

responsibilities.

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.

IN THE MATTER OF

GREAT NORTHWEST PACIFIC CORPORATION, ET AL.

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

Docket C-2605. Complaint, Dec. 2, 1974 - Decision, Dec. 2, 1974

Consent order requiring two Beaumont, Tex., automobile dealers, among other things to cease violating the Truth in Lending Act by failing to disclose to consumers, in connection with the extension of consumer credit, such information as required by Regulation Z of the said Act.

Appearances

For the Commission: *Richard H. Gateley.*

For the respondents: *Everett Lord*, Beaumont, Tex.

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act, and of the Truth in Lending Act and the regulation promulgated thereunder, and by virtue of the authority vested in it by said Acts, the Federal Trade Commission having reason to believe that Great Northwest Pacific Corporation, a corporation, doing business as Jerry Watts Motor Company and Jerry Watts, individually, and as an officer of said corporation, and First Continental Realty Company, Inc., a corporation, doing business as Southland Finance and Leasing Company, and J. E. Holleman and Ross Watts, individually and as officers of First Continental Realty Company, Inc., hereinafter sometimes referred to as respondents, have violated the provisions of said Acts and the implementing regulation promulgated under the Truth in Lending 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 Great Northwest Pacific Corporation is a corporation doing business as Jerry Watts Motor Company, organized, existing and doing business under and by virtue of the laws of the State of Texas with its principal office located at 1277 Caulder Avenue, Beaumont, Tex.

Respondent First Continental Realty Company, Inc., is a corporation doing business as Southland Finance and Leasing Company, organized, existing and doing business under and by virtue of the laws of the State of Texas with its principal office located at 1277 Caulder Avenue, Beaumont, Tex.

Respondent Jerry Watts is an individual and is an officer of Great Northwest Pacific Corporation and owns one hundred percent (100%) of the stock of corporate respondent First Continental Realty Company, Inc. He formulates, directs, and controls the policies, acts and practices of both corporate respondents including the acts and practices hereinafter set forth. His address is the same as that of the corporate respondents.

Respondents J. E. Holleman and Ross Watts are individuals and are officers of corporate respondent First Continental Realty Company, Inc. The said individual respondents, at all times mentioned herein, participated in the formation, direction and control of the acts and practices of corporate respondent First Continental Realty Company, Inc., including the acts and practices hereinafter set forth. Their address is the same as that of the corporate respondents.

PAR. 2. Respondents are now and for some time last past have been engaged in the advertising, offering for sale and retail sale and distribution of vehicles to the public.

The titles to the vehicles handled by respondents are in favor of either corporate respondent. Corporate respondent Great Northwest Pacific Corporation, doing business as Jerry Watts Motor Company, arranges any transaction with consumers, and in certain cases, induces consumers to enter into a "Rental-Option To Purchase Agreement" with corporate respondent First Continental Realty Company, Inc., doing business as Southland Finance and Leasing Company. Upon arranging the agreement, respondents transfer the vehicle title to corporate respondent First Continental Realty Company, Inc. When said agreement is terminated, the vehicles covered thereby are repossessed by corporate respondent Great Northwest Pacific Corporation which, acting in combination with the other corporate respondent, offers said vehicles for resale to the public.

PAR. 3. In the ordinary course and conduct of their business as aforesaid, respondents regularly extend or arrange for the extension of 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. 4. Subsequent to July 1, 1969, respondents, in the ordinary course of business as aforesaid, have caused and are causing customers to execute a binding "Rental-Option To Purchase Agreement." The said agreement purports to be a lease contract whereby the "lessee" contracts to pay compensation for use of a vehicle a sum substantially equivalent to or in excess of the value of the vehicle and it is agreed that the "lessee" for a nominal consideration of such a sum as ten dollars (\$10) will become the owner of the vehicle upon full compliance with his obligations under the "lease." Respondents provide no written consumer credit cost disclosures other than those appearing on the "Rental-Option To Purchase Agreement." Such a transaction is a credit sale as "credit sale" is defined in Regulation Z.

PAR. 5. By and through the use of the "Rental-Option To Purchase Agreement," respondents have failed to provide the following consumer credit cost disclosures in writing as required by Section 226.8(b) and (c) of Regulation Z and in the manner set forth in Section 226.6(a) of Regulation Z:

1. The terms required by Section 226.8(b) and (c) clearly, conspicuously and in meaningful sequence in accordance with Section 226.6(a) of Regulation Z.
2. The date on which any finance charge, as that term is defined in Section 226.2(q) of Regulation Z, begins to accrue if different from the date of the transaction as required by Section 226.8(b)(1) of Regulation Z.
3. The finance charge expressed as an annual percentage rate as determined by Section 226.5 using the term "annual percentage rate," as required by Section 226.8(b)(2) of Regulation Z.
4. The number of payments scheduled to repay the indebtedness and the sum of such payments using the term, "total of payments" as required by Section 226.8(b)(3) of Regulation Z.
5. The amount, or method of computing the amount, of any default, delinquency, or similar charges payable in the event of late payments as required by Section 226.8(b)(4) of Regulation Z.
6. A description or identification of the type of any security interest held or to be retained or acquired by the respondents in connection with the extension of credit, and a clear identification of the property to which the security interest relates or, if such property is not identifi-

able, an explanation of the manner in which the respondents retain or may acquire a security interest in such property which the respondents are unable to identify as required by Section 226.8(b)(5) of Regulation Z.

7. The cash price of the property purchased, using the term, "cash price" as required by Section 226.8(c)(1) of Regulation Z.

8. The amount of the downpayment using the term "cash downpayment," when downpayment is in money, as required by Section 226.8(c)(2) of Regulation Z.

9. The amount of the downpayment using the term "trade-in," when the downpayment is in property, as required by Section 226.8(c)(2) of Regulation Z.

10. The sum of the "cash downpayment" and the "trade-in" using the term "total downpayment," as required by Section 226.8(c)(2) of Regulation Z.

11. The difference between the "cash price" and the sum of the "cash downpayment" and "trade-in," using the term "unpaid balance of cash price" as required by Section 226.8(c)(3) of Regulation Z.

12. All other charges, individually itemized, which are included in the amount financed but which are not part of the finance charge as required by Section 226.8(c)(4) of Regulation Z.

13. The sum of the "unpaid balance of cash price" and charges included in the amount financed but which are not part of the finance charge using the term "unpaid balance" as required by Section 226.8(c)(5) of Regulation Z.

14. The "amount financed," as described in Section 226.8(c)(7) of Regulation Z.

15. The total amount of the finance charge, with a description of each amount included, using the term "finance charge," as required by Section 226.8(c)(8) of Regulation Z.

16. The sum of the "cash price," all other charges as described in Section 226.8(c)(4) and the "finance charge" described in Section 226.8(c)(8)(i), using the term "deferred payment price" as required by Section 226.8(c)(8)(ii) of Regulation Z.

PAR. 6. By and through the use of the "Rental-Option To Purchase Agreement," respondents have failed to identify each creditor to the transaction, as "creditor" is defined in Section 226.2(m) of Regulation Z, in accordance with Section 226.6(d) of Regulation Z.

PAR. 7. By the aforesaid failure to make the disclosures in the "Rental-Option To Purchase Agreement" in the manner and form required by Regulation Z, as set forth in Paragraph Five hereof, respondents failed to comply with the requirements of Regulation Z of the Truth in Lending Act duly promulgated by the Board of Governors of

the Federal Reserve System. Pursuant to Section 105 of that Act, such failure to comply constitutes a violation of the Truth in Lending Act and, pursuant to Section 108 thereof, respondents thereby violated the Federal Trade Commission Act.

DECISION AND ORDER

The Federal Trade Commission having initiated an investigation of certain acts and practices of the respondents named in the caption hereof, and the respondents having been furnished thereafter with a copy of a draft of complaint which the Dallas Regional Office proposed to present to the Commission for its consideration and which, if issued by the Commission, would charge respondents with violation of the Federal Trade Commission Act; and

The respondents and counsel for the Commission having thereafter executed an agreement containing a consent order, an admission by the respondents of all the jurisdictional facts set forth in the aforesaid draft of complaint, 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 thereafter considered the matter and having determined that it had reason to believe that the respondents have violated the said Act, and that complaint should issue stating its charges in that respect, and having thereupon accepted the executed consent agreement and placed such agreement on the public record for a period of sixty (60) days, now in further conformity with the procedure prescribed in Section 2.34(b) of its rules, the Commission hereby issues its complaint, makes the following jurisdictional findings, and enters the following order:

1. Respondent Great Northwest Pacific Corporation is a corporation doing business as Jerry Watts Motor Company, organized, existing and doing business under and by virtue of the laws of the State of Texas, with its office and principal place of business located at 1277 Caulder Avenue, city of Beaumont, State of Texas.

Respondent First Continental Realty Company, Inc. is a corporation doing business as Southland Finance and Leasing Company, organized, existing and doing business under and by virtue of the laws of the State of Texas, with its office and principal place of business located at 1277 Caulder Avenue, city of Beaumont, State of Texas.

Respondent Jerry Watts is an individual and an officer of Great

Northwest Pacific Corporation. He formulates, directs and controls the policies, acts and practices of said corporation, and his principal office and place of business is located at the above stated address.

Respondents J. E. Holleman and Ross Watts are individuals and are officers of corporate respondent First Continental Realty Company, Inc. At all times mentioned herein they participated in the formation, direction and control of the acts and practices of corporate respondent First Continental Realty Company, Inc., and their principal office and place of business is located at the above stated address.

2. 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 Great Northwest Pacific Corporation, a corporation, and First Continental Realty Company, Inc., a corporation, their successors and assigns, and their officers, and Jerry Watts, individually and as an officer of Great Northwest Pacific Corporation and J. E. Holleman and Ross Watts, individually and as officers of First Continental Realty Company, Inc., and respondents' agents, representatives and employees, in connection with any extension of consumer credit as "consumer credit" is 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. Failing to disclose the terms required by Section 226.8(b) and (c) clearly, conspicuously and in meaningful sequence in accordance with Section 226.6(a) of Regulation Z.

2. Failing to disclose the date on which any finance charge, as that term is defined in Section 226.2(q) of Regulation Z, begins to accrue if different from Section 226.8(b)(1) of Regulation Z.

3. Failing to disclose the finance charge expressed as an annual percentage rate as determined by Section 226.5 using the term "annual percentage rate," as required by Section 226.8(b)(2) of Regulation Z.

4. Failing to disclose the number of payments scheduled to repay the indebtedness and the sum of such payments using the term, "total of payments" as required by Section 226.8(b)(3) of Regulation Z.

5. Failing to disclose the amount, or method of computing the amount, of any default, delinquency, or similar charges payable in the event of late payments as required by Section 226.8(b)(4) of Regulation Z.

6. Failing to disclose a description or identification of the type of any security interest held or to be retained or acquired by the respondents in connection with the extension of credit, and a clear identification of the property to which the security interest relates or, if such property is not identifiable, an explanation of the manner in which the respondents retain or may acquire a security interest in such property which the respondents are unable to identify as required by Section 226.8(b)(5) of Regulation Z.

7. Failing to disclose the cash price of the property purchased, using the term "cash price" as required by Section 226.8(c)(1) of Regulation Z.

8. Failing to disclose the amount of the downpayment using the term "cash downpayment," when downpayment is in money, as required by Section 226.8(c)(2) of Regulation Z.

9. Failing to disclose the downpayment using the term "trade-in," when the downpayment is in property, as required by Section 226.8(c)(2) of Regulation Z.

10. Failing to disclose the "cash downpayment" and the "trade-in" using the term "total downpayment," as required by Section 226.8(c)(2) of Regulation Z.

11. Failing to disclose the difference between the "cash price" and the sum of the "cash downpayment" and "trade-in," using the term "unpaid balance of cash price" as required by Section 226.8(c)(3) of Regulation Z.

12. Failing to disclose all other charges, individually itemized, which are included in the amount financed but which are not part of the finance charges as required by Section 226.8(c)(4) of Regulation Z.

13. Failing to disclose the sum of the "unpaid balance of cash price" and charges included in the amount financed but which are not part of the finance charge using the term "unpaid balance" as required by Section 226.8(c)(5) of Regulation Z.

14. Failing to disclose the "amount financed," as described in Section 226.8(c)(7) of Regulation Z.

15. Failing to disclose the total amount of the finance charge, with a description of each amount included using the term "finance charge," as required by Section 226.8(c)(8) of Regulation Z.

16. Failing to disclose the sum of the "cash price," all other charges as described in Section 226.8(c)(4) and the "finance charge" described in Section 226.8(c)(8)(i), using the term "deferred payment price" as required by Section 226.8(c)(8)(ii) of Regulation Z.

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

18. Failing to identify each creditor to the transaction as required by Section 226.6(d) of Regulation Z.

It is further ordered, That respondents prominently display the following notice in two or more locations in that portion of respondents' business premises most frequented by prospective customers, and in each location where customers normally sign consumer credit documents or other binding instruments. Such notice shall be considered prominently displayed only if so positioned as to be easily observed and read by the interested individuals:

NOTICE TO CREDIT CUSTOMERS

IF THE DEALER IS FINANCING OR ARRANGING THE FINANCING OF YOUR PURCHASE, YOU ARE ENTITLED TO CONSUMER CREDIT COST DISCLOSURES AS REQUIRED BY THE FEDERAL TRUTH IN LENDING ACT. THESE MUST BE PROVIDED TO YOU IN WRITING BEFORE YOU ARE ASKED TO SIGN ANY DOCUMENT OR OTHER PAPERS WHICH WOULD BIND YOU TO SUCH A PURCHASE.

It is further ordered, That respondents deliver a copy of this order to cease and desist to all present and future personnel of respondents engaged in the arranging or consummation of any extension of consumer credit or in any aspect of the preparation, creation or placing of advertising and that respondents secure a signed statement from each such person that he has read and understands such order.

It is further ordered, That in the event either corporate respondent transfers all or a substantial part of its business or assets to any other corporation or to any other person, that respondent corporation shall require said successor or transferee to file promptly with the Commission a written agreement to be bound by the terms of this order; *Provided,* That if that respondent corporation wishes to present to the Commission any reasons why said order should not apply in its present form to said successor or transferee, it shall submit to the Commission a written statement setting forth said reasons prior to the consummation of said succession or transfer.

It is further ordered, That the individual respondents named herein promptly notify the Commission of the discontinuance of their present business or employment and of their affiliation with a new business or employment. Such notice shall include the respondents' current business

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address and a statement as to the nature of the business or employment in which they are engaged as well as a description of their duties and responsibilities.

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 corporation which may affect compliance obligation arising out of the 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.
