

IN THE MATTER OF  
HALLCRAFT JEWELERS, INC., ET AL.

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

*Docket 9086. Complaint, July 20, 1976—Decision, May 9, 1977*

This consent order, among other things, requires a Levittown, Pa., retailer of watches and jewelry, and its subsidiaries to cease misrepresenting an affiliation with the Government or the Armed Forces; the quality and prices of their merchandise; and their business methods and services. Respondents are required to advise customers of cancellation and refund rights; furnish Spanish translations of pertinent documents, where applicable; and, in connection with consumer credit, cease failing to disclose such information as is required by Regulation Z of the Truth in Lending Act. Further, respondents, in the collection of debts, are prohibited from threatening fictitious disciplinary action, or otherwise engaging in the acts and practices proscribed in the order.

*Appearances*

For the Commission: *Michael Dershowitz.*

For the respondents: *Richard A. Bookspany, Stark & Stark,*  
Trenton, N.J.

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act, as amended, and of the Truth in Lending Act and the implementing regulation promulgated thereunder, and by virtue of the authority vested in it by said Acts, the Federal Trade Commission, having reason to believe that Hallcraft Jewelers, Inc., a corporation, Hallcraft Jewelers, Inc. of New Jersey, a corporation, Crest Clothiers, Inc., a corporation, also trading and doing business as Crest Collection Agency, and Donald J. Bound, individually and as an officer of said corporations, 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 Hallcraft Jewelers, Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the Commonwealth of Pennsylvania. It dominates and controls the acts and practices of its wholly-owned subsidiaries

Hallcraft Jewelers, Inc. of New Jersey and Crest Clothiers, Inc., which are corporations organized and doing business under and by virtue of the laws of the State of New Jersey. Respondent Crest Clothiers, Inc., also trades and does business as Crest Collection Agency. All of the above-named corporate respondents have their principal offices and places of business at 7022 Bristol Pike, Levittown, Pennsylvania.

Respondent Donald J. Bound is an officer of each of the corporate respondents named herein. He formulates, directs and controls the acts and practices of said corporate respondents including the acts and practices hereinafter set forth. His address is the same as that of said corporations.

The aforementioned respondents (hereinafter sometimes collectively referred to as Hallcraft Jewelers) cooperate and act together in carrying out the acts and practices hereinafter set forth.

PAR. 2. Respondents are now, and for some time last past have been engaged in the manufacture of jewelry and the advertising, offering for sale, sale and distribution of jewelry and watches, as well as the collection of accounts resulting from the retail sale of such merchandise from various retail outlets located throughout the United States and adjacent to military bases.

PAR. 3. In the course and conduct of their aforesaid business, respondents are now, and for some time last past have been, engaged in shipping merchandise for retail sale from their principal place of business in the Commonwealth of Pennsylvania to various retail outlets located throughout the United States. Respondents also ship merchandise directly from their principal place of business to persons located throughout the United States and the District of Columbia, through the facilities of the United States Postal Service. Respondents also use the same facilities to mail collection forms and letters from their principal place of business to alleged debtors located throughout the United States and the District of Columbia and in various foreign countries.

Accordingly, respondents have maintained, and now maintain, a substantial course and conduct of business in or affecting commerce, as "commerce" is defined in the Federal Trade Commission Act, as amended.

#### COUNT I

Alleging violations of Section 5 of the Federal Trade Commission Act, the allegations of Paragraphs One, Two and Three hereof are incorporated by reference in COUNT I as if fully set forth verbatim.

PAR. 4. In the course and conduct of their aforesaid business, and

for the purpose of inducing the purchase of their products and services, respondents and their employees, salesmen, representatives, licensees, franchisees or contractors have represented and now represent, directly or by implication in oral solicitations to prospective customers that:

1. Hallcraft Jewelers is affiliated with or has some official relationship with the United States Government or the United States Armed Forces.

In order to enhance the above representation, respondents have made or make the following typical and illustrative, but not all-inclusive additional oral representations:

(a) Hallcraft Jewelers does not have to charge state sales tax with the sale of its merchandise.

(b) Hallcraft Jewelers can offer low prices for its merchandise because it is affiliated with Military Post Exchanges.

(c) Hallcraft Jewelers is the exclusive jewelry dealer for military personnel.

(d) Hallcraft Jewelers merchandise is either inspected or approved by military personnel.

(e) Hallcraft Jewelers registers the diamonds it offers for sale with the United States Government.

2. Upon payment and fulfillment of a debt to Hallcraft Jewelers purchasers are promised or may receive an "AAA credit rating," as evidenced by a printed card to that effect, which enables purchasers to then purchase merchandise on credit from merchants other than Hallcraft Jewelers.

PAR. 5. In truth and in fact:

1. Hallcraft Jewelers is not affiliated with, nor has any official relationship with the United States Government or the United States Armed Forces.

(a) Hallcraft Jewelers may not have to charge state sales tax with the purchase of its merchandise, not because it is affiliated with or has some official relationship with the United States Government or the United States Armed Forces, but rather because Hallcraft Jewelers may not have a store in the state in which its merchandise is being mailed.

(b) Hallcraft Jewelers is not affiliated with Military Post Exchanges and cannot for that reason offer lower prices for its merchandise. In fact, Hallcraft Jewelers charges higher prices for its merchandise than Military Post Exchanges do for the same or similar merchandise.

(c) Hallcraft Jewelers is not the exclusive jewelry dealer for military personnel.

(d) Hallcraft Jewelers merchandise is neither officially inspected nor approved by military personnel.

(e) Hallcraft Jewelers does not register the diamonds it offers for sale with the United States Government.

2. The "AAA credit rating" that purchasers of Hallcraft Jewelers merchandise are promised or may receive, will rarely, if ever, in and of itself enable purchasers to buy merchandise on credit from merchants other than Hallcraft Jewelers. In fact, the promise or granting of such ratings only constitutes a further attempt by respondents to falsely induce the purchase of their merchandise.

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

PAR. 6. In the further course and conduct of their aforesaid business, and for the purpose of inducing the purchase of their products and services, respondents have made and are now making, numerous statements and representations in various printed materials which respondents present to prospective or actual purchasers.

Typical and illustrative of said statements and representations, but not all-inclusive thereof, are the following:

We use only the finest diamonds available.

To insure quality and avoid substitution of inferior gems, we certify that every diamond in your merchandise has been carefully examined under a 30-POWER DIAMOND LOUPE before mounting to guarantee brilliance, color, cut and clarity.

\* \* \* \* \*

Hallcraft operates under a "military code of business ethics,"\* \* \*[which provides that]

We will make no misrepresentations to customers regarding our business or services.

We will conceal no material fact, either directly or indirectly, which could cause a customer to be misled as to quality of merchandise, nature of service or terms of sale.

We will avoid any practice which might place this business under investigation by the Armed Forces Disciplinary Control Board, realizing that this Board has the duty to place any establishment which it finds engaged in unfair, immoral or illegal practices, off limits to military personnel.

\* \* \* \* \*

No unjustified, insulting or ridiculous letters of indebtedness are ever sent to customers or their commanding officers. Many a promising military career has been ruined by unscrupulous merchants, who have written letters to commanding officers on unjustified debts.

PAR. 7. By and through the use of the above-quoted statements and representations, and others of similar import and meaning, but not expressly set out herein, respondents have represented, and are now representing, directly or by implication, that:

1. Respondents sell only the finest diamonds available.
2. Respondents examine every diamond they sell under a 30-power diamond loupe before mounting which enables them to guarantee the brilliance, color, cut and clarity of diamonds sold.
3. Because respondents operate under a military code of business ethics, they are affiliated with or have some official relationship with the United States Armed Forces.
4. Because respondents operate under a military code of business ethics, it is unlikely that respondents will make any misrepresentations to customers regarding their business or services.
5. Because respondents operate under a military code of business ethics, it is unlikely that respondents will conceal material facts, either directly or indirectly, which could cause a customer to be misled as to quality of merchandise, nature of service or terms of sale.
6. Because respondents operate under a military code of business ethics, it is unlikely that respondents will engage in any practice which might place them under investigation by the Armed Forces Disciplinary Control Board, realizing that this Board has the duty to place any establishment which it finds engaged in unfair, immoral or illegal practices, off limits to military personnel.
7. Because of the serious consequences involved with sending letters of indebtedness to customers and their commanding officers, respondents will refrain from doing so, at least in the ordinary course and conduct of their business.

PAR. 8. In truth and in fact:

1. Respondents do not sell the finest diamonds available; in many instances, they sell a much lower quality grade of diamonds.
2. Examination of diamonds before mounting by respondents, under a 30-power diamond loupe, will not guarantee the brilliance, color, cut or clarity of diamonds. In fact, 30-power loupes are not ordinarily used in the industry for diamond examination.
3. Respondents are not affiliated with nor have any official relationship with the United States Armed Forces, and their use of the word "military" in conjunction with a code of business ethics is a misrepresentation of respondents' status or affiliations.
4. In disregard of their alleged adherence to a military code of business ethics, respondents have and are making numerous misrepresentations to customers regarding their business or services.
5. In disregard of their alleged adherence to a military code of

ethics, respondents have and are concealing material facts, either directly or indirectly, which cause customers to be misled as to quality of merchandise, nature of service or terms of sale.

6. In disregard of their alleged adherence to a military code of business ethics, respondents have engaged and are engaged in practices which have resulted in their being placed under investigation by the Armed Forces Disciplinary Control Board and in fact, the Board has exercised its duty to place respondents' place of business in various locations off limits to military personnel after finding that respondents engaged in unfair, immoral, or illegal practices.

7. Respondents have not refrained from sending numerous letters of indebtedness to customers and their commanding officers and in fact, respondents have and are sending numerous such letters to other third parties as well, in the ordinary course and conduct of their business.

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

PAR. 9. In the further course and conduct of their aforesaid business, and for the purpose of inducing the purchase of their products and services, respondents and their employees, salesmen, representatives, licensees, franchisees or contractors have engaged and are engaged in the following unfair, false, misleading and deceptive acts and practices:

By and through the use of the false, misleading and deceptive statements, representations and practices set forth in Paragraphs Four, Six and Seven, above, and through the use of high pressure sales methods predicated upon a child's love for his parents or some other loved one, respondents or their representatives have been able to induce customers into signing a contract upon initial contact without giving the customer sufficient time to carefully consider the purchase and consequences thereof.

PAR. 10. In the course and conduct of their aforesaid business, and in furtherance of a program for inducing the payment of alleged delinquent accounts by purchasers of jewelry and watches, pursuant to contracts with Hallcraft Jewelers, respondents have made, and are now making, numerous statements and representations in printed forms and letters and other printed material which respondents mail, or cause to be mailed, to alleged delinquent debtors.

Typical and illustrative of said statements and representations, but not all-inclusive thereof, are the following:

1. Statements and representations on the inside of Hallcraft Jewelers series of dunning envelopes:

A letter to your Commanding Officer will be written if you ignore this letter.

Re LEGAL PROCEEDINGS

\* \* \* \* \*

\* \* \*our attorneys are now in the process of enforcing said Articles.

\* \* \* \* \*

Such proceedings and legal fees can be stopped only by a remittance of at least \$40. within 10 days,\* \* \*

Should you fail to remit or reply, your will force us to turn your account over to THE CREST COLLECTION AGENCY without further notice to you.

2. Statements and representations on forms and letters with the letterhead "Hallcraft Jewelers, Inc.:"

Be advised, due to the serious delinquent condition of your account, it has now been transferred to the legal department.

Should you decide not to cooperate, to bring about liquidation of your account, litigation by this department will be initiated and all legal avenues available to us will be used.

Seymour Cohen,  
Legal Department

The second copy [of a complete report of our efforts to attain liquidation of the balance] will be delivered to the local credit bureau's (sic) of all concerned.

[A third letter] will be sent to the Adjutant General, Washington, D.C. If sent, there is no doubt, disciplinary action will result.

Be advised, litigation against the above named individual and yourself has been initiated.

If it becomes necessary to take action to either collect the amount past due on your account, or to repossess our merchandise through the civil courts, please be advised that all court costs and attorney fees will be paid by you, as stated in terms of the Conditional Sales Contract, signed by you at the time of purchase.

3. Statements and representations on forms and letters with the letterhead "Crest Collection Agency, P.O. Box 185, Burlington, New Jersey 18016:"

Your delinquent account with the above named company has been transferred to the Crest Collection Agency for collection purposes.

To avoid the embarrassment of having a credit investigation conducted in your local area, plus the possibility of having a collection agent coming to your home, we again implore you to lend us your cooperation.

\* \* \*To protect ourselves and our affiliates we do hereby notify you that after ten

(10) days from date hereof we disclaim all liability of the part of ourselves and our affiliates for any loss of position, injury to prestige, credit standing, reputation or influence, or any other damage caused you by the just and fair prosecution of this claim to a full and complete settlement thereof.

In boldface type headings, sometimes in Latin:

PEREMPTORY NOTICE

DISCLAIMER OF LIABILITY

DRAFT DEPOSITION NOTA BENE

Along with a masthead insignia which depicts an eagle, a stars and stripes shield and the scales of justice.

PAR. 11. By and through the use of the above-quoted statements and representations, and others of similar import and meaning but not expressly set out herein, respondents have represented, and are now representing, directly or by implication, that:

1. If payment is not made, respondents will notify the debtor's superior officers and disciplinary action will result.
2. If payment is not made, respondents will initiate legal proceedings against the debtor.
3. Because payment had not been made, respondents have initiated legal proceedings against the debtor.
4. If payment is not received within the time specified by respondents, some immediate action will be taken by respondents to collect a debt, such as notification of superior officers or turning over accounts to a collection agency.
5. Respondents maintain a legal department.
6. If respondents seek to collect a debt or repossess their merchandise through the civil courts, the Conditional Sales Contract between respondents and debtor provides that the debtor pay all court costs and attorneys fees.
7. If payment is not made, the debtor's account will be turned over to an independent collection agency retained by respondents to collect respondents' delinquent accounts.
8. If payment is not made, the debtor's account will be turned over to a local credit bureau and the local credit bureaus of his relatives, references and recipients of the purchased merchandise.
9. If payment is not made, respondents will cause a credit investigation to be conducted in the debtor's local area with the possibility that a collection agent will call at his home.
10. Respondents can validly disclaim all liability for the possible consequences of their actions taken against the debtor, including his



loss of position, injury to prestige, credit standing, reputation or influence, or any other damages caused the debtor.

11. Respondents' communications to debtors constitute legal process forms.

PAR. 12. In truth and in fact:

1. Notification of the debtor's superior officers by respondents will rarely, if ever, result in disciplinary action taken against the debtor.

2. Respondents rarely initiate legal proceedings against debtors.

3. Respondents do not take immediate action to collect debts if payment is not received within the time specified; only further threatening forms and letters are sent to debtors.

4. Respondents do not maintain a legal department.

5. When respondents attempt to collect a debt or repossess their merchandise through the civil courts, the Conditional Sales Contract between respondents and debtor does not provide that the debtor pay all court costs and attorneys fees, but in fact, provides that the debtor pay attorneys fees in an amount not exceeding 10 percent of the balance due on a debt.

6. Debtors' accounts are not turned over to an independent collection agency, but are rather turned over to the Crest Collection Agency, a component of the single business entity operated as an integrated operation by respondent Donald J. Bound; and its different mailing address from Hallcraft Jewelers, Inc. is a further misrepresentation of respondents' actual business organization.

7. Debtors' accounts are rarely, if ever, turned over to a local credit bureau and are never turned over to the local credit bureaus of relatives, references or recipients of the purchased merchandise.

8. Respondents rarely, if ever, cause a credit investigation to be conducted in the debtor's local area with a collection agent calling at his home.

9. Respondents cannot validly disclaim all liability for the possible consequences of their actions against debtors; debtors have the right to a trial to establish any damages possibly suffered by them. Respondents make this claim only to impliedly threaten debtors with the very possibilities described, in order to further harass and intimidate them.

10. Respondents' communications to debtors do not constitute legal process forms.

Therefore, the statements and representations as set forth in Paragraphs Ten and Eleven hereof were and are false, misleading and deceptive.

PAR. 13. In the further course and conduct of their aforesaid

business, and in furtherance of a program for inducing the payment of alleged delinquent accounts by purchasers of jewelry and watches, pursuant to contracts with Hallcraft Jewelers, Inc., respondents have engaged, and are now engaging in the act and practice of communicating with various third parties concerning the alleged indebtedness. By such communication, respondents have also demanded and are now demanding of such third parties, either directly or by implication, that full or partial payment be made by them to liquidate the alleged indebtedness. Respondents have contacted, and are now contacting, members of the United States Armed Forces, debtors' relatives, references and recipients of purchased merchandise.

Typical and illustrative of such contact and statements and representations found therein, but not all-inclusive thereof, are the following:

1. On forms and letters with the letterhead "Hallcraft Jewelers, Inc." and "Crest Collection Agency" sent to members of the United States Armed Forces:

In the interest of settling the delinquent account of the above named individual, we respectfully request your assistance.

In reference to the above-named individual, we are asking that a member of your staff counsel this man with regard to his obligation to this company.

It would be appreciated if the subject could be counseled with regard to the advantages of voluntary repossession of purchased item(s), and obtain from him, his statement of release.

We are familiar with Military Regulations concerning an individual's responsibility to creditors and equally familiar with the limits you have as a Commander in such matters. Therefore, we are not asking you to act as a collection agent, but rather, as an intermediary between Crest Collection Agency and the debtor.

2. On the inside of Hallcraft Jewelers dunning envelopes and on forms and letters with the letterhead "Crest Collection Agency" sent to debtors:

Copy Sent to Legal Home Address and Holder of Merchandise.

3. On the inside of Hallcraft Jewelers, Inc. dunning envelopes and on forms and letters with the letterhead "Hallcraft Jewelers, Inc." sent to the recipients of merchandise and a debtor's legal home address:

This serious action and embarrassment can be stopped only by the immediate receipt of \$40.

Such proceedings and legal fees can be stopped only by a remittance of at least \$40. within 10 days\* \* \*

\* \* \*we have found it necessary. to send the first letter of indebtedness to the above-mentioned individual's Commanding Officer. Please do not underestimate this action for it can cause serious consequences with regards to his Military records\* \* \*

If you wish to interdict this action in the interest of assisting the above individual, please remit at least \$40. before the 20th of this month, along with arrangements to liquidate the remaining balance.

The second copy [of a complete report of our efforts to attain liquidation of the balance] will be delivered to the local credit bureau's (sic) of all concerned.

Be advised, litigation against the above-named individual and yourself has now been initiated. You have been named as the holder of merchandise still encumbered by this company and subsequently will be named as the co-defendant in legal proceedings now being prepared.

PAR. 14. The aforesaid acts and practices of respondents as described in Paragraph Thirteen hereof has had, and now has, the capacity and tendency to cause alleged delinquent debtors and various third parties contacted by respondents to feel coerced, pressured and embarrassed, their private affairs to be interfered with and their integrity to be undermined. Therefore, the use by respondents of such acts and practices is, and was, unfair.

PAR. 15. The use by respondents of the aforesaid false, misleading and deceptive statements and representations has had, and now has, the capacity and tendency to mislead members of the public into the erroneous and mistaken belief that said statements and representations were, and are, true, and into the payment of alleged debts by reason of said erroneous and mistaken belief.

PAR. 16. In the course and conduct of their aforesaid business, and at all times mentioned herein, respondents have been, and now are, in substantial competition, in commerce, with corporations, firms and individuals engaged in the sale of products and services of the same general kind and nature as those sold by the respondents.

PAR. 17. The aforesaid acts and practices of the respondents, as herein alleged, were, and are, all to the prejudice and injury of the public and of respondents' competitors and constituted, and now constitute, unfair methods of competition in or affecting commerce

and unfair and deceptive acts and practices in or affecting commerce in violation of Section 5 of the Federal Trade Commission Act, as amended.

## COUNT II

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

PAR. 18. In the course and conduct of their aforesaid business, respondents regularly extend, and for some time past have regularly extended, 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. 19. Subsequent to July 1, 1969, respondents, in the course and conduct of their aforesaid business, and in connection with their credit sales, as "credit sale" is defined in Regulation Z, have caused and are causing customers to execute binding conditional sales contracts, hereinafter referred to as the "Contract." Respondents do not provide these customers with any other consumer credit cost disclosures.

By and through the use of the Contract, respondents:

1. Fail to use the term "cash price" as defined in Section 226.2(i) of Regulation Z, to describe the purchase price of the merchandise or service, as required by Section 226.8(c)(1) of Regulation Z.
2. Fail to use the term "cash downpayment" to describe the downpayment in money made in connection with the credit sale, as required by Section 226.8(c)(2) of Regulation Z.
3. Fail to use the term "unpaid balance of cash price" to describe the difference between the cash price and the total downpayment, as required by Section 226.8(c)(3) of Regulation Z.
4. Fail to use the term "amount financed" to describe the amount of credit extended, as required by Section 226.8(c)(7) of Regulation Z.
5. Fail to use the term "deferred payment price" to describe the sum of the cash price, all charges which are included in the amount financed but which are not part of the finance charge, and the finance charge, as required by Section 226.8(c)(8)(ii) of Regulation Z.
6. Fail to use the term "total of payments" to describe the sum of the payments scheduled to repay the indebtedness, as required by Section 8(b)(3) of Regulation Z.
7. Fail to properly disclose the amount, or method of computing

the amount, of a delinquency charge payable in the event of late payments, as required by Section 226.8(b)(4) of Regulation Z.

8. Fail to make all required disclosures together on either the note or other instrument evidencing the obligation on the same side of the page and above or adjacent to the place for the customer's signature, or on one side of a separate statement which identifies the transaction, as required by Section 226.8(a) of Regulation Z.

PAR. 20. Subsequent to July 1, 1969, respondents have caused to be disseminated through the mail, advertisements, as "advertisement" is defined in Section 226.2(b) of Regulation Z, to aid, promote, or assist directly or indirectly consumer credit sales of merchandise of various types.

By and through the use of the advertisement, respondents disclose one or more of the credit terms listed in Section 226.10(d)(2) of Regulation Z without also clearly and conspicuously disclosing the additional credit terms required by and set forth in paragraphs (i) through (v) of Section 226.10(d)(2) in terminology prescribed under Section 226.8 of Regulation Z.

PAR. 21. Subsequent to October 28, 1974, respondents have caused to be disseminated through the mail, advertisements, as "advertisement" is defined in Section 226.2(b) of Regulation Z, to aid, promote or assist directly or indirectly consumer credit sales of merchandise of various types. These consumer credit sales were repayable in more than four installments without the imposition of a separately stated finance charge. Certain of these advertisements have failed to state clearly and conspicuously, as required by Section 146 of the Truth in Lending Act and Section 226.10(f) of Regulation Z, the disclosure: "THE COST OF CREDIT IS INCLUDED IN THE PRICE QUOTED FOR THE GOODS AND SERVICES."

PAR. 22. 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(c) of the Truth in Lending Act, respondents have thereby engaged in unfair or deceptive acts or practices in or affecting commerce in violation of Section 5 of the Federal Trade Commission Act, as amended.

#### DECISION AND ORDER

The Federal Trade Commission having heretofore issued its complaint charging the respondents named in the caption hereto with violation of Section 5 of the Federal Trade Commission Act, as amended, and of the Truth in Lending Act and the implementing regulation promulgated thereunder, and the respondents having

