Consumer Knowledge and Perception of Consumer Credit
CONSUMER KNOWLEDGE
AND
PERCEPTION OF CONSUMER CREDIT

Report on a Nation-wide Survey

Conducted for

SEARS, ROEBUCK AND COMPANY

December 1971
Survey Research Center
Institute for Social Research
The University of Michigan
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PREFACE

This report on consumer knowledge and conception of consumer credit which has been conducted for Sears Roebuck and Co. is based upon 1229 telephone reinterviews with heads of families throughout the continental United States.

The term "telephone reinterview" merits some explanation. Families who were called in this study had been previously contacted during personal interviews within the preceding eighteen months. This procedure offers both advantages and disadvantages. The advantages, which far outweigh the disadvantages are that the respondent is usually willing to grant the interview over the telephone since he has been contacted previously by the Survey Research Center and, in most instances, by the same interviewer. Furthermore, since much of the demographic and background financial data which is needed for the analysis is already available from the respondents' previous interview, information of a sensitive nature does not have to be revealed over the telephone. Also, a great deal of information can be ascertained in a relatively short interview.

The disadvantage of the telephone reinterview is that not every family has a telephone and that even among those families which do have telephones, not every family can be reinterviewed during the interviewing period. In order to compensate for this, a weighting system was used to break families down into groups depending upon their rate of reinterview. Groups with low reinterview rates were then weighted up in order to give them proportional representation. The method of weighting is new and was developed
specifically for this study although it is expected that it will have numerous uses in the future. It is described in Appendix A of this report.

Pre-testing of the Interview

Since very little previous work had been done in the area of consumer knowledge and perception of credit it took a great deal of time and care to develop the appropriate interviewing instrument. The process of questionnaire development went through five stages of pre-testing and modification. The first stage was a group session held with a number of middle income persons in the Ann Arbor area. These persons were asked to react freely to questions regarding their credit attitudes and knowledge.

On the basis of this first stage a formal questionnaire was developed and tested at the Michigan Employment Security Commission offices in Ann Arbor. Persons were offered a small sum of money to participate in a 15-minute interview and some fifty interviews were taken in this manner. As a result of the second stage of pretesting, further modifications were incorporated into the questionnaire and the third pretest stage initiated the telephone interviewing of respondents. The fourth and fifth stages merely involved the modifications which were incorporated as the result of successive waves of telephone interviewing.

During the pre-testing, a number of questions were tried and discarded. Among these were questions incorporating the name of Sears Roebuck and Company to see how consumers would react to that name when associated with the presentation of some statements. It was the opinion of the researchers connected with this project that respondents reacted badly to the association of a company name with a purportedly factual piece of knowledge with
which they might not agree. Consequently, the name Sears and Roebuck was dropped from the questions related to factual knowledge.

Structure of the Report

This report has been organized into four main sections. Section I presents a summary of the study and the conclusions that have been reached both with regard to the knowledge and perception of consumer credit on the part of consumers and also the implications for educating the consumer by use of the mass media. The second section concerns general attitudes toward credit and utilizes the long history of the Survey Research Center in ascertaining attitudes toward installment credit. Section III is specifically oriented toward ascertaining the consumers' knowledge about credit while Section IV explores the perception of the consumer concerning credit and the extent to which the consumer can have his perception of credit changed when presented with specific facts concerning credit.

Personnel Connected with this Project

This study was directed by Dr. Lewis Mandell who had the able assistance of Dr. John Robinson in the area of mass communications, and Toby Clark who served as research assistant to the project and did much of the early work in developing the questionnaire instrument. Dr. James Morgan helped in the development of the methodology used in the study while Dr. George Katona gave helpful advice in consumer psychology.
PART I

SUMMARY AND CONCLUSIONS
CHAPTER I

SUMMARY AND CONCLUSIONS

It is extremely evident that people are, in general, poorly disposed toward installment credit. Chapter 2 gives documentation from periodic studies of the Survey Research Center showing that general attitudes toward consumer credit are at an all time low and, if anything, deteriorating at an accelerating rate. This observation may be somewhat superficial, however, since, when asked about specific items to finance, people seem more willing to finance many of the items by use of consumer credit today than they did several years ago. So we have a somewhat ambiguous situation -- consumers are opposed to installment credit in general but are more willing to use it for the purchase of specific items.

While it is likely that the deteriorating attitudes toward credit may be at least partially due to the current economic situation, it is very clear that much of the negative attitude is due to a lack of knowledge on the part of consumers about what credit really is and what costs are involved in granting credit to the consumer. Although, most people can discriminate between high-priced and low-priced lenders, few seem to have the ability to explain why some are high-priced and why some are low-priced or even why there is a difference in the costs of various types of credit. When asked about the cost of credit for specific items, a great proportion of the consumers either do not know or give answers which are far from reasonable. Section III further explores knowledge about credit and attempts to
see how this knowledge affects consumer perception of credit.

In Chapter 5 it is shown that consumers do not have a real understanding of the costs connected with the granting of revolving charge credit by department stores. While economists would separate such costs into three components, namely administrative costs, credit risk costs, and the cost of money, consumers by and large tend to think only of the administrative charges which are obviously associated with the mechanical aspects of granting credit such as the billing operation. Few people spontaneously mention the costs associated with credit loss due to bad credit risks and other failures to repay and virtually none of the respondents spontaneously mentions the cost of money, an item which would be thought of first by most economists.

A hopeful aspect of this investigation is that while consumers cannot spontaneously think of the various components of the credit cost, when these are mentioned to them they willingly admit that the component costs are real and, in most cases, substantial. Furthermore, once these consumers have been reminded of the additivity of the costs associated with credit, they are also willing to reconsider their attitudes toward usage.

When asked initially whether they favor a maximum finance charge for consumer installment credit, virtually every respondent replied affirmatively and the rates that they wished to have set were ludicrously low. However, after reminding consumers about the components which tend to make the costs of granting credit far higher than they had previously thought, most consumers were willing to admit that the imposition of too low a maximum finance charge might have deleterious effects upon themselves. Most conceded that the imposition of such a charge might result in credit being denied to some people who are now able to get credit, and furthermore might result in increased prices of all goods, both to credit and non-credit customers.
What seems to be missing in the thinking of consumers with regard to credit is a structure which logically ties together the bits of knowledge that they already have on the matter. Strangely, throughout the entire analysis, there are few if any demographic characteristics which separate consumers with regard to either knowledge or attitudes concerning credit. College graduates were just as ignorant about most facts concerning credit as were their less well educated counterparts and the same applied to the wealthier, the older, or even those with greater debt experience. While this finding appears to be somewhat unusual, it is not totally unexpected since the Survey Research Center has found over the years that while better educated, wealthier persons are more knowledgable about most things; when it comes to consumer credit, their knowledge is just as deficient as those of other persons who have lower incomes and less education.

Implications for Consumer Education

It is the conclusion of the researchers who worked on this project that it is important to educate the American consumer in order to enable him to make the best possible economic choices to improve his welfare and also to give guidance to his legislators who make the laws. Partially as the result of the lack of correct information concerning installment credit, almost all consumers tend to favor a law which limits the maximum allowable charges. If the consumer knew the probable impact of this law upon his own ability to get credit and also upon prices, his attitude toward usury laws may change. A public education campaign is certainly warranted — especially one which would hit upon the points of information that the consumer already has concerning credit. The campaign should stress the components of credit — the fact that when these components are added together, the cost of credit becomes very high — and also the consequences of setting the
maximum allowable rate below that level.

The results of this study tend to point to the probable success of such an educational campaign in lessening the hostility of consumers toward what they consider to be unfairly high finance charges.
PART II

GENERAL ATTITUDES TOWARD CREDIT
CHAPTER II

CHANGING ATTITUDES TOWARD CREDIT OVER TIME

Since the end of the Second World War the Survey Research Center has been following the growth and development of installment credit, and particularly the attitudes and use of credit among American consumers. Chart I records the attitudes of American families toward the use of installment credit over time. It is evident that sentiment in favor of installment buying rose through the decade of the 1950's hitting a high point around 1959 when 60% of American families thought that buying on installment credit was a good idea or a good thing. In that year only 32% of families thought that such buying was a bad idea or a bad thing.

Since 1959 the sentiment in favor of installment credit has been steadily declining to an all-time low which was reached in 1971. In that year only 36% of American families said that installment buying was a good idea or a good thing while a record 43% said that it was a bad idea or a bad thing. Seventeen percent, the largest such figure recorded by the Survey Research Center was somewhat undecided as to whether installment buying was a good thing or a bad thing.

While it is certainly valid to argue that recent economic conditions may have influenced the attitudes of Americans toward what they regard to be the high cost of credit, this would not explain the deteriorating trend which has been evident since 1959. It is therefore not reasonable to suspect that a turn-around in economic conditions, bringing with it a period of prosperity, full employment, and stable prices will, in and of itself, reduce the amount of discontent on the part of the American public toward installment credit.
CHART 1

ATTITUDES TOWARDS INSTALLMENT BUYING OVER TIME


BAD IDEA/ BAD THING
PRO-CON
GOOD IDEA/ GOOD THING
<table>
<thead>
<tr>
<th></th>
<th>TO FINANCE</th>
<th>TO FINANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EDUCATIONAL EXPENSES</td>
<td>PURCHASE OF A CAR</td>
</tr>
<tr>
<td>YES</td>
<td>70</td>
<td>77</td>
</tr>
<tr>
<td>NO</td>
<td>28</td>
<td>21</td>
</tr>
<tr>
<td>TO FINANCE</td>
<td>PURCHASE OF FURNITURE</td>
<td>PURCHASE OF FUR COAT OR JEWELRY</td>
</tr>
<tr>
<td>YES</td>
<td>44</td>
<td>52</td>
</tr>
<tr>
<td>NO</td>
<td>54</td>
<td>47</td>
</tr>
<tr>
<td></td>
<td>1959</td>
<td>1967</td>
</tr>
<tr>
<td>TO PAY BILLS WHICH HAVE PILED UP</td>
<td>YES</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>NO</td>
<td>54</td>
</tr>
</tbody>
</table>
Changing Attitudes Toward Financing Specific Items

In contrast to overall attitudes toward credit which are shown in Chart I are the trends relating to specific items which may be financed as shown in Table I. For each of the five items in Table I the starting point is the year 1959 in which general attitudes were most favorable toward installment credit. In four of the five items a greater proportion of families interviewed in 1971 felt it was all right to borrow than was true in 1959. For example, in 1959 70 percent of the population thought that it was all right to borrow to finance educational expenses. This proportion showed an increase in 1967 and again in 1971, when 80% of the population felt that borrowing for this purpose was justified. Similarly, the proportion of the population which thinks that it is all right to borrow to finance a car has gone up from 67% in 1959 to 73% in 1971.

Some of the same results are found in attitudes toward financing purchases of furniture and even in financing purchases of fur coats or jewelry although the proportion thinking that it is all right to finance the latter has always been very small. It is only with respect to financing in order to pay bills which have piled up that the proportion of families approving the use of credit declined, and this decline was from 44 percent approval in 1959 to 37 percent approval in 1971.

What exactly are the implications of Table I? One implication which appears likely is that the general attitude toward credit reflects a rather unthinking bias on the part of the public. It is likely that people are disillusioned by the totality of monthly credit payments and tend to think negatively toward the entire notion of installment credit. When, however, they are asked about specific items of credit they become somewhat more realistic and realize that the only way in which they can purchase many of these items is through the use of credit.
CHAPTER 3
ATTITUDES TOWARD CREDIT TODAY

Attitudes toward credit are strongly related to whether or not the family currently has any outstanding installment debt. Aside from this relationship, however, approval or disapproval of the use of credit appears to be largely independent of most characteristics of the respondents.

Table 2 shows that approval of credit is virtually twice as frequent among credit users than among non-users. Approximately half of all American families have some outstanding installment debt, and among these debtors, nearly half approve of the use of such debt while less than a third disapprove of it. Among non-debtors however, approval is expressed by only a quarter of the families while disapproval is registered by far more than half. Even though debtors are more positively disposed toward the use of installment credit than those who have no outstanding installment debt there is little difference in attitudes toward debt between those with little debt and those with a great deal of debt.

Table 2 shows that attitudes toward credit are hardly affected by the family's income level and affected only very slightly by the age and life cycle of the family head. As income increases from $3,000 per year attitudes toward credit do not move in a consistent direction. For example, 34% of the lowest income group thinks that credit is a good idea or a good thing. This decreases to 29% in the $3,000 to $5,000 income group and goes back up to 40% in the $5,000 to $7,500 income group, whereupon it decreases, increases and decreases in the next three ascending groups. It
# Table 2

## Attitudes Toward Debt by Various Groups

<table>
<thead>
<tr>
<th>Buying on Installment Credit Is:</th>
<th>Good Idea/Good Thing</th>
<th>Pro-Con/Don't Know</th>
<th>Bad Idea/Bad Thing</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Families</td>
<td>36</td>
<td>17</td>
<td>43</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than $3000</td>
<td>34</td>
<td>11</td>
<td>51</td>
</tr>
<tr>
<td>$3000-4999</td>
<td>29</td>
<td>16</td>
<td>52</td>
</tr>
<tr>
<td>$5000-7499</td>
<td>40</td>
<td>16</td>
<td>41</td>
</tr>
<tr>
<td>$7500-9999</td>
<td>36</td>
<td>22</td>
<td>37</td>
</tr>
<tr>
<td>$10,000-14,999</td>
<td>42</td>
<td>16</td>
<td>39</td>
</tr>
<tr>
<td>$15,000-19,999</td>
<td>32</td>
<td>18</td>
<td>45</td>
</tr>
<tr>
<td>$20,000 and over</td>
<td>27</td>
<td>24</td>
<td>46</td>
</tr>
<tr>
<td><strong>Age of Head</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 25</td>
<td>40</td>
<td>18</td>
<td>39</td>
</tr>
<tr>
<td>25-34</td>
<td>46</td>
<td>17</td>
<td>35</td>
</tr>
<tr>
<td>35-44</td>
<td>40</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td>45-54</td>
<td>32</td>
<td>23</td>
<td>40</td>
</tr>
<tr>
<td>55-64</td>
<td>37</td>
<td>16</td>
<td>43</td>
</tr>
<tr>
<td>65 or over</td>
<td>19</td>
<td>12</td>
<td>67</td>
</tr>
<tr>
<td><strong>Amount of Installment Debt Outstanding</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>None</td>
<td>24</td>
<td>15</td>
<td>57</td>
</tr>
<tr>
<td>$1-199</td>
<td>45</td>
<td>15</td>
<td>37</td>
</tr>
<tr>
<td>$200-499</td>
<td>47</td>
<td>19</td>
<td>31</td>
</tr>
<tr>
<td>$500-999</td>
<td>48</td>
<td>20</td>
<td>29</td>
</tr>
<tr>
<td>$1000-1999</td>
<td>45</td>
<td>22</td>
<td>29</td>
</tr>
<tr>
<td>$2000 and over</td>
<td>48</td>
<td>21</td>
<td>28</td>
</tr>
</tbody>
</table>

a Including automobile debt but excluding mortgage debt.
# Table 2

## Attitudes Toward Debt by Various Groups

<table>
<thead>
<tr>
<th></th>
<th>Good Idea/Good Thing</th>
<th>Pro-Con/Don't Know</th>
<th>Bad Idea/Bad Thing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All Families</strong></td>
<td>36</td>
<td>17</td>
<td>43</td>
</tr>
<tr>
<td><strong>Life Cycle</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Under Age 45</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unmarried, no children</td>
<td>50</td>
<td>18</td>
<td>27</td>
</tr>
<tr>
<td>Married, no children</td>
<td>50</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Married, youngest child under 6</td>
<td>39</td>
<td>18</td>
<td>39</td>
</tr>
<tr>
<td>Married, youngest child 6 or over</td>
<td>43</td>
<td>20</td>
<td>34</td>
</tr>
<tr>
<td><strong>Age 45 or over</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married, has children</td>
<td>39</td>
<td>19</td>
<td>38</td>
</tr>
<tr>
<td>Married, no children, head in labor force</td>
<td>29</td>
<td>18</td>
<td>47</td>
</tr>
<tr>
<td>Married, no children, head retired</td>
<td>21</td>
<td>11</td>
<td>66</td>
</tr>
<tr>
<td>Unmarried, no children, head in labor force</td>
<td>28</td>
<td>27</td>
<td>44</td>
</tr>
<tr>
<td>Unmarried, no children, head retired</td>
<td>18</td>
<td>11</td>
<td>67</td>
</tr>
<tr>
<td><strong>Any Age</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unmarried, has children</td>
<td>36</td>
<td>16</td>
<td>45</td>
</tr>
</tbody>
</table>
is only among the very wealthiest families, those making at least $20,000 a year that the sentiment toward credit appears to decline substantially to only 27%. However, this group which is not likely to use much installment credit can think of few positive benefits given by the credit.

The relationship between attitudes toward credit and age of the family head is clearly dependent upon differential use of credit by different age groups. For example, 40 percent of families with heads under 25, 46% of families in the 25 to 34 year old age range and 40 percent of families in the 35 to 44 year old age range approve of credit. After age 45 the proportion approving the use of credit falls off substantially, most likely because of the less frequent use of credit by this group. A similar pattern can be found when examining approval of installment credit by life cycle. Sentiment toward such credit is highest among young families who are most often dependent upon installment credit.

What Should be Bought on Credit

Respondents who did not indicate that credit was a bad idea or a bad thing were asked the types of things that people should buy or not buy on credit. The responses of these families are shown in Table 3. Most frequently mentioned among items which should be bought on credit was automobiles which was mentioned by 28 percent of these families. Next most frequently mentioned was appliances, followed by homes and real estate. That last category would have been mentioned more frequently if more respondents thought it was an admissible answer. Ten percent of respondents mentioned furniture as the type of thing that someone should buy on credit, while only 3 percent said that it was all right to buy clothing on credit.
### TABLE 3

**WHAT TYPES OF THINGS SHOULD SOMEONE BUY ON CREDIT**
(of people who don't disapprove of credit)

<table>
<thead>
<tr>
<th>Item</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobiles</td>
<td>28</td>
</tr>
<tr>
<td>Homes-Real Estate</td>
<td>14</td>
</tr>
<tr>
<td>Appliances</td>
<td>24</td>
</tr>
<tr>
<td>Clothing</td>
<td>3</td>
</tr>
<tr>
<td>Furniture</td>
<td>10</td>
</tr>
</tbody>
</table>

**WHAT TYPES OF THINGS SHOULD SOMEONE NOT BUY ON CREDIT**
(specific items)

<table>
<thead>
<tr>
<th>Item</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing</td>
<td>14</td>
</tr>
<tr>
<td>Food-Drugs</td>
<td>7</td>
</tr>
<tr>
<td>Furniture</td>
<td>8</td>
</tr>
<tr>
<td>Automobiles</td>
<td>3</td>
</tr>
<tr>
<td>Vacations</td>
<td>2</td>
</tr>
</tbody>
</table>

### TABLE 4

**ADVANTAGES AND DISADVANTAGES OF DEPARTMENT STORE CREDIT**
(All Families)

**ADVANTAGES**

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>33</td>
</tr>
<tr>
<td>Convenient</td>
<td>5</td>
</tr>
<tr>
<td>Can buy now if no money</td>
<td>44</td>
</tr>
<tr>
<td>Take advantage of sales</td>
<td>7</td>
</tr>
</tbody>
</table>

**DISADVANTAGES**

<table>
<thead>
<tr>
<th>Disadvantage</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>3</td>
</tr>
<tr>
<td>Buy more than afford or need - trouble making payments</td>
<td>61</td>
</tr>
<tr>
<td>High credit cost</td>
<td>58</td>
</tr>
</tbody>
</table>
When asked about those things that people should not buy on credit, clothing was mentioned most frequently, by 14 percent of the families. This was followed by furniture, and food and drugs, while 3 percent of the families said that people should not finance cars, and only 2 percent spontaneously said that people should not finance vacations on credit.

Advantages and Disadvantages of Department Store Credit

All families in the study were asked to list advantages and disadvantages that they associated with the use of department store credit. Table 4 shows that thirty-three percent of the families could think of no advantage which they would associate with the use of such credit, while the advantage cited most frequently was that people could buy now even if they had no money. This response was given by 44 percent of all families. Seven percent of families said that department store credit enabled people to take advantage of sales, and 5 percent of the families said that it was convenient.

Only 3 percent of families could think of no disadvantages accruing to department store credit. Most frequently mentioned among the disadvantages was that department store credit encouraged people to buy more than they could afford or needed and consequently ended up by causing them difficulties in making payments on these items. Mentioned almost as frequently, by 58 percent of the families, was the high cost of credit, an item which is significant for this study. Table 5 shows that while the perceived advantages of credit are, to some extent, related to age, the disadvantages of credit seem to be nearly uniform across all of the age groups. For example, of the very youngest age groups, only 24 percent could think of no advantages of using credit. This obviously is due to the fact that a large proportion of persons in this
### Table 5

#### Advantages of Credit by Age of Head

<table>
<thead>
<tr>
<th>Age of Head</th>
<th>None</th>
<th>Convenient</th>
<th>Can Buy Now If No Money</th>
<th>Take Advantage of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>24</td>
<td>7</td>
<td>54</td>
<td>3</td>
</tr>
<tr>
<td>25-34</td>
<td>24</td>
<td>7</td>
<td>53</td>
<td>10</td>
</tr>
<tr>
<td>35-44</td>
<td>35</td>
<td>7</td>
<td>42</td>
<td>8</td>
</tr>
<tr>
<td>45-54</td>
<td>32</td>
<td>5</td>
<td>41</td>
<td>11</td>
</tr>
<tr>
<td>55-64</td>
<td>39</td>
<td>4</td>
<td>44</td>
<td>3</td>
</tr>
<tr>
<td>65 and over</td>
<td>41</td>
<td>1</td>
<td>35</td>
<td>4</td>
</tr>
</tbody>
</table>

#### Disadvantages of Credit by Age of Head

<table>
<thead>
<tr>
<th>Age of Head</th>
<th>None</th>
<th>Buy More Than Can Afford</th>
<th>High Cost of Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>1</td>
<td>61</td>
<td>59</td>
</tr>
<tr>
<td>25-34</td>
<td>4</td>
<td>64</td>
<td>57</td>
</tr>
<tr>
<td>35-44</td>
<td>4</td>
<td>56</td>
<td>63</td>
</tr>
<tr>
<td>45-54</td>
<td>3</td>
<td>66</td>
<td>59</td>
</tr>
<tr>
<td>55-64</td>
<td>6</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>65 and over</td>
<td>1</td>
<td>62</td>
<td>52</td>
</tr>
</tbody>
</table>
age group do use credit. The proportion who can think of no advantages of credit rises directly with increasing age.

In terms of specific advantages offered by credit the youngest families seem to value the fact that they can buy now if they have no money to a greater extent than do their older counterparts. Conversely, middle-aged families tend to value the ability given to them by department store credit to take advantage of sales more than the very young or the very old families.
PART III

KNOWLEDGE ABOUT CREDIT
CONSUMER KNOWLEDGE OF CONSUMER CREDIT

Respondents were asked questions of varying sophistication regarding consumer credit in order to ascertain levels of information that they had of this matter and also to see whether and to what extent the level of knowledge was differentiated among the population by such important categories as income, age, education, and experience or use of such credit.

Sources of Credit

Respondents were first asked to name the kinds of places that they could go in order to get financing to purchase a new refrigerator. The responses to this question are contained in Table 6. Only 5 percent of respondents could think of no place where they could go to get such financing. Thirty-one percent of the population mentioned only one place, while 41 percent of the population mentioned two places, 20 percent mentioned three places and 3 percent mentioned four or more kinds of places.

Mentioned most frequently by far, were banks, which were named by nearly 80 percent of the total sample. Mentioned next most frequently were local department stores, by 39 percent of the respondents and finance companies which were mentioned by 30 percent of the respondents. Relatively few people mentioned credit unions, local appliance dealers, or national stores such as Sears, Penneys and Wards. With few exceptions the types of places mentioned were not strongly related to any of the personal characteristics of the family. It might have been expected that the poorer families who are the most frequent customers of finance companies might name them most frequently, but the data show that this did not happen. To a slight
### TABLE 6

PLACES TO FINANCE PURCHASE OF A REFRIGERATOR

#### A. Number of Places Named

<table>
<thead>
<tr>
<th>None</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>31</td>
<td>41</td>
<td>20</td>
<td>3</td>
</tr>
</tbody>
</table>

#### B. Places Named

<table>
<thead>
<tr>
<th>Sears, Penny's Wards and Other National Stores</th>
<th>Local Department Stores</th>
<th>Appliance Dealers</th>
<th>Banks</th>
<th>Credit Unions</th>
<th>Finance Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>39</td>
<td>7</td>
<td>79</td>
<td>16</td>
<td>30</td>
</tr>
</tbody>
</table>

#### C. Lowest Finance Charge

<table>
<thead>
<tr>
<th>Bank</th>
<th>Credit Union</th>
<th>Department Store</th>
<th>Finance Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>47</td>
<td>33</td>
<td>9</td>
<td>1</td>
</tr>
</tbody>
</table>

#### D. Highest Finance Charge

<table>
<thead>
<tr>
<th>Bank</th>
<th>Credit Union</th>
<th>Department Store</th>
<th>Finance Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>3</td>
<td>28</td>
<td>52</td>
</tr>
</tbody>
</table>
extent higher income families were more likely to mention banks as a 
source of financing and poorer families were less likely to mention the 
credit union than were the middle class families.

Next, the families were asked which of the following would have the 
lowest finance charge for financing the purchase of a refrigerator over 
time: the bank, the credit union, the finance company or the department 
store revolving credit. Forty-seven percent of the respondents said that 
the bank would have the lowest finance charge. This was followed by 33 
percent of respondents who said that the credit union would have the lowest 
charge for credit. Nine percent of the population thought that department 
store revolving credit would be the least expensive way to finance the 
purchase, and only 1 percent chose the finance company as the lowest cost 
of finance. Once again, responses to this question showed little variation 
as the result of personal characteristics such as income. Interestingly, 
the very poorest families were more likely to think that department store 
credit was the cheapest form of financing than were the wealthier families, 
while they were least likely to mention the credit union as a source of 
finance.

Families were then asked which of those four sources of credit would 
have the highest finance charge. Over half of the families pointed to the 
finance company, and this was followed by some 28 percent of the population 
who said that department stores were the most expensive source of credit 
for this purpose. Younger persons more frequently mentioned the department 
store as the most expensive source of credit than did older persons. This 
is likely due to their more frequent experience with credit and consequently 
better first-hand knowledge of the expenses associated with department store 
credit.
Interest Rate Estimates

Families were asked to estimate the rate of interest that they would currently have to pay on installment loans of various kinds. The first type of loan that families were queried about was the automobile loan. Here, a remarkable 36 percent of the respondents said that they had no idea what the rate of interest was on such a loan. An additional 12 percent of the population estimated that the rate was 6 percent or less, a very unlikely rate. Consequently, only half of the population was able to give a rate that might conceivably have been reasonable.

Persons who had a sizeable amount of debt, that is, at least $200 of current installment debt, were more likely to know what the rate of interest was on automobile loans than other persons. Families who had no outstanding debt whatsoever were likely either to not know or to give an estimate that was unrealistically low. Forty-four percent of this group did not know the rate of interest, and an additional 10 percent gave an answer which was too low. Families with a small amount of installment debt, that is, less than $200, were equally ignorant of the rate or interest on an automobile loan.

Families with more than $200 in installment debt were far less likely to say that they did not know the rate of interest associated with an automobile loan. This is probably because most of these families did have some installment debt outstanding on automobiles, meaning that they financed an automobile loan within the past year or so. According to Table 7, the proportion of families who did not know, fell steadily as the amount of installment debt outstanding increased, although the proportion giving unrealistically low estimates did not decline and even tended to increase with the amount of outstanding installment debt.
TABLE 7

A. ESTIMATED RATE OF INTEREST ON AUTOMOBILE LOANS

<table>
<thead>
<tr>
<th></th>
<th>Don't Know</th>
<th>0-5%</th>
<th>6%</th>
<th>7%</th>
<th>8%</th>
<th>9-10%</th>
<th>11-12%</th>
<th>13-17%</th>
<th>18%</th>
<th>over 18%</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Families</td>
<td>36</td>
<td>6</td>
<td>6</td>
<td>10</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>6</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Amount of Installment Debt Outstanding

<table>
<thead>
<tr>
<th></th>
<th>Don't Know</th>
<th>0-5%</th>
<th>6%</th>
<th>7%</th>
<th>8%</th>
<th>9-10%</th>
<th>11-12%</th>
<th>13-17%</th>
<th>18%</th>
<th>over 18%</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>44</td>
<td>5</td>
<td>5</td>
<td>9</td>
<td>9</td>
<td>8</td>
<td>9</td>
<td>5</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>$1-199</td>
<td>41</td>
<td>6</td>
<td>10</td>
<td>7</td>
<td>7</td>
<td>11</td>
<td>11</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>$200-499</td>
<td>29</td>
<td>6</td>
<td>3</td>
<td>14</td>
<td>12</td>
<td>11</td>
<td>13</td>
<td>9</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>$500-999</td>
<td>26</td>
<td>8</td>
<td>4</td>
<td>14</td>
<td>13</td>
<td>13</td>
<td>14</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>$100-1999</td>
<td>25</td>
<td>5</td>
<td>9</td>
<td>9</td>
<td>12</td>
<td>9</td>
<td>14</td>
<td>11</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>$2000 and over</td>
<td>24</td>
<td>9</td>
<td>9</td>
<td>13</td>
<td>6</td>
<td>12</td>
<td>14</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

B. ESTIMATED RATE OF INTEREST ON A HOME MORTGAGE LOAN

<table>
<thead>
<tr>
<th></th>
<th>Don't Know</th>
<th>0-5%</th>
<th>6%</th>
<th>7%</th>
<th>8%</th>
<th>9-12%</th>
<th>13 and over</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Families</td>
<td>34</td>
<td>2</td>
<td>3</td>
<td>28</td>
<td>22</td>
<td>9</td>
<td>1</td>
</tr>
</tbody>
</table>

Housing Status

<table>
<thead>
<tr>
<th></th>
<th>Don't Know</th>
<th>0-5%</th>
<th>6%</th>
<th>7%</th>
<th>8%</th>
<th>9-12%</th>
<th>13 and over</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owns Home - bought 1968-1971</td>
<td>11</td>
<td>2</td>
<td>6</td>
<td>37</td>
<td>34</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Owns Home - bought before 1968</td>
<td>28</td>
<td>2</td>
<td>3</td>
<td>32</td>
<td>24</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Rents - Moved in 1968-1971</td>
<td>50</td>
<td>3</td>
<td>1</td>
<td>22</td>
<td>14</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Rents - Moved in before 1968</td>
<td>54</td>
<td>2</td>
<td>4</td>
<td>17</td>
<td>11</td>
<td>9</td>
<td>3</td>
</tr>
</tbody>
</table>

C. REVOLVING CREDIT FROM DEPARTMENT STORE

<table>
<thead>
<tr>
<th></th>
<th>Don't Know</th>
<th>0-8%</th>
<th>9-10%</th>
<th>11-12%</th>
<th>13-17%</th>
<th>18%</th>
<th>Over 18%</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Families</td>
<td>44</td>
<td>4</td>
<td>3</td>
<td>8</td>
<td>8</td>
<td>27</td>
<td>6</td>
</tr>
</tbody>
</table>

Type of Credit Card

<table>
<thead>
<tr>
<th></th>
<th>Don't Know</th>
<th>0-8%</th>
<th>9-10%</th>
<th>11-12%</th>
<th>13-17%</th>
<th>18%</th>
<th>Over 18%</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>56</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>9</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>Bank Card</td>
<td>41</td>
<td>6</td>
<td>5</td>
<td>8</td>
<td>4</td>
<td>30</td>
<td>6</td>
</tr>
<tr>
<td>Store Card</td>
<td>36</td>
<td>6</td>
<td>3</td>
<td>11</td>
<td>10</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>Bank &amp; Store Card</td>
<td>20</td>
<td>4</td>
<td>2</td>
<td>12</td>
<td>5</td>
<td>52</td>
<td>6</td>
</tr>
</tbody>
</table>
Next, respondents were asked to estimate how much annual interest they would have to pay in order to finance a mortgage on a home. Here again 34 percent of the respondents did not know while another 5 percent thought that the rate would be 6 percent or less, an unrealistically low estimate in the current market. In this instance, experience greatly improved the ability of the respondents to estimate the correct rate of interest. Table 7B shows that while 34 percent of the total population did not know the rate of interest that was charged on a mortgage loan, this fell to only 11 percent of families who purchased a home within the previous year, and 28 percent of other home-owning families. Among non-home-owning families, at least half had no idea of the current mortgage rate.

Respondents were next asked to estimate the percent finance rate charged for revolving credit in department stores. Here, 44 percent of families said that they did know while an additional 10 percent gave answers that were too low, that is below 8 percent, or too high -- above 18 percent. Since in a few states the maximum interest is below the 18 percent that is generally charged for revolving credit by department stores, it was not possible to ascertain the accuracy of answers from all respondents. It is significant, however, that only 27 percent of all respondents gave the answer as 18 percent, an answer which is the correct answer for respondents in nearly every state. Table 7C shows that here again, respondents who had some experience with a particular type of credit were more likely than others to correctly estimate the rate of interest charged by the credit source. For example, of families who currently used no credit cards, 56 percent did not know the percent finance rate for department store revolving credit and only 18 percent estimated that it was 18 percent. Families
using bank credit cards but not store cards were somewhat more accurate in that only 41 percent said they did not know what the percent finance charge was on department store revolving credit, and those who used store cards but not bank cards were even more accurate, since only 36 percent said they did not know this rate. Families using both bank cards and store cards were far more accurate than any other group in their estimates of this finance charge. Only a fifth of these families said that they did not know the rate on revolving credit from department stores and over half of the families gave the rate as 18 percent. In all cases of estimating the rate of interest, factors other than specific experience, such as age, education, and income, contributed little toward knowledge of interest rates. It is interesting to note that educated people were no more accurate in estimating the rate of interest but were far less willing to admit their ignorance.

Accounting for Differences in Interest Rates

In an attempt to gauge the knowledge and reasoning power of respondents in the area of consumer credit, they were asked why the rate of interest charged for a house mortgage was lower than that charged for department store revolving credit. In this instance, 31 percent said that they did not know the reason or were unwilling to admit that the house mortgage rate was lower. An additional 31 percent of the families said that the mortgage rate was lower because it was longer term, an answer that might be questioned by students of the money market but which is understandable enough when the administration costs of the loan are added in. Twenty-four percent said that the mortgage was a more secure loan than the department store loan since
the house served as very good collateral, and an additional 24 percent gave the equally reasonable answer that the department store credit included more service than did the mortgage. Four percent of the respondents said that department store credit costs more because they made more profits than the bank.

Since most of the responses were reasonable, it is perhaps significant to note that the frequency of no responses fell drastically with the education of the respondent. For example, when the education of the respondent was eight grades or less, 54 percent could give no response to the question. The proportion fell to 29 percent of high school graduates, and only 9 percent of college graduates. This may signify that education relates to economic understanding of credit (as opposed to current market information) or it may merely reflect the reluctance of educated people to admit that there was something that they didn't know.
PART IV

PERCEPTION OF CREDIT
CHAPTER 5
EXPENSES CONNECTED WITH CREDIT

Are finance charges too high?

All respondents were asked whether they considered finance charges from department stores to be pretty fair, or whether they considered them to be too high or too low. A quarter of the families thought that the charges were pretty fair, while 60 percent said that they were too high. Virtually no one thought that the charges were too low and 11 percent of the respondents said that they did not know or were unwilling to venture an opinion. Better educated respondents were slightly more likely to think that the rates were too high than others but there was little basic difference between families.

Respondents were also asked whether they thought that credit sales by department stores should continue to be allowed. In response to the question of whether people felt that department stores should sell everything for cash or whether they should make it possible to buy things over time, only 10 percent of the families said that everything should be sold for cash, implying the outlawing of department store credit. Three percent said some things should be sold on credit, and some for cash only, while 82 percent of the respondents favored the current system which allows people to buy things over time.

Expenses of granting credit

While it is obvious from what has been stated above that people in general feel that they are being overcharged for credit, it is important
to know the conceptions people have of expenses connected with granting credit. When 60 percent of the population feels that the finance charges of department stores are too high rather than being fair, it implies that they feel that department stores are charging an amount which is substantially greater than their costs.

In order to see the perception that the families had of cost, they were asked whether they felt that the 18 percent charged by department stores was all profit or whether there were some expenses that must be covered. Only 7 percent of the families said that the finance charge was pure profit while an additional 7 percent said that it was mostly profit. Seventy percent of the families admitted that there were some expenses and 5 percent said that most of the finance charge was necessary to cover expenses. These responses were stable across all of the subgroups in the sample.

Respondents who admitted that there were some expenses were asked what some of these expenses were. Seventy-four percent mentioned expenses which relate to the administration of credit (Table 8). Most of these mentioned billing and other expenses connected with handling the credit, while 3 percent mentioned the credit investigation of new customers. Twenty-two percent of respondents mentioned bad debt or credit loss as an expense connected with granting credit and surprisingly, only 3 percent of respondents spontaneously mentioned that the cost of money which is used for credit as a real cost to the stores. There was little difference in these responses across subgroups, except that among college graduates the proportion who mentioned the interest charge on the department stores' money was 11 percent.
TABLE 8
COMPONENTS OF THE FINANCE CHARGE

A. What are Expenses of Department Stores in Granting Credit?

<table>
<thead>
<tr>
<th>Credit Loss</th>
<th>Administrative Costs</th>
<th>Cost of Store's Money</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>74</td>
<td>3</td>
</tr>
</tbody>
</table>

B. Does Credit Loss Raise Cost of Credit?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Great Deal</th>
<th>Somewhat</th>
<th>Not Very Much</th>
</tr>
</thead>
<tbody>
<tr>
<td>81</td>
<td>15</td>
<td>28</td>
<td>36</td>
<td>16</td>
</tr>
</tbody>
</table>

C. Do Administrative Costs Raise Cost of Credit?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Great Deal</th>
<th>Somewhat</th>
<th>Not Very Much</th>
</tr>
</thead>
<tbody>
<tr>
<td>88</td>
<td>10</td>
<td>26</td>
<td>44</td>
<td>17</td>
</tr>
</tbody>
</table>

D. Does Cost of Money for Stores Raise Cost of Credit?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Great Deal</th>
<th>Somewhat</th>
<th>Not Very Much</th>
</tr>
</thead>
<tbody>
<tr>
<td>69</td>
<td>26</td>
<td>12</td>
<td>36</td>
<td>20</td>
</tr>
</tbody>
</table>
Having ascertained the costs that people spontaneously associated with the granting of credit, respondents were asked individually about the three broad categories of credit cost: administrative expenses, credit loss, and cost of money. Respondents were first asked about expenses accruing because of credit loss or failure to repay. When asked whether the cost of credit is raised because some people don't pay off what they buy on credit, 81 percent of families responded affirmatively, and only 15 percent responded negatively. This contrasts starkly with the 22 percent of families who spontaneously gave a reason similar to this. When asked whether this cost tends to raise the cost of credit a great deal, somewhat, or not very much, 28 percent of the respondents said a great deal, 36 percent said somewhat, and 16 percent said not very much. Adding the "great deal" and the "somewhat" responses, nearly two-thirds of respondents feel that credit loss raises the cost of credit by a significant amount. Yet once again it must be pointed out that, although they had been given ample time and opportunity, only 22 percent of the respondents mentioned credit loss spontaneously as a cost associated with the granting of credit.

Next respondents were asked about the administrative costs of granting credit. They were asked whether the cost of credit was raised by the cost of the credit department. In response to this question, 88 percent said yes, and only 10 percent said no. This was some improvement over the 74 percent of respondents who had given a similar answer spontaneously. When probed as to whether this raised the cost of credit a great deal, 44 percent said somewhat, and 17 percent said not very much.

Respondents were then asked about the cost of money to the stores. The question was as follows: "Some people also claim that the costs of credit
are high because the department stores themselves must pay interest on the money they borrow to pay for the goods they sell on credit to the customer. Do you think that this raises the cost of credit for the department stores?" In response to this, 69 percent said yes, and only 26 percent said no. This is a vast difference from the 3 percent who spontaneously mentioned this as one of the components of the cost of money. There was in this instance no correlation between affirmative responses and education. Respondents were probed as to whether the cost of money raises the cost of credit a great deal, somewhat, or not very much. Twelve percent said it raised it a great deal, 36 percent said it raised it somewhat, and 20 percent said that it did not raise it very much at all.

To gauge how much people thought that the stores did have to pay for credit, they were asked the following question: "What do big companies like Sears and Wards pay when they borrow money to cover costs of selling goods on credit?" In response to this question, 42 percent of the sample admitted they did not know. Of respondents who ventured a guess, the median response was approximately 6 percent. Here again while educated people were no more accurate in their response, they were far less likely to admit that they did not know. Sixty-one percent of the lowest educational group admitted that they did not know the interest that the stores had to pay, while only 24 percent of the college graduates were willing to admit their ignorance.
CHAPTER 6

MAXIMUM CREDIT CHARGES

In Chapter 5 it was reported that while few people could spontaneously think of the various components of credit, when they were reminded item by item of the costs, they admitted that these were in fact significant costs which the lender had to bear in granting credit.

Attitudes Toward Maximum Finance Charges

Respondents were asked whether they thought there should be a maximum finance charge for goods bought on credit. In response, 79 percent of the sample said yes and 17 percent said no. Respondents who felt that there should be a maximum charge were asked what percent this maximum charge should be. The median percent finance rate given was 10 percent, while only 5 percent suggested a rate of 18 percent or more. This indicates that the current level of support for the continuation of an 18 percent finance charge is somewhat less than a quarter of the population. As in the case of most of the other variables in the study there was no strong relationship between what people thought the maximum finance charge should be and any characteristics of the respondents. Respondents having been "reminded" of the costs of credit in previous questions, were now asked the following question: "It is argued that if this maximum finance charge is too low, department stores would lose money because they could not cover their costs of giving credit. As a result, department stores would have to stop giving credit to some people, or raise their prices, or both. Do you feel that
this argument is correct?" Surprisingly, in view of the hostile reactions to the cost of credit which were expressed earlier, 53 percent of respondents agreed that too low a finance charge may have the consequences delineated in the question and another 11 percent admitted that the statement was at least partially correct.

Thirty-one percent disagreed with the statement, and the reasons that they gave for disagreement were mostly logical if not completely correct. The greatest proportion of respondents who did not agree with the question (16 percent) said that department stores make enough profits in selling goods to cover even losses that they would sustain in their credit operation and since credit is a tool for selling goods, they should bear these losses. Next most frequently mentioned, by 6 percent of the sample, was that credit should only be given to good risks, or, in other words, to the respondent but not to other people who were less honorable than the respondent. One percent of respondents said that the department stores should absorb the loss without giving any thought to consequences of this act.

Chart 2 gives an analysis of responses to the statement of consequences which may result from too low a maximum rate of interest. It shows the characteristics of the 66 percent of respondents who stated that the statement of the consequences was either correct or partially correct. The most remarkable aspect of Chart 2 is the lack of profile which it gives. No matter what the characteristics of respondents were, the proportion who agreed with the statement was pretty uniform. This gives a final emphasis to the findings throughout this study that, in terms of knowledge and attitudes toward finance charges there is little difference between people
ALL FAMILIES
N = 1219
63%

DEBT $5000 OR MORE
N = 53
43%

UNDER $5000 DEBT
N = 1166
64%

URBAN OR SMSA AREAS
N = 894
63%

RURAL, NON-SMSA AREAS
N = 272
70%

EDUCATION MORE THAN 8 GRADES
N = 733
61%

EDUCATION 0-8 GRADES
N = 161
66%

EDUCATION-HIGH SCHOOL TO COLLEGE DEGREE
N = 674
60%

EDUCATION-ADVANCED DEGREE
N = 59
69%

AGE 25 OR OVER
N = 600
59%

AGE UNDER 25
N = 74
67%

AGE 25 TO 35
N = 143
54%

AGE 35 OR OVER
N = 457
61%

AGE 55 OR OVER
N = 161
56%

INCOME OVER $15,000
N = 61
56%

INCOME UNDER $15,000
N = 235
66%

DEBT IS $2000 TO $5000
N = 35
57%

DEBT UNDER $2000
N = 200
68%

CHART 2
ANALYSIS OF RESPONDENTS WHO AGREED WITH STATEMENT OF CONSEQUENCES DUE TO TOO LOW A MAXIMUM RATE OF INTEREST
as a result of income, education, age or almost any other characteristic that causes differential responses in other areas of survey research.

Conclusions

It can be concluded from this chapter that while people are generally opposed to what they consider to be the high existing finance charges, most admit that if the maximum legal charge were set below the costs that the stores must incur in granting this credit various consequences might occur which were detrimental to them. A second conclusion is that the understanding and acceptance of this argument is not confined to any educational or income group but is rather spread diversely through the entire population.
APPENDIX A

WEIGHTING FOR TELEPHONE REINTERVIEWS
APPENDIX A

Weighting for Telephone Reinterview

Data for this report were collected in a series of telephone reinterviews conducted by the field staff of the Survey Research Center. They are reinterviews because each respondent interviewed had been interviewed within a previous 18 month period by the Survey Research Center. In the earlier interview many pieces of information about the respondent were collected so that it was not necessary to collect all of this data a second time during the telephone reinterview.

The Survey Research Center has found over the years that the telephone reinterview yields results which are far more accurate than telephone interviews which were not preceded by a personal interview. In an article written for the January 1962 Journal of Marketing by Jay Schmiedeskamp of the Survey Research Center, reasons were given for the superiority of telephone reinterviews over normal telephone interviews.

"The problems of introduction and rapport are greatly simplified when the caller can identify himself as the person who spent an hour or more in the home of the respondent on an earlier occasion. Telephone reinterviews are misunderstood as disguised selling efforts, and are more likely to be taken seriously. Personal data, (age, occupation, education, race, etc.) and income data need not be collected at all (in these) telephone surveys because they are already available from the original contact interviews."

The problem of telephone reinterviews, however, is that the response rate will be somewhat lower than for a normal personal interview. For example, persons who were interviewed a year before may not still be living in the same place and may not be reachable, or persons may also be away
from home during the period of the interview. An additional 10 percent of the population, of course, owns no telephone and must be excluded from telephone reinterviewing.

In this study 66 percent of families who had been interviewed a year previously were reinterviewed by telephone. Since it could reasonably be suspected that respondents who were recontacted may have differed in some respects from respondents who were not recontacted, and that the responses may have been biased in some way, it was decided to weight the respondents to try to make them match a national sample. The idea of weighting for this purpose is not a new one and there is not even unanimity of opinion among survey researchers that weighting is justified or desirable.

The telephone reinterviews which are conducted periodically by the Survey Research Center and form the basis for the Index of Consumer Sentiment are weighted on the basis of income since low income families tend to be under-represented and high income families over-represented in telephone reinterviews. The low income families are consequently weighted up somewhat while the high income families are weighted down in order to make the sample representative of a national cross-section. While this method would tend to improve the representativeness of the sample somewhat, it has a limitation in that it uses income as the sole criteria. It is very likely that other characteristics of respondents which are known, such as home ownership, education, income, race, region and size of place are also important in determining whether or not a telephone reinterview will be successful.

In weighting for this study a new "optimal" weighting pattern was
devised by the author. This pattern utilizes the AID technique developed by John Sonquist and James Morgan at the Survey Research Center. Very basically this method examines each characteristic of every family in order to determine which combinations of characteristics are associated with success at being reinterviewed. Chart A shows the results of this process.

As stated earlier, 66 percent of all of the families interviewed a year previously were subsequently successfully reinterviewed by telephone. Among homeowners, this proportion rose to 72 percent while among non-homeowners it was only 54 percent. This difference is certainly explainable since homeowners are far less likely to move within a given period of time and consequently are easier to reinterview by telephone. Education also was important in determining whether or not the family was reinterviewed. Families with more education were far more likely to be successfully reinterviewed than families with a smaller amount of education. This may relate to the bias on the part of the respondent to participate in a study with an educational institution such as the University of Michigan. Strangely, income which had been the sole basis for weighting by the Survey Research Center in recent years, was not as important in this determination as might have been expected.

In keeping with earlier hypotheses, families with a higher amount of income were somewhat more likely than families with lower income to be reinterviewed, yet the other variable which seems to have mattered was the urbanization of the area, the size of the place in which the respondent lived. The central cities of the 12 largest SMSAs seemed to produce the smallest response rate while areas other than the central cities produced a somewhat larger response rate. It must be noted that the variables which entered this study as possible predictors for the successful rein-
ALL FAMILIES
N=1321
66%

DOESN'T OWN HOME
N=452
54%

OWNS HOME
N=869
72%

LESS THAN HIGH SCHOOL EDUCATION
N=191
45%

HIGH SCHOOL EDUCATION OR MORE
N=261
60%

6 GRADES EDUCATION OR MORE
N=811
74%

0-5 GRADES EDUCATION
N=58
47%

INCOME UNDER $7500
N=250
66%

INCOME $7500 OR MORE
N=561
78%

CENTRAL CITY 12 LARGEST SMSA's
N=45
56%

OTHER THAN CENTRAL CITY 12 LARGEST SMSA's
N=516
80%

CENTRAL CITY 12 LARGEST SMSA's AND RURAL AREAS
N=92
33%

URBAN AREAS EXCLUDING CENTRAL CITIES 12 LARGEST SMSA's
N=99
56%

CHART A

ANALYSIS OF RESPONDENTS WHO WERE SUCCESSFULLY REINTERVIEWED BY TELEPHONE
Interview were age of head, education of the head, housing status, family income, race, region, size of place, life cycle, occupation and marital status and sex.

Respondents who were reinterviewed were given a weight in inverse proportion to the success of respondents with their set of characteristics in being reinterviewed, relative to the success of all groups. For example, in the lower left hand box of Chart A the 92 respondents who lived in the central cities of the 12 largest SMSAs in rural areas who also had less than high school education and rented their housing were only 33 percent likely to be reinterviewed by telephone. This compares with 66 percent for all families and consequently they were given a weight of 2. At the other extreme, families in the bottom right hand box who did not live in the central cities of the 12 largest SMSAs, who had an income of at least $7,500, who completed six grades of education and who owned their home had a probability of being reinterviewed of 80 percent. These families were given a weight of .825.

Results of Weighting

While it is conceivable that the weighing had some effect among extreme subclasses, it seemed to have no effect on overall responses. For example, before weighting 35.7 percent of the sample felt that it was the right thing to buy things on credit or the installment plan. After weighting this decreased two tenths of one percent to 35.5 percent. There was no more than a percentage point difference in any of the observations for the entire sample as a result of weighting.
APPENDIX B

QUESTIONNAIRE
APPENDIX B

QUESTIONNAIRE
SURVEY RESEARCH CENTER
INSTITUTE FOR SOCIAL RESEARCH
THE UNIVERSITY OF MICHIGAN
ANN ARBOR, MICHIGAN 48105

1. Interviewer's Label

2. PSU

3. Your Interview No.

4. Date

5. Length of Interview (Minutes)

6. Previous Interview Number: (THIS IS THE NUMBER YOU HAVE RECORDED IN ITEM 6 OF THE WHITE AND GREEN COVER SHEETS FOR THIS STUDY)

WHITE Cover Sheet for P. 466151

GREEN Cover Sheet for P. 466151

7. Sex of Respondent:

1. MALE

2. FEMALE

8. INTERVIEWER:

Identify yourself and S.R.C. Recall your previous interview (or mention the name of the previous interviewer as given on the telephone sheet). Make sure R recalls the previous interview - that you have the correct R. Emphasize that you don't want to call on them, just to ask some questions over the phone.
SECTION A: ATTITUDES

A1. We are interested in how people are getting along financially these days. Would you say that you and your family are **better off** or **worse off** financially than you were a year ago?

1. **BETTER NOW**  
3. **SAME**  
5. **WORSE NOW**  
8. **UNCERTAIN**

A2. Why do you say so?

A3. Are you people making as much money now as you were a year ago, or more, or less?

1. **MORE NOW**  
3. **ABOUT THE SAME**  
5. **LESS NOW**

A4. Now looking ahead - do you think that a year from now you people will be better off financially, or worse off, or just about the same as now?

1. **WILL BE**  
3. **SAME**  
5. **WILL BE**  
8. **UNCERTAIN**

A5. Thinking about prices in general, I mean the prices of things you buy - do you think they will go up in the next year or so, or go down, or stay where they are now?

1. **GO UP**  
3. **SAME**  
5. **GO DOWN**  
8. **DON'T KNOW**

(GO TO Q.A8)

A6. How large a price increase do you expect? Would you say that a year from now prices will be about 1 or 2 percent higher, or 5 percent, or closer to 10 percent higher than now, or what?

A7. Do you expect that the overall price increase during the next 12 months will be larger, the same, or smaller than during the past 12 months?
A8. Now turning to business conditions in the country as a whole - do you think that during the next 12 months we'll have good times financially, or bad times, or what?

1. GOOD TIMES     2. GOOD WITH QUALIFICATIONS     3. PRO-CON
4. BAD WITH QUALIFICATIONS     5. BAD TIMES     8. UNCERTAIN

A9. Would you say that at the present time business conditions are better or worse than they were a year ago?

1. BETTER NOW     3. ABOUT THE SAME     5. WORSE NOW

A10. During the last few months, have you heard of any favorable or unfavorable changes in business conditions?

(IF YES) A10a. What did you hear?

_____________________________________________________________________

IF NOT CLEAR WHETHER A CHANGE MENTIONS IS FAVORABLE OR UNFAVORABLE, PROBE:
"Would (MENTION CHANGE) be favorable or unfavorable?"
AND NOTE "favorable" OR "unfavorable."

A11. And how about a year from now, do you expect that in the country as a whole business conditions will be better or worse than they are at present, or just about the same?

1. BETTER A YEAR FROM NOW     3. ABOUT THE SAME     5. WORSE A YEAR FROM NOW

A12. How about people out of work during the coming 12 months - do you think that there will be more unemployment than now, about the same, or less?

1. MORE     3. ABOUT THE SAME     5. LESS

A13. Looking ahead, which would you say is more likely - that in the country as a whole we'll have continuous good times during the next 5 years or so, or that we will have periods of widespread unemployment or depression, or what?

A14. No one can say for sure, but what do you think will happen to interest rates for borrowing money during the next 12 months--will they go up, stay the same, or go down?

1. GO UP     3. STAY THE SAME     5. GO DOWN     8. DON'T KNOW
A15. Generally speaking, do you think now is a good time or a bad time to buy a house?

1. GOOD
3. PRO-CON
5. BAD
8. DON'T KNOW

A16. Do you or anyone else in your family living there own a car?

1. YES
5. NO

(GO TO Q. A19)

A17. When was the last time that you bought a car?

____________________________________

A18. Did you buy that car new or used?

1. NEW
5. USED

A19. Thinking now of the automobile market - do you think the next 12 months or so will be a good time or a bad time to buy a car?

1. GOOD
3. PRO-CON
5. BAD
8. DON'T KNOW

A19a. Why do you say so?

____________________________________

A20. Do you or anyone else in the family living there expect to buy a car during the next 12 months?

____________________________________

(IF YES, PROBABLY, OR MAYBE)

A21. Will it be a brand new car or a used car? (IF TWO CAR PURCHASES PLANNED, USE MARGIN FOR SECOND)

1. NEW
2. USED
8. UNCERTAIN

A22. When do you think you might buy this car?

____________________________________

(IF NO)

A23. How long do you think it will be before you people buy a car?

____________________________________
A24. What do you think will happen to automobile prices during the next 12 months?

GO UP  3. STAY THE SAME  5. GO DOWN  8. DON'T KNOW

A24a. Do you think they will go up:  1. a lot   or   2. a little?

A25. (INTERVIEWER -- SEE A16, A20, A23)

R OWNS AT LEAST 1 CAR  R PLANS TO BUY WITHIN 3 YEARS  NEITHER

A26. Last year American manufacturers introduced some new cars which are smaller than those previously made in the United States. We are interested in finding out how people think these cars compare with small foreign cars imported into this country. First, for a person like yourself, what do you think are some of the advantages of the small foreign cars over the new small American cars? (I mean the Ford Pinto, the Chevrolet Vega, and the American Motors Gremlin.)

A27. For a person like yourself, what do you think are some of the disadvantages of the small foreign cars in comparison with the new small American cars?

A28. Would you be interested in having one of these small American cars, or would you be interested in having a small foreign car, or wouldn't you be interested in either one?

1. SMALL AMERICAN CAR   2. SMALL FOREIGN CAR   5. NOT INTERESTED IN EITHER ONE

A29. Some foreign cars, for example a Volvo, cost about as much to buy as many medium-size cars made in the United States, even though they are somewhat smaller in size. Do you think you might ever buy one of these medium priced foreign cars?

A30. Do you think the quality of medium priced foreign cars generally is better, worse, or about the same as American-made cars?

1. BETTER   3. ABOUT THE SAME   5. WORSE   8. DON'T KNOW

A30a. Why do you say so?
A31. Now about the big things people buy for their homes - such as furniture, refrigerator, stove, television, and things like that. Generally speaking, do you think now is a good or a bad time for people to buy major household items?


A32. As to the economic policy of the government - I mean steps taken in regard to inflation or unemployment - would you say the government is doing a good job, only fair, or a poor job?


A32a. Why do you say so?

A33. Do you think the government will be successful in reducing inflation and unemployment during the next year or two, or do you expect that there will be hardly any improvement?

A33a. Do you think there will be progress in both the fight against inflation and against unemployment, or will there be progress against only one?

A34. The government has frozen all wages and prices against increases for a period of 90 days; would you say this is a good thing, a bad thing, or what?

A35. What do you think may happen after the 90 days have passed - will the price and wage freeze be extended for a longer period, or will prices and wages then be allowed to increase?
A36. Which of the two problems - inflation or unemployment - do you think may have the more serious consequences for the country during the next year or two?

A37. Do you happen to know whether interest rates for borrowing money have changed during the last few months - have they gone up, gone down, or stayed about the same?

1. GONE UP  3. STAYED ABOUT  5. GONE DOWN  8. DON'T KNOW

A38. Thinking of your financial situation just now, do you feel you are in an especially good position to buy some of the things you would like to have, or is now a rather bad time for you to spend money, or what?

A39. Would you say this is a good time or a bad time to buy stocks and mutual fund shares?

8. DON'T KNOW → (GO TO Q.B1)

A39a. Why do you say so?
SECTION B

1. We are interested in finding out how people feel about buying things on credit or on the installment plan. Do you feel that it is the right thing or the wrong thing for a person like yourself to buy things and pay for them over time?

   [1. RIGHT THING 3. PRO-CON 7. OTHER 8. DON'T KNOW 5. WRONG THING → (GO TO Q#2)]

   Bla. What types of things do you feel someone like yourself should buy on credit?

   ____________________________________________________________

   Blb. What types of things should someone like yourself not buy on credit?

   ____________________________________________________________

2. People borrow for many different purposes. For which of the following purposes would you say it is all right for someone like yourself to borrow money which you pay back over time?

<table>
<thead>
<tr>
<th>ALL RIGHT TO BORROW</th>
<th>NOT ALL RIGHT TO BORROW</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. To finance educational expenses ..............</td>
<td></td>
</tr>
<tr>
<td>b. To finance the purchase of small home appliances such as mixers or blenders ....</td>
<td></td>
</tr>
<tr>
<td>c. To finance the purchase of a car .............</td>
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<tr>
<td>d. To finance the purchase of furniture .......</td>
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<tr>
<td>e. To finance the purchase of a fur coat or jewelry .................</td>
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</tr>
<tr>
<td>f. To finance the purchase of large home appliances such as refrigerators or washing machines .................</td>
<td></td>
</tr>
<tr>
<td>g. To pay bills which have piled up .............</td>
<td></td>
</tr>
</tbody>
</table>
B3. People buy many things from department stores and pay for them over time. What advantages, if any, are there to buying such things on credit?


B4. What disadvantages, if any, are there to buying such things on credit?


B4a. Can you think of any other disadvantages?


B5. Suppose you needed a new refrigerator and you couldn't afford to pay cash for it, name the kinds of places that you think you could go to get financing to pay for it.


B5a. Any other places?


B6. Suppose again, that you needed a new refrigerator and you couldn't afford to pay cash for it. Which of the following would have the lowest finance charge to let you buy on credit: the bank, the credit union, the finance company or the department store revolving credit?


B6a. Which of these would have the highest finance charge?


B7. What about the finance charges that you pay when you buy things on credit from the department stores. Would you say that these charges are pretty fair or are they too high or too low?


B8. Of course, finance charges differ from place to place. Can you tell me offhand, about what percent they charge around here when you borrow money to buy an automobile?

(If depends where borrowed -- Ask for source)


B9. How about if you buy a house. What percent do they charge on the mortgage?
B10. Now how about revolving credit from a department store like Penney's, Sears or Wards. What percent finance charge do people have to pay for credit from these places?

__________________________________________ percent per year

B11. Almost everywhere, the rate of interest that you pay on a house mortgage is lower than the department store finance charges. Why do you think this is so?

__________________________________________

Anything else?

__________________________________________

B12. In most states, department stores like Penney's, Sears or Wards charge 18 percent per year on goods you buy on credit. Do you feel that this is all pure profit for the store or are there some expenses connected with the credit that the finance charge must cover?

__________________________________________

(IF THERE ARE EXPENSES)
B12a. What are some of these expenses?

__________________________________________

B13. Some people say that department stores have great expenses in connection with granting credit. Several reasons are mentioned. First, they say that some people don't pay off what they buy on credit. Do you think this raises the cost of credit for the department store?

1. YES  5. NO (GO TO Q.B14)

B13a. Do you feel this raises the cost of credit a great deal, somewhat or not very much?

1. A GREAT DEAL  2. SOMewhat  3. NOT VERY MUCH

B14. A second reason they give for the high cost of credit is that department stores must pay for a credit department to check on people's credit, keep track of purchases, and to send out statements every month. Do you think that this raises the cost of credit for the department store?

1. YES  5. NO (GO TO Q.B15)

B14a. Do you feel this raises the cost of credit a great deal, somewhat or not very much?

1. A GREAT DEAL  2. SOMewhat  3. NOT VERY MUCH
B15. Some people also claim that the costs of credit are high because the department stores themselves must pay interest on the money they borrow to pay for the goods they sell on credit to the customer. Do you think that this raises the cost of credit for the department stores?

1. YES 5. NO  (GO TO Q.B16)

B15a. Do you feel this raises the cost of credit a great deal, somewhat or not very much?

1. A GREAT DEAL 2. SOMEWHAT 3. NOT VERY MUCH

B16. Most of us have some idea of what we would pay if we went out and borrowed some money. About what do you think a large company such as Sears or Wards pays if it has to borrow money to cover the cost of the goods it is selling on credit?

percent per year

B17. Do you feel that department stores should sell everything for cash or should they make it possible to buy things over time?

1. SELL EVERYTHING FOR CASH 5. BUY THINGS OVER TIME

OTHER

B18. Do you favor a law setting a maximum finance charge that people would pay on goods bought on credit?

1. YES 5. NO  (GO TO Q.B19)

B18a. What do you think the maximum finance charge should be?

percent per year

B19. It is argued that if this maximum finance charge is too low, department stores would lose money because they could not cover their costs of giving credit. As a result, department stores would have to stop giving credit to some people, or raise their prices or both. Do you feel that this argument is correct?

1. YES 3. PARTIALLY CORRECT 5. NO  (GO TO Q.B20)

B19a. Why do you say this?
B20. What would you say is the biggest problem you have had in the past two years with credit? (DESCRIBE BRIEFLY THE NATURE OF THE PROBLEM.)

B21. Are you now buying anything on credit aside from a house or an automobile?

1. YES
5. NO (GO TO Q.B22)

B21a. Is the credit from the bank, the store, the credit union or what?

B22. Do you use a bank credit card or a store credit card?

1. YES
5. NO

B22a. Which do you have?

1. BANK CARD
3. STORE CARD
5. BOTH
9. NEITHER

CONCLUDE INTERVIEW - THANK RESPONDENT FOR HIS COOPERATION AND TELL HIM THAT WE WILL BE SENDING HIM A REPORT ON OUR ECONOMIC SURVEYS LATER ON THIS YEAR.

THUMBNSKETCH