DIVISION OF CORPORATION FINANCE

TRAINING PROGRAM LECTURES

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Subject: Finance Companies

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MR. MONDELL. As the result of the development of legitimate consumer finance business just after the turn of the Century and the obvious need for legislation providing for a maximum rate of charge on small loans that would give borrowers a fair deal and at the same time yield a reasonable return and attract sufficient income to obtain adequate capital, the Russel Sage Foundation, a social service organization, working with others, reached an agreement in 1916 as to the general form of the Uniform Small Loan law. This, with subsequent amendments dictated by experience, is now the general basis of laws in effect in a majority of the States and Canada. Each state law specified the rate of charge which consumer finance companies may make, taking into account such facts as (1) they operate on private capital -- not deposits; (2) they make many small loans with little or no security (that of course applies primarily to the small loan industry, not to sales finance); (3) they must make detailed and expensive credit investigations; (4) they must maintain rather elaborate accounting records for installment accounts; and (5) they must attract adequate capital with a reasonable prospect of a profit above the necessary high expense of operation. The charge varies in different states from 2 to 3-1/2% per month on unpaid balances.

To operate legally under an effective small loan law the lenders must be licensed, and usually come under the supervision of the state supervisor of banks. The state official has power to make rules and regulations to enforce and interpret the law. In that connection it might be interesting to note that they even (at least in two states we know of) have the power over employment. If a man is dismissed or leaves the service of one company, he has to have the consent of the state supervisory authority before he can be hired by another small loan company. That is a pretty powerful weapon.

The major portion of consumer finance business is handled by privately owned and operated companies which specialize in one or more of the various forms of consumer financing. These companies may be broadly classified into two groups: the first group comprising companies whose primary business is the direct extenstion of personal cash credit to consumer borrowers; the second includes the companies which typically handle dealer paper, that is, the financing of consumer purchasing through the buying of installment contracts from retail merchants and dealers. The first group is further divided into consumer finance companies whose loans are authorized and limited by the small loan laws; next, industrial finance companies whose loan limits vary and are as a rule much higher than small loan companies; and credit unions which are usually identified with certain large business or industrial firms or groups and function as a cooperative

membership corporation which combine the savings and deposits service with personal loan service which are usually limited to employees of a particular group. Consumer finance business lends about $3,000,000,000 in cash to about 10,000,000 families each year.

Looking at the capitalization of some of these companies, we have taken a few figures from a tabulation recently published by the Federal Reserve System. This survey reflects that average capital structure (total liabilities, capital and surplus) of the major groups of companies, that is, the small loan companies and the sales finance companies, is made up somewhat as follows: Sales finance companies about 48% short-term debt, 32% long-term debt, other liabilities, 5%, capital and surplus, 15%. This compares with small loan companies which have 34% in short-term bank loans, 31% in long-term debt, other liabilities, 5%, capital and surplus, 30%.

Interest cost on borrowed funds is a substantial element in the cost of installment lending agencies. During the period from 1953 to 1955, the ratio of interest cost to total operating expenses was about 31% for a group of sales finance companies, and about 16% for the small loan companies. That ties in with the figures just referred to which show capital and surplus of sales finance companies is about 1/2 of what it is for small loan companies. Sales finance companies' interest costs in relation to income were higher in part because these companies customarily borrow more in relation to capital and surplus. Consequently, the impact of changes in the cost of money on consumer credit institutions depends in part on their source of funds. There is a striking difference between very small and very large sales finance companies in this respect. Sales finance companies with outstanding installment paper of $25,000,000 and over obtained about 11% of their funds from capital and surplus, whereas the very small companies (those of $100,000 or so) obtained about 46% from that source.

Small loan companies typically use proportionately less short-term debt than sales finance companies. The 10 largest small loan companies which accounted for about one-half of the total consumer loans held by this group obtained only 29% of their funds from short-term sources.

In this particular discussion, the term "loan company" as used here refers primarily to consumer finance companies, sometimes referred to as personal loan companies or small loan companies (you will even get other designations when going through prospectuses). Such companies engage in lending direct to borrowers sums usually not in excess of $500. Generally these companies operate under the state Small Loan Law which permits them to charge much higher rates than the sales finance companies.

The term "sales finance companies" relates to companies which engage in two basic activities: (a) the purchase from retail merchants of retail paper, usually promissory notes signed by customer buyers; and (b) the financing of wholesale purchases by dealers from manufacturers. I think that is called floor-stocking. These two functions are usually referred to as retail financing and wholesale financing. As a rule the

rates charged are competitive with those charged by banks. You will notice that most companies engaged in retail automobile financing also make wholesale loans. I believe in many cases they must be compelled to make wholesale loans in order to get the retail business from the dealers since it appears that there is little, if any, profit in the wholesale business. The fact is that some companies had a wholesale rate of 6% and were paying 6-1/4% for their borrowed money. However, the wholesale business is usually a very small proportion of their total business.

Many of the companies with which you will come in contact engage in both types of financing, and, in addition, may also make discount loans, provided for in some states under special legislation in amounts up to $1500 or more. A few of the companies also make industrial and commercial loans to manufacturers and wholesalers on a similar basis.

In looking at balance sheets of some of these companies you will notice either a lack of, or a low amount of, accrued interest. In the case of small loan companies it might be said that generally they do **not** accrue interest on unpaid balances at the balance sheet date. In some instances interest has been accrued for 1/2 of one month on the unpaid balance. In other words, they accrue only half of it. In the case of installment sales financing companies, which operate on the basis of discounting the charges in advance, the balance sheet will carry an account "unearned discount" or "unearned finance charges", the amount of which should be shown in the balance sheet as deductions from the receivables outstanding.

Companies engaged in both lines of business just mentioned may or may not reflect in their balance sheets accrued interest, but there will be included therein the amount of unearned discounts or finance charges. In some balance sheets accrued interest will appear to be disproportionate to the amount shown for receivables. This is due primarily to the small outstanding balances due on small loans as compared with the much larger amounts due to installment contract sales which are handled on a discount basis, the interest on such balances being reflected in the amount shown on unearned finance charges. Inasmuch as installment obligations are payable over a period of months, although the discount or income therefrom is obtained at purchase, good accounting procedure requires the deferment of a portion of that income until it is earned through the payment of monthly installments.

Companies follow several methods in computing the amount of earned finance charges for a given period. Some follow a principle of prorating the amount of earned finance charges on a straight line basis over the life of each contract. Others use the "sum of the digits" method, or the 12/78 method, in which on 12 months paper 12/78 of the discount is taken up in the first month, 11/78 the second months, and so on through the year. This method takes up a greater part of the discount as income in the early months in an effort to off-set the acquisition cost. One company, I think it was General Credit, estimates its cost per account acquired at $23. This amount is deducted from the total discount to be

earned on the contract and is treated as income in the month in which the contract is acquired, and the remaining amount of unearned charges are treated as being earned in proportion to the outstanding balances due on the contract over the life of such contract.

When a company opens a new office, it will probably for the first year, or possibly two, sustain an operating deficit which is due primarily to the lack of business and relatively high fixed expenses. During the period of the development of the office and until such time as the office begins to operate at a profit, the deficits incurred may be capitalized and amortized over an appropriate number of years, preferably not over five.

As a rule sales finance companies purchase all of their paper from dealers and the prospectus usually refers to such loans as "finance receivable purchase" or some other appropriate term which includes the word "purchased". However when a term such as "loan purchased" is used in connection with small loans it usually refers to loans acquired in connection with the purchase of an entire office or a number of offices from another small loan company.

It is not our responsibility and we do not have the time to make a detailed survey of a particular industry or individual company; but there are certain factors which should be brought to the attention of the prospective investor for his evaluation of the merits of the security being offered.

With respect to finance companies, it is obvious that the prospectus should include a brief description of the type of loans made.

Following the description of the various types of loans made, it would appear appropriate to disclose the territory in which the registrant conducts its business and the number of offices operated. That is usually done merely by listing the states and indicating after each state the number of offices operated. Some go so far as to list towns within states -- that perhaps is a waste of space. I would not ask for that. This information serves a two-fold purpose: first, it shows to what extent the business is diversified geographically. Second, it gives prospective investors information which may be used as a basis for additional investigation and study relating to local economic conditions in the various areas served.

A recent case, Fidelity Acceptance Corporation, illustrates what can happen when operations of a company are limited in area. This company operated 21 offices in Arizona, 20 in Colorado, 3 in Wyoming, 2 in South Dakota and 2 in Minnesota. Since there are no large cities in either Wyoming or South Dakota it is reasonable to assume that the bulk of the business came from the other three states. Apparently there was a sharp decline in employment throughout Arizona and Colorado in the later part of 1953 and early in 1954 particularly affecting the large cities in those two states in which 21 of the 48 offices were located. In addition Denver, Colorado, where 13 offices were in operation, experienced an unprecedented wave of bankruptcies leading the nation in per capita bankruptcies in 1954. As a result of this situation unemployed

borrowers migrated to other cities and states in large numbers with about 50% of them going to California where apparently cooperation cannot be obtained from the small loan industry in collecting from these borrowers becuase of a law which prevents such assistance. These people are known in the industry as "skips" and their accounts are usually considered uncollectable in any event.

The effect of all this is evident from a look at the company's comparative loss ratios. Net charge--offs jumped from approximately $67,000 in 1952 to $224,000 in 1953 and $552,000 in 1954. The charge off in 1956 dropped to $121,000. The ratio of charge-offs to liquidations ran from .63% to 2.4% in 1953 and 5.2% in 1954 and had settled to .53% in 1956. Net income which has been around $300,000 dropped to $19,400 in 1954 but was back to over $300,000 in 1956.

This probably is a partial explanation of the reasons for the relatively high reserves that most of these companies have in comparison to the actual charge-offs. Actual charge-offs run about 1/2 of 1%--less than 1%--on the average, considerably less. Yet their charge-offs in relation to reserves consistently run 3-1/2 to 4%, sometimes even higher, and that applies even to the large companies.

Although it is assumed that all finance companies make an investigation of the prospective borrowers, disclosure should be required in the prospectus as to the extent of such investigations, whether it is made through credit reporting agencies or by employees of the company. Apparently both types of investigation are made on the same borrowers by some companies, while others rely on one or the other. If a comparatively small company relies entirely on its own investigation, which you could assume in most cases would not be adequate, it seems that this information should be of interest to the prospective investor.

Small loans, as a rule, are made on the basis of a borrower's income and ability to pay, but some companies require security where practical. This situation should be explored and disclosure obtained as to the approximate percentage of the aggregate balance of this type of loan outstanding secured and unsecured, and the general nature of the security which they get, including the amount of co-makers. Some companies will class co-maker paper in the same category as a loan that has been secured by a chattel mortgage.

With respect to sales finance companies, you will find that most of the companies deal primarily in automobile paper, both retail and wholesale. In these cases the question of security is simplified, and as a rule the main point to raise is the percentage of automobile loans secured by new cars and the percentage secured by used cars. This should be shown separately for wholesale loans and retail loans. Many of the wholesale dealers deal exclusively in used cars. In the usual case this percentage disclosure is sufficient. However, if the bulk of the company's business is in automobile financing, it is desirable to request a breakdown showing the average amount advanced and the average terms in months as between new

and used cars, and covering a representative period. A comparison of these amounts can be helpful in determining the lending policies of the company, particularly with respect to advances on used cars. Furthermore, if the investor so desires, these figures may be checked against national or local averages. For instance, it was noticed in a recent study (again a Federal Reserve study) that approximately 49% of the new car paper matured in 31 to 36 months, whereas the used car paper - 40% - matured in 19 to 24 months. Another 27% of the new car paper matured in 24 months or less and on used cars in 13 months.

In any event the prospectus should include a statement as to the average term of each type of loan. Although many prospectuses contain a statement that it is the practice of the company to confine loans to a term of 18 to 20 months, it is our understanding that the average term presently is around 14 months. In states where there is a limitation on the duration of a loan--a statutory limitation--this should be disclosed also. In may cases it is also desirable to request disclosure of the registrant's policy with respect to requests for additional funds before an existing loan is fully paid off.

As previously indicated, small loan companies operate under the laws of the state in which they conduct business. Thirty-seven states and Hawaii have small loan laws which directly authorize legitimate consumer finance business. Six states and the District of Columbia have laws which are largely or wholly inoperative principally because they permit rates too low to attract sufficient capital. Five states have no laws. In all but four states, Colorado, Maine, Massachusetts and New Hampshire, there are usury laws generally setting maximum permissible rates of interest in the absence of small loan laws. In connection with the usury laws, we thought the following statement in a pamphlet from the Bureau of Business Research of Western Reserve University might be of interest. It says with respect to usury laws: "The maximum varies from State to State but range in the main from 6% to 12% per year. Unfortunately the majority of consumer loans cannot be made at these rates because lending costs are high. Usury laws, if strictly enforced, would deprive consumers of needed loans and are seldom enforced. Evasion is easy and penalties are generally too mild to discourage illegal lending."

In connection with the reference to high lending costs, we refer to another publication, "Trends in Consumer Finance", which states that a surprisingly large proportion of all loans made in consumer finance offices is unprofitable. The loans are made as part of a program of offering a full loan service in order to compete with other agencies, particularly commercial banks. The so-called break-even loan is the size of a loan which will return just enough revenue to balance the cost. Figures compiled in 1950 in eight representative states indicate that 860,000 loans were made for $150 or less, and were below the break-even point. That represented 37% of all the loans made in those states. That again relates to small loans, and not to sales finance. It gives you an indication of what the competitive situation is.

It seems essential for various reasons to include in the prospectus a brief summary of the legal rate of charge in each of the various states in which a particular company operates. It is also desirable to have a statement as to how the current rate charged compares with the legal rate. If the current rate is less than the legal rate, the reasons should, of course, be stated. In most cases this will be due to competition. With this information investors are also able to compare the rate charged by the company with rates charged for similar services by commercial banks and credit unions since the latter information is usually easily available. Competition from banks and credit unions is severe.

You will note in many prospectuses that reference is made to finance charges rather than to interest. This is because small loan rates represent an overall charge for expenses and services as well as interest, and the limitation set under the small loan laws of all states is based on this overall charge. Throughout this talk when we refer to interest we really mean the overall finance charges.

In most states the size of a loan is limited by the Small Loan Laws and a discussion of this situation should be included. This will permit a comparison of the legal limit with the average size of loans actually made and the average unpaid balances reflected in the tabular data to be discussed later on.

As of 1955 there were 21 operative Small Loan Laws with limits above $300. California is the highest with a loan limit of $5,000. Two other states permit loans as high as $2,500, and the balances range from $400 to $1,500.

The Uniform Small Loan Law prohibits tie-in sales and other devices which permit lenders extra profit. A single overall charge is one of the law's cornerstones. A growing number of consumer finance companies are providing credit insurance to their borrowers under the one-charge principle. They furnish the borrowers with group insurance and make no extra charge for it. However, it seems that where the individual policy of credit insurance is sold, the policy is paid for by the borrower. Tie-in sales of individual credit insurance thus breach the one-charge principle of the uniform law in that they add an extra charge to the borrower and an extra profit to the lender.

In some instances a finance company will open and control an insurance subsidiary through which it places all of its own insurance, including fire, liability, employees bond and insurance on the lives of its borrowers. This keeps in the organization all net profits from the underwriting of this phase of the business. When no such subsidiary is owned, the insurance is usually placed through licensed insurance brokers who are apparently prohibited, by regulation promulgated by the various state insurance commission, from splitting commissions with persons placing business with them unless such persons are also licensed brokers. In some States, Maryland, for example, the law prohibits the finance company from receiving any commission on any insurance written on the life or property of a

borrower. In filings where there is evidence that insurance is being written on the lives of borrowers, a recent memorandum from the Director of our Division requests that a deficiency be cited along these lines: "It has come to our attention in a recent case that it may be the practice of the finance company industry for directors or officers of such companies or associates thereof, personally to receive fees and other emoluments from insurance companies engaged in the writing of life, health and accident insurance on borrowers in connection with their loan indebtedness. As supplemental information, please inform us whether or not such practice exists in this case. In this connection your attention is directed to the provisions of Item 20 of Form S-1 which, in our opinion, would require the disclosure of any such fees or emoluments."

It might be well at this point to acquaint you with two practices that we uncovered in connection with our investigation of Coastal Finance Company. The first is referred to as "spread payment". It is not, as far as we can ascertain, a common practice in the industry, and in most cases comes about by the desire of an office manager to make a better showing for his particular office. A spread payment actually is a payment made on a note by some one other than the borrower, and funds for that purpose are obtained primarily from an improper re-activation of an old charged-off account usually considered uncollectable. This is done by preparing a new note for the same maker in an amount sufficient to cover the unpaid balance on the old note, plus accrued interest. In cases where the original maker is available and pressure is being exerted from time to time for payment on the old note, he can usually be persuaded to sign the new note with the understanding that the proceeds will be applied to the old note and that he will not be called upon to make any payment for several months. However, in some instances the new notes are signed by persons other than the original maker. That, of course, is forgery. In either event since the old note has already been charged-off, there is no need to reflect payment thereof on the books, and an examination of the documents supporting the new loan would indicate that the proceeds of the loan had been given to the customer, whereas actually the proceeds were removed from the cash drawer and placed in a so-called "slush fund," the purported customer receiving nothing. This, of course, did not involve embezzlement on the part of the manager--there was no money taken out.

This company followed what is termed a recency of payment rule for determining delinquent accounts. This is one for the book and should be remembered. Under this rule a note could be delinquent as much as 90 days or more both as to principal and interest and yet a payment of as low as $1 allocated between interest and principal would remove the note entirely from the delinquent list. Although a note may have a delinquent balance of $100 or more built up over a period of months, a payment of $1 would take it immediately off the delinquent list and back into the category of a current loan. Money in the slush fund is applied to numerous delinquent accounts in various amounts, primarily from $1 to $10 in order to remove such accounts from a delinquent to a current status. Another source of funds for spread payments was from the sale of repossessed merchandise. The proceeds from these sales are not always credited to the account of the

particular borrower from whom the item has been repossessed, but is spread to other delinquent accounts. As a result of this practice receivables were inflated to the extent of the face amount of the new note and delinquencies were improperly reduced by the spread payments.

Another procedure apparently more common in use than spread payment is termed "rolling of accounts" and has somewhat the same illusory effect. In these cases the maker of an outstanding delinquent loan, not one that is charged off but one still on the books, is inveigled into executing new loan papers representing a loan equal to the unpaid balance and accrued interest on the old loan, although both parties to the transaction know at the time that the chances for any payment on the new loan are no better than they were on the old loan. This procedure accomplishes several purposes: (1) the unallocated interest of the old loan is now treated as interest received in the profit and loss statement, thus effecting a misleading book entry since no cash is actually received (in this connection it should be noted that commercial banks in extending credit to finance companies place considerable emphasis on the ratio of interest collected to interest earned), (2) loans receivable are distorted to the extent of accrued interest added to the face amount of the new note and (3) the old delinquent loan is treated as having been paid in full and the new loan reflected as current, thus concealing the true delinquency picture. That in a nutshell was the downfall of Coastal.

In order to provide adequate disclosure with respect to the overall operations of a company and to indicate clearly the development of its business, it is desirable that certain information be set forth by the use of tables. You must keep in mind that rarely will you have occasion to require in full a table such as I mention here. Other variations are often given which substantially meet the required standards of adequate disclosure. However, in the rare case where no tabular data has been furnished the following tables may be desirable.

One table that could be appropriately headed "Analysis of Loans Made" should show for each of the past five years and for each type of loan made (1) the balance of loans outstanding at the beginning of the year, (2) the amount of loans made during the year, (3) the amount of collections during the year, (4) the amount of loans charged off during the year, and (5) the balance of loans outstanding at the end of the year. If, during the year, a substantial amount of loans are acquired through purchase from other loan companies, the amounts so purchased should either be reflected by footnote or by the use of an additional column.

Since it is more informative to have the figures for each year broken down as between principal types of loans made, it will also be necessary to have the columns total for each year in order to reflect the trend in the overall operation. If the table is set up in this manner, it will not only balance across, but the first and last columns, i. e. balance at the beginning and end of each year, will tie in with the corresponding balance sheet figures. Also the amount charged off as reflected in the next to the last column would agree with the corresponding amount in the

table of credit loss experience referred to later on. Such a table is valuable in that is shows at a glance the trend in loan volumne, collections and charge-offs.

In order to further bring out the development of the business in the term of loans made, this table might well be followed by a second table covering the same period reflecting (1) the number of offices in operation, (2) the number of loans made, (3) the average size of loans made, (4) the number of loans outstanding, and (5) the average size of loans outstanding. From these two tables a quick analysis can be made of the trend as expressed in dollar amounts and in number and size of loans made and outstanding. Here, again, with this information at hand a comparison can be made against national averages if the investor is inclined to do a little digging.

In many cases in the past it has not been our practice to require information with respect to the amount of delinquent loans. It was felt that adequate disclosure with respect to credit loss experience was sufficient. However, through experience it now appears that at least in some cases this is not true. In this connection Mr. Woodside has circulated a memorandum to the staff which reads in part:

> "As supplemental information please furnish the number and aggregate amount of delinquent loans (as defined by the company, including such definitions) as of ____ ____. These dates should be (1) the date of the balance sheet, and (2) the date of the next preceding fiscal period, or such later period as circumstances indicate would result in getting the necessary comparative information."

Although this procedure certainly appears adequate with respect to the large well-established companies, it is our belief that for many companies it is advisable to request this information be inserted in the prospectus. Furthermore, in order to give any real meaning to the statement of delinquencies, the delinquent loans should be aged as to loans delinquent 30 to 59 days, 60 to 89 days and 90 days and over.

The definition of a delinquent loan is of great importance, as evidenced by the case where the so-called "recency of payment" method was used. The abuses to which such method lends itself are evident. In aging the loans you will find some companies do not consider a loan delinquent until it is 60 days past due. Whether they consider it or not, we should insist on getting the figure of 30 to 59 days because that is where the great bulk of your delinquencies will show up.

Just as an example of what happens: a company charges off loans delinquent 90 days or over every six months (some companies only charge off once a year). As of the end of the year loans delinquent only 89 days will therefore not be charged off until the following June 30, at which time it will be delinquent approximately 270 days or about 9 months. Yet, under the recency of payment method, if the borrower came into the office on June 29 and made a payment of as little as $5, or even less, the entire loan would be placed on a current basis and removed from the

delinquency list. It is doubtful that many companies follow this procedure. However, there are variations in the classification of delinquencies, and care should be taken to see that the definition is clearly set forth in the prospectus.

One of the most important items of disclosure is the table of credit loss experience. While there have been some variations in presenting this information in the past, it is felt that adequate disclosure will be achieved by the use of the table showing for each of the past five years (1) the balance of reserve for losses at the beginning of the period, (2) any addition to the reserve charged to income, (3) actual write-offs charged to the reserve, net of recoveries, and the ratio thereof to liquidations, and (4) the balance of the reserve at the end of the period. Thus, you have the provision for reserve charged to income during the period, you have the actual write-offs charged to the reserve plus any collections, and the balance of the reserve at the end of the period and the ratio of that reserve to loans outstanding. This gives you a complete picture of actual loss experience and some indication of the adequacy of reserves.

Some prefer to show the ratio of write-offs to loan volume rather than to liquidation and it appears that either is acceptable. If the ratio is based on volume, it should be made clear whether or not this means cash volume or whether the non-cash portion of renewal loans are included. Renewal loans are usually large when compared to total loans in a small loan company. Out of $1,000,000, perhaps as much as $600,000 or $700,000, or perhaps more, are renewal loans. A survey made in New York State separate small loan company borrowers as follows: new borrowers - 174,000; former borrowers - 144,000; present borrowers - 721,000. When you are speaking of volume you have to keep that in mind. You will notice that a lot of companies will show in a footnote whether the figures presented include or exclude renewals.

We have been unable to find any figures of loss ratios which would disclose trends during depression years on a representative cross section of the loan industry. However, the results of a very limited survey published by the Federal Reserve Board indicates that the ratio of net charge-offs to <u>outstanding receivables</u> of small loan companies ranged from 1.5 in 1928 to 1.95 in 1955 with only four years in which the ratio was appreciably higher, i.e. 1931 - 2.5%, 1932 - 5.01%, 1933 - 5.33% and 1934 - 4.25%. The ratios for sales finance companies during the same period ran from 1.5% in 1929 to .21% in 1950. Comparable figures for recent years are not available.

Another source of information indicates that on the average net charge-offs to volume of business runs consistently below 1%. A comparison of net charge-offs to volume of business as compared to receivables outstanding shows:

	Volume	Receivables
1938	1.1	1.8
1948	0.6	1.1
1951	0.6	1.0

There were practically no fatalities in this business during the depression years. There were a few very small companies that didn't survive. Most of that was due to the lack of funds. They couldn't borrow money from the banks because they banks were closed. It is interesting to note that commercial banks entered the small loan and consumer finance business in the early 1940's apparently on the basis of the experience of those companies during the depression years of the 1930's.

We have seen loss ratios based on volume, on receivables, and on liquidations. You will find it all three ways. We feel that the loss ratios based on receivables do not have much meaning in this type of financing. You can get a good discussion whether loss ratios should be based on volume or liquidations. We believe that perhaps a ratio based on liquidations is the best, and in going through quite a number of prospectuses we found that 4 or 5 to 1 reported on the basis of a percentage of liquidations. The difference in the ratios if based on liquidations or on receivables is quite noticeable. Liquidations as against volume does not show a marked difference. I would suggest that we try to get away from reporting of ratios on receivables, as done now by only a few companies.

Adjourned.