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BANKS' LENDING RESPONSE TO RESTRICTED CREDITOR REMEDIES

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Abstract

This paper presents the results of a survey of 186 banks in the state of Wisconsin conducted in 1975. The focus of the study was changes in bank lending policies over the 1972-75 period, and the reasons for those changes. Using open-end questions, banks were asked to detail the changes made, and the reasons for those changes. The period selected for study included the enactment of the Wisconsin Consumer Act.

The changes in bank policies observed included: (a) reductions in credit availability; (b) a reduction in the borrowing options available to consumers and (c) higher rates and charges. Over 40 percent of the banks reported tighter lending standards, 29 percent restricted maturities and the type and size of loans available and 11 percent raised rates and fees where permitted.

When asked to specify the reasons for these changes, 88 percent of the firms cited regulatory restrictions, 20 percent noted the cost of funds, and nearly 25 percent blamed the cost of compliance, paperwork, and legal costs. Only 18 percent cited economic conditions as a reason for policy changes. In terms of the number of loans made and the substantial among institutions that cited regulatory impacts as being important. Thus, although economic factors played an important role during this period, the impact of regulations on credit price and availability was clearly substantial during the period, based on the evidence from the open-end questions posed in the survey.

Banks' Lending Response to Restricted Creditor Remedies

The major objective of this paper is to provide some insight into some of the likely effects of the imposition of the proposed Federal Trade Commission (FTC) Trade Regulation affecting creditor remedies. The enactment of the Wisconsin Consumer Act in 1973 established rules covering creditor remedies quite similar to those in the proposed FTC rule (see Appendix C). Thus, the experience in Wisconsin is reported here as a case study of the effects of the proposed FTC rule. This is not an attempt to perform a comprehensive cost-benefit analysis of the Wisconsin Consumer Act. The study was not designed to do that. Rather, the focus of the study is on changes in banks' lending policies and the reasons for making those changes. Based on those responses, inferences can be made as to which consumers were affected by those policy changes. But no measure of the benefits of the legislation was made, although an attempt was made to identify what they might be and who would be the likely recipients. The findings are based on the results of a questionnaire sent to about 600 members of the Wisconsin Bankers Association. Nearly-one-third responded to the questionnaire (see Appendix A for a description of the study and a copy of the questionnaire). The data collected covered the period from 1972 to 1975, beginning prior to the enactment of the Wisconsin Consumer Act, which became effective in March of 1973. The Act was not mentioned in the questionnaire.

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Summary

The response of banks to the provisions of the Wisconsin Consumer Act limiting creditor remedies included:

1. A reduction in the amount of credit available, concentrated on the marginal borrower (higher credit standards).
2. Fewer borrowing options for the consumer, including fewer small loans and loans secured by collateral.
3. Higher interest rates.

During the period 1972-1974, nearly half of the banks reported making policy changes in their lending operations. Asked to report the most important changes, over 40 percent of the banks tightened lending standards, 29 percent restricted maturities and the type and size of loans made, and 11 percent raised rates and fees where permitted. Only a few firms reported easing lending standards: five percent lengthened maturities or otherwise liberalized terms available and one-half of one percent reported lower rates and fees. When asked specifically about lending standards, 61 percent said that they had tightened standards over the period of study (apparently some banks did not regard this as one of the most important policy changes;" thus, more firms reported changed lending standards than reported policy changes): 31 percent said they were unchanged and six percent had liberalized standards (these were predominantly smaller banks).

When asked to specify the reasons for policy changes, 88 percent of the firms cited regulatory restrictions, 20 percent noted the cost of funds, and nearly 25 percent blamed the cost of compliance, paperwork and legal costs. Only 18 percent referenced general economic factors (firms could give up to three reasons for policy changes). Regulatory changes were the most frequently reported factors contributing to the restriction of credit activities reported in the study.

The effect of regulation was also indicated in the reported figures on credit activity for the three-year period. Overall, the number of loans outstanding declined over the 1972-74 period. Outstanding direct loan volumes grew about 20 percent, reflecting an increase in average loan size. However, in relation to other banks, those that reported a tightening of standards over the period experienced a much larger contraction in the number of loans outstanding and much lower growth in outstandings. Firms that reported unchanged (31%) or easier lending standards (6%) increased the number of outstanding loans about 11 percent over the period, while the banks that tightened their lending standards (61% of all banks) reduced the number of loans by six percent.

The banks that eased standards reported an average number of loans of about 500 and those with unchanged standards, about 1,300 loans, compared to 1,500 and 2,100 loans for the average bank that tightened standards "somewhat" or "substantially," respectively. Extrapolating the figures for firms reporting complete data to the entire sample indicated a contraction in the number of accounts of nearly six percent. Similarly, the volume of outstanding direct loans grew by substantially less for banks that reported tightened lending standards.

Thus, although economic factors played an important role in the contraction of credit that occurred, it appears that the impact of regulation was more significant (based on the reasons given for policy changes). Controlling for economic factors by considering differential behavior among banks within the state indicated that the banking community responded to the Wisconsin Consumer Act (and similar regulation) by restricting credit availability (switching their resources to other activities) and raising rates. The impact of these changes fell primarily on consumers characterized as "marginal borrowers."

Lending: Costs and Revenues

A better perspective on the impact of the proposed regulations on consumers can be achieved by first examining the bank lending process and its interface with the consumer. First, a bank, must commit building space, equipment, personnel, computer facilities and other resources to the lending function. If the consumer lending function is to be maintained, it must pay a return on those resources that is high enough to convince the owners and managers of the bank that the equipment, personnel, and funds should not be put to some other use. Thus, after paying for all salaries, borrowed funds, computer time, forms and supplies, and so on, the bank must earn a reasonable return on the resources tied up in a loan operation.

In earning the return, the bank has control over most of the elements of cost and revenue, subject to any restrictions imposed by state or federal law (for example: rate ceilings, disclosure, limitations on remedies).

Revenues

1. Interest and finance charges on funds loaned or credit advanced.
2. Other fees charged in the lending process.

Costs

1. Salaries, materials, and supplies needed to process applications.
2. Credit investigation and related salary and other expense.
3. Credit risk and subsequent collection and bad debt expenses, including related salary, supplies, and so forth. Billing and account servicing costs (salary, forms, postage, computer time, and so on).

The cost-of funds tied up in the lending process is not included here since it is not under the control of the lender. The revenues from the lending operation must exceed total costs (including the cost of funds) by enough to pay an acceptable return on the capital resources devoted to the lending function. Otherwise, the bank's managers will be compelled to use these facilities for other, more profitable endeavors such as trust management, and business loans.¹

Costs and Benefits of Regulation: 'The Case of Creditor Remedies

It is unlikely that a piece of legislation like the Wisconsin Consumer Act could be passed if it were not expected to be in the best interest of some group of consumers. Such a bill is often characterized as a "consumerist" piece of legislation, although a closer examination of such laws will show that they are basically redistributive measures, helping some consumers and hurting others, while generating some administrative cost and possibly affecting economic efficiency in the private sector (i.e., because of provisions in the legislation, consumers, in the aggregate, receive more or less from the resources used to produce goods and services than before).

In such analyses, the costs and availability effects of regulation are usually the easiest to deal with, and include the following:

¹ It can be argued that a well run consumer loan division will bring new business (and therefore net proceeds) to other bank functions (like checking or savings accounts). Thus, this expression would then understate the profitability of the lending function for a particular bank. However, this paper deals with regulations that affect all banks in the same way. Thus, for all banks, no profitability (loss)-is attributed to "new business" generated since, for all banks taken together, this is probably zero (all checking accounts are held in the banking system). The banks, collectively, could lose (gain) savings account and loan business depending on how regulations impact these markets.

1. The cost of administration and enforcement.
2. The cost of compliance by firms regulated.
3. Consumer compliance costs (more forms, more time, and so on).
4. Adverse changes in the price, quality or credit availability of credit and other distributional effects.
5. Any other losses in economic efficiency.

If regulations increase the cost of doing business, a bank will have to generate more revenue to continue to earn a competitive return, or cut back the scale of its operation by eliminating the most expensive customers to bring the rate of return in line with alternatives. (Several banks noted that they had specifically done this--see Appendix A, Exhibits A-1 to A-4.)

Identifying the benefits is more complex. First, it is important to realize that, unless the regulation increases economic efficiency, consumers, as a whole, will not be better off after regulation. Wets the amount of income redistributed had more value to the recipients than it did to the donors, after accounting for the cost of making the transfer (administration, enforcement, and implementation costs). This is because consumers own all the means of production and compliance in the U.S. (foreign interests aside), and receive all the income generated from them (wages and salaries, rent, interest, dividends, and so on). To comply with the regulations costs money. Either the owners of firms, or their customers, or both, must bear the direct costs of regulation. If, in addition, the regulations change the cost and availability of credit to various risk classes in the population, the net value of the redistribution must be evaluated using judgmental (political) weights to determine the value of relative losses and gains.

An assessment of the impact of any regulation or set of regulations should also begin with a determination of the objectives of the regulation. In the case of restrictions on creditor remedies, the objectives would seem to include the following (although the list may not be exhaustive as it second-guesses the authors of the Act and includes this author's views about the nature of the objectives based on public statements):

1. To protect a debtor from "excessive" collection activities, including procedures used to repossess collateral or collect obligations owed. (See page 1, Appendix D).
2. To protect a consumer in cases where default is intentional but related to product quality or sales practices. Basically, this is a desire to protect the consumer from the cost of insufficient or erroneous information.
3. To give certain consumers a stronger position in the market vis-à-vis business.
4. Although not clearly stated, it appears that a major intent of such regulation is redistributive, and designed to favor the least fortunate in the market from loss due to misfortune or their own ignorance or inability to operate in the market. Restricting bank's ability to recover amounts owed in cases of default or delinquency is viewed as an insurance policy for the consumer. As collection procedures become more expensive and less efficient, creditors will employ them less frequently. This benefits the debtor who defaults and escapes repaying the obligation. If settlement is delayed, the debtor still benefits, but other consumers pay the higher costs of collection.

Since the bank is simply lending out consumers' deposits and owners' capital, a subsidy is imposed by the regulation, a transfer of income or wealth from one group of consumers (the depositors, owners, and borrowers that repay their obligations) to another (the defaulters). The result is easily seen by envisioning a world in which everyone repaid their debts with certainty, and all loans are made between individuals. If one consumer defaults, the problem is obvious. Recipients of the benefits of the regulations would include:

1. Consumers who default on their obligations
 - a. intentionally, due to bad merchandise, questionable sales practices, and so forth;

- b. intentionally, due to character (deadbeat);
 - c. unintentionally, due to economic or personal circumstances (loss of income, health, life, and so on) and have no provision for repaying their obligations;
2. Consumers who become delinquent, and ultimately repay their obligations but not the true cost of the loan;
3. Consumers who, because of the regulatory protection, will feel more comfortable entering the credit market.

These benefits will be received at the expense of other groups of consumers:

1. Bank depositors whose money was loaned out but not recovered and whose return on funds invested was lessened by the losses and higher cost of doing business imposed by compliance with the regulations.
2. Those consumers who lose access to bank credit because they no longer can be profitably served as a group in light of the higher costs and higher probabilities of bad debt losses.
3. Those who still use bank credit, but pay higher rates for that credit to cover the direct and indirect costs of regulation.
4. Cash customers who have no protection and might pay higher prices for goods and services.

The Impact of Regulations

The Wisconsin Consumer Act (the Act) affected both the revenues and the expenses of the lending function for banks in Wisconsin. On the revenue side, the Act set specific limits on the charges that could be made for loans and extensions of credit. Rates cannot be raised beyond the ceilings to accommodate riskier borrowers or higher costs.

On the cost side, the Act contains several provisions of interest to this study which have the following general effects:

1. Certain collection costs (such as attorney's fees) could not be recovered from defaulting consumers.
2. The use of collateral was restricted, diminishing the value of using collateral. By diminishing the security of loans made and lowering the probability that the amount loaned can be collected, the expected average cost of making a loan was increased.
3. Raised the riskiness of the applicant pool by prohibiting the applicant from agreeing to certain collection procedures (such as garnishment) in case of delinquency or default.
4. Raised the processing costs associated with the use of collateral. Some banks substituted a more thorough and expensive credit investigation to insure that the taking of security was not needed.

The ultimate impact of these changes is difficult to assess. The Act did permit somewhat higher rates than previously permitted for some types of lending. In addition, the rate of inflation surged during this period, driving up the cost of money and materials and supplies and labor far more than the percentage increase in rates allowed by the Act for selected lending activities. The unemployment rate also hit a post-war high, affecting delinquencies and banks' willingness to extend credit.

If these factors are held constant, however, the remedy restrictions would tend to increase the cost of serving some classes of customers, inducing banks to alter or curtail their lending to higher risk customers, and to raise rates charged to other borrowers to cover the 'higher cost of lending. Thus, ceteris paribus, banks would be expected to:

1. raise rates where possible to cover the higher cost of lending due to regulations;
2. restrict the amount of consumer lending, diverting funds and resources to other, more profitable activities. Specific effects would include:
 - a. restrict the use of or eliminate collateralized loans;
 - b. implement higher credit standards, refuse credit to less creditworthy (potentially more expensive) applicants;
 - c. restrict the use of or eliminate small loans in an attempt to raise average loan sizes and "spread out" the increased fixed costs of lending;
 - d. increase emphasis on loans with lower fixed costs (check credit and bank cards). Applications are processed only once. Credit standards, however, may be higher for this "line-of credit" type of lending. This may also result in a contraction of credit;
 - e. increase credit investigation, in an attempt to avoid subsequent and more expensive collection problems, and as a substitute for security once established by collateral;
 - f. increase the effort to reverse delinquencies and avoid the need to use weakened remedies.

The following analysis of the Wisconsin bank data suggests that overall, much of the expected response did in fact occur.

Bank Response to Regulation

Nearly half of the 186 banks in the study reported that they had made changes in their lending policies since 1972 (Table 1). Using the volume of outstanding consumer loans as an index of bank size, the author noted that changes were most frequent in the larger banks (\$4 million or more in outstanding direct loans). Nearly 90 percent had increased their rates since 1972, while eight percent reported that their direct lending rates were lower (competition was the reason usually given). The smallest banks most frequently reported rate increases. Over 60 percent of the banks reported that their lending standards had tightened since 1972, 17 percent "substantially."² Only six percent of the banks reported that standards had been eased since 1972. Thirty-six percent of the smallest banks reported that standards had been tightened compared to nearly 70 percent of the largest banks. Thus, in terms of outstanding direct loans, tightening of credit standards characterized most of the market.

Of more interest to this study, however, are the reasons for the reported changes. Since firms were simply asked why they made the changes, references to legislation and regulation would strongly indicate that the reported policy changes were triggered by changes in the law, especially when the reported date of change coincided with the effective date of the Act. As noted earlier, the recession, inflation and higher interest rates may also have induced similar policy changes, since they, as the Act, increase the cost of operation. A secondary test will turn on the response of firms specifically mentioning the Act or regulation compared to policy changes of firms citing only economic or other, factors. Since all the firms in the state can be presumed to be equally affected by the recession and inflation (even if Wisconsin's experience was different from that of the rest of the economy), if firms citing the Act or regulation behaved differently than those that did not, this response would be consistent with the general Predictions of the effect of the Act. All firms may have indeed reacted more or less identically (in terms of cost control, although differently in terms of specific response), but economic factors may have dominated the policy changes for many firms.

Policy Changes and Their Causes

² The banks apparently do not uniformly regard this as a "change" (or a major change) in direct lending policies since many who reported no policy changes indicated that their lending standards had changed.

About 46 percent of the responding firms indicated that they had made policy changes for direct lending since 1972 (Table 2). The exact responses of the banks are reproduced in Appendix B. Those banks making policy changes were asked to describe the three most important and to indicate the most important reasons for making the changes. Forty-one percent reported that they had tightened credit standards, 20 percent restricted loan maturities, and/or the type and size of loans, available, and 11 percent reported higher rates and fees. Only five percent listed restricted collateral use as an important policy change, reflecting the trend toward less reliance on, security due to increasing difficulty associated with its use, and the substitution of greater expenditures on credit investigation (mentioned by some banks).

Although only a few banks reported easing standards for credit granting as an important policy change, five percent said they had extended maturities (although mostly to accommodate larger loans and to increase revenues) and four percent indicated increased use of collateral (for customers where it previously had not been required).

A maximum of three policy changes were coded for each respondent, even though many more may have been given. Table 3 presents a count of selected specific responses taken from the quoted responses to Question 1a (Appendix B, Exhibit B-1). Of the 85 firms reporting policy changes, over 40 percent specifically said they had tightened lending standards and six percent said that they were accepting fewer marginal loans. This suggests a fairly substantial impact on higher credit risks, as tightening standards will impact primarily these marginal consumers.

Options available to consumers were also restricted. Nearly 11 percent of the banks stopped making loans on household goods. Minimum down payments were increased by 13 percent of the banks and nine percent cut back on small loan activity, while three percent specifically said they were switching customers to open-end credit for these types of loans.

In conjunction with these changes, more than 21 percent of the firms specifically said they charged higher rates (not including other fees) to cover the increased costs of running a lending operation. Thus, some consumers were rationed out of the market and found that banks would no longer serve their needs. They were forced to find alternative sources of credit or do without. Many of those still served by the banks found that their options for using credit were restricted, and that the rates they paid were higher.

The reasons given for the changes in lending policies are summarized in Table 4. A detailed report on these responses can be found in Appendix B, Exhibit B-2. More than 88 percent of the firms indicated that regulations and laws were responsible for the changes (which, for the most part were restrictive as shown in Table 2). Higher costs of operation were cited by over 61 percent of the respondents, and more than one-third of these references were directly related to regulations: cost of compliance (5%); paperwork (16%); legal costs (2%). An additional 25 percent cited the cost of funds or high loan-to-deposit ratios. Further references to economic conditions were made by 18 percent, and 38 percent reported that declining loan quality (delinquencies, applicant quality, etc.) caused them to tighten their standards. A substantial part of the delinquency experience was undoubtedly related to the recession. For the banks, this problem was exacerbated by restrictions on their ability to collect obligations owed, resulting in even greater losses and expenses. Six percent of the banks directly cited low profitability on consumer loans as a major reason for tightening their operations.

Table 1
Summary of Policy Changes by Size of Outstandings

Outstanding Direct Loans	N	%	Changed Lending Standards ³						
			Changed Lending Policies ¹	Changed Rates ² Higher	Changed Rates ² Lower	Loosened	Unchanged	Somewhat	Substantially
Under \$1 million	11	5.9%	9.1%	90.9%	9.1%	9.1%	54.5%	27.3%	9.1%
\$1 – 3.9 million	50	26.9%	52.0%	94.0	6.0	6.0	42.0	44.0	8.0
\$4 million or more	37	19.9%	54.1%	89.2	8.1	2.7	29.7	45.9	21.6
No answer	88	47.3%	43.2%	94.1	9.1	6.8	22.7	45.5	20.5
All Firms (%)		100.0%	45.7%	88.2%	8.1%	5.9%	31.2%	44.1%	16.7%
(N)	186		85	164	15	11	58	82	31

¹ Question 1: Since the beginning of 1972, have you made any changes in your direct lending policies?

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

³ Question 3: Since 1972, has your bank had to tighten its lending standards overall, or has your bank been able to loosen its lending standards somewhat, or have they remained about the same?

TABLE 2
CHANGES MADE IN DIRECT LENDING POLICIES

Changed Direct Lending Policies Since 1972	N	%	Credit Standards		Maturities, Type & Size Of Loans		Use of Collateral		Rates, Fees Insurance	
			Tightened ^{1/}	Eased ^{2/}	Restricted ^{3/}	Eased ^{4/}	Restricted ^{5/}	Expanded ^{6/}	Higher ^{7/}	Lower ^{8/}
Yes ^{9/}	85	45.7%	40.9%	*	29.0%	5.4%	5.4%	3.8%	11.3%	.5%
No	98	52.7	--	--	--	--	--	--	--	--
No Answer	3	1.6	--	--	--	--	--	--	--	--
All Firms	186	100.0%								

*less than .5%

^{1/}Includes codes 10, 11, 12, 13, 14, 15, 16, 19, Q1a

^{2/}Includes codes 18, Q1a

^{3/}Includes codes 20, 22, 23, 24, 28, 40, 41, 42, Q1a

^{4/}Includes codes 21, 25, 27, Q1a

^{5/}Includes codes 43, 44, 45, Q1a

^{6/}Includes codes 46, Q1a

^{7/}Includes codes 31, 32, 33, 34, Q1a

^{8/}Includes codes 37, Q1a

^{9/}Adds to more than 100 percent since firms could give up to three responses.

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

TABLE 3
SELECTED SPECIFIC POLICY CHARGES
(Responses to Q1a, Appendix Exhibit B-1)

Policy Change	Percent of Sample/1
Tighter Lending Standards	42.4%
Fewer "marginal" loans	5.9%
Collateral Loans	
More required	5.9%
Fewer than before	5.9%
None on household goods	10.6%
Higher Down payments	12.9%
Shorter Maturities	2.7%
Longer Maturities	2.2%
Fewer Small Loans	9.4%
Switch to Open End	2.7%
Higher Rates (excluding fees)	21.2%

1/Figures add to more than 100 percent since multiple responses w permitted. These percentages may be slightly larger than those reported in Table 2 since responses in excess of the three are here (counted from the list in Appendix B). Table 2 uses only first three responses given (and coded).

TABLE 4
REASONS FOR CHANGING LENDING POLICIES/1

REGULATORY RESTRICTIONS:	
Remedies; Collections (11)	88.2%
Collateral (12)	23.5%
Indirect Paper (13)	2.4%
Rates; Credit Insurance (14)	1.2%
General Reference (10)	50.6%
Disclosure (71)	4.7%
HIGHER COSTS	61.2%
Cost of Funds (20, 21, 22)	20.0%
Cost of Compliance (41)	4.7%
Paperwork (42, 44)	16.5%
Legal Costs (43)	2.4%
General Reference (40, 45)	12.9%
High Loan/Deposit Ratio (33)	4.7%
QUALITY OF LOANS (30-36)	37.7%
Low Quality (30-32)	16.5%
High Loan Demand (34)	3.5%
Delinquencies, Losses (35, 36)	17.7%
LOWER EARNINGS ON CONSUMER LOANS (50, 51)	5.9%
ECONOMY (60, 61, 62, 63)	17.7%

1/Adds to more than 100 percent since firms gave up to three responses to Q1b.
Question 1b: What were the most important reasons (in order of importance) for these changes?

Table 5 presents the reasons given for each type of policy change. These figures demonstrate the perceived importance of restrictions on creditor remedies and other regulations on the cost and availability of consumer credit. Data are presented for only the first policy change reported, and, as noted in the footnotes to the table, codes with too few mentions or that were too general in terminology were excluded from the analysis. For each policy change (left-hand margin), the table shows the reasons given for the policy change in each category across the top of the table. Responses other than those relating to regulation are combined into the "other" category. Of the firms that reported a general tightening of lending standards, nearly ten percent said that an important reason for the change was restrictions on the bank's ability to collect delinquent balances. Another 29 percent directly cited the Act or regulations, and nearly ten percent blamed the higher cost of compliance with regulations. Although slightly more than half of the responses (52%) cited other reasons such as economic conditions, delinquencies, and the cost of funds, the importance of the Act and related regulations is clear. Many of the banks that instituted higher downpayments and raised their qualification standards did so in direct response to regulatory restrictions (42.2% and 44.7% respectively). Recall from Table 1 that a tightening of standards was most frequent among the largest banks. This indicates that the effects of the Act were even more pervasive than the figures in Table 5 suggest, since firms with the largest volume of loans most frequently restricted their operations in response to the Act. Over 60 percent of the firms raising rates and fees said the move was related to the regulatory environment, with 43 percent directly citing the cost of compliance.

TABLE 5
REASONS FOR SPECIFIC POLICY CHANGES
(First change mentioned only)

POLICY CHANGE**	Reason For Policy Changes Restrictions on:					Number of Responses
	Collections ^{1/}	Collateral ^{2/}	Regulations; W.C.A. ^{3/}	Cost of Compliance ^{4/}	Other ^{5/}	
General Tightening ^{6/} of Lending Policies	9.5%	*	28.6%	9.5%	52.4%	21 (100%)
Higher downpayments; Lower loan/value ratios ^{7/}	15.4%	7.7%	23.1%	*	53.8%	13 (100%)
Higher Lending Standards; fewer marginal loans; more information; tougher evaluation ^{8/}	19.2%	2.1%	23.4%	10.6%	44.7%	47 (100%)
Restricted or Abandoned Small Loans ^{9/}	*	*	*	57.1%	42.9%	7 (100%)
Discontinued Loans on Household Goods ^{10/}	*	*	100.0%	*	*	1 (100%)
Higher Rates ^{11/}	*	4.8%	14.3%	42.8%	38.1%	21 (100%)
Discontinued or restricted collateral use; more unsecured credit relative to secured ^{12/}	25.0%	*	50.0%	25.0%	*	4 (100%)
Require more security ^{13/}	50.0%	*	*	25.0%	25.0%	4 (100%)
Joint signatures required ^{14/}	33.3%			33.3%	33.3%	3 (100%)

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

TABLE 5 (continued)

*less than .5%

**Includes only the first policy change mentioned.

1/ Code 11, Qlb

2/ Code 12, Qlb

3/ Code 11, 71, Qlb

4/ Codes 41, 42, 43, 44, Qlb

5/ Codes 20, 21, 22 (cost of funds, 30, 31, 32, 33, 34, 35, 36 (Quality of loans), 50, 51 (profitability) and 60, 61, 62, 63 (economic factors).

6/Code 10, Qla

7/Code 11, Qla

8/Code 12,

9/Code 22, Qla

10/ Code 23, Qla

11/Code 31, 34, Qla

12/Code 43, 44, Qla

13/Code 46, Qla

14/Code 45, Qla

Excludes codes which are general in nature and hard to interpret or had too few first mentions; Qla-16, 18, 19, 20, 21, 24, 25, 27, 28, 30, 32, 33, 37, 40, 41, 42, 51. Qlb-13, 14, 40, 45.

The questionnaire asked banks to cite the reasons for their policy changes in order of importance. Table 6 shows the responses to Question lb in the order recorded on the questionnaire. Of the 83 first responses, 54 percent referred to regulatory restrictions, compared to 26 percent of the second responses, and 40 percent of the third. Economic conditions and the cost of funds were much less frequently cited. The impact of regulation is much higher if references to Cost of Compliance, Paperwork, and Legal Costs are included as indirect references to regulation. Combining these with direct references to regulation raises regulatory-related responses to 60 percent of the first mentions, 41 percent of the second mentions and 57 percent of the third mentions.

Firms were asked to report the date that any policy change was implemented. Although most firms did not report the date (or the exact date), 21 banks reported policy changes effective in March 1973, the year the Act took force. Table 7 summarizes the policy changes reported by those firms, and the reasons stated for the changes. More than 90 percent tightened their lending policies and 57 percent restricted maturities and other loan terms. Nearly 29 percent increased their charges. All of these firms (100%) cited regulations and consumer laws as the reason for the changes, along with higher cost of funds (29%) and the cost of compliance with laws and regulation (33%).

Most of the firms (76%) reporting policy changes effective 3/73 indicated that they tightened their lending standards. Consumer protection laws were the most frequently cited reasons for the change (57%), followed by remedy restrictions (29%) and economic conditions (24%). Overall, the results indicate that the Act may have resulted in substantial policy changes at the time it became effective. Although some of the policy changes may have been "knee-jerk" reactions, many of the changes were clearly kept in place in subsequent years.

General references to regulation, consumer protection laws and the Act specifically were frequently given as reasons for policy changes (Table 8). More than 30 percent made general references to such regulation when citing the reasons for their policy changes, and more than 18 percent cited the Act specifically (Table 9). Nearly ten percent cited regulation three or more times and four percent cited the Act three time or more as the reason for their policy changes.

The policy changes reported by the banks are factual representations of what has occurred since 1972. The causes of these changes are harder to disentangle, especially in light of the rather unusual experience encountered with inflation, unemployment, and interest rates during the period. These issues were probably of great concern to bank management at the time of the survey. The frequency with which regulation was mentioned as a reason for policy changes (more often than economic conditions) indicates that these factors were also of major concern to bank managers in determining lending policies. The policy changes report are also those that were predicted by the earlier analysis of the impact of regulations on the cost structure of the banking system.

TABLE 6

IMPORTANCE OF FACTORS RESPONSIBLE FOR CHANGES IN LENDING POLICIES

Mentioned in Order of Importance

Regulatory Restrictions:	First Reason	Second Reason	Third Reason
Remedies, Collections (11)	18.1%	6.6%	2.9%
Collateral (12)	2.4	1.6	5.7
Indirect Paper (13)	1.2	1.6	*
Rates; credit insurance (14)	*	*	2.9
General Reference (10)	28.9	14.8	28.6
Disclosure (71)	3.6	1.6	*
	54.2%	26.2%	40.0%
Higher Costs			
Cost of Funds (20, 21, 22)	10.8%	9.8%	5.7%
Cost of Compliance (41)	1.2	1.6	5.7
Paperwork (42, 44)	4.8	9.8	11.4
Legal Costs (43)	*	3.3	*
General Reference (40, 45)	3.6	6.6	11.4
High Loan/Deposit Ratio (33)	2.4	3.3	
	22.9%	34.4%	34.3%
Quality of Loans			
Low Quality (30-32)	7.2%	9.8%	5.7%
High Loan Demand (34)	2.4	1.6	*
Delinquencies, Losses (35-36)	6.0	13.1	5.7
	15.7%	24.6%	11.4%
Lower Earnings on Consumer Loans (50, 51)	1.2%	6.6%	*
Economy (60, 61, 62, 63)	6.0%	9.8%	11.4%
Number of Responses	83	61	35

Question 1b: What are the most important reasons (in order of importance) for these changes?

TABLE 7
CHANGES REPORTED EFFECTIVE 19/73 ^{1/}

	Credit Standards		Maturities Type & Size Of Loans		Use of Collateral		Rates, Fees Insurance	
	Tightened	Eased	Restricted	Eased	Restricted	Expanded	Higher	Lower
POLICY CHANGES: ^{2/}	90.5%	*	57.1%	14.3%	4.8%	4.8%	28.6%	*
REASON FOR POLICY CHANGES: ^{3/}	Regulatory Restriction	Higher Costs of Funds	Quality of Loans	Compliance Costs	Low Earnings on Consumer Loans	Economy		
	100.5%	28.6%	14.3%	38.1%	9.5%	4.8%		
REASON FOR CURRENT RATES CHARGES: ^{4/}	General Operations (1)	Paperwork, Record-Keeping Processing (2)	Higher losses, Collection Costs (3)	Remedies, Regulations and Laws (4)	Cost of Money; Return on Lending (5,6)	Misc. (7,8)		
	47.6%	14.3%	9.5%	28.6%	57.1%	4.8%		
CHANGES IN LENDING STANDARDS:	Loosened	About the Same		Tightened Somewhat	Substantially			
	*	23.8%		38.1%	38.1%			
REASONS FOR LENDING STANDARD CHANGES: ^{5/}	Remedies	Collateral	Consumer Protection Laws	Cost of Operation	Cost of Funds	Economy	Account Experience	Delinquencies
	28.6%	9.5%	57.1%	4.8%	19.1%	23.8%	Bankruptcies	Bad Debt Losses
							9.5%	

Note: detail adds to more than 100 percent since firms could give up to 3 answers.

1/ Responses to questions for those giving actual date of policy changes, N=21.

2/ See footnote to Table I for category definition.

3/ See Table 4 for category definition.

4/ See Table 15 for category definition [codes used are shown in parentheses].

Changes in Direct Lending Standards

Whereas Question 1 dealt generally with lending policies, Question 3 asked banks about any changes made in their direct lending standards. More than 60 percent indicated that they had tightened their standards since 1972, 31 percent reported that their standards were basically unchanged, and six percent said standards had eased since 1972 (Table 10). As shown in Table 2, many of the firms that reported no changes in direct lending policies reported that they had changed their lending standards, perhaps not regarding this as a major policy change. Of the 53 percent of the sample that reported no policy changes, only 43 percent also reported that lending standards were unchanged since 1972. Counting these changes as "policy changes" in the context of Question 1 would raise the proportion of firms making "policy" changes to 69 percent of the respondents (from 46%). Of those that said they had made policy changes since 1972, more than 80 percent reported that they had tightened their lending standards, while the remainder reported that they were unchanged.

Reasons for changing lending standards were numerous and diverse. No systematically codable responses were given by most of the 11 firms that reported an easing of standards since 1972 (Table 10). Their direct responses are reported in Appendix B. For those that had tightened standards, well over 20 percent cited restrictions on creditor remedies as a major reason. Over six percent cited restrictions on collateral use and over 40 percent (31% of those tightening "somewhat" and 71% of those tightening "substantially") said that

consumer protection laws were the reason for tightening lending standards. Economic events were also important, as indicated by the proportion of firms citing the cost of funds, the economy in general and adverse account experience (due in part to the recession) as reasons for tightening standards.

Since firms were asked to rank the reasons for policy changes in order of importance, the first item mentioned should be the most important determinant of the reported changes in lending standards, the second mentioned, the second most important, and so on. Table 11 presents the responses to Question 3a by order of mention. Almost all (106 out of 113) firms tightening their lending standards gave at least one reason. Among first mentions, references to the Act, consumer laws and restrictions on remedies accounted for nearly half 49% of all responses. Next most frequently mentioned was the cost of funds (24%), followed by the cost of operations and the economy, each at 13 percent. References to legal restrictions were also most frequent among second and third mentions (30% of all responses in each case), tying with references to economic factors among the third mentions. Quite clearly, legislation and regulation dominate the cited reasons for tightening lending standards.

The impact of regulations can be further documented by comparing the policy changes made (responses to Question 1a) by banks that cited regulation as the reason for tightening lending standards (Question 3a) to banks that did not cite regulations as a reason for change. If the responses to Question 3a identify those banks that were more sensitive to the provisions of the Act and similar regulations, these banks should be more frequently observed making the kinds of policy changes predicted early in this report. In Table 12, these two groups are compared.³ More than 70 percent of the first group (those citing regulations as the cause of policy change) reported tighter credit standards, compared to 26 percent of the remaining banks. Forty-three percent restricted maturities, or the type and size of loans offered, compared to 22 percent of the remaining banks. To cover higher costs, 26 percent reported they increased their rates or other fees, or required credit insurance to reduce risk, compared to only four percent of the remaining banks. Thus, it appears that for a third of the banks, the effects of regulation were very pervasive and of the type predicted. These were the banks that specifically cited regulation as the cause of tougher lending standards. Predicted responses to limitations on remedies were also frequent among the remaining two-thirds of the banks, but not nearly as pervasive. It is interesting to note that the first group, those citing regulation as the cause for policy change, also reported higher rates more frequently than the remaining banks (Table 13).

TABLE 8
CHANGES IN DIRECT LENDING STANDARDS

Made Changes In Direct Lending /1 Policies Since 1972	N	%	Loosened	About the Same	Somewhat	Substantially	No Answer
Yes	85	45.7%	*	18.8%	48.2%	32.9%	*
No	98	52.7	11.2	42.9	44.9	3.1	1.0
No Answer	3	1.6	--	--	--	--	100.0
All Firms	186	100.0%	5.9%	31.2%	44.0%	16.7%	2.2%

*less than .5%

1/ Question 1: Since the beginning of 1972, have you made any changes in your direct lending policies?

2/ Since 1972, has your bank had to tighten its lending standards overall, or has your bank been able to loosen its lending standards somewhat, or have they stayed about the same? (Question 3)

³ Sixty-one firms (33 percent of the sample) cited various laws and regulatory restrictions as a major cause of the change in lending standards. This includes coded responses 01, 04, 05, 11, 21 to Question 3a. See Appendix A, Exhibit A-2 for a description of these categories.

TABLE 9

NUMBER OF TIMES REGULATION LEGISLATION MENTIONED AS A CAUSE FOR LENDING PROCEDURE CHANGES

Number of Times Firms Mentioned:	0	1	2	3	4 or more	All
Regulation; Consumer Protection Laws	67.7%	16.7%	6.5%	5.9%	3.2%	100.0%
Wisconsin Consumer Act	81.7%	9.7%	4.8%	2.7%	1.1%	100.0%

TABLE 10
REASONS FOR CHANGING LENDING STANDARDS

Changed Lending Standards	N	%	Restrictions on:		Consumer Protection Laws ^{3/}	Cost of Operation ^{4/}	Cost of Funds ^{5/}	Economy ^{6/}	Account Experience Delinquencies Bankruptcies Bad Debt Losses ^{7/}
			Remedies ^{1/}	Collateral ^{2/}					
Loosened	11	5.9%	*	*	*	*	9.1%	9.1%	*
Unchanged	58	31.2	--	--	--	--	--	--	--
Tightened									
Somewhat	82	44.1	20.7%	6.0%	30.6%	6.0%	36.6%	48.9%	33.0%
Substantially	31	16.7	25.8	6.5	71.0	9.7%	16.1	19.4	19.4
No Answer	4	2.1	--	--	--	--	--	--	--
All Firms	186	100.0%	13.4%	3.8%	25.3%	4.3%	16.1%	25.3%	17.7%

*Less than .5%

^{1/} Includes codes 01, Q3a

^{2/} Includes codes 05, Q3a

^{3/} Includes codes 04, 11, 21, Q3a

^{4/} Includes codes 10, Q3a

^{5/} Includes codes 03, 07, 09, Q3a

^{6/} Includes codes 02, 08, Q3a

^{7/} Includes codes 06, 16, 19, 20, Q3a

Adds to more than 100% since firms could give up to three responses.

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

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

**TABLE 11
IMPORTANCE OF FACTORS RESPONSIBLE FOR TIGHTER LENDING STANDARDS**

Mentioned in Order of Importance:

	First Response	Second Response	Third Response
Restrictions	[49.1%]	[30.3%]	[30.4%]
Remedies 1/	17.0	9.1	4.4
Collateral 2/	3.8	1.5	8.7
Consumer Protection Laws 3/	28.3	19.7	17.4
Cost of Operation 4/	13.2	19.7	8.7
Cost of Funds 5/	23.6	24.2	21.7
Economy 6/	13.2	18.2	30.4
Account Experience 7/	.9	7.6	8.7
Number of Responses	105	66	23

1/Code 01, Q3a
2/Code 05, Q3a
3/Codes 04, 11, 21, Q3a
4/ Code 10, Q3a
5/ Codes 03, 07, 09, Q3a
6/Codes 02, 08, Q3a
7/Codes 06, 16, 19, 20, Q3a

**TABLE 12
POLICY CHANGES INDUCED BYREGULATION**

Changes in Lending Policies**	Changed Lending Standards Because of Regulation ** YES 1/	Changed for other reasons, no change in lending standards No 10/
Credit Standards Tightened 2/ Eased 3/	70.5%	26*4%
Maturities Type & Size of Loans Restricted 4/ Eased 5/	42.6% 1.6%	22.4% 7.2%
Use of Collateral Restricted 6/ Expanded 7/	9.8% 11.5%	3.2% *
Rates, Fees, Use of Insurance Higher 8/ Lower 9/	26.2%	4.0% .8%
Number of Firms Percent of Firms	61 32.8%	125 67.2%

*less than .5% **Question 1, 1a Since the beginning of 1972, have you made any changes in your direct lending policies? Please describe the three most important policy changes you have made.

1/Firms responding with answers coded 01, 04, 05, 11, and 21 to question

2/ Q1a, codes 10, 11, 12, 13, 14, 15, 16, 19

3/Q1a, code 18

4/Q1a, codes 20, 22, 23, 24, 28, 40, 41, 42.

5/Q1a, codes 21, 25, 27.

6/Q1a, codes 43, 44, 45.

7/Q1a, code 46.

8/Q1a, codes 31, 32, 33, 34.

9/Q1a, code 37.

10/See previous page

Note:Table reads down the columns; adds to more than 100% because fin could give up to three responses.

Table 14 highlights the differences in behavior between banks that cited regulation as the reason for tightening lending standards and those that did not. More than 70 percent reported such a policy change in Question 1 along with restricted maturities and loan types and higher rates much more frequently than other banks. The reasons for these changes were predominantly regulations (88%) and the cost of regulatory compliance (34%). Although other banks cited the same reasons, it was with substantially lower frequency.

Higher rates were less frequently justified by the higher cost of funds for these banks (39% vs. 57%), but the cost of paperwork, and so forth was much more frequently cited than among the remaining banks (31% vs. 10%), as were higher collection costs and restrictions on remedies. Again, the data suggest that, at least for a significant proportion of the banks, certain aspects of the Act had a major impact on bank lending policies.

Rates

When permitted by rate ceilings, higher costs due to a limitation of remedies could be offset by an increase in the rates charged.⁴ More than 88 percent of the banks reported that their rates were higher than in 1972 (Table 15). Higher costs of funds were cited by 58 percent of the banks as a major reason for the increase, and 46 percent blamed higher operating costs in general for the increase. Nearly 21 percent said the increase was necessitated by the higher costs resulting from regulation, and 19 percent cited higher costs for paperwork, processing applications, and record keeping. Six percent cited higher losses and collection costs. Thus, it appears that at a minimum, 40 percent or more of the banks raised their rates in response to the cost of regulation. Clearly, this was not the only factor, but it carried substantial weight.

The role of regulatory costs is highlighted in Table 16, which presents reasons for rate changes for the 61 banks that tightened their lending standards specifically because of regulations. Increased paperwork, processing and documentation were important factors for 31 percent of these banks, and regulations were cited by 33 percent, compared to ten percent and 12 percent respectively for all other banks.

⁴ For the most part, banks in Wisconsin appear to operate below ceiling rates, except for credit card operations. Thus, the consumer selected (or self-selected) are of a high enough quality to be served at or below regulated rates in the personal loan market, and rates vary competitively. A major exception to this occurs when industries are regulated. The airline industry is a good example. Price competition is precluded by price regulation, so it takes other forms, such as service, image, on-time scheduling, etc. The situation is similar in the credit industry. Several important factors operate to force the firms in industry to compete on a basis other than price:

1. The maximum yield is set by law, and differs across industries. This tends to segment the market and create applicant homogeneity within an industry.
2. The economics of lending (especially with revolving credit) induce the bank to get as many customers as possible from acceptable risk classes.
3. The ability to measure credit worthiness is limited. The expense of setting fine tuned rates would not pay for itself given the current technology. In addition, the information that can be used for evaluation is continually being restricted, making evaluations less reliable and investments in the development of sophisticated evaluation schemes unprofitable.

Thus, firms tend to take all the customers that qualify at a given rate range. Erroneous decisions are compensated for by those that may have been able to get lower cost loans had the lender or consumer been able to make a better assessment. Since the cost of making that assessment is very high (and precluded by social regulation), consumers are probably still better off with the subsidies. The average cost of credit is lower than it would be if complete price discrimination were required.

TABLE 13

RATE CHANGED BY CAUSE OF CHANGES IN LENDING STANDARDS

Rates Higher or Lower Than 1972	Changed Lending Standards Because of Regulation	
	YES 1/	NO; changed for other reasons; no change in standards
Higher	96.7%	84.0
Same	3.3%	10.4
Lower	*	3.2
No Answer	*	2.4
All Firms	100.0%	100.0%
Number of Firms	61	125

1/Codes 01, 04, 05, 11, 21 on Question 3.

POLICY CHANGES 2/								
Changed Lending Standards Because of Regulation	Credit Standards		Maturities, Type & Size Of Loans		Use Of Collateral		Rates, Fees Insurance	
	Tightened	Eased	Restricted	Eased	Restricted	Expanded	Higher	Lower
Yes (61) 1/	70.5%	*	42.6%	1.6%	9.8%	11.5%	26.2%	*
No (125)	26.4	*	22.4	7.2	3.2	*	4.0	0.8%

REASONS FOR POLICY CHANGES 3/						
	Regulatory Restriction	Higher Cost of Funds	Quality of Loans	Higher Compliance Costs	Low Earnings on Consumer Loans	Economy
Yes	88.5%	13.1%	24.6%	34.4%	*	8.2%
No	32.8	21.3	13.6	8.0	4.0	7.2

REASONS FOR CURRENT RATES CHARGED 4/						
	Higher Costs		Higher losses, Collection Costs (3)	Remedies Regulations and Laws (4)	Cost of Money; Return on Lending (5,6)	Misc. (7,8)
	General Operations (1)	Paperwork, Record Keeping Processing (2)				
Yes	45.9%	31.2%	9.8%	32.8%	39.2%	3.3%
No	37.6	9.6	3.2	12.0	56.8	16.0

CHANGED LENDING STANDARDS				
	Loosened	About the Same	Tightened:	
			Somewhat	Substantially
Yes	*	*	60.7%	39.3%
No	8.8%	46.4%	36.0	5.6

Note: Detail adds to more than 100 percent since firms could give up the three answers.

*Less than .5 percent.

1/ Codes 01, 04, 05, 11, 21, Questions 3.

2/ See Table 1 for definitions of categories.

3/ See Table 4 for definitions of categories.

4/ See Table 15 for definitions of categories.

5/ See Table 10 for definitions of categories.

Outstanding Direct Loans and Related Statistics

The reported tightening of credit standards and other policy changes should be reflected by changes in such indicators and the number of loans outstanding and the loan volume extended by Wisconsin banks. Here again, the economic environment plays a significant role, but can be partially controlled for by comparing the performance of banks reporting different reasons for making policy changes, since all the banks were subject to roughly the same economic events.

Overall, the number of outstanding direct loans remained unchanged during the 1972-1974 period [data reported are averages for all firms reporting information, the number of firms included in the average are shown in parentheses]. The average number of loans per bank was 1,489 in 1972 and 1,496 per bank in 1974 (Table 16). For firms with easier or unchanged lending standards, the number of loans rose about 11 percent over the 1972-74 period, remained at about the same level for banks reporting, somewhat tighter standards, and declined by nearly 14 percent for banks reporting substantially tighter standards.

Not all the firms provided complete information on loan activity for each year. The distribution of their responses to the policy change questions differs from the entire sample. If it is assumed that the firms providing complete financial data are typical of the firms that gave identical responses to the policy change questions, estimates of change in the lending statistics can be derived for the entire sample. Thus, estimates of the change in the number and volume of loans, for example, can be computed based on the values estimated from reporting, firms, and the actual number of firms reporting a particular response.

Using such a procedure produces an estimated contraction of 5.6 percent in the number of loans made over the 1972-74 period, compared to the one-half of one percent increase computed for the firms providing a response (Table 17).⁵ The contraction was greatest for banks that tightened standards (mostly in response to restrictions on remedies according to Table 10).

⁵ Many of the firms did not provide complete information on outstandings, number of accounts, bad debt expense, etc. Means for each of these statistics were computed on the basis of all responses to the relevant question, regardless of whether other information was provided. Thus, the number of cases on which each mean is based varies from figure to figure. This could bias the results if, for example, a very large aberrant bank reported losses but not recoveries, average outstanding balances, but not the number of loans, etc. A study of the 33 banks that did provide complete information for the three year period suggests that this is not a serious problem, but the potential for distortion should be kept in mind. If one assumes that the means estimates do apply to all participants in the survey, then the contraction in loans is larger than that indicated in Table 17, since the proportion of firms reporting data do not conform to the response pattern observed for Question 3. For example, using firms reporting usable data for 1972 on the number of outstanding loans (Table 17), the distribution for changes in lending standards is shown below:

Question 3	Table 17, 1972 responses	Total Sample
Loosened	3.9%	5.9%
Unchanged	42.2	31.2
Tightened Somewhat	38.5	44.0
Tightened Substantially	15.4	16.7
	100.0%	100.0%

The results are different for each year and for each variable.

Applying the estimates of the mean number of accounts to the distribution of responses to Question 3 standardizes the results by applying the estimated means to all the firms in the sample on the following page.

Response to Q3 (1)	1972 Mean Number of Accounts (Table 17)	(2)	Percentage Change In Accounts (Table 17)	(3)
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Based on all firms providing information, the average dollar volume of outstanding direct loans rose nearly 24 percent over the 1972-74 period (Table 18), even though the number of loans made declined (Table 17). This is approximately the same result obtained after adjusting for the distributional response to Question 3.⁶ At least two important factors contributed to this trend. First, general inflation increased the amounts that consumers needed to finance the real volume of their desired transactions. Second, there was a conscious effort on the part of the banks to eliminate smaller, uneconomical loans.

TABLE 15
REASONS FOR RATE CHANGES 2/

Reasons For Rate Change 3/ Higher Costs

Rates Higher or lower than 1972? 1/	N	%	General Operations (1)	Paperwork, Record Keeping Processing (2)	Higher Losses, Collection Costs (3)	Remedies, Regulations and Law (4)	Cost of Money; Return on Lending (5,6)	Misc. (7,8)
Higher	164	88.2%	45.7%	18.9%	5.5%	20.7%	57.9%	9.2%
Same	15	8.11	*	*	6.7	6.7	*	33.3
Lower	4	2.2	*	*	*	*	*	50.0
No Answer	3	1.6	--	--	--	--	--	--
	186	100.0%	40.13%	16.7%	5.4%	18.8%	51.1 %	11.8%

*less than, .5%

1/ Question 2, 2a: Are the rates you charge for credit generally higher or lower than they were in 1972?

2/ Why is that?

3/ Code values for responses to Question 2a are shown in parentheses.

Loosened	5.9%	450	11.1%
Unchanged	31.2%	1188	11.5%
Tightened Somewhat	44.0%	1523	.4%
Tightened Substantially	16.7%	2499	-13.6%

Using the product of (1) and (2) as weights, the percentage change in accounts, based on the assumption of Q3 distributions and the applicability of the means in Table 17 is:

$$\frac{\Sigma(1).(2).(3)}{\Sigma(1).(2)} = 5.6\% \text{ contraction in the number of accounts.}$$

⁶ Applying the estimates of average outstandings from Table 18 to the distribution of responses to Q3 yields an average increase of 24.2 percent.

Question 3	Response To Q3	1972 Average Outstandings	Percentage Change in Outstanding Direct Loans 1972-74
Loosened	5.9%	\$3,023,800	41.3%
Unchanged	31.2%	\$3,324,974	25.7%
Tightened Somewhat	44.0%	\$4,572,738	24.9%
Tightened Substantially	16.7%	\$6,533,154	19.3%

TABLE 16
REASONS FOR RATE CHANGE BY WHETHER CHANGED LENDING STANDARDS BECAUSE OF REGULATION

Reasons for Changing Rates 1/	Changed Lending Standards Because of Regulation	
	YES 2/	
Higher Cost of Operations	45.9%	37.6%
Increased Cost for:		
Paperwork, Record keeping	31.2	9.6
Processing, Documentation		
Increased Losses; Collection Costs	9.8	3.2
Regulations	32.8	12.0
Cost & Availability of Funds	39.3	48.8
Other	3.3	16.0
Number of Firms	61	125

1/Question 2: Are the rates you charge for credit generally higher or lower than they were in 1972? Why is that?

2/Codes 01, 04, 05, 11, 21 on Question 3.

NOTE: Table reads down the columns. Percentages add to more than 100 percent since firms were allowed up to three responses

TABLE 17
AVERAGE NUMBER OF OUTSTANDING LOANS BY CHANGE IN LENDING STANDARDS

	Change in Lending Standards 1/			Number of Outstanding Loans 2/			1972-1974 Percentage Change
	1972 Mean	1972 (N)	1973 Mean	1973 (N)	1974 Mean	1972 (N)	
Loosened	450	(2)	450	(2)	500	(2)	11.1%
Unchanged	1188	(22)	1265	(23)	1324	(23)	11.5
Tightened	1523	(20)	1573	(22)	1529	(22)	.4
Somewhat Tightened	2489	(8)	2263	(8)	2150	(8)	-13.6
Substantially							
All Firms	1489	(52)	1503	(55)	1496	(55)	.5

Number of firms in ()

1/Question 3

2/Question 5

TABLE 18
AVERAGE DIRECT LOAN VOLUME BY CHANGE IN LENDING STANDARDS

	Change in Lending Standards 1/			Average Volume of Outstanding Direct Loans 2/			1972-1974 Percentage Change
	1972 Mean	1972 (N)	1973 Mean	1973 (N)	1974 Mean	1972 (N)	
Loosened	\$3,023,800	(5)	\$3,665,400	(5)	\$4,272,600	(5)	41.3%
Unchanged	\$3,324,974	(38)	\$3,800,359	(39)	\$4,178,769	(39)	25.7%
Tightened	\$4,572,738	(42)	\$5,277,860	(43)	\$5,709,750	(44)	24.9%
Somewhat Tightened	\$6,533,154	(13)	\$7,299,154	(13)	\$7,791,167	(12)	19.3%
Substantially							
All Firms	\$4,269,939	(98)	\$4,883,780	(100)	\$5,290,580	(100)	23.9%

1/Question 3

2/Question 5

Again, the banks' policy in setting loan standards appeared to have a significant effect on the growth in outstandings (Table 18). Firms that loosened their lending standards increased their outstandings by more than

41 percent. Firms with unchanged or somewhat tighter standards increased outstandings by about 25 percent, while banks reporting substantially tighter standards increased outstandings by only 19 percent (less than the rate of inflation over that period).

The effect of tighter lending standards is reflected in the performance of past due balances reported over the three-year period (Table 19). Overall, delinquent balances rose nearly 15 percent, eight percent adjusted for the distributional response to Question 3.⁷ Firms that loosened their lending standards experienced an increase of nearly 50 percent in their delinquent balances, compared to a decline of 54 percent for firms that tightened their standards substantially. Those with unchanged lending standards experienced no change in outstanding delinquent balances, while those that tightened somewhat experienced a 51 percent increase in delinquent amounts.⁸

Increases in losses behaved similarly, rising 343 percent for firms that loosened standards, declining six percent for firms with substantially the same lending criteria, and rising about 50 percent and 85 percent for the firms that tightened standards somewhat and substantially respectively (Table 20). The higher increase for firms that tightened substantially may be due to the larger size of the average loan extended.

Recovery experience paralleled losses, rising 153 percent for firms that loosened standards, declining six percent for firms with unchanged standards, and rising 46 percent and 92 percent for firms that tightened standards "somewhat" and "substantially" respectively (Table 21). The relatively higher recovery rate for firms with substantially tighter standards may reflect more aggressive collection policies and a higher quality of marginal loans due to higher standards.

Overall, the data clearly indicate that firms responding to the Act restricted credit availability: the number of loans made by restrictive banks declined over the 1972-74 period and the volume of credit extended grew at a substantially lower rate than for other banks. These banks made up more than 60 percent of the bank sample and were mostly the larger banks in the study. Thus, their impact on the market was even more significant. Overall, the data on lending operations support the findings of credit rationing reported earlier in this report.

An Analysis of Firms Providing Complete Three-Year Figures

One difficulty with the data just presented is that each average is constructed for a different number of firms--all those reporting a figure. Many potential biases are introduced with such a procedure, although the results are quite consistent with those computed over the several different bases. One such alternative computation is shown in Table 22. Here,, statistics are based only -on banks supplying data for all three years, 33 in number. Such a selection criterion can also introduce other biases but it does measure change for the same firms for the three-year period. Even if not representative of the entire sample, the results summarize the behavior of an important part of the lending community.

⁷ Applying the estimates of average outstanding delinquent from Table 19 to the distribution of responses to Q3 yields an average charge of 8.3 percent.

Question 3	Response to Q3	1972 Average Outstanding Delinquent Balance	Percentage Change
Loosened	5.9%	\$472,339	49.3%
Unchanged	31.2%	\$126,836	.1%
Tightened Somewhat	44.0%	\$110,824	51.4%
Tightened Substantially	16.7%	\$279,816	-54.2%

⁸ This increase in outstanding delinquent balances is not co with the other data in Table 19 or with the reported tightening of standards.

TABLE 19
AVERAGE PAST DUE BALANCES BY CHANGE IN LENDING STANDARDS

	Change in Lending Standards 1/			Average Outstanding Past Due Balances 2/			1972-1974 Percentage Change
	1972 Mean	1972 (N)	1973 Mean	1973 (N)	1974 Mean	1972 (N)	
Loosened	\$472,339	(4)	\$564,948	(4)	\$705,299	(4)	45.3%
Unchanged	\$126,836	(15)	\$132,615	(16)	\$126,941	(16)	.1%
Tightened	\$110,824	(24)	\$-116,271	(26)	\$167,784	(29)	51.4%
Somewhat Tightened	\$279,816	(06)	\$195,640	(6)	\$128,107	(6)	-54.2%
Substantially All Firms	\$165,930	(49)	\$164,971	(52)	\$190,666	(55)	14.9%

1/Question 3
2/Question 5

TABLE 20
AVERAGE GROSS CHARGEOFFS BY CHANGE IN LENDING STANDARDS

	Change in Lending Standards 1/			Average Gross Charge Offs 2/			1972-1974 Percentage Change
	1972 Mean	1972 (N)	1973 Mean	1973 (N)	1974 Mean	1972 (N)	
Loosened	\$2244	(6)	\$3502	(7)	\$9940	(7)	343.0%
Unchanged	\$9695	(40)	\$8831	(43)	\$9109	(44)	-6.0%
Tightened	\$12,717	(51)	\$13,385	(58)	\$19,031	(55)	47.7%
Somewhat Tightened	\$14,484	(14)	\$24,319	(15)	\$26,850	(15)	85.4%
Substantially All Firms	\$11,188	(112)	\$12,564	(123)	\$15,737	(122)	40.7%

1/Question 3
2/Question 5

TABLE 21
AVERAGE RECOVERIES BY CHANGE IN LENDING STANDARDS

	Change in Lending Standards 1/			Average Recoveries 2/			1972-1974 Percentage Change
	1972 Mean	1972 (N)	1973 Mean	1973 (N)	1974 Mean	1972 (N)	
Loosened	\$ 612	(5)	\$6463	(4)	\$1548	(5)	152.9%
Unchanged	\$4601	(37)	\$3399	(38)	\$4397	(35)	-4.4%
Tightened	\$4295	(48)	\$4737	(51)	\$6251	(53)	45.5%
Somewhat Tightened	\$3029	(13)	\$4288	(14)	\$5828	(14)	92.4%
Substantially All Firms	\$4031	(104)	\$4268	(107)	\$5369	(107)	33.2%

1/Question 3
2/Question 5

TABLE 22

RECOVERIES, CHARGE-OFFS AND OUTSTANDINGS
(For 33 banks reporting 1972, 1973, 1974)

	Outstanding Direct Loans		Average Number of Loans		Percentage Change	
	1972	1973	1974	72-73	73-74	72-74
Under \$4 million	1,059	1,060	1,053	.1%	-.7%	-.6%
\$4 million or more	2,596	2,629	2,558	1.3	-2.7	-1.5
All Firms	1,828	1,844	1,806	.9	-2.1	-1.2

	Average Outstanding Direct Loans				Percentage Change	
	1972	1973	1974	72-73	73-74	72-74
Under \$4 million	\$2,007,692	\$2,253,077	\$2,491,923	12.2	10.6	24.1
\$4 million or more	\$8,655,000	\$10,022,000	\$10,538,000	15.8	5.2	21.8
All Firms	\$5,774,500	\$6,665,900	\$7,051,767	15.4	5.8	22.1

	Average Outstanding Past Due Balances				Percentage Change	
	1972	1973	1974	72-73	73-74	72-74
Under \$4 million	\$38,572	\$43,198	\$80,510	12.0	86.4	108.7
\$4 million or more	\$280,222	\$264,939	\$292,867	-5.5	10.5	4.5
All Firms	\$171,636	\$160,502	\$202,678	-6.5	26.3	18.1

	Average Gross Charge-Offs				Percentage Change	
	1972	1973	1974	72-73	73-74	72-74
Under \$4 million	\$9,673	\$9,170	\$8,540	-5.2	-6.9	-11.7
\$4 million or more	\$24,573	\$34,313	\$45,882	39.6	33.7	86.7
All Firms	\$19,471	\$23,844	\$30,152	22.5	26.5	54.9

	Average Recoveries				Percentage Change	
	1972	1973	1974	72-73	73-74	72-74
Under \$4 million	\$3,096	\$2,485	\$5,128	-19.7%	106.4%	65.65%
\$4 million or more	\$9,598	\$10,089	\$16,307	5.1	61.6	69.9
All Firms	\$6,684	\$7,737	\$11,305	15.8	46.1	69.1

	Ratio of Recoveries to Charge-Offs				Percentage Change	
	1972	1973	1974	72-73	73-74	72-74
Under \$4 million	.32	.27	.60	-15.6	122.2	87.5
\$4 million or more	.39	.29	.36	-25.6	24.1	-7.7
All Firms	.34	.32	.37	-5.9	15.6	8.8

	Ratio of Charge-Offs to Outstanding Delinquent Balances				Percentage Change	
	1972	1973	1974	72-73	73-74	72-74
Under \$4 million	.25	.21	.11	-16.0	-47.6	-57.0
\$4 million or more	.09	.13	.16	44.4	23.1	66.7
All Firms	.11	.15	.15	36.4	0.0	36.4

	Ratio of Delinquent Balances to Total Outstandings				Percentage Change	
	1972	1973	1974	72-73	73-74	72-74
Under \$4 million	.019	.019	.032	0.0	68.4	68.4
\$4 million or more	.032	.026	.028	-18.8	7.7	-12.5
All Firms	.030	.024	.029	-20.0	20.8	-.3.

	Ratio of Charge-Offs To Total Outstandings				Percentage Change	
	1972	1973	1974	72-73	73-74	72-74
Under \$4 million	.0048	.0041	.0034	-14.6	-17.1	-29.2
\$4 million or more	.0028	.0034	.0043	21.4	26.5	53.6
All Firms	.0034	.0036	.0043	5.6	19.4	26.5

As can be seen, the data are quite consistent with the figures computed for all firms supplying data. The number of loans on the books declined over the three-year period by more than one percent, compared to an increase of one-half of one percent (Table 17) for all reporting firms and a decline of more than five percent adjusted for the response to Question 3. The average volume of outstanding direct loans rose 22 percent in this select sample, compared to 24 percent for firms with available data (about 22% adjusted for response differences). Past due balances were up 18 percent for the 33 banks, 15 percent (8% adjusted) for all firms providing relevant information. Bad debt expense rose 55 percent, while recoveries rose 69 percent. For all firms providing data, recoveries were up 33 percent, while bad debt expense rose 41 percent. Thus, the experience of the 33 firms reporting results for the entire three-year period closely parallels estimates of average experience based on all firms providing data for the particular statistic considered.

Conclusion

Through the use of a survey questionnaire, this study examined the lending policy changes of 186 Wisconsin banks since 1972, a period which included the enactment of the Wisconsin Consumer Act. Of interest to this study, were provisions of the Act limiting creditors' remedies. From the point of view of the lender, these restrictions potentially weakened the usefulness of various remedies used in the process of debt collection. The objective of the study was to identify the response of banks to these restrictions.

An a priori analysis of the restrictions indicated that the cost of compliance would raise lender costs, and that the cost of collection activities could be expected to rise, while the returns to those activities in terms of debts collected could be expected to decline. This was expected to induce banks to alter their lending policies, establish tougher lending criteria, make more use of credit evaluation, reduce the volume of small and collateralized loans, and alter the type of credit extended, favoring open-end types of credit that required less investigation and paperwork over time. Banks could also be expected to raise their rates, since these restrictions affected them all equally, and did not affect relative competitive positions. All banks need not respond the same way. For example, the higher costs could be recouped entirely through higher rates (assuming customers do not go elsewhere with their business), or the adjustment could be made by raising credit standards while* keeping rates about the same. A mixture of responses was expected as banks pursued different competitive strategies.

To measure the effects, banks were asked to report changes-in lending policies since 1972 and the reasons for these changes. An analysis of the responses indicated that policy changes were as predicted by the a priori analysis. Forty-six percent of the respondents said they had changed their lending policies during the period, 61 percent tightened their credit standards, and 88 percent reported higher rates.

When asked to report the three most important specific policy changes, 42 percent reported tighter lending standards, six percent a reduction in “marginal loans,” 11 percent eliminated loans on household goods, 13 percent required higher down payments, three percent shortened maturities, nine percent reduced small loan activity, three percent switched loans to open-end types of credit, and 21 percent said they raised their rates. Some changes in the opposite direction were also noted: six percent increased the use of collateral in spite of the new restriction (but perhaps as a way to offset the weakening of other remedies), two percent lengthened maturities (some reported this move to increase revenues) and a few firms (one-half of one percent) reported some lower rates.

The reasons given for these changes were diverse, reflecting variety of forces at work over the period. However, the impact of and regulations were clear, at least in the minds of the respondents. More than 88 percent cited regulatory restrictions. More than 61 percent blamed higher costs, including the cost of compliance with regulations (5%), paperwork (16%) and legal costs (2%). Six percent cited the return on consumer lending, 38 percent blamed the quality of loans 18 percent cited economic conditions as major causes. When asked specifically about changes in lending standards and rates charged (whether or not these were among the three most important policy changes), a similar pattern of results emerged, with regulation-related responses dominating (in frequency) references to economic conditions or the cost of funds.

Overall, it appears that the expected responses to the regulatory changes did occur, and that the effects were fairly pervasive. This emphasized by the fact that the largest banks were, on balance, the ff restrictive in their response. Although many factors could cause some of the reported changes in lending policy, the banks reported reasons related to regulations most frequently in open-ended questions about reasons for policy changes.

The survey approach to such a study is susceptible to the extraneous effects of other events such as economic conditions. Some of the more important factors that should be taken into account are reviewed here:

1. Economic conditions during the period covered by the survey were the worst experienced since the 1930s. Perhaps the most important determinant of delinquency and default is income volatility. With very high levels of unemployment and reductions in overtime, these problems were relatively more frequent during the survey period than had been the case for many earlier years.
2. Interest rates and the rate of inflation hit record highs during the survey period. High rates for borrowed money increased the cost of lending substantially, while the purchasing power of the money loaned was badly eroded by inflation (a benefit to the debtor, however).

These events would also be expected to cause banks to (i) charge higher rates (to cover the higher cost of funds, labor and materials); (ii) increase the average loan size (to spread higher costs, earn more revenue per transaction, and because the dollar size of loans demanded will rise with inflation); (iii) raise credit standards (because of the uncertainty due to employment conditions) and to engage in some of the other predicted and observed policy changes. Put simply, both sets of forces, the regulatory changes and economic conditions, could induce identical policy changes, and no doubt did. One must, then, in interpreting the results, rely on two basic findings: (a) the open-end responses to questions about the reasons for policy changes (where both regulatory and economic factors were mentioned) and (b) comparisons of the behavior of banks citing regulatory causes most frequently that did not. Since these banks were subject to the same regular and economic forces, banks responding to regulatory changes and conditions might be, and indeed were found to be, more frequent restrictive.

Other methodological concerns include (a) the low response (186 out of 610) and (b) the fact that other important regulations introduced during the survey period, including Fair Credit Report Fair Credit Billing, and the Equal Credit Opportunity Acts. At the response rate was only 30 percent, it is possible, and perhaps reasonable to assume, that the respondents were reasonably representative of the banks that did not respond. No specific data are available to support or refute such an assumption at the present time. With an assumption not warranted, it is still true that the responding population represents a substantial part of the market (especially if nonresponding banks did not respond because of limited participation in the consumer lending market). If all other banks made no policy response to the regulation, the effects as reported by the 30 the banks that did respond would still be substantial, especially certain groups in the consumer population. Only if nonresponding banks made a compensating response would the inferred results be incorrect. This is highly unlikely.

The introduction of other consumer credit legislation during period may result in an overstatement of concern about the provisions of the Act. Many responses were general in nature (and identified such in the tables) including "legislation," or "regulation" or protection laws." However, direct reference to specific factor covered only by the Act were frequent enough to indicate that the Act had a substantial effect, at least in the minds of the respondents and in terms of the policy responses they reportedly made.

The frequency of reported tightening of lending standards may also have been affected by economic conditions. For example, raising the minimum level of income required makes sense when inflation raises both borrower income and commitments. However, this reaction may have been reported as a toughening of lending standards. The changing of other criteria, however, is less susceptible to this criticism. In addition, data on the number and volume of loans support the reported restriction of availability (although this could, in part, be due to a recession induced decline in demand that preceded that national decline).

The focus of this study has been the response of banks to lending regulations. The ultimate concern, however, is not the impact on banks, but on consumers who own and use banks, and in particular, on those who borrow from banks. Based on the reported changes, consumers found that (at least some) rates were higher or terms were less favorable, that some types of loans (collateralized, especially on household goods) were harder to obtain (some banks discontinued particular loan types, forcing customers to search elsewhere), and that it was harder to qualify for a loan. Not all customers were affected equally, the "marginal" borrower being most likely affected by higher rates and higher credit standards.

The debtor with payment difficulties presumably found things a little easier (although, both weaker remedies, lenders may initiate collection efforts sooner in order to avoid a more serious delinquency). The time between default and repossession was increased, leaving the consumer with the use of the item in question for a longer period. The delinquency debtor was no longer liable for many legal fees. In more cases, the lender may have given up collection of the debt, especially if the or expected recovery was small compared to expected legal fees. The resulted in a transfer of wealth to the delinquent debtor.

Finally, although few consumers enter the credit market with intention other than to repay the loan, consumers may feel more comfortable knowing (if they are aware) that applicable remedies are restricted and therefore less harsh. Or, aware of the wealth transfer that is place, the majority of good credit customers may prefer the redistribution to those in difficulty (or to those that have higher probabilities of getting into trouble) and be willing to pay the higher price. In the sense, the remedies are like credit insurance, in that benefits become "payable" only to those for whom a particular event (in this case, delinquency and default) occurs. Everyone using the system pays the "premium" (possibly even those who do not use credit). Higher credit standards recognize that there are some consumers in the population are "too risky" to insure. What is less clear is whether or not it is the intent of the Act to prevent these consumers from entering the market and benefiting from the "insurance," nor is it clear how this exclusion might be viewed by those affected.

	December 1972	December 1972	December 1973	December 1973	December 1974	December 1974
As of Dec. 31	#	Amount	#	Amount	#	Amount
Outstanding Direct Loans						
Past Due Balances						
30-59 days						
60-89 days						
90-179 days						
180-269 days						
270 days or more						
Total						
Interest only acct's						
Partial Payment acct's						
For entire year						
Gross Charge-offs*						
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?

Thank you very much for your cooperation. All of your responses will remain 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 Administration
 Purdue University
 West Lafayette, Indiana 47907

By December 31, 1975

Name of company: _____

Person to contact regarding this report (phone) _____

Exhibit A-2
Marginal Distributions
Responses to the Wisconsin Bank Study

Credit Regulation Project

Column Number

1-3 Int. Number XXX
 4-5 Study Identification (01 = Wisconsin Banks)
 6 Q1 Since the beginning of 1972, have you made any changes in your direct lending policies?

Code 0 in col. 7-30 1. Yes
 5. No
 9. N.A.

Col 7-8	Col 13-14	Col 19-20	Q1a. [First Response] Please describe the three most important policy changes you have made:
98	98	98	00. Int.; "No" to Q1
4	25	51	99. No answer; no second or third mention
			Change in Credit Standards and Requirements
6	4	1	11. Higher downpayments; lower loan/value ratios & loan percentages
5	4	2	12. Other requirements up: employment; residence; age; income; type of customer; restrict to mediate area;
9	5	3	13. Tougher evaluation: more information; credit bureaus; new forms and procedures; new policy manuals guidelines
		1	14. Other debt more carefully evaluated
8	2	1	15. Tougher criteria for marginal, border line applicants
2	1		16. Complied with legislation, WCA, regulations
			18. Eased standards
5	3	4	19. Miscellaneous tightening, specific references
9	1		10. General tightening of lending policies (general reference only)
	1		Type and Size of Loan Effects
			21. Increased loan limits; raised limits to raise average loan size.
4	1	3	22. Restricted smaller loans; stopped making small loans
1	1	1	23. Stopped making loans for household goods
1	3	1	24. Shorter maturities
2	3	1	25. Longer maturities
2	1		27. Miscellaneous: expansion of availability, loan size
6	9	4	28. Miscellaneous: specific restrictions on availability, loan size
			20. General restriction of loan sizes and availability (low priority, general mention only)
			Rates and Fees
10	7	2	31. Raised rates charged; raised rates on specific types of credit
		1	32. Raised or instituted new fees (application fees, etc.)
		1	33. Required credit insurance; more frequently required credit insurance
			34. Changed method of rate computation.
		1	37. Lowered rates or fees; competition too strong to raise rates
2	1		30. Miscellaneous references to rates; changed rates; N.A. which direction

			Collateral & Type of Credit Extension
	2	1	41. Switch loans to bank cards; encourage open check credit or other open end credit
1			42. Reduced balloon notes
2	2		43. More unsecured credit relative to secured loans.
	2		44. No longer use collateral; collateral not used on many loans
1	2	1	45. Joint signatures required on loans; on loans above a given amount.
2	2	3	46. Required collateral or security where previously not required; required additional collateral;
5	6	4	40. Other composition changes (eliminated flooring arrangements) real estate loans etc.)
1		1	51. Tougher Collection Practices

Column Number	Date Change Made - FIRST RESPONSE	
9-12	XXXX: code month and year (e.g. March 1973 = 0373) 99XX: code year (only year given) 0373: When WCA legislation was passed 8000: General reference to legislation or laws 9999: No answer	
13-14	SECOND RESPONSE (same code as col. 7-8)	
15-18	Date Change Made - SECOND RESPONSE (same code as col. 9-12)	
19-20	THIRD RESPONSE (same code as col. 7-8)	
21-24	Date Change Made - THIRD RESPONSE (same code as col. 9-12)	

			Q1b: [FIRST MENTION] What were the most important reasons (in order of importance) for these changes?
	Col 25-26		
Col 25-26	Col 27-28	Col 29-30	
98	98	98	00. Inap; coded 2 in Q1
5	27	53	99. No answer; no second or third mention
			Regulatory Changes
15	4	1	11. Restricted <u>collection</u> procedures; remedy restrictions
2	1	2	12. <u>Collateral</u> restrictions
1	1		13. Holder in due course weakened; increased liability on indirect paper
		1	14. Rate restrictions; restrictions on credit insurance
24	9	10	10. General: Wisconsin Consumer Act; changes in laws, requires [code 10 only if no specific response is given along w mention of WCA or legislation]
			Cost of Funds
3	3		21. Higher cost of money, funds, higher rates on deposits
5	2	2	22. Lack of funds; other investments more profitable; tight money returns too low on consumer loans
1	1		20. Cost of funds: general reference (low priority); money

				Quality of Loans
1				31. Lower quality of loans; applicants; transients;
2	3	1		32. Higher risks
2		2		33. High loan/deposit ratio
2		1		34. High loan demand; too many applicants
	3	2		35. Increases in delinquencies, late payments
5	5			36. Reduce losses; higher chargeoffs on indirect paper, protect earnings; protect the bank's investments.
3	3	1		30. Misc: better control, quality of paper available
				Increased Costs (Code cost of funds in 20 series)
1	1	2		41. Cost-of compliance
4	5	4		42. Paperwork costs; red tape; supplies
	2			43. Legal costs & fees
	1			44. Higher cost of information: new forms; credit reports;
1		1		45. Higher costs for small loans
2	4 Low priority	3		40. Higher costs [code only if accompanied by no specific
				Profits
1	3			51. Need improved earnings
	1			50. Profits lower, too low; [Code only if accompanied by no specific mention. If costs mentioned, code in 40 series]
3	1			71. Changed disclosure policies to meet competition
				Economy
3	4	3		61. General economy
1				62. Local economy
1	2			63. Unemployment; risk due to economic conditions
		1		60. Higher price of consumer goods
	27-28			[SECOND MENTION] (same code as col. 25-26)
	29-30			[THIRD MENTION] (same code as col. 25-26)
	31			Q2: Are the rates you charge for credit generally higher or lower than they were in 1972?
164				1. Higher
15				2. Same
4				3. Lower
3	Code 0 in col. 32-35			9. No Answer
				Q2a. [FIRST MENTION] Why is that?
32	33	34	35	1. General: Increased cost of operations; higher administrative expense; inflation; legal expenses
52	21	2		2. Increased cost of paper work, record keeping, processing, documentation, red tape
13	11	7		3. Increased losses; higher risk; higher repossession and collection costs.
4	4	1	1	4. Regulation changes: few remedies; changes in laws; Wisconsin Consumer Act; consumer legislation
15	11	7	2	5. Cost and availability of money and funds, market trends, return on other investments.
38	11	5		6. Higher rates on deposits; more free checking; higher CD rates; cost of deposits; more time deposits
31	10	1		7. Competition
3				8. Other
10	7	1	1	9. N.A.; no second, third or fourth mention
17	108	159	179	

4	3	3	3	0. Inap; no answer to Q2. [SECOND MENTION] (same code as col.32
		33		
		34		[THIRD MENTION] (same code as col.32
		35		[FOURTH MENTION] (same code as col.32)
		36		Q3: Since 1972, has your bank had to tighten its lending standars overall, or has your bank been able to loosen its lending stardars somewhat, or have they stayed about the same?
	1			1. Standards have been substantially liberalized
	10			2. Standards have been moderately loosened
	58			3. Standards have remained about the same since 1972
	82			4. Standards have tightened somewhat
	31			5. Standards have tightened substantially
	4	Code 0 in 37-42		9. No answer
37-38	39-40	41-42		Q3a: [FIRST MENTION] What were the major reasons for changes in standards?
18	6	1		01. Restricted remedies: more difficult to collect creditors rights restricted legal process required
21	11	5		120126. Economy: tight; local economy; unemployment situation
10	8	2		03. Cost of funds; tight money; shortage of funds
30	12	3		04. Consumer protection laws; W.C.A.; new laws; legislation
4	1	2		05. Collateral: not worth as much; not as helpful
14	6	5		06. Cut losses & delinquencies; too many late payments delinquencies; clean up portfolio; higher (too high) losses; collection problems
2				07. Deposits grew too fast; had to make more loans; funds available;
5	5			08. Loan demand: grew too fast; large demand for funds; applications increased; good business;
3	5			09. Loans deposit ratio too high; too many loans;
1	5	2		10. High cost of operation; limited personnel; unnecessary forms
		1		11. Information restricted for credit evaluation
	2	1		16. Bankruptcy too easy, media downplay of importance of bankruptcy; too easy to get credit; consumers overextended too much debt.
8	4			17. Miscellaneous; easier
5	10	5		18. Miscellaneous; <u>tighter</u>
	2			19. Changing attitudes toward repayment of debt; not responsible
	2	1		20. Changing customer profile; transient customs
	1			21. Restrictions on insurance (physical damage, etc.)
6	47	99		99. N.A.; no second or third mention
59	59	59		00. Inap; coded 3 or 9 in Col. 36.
	39-40			[SECOND MENTION] (same code as col. 37-38)
	41-42			[THIRD MENTION] (same code as col.37-38)
	43			Q4: Do you use a formal point score evaluation system to help make lending decisions?
4				1. Yes
178				5. No
4				9. N.A.

44			Q4a: (If yes) Other than in response to the requirements imposed by the recently implemented Equal Credit Opportunity Act and Fair Credit Billing Act regulations, have you changed the minimum score required for considering an application since 1972?
2			1. YES, <u>increased</u>
1			2. YES, <u>decreased</u>
4			5. No Change
179			8. Not applicable, model has been changed
45	46	47	9. N.A.
1			0. Inap; code 5 or 9 in col. 44.
			[FIRST MENTION] Q4b: If yes, why?
			1. To cut losses; eliminate more risky or unreliable applicants;
			2. Higher cost of funds
			3. Higher costs of operations
	1		4. Limited remedies; restrictions on collections
1			5. To serve good customers without raising rates
			7. Consumer Laws; WCA; legislation
4	5	6	8. Miscellaneous
180	180	180	9. N.A.; no second or third mention
	46		0. INAP, coded 5 or 9 in Col. 43; coded 5, 8, 9 in Col. 44
			[SECOND MENTION]
			(same code as col. 45)
	47		[THIRD MENTION]
			(same code as col. 45)
48	49	48	EVALUATION OF Q5 DATA - 1 [UPPER LEFT HAND CORNER, PAGE 3]
17			1. Data appear good & complete
67			2. Data appear good but incomplete
1			3. Data look good, but collection practices changed
	2		4. Recovery and loss data appear erratic
	1		5. Average size of loan appears too high for consumer loans including (mortgages included)
	4		6. Recoveries are higher than chargeoffs
47	14		7. Only sketchy data available
6	1		8. Only sketchy data available, plus (4),(5), or (6)
48	5		9. No data of any use
	159		0. No second code
	49		Evaluation of Q5 data – 2
			(same code as col. 48)
	50-52		Scale Factor for Cards 2,3,4 Dollar Figures Only
158			001 Data Coded as reported
18			010 Data scaled by 10
8			100 Data scaled by 100
2			999 INAP
30	53		Number of Times Wisconsin Consumer Act Mentioned
			X Number of mentions
			9 9 or more
	54		Number of Times Legislation or Regulation mentioned (exclusive of references directly to WCA)
			X Number of mentions
			9 9 or more

	80	Card Number
		X Card Number (1)
178	55	ASSIGNMENTS
8		0. None
		1. Card 1
		2. Card 2
		3. Card 3
		4., Card 4
		5. More than 1 card
		9. INAP
	56	DELINQUENCY CLASSIFICATION (UPPER RIGHT HAND CORNER, PAGE 3)
174		0. Inap; no problems
5		1. 30 or more days
1		2. 60 or more days
5		3. 90 or more days
		4. 180 or more days
		5. 270 or more days
		6. 360 or more days
		7. Under 90 days
1		8. Under 180 days

WISCONSIN BANK STUDY

NUMBER OF ACCOUNTS & OUTSTANDINGS

1-3	INTERVIEW NUMBER
	xxx
	001 - 499 Wisconsin Banks
	500 -
4-9	# Outstanding Direct Loans
	XXXXXX Number of Loans
	000000 None; "_____", "0", "nil"
	999998 Don't know; "?"; "N/A"; insufficient information
10-14	# Past Due, 30-59 Days
	XXXXXX Number of Loans
	00000 None
	99997 997 or more
	99998 Don't know; "P", "N/A"; insufficient information
	99999 No Answer
15-18	# Past Due, 60-89 Days
	XXXX Number of Loans
	0000 None
	9997 97 or more
	9998 Don't know; "/ "N/A"; insufficient information
	9999 No Answer
19-22	Past Due, 90-179 Days
	(same code as col. 15-18)
23-26	# Past Due, 180-269 Days
	(same code as col. 15-18)
27-30	# Past Due, 270 Days or more

	(same code as col. 15-18)
31-35	Total # Past Due Accounts
	(same code as col. 10-14)
36-39	# Interest Only Accounts
	(same code as col. 15-18)
40-43	# Partial Payment Accounts
	(same code as col. 15-18)
44-47	# Charge-offs
	(same code as col. 15-18)
48-51	# Recoveries
	(same code as col. 15-18)
52-61	Outstanding Direct Loans
	XXXXXXXXXX Code amount
	999999997 \$99999997 or more
	999999998 Don't know
	999999999 No Answer
	000000000 None
62-68	Past Due Outstanding, 30-59 Days
	XXXXXXX Code amount in dollars
	9999997 \$9997 or more
	9999998 Don't know
	9999999 No Answer
	0000000 None
	Past Due Outstanding, 60-89 Days
	(same code as col. 62-68)
79	Card Number (1)
80	Year
	2. 1972
	3. 1973
	4. 1974
1-3	INTERVIEW NUMBER
4-5	STUDY NUMBER COL = WASHINGTON BANKS
6-11	Past Due Outstanding, 90-179 Days
	XXXXXX Code amount in dollars
	999997 \$999997 or more
	999998 Don't Know
	999999 No Answer
	000000 None
12-17	Past Due Outstanding, 180-269 Days
	(same code as col. 6-11)
18-23	Past Due Outstanding, 270 Days or more
	(same code as col. 6-11)
24-31	Total Outstanding, Past Due Balances
	XXXXXXXXX Code amount in dollars
	00000000 None
	99999997 \$99999997 or more
	99999998 Don't Know
	99999999 No Answer
	00000000 None
32-38	Interest Only Account Outstandings
	xxxxxxx Code amount in dollars
	0000000 None
	9999997 \$9999998 or more

	9999998 Don't know
	9999999 No Answer
39-45	Partial Payment Account Outstandings (same code as col. 32-38)
46-52	Gross Charge Offs XXXXXXX Code Amount in dollars 9999997 \$9999997 or more 9999998 Don't Know 9999999 No Answer 0000000 None
53-59	Recoveries (same code as col. 46-52)
60-66	Net Charge Offs (same code at col. 46-52)
79	Card Number (2)
80	Year 2. 1972 3. 1973 4. 1974

APPENDIX B

The exhibits in this section reproduce the responses received to questions 1a, 1b, 2a, and 3a (see the questionnaire in Appendix A, Exhibit A-1).

EXHIBIT B-1

FTC WISCONSIN BANK STUDY RESPONSES TO QUESTION 1A FOR THOSE WHO CHANGED THEIR DIRECT LENDING POLICIES (answered YES to question 1)

Question: Since the beginning of 1972, have you made any changes in your direct lending policies? [If Yes] Please describe the three most important policy changes you have made.

	Respondent
1. More cautious on marginal loans because of difficulty in relying on collateral as security and as possible means of recovery - "Deadbeat" has more rights than lenders!!	001
2. Compliance with Wisconsin Consumer Act RESPA	002
3. Do not make loans on household furniture and appliances, etc. Do not finance cars more than five years old Have changed minimum amount of loans on real estate mortgages and length of monthly payments on consumer loans	007
4. Begin rationing credit - attempt to reduce loans outstanding b net 20% over next two years. Raise loan standards. Withdraw from mobile financing and all real estate loans except homeowners. Raised loan standards once again. Out of household goods loans, cut back auto lending and <u>all</u> - third party transactions due to law changes. Our state usury law prevents us lending to many marginal consumers	008
5. Larger downpayments required	010
6. Phase out of floor planning Fewer long term RE loans	011
7. Pricing our loans more in line with our direct costs Scrutinize borrowers ability to repay Stronger policies on collateral	014
8. We are forced to be more conservative in all areas	019

9.	Five-year loans on real estate to allow us variable rate (not locked in) Mobile home loan much more restrictive Auto loan 42 months installment	022
10.	Stricter adherence to proper downpayments on installment contracts particularly cars and snowmobiles and cycles	023
11.	Review of all loans over \$5000 monthly; closer follow up of delinquent loans	030
12.	Stricter credit policies; No longer make loans on household goods; Have required security on loans may have made unsecured, charged closing fee with enactment of RESPA	035
13.	Raised interest rates; Convert small loans to open-end credit program; Adopted positive policy on equal- opportunity loans	037
14.	Increased rates on new autos, and miscellaneous consumer loans Started Personal Reserve checking to try and eliminate small single payment loans. Started collecting odd days interest on installment loans	038
15.	Requiring husband and wife's signature on all loans exceeding \$500. Five-year amortization note on real estate mortgage loans. VSI coverage on all auto loans.	039
16.	Higher rates; More collateral; Fewer loans on financial statements.	041
17.	Tightened credit requirements on consumer loans and amount of downpayment requirements on auto lending. Tightened credit requirements and downpayments on mortgage loans.	044
18.	Established written loans policy that was to be followed by all loan officers. Established use of credit applications on all loans. Utilized credit bureau and other credit sources. Improved documentation on all loans	050
19.	More complete evaluation of the borrower.	055
20.	Review permanency of residence.; Age factor; Very selective screening of youthful borrower.	058
21.	Raised interest on loans. Wrote loans on shorter terms, subject to extension.	059
22.	Six-months continuous employment on most recent job in Consumer Loans of \$1000 or less and any unsecured credit to previously unknown applicants. More comprehensive credit report on any new applicant with loan officer contact to listed references. Elimination of household items as security for a loan except in special circumstances that will enhance an already existing credit.	060
23.	Become more aggressive in seeking loans via e0vertising, direct visits etc. Increase loan limit.	065
24.	It has been more complicated and restricted due to repossession regulations-various consumer protection acts, rights, etc.	066
25.	Reduced the unsecured loan limits. Discontinued the financing of household items. Increased downpayment requirements on purchases.	076
26.	We stopped making loans below \$500. A customer was given a PRA-line of credit (overdraft banking) if he qualified.	077
27.	No balloon transaction.; Term restricted in relation to advance.; Debt collection.	079
28.	Compliance with Truth in Lending-Wisconsin Consumer Act, etc. Interest rates-part. Small loans	081
29.	Extend terms on auto. Giving more unsecured credit. Developed an open-end credit program.	083
30.	Minimizing unsecured loans-always looking for collateral. Refer \$500 and under loans to check credit or Bankcard. Eliminating personal loans from single payment status.	085
31.	Stopped making real estate loans. Funds are now available, but we have stayed away from real estate loans. General tightening of lending standards and policy	088
32.	Change interest rate from 8 1/2% to 9%	090
33.	General tightening of credit standards	093
34.	We have lowered our real estate mortgage percent of loan to value policy. We look very closely at past performance, length of time on job, job rating by employer, and, or course, overall debt and payment program.	094

35.	Rate of interest increased. Criteria for unsecured loans stiffened.	99
36.	Increased rates.	101
37.	Deal only with local borrowers. Required greater equity and employment longevity.	105
38.	We have become more cautious and restrictive and have turned down more borderline ' credit applications. Also we are less inclined to make the smaller loans.	106
39.	Rate changes.; Do not use household goods as collateral	108
40.	Tightened standards.	109
41.	Curtailed loans under \$200.; Discontinued cashiering and financing auction accounts	111
42.	Did not do any one thing in particular, but instead, tightened up our entire lending policy, such as larger downpayments, high rates, not taking a chance of applicants of marginal credit record, etc., all of which began with the Wisconsin Consumer Act, March 1, 1973	112
43.	Credit qualifications became more strict, borderline applicants were declined more. Rates were increased because of-increased costs and more legal restrictions. Smaller loans were eliminated due to increased costs of supplies, etc. Because of increased operating costs, we can no longer come out on smaller loans.	114
44.	Extended term to 48 months on auto loans as an exception.	118
45.	We have expanded our loan department and made more loans than before. Concentrated on industrial and commercial type lending.	120
46.	Tighter lending policies; Increased interest rates	123
47.	Unsecured loans must be supported by a very substantial credit recommendation. Secured loans require signature of spouse even though a purchase money mortgage loan.	126
48.	Limiting credit extension to immediate area. Limiting credit extension to established customers or those new to area.. Raising of rates	128
49.	Increased emphasis on credit quality. More emphasis on the productive use of credit. Reduction in the maximum loan term.	133
50.	Discontinued wage assignment loans. Discontinued indirect auto loans. Restricting smaller personal loans.	135
51.	Increased rates. Require larger downpayments. Have asked for more co-signers.	136
52.	Tightened credit standards on automobile loans, particularly used automobiles. Converted installment loans to a simple interest basis. Drastically increased credit qualification standards for open-end consumer credit. Also increased regular and consumer loan credit standards.	137
53.	More stringent security requirements (Chattel)	138
54.	More stringent requirements as to credit history and less reliance on collateral.	143
55.	Qualify borrowers better for unsecured lending. Result: securing more loans. Asking for both spouses' signatures. Asking for co-makers on young adult lending.	144
56.	More restrictive in our lending policies. More selective based on creditworthiness and credit rating.	146
57.	Generally tightened requirements. No longer lend to people who do not have depository relationship	147
58.	Use of collateral on loans of \$1000 or less is now dominated by unsecured loans. Length of term on installment loans increased from 36 months to 48 months.	150
59.	Requiring larger downpayments on purchase money agreements, along with increases in interest rates. Now requesting more financial information and references, with tighter restrictions on loan approval. Immediate action taken against loans in default, with lesser tendencies to be lenient with the customer	151
60.	Cut back in mortgage lending. Cut bank in construction lending.	153
61.	One important change. Upgrade credit qualifications	154
62.	Virtual elimination of loans secured by household goods.	155
63.	Stopped buying retail sales contracts because of elimination of "Holder in Due Course". Become much more conservative and more particular in credit screening.	156
64.	Developed a written loan policy. Included anti-discriminatory language in above. Allowed	159

	for extended terms in larger loans.	
65.	Simple interest on installment loans. Extended term auto to 48 months. Reverted to direct lending.	163
66.	More select on uncollateralized loans. Require bigger margin of equity on collateralized loans. Moved rates to the maximum allowed.	165
67.	Declined smaller loans	166
68.	Written comment sheets on all loans. More and better credit information. New and renewal notes reviewed daily by all loan officers.	167
69.	We have discontinued the purchase of retail contracts on mobile homes due to adverse losses and the gradual deterioration of the type of customer attracted to mobile homes. The phase out of dealer floor plan arrangements due to the low return on investment capital in the dealer and inventory. Emphasis on the direct purchase of automobile retail business through the use of direct advertising and lower rates offered.	168
70.	Higher rates	169
71.	We are making almost no loans anymore secured by HHF, because of the new Wisconsin Consumer Law. We still buy loans from dealers, but this is now also cumbersome because of restrictive laws. We have increased our charges by about 1/2% because of the additional risk and increased paper work, caused by new Consumer Law. For those of us making real estate mortgages, and we make a lot of them, the most onerous and stupid law ever passed was RESPA. Because of increased costs, we have and are firming up our interest charges to cover. We were charging only out of pocket closing charges and to us the new law stinks.	172
72.	Job tenure requirements extended from six months to one-year range to one and two year range. Extending downpayments requirements from 20% to 25% Restricting our geographical lending radius to within seven miles of our base operations.	173
73.	Reduce the number of loans under \$700. Increase interest rates on small loans to maximum permitted under laws of State of Wisconsin. Increase the costs of fees for writing real estate mortgages to reflect time and details involved.	175
74.	Adopted formal written loan policy-presently in outline form. Established review program under direction of review officer. Adopted formal written non-accrual policy.	176
75.	Credit reporting policy. Setting rate policy. Collection procedure (with enactment of the law).	177
76.	Down payments have been increased. Presently under consideration are new requirements for employment credit. Credit requirements are tighter--marginal credit risks receive less consideration.	179
77.	Applicant must have excellent credit history rather than just satisfactory.	180
78.	During 1972-73 and 1974 we revamped the territory we could cover. Applicants living outside our local area were required to apply to their local lender.	181
79.	Increase in overall rate. On the average installment customer-rely on character rather than if the account is 100% secured. Eliminate HHG Loans-Period.	182
80.	Require better credit background. More restrictive uses of comakers. Elimination of mobile home loans.	183
81.	Started formal Installment Department-requiring applications and check of references. Only fully secured loans-no borderline credit. Customer only loans-only loans to present customers or applicants who open accounts with us.	184
82.	More selective in our loans. Check them more close	185
83.	Somewhat more restrictive on consolidation loans. Lending activities on a direct basis were more stringently contained to within a more closely defined geographic area.	186
84.	Shorter terms and higher rates on most installment loans. Closer scrutinization of individuals applying for loans. Tightening of loan policy regarding unsecured lending.	187

EXHIBIT B-2

DRAFT OF RESPONSES FROM THE BANK DIRECT LOAN QUESTIONNAIRE

Response to Question 1b: [If yes to 1a] What were the most important reasons (in order of important) for these changes [in direct-lending policies]?

	Respondent
1. Wisconsin consumer act - could no longer get security. Tightening of garnishment laws	184
2. Wisconsin Consumer Act makes it very difficult to collect from poor payers	183
3. Cost of processing and handling – WCA If you rely on the security you may have problems in repossession	182
4. Passage of Wisconsin Consumer Act has made collections and repossessions more costly and difficult. Equal Credit Opportunity Act will make it difficult to ask questions in fear of breaking the law-to develop borderline applications, more rejections will result.	180
5. Since the Wisconsin Consumer Act, the bad credit risk customer has most of the advantages. The bank that is trying to fulfill the need of the community is no longer able to fulfill completely the need.	179
6. Consumer protection laws	178
7. Increased time and detail required to comply with government regulations. Increase in cost of legal fees and recording fees again brought on by government action.	175
8. We are making almost no loans anymore secured by H11F, because of the new Wisconsin Consumer Law. We still buy loans from dealers, but this is now also cumbersome because of restrictive laws. We have increased our charges by about 1/2% because of the additional risk and increased paper work, caused by new consumer laws. For those of us making real estate mortgages, and we make a lot of them the most onerous and stupid law ever passed was RESPA. Because of increased costs, we have and are firming up our interest charges to cover. We were charging only out of pocket closing charges and to us the new law stinks.	172
9. Newly enacted consumer laws prompted the bank to change their direct and indirect lending policy.	168
10. Laws on collection procedures - additional cost (expense) absorbed by the bank on legal expenses - additional paper work to comply with regulations	165
11. Implementation of the Wisconsin Consumer Act	163
12. Practically impossible to collect from someone who turns out to be a deadbeat.	156
13. Wisconsin Consumer Act	155
14. Current consumer laws favor poor credit risks making it near impossible to take corrective measures in handling delinquents	154
15. The increase of new laws relating to consumer protection laws	151
16. Wisconsin Consumer Act, Section 425.209 #2	150
17. Wisconsin Consumer Act as it applies to collection remedies.	147
18. New laws and regulations	146
19. State and Federal regulations limiting creditors' rights and remedies	143
20. Due to collection restrictions	138
21. Extreme difficulty in realizing collateral rights in automobiles caused us to regard these loans in almost the same standard as unsecured personal credit. Converted to simple interest as consistent with our marketing policy, i.e., most logical, rational structure for consumer information. New legislation effective October 28 required tightening of credit standards	137
22. Laws are such that loaning agency has little to stand on legally	136
23. Consumer Protection Act makes administration too difficult	135
24. Wisconsin Consumer Act limitations on collection	128
25. Changes in regulations and laws	126
26. Legislation restricting collection activities. Cost of money and legislation increasing work load	123
27. Wisconsin Consumer Act - collection procedures became very restrictive.	114

28. Increased remedy restrictions, especially for repossession procedures	112
29. Consumer Credit Law	109
30. The most important factor for making majority of changes has been the law changes	108
31. The red tape and Consumer Protection has made collection much more difficult, and has increased the cost of making loans so that we are unable and unwilling to take the risk and expense of making small loans or loans where credit is not 100%	106
32. Wisconsin Consumer Act effective	099
33. Wisconsin Consumer Act made collection of loans more difficult	093
34. RESPA and Wisconsin Consumer Act have made other loans and investments more attractive from the standpoint of rate and red tape.	088
35. State laws regarding repossession and what we can take as collateral	083
36. Requirements	081
37. Wisconsin Consumer Act became effective	079
38. Wisconsin Consumer Act - Decreased our chance of recovery on unsecured loans. Increase in cost of purchases and exempt items to protect consumers. -High cost of legal fees and recovery fees on repossessions	076
39. To try and stay above water and comply with all regs. And not completely discontinue servicing borrowers	066
40. Consumer laws affecting collections and methods of repossessions	060
41. March 1973 brought into being the Wisconsin Consumer Act which among other things makes collection procedures far more difficult and places many documentary legal problems on the lending bank. June 1974 brought into being the Federal Real Estate Settlement Procedures Act of 1974 that greatly increased cost of mortgage lending under this RESPA caused dramatic changes in lending policies and costs	044
42. Higher risk factor on loans due to lack of collectability	041
43. Change in Wisconsin probate law	039
44. Restrictions on rate and decreased insurance income due to Wisconsin law	038
45. Due to the Wisconsin Consumer Act we were forced in ordering all new forms and more of them. Everything also had to be duplicated so consumer received copy. Following Fair Credit Reporting Act additional expense and new and more forms again. Also more time needed to evaluate applicants since personal reference couldn't be used, only ledger accounts. Instead of contacting one or two we were forced to scrutinize and check out more closely. Once again following the Equal Credit Opportunity Act over direct and indirect costs increased on all consumer transactions, this also applies to the Fair Credit Billing Act. To try and economize on small loans, we converted to most economical form of billing--open end credit Due to Federal Regulation on the Equal Credit Opportunity Act we adopted affirmative policies	037
46. Restricted collection practices. Restricted repossession on direct and indirect loans. Additional time and paperwork and risks.	035
47. RESPA. Wisconsin Consumer Code. Federal Truth in Lending. Heavy paper load, severe penalty for errors.	019
48. Too many changes in state and federal laws, unnecessary laws do not let us collect bad accounts. Credit laws put too many restrictions on collateral and repossessions.	014
49. New consumer regulations	010
50. Legislation	008
51. Enactment of Wisconsin Consumer Law - makes it difficult to tell which items are exempt from the law so do not loan on any - is too expensive and difficult to repossess cars so it is not practical to finance cars of small value - law requires certain minimum amounts and repayments terms	007
52. Government bureaucracy	002
53. WCA. Consumer Advocates. Other ridiculous legislation protecting "deadbeats"	001

EXHIBIT B-3

FTC Wisconsin Bank Study responses to question 2 for respondents who said that the rates they charged for credit were generally higher now than, they were in 1972.

Question: Are the rates you charge for credit generally higher or lower than they were in 1972? Why is that?

	Respondent
1. Increased costs of interest on savings and time deposits.	001
2. Inflation	002
3. Generally higher rates	003
4. Percentage of loans to deposits are higher	006
5. General rise in interest rates of all kinds and additional expense of making loans caused by Wisconsin Consumer Law	007
6. Cost of funds and-the additional work required because of the new consumer regulation	010
7. Trend-cost of money-higher profit desire	011
8. Increased cost to us	012
9. Cost of doing business is higher	014
10. Higher operating costs	015
11. Inflation-cost of doing business	016
12. We pay more for deposits	017
13. Cost of overhead have gone up and rates we pay have gone up	018
14. Inflation (government deficit spending)	019
15. We have to pay more for our deposits	020
16. Paying higher rates for time deposits	021
17. More cost of funds conscious	022
18. Our interest paid (rates) are higher!	023
19. Competition; profit	030
20. Higher interest rates paid on time deposits	031
21. Increased in interest rates we pay	032
22. Cost of money 7-1/2% - 72, 7-112% - 73, 8% - 74	036
23. The overall cost of doing business increase substantially under Consumer Regulations	037
24. Increased cost per loan due to paper work and increasing losses operating under Wisconsin Consumer Act	038
25. Ask the forces that control inflation	039
26. We are now paying more for our money (time certificates) and of court our expenses are higher	040
27. Higher loss ratio; High cost of operations	041
28. We use to make loans for 5% add on but due to this extra burden of laws we "upt" the rate	042
29. To cover increased overhead in all areas including wages and also to cover additional costs made necessary by recent consumer lending laws	043
30. (Sharply) each piece of consumer legislation going into effect has caused handling costs to sky-rocket, and has increased the risks of lending in certain areas dramatically	044
31. Higher costs of money	045
32. The increase in the costs of deposits, the competition provided by other markets, such as government securities, Federal Funds, etc.	047
33. Our cost of money has increased	048
34. Cost of money is more, expense is greater	049
35. We have greatly increased our savings rates, have gone to free checking, and previous rates were generally low in comparison to other areas	050

36. Money rents for more now	051
37. Increased expenses, increased interest paid on savings and time deposits	052
38. Higher rate of interest paid on time deposits, higher costs of other operations. Improve yields on bonds	053
39. Inflation-higher expenses	054
40. Higher money costs and loan administration	055
41. Higher costs!	056
42. To off-set higher operating expenses, as well as larger loan losses	057
43. This is a dumb question! Inflation.	058
44. Higher operating costs	059
45. Increase in costs of operations, and money	060
46. Higher rates paid on savings accounts of all types creates higher .operating expense. The result is lending rates must also be higher	061
47. We are paying more for money	062
48. The increasing loan demand and the change in Wisconsin Law increasing rates .	063
49. Cost of money	064
50. Cost of money (rates we pay on deposits) has risen	065
51. Cost of money-on RE Loans it is higher-consumer installment same as before	066
52. Interest paid on Time Deposits has increased, and heavy demand for mortgage money has shortened our supply	067
53. Cost of our money has increased by the changes in allowable rates on savings accounts. Since savings in our bank are our source of loan funds, as these savings rates increase-so do loan rates	068
54. We are paying more for our money today Regulation Q has forced rates up!	069
55. We increased the interest we pay on time money	070
56. Guess	071
57. Higher interest rates	072
58. We are paying higher rates on savings and CD's and everything is generally higher	073
59. Higher rates paid on time deposits	074
60. One-half percent increase due to an increase in deposit interest rates in late 72	075
61. One percent to two percent on all kinds of direct loans	076
62. Rate law change 3/73-18 percent on first 500 dollars-12 percent on balance	077
63. Inflation-higher money markets	078
64. Increase costs	079
65. Justified by higher costs due to inflation, a great increase in savings deposits and relative decrease in demand deposits, free checking, etc.	080
66. Cost of doing business	081
67. Higher costs; higher savings rates paid	082
68. Cost of operation	083
69. Operating costs are higher; personnel, interest paid on time deposits, money market rates	084
70. Cost increase, prime rate PR increased	085
71. Our costs our more	086
72. Higher cost of money and higher operating expense	087
73. Our costs (especially interest paid) are up	088
74. Increase costs	089
75. Sharply increased C-D rates; Greater demand; Higher operating expense	090
76. Cost increased	091
77. Cost of labor, materials, but mostly the cost of interest paid on deposits	092
78. Money costs and operating costs have risen. Higher rate allowed under Wisconsin Consumer Act	093
79. General increase and overall operating costs. Interest, salaries, fringe benefits, supplies, etc.	094

80. Increased costs	095
81. Expenses and overhead have increased	096
82. CD and saving rates were raised on deposits, overhead on operations fuel, salaries, etc.	097
83. All of our costs have risen a great deal during this period	098
84. More paper work in setting up. Fewer remedies for default	099
85. Savings rate to customer has increased-burdensome-non-sensual regulations and paper work	101
86. Increased cost of processing	102
87. Cost of money and doing business (more paper work due to new laws)	103
88. Market trends. Also cumbersome amount of paperwork has added to costs of doing business so increases have been passed on	104
89. Cost of money and cost of loan record keeping and documentation	105
90. Increased costs of making loans due to all additional red tape, greater risk of legal expense entire cost of money	106
91. Inflation resulting in increased salaries and expenses. State and federal laws making it more difficult and time consuming to make loans, requires more man hours and more expensive supplies	107
92. Our money costs us more and it costs more to make a loan today properly with the present consumer laws	108
93. Higher costs of funds, loan administration costs increased because of consumer credit code	109
94. Higher cost of money and higher servicing costs caused by consumer legislation	110
95. Cost of money increased and time to complete paper requirements increased (new regulations)	111
96. All costs are up, but the largest is the potential loss on repo's due to waiting periods involved in which collateral has rapid depreciation from neglect and misuse	112
97. Increased costs due to required record keeping	113
98. Because of the increased cost of doing business, mainly due to requirements and restrictions of new laws	114
99. Cost of doing business before and after (placing a loan on the books and collection later)	115
100. Higher rate paid on CD's	116
101. They do fluctuate-higher now because of cost of money	117
102. Wisconsin Consumer Act	119
103. Money market conditions	120
104. Increasing costs	122
105. Increased costs of money and legislation	123
106. Increased interest paid on savings, higher operating costs and more paper work making loans which is due to more government regulation	124
107. Operational have risen due to inflationary factors, increased red tape due to regulations primarily and interest rate levels in the market place are much higher	125
108. Costs have increased. Risks are higher due to mandated legislation	126
109. Bank operation costs have increased	127
110. To justify earnings near that of investment income and due to collection problems existing with the Wisconsin Consumer Act	128
111. Cost of funds is higher	129
112. The overall change in rate structures in the Wisconsin Consumer Act	130
113. Cost of funds higher	132
114. Increased cost of money, the Wisconsin Consumer Act (effective 3/73)	133
115. Increased costs	134
116. Same reason as above! [consumer protection makes administration too difficult!]	135
117. The overly amount of paper work in connection with a loan, higher operating costs due to multiple duplicate forms	136
118. Higher costs of compliance with regulation, increased operating costs and lower	137

average demand balances for retail customer relative to services required	
119. To compensate for collection restrictions	138
120. To cover increased expenses and cost of money	139
121. The Wisconsin Consumer Act rate change 18/12. We now use higher rates on many of our installment loans	140
122. Because of higher rates permitted by the Wisconsin Consumer Act	142
123. Higher money costs, more expensive collection costs, and higher administrative costs necessitated and increased	144
124. The demand is greater	145
125. More paper work involved	146
126. Our costs of operation and money supply have trended higher	147
127. Interest paid on savings increased from 5 percent to 6-1/2 percent and 7-1/4 percent	148
128. Cost of doing business-general inflation	150
129. Higher operative costs; higher cost of money. Increased costs resulting from consumer protection laws. Increase in defaulted loans	151
130. Cost of money living and inflation	152
131. Rates have changed and we are now in more installment lending which calls for higher rates	153
132. Money costs have increased during this period	154
133. Higher operating costs, particularly in collection area. Higher cost of money	155
134. Extra cost of processing-higher losses	156
135. Economic conditions and disagreeing impact of government regulations	157
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EXHIBIT B-4

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[Respondents who had tightened standards only]

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APPENDIX C

The Wisconsin Consumer Act and the Proposed FTC Rule Compared*

*The analysis in this section was provided by James L. Brown, Associate Director, Center for Consumer Affairs, University of Wisconsin-Extension, University of Wisconsin-Milwaukee, Milwaukee, Wisconsin 53203.

Appendix C

The Wisconsin Consumer Act and the Proposed FTC Rule Compared*

General Interpretive note:

The WCA extends to agricultural credit transactions (§421,301(17) Wisc. Stats.-definition of customer') while FTC §444.1(d) does not. Further, first lien real estate mortgages with APR < 12% under \$25,000 are also largely excluded from the requirements of WCA by §421,202(F), Wis. Stats.

Sectional Analysis

The following lists on a section-by-section basis, the sub-sections within FTC §444.2 "Unfair Credit Practices," and the corresponding WCA provisions, followed by explanatory notes where pertinent.

<u>FTC §</u>	<u>WCA § (Wis. Stats.)</u>
444.2 (a) (1)	422.405
444.2(a) (2)	421.106 & 42S.106

Under WCA, §421.106 prohibits a customer from agreeing to forego rights or benefits under WCA; §425.106 contains exemptions from execution broader than those generally allowed under §815.18, Wis. Stats. for non consumer credit transaction based obligations.

444.2 (a) (3)	422.404
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The WCA allows wage assignments only if they are revocable at will by assignor. Further, specified procedures must be followed to renew ha wage assignment which automatically expires after six months unless h procedures are invoked. §422.404, Wis. Stats.

444.2 (a) (4)	422.417
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Under WCA, a seller may take a security interest only in the goods ,or if the obligation exceeds \$500 in goods upon which personality is annexed, or in goods upon which the services sold are performed; the obligation exceeds \$1000 in real property to which the property is affixed or which is improved, repaired or maintained by the sale e personality or services; or, in a consolidated transaction pursuant Wis. Stats.

A lender may take a security interest only as a purchase money security interest, or in real property, where the obligation exceeds \$1,000, or in household goods of the debtor other than “[c]lothing of the customer and his dependents and the following if they are not fixtures: dining table and chairs, refrigerator, heating stove, cooking stove, radio, beds and bedding, couch and chairs, cooking utensils and kitchenware.”

*The analysis in this section was provided by James L. Brown, Associate Director, Center for Consumer Affairs, University of Wisconsin-Extension, University of Wisconsin-Milwaukee, Milwaukee, Wisconsin 53203.

FTC §

WCA § (Wis. Stats.)

444.2 (a) (5)

422.418

444.2 (a) (6)

no corresponding section

444.2 (a) (7)

425.209-210

Under WCA, direct sales and interlocking loans (see §422.408 for definitions) (but not direct loans) are restricted as to available deficiency judgments obtainable. Where repossession or voluntary surrender of the collateral occurs in such situations and where the amount owing at the time of default (as defined in §425.103) was \$1000 or less, no deficiency judgment is allowed. If the foregoing criteria are applied and a deficiency judgment is not precluded, the creditor may seek same as determined by reducing the unpaid balance by the "fair market value" (§425.210, presumably wholesale) of the collateral.

444.2 (a) (8)

422.411

Except for real estate secured transactions involving first lien, purchase money or equivalent security interests, where the disclosed APR 12% or less, no contract may require payment by the debtor of attorney's fees.

444.2 (a)(9)

422.203

Late charges on any installment payment may not exceed the lesser of \$3 or 3% of the unpaid amount of the installment. Further, a payment is not late (and hence susceptible to late charges) unless paid more than ten days after the contractual due date (422.203 (2) and 425.103) Payments are applied to current installments and then to delinquent installments for purposes of this section. A late charge may be assessed against a delinquent installment only once. Deferral charges are regulated by §422.204.

444.2 (a)(10)

427.104

Prohibited collection practices are enumerated in §427.104, which inter alia prohibited pre-judgment contact with the debtor's employer except to verify employment and wages. Such practices are prohibited in any consumer credit transaction or any consumer transaction (see 421.301 (13) for definition) in which an agreement to defer payment exists.

FTC §

WCA § (Wis. Stats.)

444.2 (a) (11)

422.305

§422.305 specifies the WCA requirement of notice to co-signors. No comparable provision exists under WCA requiring the creditor to initially seek repayment from the principal debtor. Further, no minimum three day period is required after which such notice is given to co-signor of the principal debtor's default is required before the co-signor becomes liable. Customer's remedies and applicable penalties imposed by WCA for violation of the above are contained in subchapter III of Ch. 425, Wis. Stats.

Appendix D

Summaries of the Wisconsin Consumer Act

GENERAL INFORMATION

On March 1, 1973, the Wisconsin Consumer Act, which is administered by the Commissioner of Banking went into effect. This pamphlet provides a general overview of the Act including the limitations imposed on persons extending credit in Wisconsin.

COVERAGE OF THE ACT

Generally all sales, leases or loans entered into after March 1, 1973, which are payable in more than 4 installments or which include a finance charge where the purpose is for personal, family, household or agricultural purposes are covered by the Act. However, the Act does not cover transactions where the amount financed or cash price exceeds \$25,000, transactions dealing in securities through broker-dealers and loans for the acquisition of real estate secured by a first lien real estate mortgage where the annual percentage rate of finance charge does not exceed 12%. Insurance sales are covered only when the insurance is written in part to benefit a creditor. Insurance premium financing is covered by the Act. If a transaction is made, insured or guaranteed by the federal government or an agency thereof or the Wisconsin Department of Veterans Affairs some of the provisions of the Act do not apply.

CREDIT CHARGE LIMITATIONS

FINANCE CHARGES: Generally creditors may not assess a finance charge of more than 1 1/2% per month (18% ANNUAL PERCENTAGE RATE) on the first \$500 of the balance and 1% per month (12% ANNUAL PERCENTAGE RATE) on the balance over \$500. A minimum finance charge of \$5 on amounts financed of \$75 or less and \$7.50 on amounts financed over \$75 may be assessed. Licensed lenders may charge 18% ANNUAL PERCENTAGE RATE on loans in excess of \$3,000. On loans of less than \$3,000 they may assess rates as high as 23.3% ANNUAL PERCENTAGE RATE depending on the amount and term of the loan. Motor Vehicle Dealers may assess rates between 12.7% for new cars to 23.2% for cars over 4 years old.

ADDITIONAL CHARGE: Generally creditors may not include additional charges other than the finance charge. The only permitted additional charges are official fees such as licenses and recording fees, taxes, certain credit insurance and property insurance costs, and appraisals, surveys and title opinions in certain land transactions.

DELINQUENCY CHARGES: This charge is limited to installments which have remained unpaid for more than 10 days after their due dates. The charge is limited to a single charge of 3% of the unpaid amount of the installment or \$3, whichever is less.

REBATE ON PREPAYMENT: If you prepay in full a precomputed transaction which is repayable in substantially equal installments and at equal intervals you are entitled to a rebate of unearned finance charge computed in accordance with the Rule of 78. However, if the creditor has charged the minimum finance charge or has contracted to retain that charge, that amount is an earned finance charge and will not be refunded.

CREDIT DISCLOSURES

Certain disclosures such as the price of the goods or services, the finance charge and annual percentage rate and the schedule of payments must be disclosed in writing to the customer and any co-signer before they become obligated on the contract. A customer must receive an exact copy of any agreement he signs before the first payment is due. All blank spaces must be completed before the customer signs the contract. Customers are entitled to receipts for cash payments without request and to written statements of their accounts.

ADDITIONAL CONTRACT LIMITATIONS

BALLOON PAYMENTS: Payments which are substantially greater than others in the payment schedule are generally prohibited.

MAXIMUM REPAYMENT PERIODS: On transactions under \$2,000 repayment is generally limited to periods between 25 and 61 months depending on the amount of the sale or loan, although licensed lenders may schedule payments for terms up to 36 1/2 months where the loan proceeds exceed \$700. For certain home improvement transactions the permitted repayment periods are somewhat longer.

WAGE ASSIGNMENTS are prohibited unless revocable at will by the customer.

ASSERTING CLAIMS AND DEFENSES: If a merchant assigns a consumer contract to a bank or other lending institution, a customer can still assert claims and defenses for breach of contract by the merchant against the lender. This right continues for one year from the date the customer receives written notice of the assignment.

ATTORNEYS FEES: Contract provisions requiring the customer to pay for the merchant's attorney in collecting the debt are prohibited.

SECURITY INTERESTS: In a sale a security interest is generally limited to the property sold but may include land or other property to which the sale good are attached in some larger sales. Security deposits are prohibited in consumer leases. Unless the proceeds of the loan were used to make the purchase of the following items, they may not serve as security for a loan; clothing, dining table and chairs, refrigerator, heating stove, cooking stove, radios, beds, bedding, couch, " chairs, cooking utensils and kitchenware plus land if the loan is under \$1,000.

CUSTOMER'S RIGHT TO CANCEL

CONSUMER APPROVAL TRANSACTIONS: A customer has a right to cancel any transaction over \$25 in value solicited door to door or by direct mail or telephone where the deal is closed or the customer delivers an offer away from the merchant's regular place of business. This right continues until 3 days after the merchant gives the customer notice of this right to cancel. If the notice is not given, the customer continues to have the right to cancel.

RESTRICTED CREDITOR REMEDIES

Before a merchant can demand payment of the entire balance or attempt to recover collateral an act of default must occur. The Consumer Act defines default. Where payments are monthly default in payment in a sale or loan occurs when 2 or more.

WISCONSIN CONSUMER ACT

Major Provisions

The Wisconsin Consumer Act contains more than sixty consumer remedies. Following is a summary of some of the major remedies contained in the bill.

The holder-in-due-course doctrine is significantly abolished. The buyer of the sales contract-banks, finance companies-are liable in almost the same manner as the seller of the goods for the first 12 months of tile contract.

Wages are exempt from garnishment in the amount of 75% of take home pay or \$15 for each dependent plus 40 times the federal minimum wage. A family of 4 would have a minimum exemption of 109 dollars per week. AN EMPLOYER, MAY NOT DISCITARCE, AN EMPLOYEE FOR REASON OF GARNISHMENT.

You may cancel a contract within 3 days if the sale is made in the home. A "cooling off" period in door-to-door sales.

The maximum interest rate permitted on consumer loans is raised to 18% from 12% on the first \$500; will remain at 12%. Three kinds of consumer loans are brought under uniform interest rates: credit card accounts, banks, credit unions, and savings and loan associations. Most installment sales, not previously regulated, are now covered by the 18% and 12% rates. Rates for farm equipment loans, not regulated in the past, are set at 16.3% a reduction from rates that often hit 30%. Interest rates for licensed lenders, i.e., finance companies, is reduced from a maximum of 26% to 18.8%. The rate on used cars 3 years and older is cut from 26.7% to 23.2%.

Referral transactions are prohibited. If made they are void and the customer is permitted to keep the goods or services without need to pay for them.

Contracts in which the customer gives the creditor the light to appoint an attorney to act as his agent are prohibited. These are referred to as "cognovit" notes.

Wage assignments which cannot be cancelled are prohibited.

Balloon payments are prohibited except for agricultural purposes. In these cases the customer has the right at his sole option at any time to refinance the note.

A creditor is required to give every cosigner, co-maker, surety, endorser, or guarantor a separate explanation of his obligation as a co-signer at the time the individual is asked to co-sign the loan.

All blank spaces in a consumer credit document must be filled in before it is signed by the customer.

Attorney fees charged to the customer am abolished except in the case of mortgage foreclosure and these charges are limited.

A creditor is prohibited from dividing, or otherwise encouraging a customer to sign multiple credit agreements to obtain a greater finance charge than would otherwise be permitted.

Limits are placed upon the amount, term, and type of credit insurance that may be sold and on the rates, which may be charged.

Default under an open-end credit plan (revolving charge) is defined as failure to pay when due on 2 occasions within 12 months. Default under a closed-end credit plan (installment contract) is defined as failure to pay 2 or more payments for more than 10 days after their original due date. A customer may cure the default and he must be advised by the creditor in a special notice of his right to cure. Default as defined prohibits the use of insecurity clauses which make the whole debt due (accelerated maturity) upon default.

In the event of a customer's default a creditor may not repossess any collateral until he has given the customer a right to a court hearing on the default.

Provisions in a contract which give the creditor the right to enter the customer's dwelling or breach the peace, or allow the creditor to act as the customer's agent in order to take possession of collateral are prohibited.

Deficiency judgments (the amount owed after repossessed goods are sold) are prohibited the net amount owed at the time of default is \$1,000 or more. If over \$1,000 the amount of deficiency judgment is deficiency judgment is determined by deducting the fair market value of the goods,, not the sale price, from the unpaid balance.

A customer has a right to a court hearing prior to attachment, whether it is garnishment, attachment or another legal process. Body attachment (jailing for debt) is prohibited.

Creditors must apply the payments they receive to the first credit, obligations made, and then to subsequent obligations in order.

The opening balance method of computing interest charges on open-end credit transactions is prohibited.

An open-end credit plan billing cycle's average length (12 cycles) may not be less than 30 or more than 32 days.

Delinquency charges are limited to a onetime charge only for a delinquent installment.

Prepayment penalties frequently found in transactions are abolished except in the case of certain real estate loans.

New disclosures must be made to a customer clearly and conspicuously, in writing, and before a transaction is completed. They cannot be stated or placed to mislead or confuse a customer or detract attention from the required disclosures. Before a customer is required to make a payment, a creditor must furnish him with an exact copy of each instrument which he has signed.

The creditor must give a customer a notice of assignment in the event his contract is assigned (sold) to another.

In a consumer loan of less than \$1,000 a lender is prohibited from taking a security interest in the household goods or real property of the customer.

Required notices must be given in both English and another language if the merchant regularly uses the other language in advertising or dealing with his customers.

If a court finds that a transaction is unconscionable, the creditor is penalized for inducing the customer to enter the transaction and the enforceability of the transaction is limited. A comprehensive, far-reaching list of criteria or unconscionability is contained in the act.

Class actions are permitted to recover actual damages for violations under the act. In addition to damages, a plaintiff may recover attorney's fees.

A number of methods used to collect debts are forbidden. Use of violence or threats of violence, threats of criminal prosecution, contacting the debtor's employer, disclosures of false information about a customer's credit reputation, harassment of the debtor or his family by frequent calls at odd hours, and simulated legal or judicial communications are all forbidden practices.

Damages or penalties may be collected from the principal agents of an insolvent corporation, including officers, managers and assistant managers who participated in such violation, provided that a meaningful part of the corporation's activities are in violation of the act.

Significant powers are granted to the administrator including acting on complaints, counseling individuals and groups on their rights, holding public or private hearings, formulating rules, and under-taking studies to carry out the purposes and policies of the act. He has the power to convene investigations, to subpoena witnesses and records restraining orders to prevent violations of the act.

The Act applies to consumer transactions made or solicited in Wisconsin, and to modifications made in this state of consumer credit transactions wherever made.

This pamphlet published by the Wis. State AFLCIO as a public service in cooperation with the Wis. Consumers League.

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WISCONSIN DEPARTMENT OF JUSTICE

CONSUMER FACT SHEET

NUMBER: 8

SUBJECT: WISCONSIN CONSUMER ACT

A GUIDE TO THE WISCONSIN CONSUMER ACT

The Wisconsin Consumer Act (Chapters 421-427, Wis. Stats.), which went into effect on March 1, 1973, is a comprehensive revision of Wisconsin's laws governing consumer credit transactions. In addition to streamlining many previously existing provisions, the Wisconsin Consumer Act (hereafter referred to as the WCA), provides substantially increased protection to consumers when they borrow money or purchase merchandise on credit.

Since the WCA is long and complex the statements which follow are of a general nature. Persons desiring specific information on the provisions applicable to a particular transaction should contact a private attorney.

WHEN DOES THE WCA APPLY?

- The WCA applies to consumer credit transactions made in the State of Wisconsin. If the merchant receives the contract from the consumer within the State of Wisconsin or if the consumer is induced to deal with an out-of-state merchant by face to face solicitation or direct mail or phone solicitation, then the transaction is considered to be made in Wisconsin for purposes of the WCA.
- The WCA does not apply to transactions where the amount financed exceeds \$25,000.
- The WCA does not apply to first mortgage loans obtained to purchase real estate or an improvement to real estate if the annual percentage rate does not exceed 12%.
- Some of the provisions of the WCA do not apply to transactions which are made, insured, or guaranteed by the federal government or an agency thereof, or by the Wisconsin Department of Veteran's Affairs. A consumer credit transaction is one in which a consumer acquires real or personal property, services or money and agrees to pay in four or more installments or agrees that a finance charge may be imposed. Consumer credit transactions include sales, loans and transactions on revolving charge accounts.
- The WCA does not generally apply to transactions where the consumer is a corporation, partnership, association, or cooperative.
- In order for a transaction to be covered by the WCA it must be for personal, family, household or agricultural purposes.

CONTRACT DISCLOSURE REQUIREMENTS

Contract Rights

Certain disclosures regarding the credit terms of the transaction must be made to the consumer, in writing, at the time he or she signs the contract. A written copy of the contract must be furnished to the consumer before the first payment becomes due.

- Blank spaces relating to price, charges or terms of payment must be filled in at the time the consumer signs the contract.
- Co-signers must be given a notice before signing which clearly advises them of their obligations.
- The consumer must receive a receipt without request for cash payments.
- The consumer has a right to obtain a statement showing the charges and, payments on his or her account. The first such statement in any 12-month period is free in some cases and is \$1 in other cases.

Credit Insurance

- The WCA regulates the sale of credit life and credit accident and sickness insurance by merchants requires that the cost of such insurance be disclosed to the consumer prior to entering into the transaction. It also requires that the merchant furnish to the consumer a policy, group certificate, copy of the application or notice of insurance at the time of the transaction.
- A consumer has the right under the WCA to cancel any credit life or credit accident or sickness insurance within 10 days of the time the transaction was entered into and to receive a full refund or credit all premiums charged.

FINANCE CHARGES

- The WCA limits the rate of the finance charge which may be charged for consumer credit transactions. The maximum rate which applies to most transactions is 18% on the first \$500 and 12% on any amount over \$500. Licensed loan companies may charge slightly higher rates. The maximum rates for motor vehicle sales vary from approximately 12.7% for new cars to approximately 23.2% for cars over 4 years old.

3-DAY COOLING OFF PERIOD

The WCA provides for a three day right to cancel any consumer transaction which is initiated and consummated away from the merchant's regular place of business if the transaction is on credit or if the transaction is for more than \$25 cash.

LIMITS ON CONTRACTS-AND CREDITOR PRACTICES

Consumers' Claims and Defenses

- In most consumer credit transactions the consumer has the right under the WCA to assert any claims or defenses he or she has regarding the original transaction against the bank or finance company which has purchased the contract. In some cases the consumer must do this within 12 months after he or she is advised that the contract has been assigned. The consumer may also

assert claims or defenses against the bank involved in bank- charge card transactions in excess of \$100.

Restrictions on Security Interests

- The WCA prohibits a merchant in a consumer credit sale from taking a security interest in property other than the property sold with minor exceptions.
- In a consumer loan, the merchant may not take a security interest in items essential to the maintenance of a home, specifically clothing, dining table. and chairs, refrigerator, heating stove, cooking stove, radio, beds and bedding, couch and chairs, cooking utensils and kitchenware belonging to the consumer and his dependents, unless the loan was obtained to purchase such items.

Additional Provisions

- Contracts which permit a creditor to add his or her attorney's fees to the debt owed by the consumer if he or she fails to pay are prohibited. Certain exceptions are made for real estate mortgage loans.
- The consumer has the right to prepay the amount he or she owes at any time, without penalty, except in the case of certain real estate mortgage loans. If he or she prepays in full, the WCA specifies the method of computing the refund of finance charges.
- After the consumer has paid his account in full, the merchant must release any mortgages or security interests which were taken to secure payment of the debt and must file or record the necessary documents with the Register of Deeds or Secretary of State to clear the consumer's name on the public records.
- Balloon payments (payments which are substantially larger than the regular monthly payments) are prohibited in most transactions.
- Maximum periods for the repayment of the debt are specified for most transactions, depending upon the amount to be paid.

LIMITATIONS ON CREDITORS' REMEDIES

Delinquency and, Default

- Delinquency charges are limited by the WCA to \$3 or 3% of the unpaid amount Of the installment (whichever is less) and may not be imposed unless a payment is more than 10 days past due. This charge may be made only once for each missed payment.
- A merchant may not accelerate the maturity of a consumer credit transaction (declare the entire balance due), commence a law suit, or take any action against the collateral until a default, as defined by the WCA, has occurred and until he or she has given the consumer a written notice of the right to cure the default. The consumer has 15 days after the merchant has given the notice to cure the default by paying all delinquent payments together with any unpaid delinquency or deferral charges.
- If the transaction calls for monthly payments, a default is defined to occur when 21 payments are more than 10 days past due. If the transaction is a revolving charge account or bank credit card transaction, a default is defined to occur when 2 payments are not paid when due in any 12 month period.

Repossession Procedures

- The WCA increases the exemptions which the consumer has so that the customer's necessary property cannot be taken to satisfy a judgment.
- A consumer may voluntarily return the collateral in a consumer credit transaction at any time.
- The WCA prohibits a merchant from repossessing collateral prior to court proceedings.
- If the merchant repossesses the collateral, the customer has 15 days to redeem the collateral by paying the amount due together with court costs and a performance deposit equal to 3 scheduled installments or one-third of the balance due, whichever is less.
- If the amount due at the time of repossession is \$1,000 or less, and the transaction was other than a consumer loan, the merchant may not recover from the customer any deficiency between the amount due and the value of the property repossessed.

Garnishment and Assignment of Wages

- The WCA increases the amount of wages which are exempt from garnishment.
- No employer may discharge an employee because his wages are garnished to pay a consumer credit debt
- If the merchant takes an assignment of a consumer's earnings to assure payment of a debt, the consumer may revoke the assignment at any time.

PROHIBITED DEBT COLLECTION PRACTICES

- The WCA prohibits certain debt collection practices in consumer credit transactions, including:
- the threat of criminal prosecution;
- communicating with the consumer's employer prior to obtaining a court judgment or threatening to do so, except to verify the consumer's employment status or earnings;
- disclosing or threatening to disclose raise information about the consumer; disclosing or threatening to disclose information about the consumer to a person without a legitimate business need for the information;
- disclosing or threatening to disclose information about a disputed debt without disclosing that the debt is disputed;
- communicating with the consumer with such frequency or at such unusual hours as to harass the consumer;
- using obscene or threatening language in communicating with the consumer
- threatening action which the merchant does not intend to take or has no right to take.

DECEITIVE OR UNCONSCIONABLE CONDUCT

- The WCA prohibits false, deceptive, or misleading statements or representations with regard to a consumer credit transaction.
- The WCA prohibits unconscionable dealings in consumer credit transactions and permits the court to determine when this is the case.
- The Commissioner of Banking, who will administer the WCA, may also specify particular practices which are unconscionable.

PRIVATE REMEDIES

- A consumer has strong private remedies under the WCA. For most violations the consumer may recover a penalty of at least \$100 or actual damages whichever is greater. In many cases the penalties may go as high as \$1,000 per violation. For certain violations of the WCA the consumer may keep the goods services or money obtained from the merchant, make no further payments, and recover back any payments previously made. In addition, a consumer may commence class actions for himself or herself and other customers who have been similarly damaged by a merchant. Consumers may also seek injunctions to stop merchants from violating the Act. In all cases, the consumer has the right to recover actual court costs and attorneys fees if he or she wins the case.

ENFORCEMENT AND ADMINISTRATION

The WCA will be administered by the Commissioner of Banking. The Commissioner has the right under the WCA to commence court actions through the Department of Justice to recover civil penalties, to seek injunctions, and to commence or join class actions for violations of the WCA.

Any person who has entered into a consumer credit transaction and feels that any or the provisions of the WCA have been violated should contact:

Division of Consumer Credit
Office of the Commissioner of Banking
30 West Mifflin Street
Madison, Wisconsin 53702

or

Office of Consumer Protection
Department of Justice
State Capitol
Madison, Wisconsin 53702