
IN THE MATTER OF
FAIRFAX FAMILY FUND, INC., ET AL.

CONSENT ORDER, ETC., IN REGARD TO THE ALLEGED VIOLATION OF THE
FEDERAL TRADE COMMISSION AND THE TRUTH IN LENDING ACTS

Docket C-2285. Complaint, Sept. 13, 1972—Decision, Sept. 13, 1972.

Consent order requiring a Chicago, Illinois, and Louisville, Kentucky, mail-order loan organization to cease, among other things, using any facsimile of a negotiable check or cash voucher as a loan application; failing to label all loan applications as "loan application:" representing that only the customer's signature is required to consummate loans; misrepresenting the benefits to be derived from procurement of a loan through respondents; and failing to disclose to customers information required by Regulation Z of the Truth in Lending Act.

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act, and the Truth in Lending Act and the implementing regulation pro-

mulgated thereunder, and by virtue of the authority vested in it by said Acts, the Federal Trade Commission, having reason to believe that Spiegel, Inc., a corporation, and its wholly-owned subsidiary, Fairfax Family Fund, Inc., a corporation, hereinafter referred to as respondents, have violated the provisions of said Acts and implementing regulation, and it appearing to the Commission that a proceeding by it in respect thereof would be in the public interest, hereby issues its complaint stating its charges in that respect as follows:

PARAGRAPH 1. Respondent Spiegel, Inc., is a corporation organized, existing and doing business under and by virtue of the laws of the State of Delaware, with its principal office and place of business located at 2511 W. 23rd Street, Chicago, Illinois. It wholly owns, formulates and controls the policies, acts and practices of respondent Fairfax Family Fund, Inc., including the acts and practices hereinafter set forth.

Respondent Fairfax Family Fund, Inc., is a corporation organized, existing and doing business under and by virtue of the laws of the State of Kentucky, with its principal office and place of business located at 2323 S. Brook Street, Louisville, Kentucky. Respondent Fairfax Family Fund, Inc. is a wholly-owned subsidiary of respondent Spiegel, Inc.

PAR. 2. Respondents are now, and for some time last past have been engaged in the business of advertising, soliciting and making loans through the mail to the public in the several States of the United States.

COUNT I

Alleging violation of the Federal Trade Commission Act, the allegations of Paragraphs One and Two above are incorporated by reference as if fully set forth herein verbatim.

PAR. 3. In the course and conduct of their business respondents now cause, and for some time last past have caused, their loan applications and advertising to be mailed from respondent Fairfax Family Fund, Inc.'s place of business in the State of Kentucky to consumers located in various other States of the United States, and maintain, and at all times mentioned herein have maintained, a substantial course of trade in said loans in commerce, as "commerce" is defined in the Federal Trade Commission Act.

PAR. 4. For the purpose of inducing consumers to enter into said loans, respondents have made various statements in certain of their circulars respecting the nature of the loan application and the credit status of the consumer. Typical of such statements, but not all inclusive thereof, are the following:

A. [ON FACSIMILE OF A NEGOTIABLE CHECK]

Ready Cash Voucher

TO NEGOTIATE THIS VOUCHER Sign on the other side * * *

Application—subject to approval by Fairfax Family Fund—is hereby granted for an immediate cash loan

FOR IMMEDIATE PROCESSING—OK [followed by what appears to be the handwritten initials] J. V. F.

B. [ON ADVERTISING “LETTER”]

RETURN THE ENCLOSED \$600 CASH VOUCHER TODAY

\$600 Ready Cash Voucher enclosed

Return the enclosed Cash Voucher today to get \$600 by mail * * *

Mail the Ready Cash Voucher now.

C. [ON MULTI-PAGE, COLOR BROCHURE]

Use the enclosed Cash Voucher

Sign the enclosed Ready Cash Voucher

Just sign and mail the enclosed Ready Cash Voucher.

PAR. 5. Through the use of said statements and representations, and others of similar import and meaning but not specifically set out herein, respondents have represented, and are now representing, directly or by implication, that the facsimile check is, in fact, a check ready for negotiation or a cash voucher; that only the consumer's signature is needed to render the facsimile check negotiable; and that the credit status of the consumer has been approved and the loan has already been authorized.

PAR. 6. In truth and in fact, the facsimile is not a check ready for negotiation or a cash voucher, and the consumer's signature is not the final step for approval by respondent Fairfax Family Fund, Inc., of the loan. The facsimile is merely an application for a loan in the amount indicated on the voucher. The voucher is not “negotiated” in the manner of a negotiable instrument, but is merely mailed back to respondent Fairfax Family Fund, Inc., for processing. While the consumer's signature does bind the consumer, respondent Fairfax Family Fund, Inc., has not yet approved the application and, therefore, the facsimile check is not a check ready for negotiation.

Further, the credit status of the consumer has not been approved, nor has the loan been authorized. Respondent Fairfax Family Fund, Inc., conducts a credit investigation of the consumer only after the facsimile check has been returned to it by the consumer, and there has been no approval of authorization for the loan prior to evaluation of the report on the credit investigation.

Therefore, the statements and representations set forth in Paragraphs Four and Five hereof were and are false, misleading and deceptive.

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PAR. 7. For the purpose of inducing consumers to enter into said loans, respondents have made various statements in certain of their circulars respecting the desirability of consummating their offered loan for the purpose of debt consolidation. Typical of such statements, but not all inclusive thereof, are the following:

A. [ON THE ADVERTISING "LETTER"]

You will find that by putting your bills together and paying them off with cash from Fairfax you can cut the amount you pay out each month by as much as 50% * * * and have cash left over.

B. [ON THE MULTI-PAGE, COLOR BROCHURE]

Cut Your Monthly Payments $\frac{1}{3}$ to $\frac{1}{2}$ and Get *EXTRA CASH* Besides * * * Besides paying off all his debts he received \$60 in extra cash. And he reduced his total monthly payments from \$65 to \$31.57. A reduction of over 50%.

[The following debt consolidation comparison appears]

Here's a typical problem that many families face

Accounts	Amounts owed	Monthly payments
Clothing.....	\$30.00	\$10.00
Appliance.....	120.00	10.00
Hospital.....	200.00	15.00
Doctor.....	50.00	5.00
Dentist.....	50.00	10.00
Car repair.....	30.00	10.00
Home repair.....	50.00	5.00
Total.....	540.00	65.00

Here's how a loan from us solved the problem

Amount of loan.....	\$600.00
Amount needed to pay bills.....	540.00
Extra cash for you.....	60.00
Monthly payment for a loan of \$600.....	31.57

*Here's how payments of \$65.00 were cut to \$31.57
Figure your bills here. See how a cash loan helps you*

Bills	Amount owed	Monthly payments
Clothing.....		
Appliance.....		
Hospital.....		
Doctor.....		
Dentist.....		
Car repair.....		
Home repair.....		
Total.....		

PAR. 8. Through the use of the aforesaid statements and representations and others of similar import and meaning not specifically set forth herein, respondents have represented, and are now representing, that the consumer will benefit substantially from consolidating his debts into a single loan obligation to respondents, because:

(a) The consumer will reduce the amount of his present monthly payments substantially, even by as much as 50 percent, by entering into the loan agreement offered by respondents;

(b) The obligation of the loan of \$600 is comparable in cost to the obligation of the debts of \$540 in the consumer's hypothetical; and

(c) The consumer would have an extra \$60 in cash left over from the proceeds of respondents' loan were he to use the loan proceeds to extinguish his hypothetical debts of \$540.

PAR. 9. In truth and in fact, the consumer will not benefit substantially from the consolidation of his debts into a single loan obligation to respondents, because:

(a) The consumer will not reduce the amount of his present monthly payments substantially for a significant portion of the period which would be scheduled to repay his debt to respondents. Within five months the consumer would reduce the amount of payments required by his hypothetical present debt obligations to \$35 by extinguishing three of the seven debts hypothesized, so that he would for the remaining nine months make monthly payments of no more than \$35, compared with payments of \$31.57 to respondents, a difference of only \$3.43 per month. Additionally, the hypothetical comparison fails to disclose that if the consumer pays the existing debts of \$540 as scheduled, the entire indebtedness will be extinguished in fourteen months while, if he consolidates those debts into one loan obligation to respondents, he will be obligated to make monthly payments of \$31.57 for twenty-seven months, an additional obligation to the consumer of \$312.39. Therefore, the obligations compared in respondents' advertisements are not based on the same premises and are misleading.

(b) The \$600 loan offered by respondents is not comparable in credit costs to the consumer's hypothetical present debts of \$540. The hypothetical \$540 in debts includes the amounts of finance charges owed to the hypothetical creditors, while the \$600 loan offered by respondents excludes all finance charges which the consumer would owe to respondents; if finance charges on the \$600 loan were included in the comparison, the amount owed to respondents would be \$852.39 compared with the hypothetically owed debts of \$540. By using \$600 rather than \$852.39 for purposes of comparison, respondents understate by \$252.39 the amount of the obligation which the consumer would owe

them. Therefore, the obligations compared in respondents' advertisements are not based on the same premises and are misleading.

(c) The consumer would not have an extra \$60 in cash left over from the proceeds of respondents' loan after using the loan proceeds to extinguish his hypothetical debts of \$540. Respondents require borrowers to obtain credit life insurance, the costs of which are deducted from the \$600 loan proceeds, so that the consumer would only have left in cash \$60 less the cost of credit life insurance.

Therefore, the statements and representations set forth in Paragraphs Seven and Eight were and are false, misleading and deceptive.

PAR. 10. For the purpose of inducing consumers to enter into said loans, respondents have made various statements in certain of its circulars respecting the requirement of obtaining credit life insurance and the consumer's choice of insurers. Typical of such statements, but not all inclusive thereof, are the following:

A. [ON ADVERTISING LETTER]

You will also receive a Life insurance certificate; you and your family will immediately be protected for the full amount you owe by the Old Republic Life Insurance Company or any company of your choice.

B. [ON MULTI-PAGE, COLOR BROCHURE]

YOUR LIFE WILL BE INSURED—You and your family will be protected by the Old Republic Life Insurance Company or any other company of your choice.

PAR. 11. Through the use of said statements and representations, and others of similar import and meaning but not specifically set out herein, respondents have represented, and are now representing, directly or by implication, that the consumer may select the credit life insurer of his own choice.

PAR. 12. In truth and in fact, the consumer cannot select the insurer or make respondent Fairfax Family Fund, Inc., the beneficiary of an already existing life insurance policy to the extent of the consumer's indebtedness, because there is no place on the loan application for the consumer to indicate that he wishes to use his own credit life insurer, or that he wishes to change the beneficiary on an already existing life insurance policy. Upon acceptance of the application, respondents automatically have the credit life insurance policy written for the consumer by Old Republic Life Insurance Company and they automatically deduct the cost of such insurance from the amount of the loan before forwarding the negotiable check for the proceeds of the loan. The Old Republic Life Insurance Company writes all the credit life insurance policies for consumers who consummate loans with respondents.

Therefore, the statements and representations set forth in Para-

graphs Ten and Eleven hereof were and are false, misleading and deceptive.

PAR. 13. The aforesaid acts and practices of respondents as herein alleged were, and are, all to the prejudice and injury of the public and constituted, and now constitute, unfair and deceptive acts and practices in commerce, in violation of Section 5 of the Federal Trade Commission Act.

COUNT II

Alleging violation of the Truth in Lending Act and the implementing regulation promulgated thereunder, and of the Federal Trade Commission Act, the allegations of Paragraphs One and Two are incorporated by reference as if fully set forth herein verbatim.

PAR. 14. In the ordinary course and conduct of their business as aforesaid, respondents regularly extend consumer credit, as "consumer credit" is defined in Regulation Z, the implementing regulation of the Truth in Lending Act, duly promulgated by the Board of Governors of the Federal Reserve System.

PAR. 15. Subsequent to July 1, 1969, in the ordinary course and conduct of their business as aforesaid respondents have furnished, and are furnishing, credit cost disclosure statements, hereinafter referred to as "the statement." Respondents do not provide their customers with any other disclosures regarding the cost of credit in attempted compliance with the Truth in Lending Act. By and through the use of the statement, respondents:

(a) Failed to disclose the "amount financed," using that term, as required by Section 226.8(d) (1) of Regulation Z;

(b) Failed to disclose the annual percentage rate clearly, conspicuously, and in meaningful sequence, as required by Section 226.6(a) of Regulation Z;

(c) Failed to disclose the "total of payments," using that term, as required by Section 226.8(b) (3) of Regulation Z.

PAR. 16. Subsequent to July 1, 1969, respondents have caused and are causing to be mailed to prospective borrowers a "Ready Cash Voucher" which promotes, aids, or assists directly or indirectly extensions of consumer credit. This constitutes an advertisement as "advertisement" is defined in Regulation Z. By and through use of these advertisements, respondents state the amount and the number of the monthly payments without also setting forth, in terminology prescribed in Section 226.8 (b) of Regulation Z, the following items, as required by Section 226.10 (d) (2) of Regulation Z:

(a) The amount of the finance charge expressed as an annual percentage rate;

(b) The sum of the payments.

PAR. 17. Subsequent to July 1, 1969, respondents have published multi-page advertisements, as "advertisement" is defined in Regulation Z, which are mailed to consumers. Such advertisements aid, promote, or assist, directly or indirectly, extensions of consumer credit.

By and through the multi-page advertisements, respondents, when setting forth the number and amount of periodic payments, fail also to clearly and conspicuously set forth all credit terms required by Section 226.10(d) of Regulation Z, in terminology prescribed under Section 226.8(b) of Regulation Z. Respondents have not obviated the requirement that they disclose these credit terms by employing the alternative method of clearly and conspicuously referring to a table or schedule of credit terms by page number wherever the specified periodic payment appears in the multi-page advertisements, as set forth in Section 226.10(b) of Regulation Z.

PAR. 18. Pursuant to Section 103(q) of the Truth in Lending Act, respondents' aforesaid failures to comply with the provisions of Regulation Z constitute violations of that Act and, pursuant to Section 108 thereof, respondents thereby violated the Federal Trade Commission Act.

DECISION AND ORDER

The Commission having heretofore determined to issue its complaint charging the respondents named in the caption hereto with violation of the Federal Trade Commission Act and the Truth in Lending Act, and the respondents having been served with notice of said determination and with a copy of the complaint the Commission intended to issue, together with a proposed form of order; and

The respondents and counsel for the Commission having thereafter executed an agreement containing a consent order, an admission by respondents of all the jurisdictional facts set forth in the complaint to issue herein, a statement that the signing of said agreement is for settlement purposes only and does not constitute an admission by respondents that the law has been violated as alleged in such complaint, and waivers and other provisions as required by the Commission's rules; and

The Commission having considered the agreement and having provisionally accepted same, and the agreement containing consent order having thereupon been placed on the public record for a period of thirty (30) days, and having duly considered the comments filed thereafter pursuant to Section 2.34(b) of its rules, now in further conformity with the procedure prescribed in Section 2.34(b) of its rules, the Commission hereby issues its complaint in the form contemplated by

said agreement, makes the following jurisdictional findings, and enters the following order:

1. Respondent Fairfax Family Fund, Inc., is a corporation organized, existing and doing business under and by virtue of the laws of the State of Kentucky, with its office and principal place of business located at 2323 S. Brook Street, in the city of Louisville, State of Kentucky.

Respondent Spiegel, Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Delaware, with its office and principal place of business located at 2511 W. 23rd Street, in the city of Chicago, State of Illinois.

2. Respondents agree that they are jointly and severally obligated under each order provision. However, it is understood that any affirmative disclosure or representation required by the order may be made in the name of respondent Fairfax Family Fund, Inc., without requiring identification of respondent Spiegel, Inc.

3. The Federal Trade Commission has jurisdiction of the subject matter of this proceeding and of the respondents, and the proceeding is in the public interest.

ORDER

It is ordered, That respondents, Spiegel, Inc., and Fairfax Family Fund, Inc., corporations, their successors and assigns, and their officers, agents, representatives and employees, directly or through any corporate or other device, in connection with the advertising, solicitation or consummation of loans in commerce, as "commerce" is defined in the Federal Trade Commission Act, do forthwith cease and desist from:

1. Use of a form of loan application which is a facsimile of a check and which represents, directly or by implication, that it is a negotiable check or a cash voucher or other similar negotiable instrument.

2. Failure to clearly, conspicuously and prominently label all loan applications as "loan application."

3. Failure to affirmatively disclose in writing on each loan application form that the loan will be subject to credit approval by respondents, unless such is not true; and making a representation, directly or by implication, that only the consumer's signature is needed to consummate the loan, unless such is true.

4. Failure to inform the applicant for a loan that the loan will not be authorized prior to credit approval, unless such is true.

5. Making a representation, directly or by implication, in any comparison or example, that the consumer can reduce his present

monthly payments substantially by taking advantage of respondents' loan offer or that his loan cost without inclusion of the finance charge is comparable to his present indebtedness which includes finance charges, unless such comparison or example is, in fact, true.

6. Failure to inform the consumer of the actual cash amount he will receive after the deduction for the cost of credit life insurance if the credit life insurance is procured through respondents.

7. Misrepresenting in any manner the benefits to be derived, through debt consolidation or otherwise, from the procurement of a loan from respondents.

8. Making a representation to the consumer that he has a choice of credit life insurers, unless the consumer, in fact, has such a choice.

9. Failure to provide a clear and conspicuous place for the consumer to indicate his desire to use the insurer of his own choice when that option is provided by respondents.

It is further ordered, That respondents Spiegel, Inc. and Fairfax Family Fund, Inc., corporations, their successors and assigns, and their officers, agents, representatives and employees, directly or through any corporate or other device, in connection with any extension of consumer credit or in connection with any advertisement to aid, promote, or assist directly or indirectly any extension of consumer credit, as "consumer credit" and "advertisement" are defined in Regulation Z (12 C.F.R. § 226) of the Truth in Lending Act (Pub. L. 90-321, 15 U.S.C. 1601 *et seq.*) do forthwith cease and desist from:

1. Failure to disclose the "amount financed," using that term, as required by Section 226.8(d)(1) of Regulation Z.

2. Failure to disclose the annual percentage rate clearly, conspicuously, and in meaningful sequence, as required by Section 226.6(a) of Regulation Z.

3. Failure to disclose the "total of payments," using that term, as required by Section 226.8(b)(3) of Regulation Z.

4. Stating in any advertisement the amount of any installment payment or the number of installments or the period of repayment, unless all of the following items are stated in the manner and form prescribed by Section 226.10(d)(2) of Regulation Z:

(i) the amount of the loan;

(ii) the number, amount and due dates or period of payments scheduled to repay the indebtedness if the credit is extended;

(iii) the amount of the finance charge expressed as an annual percentage rate; and

(iv) the sum of the payments.

5. Failure to set forth in multi-page advertising, when setting forth one or more of the following credit terms other than in a schedule of credit terms contained in the multi-page advertisement, all of the credit terms as required by Section 226.10(d) of Regulation Z; or in the alternative, referring to such schedule by stating in immediate conjunction with the specific credit term, in print of at least equal prominence to such term, "for full disclosure of credit terms, see page —," wherever any of the following appears:

(i) the amount of the loan;

(ii) the number, amount and due dates or period of payments scheduled to repay the indebtedness if the credit is extended;

(iii) the amount of the finance charge expressed as an annual percentage rate; and

(iv) the sum of the payments.

However, the disclosure of (i) or (iii) above, either separately or together, does not require any of the disclosures set forth in Section 226.10(d)(2) of Regulation Z.

6. Failure in any consumer credit transaction or advertisement, to make all disclosures, determined in accordance with Sections 226.4 and 226.5 of Regulation Z, in the manner, form and amount required by Sections 226.6, 226.7, 226.8, 226.9 and 226.10 of Regulation Z.

It is further ordered, That respondents shall deliver a copy of this order to all of their personnel engaged in the consummation of any extension of consumer credit or engaged in any aspect of the preparation, creation or placing of advertising, and that respondents secure a signed statement acknowledging receipt of said order from each such person.

It is further ordered, That respondents notify the Commission at least thirty (30) days prior to any proposed change in the corporate respondents such as dissolution, assignment or sale resulting in the emergence of a successor corporation, the creation or dissolution of subsidiaries or any other change in the corporations which may affect compliance obligations arising out of this order.

It is further ordered, That the respondents herein shall within sixty (60) days after service upon them of this order, file with the Commission a report, in writing, setting forth in detail the manner and form in which they have complied with this order.

Complaint

81 F.T.C.

IN THE MATTER OF

STEVEN LEWIS, DOING BUSINESS AS THE STEVEN LEWIS
COMPANY, ET AL.CONSENT ORDER, ETC., IN REGARD TO THE ALLEGED VIOLATION OF THE
FEDERAL TRADE COMMISSION ACT*Docket C-2286. Complaint, Sept. 19, 1972—Decision, Sept. 19, 1972.*

Consent order requiring two former Hollywood, California, franchisors of distributorships for cologne and other products and their successor firm, among other things to cease representing the past earnings of distributors or franchisees unless past earnings represent a substantial number of distributors or franchisees; misrepresenting the amount of time and effort respondents will spend to obtain accounts for their distributors or franchisees; misrepresenting the prior experience or necessary training required by distributors or franchisees; misrepresenting the prior experience or necessary training required by distributors or franchisees in order to operate successfully; and misrepresenting the nature, character, performance or efficacy of any product. Respondents are further required to furnish all prospective franchisees with a written statement giving, among other things, rights and obligations of all parties, complete financial details of the agreement, and a list of previous purchasers. Also, franchisees must be allowed five days in which to cancel the contract for any reason with a refund of all monies by respondent.

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act, and by virtue of the authority vested in it by said Act, the Federal Trade Commission, having reason to believe that Steven Lewis, an individual formerly trading and doing business as the Steven Lewis Company, a sole proprietorship; Twenty First Century Industries, Inc., a corporation; and Steven Lewis, individually and as an officer of said corporation, herein referred to as respondents, have violated the provisions of said Act, and it appearing to the Commission that a proceeding by it in respect thereof would be in the public interest, hereby issues its complaint, stating its charges in that respect as follows:

PARAGRAPH 1. Respondent Steven Lewis is an individual formerly trading and doing business as The Steven Lewis Company with its principal office and place of business formerly located at 6565 Sunset Boulevard, Hollywood, California.

Respondent Twenty First Century Industries, Inc., is a corporation organized, existing and formerly doing business under and by virtue of the laws of the State of California, with its principal office and