caused by company-wide considerations, such as "money costs and inflation, reduced rate of return to inadequate level, [and] availability of funds to lend caused reduction of lending to lower return states" or "[Restrictive] Business policy throughout the United States [was] implemented to further improve [the] quality of credits purchased." Nonetheless, since the Wisconsin Consumer Act could have contributed to the low-return nature of Wisconsin lending, it might have contributed to the fact that two respondents explicitly identified Wisconsin as a "lower-return" state--with attendant reductions in lending.

Table 1 summarizes finance companies' responses to the questions on credit availability and credit scoring.

B. Rate Changes

With only two exceptions, all rate changes cited by the respondent companies were in response to law changes (some of which allowed slightly higher maximum rates of charge and some of which allowed lower maximum rates of charge). Some rates were increased and some were decreased depending upon changes in applicable statutes. Of the exceptions, one company, which started operations in 1974, reported higher rates, "Rates were increased twice in 1974 reflecting decreased money costs." However, they did not report subsequent decreases in 1975 even though money costs eased. The second exception involved a company that reported charging higher rates because of

Law change in 1973; also decreased emphasis of writing loans below state maximum for preferred credit customers due to higher costs on borrowed funds and increased operating costs.

From an analytical standpoint, the last response is highly interesting. It suggested that if the enactment of the WCA contributed to the increased operating costs and "abnormally large losses" and delinquencies cited by the company elsewhere in the questionnaire (see Table 1, company 6), the good credit customers of that company were essentially forced to cover part of those losses by paying higher rates on their loans. Thus, to some extent it appears that the low risk "preferred" customer subsidized, at least in part, the increased collection costs and losses generated by the company's high risk customers after enactment of the WCA.

C. Other Policy Changes

Questions 1, 1a, and 1b (shown below) were designed to elicit information on general policy changes made by creditors in the years immediately subsequent to passage of the WCA. They were:

- “1. Since the beginning of 1972, have you made any changes in your lending policies?
 YES NO (go to Question 2)
- 1a. Please describe the three most important policy changes you have made:
(1) _____ (date made _____)
(2) _____ (date made _____)
(3) _____ (date made _____)
- 1b. What were the most important reasons (in order of importance) for these changes?
(1) _____
(2) _____
(3) _____ “

While all firms were asked to record the dates of each policy change, many did not do so. Nonetheless, a number of firms indicated that particular actions were undertaken on 3/1/73. Since that was the effective date of the Wisconsin Consumer Act, these acts were presumably in direct response to it. In addition, a number of additional respondents indicated that their policy changes were in response to changes in the law or, more specifically, to changes in collection remedies. The stated policy changes, dates (if available), and reasons, given for them are listed below for all firms that explicitly made reference to 3/1/73, the WCA, or collection laws. They illustrate the range of responses, that may, follow-reductions in creditors remedies.

Company 3 "modified the amount of high credit due to limitations, regarding personal property available for security because of the "state law 3/73 limiting collateral available for security." It also adopted "credit scoring" on 4/75 to "upgrade customer profile."

Company 7 "eliminated consumer approval dealers" on 3/1/73. It also noted that in 10/73 it "upgraded lending standards" and in 11/74 it "eliminated co-maker loans." The -undifferentiated reasons- for these acts were given as "change in laws--collection remedies available," "experience and cost analysis," and "economic factors."

Company 8 adopted "higher qualifications (in 1974), shorter terms [to maturity] (in 1975)," and "smaller loans (in 1974)" because "collection laws changed, giving the consumer more advantages," "less job security," and "lack of ample money supply," in order.

Company 9 changed its loan security policy on 3/1/73 to take only "security restricted to non-exempt consumer goods" due to the "law change." It also increased loan ceilings to nearly \$7000 in 1975, to "obtain a larger portion of the real estate secured loan-market" and raised credit guide score cutoffs both in 8/74 and

10/75 because of "increase in delinquency and losses,," "money costs and inflation [which] reduced rate of return to inadequate level," and "availability of funds to lend caused reduction of lending to lower return states." Because the recession did not start until late 1974, it is possible that the increased losses and low returns that caused credit scores to be raised on 8/1/74 were, in part, caused by enactment of the KA, as the national recession had not yet begun at that point.

Company 11 noted on 3/1/73, it had adopted policies to "lower percentage of cash advance against book value on automobile loans" and to "avoid marginal small balance loan business" because the "Wisconsin Consumer Act makes it more difficult and expensive to repossess" and the "Wisconsin Consumer Act protects the marginal customer."

Company 12 stated that in 1/75, the following policies were initiated: (1) "concentration on homeowner loans--real estate secured," (ii) collection techniques require heavy legal assistance--complexity of replevin laws [presumably this means more legal advice will be purchased]" and "heavy emphasis on insurance income to overcome heavy losses," because the "Wisconsin Consumer Act restricts collection of accounts by restricting replevin of security and garnishment laws."

Company 15 in response to question 1a, reported the following changes:

(i) We have changed our point system standards on two occasions. Our state loan laws- changed on three occasions applicable in 6/72, 3/73, and the last change 7/73. These changes have made lending in Wisconsin more restrictive for the finance co. & less effective for the consumer's needs.

(ii) Compliance with the new Federal "Equal Opportunity Laws" relating to polity lending (9/5/75) with other changes in this law applicable on 1/30/76, 6/30/76, and 11/1/76 all relating to further restrictions in the granting of credit, and who we should lend our capital to.

with the explanations given in answer to question 1b as:

(i) Point system upgrading changes made to reduce losses which increased. The final point system change made in compliance to the Equal Credit Opportunity Act.

(ii) State law change of 7/73 gave us a small rate increase and a permanent law, those prior being temporary. The new law restricted the use of household goods as security "exempting" approximately 70% of the applicable security which could previously be utilized by a customer for a loan,

(iii) Maximum terms and insurance rates have also been changed during the period covered by your questionnaire.

Thus, half of the respondents to questions 1a and 1b explicitly indicated that they had reacted to the Wisconsin Consumer Act by variously (i) restricting credit availability, particularly to marginal customers; (ii) changing security policies, either by emphasizing loans secured by real estate credit or other non-exempt collateral or by raising-down payment percentage requirements; and (iii) reducing the maximum size of loan that would be granted to qualified small loan customers.

The other respondents also indicated that a general tightening of credit availability and terms had occurred, but they did not make specific allusions to the WCA. Their comments, some of which may reflect indirect responses to WCA, are listed below.

Table 1
Changes in Finance Company Credit Standards and Minimum Credit Scores from 1972 - 1975
(multiple responses are denoted with multiple X's)

Company Number	Changes in Loan Standards		Credit Score Changes		Reasons for Standards Change							Other
	Eased Change somewhat in Standards	Raised sub-stantially	Raised minimum credit score	Don't change score (date of last change)	WCA or law changes on col-lateral cited	Losses, Delinquency or Bankruptcy losses cited	High cost of operations, reduce lending in low return states	High cost of funds or debt, shortage of money	Economy, job security, inflation	Upgrade portfolio quality, look more closely at low range of businesses or new customers	Change in loan emphasis (R.Estate loans) offices to suburbs	
1	X		X					X				
2		X	X			X		X				
3	X		X		X			X		X		
4	Not applicable - started operation only on 1/74		started scoring in '75	X								
5	X		changed system in '73	X								XX
6	X		X	X								
7	X		X	X								
8	X		X	X								
9		X	X									
10	Not applicable - discontinuing operations, did not complete these questions			X								
11	X		X	X								
12		X	X	X								
13	X		X	X								
14		X	X	X								
15		X	X	X								
16	X*		X*									XX
0	1*	8	5	1	6	7	2	5	3	3	2	1*

* Raised credit score due to Equal Credit Opportunity Act, but didn't change overall standards.

Company 1 "restricted maximum cash advance to applicants (on 9/74)" and "lifted restrictions regarding maximum cash advance to applicants (on 3/75)" due to "limited availability of funds," "Managements decision to allocate funds to those states providing the maximum yield," and "the failure of Wisconsin to in act (sic) legislation increasing rates to help offset increased costs."

Company 2 "began Real Estate loans in 1973 (on 10/73)" and "Restricted lending from 10/74 through 2/75" because (i) real estate loans are "better secured and type of loan [desired]" and (ii) from late 1974 on, it wanted to "provide time to work delinquents closely."

Company 4 did not respond to these questions as it was a new company.

Company 5 noted that "the only major policy change was to increase the maximum term from 60 months to 120 months, and the maximum loan from \$5000 to \$25,000. Change was made in April of 1972, but was not stressed until mid 1974," and that "The above change was due to our desire to place emphasis on larger loans, particularly real estate loans."

Company 6 reported that in 2/75 and 10/75 the following policy changes were enacted: "strong collateralization required," "increased emphasis on the economic capability of the customer [level of income]" and "reduction in percentage advance [it was] willing to lend on second mortgage real estate" because of "high delinquency," "abnormally large losses," and the "number of losses."

Company 10 did not respond to questions 1, and 1a and 1b, as it is planning to sell its Wisconsin offices.

Company 13 indicated that in 1974 and 1975 it had adopted policies of "minimum one year on job [for potential borrowers]," "no co-maker loans," and "clean credit record for at least 2 years" because of (i) its "loss experience" and (ii) a "shortage of money."

Company 14 noted that in 1/73 "Four different branch manager lending plans were introduced, giving higher dollar limits" in order "to better cover the lending abilities of branch managers, particularly those with more experience."

Company 16 reported that it

- (i) "eliminated the taking of furniture and miscellaneous collateral as security (on 8/1/74)
- (ii) "restrict[ed] solicitation of loan business from Wisconsin residents to Wisconsin offices only (on 9/12/73)" and
- (iii) "discontinued offering Accident & Health Insurance coverage on loans (on 4/21/75)" because it
 - (i) was "placing greater emphasis on customer credit as the basis for the loan rather than collateral"
 - (ii) "elected to discontinue solicitation into Wisconsin so as to avoid licensing any out of state offices," and
 - (iii) had an "unsatisfactory loss experience on rates permitted."

Since a number of these companies reported policy adjustments in response to adverse loss or profit experiences, it is conceivable that the WCA could have had an indirect effect on their policies similar to the

effects (previously noted) by respondents who indicated that they had adjusted their policies because their losses and/or costs had increased subsequent to enactment of the WCA.

D. New Customer Loans

Since one way a finance company can restrict its risk is by reducing loans to new customers, all finance companies were asked to indicate the proportion of their personal loans that were made to new borrowers in each of the last three years. Of the 14 companies that reported usable data, eight showed a decrease in the percentage of new customers among their total customers from 1972 to 1974, while six companies showed an increase. In the aggregate, the respondent companies indicated that the percentage of credit extended to totally new customers (not previous or former borrowers) declined from 31 percent in 1974 to 28 percent in 1972.

Supplementary data obtained from the nations largest finance companies- on a related questionnaire (Exhibit B) indicated that the national average percentage of finance company loans made to new borrowers in 1974 was only 20 percent. This was six percent below the percentage of new-borrowers serviced by their Wisconsin offices. Thus, even though the percentage of finance company loans made to new borrowers declined from 1972 to 1974, it apparently remained higher than the national average rate.

E. Credit Insurance

Credit insurance can protect both customers and creditors against loan defaults precipitated by illness or death. Where creditor remedies are limited one would expect creditors to place a higher value on credit insurance than would otherwise be the case--either as a potential source of supplementary income or as a surety against certain possibilities of default.

To test the hypothesis that creditors would be more likely to promote credit insurance in states with limited remedies, a question on credit insurance penetration was placed on the questionnaire distributed to major national finance companies (Exhibit B). The respondents to that questionnaire that maintained Wisconsin offices indicated that a substantially greater proportion of their Wisconsin customers purchased credit insurance than was the case for the national sample in general. However, no correlation between credit insurance coverage and creditor remedy restrictions was obvious in other states.

F. Delinquencies and Losses

Data obtained from the national sample of finance companies were useful for comparing the delinquency and loss experience of finance companies' national personal loan operations with their delinquency and loss experience in Wisconsin. Some caution is in order in comparing the national and Wisconsin statistics, however, as not all reporting companies, operated in Wisconsin.

Table 2 presents data on the 1973 and 1974 Wisconsin and national delinquency and loss experiences of the 16, major companies that responded to the national finance company questionnaire.

They indicate that, overall, finance company personal loan customers in Wisconsin tend to be more creditworthy than customers in the rest of the country. Demographic considerations may have some influence on this result. However, the most likely explanation is that the relatively low Wisconsin personal loan rate ceilings, coupled with, tight remedy restrictions (as previously noted), induce finance companies to impose higher standards of credit-worthiness on their Wisconsin customers than is true for their customers in general. Thus, total loan delinquency rates and loss rates are lower in Wisconsin than in the rest of the country (see Lines 1, 4, and 5 of Table 2).

Restrictions on creditors remedies, however, Pay have an effect on the pattern of finance company delinquency and loss experience in Wisconsin. In particular, by impeding collection procedures they may, in part, explain why serious C90 day +) delinquencies account for a higher percentage of total delinquencies in Wisconsin than in the nation as- a whole, as well as why Wisconsin gross losses were higher relative to delinquencies (on balance) than in the nation as a whole over the 1973~74 period. (See Table 2, lines 2 and 3).

However, remedy restrictions did not appear to impair recoveries on charge offs, as-might have been expected (see line 6 Table 2). Although Wisconsin recovery rates were slightly lower than those in the nation as a whole in 1973, they were higher in 1974.

IV. Summary

Data and comments reported on two surveys of finance companies suggest that finance company delinquencies and losses in Wisconsin tended to rise after enactment of the Wisconsin Consumer Act. They also indicate that practically all finance companies operating in Wisconsin restricted credit availability, particularly to marginal risk borrowers, following enactment of the WCA. Thus, low income people, young people, or people without real estate to use as collateral may have found it harder to obtain credit from consumer finance companies after enactment of the WCA. Other policies initiated by Wisconsin finance companies after passage of the WCA gave greater emphasis to forms of credit for which security could still be taken, reduced maximum credit advances to small loan customers and purchasers of automobiles, and caused some companies to place greater emphasis on borrowers' economic capacity than collateral.

Rate changes generally followed changes in rate ceilings, but at least one company reported that it discontinued offering below-ceiling rates to preferred risk customers. While the proportion of Wisconsin loans made to new borrowers was above the national average, it fell after enactment of the WCA, possibly because some finance companies were reluctant to take on new credit risks. Also, credit insurance coverage appeared to be more widespread in Wisconsin than in the rest of the nation--possibly because it reduced creditor risk (even though one Wisconsin company noted that it was discontinuing credit insurance because of inadequate premium rates). finally, while total loan delinquencies and losses tended to be lower in Wisconsin than in the rest of the nation (most likely because relatively low rate ceilings discouraged lending to high-risk customers), there was some evidence that a greater portion of short-term delinquencies were likely to become serious delinquencies in Wisconsin and generate losses. Nonetheless, in 1974, data indicate that Wisconsin finance companies' recovery rate on charged off debts exceeded the national average.

Overall, the evidence suggests that Wisconsin finance companies experienced increased losses and reduced credit availability, particularly to "marginal" risk, new, or small loan borrowers, after passage of the WCA.

**Table 2:
Major Finance Company Losses and Delinquencies in Wisconsin and the Nation, 1973 and 1974**

	Wisc. 1973	Nation 1973	Wisc. 1974	Nation 1974
1. Delinquencies as of outstandings	1.76	6.57	4.29	6.01
2. Serious (90 day +) delinquencies as % of total delinquencies	56.16	50.58	55.81	54.10
3. Gross losses as % of delinquencies	88.72	49.47	58.18	60.59
4. Gross losses as % of outstandings	1.56	3.25	1.97	3.64
5. Net losses as % of outstandings	1.39	2.89	1.73	3.25
6. Recoveries as of gross losses	11.22	11.68	12.04	10.67

Exhibit A

**QUESTIONNAIRE ON DIRECT CASH LOAN CREDIT
AVAILABILITY AND LOSSES IN WISCONSIN**

Respondent: The following questions apply to your loan losses and policies in Wisconsin during the period beginning January, 1972 and extending through 1975. We appreciate your cooperation and the help of the National Consumer Finance Association in this study.

1. Since the beginning of 1972, have you made any changes in your lending policies?
 YES No (go to Question 2)

1a. Please describe the three most important policy changes you have made:

- (1) _____ (date made _____)
(2) _____ (date made _____)
(3) _____ (date made _____)

1b. What were the most important reasons (in order of importance) for these changes?

- (1) _____
(2) _____
(3) _____

2. Are the rates you now charge for credit generally higher or lower than they were in 1972?

- HIGHER
 SAME
 LOWER

2a. Why is that? _____

3. Since 1972, has your firm had to tighten its lending standards overall, or has your firm been able to loosen its lending standards somewhat, or have they stayed about the same?

- Standards have been substantially liberalized
 Standards have been moderately loosened
 Standards have remained about the same since 197_ (go to Question 4)
 Standards have tightened somewhat
 Standards have tightened substantially

3a. What were the major reasons for changes in standards?

- (1) _____
(2) _____
(3) _____

4. Do you use a formal point score evaluation system to help make lending decisions?

- YES NO

4a. (If Yes) Has the minimum score required for considering an application changed since 1972?

- YES, INCREASED
 YES, DECREASED
 NO CHANGE
 NOT APPLICABLE/THE POINT SCORING MODEL HAS BEEN SUBSTANTIALLY CHANGED

4b. If Yes, Why?

- (1) _____
(2) _____
(3) _____

5. Can you quantify your direct cash loan delinquency and loss experience in Wisconsin during the last three calendar years? In particular, insofar as possible, can you complete the following table from historical data?

As of December 31	(December)	(December)	(December)	(December)	(December)	(December)
Outstanding Direct Cash Loans	1972	1972	1973	1973	1974	1974
	#	Amount	#	Amount	#	Amount
Past Due Balances						
60-89 days						
90-179 days						
180-269 days						
270 days or more						
Total						
Interest only acct's						
Partial Payment acct's						
Gross Charge-offs*						
during calendar year						
-less recoveries during						
calendar year						
Net losses during year						

*Please indicate if your charge-off policy has changed during this period and, if so, how?

6. What proportion of your loans were made to new borrowers in the last three full years?

	1972	1972	1973	1973	1974	1974
	#	\$ Value	#	\$ Value	#	\$ Value
a. Total direct cash loans made*						
b. Total direct cash loans made to new borrowers						
c. Percentage of direct cash loans made to new borrowers 100(b/c)						

*Include all loans made to new, former, and present borrowers.

THANK YOU VERY MUCH FOR YOUR COOPERATION. ALL OF YOUR RESPONSES WILL COMPLETELY CONFIDENTIAL AND WILL BE SEEN ONLY BY THE STAFF OF THE CREDIT RESEARCH CENTER AT PURDUE UNIVERSITY.

PLEASE PLACE YOUR COMPLETED QUESTIONNAIRE IN THE ENCLOSED, STAMPED, SELF ADDRESSED ENVELOPE AND RETURN TO:

PROFESSOR ROBERT JOHNSON, DIRECTOR
CREDIT RESEARCH CENTER
KRANNERT GRADUATE SCHOOL OF INDUSTRIAL
ADMINISTRATION
PURDUE UNIVERSITY
WEST LAFAYETTE, INDIANA 47907

BY DECEMBER 31, 1975.

Name of company _____
Person to contact regarding this report (phone) _____

Exhibit B

Direct Cash Loan Survey Questionnaire

November 18, 1975

This survey is intended to obtain data on the repayment experience and relative availability of direct loan credit from major finance companies. All information supplied by individual firms on this survey form will be held strictly confidential. In addition to data pertaining to your direct cash loan operations for the nation as a whole, we would like to obtain similar data from you for the following states: (i) Wisconsin (ii) Minnesota (iii) West Virginia (iv) Virginia (v) Massachusetts and (vi) Rhode Island. The data that we need both for the nation as a whole and for each indicated state should be broken down, insofar as possible, as shown in the following table.

The particular items in which we are most interested in Tables I and 2 are data that may indicate changes in the rate at which individual loans progress from early stages of delinquency to unrecoverable losses. In Table 3, we are interested in any quantifiable evidence which you may have that would indicate that stronger efforts are being made to avert possible losses in one state than in another. Such evidence could include different cut-off points on a standard credit-scoring model in different states, different policies with respect to granting credit to new (as opposed to repeat) customers, and/or other criteria (such as minimum income limits, maximum tolerable debt-to-income ratios, etc.) which must be met by potential borrowers in one state or another. Finally we are interested in whether there is a difference in the degree of borrower coverage by credit health, and accident insurance in contracts drawn in Wisconsin, Massachusetts, and West Virginia versus contracts made in the U.S. as a whole. If statistical data can be easily compiled on this point, it would also be helpful. Useful statistics to obtain would be the number (or proportion) of loan contracts made during 1973 and 1974 covered by accident and health insurance, both in each indicated state and in the nation as a whole.

We thank you for any information which you are able to provide on these topics. We have provided forms for your convenience in providing the data. If there are instances in which you can provide similar information, but in a different fashion, please provide those data rather than none at all. As previously noted, all data which you submit will be kept strictly confidential and will be seen only by the staff of the Credit Research Center. If you are unable to provide the indicated data, please contact Robert Johnson or Richard Peterson of the Credit Research Center (phone: 317-494-5043). We hope that you will be able to provide this information by December 31, 1975.

Table 1: Direct Cash Loan Delinquency and Loss Experience, as of December, 1974

	By State													
	Nationwide	Massachusetts		Minnesota		Rhode Island		Virginia		West Virginia		Wisconsin		
	# of Acct's	\$ Value of unpaid balances	# of Acct's	\$ Value of unpaid balances	# of Acct's	\$ Value of unpaid balances	# of Acct's	\$ Value of unpaid balances	# of Acct's	\$ Value of unpaid balances	# of Acct's	\$ Value of unpaid balances	# of Acct's	\$ Value of unpaid balances
Direct Cash Loans Outstanding														
Fast Due Balances														
60-89 days														
90-179 days														
180-269 days														
270 days or more														
Total														
Interest only accounts														
Partial payment acct's														
Gross Charge-offs during Calendar year 1974*														
-less recoveries during 1974														
*Net losses during 1974														

*Please indicate if your charge-off policy is not standard nationwide, and specify what differences exist, if any, between states.

Name of company _____
 Person to contact about this report (phone) _____

Table 2: Direct Cash Loan Delinquency and Loss Experience, as of December, 1973

	By State													
	Nationwide	Massachusetts		Minnesota		Rhode Island		Virginia		West Virginia		Wisconsin		
	# of Acct's	\$ Value of unpaid balances	# of Acct's	\$ Value of unpaid balances	# of Acct's	\$ Value of unpaid balances	# of Acct's	\$ Value of unpaid balances	# of Acct's	\$ Value of unpaid balances	# of Acct's	\$ Value of unpaid balances	# of Acct's	\$ Value of unpaid balances
Direct Cash Loans Outstanding														
Fast Due Balances														
60-89 days														
90-179 days														
180-269 days														
270 days or more														
Total														
Interest only accounts														
Partial payment acct's														
Gross Charge-offs during Calendar year 1973*														
-less recoveries during 1973														
*Net losses during 1973														

*Please indicate if your charge-off policy is not standard nationwide, and specify what differences exist, if any, between states.

Name of company _____
 Person to contact about this report (phone) _____