The growth of the consumer credit agency and its place in the economic structure with special reference to small loans.

Donoghue, Lawrence William

Boston University
The Growth of the Consumer Credit Agency and its Place in the Economic Structure with Special Reference to Small Loans

by

Lawrence William Donoghue
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INTRODUCTION

This thesis attempts to explain how the various consumer credit organizations function, what their charges are, and who is eligible for a loan with the particular object, to clarify for the reader the entire small loan field.

It is important that the consumer know the various sources of credit, their charges and methods of doing business in order that full advantage may be taken of favorable terms and low cost. As a result of the complete ignorance on the part of the average person seeking a loan, he is at the mercy of whatever loan agency he seeks to do business with. Some agencies are honest—some dishonest. Obviously he should be protected against the dishonest and to a great extent the law does this. But, among the honest, there are many varieties of interest rates, and terms. It is here that the borrower must acquire sufficient knowledge to make a wise choice.

Some excellent publications on various phases of consumer credit have been published and among them are: Bergengren, Roy F., Cuna Emerges, Clark, Evans, Financing the Consumer, Herzog, Peter W., The Morris Plan of Industrial Banking, Levine, Samuel W., The Law of Pawnbroking, Neifeld, M. R., Cooperative Consumer Credit and The Personal Finance Business, Robinson, Louis N. and Nugent, Rolf,
Regulation of the Small Loan Business, Robinson, Louis N. and Stearns, Maude E., Ten Thousand Small Loans.

The purpose of this study is to consolidate all the important and non-technical information in these and other publications (supplemented by first-hand information on phases not covered) under one cover so that it will be available in a consolidated and easily understandable manner. It would unnecessarily confuse the non-technical reader if he had to seek his information from a number of scattered sources and in all probability he would give up his quest for knowledge. In addition, there is a wealth of charts available in these publications which give all sorts of admirable statistics about every phase of consumer credit, which, although of great value to those working in the field of consumer credit, are only confusing and of no value to the ordinary person trying to find out what is the best and cheapest source for a loan.

In approaching this subject I have taken what I consider the points of greatest interest to the reader and treated them as subheads under each of the chapters, hoping, by this method, to facilitate the location of information. In the chapter on Axias, little information other than a sketchy outline, has been given because this type of loan agency is not important nor available to the general public and the variety of modifications it assumes would occupy too much space and serve no useful purpose. I have not arranged the chapters in the order of their importance
but rather in the order that will insure the easiest approach to the understanding of the next chapter. Pawnbroking, which has an interesting historical background and is one of the simplest forms of loan operations has been placed first to initiate the reader into the background of lending. Following this comes the chapter on unlicensed lending enabling the reader to acquire an idea of the problem of usurious and unregulated lending. The remaining chapters follow along easily each aiding in the understanding of the next.
DEVELOPMENT OF CONSUMER CREDIT

Scope of Consumer Credit

Consumer credit is a term designating the field of credit primarily in small amounts not used for productive purposes but rather for goods or services absorbed directly by the borrower. The three major divisions of the consumer credit field are instalment sales, retailers' open accounts, and small loans. Installment sales are indirect forms of credit made to purchasers by extending the time payment by means of periodic payments toward the value of the purchase. Retailers' open accounts differ from installment sales in being primarily, outright purchases which are paid for in full, generally within 30-90 days. This latter type of credit becomes involved when subsequent purchases are added to previous ones and a balance occurs which is carried forward into the next payment period. A small loan is credit extended in cash in amounts under $300 and repaid, in the majority of instances, by periodic payments.

The total amount of credit extended by installment transactions is about $4,000,000,000, and about $2,500,000,000 by small loan agencies. The size of the group served by small loan agencies is about 28,000,000 people. 1

The chart on the next page will give some idea of the amount of credit extended by the different agencies in 1936.

Estimated Consumer Loans Made During 1936 and Outstandings At The End of That Year

<table>
<thead>
<tr>
<th>Personal Finance companies</th>
<th>Loans Made</th>
<th>$423,000,000</th>
<th>Loans Outstand.</th>
<th>$286,000,000</th>
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<tr>
<td>Industrial banks</td>
<td></td>
<td>$350,000,000</td>
<td></td>
<td>$234,000,000</td>
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<td>Personal loan departments of banks</td>
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<td>$129,000,000</td>
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<td>$160,000,000</td>
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<td></td>
<td>$165,000,000</td>
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<td>$110,000,000</td>
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<td>Credit unions</td>
<td></td>
<td>$30,000,000</td>
<td></td>
<td>$55,000,000</td>
</tr>
<tr>
<td>Remedial loan societies</td>
<td></td>
<td>$54,000,000</td>
<td></td>
<td>$34,000,000</td>
</tr>
</tbody>
</table>

| Total loans                | $1,427,000,000| $966,000,000 |
| Retail instalment sales    | $8,100,000,000| $1,500,000,000|
| Retail open accounts       | $4,500,000,000| $2,600,000,000|

| Total merchandize credit   | $12,600,000,000| $4,100,000,000|
| Total consumer credit      | $14,027,000,000| $5,066,000,000|

Under present economic conditions it is necessary that the consumer receive some sort of credit either in the form of instalment purchases, retailers' open accounts, or loans. With the development of the automobile, radio, and various electrical appliances, the manufacturer has had to find a way to provide these high-priced articles to consumers on some basis that would enable their purchase. In the majority of instances no funds had been accumulated in sufficient size to make a purchase on a cash basis possible. The instalment sales idea solved the problem. The manufacturer could secure a market for his expensive product and the consumer could obtain it and pay small sums toward its purchase price while he had the use of it. In addition, the consumer was forced to put aside these periodic sums to insure that the pleasures

he was now receiving from the use of the article would not cease because it had been repossessed upon failure to make the instalment payments.

Such a happy situation for the manufacturer and the consumer became clouded by abuses. Retailers in their desire for greater profits began to oversell and neglected the two basic principles of ability to assume additional financial commitment and character. With the sword of repossessing as a means of enforcement, retailers vied with one another in grabbing as much of the consumers' credit as possible and sometimes relying upon payment by using harsher methods of collection than competitors. It was not long before it was evident that losses were going to be considerable and to counteract this, retail prices were advanced to a point where there was a sufficient margin to make it profitable to assume this risk. Coupled with heavy finance charges, this situation enabled unscrupulous dealers to secure tremendous profits. The unwary purchaser then assumed a financial obligation which was far in excess of the value of the purchase and in addition, all the worries incident to unwise commitments which, had true cognizance of his financial ability been made, should never have been incurred.

A similar situation developed with charge accounts. Retailers found they could obtain larger sales if they extended the privilege of making purchases and paying for them at a later period without an additional charge. In a similar manner it developed that the administration expense connected with open accounts accompanied with the losses occasioned by
bad debts made this type of credit expensive, and therefore, cash prices raised imperceptible to a point where a sufficient profit was obtained for the risk involved. Many of the concerns which did not engage in instalment selling or maintain open accounts attempted to maintain or secure new business by placing emphasis upon the fact that they were able to give purchasers a lower price.

In this study no further consideration will be given to consumer credit in the form of charge accounts or instalment selling and finance companies. Neither will it consider government agencies of credit nor loans which are based primarily on savings such as life insurance policy loans, savings bank pass book loans, etc.

Small loans are extended for an estimated total annual value of about $2,592,500,000. ¹ About 60% of family purchases cannot be or are not customarily purchased on the instalment plan. ² In many instances, a small loan is urgently needed for medical expenses and food and because of this it ranks sociologically as the most important form of credit and its abuses have always been a source of annoyance throughout the ages.

**Early Historical Evidence**Loaning money presupposes some form of property rights and therefore some sort of social order. Its beginnings are naturally assumed to have been informal and the outgrowth of family relationships and rules of hospitality.

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². Ibid.
The earliest historical records show that lending existed as early as 4000 B.C. in Sumerian, Babylonia which was an agricultural and trading community with recognized property rights and interest rates. There was a wide variety of charges which were dependent on the contract and security. Seed loans carried the highest rate and this was probably due to the uncertainty of the outcome of the crop and to the pressing need for seed in order to provide work and food. The Code of Hammurabi waived interest charges in case of flood or drought. In instances where a debtor became enslaved to his creditor because of failure to liquidate a loan, the creditor was required to assume the obligation of furnishing a livelihood for the debtor's family. There were also laws regulating the period of servitude and providing penalties for overworking or abusing slaves. Temple storehouses lent without interest and repayment was expected at harvest time.

In Greece, lending was common before 638 B.C. and interest charges frequently exorbitant. Solon abolished debts based upon land as security and restored to freedom all debtors. At the same time he prohibited future seizure of persons to satisfy a debt. At one time creditors had the right to put a debtor to death or sell him as a slave—very often to a purchaser in a foreign country.

2. Ibid.
3. Ibid., p. 18.
4. Ibid., p. 21.
Jews predominated in the occupation of money-lending because, with the spread of Christianity, most occupations were closed to them and lending was their only means of obtaining a livelihood. By the twelfth century money-lending was their chief occupation. Their continued existence in the face of religious prejudice was due to the urgent need for loans and the dislike on the part of others to engage in lending at interest. They were also of inestimable value to monarchs as a source of securing capitol for financing wars, crusades, and court festivals. 1

The Justification for Credit

As wages have increased, the margin between income and necessary expenses has become larger and provided a basis for credit which did not exist before. 2 "The use of credit is justifiable, first of all, to meet emergencies...We are self-supporting and self-respecting; we would not appeal to charity even if we could thereby get the kind of service we want. So we borrow what we need." 3 There are other needs for consumer credit less urgent than emergencies but nevertheless almost as important. The public has not appreciated the services that the lender performs but has allowed the old prejudice against usury and money lenders to cloud their understanding of them.

In reality, lenders are performing a function which is just as commendable a social service as insurance and it is

2. Ibid., p. 33.
now conducted on a better basis of honest service and with less subterfuges and expense than the majority of the insurance companies. It is unfair to look down upon the occupation of money-lending. It is only by coming out in the open and meeting financial needs squarely and patronizing the better loan agencies that the public will profit in the end. Publicity, honest competition, and proper regulation will force competing loan companies to so conduct their business so that efficiency is at a maximum and interest charges reduced to a minimum.
REFERENCES


PAWNBROKERS *
Margurete Wilkinson

God bless pawnbrokers
They are quiet men
You may go once
You may go again
They do not question
As a brother might
They never say
What they think is right
They never hint
All you ought to know
Lay your treasure down
Take your cash and go
Fold your ticket up
In a secret place
With your shaken pride
And your shy disgrace
Take the burly world
By the throat again
God bless pawnbrokers
They are quiet men.

* Golden Book, January, 1936
PAWNBROKERS

Definition  "Pawmbroker means any person, partnership, association or corporation: 1. lending money on the deposit or pledge of personal property other than choses in action, securities, or printed evidences of indebtedness; or 2. purchasing personal property on condition of selling it back at a stipulated price; or 3. doing business as furniture storage warehousemen and lending money upon goods, wares or merchandise pledged or deposited as collateral security." ¹

"'Pledge' means an article or articles deposited with a pawmbroker in the course of his business." ²

Some states include in their definition of a pawmbroker any person or persons who purchase property upon condition of selling it back at a prearranged price. This is a subterfuge used to do pawnbroking outside the clutches of the law.

History  "The pawnbroker of today is pursuing a business that his predecessors followed in all essential characteristics for more than 25 centuries. Research shows that there is positive evidence that the relations of pawnor and pawnee had been created even before any form of money, as a circulating medium, had come into existence. It appears from a passage in the Book of Genesis (Chapt. XXXVIII, verses 17,18,20)

². Ibid.
that Judah, the son of Jacob, and Tamor, his daughter-in-law were the first pawnor and pawnee." ¹

The practice of obtaining profit on loans was common in Babylon, Egypt and neighboring commercial countries. Hammurabi considered the payment of interest just and in his Code, 2250 B.C., provided that the merchant who loaned money was to be paid interest thereon, either in money or grain. ²

So many evils existed as a result of the Jews pawning their property that Moses ordained, "If thou at all take thy neighbors raiment to pledge, thou shalt deliver it to him by that the sun goeth down." ³

About the time of Solon the condition of the Athenians was so bad that ancient Greece was in the throes of anarchy and to prevent bloodshed, all debts were declared discharged. A law was passed that no loans would thereafter be made on the bodily security of the debtor. ⁴

Pawnbroking existed even before money in China. Hindus and Arabs were also known to pawn. In England in 1272 A.D., Jews were restricted to 43% interest per annum on loans to scholars at Oxford who pawned their books (Hume's History of England). ⁵

The Mont-de-Piete was founded by the church in the

² Ibid., p. 3.
³ Ibid., p. 11.
⁴ Ibid., p. 15-16.
⁵ Ibid., p. 22.
Middle Ages when the church was the only municipal, educational, and charitable organization. On the continent, as in England, the church came to the rescue of the poor man by lending him money on the deposit of his goods.

"After the Bull of Leo X in 1515, which decided that necessary expenses could be charged, the Mont-de-Piete or Religious Bank became a settled institution, subsequently passing quite easily and naturally from church to state in both Protestant and Catholic countries, and forming an important department of public administration without losing its humane and merciful character." 2

"The position of persons compelled to part with their personal belongings in order to avoid the work house has always been naturally distinguished from that of reckless or speculative borrowers. The Municipal Pawnshop, as it exists on the Continent, alleviates the hardships of this class to a large extent even where as in Holland, Germany, Italy, and Spain, the private pawnbroker or the leased pawnshop is permitted to compete with the municipality of state, and, to a much greater degree where the community has a monopoly of pawnbroking, as in France and Belgium.

"The Mont-de-Piete of Paris, which is administered by a public body formed on sufficiently democratic lines may be taken in its main characteristics as a fair sample

of institutions of this kind....

"Its operations can be divided into three classes:

1. Unprofitable advances, up to 24 francs
2. Profitable or not, according to the time during which they were pledged up to 97 francs
3. Always profitable, above this amount." ¹

In 1891 there were 1,763,695 loans of the first class, 411,768 loans of the second class, and 118,327 loans of the third class. ²

"Since 1891 advances have been made on public securities payable to bearer, at a low rate of interest." ³ This enables the poorer classes to pawn their small savings in times of great need instead of parting with them outright.

"Its success is clearly demonstrated by the gradual decrease in the rate of interest. In 1831, 9 percent; 1886, 8 percent; 1887, 7 percent; and now (1899) slightly under 7 percent......." ⁴

The mayor of the town is ex-officio president of the administration. Funds are secured by bond issues. The 7% charge is made up of 3% on the sum loaned, 3% for the expenses of managing, insurance, etc., and 1% tax. After 13 months pledges are liable to be sold at auction. In 1893 there were 1,300,000 articles panned, 1,200,000 redeemed, 800,000 renewed, and 200,000 sold. A surplus of $70,000 went to hospitals. ⁵

2. Ibid.
3. Ibid.
4. Ibid.
5. The Outlook, August 3, 1895, p. 174.
Savonarola, a priest, reformer, and statesman, introduced the Mont-de-Piete in Florence, Italy in 1495. 1

One source of agitation is the rule that an appraiser in a municipal pawnshop is responsible for any losses occasioned by setting the value of a pawned article too high. As a result, appraisals are low and the pawnor often goes to a private individual where he can get a higher offer on terms which are generally less favorable. This difference between the value and the appraised value is so universally great that in Paris it is possible to secure from speculators an additional loan of 20% of the amount loaned on pawn tickets at rates varying from 3 to 7% per month. 2

In America, the first pawnning transaction goes back to the time when Isabella of Castile pledged her jewels to raise money to finance the journey of Columbus. 3

Another interesting account of early pawnshops is given by a writer as follows: "In Italy in Perugia, two Franciscan monks were the first to start the modern pawnshop. They believed the poor needed material comfort first and spiritual comfort afterward. Penniless, these two begged money until they had enough to open what they called a lending house...." 4 Savonarola opened the first Florentine pawnshop with the Pope in Rome agreeing with it. "Nothing of value remained stationary in the Vatican in his day." 5

2. Ibid., p. 29.
3. Ibid., p. 30.
5. Ibid.
In 1859, a Pawnors' Bank was incorporated in Boston to enable the poor to borrow small sums of money on personal effects and later became the Collateral Loan Company. 1

Loan At one shop the average loan was $35 and this jumped to an average of $74 when the stock market was flourishing. 2 The majority of loans over $100 are for business purposes. 3 Loans generally run for a year. 4

Interest Pledge credit is expensive. Probably the greatest reason for this is the fact that many of the pledges are never redeemed. A pawnbroker has no control over his customer after he leaves the shop. He cannot foreclose or bring legal pressure. The only thing he can do is sell the pledge and that may not return the loan. This fact alone justifies higher rates than the commercial maximum but does not excuse the abuses that have lasted through many years. Operators openly or otherwise violate every kind of regulation. 5

Various schemes such as deducting the interest at the time of the loan, have been devised to increase the return on funds loaned. 6 Large numbers of borrowers pay interest for a month on money used only a day or two and one place

2. Saturday Evening Post, February 27, 1937, p. 86.
4. Saturday Evening Post, op. cit.
in New York in particular has a lot of race-track habitues who pawn jewelry at noon one day and redeem it the next. 1

The majority of loans are small and unprofitable and there is a risk of loss if the goods are later discovered to be stolen. In addition there is the expense of examination of collateral, bookkeeping, wrapping, storage, sometimes insurance, and protection against loss and damage.

There is a wide divergence in rates, the lowest being 1% per month in Minnesota and the District of Columbia and the highest, 10% per month (on loans under $25) in Virginia and the most common being 3% per month. 2

In Wisconsin extra charges are permitted of 7% per annum on loans up to $100, 4% on loans over that amount. Charges are also permitted for storage and other expenses up to 5% per annum. 3

Security Diamonds are used as collateral in three out of four loans. 4 There is about $210,000 worth of stolen goods pawned in New York annually. 5

"Coffins, false teeth, wooden legs, anvils, anchors, horses, and automobiles—that sounds like an extract from the catalog of a museum of contemporary times, but, really, it is a partial list of the odds and ends taken in by a Philadelphia pawnbroker." 6

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1. Saturday Evening Post, February 27, 1937, p. 86.
Russell Sage Foundation, New York, 1924.
3. Ibid., p. 10.
5. Ibid., p. 36.
Monarchs and potentates have pawned some of the following things: 1

- Henry III . . . . . . . Image of the Virgin
- Edward I . . . . . . . Dues from customs
- Edward III . . . . . . . Crown
- Earl of Richmond . . . The person of two followers—
  The Marquis of Dorset and
  Sir Thomas Boucher
- Peter of Castile . . . . Two daughters

Uniforms of the militia and police, infectious clothing, and bulky articles are not acceptable. 2

Sale of Security  
In general when a person pledges an article as security for a loan it is not with the intention of parting with it but with the hope of redeeming it in the near future. Likewise the loan secured is often smaller, by a great margin, than the value of the article pledged. It is only natural, therefore, that there be some regulation regarding the time and circumstances for the sale of pledges.

"In nearly all states some restriction is placed upon the pawnbrokers right to sell the collateral, either as to the manner of sale or as to the length of time for which the pledge must be held, and in some states as to both these matters. In 13 states the period of time for which the pledge must be held is definitely fixed. In most states, however, the period is either expressly or impliedly left open to agreement between the parties, and in such states the restriction as to the time of sale usually relates to a period of grace beyond the maturity of the loan agreed upon.

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2. Ibid., p. 69.
"Where the method of sale is prescribed, it is usually required to be at public auction, after notice to the pledger. In Connecticut and Ohio, the pledge may be disposed of at public auction or private sale....

"The states which have provided by legislation for the surplus, if any, resulting from the sale of the pledge, are in the minority. In 18 states and in Puerto Rico, the surplus belongs to the person who would have been entitled to redeem the loan if the sale had not taken place. In some states a limitation is fixed upon the term within which such person may claim the surplus....Louisiana also has a unique provision, giving the pawnbroker the right to recover from the pledger any loss resulting from the sale." 1

Jewelry is nearly always certain of redemption. Sentimental articles are reclaimed in 90% of the cases and it is interesting to learn that women are less apt to sell things of an intimate association. 2 Clothing fashions change so quickly that it is very seldom redeemed. 3

There are auction rooms specializing in pawnbrokers' sales and they are generally patronized exclusively by Hebrews. 4 There are many interesting accounts on these auction sales as they are conducted both here and abroad.

Ignorance of the law, (in some states) granting the

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3. Colliers, June 13, 1925, p. 36.
right to claim the surplus of auctioned pledges to the owner allows many pawnbrokers to profit especially if the loan made was considerably lower than the value of the pledged article.  

Pawn Ticket The pledger's evidence of his indebtedness and right to claim the pledged article is established by a pawn ticket. In pawnshops where large numbers of transactions are carried on daily it is impossible for the proprietor to remember if the person presenting a pawn ticket six months after a loan has been made is the rightful owner. Very often the owner of the ticket will sell it to another at a slight advance in price or none at all and the latter will pay the interest and loan and redeem the pledge. It is very important, under these circumstances, that some arrangement be made in the event that a pawn ticket is lost. Some pawnshops make a record of some description (even obtaining fingerprints) to assist them in identifying true owners of pawned articles.

"It is only just that the pledger, as a penalty for his carelessness, should be put to the trouble of certain formalities to establish his right, but the requirements should not be onerous. Where the pledge is of considerable value it would not be unjust to require an indemnity bond for the pawnbroker's protection, but this could be avoided by having the statute itself relieve the pawnbroker from further liability upon

delivering the pledge in conformity with its provisions." 1

Insurance Because of the valuables and jewelry in most pawnshops, large sums are spent on insurance and protection. Some states require the pawnbroker to carry insurance on all pledges.

Losses Losses may be occasioned by pawnbrokers from fire, theft, resale, overvaluation, changes in market price, and consumer demand. One New York midtown broker, between 1931-1934, had a loss of $600,000 and there were others who had losses ranging up to $400,000 all caused by value of diamonds of average quality depreciating 60 to 75%. 3

The Provident Loan Society of New Jersey lost $1,000,000 on auctions of unredeemed pledges in 1937.

Borrowers "The pawnshop is the workman's bank. Its customers are also not merely, or even principally, the idle and thriftless, but workmen and workwomen who, through no fault of their own, are often compelled to pledge tools, household goods and clothing, to buy food or pay their rent. As soon as the conscience of the community is awakened to this fact, the pawnbroker will no longer be permitted, and even practically obliged by law, to charge more than 25% per annum as a minimum, more than 100% as an average, and not infre-

quently, more than 1000% on small loans for short periods with a comparatively insignificant risk."

Every kind of person under the sun from every race and nationality frequents the pawnshop. A great many women gamble secretly on the stockmarket or lose at bridge and not wishing to let their husbands know go to the pawn shop to get money to clear these debts. Actors like to keep diamonds on hand so that in time of need they may tide themselves over and also obtain the pleasures of display when they are prosperous. Even well-to-do people sometimes have misfortunes and in order to pay off bank loans resort to pawning their effects. The small borrowers outnumber the large ones ten to one. Gamblers are always steady customers and sometimes pawn and redeem their watches twenty times a month. Even as far back as the Bible, possessions were pawned to buy baubles for new wives. Some of the better class refuse to use other means because of their pride and prefer to pawn some valuable article.

Municipal Pawnshop. The municipal pawnshop is quite prevalent in Europe and some of its advantages over the private

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3. Literary Digest, April 23, 1921, p. 21.
5. Colliers, June 13, 1925, p. 36.
pawnshops are given by one writer as follows:

1. "It is recognized and administered as a part of a wise policy of public assistance to the poor. The profits made on the larger transactions enable loans to be made to the smaller borrowers at unprofitable rate and any surplus which remains is devoted to public purposes.

2. "Full reports being issued annually, its organization and very difficult functions are submitted to constant sociological and economic study, and in consequence, are continually being tested and improved.

3. "It is conducted by public officials, who are not tempted either to harbor stolen goods or to gain an undue advantage in the disposal of forfeited pledges.

4. "The most modern and scientific methods are employed in storing and disinfecting the goods received--a very important matter where large quantities of worn clothing are cumulated.

5. "When necessary, it can borrow money for conducting its operations at a much lower rate of interest than any private pawnbroker, and besides can made a safe bank for investors." 1

"Furs, clothing, jewelry, automobiles, tools and instruments, airplane engines, cameras, field glasses, firearms, expensive toys, a skeleton, and a balloon, are a few of the more conspicuous items on the register of the Paris

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Mont-de-Piete, or 'My Aunt' as the municipal pawn shop is called. The cheapest way to park your car for the winter or to store your fur coat for the summer is to pawn it with 'Auntie'." 1

**Provident Loan Society** At this point, two philanthropic pawnshops will be considered and further help in the study of pawnshops will be obtained thereby.

The Provident Loan Society was started in 1894 as a pawnshop in New York City by Dr. Greer. 2 The Charity Organization Society of New York City appointed a committee to investigate the advisability of a loan company. In 1894, the Society was incorporated. It was not to charge or receive any interest on loans for a greater sum than one-half of the interest charged by pawnbrokers according to law. All pledges were to be insured against fire. Its bonds were listed on the New York Stock Exchange. The average loan in 1894 was $16.10 and in 1907, $37.46. 3

The pledges were for the most part restricted to watches, diamonds, and jewelry plate. Loans were granted for one year. Dates and places of sales for pledged articles were advertised in the newspapers and the owners notified by mail. Losses on pledge sales were low because the appraisal at the time of the loan was considerably lower than the value of the

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pledged article. 1

Any surplus resulting from the sale was held subject to the order of the pledger.

In 1908, $11,254 worth of surplus was returned to pledgers and $9,988.89 in 1909. On January 1, 1910, there was a surplus of $86,077.07. If the surplus was not claimed within 6 years it was to revert to the company. 2

The interest rate on loans less than $250 was later specified at a rate of 1% a month. On loans over $250, the rate was 10% a year. If a loan was redeemed within two weeks, the interest charge was on a basis of 1%. 3

The Society was a success and has paid a six per cent dividend. The total surplus up to 1909 was $1,218,290.59.

The Provident Loan Society did $32,329,761 of the $53,988,171 volume of all associations of its kind in 1936, lending 656,398 of the 1,097,113 pledges. 4

The remedial loan associations are not as helpful and understanding as the old type pawnbroker. They do not have as convenient hours, are not as liberal in their appraisal, are not near the workman's home, and are more careful of the customers' identity. Therefore they are not so adapted to fill the needs of the poorer class as is shown by the size of the loans. In 1936 only 2 of 22 active companies listed

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2. Ibid.
3. Ibid.
their average loan as less than $49 while neither one was below $28. In the Provident Loan Society, 62% of the loans were for more than $14, 46% were for more than $24, and 27% were for more than $49. 

The Collateral Loan Company. This company was organized in Boston in 1859 as the Pawns' Bank. It granted loans on pledges of safe securities of every kind. On gold, 4/5 of its value was loaned. Its capital of $300,000 consisted of 100 shares. If necessary it could borrow up to its paid in capital. Unredeemed pledges were sold at auction. Any surplus was held without limit for the owner. Dividends of 8% and more have been paid since 1890.  

Statement October 30, 1909  
Bank Commissioner, Massachusetts  

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans outstanding</td>
<td>$1,183,383.11</td>
</tr>
<tr>
<td>Cash on hand</td>
<td>21,427.23</td>
</tr>
<tr>
<td>Expense</td>
<td>21,747.00</td>
</tr>
<tr>
<td>General interest</td>
<td>2,243.69</td>
</tr>
<tr>
<td>State tax</td>
<td>17,350.00</td>
</tr>
<tr>
<td></td>
<td><strong>$1,186,151.03</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital stock</td>
<td>$500,000.00</td>
</tr>
<tr>
<td>Reserve funds</td>
<td>475,000.00</td>
</tr>
<tr>
<td>Notes payable</td>
<td>50,000.00</td>
</tr>
<tr>
<td>Auction reserve</td>
<td>5,350.04</td>
</tr>
<tr>
<td>Interest</td>
<td>111,531.00</td>
</tr>
<tr>
<td>Unpaid dividend</td>
<td>124.00</td>
</tr>
<tr>
<td>Profit &amp; loss</td>
<td>44,145.99</td>
</tr>
<tr>
<td></td>
<td><strong>$1,186,151.03</strong></td>
</tr>
</tbody>
</table>

### COLLATERAL LOAN COMPANY
### STATEMENT OF CONDITION
### DECEMBER 31, 1937

#### ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$171,131.70</td>
</tr>
<tr>
<td>U.S. Treasury Bonds (Market Value $305,021.26)</td>
<td>$308,259.38</td>
</tr>
<tr>
<td>Loans</td>
<td>$1,441,065.76</td>
</tr>
<tr>
<td>Collateral Bought in at Auctions (Book Value)</td>
<td>$7,016.25</td>
</tr>
<tr>
<td>Real Estate--75 Cornhill</td>
<td>$152,299.77</td>
</tr>
<tr>
<td>Treasury Stock--307 shares--at cost</td>
<td>$50,184.50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,108,057.36</strong></td>
</tr>
</tbody>
</table>

#### LIABILITIES, CAPITAL and SURPLUS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due Borrowers on Collateral Sales</td>
<td>$10,498.68</td>
</tr>
<tr>
<td>Reserve for Taxes</td>
<td>$40,000.00</td>
</tr>
<tr>
<td>Reserve for Depreciation</td>
<td>$48,550.64</td>
</tr>
<tr>
<td>Reserve for Insurance</td>
<td>$32,829.00</td>
</tr>
<tr>
<td>Capital Stock--Authorized and Issued</td>
<td></td>
</tr>
<tr>
<td>15,000 shares. Par Value $100.00 per share</td>
<td>$1,500,000.00</td>
</tr>
<tr>
<td>Surplus</td>
<td>$401,179.04</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,108,057.36</strong></td>
</tr>
</tbody>
</table>

- Total amount of Loans for year: $2,639,926.29
- Total amount of Payments: $2,664,595.35
- Decrease in amount of Loans: $204,350.12
- Decrease in amount of Payments: $339,717.55
- Average amount of each Loan: $37.63
- Number of Loans: 70,054
- Difference in number of Loans: Decrease 3,322
- Number of Loans made for $5 and under: 12,471
- Number of Loans settled for 10 cents charge: 3,076
- Per cent of Forfeited Pledges sold, to amount Loaned: 1.35
Regulation  "Pawnbroking has been characterized as a necessary evil, and while its evils are small compared with the necessities which it supplies, they are conspicuous enough to demand legislative attention and public control. "It is a service which may be just as indispensable in an emergency as the services of a doctor or a lawyer in another....

"It is the very facility of this service, however, that from another angle makes it a menace. The ease with which almost any article of personal property can be converted into cash by its owner or by anyone else without authority of the owner, encourages not only professional thievery, but also pilfering by irresponsible persons who rely on their relationship with the owner of the purloined property for immunity against prosecution. It is this element of the business which accounts for the bond and license requirements, one or the other of which is found in most of the statutes, as well as the police report and inspection provisions which are a usual feature of local regulations.

"The purpose of the license requirement is to afford some assurance that those who are permitted to conduct the business are persons of good character and responsibility and not likely to act in willful collusion with thieves. The purpose of the bond is more or less to fortify this assurance and to protect the public against the misconduct of the pawnbroker. The object of regulation requiring
the pawnbrokers to report to the police the pledges which they receive, and giving the police the right to inspect such pledges and the pawnbrokers' records, is to discourage the patronage of thieves and to enable the owner of a stolen pledge, through the police, to recover his property.

"It is for the same reason that some pawnbroking laws or ordinances regulate the hours of business, so that burglars or highwaymen who operate in the dead of night shall not have the opportunity to dispose of their loot as quickly as it is obtained. Provisions are also found prohibiting pawnbrokers from making loans to minors, drunkards, or mentally incompetent persons, which tends to prevent the pledging of household necessities by irresponsible or profligate members of a family." 1

The regulation of small loans and pawnbroking cannot be combined and an attempt made in Oregon and also in the District of Columbia was found to be unsatisfactory. 2

Books and registers enable police to get full information about borrowers and some states require a description of the person and the time the loan was made. Reports may be required to be made daily. Sometimes it is required that goods be held a minimum of five days before being redeemed. It is against the law in some states to alter, scratch, or deface any pawn. In instances where the goods

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are proven to be stolen, some states require their return
to the owner without any payment being made to the pawnbroker. In others the police may make an adjustment between the pawnbroker and the owner of the stolen goods so that each bears a loss. In other states fines and penalties are distributed half to a school fund and half to the informer. Some states require the pawnbroking rules to be posted. 1

It is evident from the above paragraph that uniform regulation of pawnshops is a thing greatly to be desired. There are also so many chances for evil in an institution of this kind that even with a high degree of regulation much evil is bound to continue to exist and new ways will be found by the dishonest for avoiding the law.

The Russell Sage Pawnbroking Law "The model law provides for licensing, complete books of original record, the signature of pledgers, and a pawn ticket which is negotiable and redeemable by mail. Redemption shall be by surrendering or impounding the ticket. Payment by installments, protection of the lender against altered or counterfeit tickets and of the pledger against loss of ticket, are also provided. The broker is liable for the pledge and cannot sell it before twelve months, and must give the pledger 20 days' written notice. The excess proceeds revert to the pledger should he claim them within a reasonable time. Persons under 16 years of age cannot pledge articles, nor can business

be transacted after 6:00 P.M. except on Saturday. The legal maximum rate is fixed at 3 per cent per month on the unpaid balance, with an allowable minimum of one month's interest or fifteen cents, whichever is greater. Violation makes the broker liable to loss of loan and pledge and interest, fine, or even imprisonment."

The Pawnbroker is changing his business to meet modern conditions. "But the fundamental quirks of human nature which have always made a successful pawnbroker successful—superstition, sentiment, and the insatiable human appetite for dignity and esteem—these remain. And under sound regulation the pawnbroker should continue to offer society a useful service for a long time to come." 2

Statistics

In about 80% of the cases pledges are redeemed. 3 Over 5000 watches and 6000 pieces of jewelry are pawned every day in the City of New York. 4 New York licenses 200 pawnbrokers every year. 5 "Estimation of the volume of business is difficult, due to the lack of information. This paucity of information is largely due to a mutual distrust existing between the authorities and the pawnbrokers. The Consumer Credit Institute, of New York City, in 1937 sent out a questionnaire to pledge-lenders in the city, but received not one

2. Ibid., p. 154.
reply. Other inquiries have met a similar wall of silence. Thus estimates of the yearly turnover range from $140,000,000 a year to as high as $600,000,000. With loans varying from a small fraction of one dollar to more than several hundred dollars, there may be easily from two or three to ten or twelve million customers annually.\textsuperscript{1}

REFERENCES

1. Asia, December 1932
2. American Magazine, October 1926
3. Saturday Evening Post, February 27, 1937
4. Literary Digest, April 8, 1916
5. The Century Magazine, February 1929
6. Colliers, June 13, 1925
7. Harpers Weekly, September 10, 1910
8. American magazine, June 1919
9. Literary Digest, April 23, 1931
10. The Century Magazine, January 1903
11. The Century Magazine, January 1905
12. Current Literature, October 1900
13. The Outlook, 1895, August 3
14. The New Review, December 1894 (A good history)
15. Hodson, Clarence, Money Lenders. Legal Reform Bureau to Eliminate the Loan Shark Evil, New York City, 1919
UNLICENSED LENDERS

Definition    An unlicensed lender is a person operating a loan business without a license. Sometimes they have no place of business or operate from their homes. In instances where they do conduct a place of business it is disguised as something other than a loan office. Sometimes the only contact the borrower has with the lender is through an agent who visits him at his home or place of business to receive payments or make loans. There have been instances where they operated from park benches or street corners or theatre and hotel lobbies on certain days and hours of the week.

History    Lending has existed for such an extended period of time under varying forms of restrictions, laws, and regulations that it would involve a great deal of needless time to discuss this phase of unlicensed lending. Although a uniform state legislation is a very recent type of regulation, other forms of it have existed since before Christ and continued in some form or another up through the ages.

Security    Almost anything is acceptable as security, the lender generally depending primarily upon threats of violence or disclosure to enforce payments. Wage assignments and even assignments on wages which are to be earned are favored forms of security with chattel mortgages, co-maker notes, and auto-
mobiles as substitutes.

**Interest**

Interest rates vary widely and generally any amount that the lender feels he can safely secure is charged, dependent, of course, upon the urgency of the need. It is lamentable that the most needy borrower is the one who is charged the most because the lender realizes he has got to have it at any cost.

"'These unregulated lenders,'" Gormley explained, "'evade the legal interest rate by designating their charges as brokerage fees, or by outright purchase of salaries at a discount. The charges of such lenders are known to range from 5 to as high as 20 per cent per week, or from 250 to 1000 per cent per year.'" ¹

In the 21 states which have no small loan law and in those whose maximum rate is too low for small loan companies to operate, unlicensed lenders flourish. The lowest rate charged by illegal lenders is 120% a year and the usual rate, 240%. The highest rate may go above 1200%. ²

**Loans**

Leon Henderson estimated that the volume of loans for 1929 was about $750,000,000. ³ It is difficult to estimate the average loan or the number of borrowers. A commonly accepted estimate for 1936 shows outstandings of

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1. Results of Drastic Reduction of Small Loan Rate, p. 3. Household Finance Corporation Bulletin, Chicago Ill., 1935
2. Credit for Consumers, p. 18. Public Affairs Pamphlet No. 5, Washington, D. C., 1936
of $119,000,000 and implies an annual volume of $160,000,000.¹

Terms The length the loan is to run varies widely also, and may be anywhere from one day to many years, the primary point being that the lender is interested in keeping his borrower in debt in order to secure a fat income from interest charges.

Insurance By the nature of the business it is obviously impractical to provide insurance protection to the lender or the borrower. The lender naturally wishes to protect his loan, yet operating outside the law as he does, it is impossible. As to furnishing protection to the borrower's family or endorsers, the lender is not in the least interested in the welfare of his client's family or friends and does not care whether the interest he is receiving is impoverishing the borrower or taking food and medicine from the needy family.

Losses It is also impossible to secure any idea as to what losses are incurred. From the nature of the business it would be a safe guess to say that the losses are negligible because often the loan has been repaid many times before the borrower dies or defaults and in addition it is safe to say that threats of disclosure or bodily harm to the client or his loved ones is sufficient to insure full payment. One of the tricks used in collecting from slow payers

is to send a big blond with a vaudeville voice to your office and have her mention your debt in a loud voice so the others may hear. If a man has borrowed money on his automobile and is slow or refuses to pay, his garage may be broken into and his automobile stolen or else two men may bump into his car and when he gets out to investigate the damage, one of the gentlemen will jump into the front seat and drive off with the car. Messages may be sent home by school children in such a manner that the debt is known to them and their playmates. 1

Reasons This type of borrower is driven to use this means of securing funds either because he desires secrecy, is unacquainted with the seriousness of his undertaking, cannot secure a loan elsewhere, or is too careless and lazy to inquire into the situation and seek the best loan at the best price. Many of the victims are federal and state and municipal employees and others who have jobs which are fairly well paid and secure and would insure them of being given very favorable consideration and terms from other loan agencies. It is probably the ease of securing the loan and the disinclination of going to any bother that causes this type of person to seek the loan sharks.

Regulation From states where there is no regulation of lenders we learn that there is considerable lobbying and corruption of politicians. "Lobbying for and by loan

1. Colliers, March 14, 1931, p. 11.
sharks is done openly in most state legislatures, but can you imagine any other anti-social business getting away with it?" 1

**Actual Cases** From the following list of cases the reader will be able to secure a good understanding of just how unlicensed lenders operate to enforce their claims, what they charge, who they are, and in general what type of clientele they secure. Names have been omitted but they can be obtained by reference to the citations in each case.

Lender A was 26 years old, the recipient of $38.50 a month from the Home Relief authorities and paying $37. a month rent on his home. He was arrested and held on a charge of usury and lending money without a license. Over a four year period he had extracted from a laborer, $1100 interest on a $30 loan. Investigation disclosed that Lender A had six similar loans outstanding. 2

Lender B was 34 years old and a jewelry salesman. He was arrested on the complaint of a Brooklyn fireman who had borrowed $75 one year ago. When the fireman failed to maintain payments of $10 every two weeks plus interest at 10%, Lender B secured a garnishment on his salary for $500.37. The Assistant-Attorney General stated that about 50 members of the Fire Department had their salaries garnished. 3

"Two men were seized early yesterday morning in

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Brooklyn as they were about to drive away with a business man on 'his last ride', according to the police, after he had failed to make demanded payments on a loan he insisted he had repaid in full.  

1

The business man told the police he had at a previous meeting been beaten with a revolver. He had borrowed $150 giving a note for $180 in return. A woman representing the lender, called on him and secured payment of the note agreeing to send him his note later. The lender called and demanded $50. When he remonstrated and maintained he had paid the note he was informed that the note was still in the lender's possession and that had he paid it the note would be in the borrower's possession. The borrower paid the $50. Within a short time the lender telephoned and demanded another $50 and when informed by the borrower that he did not have it, ordered him to meet him at a specified place. The borrower in great fear, notified the police who instructed him to meet the lender. The borrower kept the appointment and when he tendered payment of only $25 was dragged toward the car with the remark about being taken on "his last ride."

A former prizefighter was held on a charge of operating a loan business without a license and charging more than the legal rate of interest. "An elevator operator in the garment district told the detectives that he borrowed $80 from... ten months ago and although he has paid $260

in interest, .... demanded $90 more." 1

Lender C, a woman 44 years of age, surrendered on three charges of extortion: 2

1. In 1919 a woman borrowed $100 receiving $80 cash and signed an agreement to pay $100 in $5 weekly instalments with $20 interest. The borrower was assessed $20 every time she failed to pay and had paid between $2000 and $3000 and the original loan was still outstanding.

2. Another woman borrowed the same amount under similar circumstances. She had paid $2000 and now had $2000 charged against her.

3. Another woman obtained $60 and paid $500.

"Thousands of city employees are being defrauded of amounts up to 10% of their weekly salaries through a well organized garnishee racket, an investigation by Attorney General John J. Bennett Jr. revealed yesterday, was disclosed. The annual 'take' was estimated at about $500,000.

"Sanitation employees, policemen, firemen, teachers, and others, seeking small loans, have been induced by various means to sign blank confessions of judgment, which later were allegedly filled in for amounts greater than those received by the borrowers. The confessions were then filed at Municipal Court and garnishments obtained......

"More than 90 stores, offices, pawn shops, and other

agencies were used in the operations of the racket......

"Some of the judgments ran as high as $700 which would take a $2000 employee in the Department of Sanitation three years to pay off.

"About 2000 fraudulent claims for $700,000 against city employees were uncovered......

"One of the most frequent methods used to ensnare the employees was to have word circulated among them that loans could be obtained at a specified address. The employee would find a jewelry, or some other kind of store, where he was told that no money was lent but that he could buy some article and get the money from a pawnshop. Instead of paying for the article the employee would sign a blank paper which would later appear in court as a confession of judgment for a sum much greater than he obtained from the pawnshop." 1

An estimate made by Judge Collins was that there were on file 3000 judgments against city, county, and state employees totaling $2,500,000. 2

It is not unusual to find an employee who has dozens of his fellow-workers in his clutches. 3

"More than 10,000 Georgia families are in danger of becoming involved with 'dangerous small loan sharks' it was declared yesterday by J.L.R. Boyd, secretary of the Atlanta Thrift Society." 4

An Alabama court case in 1921 brought out the information that a borrower had signed a note for $5 stating on the face of it that 8% per annum would be charged as interest. He was required as the result of an oral agreement to pay $1.80 per month or a total of $21.60 a year on a $5 loan which is an interest rate of 432%. 1

Two men were arrested in their office and a search of their records revealed that they lent $1,500 a week, and had 150 active accounts. The arrest was the result of a complaint lodged by a borrower who had made a loan of $150 with the understanding that he was to return $260 in one month. 2

WPA workers were in the grip of lenders who were charging exorbitant rates and any who dared to complain were treated with strong arm methods. The police consider it a major racket, its victims being horrified and fearful that they have committed thefts to meet the demands of the lenders. 3

"The ancient racket of usury, refurbished with the strong arm methods of modern gangsters was said yesterday to have been an important contributing factor in the underworld feud which brought about the shooting of Arthur (Dutch Schultz) Flegenheimer." 4

This loan evil was found to be linked to certain employment agencies. An applicant for work was charged a fee

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1. The Commonweal, February 26, 1930, p. 469.
of $5 or $10 and if he were unable to pay was told to see a certain party who was a loan shark. 1

### UNLICENSED LENDERS GROUPS *

<table>
<thead>
<tr>
<th>Form of Security</th>
<th>Total Loans</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Salary purchases or chattel mortgages</td>
<td>$520,000,000</td>
<td>69.3</td>
</tr>
<tr>
<td>2. Automobile</td>
<td>$150,000,000</td>
<td>20.0</td>
</tr>
<tr>
<td>3. Co-maker notes</td>
<td>$80,000,000</td>
<td>10.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$750,000,000</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

### PRINCIPAL UNLICENSED LENDERS' CHAINS **

<table>
<thead>
<tr>
<th>Name, Owner, or Leading Executive</th>
<th>Headquarters</th>
<th>No. of Offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>P. C. Mathis</td>
<td>Ky.</td>
<td>20</td>
</tr>
<tr>
<td>R. D. Ison</td>
<td>Ga.</td>
<td>35</td>
</tr>
<tr>
<td>R. D. King</td>
<td>Ga.</td>
<td>40</td>
</tr>
<tr>
<td>G. H. Rosenbusch</td>
<td>Ga.</td>
<td>30</td>
</tr>
<tr>
<td>L. H. Wagner</td>
<td>Ga.</td>
<td>40</td>
</tr>
<tr>
<td>Harry Drake</td>
<td>Ill.</td>
<td>30</td>
</tr>
<tr>
<td>Fred Snite</td>
<td>Ill.</td>
<td>20</td>
</tr>
<tr>
<td>Barter &amp; Wilson</td>
<td>Texas</td>
<td>50</td>
</tr>
<tr>
<td>Terrell Bros.</td>
<td>Texas</td>
<td>20</td>
</tr>
<tr>
<td>J. C. Carnes</td>
<td>Wis.</td>
<td>20</td>
</tr>
<tr>
<td>O. A. Cotton</td>
<td>La.</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>335</strong></td>
<td></td>
</tr>
</tbody>
</table>

* Clark, Evans, Financing the Consumer, Table 4, p. 37. Harper & Brothers, New York, 1930.

** Ibid., Table 5, p. 39.
REFERENCES

3. Clark, Evans, Mass Credit. Survey, November 1, 1930.
5. Colliers, March 14, 1931.
7. Results of Drastic Reduction of Small Loan Rate, Household Finance Corporation Pamphlet, Chicago, Ill., 1935.
CREDIT UNIONS

Definition  "A credit union is a cooperative society in the business of supplying its members with cooperative credit. It accomplishes this end by first furnishing its members with the machinery which enables them to accumulate savings in a common pool. These savings the members of the specific group manage through officers chosen by and from their own number. The money is invested in loans to members of the group exclusively and only for provident or productive purposes, and at reasonable rates of interest. All of the net earnings (after the expenses of operation have been paid and 20% of the net has been each year set aside as an indivisible surplus) are divided among the members of the society in question as dividends on their savings in the common pool. There is no exterior capital and no one outside the specific group in question may have anything to do with the credit union directly or indirectly. In all matters each member has a single vote, whatever his share holding." ¹

History  Credit unions have been in existence in the United States since 1900 and for almost a century in Europe.² German models furnished the basis for the movements in the United States. American credit unions differ from the European in

². The Pioneer, September 1935, p. 35.
that they are primarily for the benefit of the individual worker whereas the latter cater to small producers and in addition assume many sidelines besides granting credit.

Alphonse Desjardins, a Canadian journalist introduced the idea to the North American continent. E. A. Filene, a Boston merchant did the most to promote the movement in the United States through his generous gifts of money, time, and effort. He founded the Twentieth Century Fund and donated over a million dollars to the advancement of the credit unions movement.

"European credit unions exist for the purpose of pooling the credit, not the cash, of members so that they may borrow larger sums on terms that are better than the general market affords...."

"Credit unions in this country as a rule confine themselves to the promotion of thrift and the granting of loans, whereas those abroad tend to take on broader functions. In the United States, special permissive legislation is required to exempt credit unions from the rate restrictions of ordinary usury laws. The member who borrows pays less than rates charged by commercial lenders, but more than bank rates. If there is anything in common between the European and the American credit society, it is the plan to provide the members of a cooperating group with less expensive loans than that group could ordinarily obtain elsewhere." 2

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2. Ibid.
Le Caisse Populaire Ste. Marie in New Hampshire organized in 1900 by Desjardins is the oldest credit union in the United States. (For an excellent chart on the history of credit unions see p. 17, Bergengren book previously cited.)

A Massachusetts Credit Union Association was incorporated in 1917 and absorbed in 1920 by the Credit Union League. Mr. Filene established the Credit Union National Extension Bureau to conduct a nation wide campaign and to actively organize credit unions where allowed. ¹

The Credit Union National Association has 40 state leagues and each league consists of state and federal credit unions within a state which are affiliated with it. There are now (March 1, 1937) 5,686 credit unions in the country. ² They supply ½ of 1% of the total consumer credit. (Neifeld)

Fundamental Principles The fundamental principles as contained in the Massachusetts Bank Commissioner's Report of 1909 are as follows:

1. "Only honest and industrious persons are admitted to membership.

2. Loans may be made to members only.

3. The borrower may offer either property or the endorsements of one or more members as security.

4. No loan shall be made unless the Credit Committee approves the object for which the money is to be used.

² Bergengren, R. F., Credit Union in Motion, p. 65. Savings Bank Journal Vol. XVIII No. 1, March 1937.
5. The use of the money for other purposes renders the borrower liable to expulsion from membership.

6. At all meetings a member has only one vote, irrespective of the number of shares he or she owns."

Types of Credit Unions

The two main divisions are state and federal and the difference between them is that the former secures its charter from the state whereas the latter secures its charter from the Federal Government. Some of the common types are: industrial, government, parish, racial, fraternal, and community. The industrial is the most successful and is found among members who are engaged in the same working unit.

The Credit Union Bureau estimates the development of unions based on assets involved as follows: ¹

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>40%</td>
</tr>
<tr>
<td>Government &amp; Public Utilities</td>
<td>31%</td>
</tr>
<tr>
<td>Community</td>
<td>20%</td>
</tr>
<tr>
<td>Labor Union</td>
<td>5%</td>
</tr>
<tr>
<td>Rural</td>
<td>1%</td>
</tr>
<tr>
<td>Religious</td>
<td>1%</td>
</tr>
</tbody>
</table>

Federal Credit Unions

The Federal Credit Union Act, approved June 26, 1934, provides for the establishment of Federal Credit Unions. Charters are issued by the Farm Credit Administration. ² The first union was organized October 1, 1934 and the following record is for a period from October 1, 1934 to September 30, 1936: ³

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2. Federal Credit Unions, Circular 10, p. 3. Farm Credit Administration, May 1936.
Federal Credit Union Record

| Number of credit unions | 1,674 |
| Number of members       | 252,176 |
| Paid in capital         | $6,449,815 |
| Number of loans made    | 201,768 |
| Value of loans (2 years) | $12,992,880 |
| Loans outstanding (Sept. '36) | $5,511,398 |
| Reserves (for bad loans) | $85,134 |
| Losses charged off      | $1,070 |

R. F. Bergengren states in the Savings Bank Journal for March 1937, that there are now 2000 federal credit unions.

Safety-Losses  Although there were many bank failures during the period 1930-1933, there were very few credit unions which failed. Losses have averaged 1% of 1% of loans made. ¹

Some of the reasons for failures are: ¹

1. No pay for officers
2. Unqualified officers
3. Lack of interest
4. Dishonesty of officers.

Losses in Federal Credit Unions have also been low, being less than 1% of loans for the two years from September 1934 to September 1936. ²

The unions are subject to examination not only by their own auditing committees but by the Federal Government in the case of Federal unions and by the Banking Department of the State Government in the case of state unions. It is not necessary to subscribe to outside sources of credit information because the officials of each credit union are in a better position to know and often know more about the

¹ Neifeld, M. R., Cooperative Consumer Credit, p. 15.
members who make applications for loans. Members feel more obliged to pay and keep up regular payments because they realize they are using the funds of their fellow employees and owe them a debt of gratitude for making it possible to obtain a loan under such favorable rates and circumstances. Most credit union officials feel that it is a needless expense to subscribe to the credit information bureaus that furnish information to the commercial credit agencies. There was some talk of forming a credit bureau for exclusive use of credit unions but this idea was decided to be impractical and unnecessary.

Officers & Management. Management is exercised by:

a. Board of Directors—Composed of not less than five members for Federal Credit Unions (eleven for Massachusetts unions) who exercise general direction and control and are elected by the members. They elect the officers of the credit union which generally consist of a president, vice-president, clerk, and treasurer.

b. The Credit Committee—Composed of not less than three members who are elected by the members and approve all loans.

c. The Supervisory Committee—This is the auditing body and is composed of not less than three members. A report of findings is usually submitted quarterly to the members. In Massachusetts organized credit unions all the officers and members of all committees are elected by and
from the directors.

No member of the board of directors or any committee is allowed to receive any compensation. The treasurer may receive, if the union is large enough and the work involved considerable, compensation as provided in the by-laws. The Bell Telephone Company Union is so large that there are about 18 full time paid employees. The treasurer and any other person handling funds must be bonded. Officers cannot borrow more than their savings except under certain restrictions. Sometimes in smaller organizations the offices of treasurer and clerk are combined.

Powers

The powers of credit unions can best be explained by quoting from the Federal Credit Union Act which lists them as follows: 1

1. To make contracts.
2. To sue and be sued.
3. To adopt and use a common seal.
4. To purchase, hold, and dispose of property necessary and incidental to operations.
5. To make loans, not to exceed 2 years duration (State limits loans to 1 year), for provident and productive purposes at interest rates not to exceed 1% per month on unpaid balances inclusive of all charges.
6. To receive payments from members.

7. To invest funds:
   a. in loans exclusively to members.
   b. in obligations of United States or security fully guaranteed as to principle and interest.

8. To make deposits in accordance with state laws.

9. To borrow not to exceed 50% of paid in and unimpaired capital and surplus.

10. To fine members for failure to meet promptly obligations to the union.

11. To impress and enforce a lien upon shares and dividends of any member to the extent of any loan and dues, and fines payable.

12. To exercise any necessary incidental powers.

Membership

Membership is limited to persons having a common bond of occupation or association, and to groups within a well-defined neighborhood, community, or rural district. ¹

Candidates are elected to membership by the board of directors and subscribe to a share which is generally $5. This may be paid for in cash or in periodic instalments, generally $.25 per share weekly. Each share is known as a unit and members may subscribe for any number of units generally not over 4000. New members pay a $.25 entrance fee. When necessary, fines may be imposed for late payments but may be withheld upon recommendation of the board of directors. Each member has one vote no matter how many shares are owned and no member can vote by proxy.

¹ Federal Credit Unions, Circular 10, p. 3. Farm Credit Administration, Washington, D. C. May, 1936.
Membership has a number of advantages the most important being:

1. Reasonable rates of interest for loans and savings.
2. Furnishes credit sometimes not otherwise obtainable except at prohibitive rates or not at all.
3. Starts a savings account and gives an incentive to continue it.
4. Enables members to contribute to a real philanthropic cause and profit at the same time.

Shares "Shares which are fully paid for receive dividends. Out of 32 credit union laws, 27 place no limit on the number of shares any member may own or control—that being fixed generally by the board of directors......" 1 The average value of shares per member is $55. 2 The City of Boston Employees' Credit Union allows members to purchase from 1 to 500 shares at $5 per share thus limiting the total investment per member to $2500.

Withdrawal Savings may be withdrawn at any time but 60 days notice may be required if conditions make it necessary. If a loan is outstanding only the amount of the savings in excess of the unpaid balance of the loan may be withdrawn.

Capital Capital is secured from the following sources: 3

1. Sale of shares to members.

2. Deposits made by members.
3. Money borrowed from banks.
4. Entrance fees.
5. Fines (my own addition).
6. Interest and dividends on deposits and investments (my own addition).

Borrowings from banks are limited to 50% of the capital.

The Credit Union Bureau gives the following percentage estimates of sources of capital.

1. Stock sales 60%
2. Deposits 30%
3. Other sources 10%

Capital is used for the following purposes:

Loans to members 75%
Invested in securities 15%
On deposit in banks 10%

Security  "Credit unions operate on the best security in the world, but a form of security which has hitherto been almost neglected. The credit union is acquainted with the people to whom it lends money as no ordinary financial institution could possibly be. Others may investigate thoroughly but a lot of truths may slip through the meshes of the most painstaking investigations on the part of outsiders while the credit union knows the people it is dealing with because the credit union is those people. It knows not only their economic standing and their personal reliability but it knows exactly how it feels to be in their position." 2

Security may include assignment of shares or endorsement

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of a note. Loans under $50 may be unsecured. 1 In the State (Massachusetts) loans of $100 may be unsecured.

Most common types of security: 2

<table>
<thead>
<tr>
<th>Security Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unendorsed promissory notes</td>
<td>50%</td>
</tr>
<tr>
<td>Co-maker notes</td>
<td>30%</td>
</tr>
<tr>
<td>Mortgages</td>
<td>15%</td>
</tr>
<tr>
<td>Wage assignments</td>
<td>5%</td>
</tr>
</tbody>
</table>

Insurance

Insurance may be obtained at a low cost by members of state leagues affiliated with the Credit Union National Association through the CUNA Mutual Society. This organization is operated exclusively for the credit unions and does not employ agents or solicitors but operates by mail. The commercial companies originally furnished insurance protection at rates varying from 8¢ to 20¢ per $100 per month. Large commissions were allowed for handling the business. Now through the mutual company this insurance is furnished at a cost varying from .054 to .075 per $100 which represents a considerable saving plus any dividends which are declared.

In addition to the death benefit, total and permanent disability protection is provided.

Loans

As mentioned before, under Federal limitations, funds are loaned only to members and for a period not greater than two years. Loans below $50 are generally obtainable without security. If the loan is greater, security is required consisting very often of one or more

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co-signers. A limit of $200 or 10% of the unimpaired capital and surplus is set as the maximum amount that may be borrowed. All members are eligible to apply for a loan but before it is granted the application must be approved by the credit committee. The Credit union Bureau estimates that the average loan is between $50 and $125. Business Week states the average at $90 and estimates that $116,000,000 was loaned in 1937.

Interest and Charges

Interest is limited to 1% per month on unpaid balances which charge includes all costs and fines. Credit unions can vary their rates within this limit. If loans are repaid sooner than expected the interest becomes smaller due to it being calculated on unpaid balances. There is no limitation on interest rates in Massachusetts except that they be reasonable.

The following list contains some of the reasons for the low credit union interest rates:

1. Low overhead (rent, heat, etc., generally donated).
2. Low labor cost (members donate services or work for a small fee.)
3. Low acquisition cost (business is easily obtained and at no expense because the facilities are handy and in a central location encouraging members by the convenience thereof to patronize).
4. Low losses (sympathetic treatment and wise selection due to intimate knowledge about borrowers).

Dividends

Dividends are declared from net earnings after setting aside a twenty percent reserve (in Massachusetts, 10% of gross). Only shares which are fully paid for are

3. Clark, op. cit., p. 142.
entitled to receive a dividend. The federal unions have been paying dividends varying from 4 to 6% with the latter percentage being fixed as the limit by the Farm Credit Administration. The City of Boston Employees' Credit Union, a State supervised credit union, has paid dividends of from 6 to 8%. The Credit Union Bureau estimates the average dividend rate for the entire country at close to 7%. 1

Formation "The formation of the credit union is simplicity itself. The basic principle upon which it is built is the fact that within any group of employees, residents of a community, or members of a parish or fraternal organization are all funds necessary to meet the credit needs of the group. All that is lacking is the method by which these funds may be accumulated and soundly and economically used." 2

If a group wishes to organize a credit union the following organizations are equipped to furnish the necessary information and instructions: 1. Credit Union National Association, Roiffeisen House, Madison, Wisconsin. This association operates through the Credit Union Leagues of the various states, all of which are members. It is the central organization of credit unions in the United States. 2. The Credit Union League of Massachusetts Inc., 5 Park Square, Room 9, Boston, Massachusetts. This is a cooperative organization owned and operated by the Massachusetts Credit Unions and will furnish a representative to aid in organizing a credit

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union and also printed information of value to the Credit
Union Officers or to anyone interested in a state credit
union. 3. Credit Union Section, Farm Credit Administration,
Washington, D. C. will furnish information on the organization
of a Federal Credit Union.

Initial charter fee for Federal unions is $25 and charter
is supplied by the Federal Government together with by-laws,
stationery, and instructions for operation and can be obtained
from the Farm Credit Administration or through the National
Credit Union Association at cost. The charter fee for a
Massachusetts supervised credit union is $5.

Upon receipt of charter, members elect the Board of
Directors, Loan Committee, Supervisory Committee, and Officers.
Directors are elected annually.

Roy F. Bergengren has a very complete treatment of the
organization of credit unions in Chapter Five of his book. 1

Statistics  There are 6000 credit unions operating in 48
states, the District of Columbia, and Hawaii with a total
membership of 1,250,000 and savings of nearly $100,000,000. 2

"The trend now (January, 1936) is toward the formation
of rural and community credit unions. There is a distinct
and coherent demand for the building up of a strong parish
movement." 3

The following is a list of some of the larger groups

1. Bergengren, Roy F., Cuna Emerges, p. 82. Credit Union
of credit unions: 1

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat packing industry</td>
<td>238</td>
</tr>
<tr>
<td>Stores</td>
<td>243</td>
</tr>
<tr>
<td>Schools</td>
<td>254</td>
</tr>
<tr>
<td>Railroads</td>
<td>292</td>
</tr>
<tr>
<td>Petroleum</td>
<td>295</td>
</tr>
<tr>
<td>Government workers</td>
<td>911</td>
</tr>
<tr>
<td>621 Federal</td>
<td>223</td>
</tr>
<tr>
<td>223 Municipal</td>
<td>72 State</td>
</tr>
</tbody>
</table>

The Municipal Credit Union of Employees' of New York City is the largest in that State and has 13,032 members (60% of whom are borrowers), $1,801,510 capital, 7,613 loans totaling $1,478,244 and in the nineteen years of its existence has loaned $22,705,000. 2

The Boston Telephone Workers has $1,279,000 in assets. Armour & Company which has 100 unions, has 138,835 loans totaling $9,963,219. 3

Some of the reasons for seeking loans are as follows: 4

1. Sickness
2. Consolidation of debts
3. Taxes
4. Clothing, furniture, vacation, insurance, coal, funerals, and weddings
5. Education

The average saving is $55, the average loan, $90, and the average membership per group, 214. 5

For the year 1936, the total salaries paid by 1,685 reporting Federal credit unions were $58,239, and the total expenses, $169,268. At the same time these credit unions handled over 220,000 separate loans involving more than

2. Ibid.
3. Ibid.
4. Ibid.
5. Ibid.
$15,000,000 and had share-holdings on December 31st of
$3,400,000, three-fourths of which had been taken in during
the year. 1

It is estimated that 3 million to 4 million people
are already within the reach of credit union service. The
help that they have given to 1,500,000 members justifies
their existence. "On this foundation, the far greater
future structure of cooperative consumer credit in America
can confidently be built." 2

The Annals of The American Academy of Political and Social
Science, March 1938.
2. Ibid.
# Statement of Condition of all Credit Unions

**October 31, 1936**

Number of Credit Unions reporting: 334

## Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>74,186</td>
</tr>
<tr>
<td>Due from banks subject to check</td>
<td>1,432,824</td>
</tr>
<tr>
<td>Deposits in savings banks</td>
<td>1,190,999</td>
</tr>
<tr>
<td>Shares in co-operative banks</td>
<td>577,327</td>
</tr>
<tr>
<td>Central Credit Union Fund</td>
<td>22,904</td>
</tr>
<tr>
<td>Bonds</td>
<td>1,334,540</td>
</tr>
<tr>
<td>Personal loans:</td>
<td></td>
</tr>
<tr>
<td>Unsecured</td>
<td>6,054,429</td>
</tr>
<tr>
<td>Secured</td>
<td>1,570,383</td>
</tr>
<tr>
<td>Real estate loans:</td>
<td></td>
</tr>
<tr>
<td>First mortgages</td>
<td>2,018,010</td>
</tr>
<tr>
<td>Second mortgages</td>
<td>522,145</td>
</tr>
<tr>
<td>Real estate by foreclosure</td>
<td>704,705</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>39,588</td>
</tr>
<tr>
<td>Other assets</td>
<td>225,948</td>
</tr>
</tbody>
</table>

**Total Assets:** $16,379,088

## Liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>9,353,571</td>
</tr>
<tr>
<td>Deposits</td>
<td>4,285,726</td>
</tr>
<tr>
<td>Guaranty fund</td>
<td>1,078,962</td>
</tr>
<tr>
<td>Reserve Fund</td>
<td>182,929</td>
</tr>
<tr>
<td>Undivided earnings</td>
<td>424,813</td>
</tr>
<tr>
<td>Current income</td>
<td>439,497</td>
</tr>
<tr>
<td>Bills payable</td>
<td>42,177</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>71,423</td>
</tr>
</tbody>
</table>

**Total Liabilities:** $16,379,088

## Miscellaneous

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of members</td>
<td>138,910</td>
</tr>
<tr>
<td>Number of borrowers</td>
<td>69,089</td>
</tr>
<tr>
<td>Number of depositors</td>
<td>29,080</td>
</tr>
</tbody>
</table>
REFERENCES


5. Federal Credit Unions Circular 10, Farm Credit Administration, May, 1936.


7. Massachusetts State Credit Union Law.


INDUSTRIAL BANKS

Definition

"Industrial banking' means simply the extension of credit, ordinarily in moderate amounts, at legal rates of interest, to those who have regular salaries, wages, or income, possessed of good character, but having no collateral generally acceptable to commercial or savings banks, and who desire to liquidate their obligations by regular payments adapted to their ability to pay, and the selling of investment certificates at the counter to this class of people and to other investors, bearing interest usually in excess of commercial or savings bank rates."

History

Arthur J. Morris was the founder of the Morris Plan idea, beginning his operations in 1910 at the Fidelity Savings and Trust Company in Norfolk, Virginia. A permanent injunction was sought by the Universal Savings Corporation of Norfolk in 1915. Suit was brought on the ground that David Stein, president of the Universal Savings Corporation, was the real author of the so-called "Morris Plan" and that Mr. Morris, who had been Mr. Stein's attorney and business associate, wrongly and unlawfully appropriated the plan for his own use. It was further alleged that this plan had been

originated by Mr. Stein as early as 1898 and the first company to use it was the Merchants and Mechanics Savings Association formed in Newport News, Virginia in 1901, of which he was president. 1

In reply, Mr. Morris stated that the Merchants and Mechanics Savings Association was nothing more than a building and loan association of the type that has existed in this country since 1840. 2

The bill was dismissed by the Court of Common Pleas of Virginia on the ground that the plan was not a thing to which one could hold property under the law. An appeal was allowed. 3 The case was appealed and in commenting on the decision, Judge Hazel of the District Court of the United States used practically the same words saying, "It is difficult to conceive that a property right exists in any idea or scheme for conducting business without physical means and devices for carrying it out." 4 (Universal Savings Corporation vs. Morris Plan Company of New York, District Court of the United States New York, January, 1916.)

The Industrial Finance Corporation, to which Mr. Morris's rights had been assigned lost its suit, however, on the same grounds when it attempted to prevent the Community Savings Company of Washington from using methods and forms similar to those employed by the Morris Plan, the court stating in

2. Ibid.
3. Ibid.
its opinion:..."The essential idea of the scheme, so far as method is concerned, inheres in the operation of the Building and Loan Associations, there being a substitution of personal security for real security...A private monopoly of any plan of banking or of loaning money could not be tolerated....." 1

In 1850 Hermann Schulze and Wilhelm Raiffeisen first thought of banks for the people and this idea soon spread to Austria, Hungary, Italy, Belgium, France, Scotland, and Ireland. 2 The Morris Plan Companies resemble the European "Peoples' Banks" in that both systems lend moderate sums at a moderate rate of interest, and both specialize in lending on personal security. Also, they are not charitable but earn a fair profit on their investment. The Morris Plan transacts business on the basis of private capital stock, lending to all qualified borrowers, while the European types transact theirs on the cooperative principle, extending credit only to their members. 3

The principles of the Schulze-Deletzsh Peoples' Banks are: 4

1. The banks are run on business principles paying a fair profit.
2. All members are jointly liable for debts.
3. Borrow or deposit on the basis of joint liability.
4. Grant productive loans only.
5. Capital contributed by members.
6. Membership open to all worthy credit seekers regardless of occupation, social class, or geographical area.

2. The Outlook, March 14, 1914, p. 572.
4. Ibid., p. 13.
When the Industrial Finance Corporation was organized it had a number of prominent men connected with it. Mr. E. R. L. Gould withdrew from the board of directors, shortly after its formation, taking with him Messrs. Astor, Rosenwald, Butler, and others who, it was understood, had been influenced by him to join. 1

Mr. Gould withdrew because he discovered after hurriedly signing the charter, that one vote had been given to each share of common and preferred and a majority of it was held by the Morris group of financiers, it would give control of the corporation to them. Fearing this situation would lead it to become a purely business venture he withdrew even after the charter was changed to give the holders of the preferred stock the right to elect one-half of the board of directors. 2

In the reorganization, Clark Williams, former N. Y. State Controller and State Superintendent of banks, became president and Mr. Morris one of the vice-presidents. 3 He denied that the charter provision objected to by Mr. Gould would in any way detract from the social usefulness of the corporation as a weapon against the loan sharks. 4 He stated that loans of less than $50 would not be made but hoped to lower this figure to $25. 5 It is desired that these banks supply the borrower with the exception of the top 15% and the bottom 10%, with a business like, considerate, and effective loan

5. Ibid.
service. ¹

Critics say: ²

1. Detailed statements of operation costs and revenue are not generally made public.

2. Question legality in some states of stock sale device by which legal rate of interest is greatly increased.

Companies have started up in many places and loan money in exactly the same manner as the Morris Plan Banks. ³

Organization When Mr. Morris was about to put into operation his plan he sent a letter to a friend who was a member of the State Corporation Commission applying for the charter and received the following reply:

"Dear Arthur, I have carefully considered your application for a charter for your hybrid and mongrel banking institution. Frankly, I don't know what it is. It isn't a savings bank, it isn't a state or national bank, it isn't charity. It isn't anything I ever heard of before. Its principles seem sound, however, and its purposes admirable. But the reason that I am going to grant a charter is because I believe in you." ⁴

The Industrial Finance Corporation was organized in 1914 with a capital consisting of 5,000,000 shares of preferred stock and 2,000,000 shares of common. ⁵ It expected

¹ System, June 1922, p. 701.
⁴ American Magazine, March 1921, p. 20.
⁵ Herzog, Peter W., The Morris Plan of Industrial Banking, p. 27. A. W. Shaw Company, Chicago and New York, 1928.
to own enough stock in each company to control the general policy of each. 1 Its purpose was to aid with money and guidance the formation and operation of loan and savings companies on the Morris Plan. 2 All the assets, copyrights, and goodwill of the Fidelity were acquired by the new company. 3

"According to the certificate of incorporation of the Industrial Finance Corporation, the purposes for which the corporation was organized are:

1. To organize, establish, finance, audit, supervise, and otherwise aid the formation of corporations......whose aims and purposes shall be:

a. To provide for the worthy wage-earners, where the need of the loan is apparent, opportunity for borrowing small sums of money, without the necessity of submitting to the extortion of unscrupulous money-lenders, but at rates which are reasonable to the borrower and yet fairly remunerative to capital.

b. To enable the wage-earner to secure such money largely upon the faith of endorsements and guarantees and without the often embarrassing and burdensome requirements of a pledge of chattels as collateral security for repayment, and also

c. To provide opportunity for the systematic investment of small savings, bearing a higher rate of interest

2. The Outlook, March 14, 1914, p. 572.
than is now feasible, and affording a basis for securing of credit and thus encourage thrift.

"And it is the judgment of the directors and incorporation of this corporation that the carrying out of the foregoing purposes, in addition to these immediate benefits, will operate to put an end to much needless and injurious agitation and resulting dissatisfaction concerning financial and industrial conditions, and foster a more intelligent and naturally advantageous understanding between labor and capital.

2. To purchase or otherwise acquire, sell, dispose of, and deal in real and personal property of all kinds... and to carry on any business, concern, or undertaking so acquired, provided such business is authorized by this charter and permitted by law... and to hold, purchase, mortgage, and convey real and personal property without limit as to amount, except as herein stated, but always subject to local laws.

3. To purchase, own, sell, acquire, or otherwise deal in as principal or agent, bonds, stocks, and other securities and properties of any kind or description....

4. To lend money on such terms and conditions and on such security, real or personal, as its board of directors or duly authorized managing body may determine, and as may be permitted by law...." ¹

The Industrial Finance Corporation developed an extensive finance and acceptance business unrelated to its activities as sponsor of the Morris Plan. ² Due to criticism

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¹ Herzog, Peter W., The Morris Plan of Industrial Banking, p. 27. A. W. Shaw Company, Chicago and New York, 1928.
² Ibid., p. 38.
especially by the local Morris Plan banks, a subsidiary, the Industrial Acceptance Corporation was formed in 1924 to carry on this function.\(^1\) Its activities are entirely separate from the Morris Plan Banks except where stock is controlled or there is a contractual relation with some individual Morris Plan bank.\(^2\)

The Securities Corporation formed in 1925 with a capital of $500,000 is a subsidiary of the Industrial Finance Corporation and its purpose is to originate, underwrite, and sell to the banks of the system, or to sell through them on the partial payment plan, securities adapted to the requirements of Morris Plan clients who wish investments.\(^3\)

The Morris Plan Corporation of America was organized in New York to take over the Industrial Finance Corporation interests and carry on all matters relating to the Morris Plan. "Its functions are: to act as licensing agent for individual banks under the Morris Plan and to assist and furnish books, and copyrighted forms and experts to install and supervise during early operation."\(^4\)

The Morris Plan Bankers Association was formed in 1919. It maintains contact between member banks and furnishes information through a house organ that is published.\(^5\)

Principle and Plan Mr. Morris evolved the following

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2. Ibid. p. 44.
3. Ibid.
4. Ibid., p. 45.
5. Ibid., p. 46.
basic principles:

1. That character, plus earning power, is a proper basis of credit.

2. That loans made on this basis of credit must carry the privilege of repayment over a period long enough to match the earning power of the borrower.

3. That money so borrowed should always be for some important and useful purpose.

The Morris Plan consists of discounting twelve-months promissory notes. The borrower, by a collateral contract, purchases a certificate of investment for an amount equivalent to his loan, making weekly payments of 2% of the loan, completing the payments on the 50th week. Two weeks later this certificate can be cashed to pay the loan. ¹

"The habit of saving having been once formed, the borrower in many cases begins the purchase of a new certificate, which in twenty-five weeks (unless it is pledged as collateral) begins to bear interest at a rate from one to one and a half per cent higher than the savings banks allow; and this certificate when fully paid, becomes available as collateral for any future loan; and for loans thus secured no endorsements are required. Certificates are issued in denominations of $50 and multiples thereof. Similar certificates sold outright for cash, bear interest from date of issue." ²

2. Ibid.
Loans  The majority of industrial bank loans are made on co-maker notes. One co-maker signature is generally enough but frequently two may be required.

In making a loan the borrower offers a note signed by himself and one or two co-makers and in addition as collateral security, a loan agreement for an amount equivalent to the loan. This loan agreement is a savings account wherein the borrower agrees to make periodic payments to the company of a specified amount. In the event that payments are not made as agreed, then the note becomes due. The company may apply the savings toward the payment of the note in case of default and in such instances the borrower and endorsers are then liable for the balance only.

The following is a list of the types of loans which may be made:

1. Loans on stocks and bonds
2. Business loans
3. U. S. home modernization loans
4. Cunard travel loans
5. Chattel mortgage loans (furniture, automobiles, or other personal property)
6. Co-maker loans
7. Family unit loans (family earners serve as co-makers)
8. No co-maker loans
9. Auto purchase loans (car is only security needed)

Loans are made in amounts from $15 to $5000 and are generally due in one year but may run for 18 or 20 months.

Co-Makers  The co-makers' endorsements save time and expense and insures payment to some extent if the borrower defaults.\(^1\)

Co-makers must be well acquainted with the borrower, have

\(^1\) American Magazine, March 1921, p. 88.
good character and a steady income.1

**Insurance** Insurance protection for indorsers and dependents is offered by the Morris Plan Insurance Society which is operated by the parent organization. In 1917, the Industrial Finance Corporation organized the Morris Plan Insurance Society. It is independent but the Industrial Finance Corporation owns some of the stock.

A Morris Plan publication explains the plans of insurance as follows:

- **Plan AA** Protection for the full amount of the loan, payable in the event of the death of the borrower, or cancellation of the unpaid balance in the event of total and permanent disability.
- **Plan A** Protection for the full amount of the loan, payable in the event of death.
- **Plan B** Protection for the unpaid balance of the loan, payable at death or in the event of total and permanent disability.
- **Plan C** Protection for the unpaid balance of the loan, payable in the event of death.

They also have a plan whereby an investor can subscribe to an investment certificate payable in instalments and in the event of death his family or estate would receive the full amount of the investment certificate regardless of how much had been actually paid thereon.2

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1. *American Magazine*, March 1921, p. 83
Certificates

The certificates are divided into three types: 1

Class A Capital stock

Class B Fully paid investment certificates bearing interest at 5% which are sold to indorsers and the public. "To give these Class B certificates the appearance of a deposit, the company offers to pay the holder par value at any time on thirty days notice. The company, however, carefully reserves the right to limit the number and amount that will be cashed in any given month." 2

Class C These are instalment investment certificates and bear interest after they are half paid.

All certificates are in units having a $50 value. Payment is made at the rate of 2% a week on Class C certificates and they become fully paid on the 50th week for the full amount of the loan and when the note is due two weeks later they may be used to liquidate the loan or if the borrower has other funds available to repay it, they may be converted into fully paid Class B certificates and used if necessary as the basis of another loan.

Morris Plan savings certificates pay interest at 3% on amounts anywhere from $1 to $5000. Savers who are frequent withdrawers are refused the privilege of saving because it is desired that long time savings be encouraged due to the expense of handling active accounts and to the threat to the

borrower that he will never accumulate any substantial sum if he is continually sapping it by frequent withdrawals.

**Deposits** Where Morris Plan companies are organized as state banks, they accept deposits which give capital at a very low cost. 1

**Collateral Trust Notes** "In addition to the sale of Class B certificates and to the acceptance of deposits, a third plan was devised at one time to obtain capital from customers. Morris Plan collateral trust notes, paying 6% interest were issued by the Industrial Finance Corporation and sold over their counters by the individual Morris Plan companies or banks. The funds obtained from the sale of these bonds were loaned to Morris Plan companies and banks at a profit to the Industrial Finance Corporation. Largely due to the objections of the individual Morris Plan companies and banks, this method of securing capital seems to have had very little development." 2

**Note** The note provides for a joint and several promise to pay to the order of the Morris Plan company and the reverse side contains the loan agreement requiring periodic payments on the investment certificates at the rate of 2% a week for the amount of the loan.

Banking loans are ordinarily repaid within ninety days but under this plan it is extended to one year and payment is facilitated by accumulating the full amount of the loan.

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2. Ibid.
by small weekly payments. 1

Interview and Investigation \[\text{If a loan exceeds $300 interviews are made by a loan officer. In the ordinary interview, the whole financial situation of the prospective borrower is discussed before granting an application. This is done because it has been found that much time and expense can be saved by eliminating undesirable borrowers before they have filed an application. The applicant is first made to feel at home in order that he may relax and be frank and not with-hold information which will help the interviewer to understand his problem. The next step is to consider the amount wanted and the reasons for requesting it. The amount should be such that the applicant will not be overburdened and the use made of it should be beneficial and fill a need. If there are any other loans outstanding, these are considered and where necessary an arrangement may be made to pay them off. Commitments outside of current expenses such as an auto, refrigerator, or oil burner are next considered. The weekly salary is then analyzed to determine whether he can afford to make payments on a loan in addition to payments on his other obligations.}

About this time the interviewer has formed a good impression of the person's character and he makes a note of it on the impression sheet. If the applicant's situation looks favorable or if some doubt exists, an application is issued and he will be classified as to whether his loan will

be unsecured, have one indorser, or two indorsers.

A clerk next makes out a clearance slip for the Exchange Bureau and the application goes to the liability file which contains information about his previous record as a borrower or indorser. The credit man is now ready to clear it through the Merchants' Bureau and verify employment. Verification of employment may be made through the Merchant's Bureau, by telephone, or by means of directories.

The indorser's signature is next identified by phone or by means of the signature file if he is a previous indorser. A signature card with a return envelop is sent to the indorser in the event that his signature is not in the file.

The application is now ready for the Finance Committee or if the loan is $1000 or over it goes to the Executive Committee.

If all these steps have given information and an impression which is considered satisfactory, the borrower is notified that the loan is ready. He may report to the teller and receive his money or if requested he will be mailed a check. The investigation fee is generally $1 for each $50 borrowed to a maximum which varies with the state but is generally $5.

Delinquents Collection of slow accounts causes about 10% of all expenses. Fines of 5¢ on the dollar are made for late payments. When the borrower is behind, his co-makers are notified and if he still fails to pay, legal
action follows. 1

There are various types of letters sent out to delinquent debtors varying with the type of security which was offered, but they are all similar in their intent. At the time an account becomes delinquent a short printed letter is sent out and if no response is secured a second printed letter is sent requesting that the applicant call at the office. From then on the delinquent receives a series of typed form letters in the following order:

1. Payment unsatisfactory (after four weeks delinquency)
2. Ignorium letter (calling attention to fact that notices have been ignored)
3. I note letter (I note you have not made payment etc.)
4. First letter to co-maker
5. Pay or attorney letter
6. Letter referring to possible suit
7. Attorney letter
8. Letter of re-promise (attempt to get delinquent to keep a promise made to tender payment by certain date. This is very often effective because people hate to be reminded that they have gone back on a promise.)

From this point on, special letters will be sent depending on the situation. The company has its own legal department and does not believe in farming out poor accounts to outside law firms because they feel that a certain amount of consideration should be shown the delinquent and there is no need of losing goodwill by harsh treatment of debtor or co-maker. Very few loans are uncollected and losses are generally below 1% of 1%. It is also interesting to note that recourse to the co-maker is practically never made. Where ever conditions justify, the loan may be extended or

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financed so that payments are within the means of the borrower. All efforts are made to be of real service and not cause any unnecessary hardships. The institution while not philanthropic feels that the legitimate borrower deserves every consideration.

Cost  "Of special interest to all students of social economics is the matter of rate. When a note is discounted at 6 plus 2 or 3 percent, and repaid under the terms of the Morris Plan, the actual interest is 19.2% if account is taken of the money which the borrower has had the full use during the year and of what it has actually cost him. To this must be added the cost of insurance, penalties for delinquencies, and non-refunded discount in the event the borrower anticipates his contract."  

Morris Plan charges are apparently then not out of line in comparison with the charges of concerns which provide credit for the masses; but there are several factors which must be kept in mind by anyone making comparisons of rates. There are numerous groups of borrowers below what may be termed the banking level. They need credit, and if terms are provided to fit their condition they can repay the loans. The point that should be emphasized is that the terms offered by the lender determine the class of borrowers who will appear on the books of the company making the loans. The Morris Plan companies by virtue of

the terms which they offer, cater therefore to a group that is, in the main, unlike any of the other groups. They do a co-maker business, and this feature of the loan contract has the effect of differentiating these loans from, for example, those made by pawnbrokers on a pledge of personal property or from loans made mainly on the security of chattels by Personal Finance Companies. The nature of the security offered is, of course, of great significance in the determination of cost. One would expect the security provided by the signature of co-makers to be less valuable than that provided by the pledge of personal property but more valuable than that taken by chattel mortgage loan offices. Since, too, the Morris Plan companies are not as a rule restricted by law to loans below a specified maximum, they tap a group of merging entrepreneurs not reached by the chattel loan companies. Their average loan is considerably greater than the average loan made by other loan organizations, a very important factor to be considered in determining the cost of doing business. Morris Plan companies have capital at a very reasonable rate—rates lower on the average than the cost of capital to Personal Finance companies operating under the Uniform Small Loan Law though not so favorable as the rates which banks and credit unions have paid the public for their capital. In any discussion of comparative rates, this, also must be taken into consideration.¹

"Some years ago, the advertisements of the Morris Plan companies seemed to convey the impression that the borrower

was getting his loan at the legal rate of interest. Recently, the rate has been more clearly expressed, but there is still room for improvement. From the social point of view, borrowers should know exactly what their loans cost. Even though the actual rate charged may not be exorbitant, the principle, it seems to me, is vital to the financial education of the average borrower.  

Capital. Capital is obtained through Class A certificates (capital stock), Class B (5% investment certificates), Class C certificates (pledged for the loan), and from commercial banks.  

Letter of Credit. There has been a new development of the Morris Plan Banks in New York through an arrangement with R. H. Macy and Company Department Store. For 80 years Macys has stressed the feature that all purchases are on a cash basis. With the rise of instalment selling, many consumers were unable to purchase expensive items, especially electrical appliances, on a cash basis. Under the new arrangement with the Morris Plan Company it is now possible for Macys to secure a large portion of this business without departing from their cash basis of retailing and in addition can furnish customers prices which are based on cash purchases.

In operation, the customer secures a "letter of credit"

(§200) from the Morris Plan Company. Interest at 6% per annum is discounted and loans are secured by liens on purchases. All credit transactions are handled by the Morris Plan Company. The purchaser presents his letter of credit for payment. This is attached to a triplicate copy of the sales check and sent to the Morris Plan Company (offices are located in the store). A draft is drawn to Macy's credit and a charge is made against the customer's letter of credit. 1

The first form of the letters of credit idea occurred in 1919. In its original form, a store drew a Morris Plan retail trade acceptance upon the purchaser. This was accepted by the latter and indorsed by the former and then discounted at the Morris Plan Bank. 2

Morris Plan Banks also finance sales of individual articles through manufacturers (Western Electric, Studebaker Motor Company) but this did not prove successful due to the complicated variations in loan laws and conditions in various states. 3

In financing autos the company advances to the auto concern the face of the note minus interest and the purchaser makes payments to the Morris Plan Company. 4

Second mortgages are handled by the Chicago Morris Plan

3. Ibid., p. 226.
4. Ibid.
Bank which makes a straight interest charge deducting commissions in advance. 1

Trade Acceptance System  This system enables people to buy goods on credit under terms close to cash prices instead of the usual 10, 20, or 30% advances. 2 The Morris Plan Bank pays the merchant cash; the buyer has a year in which to repay this amount to the bank with the usual 6% discount. This system covers household goods, labor saving implements, electrical wiring, etc. 3

This was started in 1919 and the earliest attempt, with the National Association of Electric Contractors and Dealers to finance time payments on contracts for house wiring and sales of electric appliances. 4 The Morris Plan Company obtained a lien on the article sold and in the case of house wiring based their security on the credit of the contractor and customer. When the job was finished, a retail trade acceptance was drawn on the customer and accepted by him--then turned over to the Morris Plan Bank with the contractor's indorsement. The proceeds were then sent to the contractor. 5

The conditions under which the paper is handled are as follows:

1. Acceptance must contain certification by customer that the work is completed satisfactorily.

3. Ibid.
5. Ibid., p. 49.
2. There must be a cash payment of not less than 10% by the customer.
3. On house wiring contracts, the contractor must deposit 10% until the trade acceptance is paid in full by the customer.
4. The terms limited to twelve months of one payment each month.
5. The right to decline, is reserved by the bank.
6. The contractors must indorse it.
7. The wiring contracts discount of 6% is paid by the customer, the service fee, by the contractor.

Another innovation similar to the trade acceptance is the "Guaranty Loan" whereby a loan is advanced to a debtor to pay a creditor. The bank obtains as security the "guaranty" of the store and from then on payments are made by the borrower to the bank. 2

Losses

"Almost every person discharges his obligations if they are incurred on terms consistent with his ability to meet them. So-called dishonesty is less likely to result from deliberate intent than from a man's having undertaken more than he can handle. In all loans we have suffered a loss of less than one tenth of one percent. This is a great indorsement of our belief in character plus earning power, as a proper basis of credit." 3

The best risks are those folk who have found what they can do, who are reasonably satisfied in doing it, and who have a set income. This class includes municipal employees, clerks, and other people who know just how much money they are to receive at the end of each month.

2. Ibid., p. 57.
"In contrast to this type we find those men and women who decline to work on a definite income. They work either entirely on a commission basis or on some uncertain profit sharing arrangement. Although we have many splendid customers in this class, as a whole it is less safe. You see, too many people want to predicate their obligations less on what they have accomplished in the past than on what they expect to accomplish in the future." 1

"The way to judge a man's character is by the 'openness' of his face, the frankness with which he answers questions, the quickness with which he comprehends, and the decisiveness with which he replies. This decisiveness by the way, indicates capacity as well as character." 2

Statistics

Evans Clark in 1930 gives the following interesting information on industrial bank companies:

Industrial bankers do a total business of $400,000,000 annually of which the Morris Plan obtains $200,000,000 through its 110 companies in 142 offices in 31 states.

Some of the other big industrial bankers are

Wimsett System
Citizens System
Industrial Bank Corporation

In 1922, there was a loss of only 1/8 of 1% by the 98 banks then operating. 3 We learn that in 1937 there were only 97 Morris Plan Banks and companies in 125 cities of the United States. 4

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2. Ibid., p. 21.
### INCOME OF INDUSTRIAL BANK COMPANIES

<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
<th>Net Income</th>
<th>Capital</th>
<th>% of Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Morris Plan Co.</td>
<td>1928</td>
<td>$2,324,752</td>
<td>$17,227,464</td>
<td>19.3</td>
</tr>
<tr>
<td>2. Citizens System</td>
<td>1926</td>
<td>*</td>
<td>3,076,703</td>
<td>14.8</td>
</tr>
<tr>
<td>3. Wimsett System</td>
<td>1926</td>
<td>231,646</td>
<td>1,415,810</td>
<td>16.4</td>
</tr>
</tbody>
</table>

* Data not given.

1. Memorandum regarding the Morris Plan Banks.
2. Extract from Proceedings of Second Annual Meeting of Representatives, February 26, 1926.
3. Figures for 15 companies given in Wimsett System.

Interesting Comments  "The great bulk of the population of every American city is without any credit service from the regular commercial banks and such credit opportunities as are available have not been well organized and have been subject to abuse and conditioned on exorbitant charges." 1

"Everybody, rich or poor, is a potential borrower. The wealthy often borrow large sums in order to make big earnings or winnings. The poor borrow a little at a time to tide over emergencies. In flush times people wish to borrow for expansion; in lean times they have to borrow to keep going. That is what the commercial bank is, as a rule a big money maker. The lending business is not generally speaking, subject to fluctuations that mark industrial, commercial, and agricultural undertakings." 2

This company, the Morris Plan, is extending to the non-propertied classes an opportunity to borrow and save money corresponding to that which the propertied classes have always enjoyed. 3 In 1936 the banks and companies loaned about $200,000,000 to some 300,000 borrowers. The average loan, therefore, was about $250. By this it is obvious to see that it is an established institution. 4

It is not charitable. 5

The U. S. Commission found in Germany 17,000 banks

2. The Independent, June 9, 1925, p. 584.
5. Outlook, op. cit.
(a few years before 1915) whose business of $5,000,000,000 was almost exclusively among a class of people who here and in England were without banking facilities. In Italy in 1908, 690 institutions known as Peoples' Banks loaned $170,091,946. Banks in France make immense numbers of small loans. In 1913, out of 9,056,424, \( \frac{1}{2} \) were for sums less than $80 and \( \frac{1}{3} \) for less than $10.

It is required that all foreclosures be done through state departments so that actual record of them may be kept and thus be able to determine if the low percent of losses is due to harsh foreclosures or represents the actual loss.

Distribution of Morris Plan Loans in 1936

<table>
<thead>
<tr>
<th>Type of Loan</th>
<th>Per Cent of Loan Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-maker</td>
<td>49.60</td>
</tr>
<tr>
<td>Collateral</td>
<td>8.45</td>
</tr>
<tr>
<td>Automobile</td>
<td>15.39</td>
</tr>
<tr>
<td>Trade (other than automobiles)</td>
<td>6.10</td>
</tr>
<tr>
<td>Real estate mortgages</td>
<td>1.75</td>
</tr>
<tr>
<td>Federal housing</td>
<td>12.74</td>
</tr>
<tr>
<td>Others</td>
<td>5.97</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

REFERENCES

1. The Outlook, March 17, 1915; March 14, 1914.
2. System, June 1922.
4. The Independent, June 9, 1923; February 23, 1914.
PERSONAL LOAN DEPARTMENTS OF BANKS

History

During the past few years commercial banks have begun to realize that the small loan field is a profitable outlet for their banking activities. It is interesting to note what some of the writers have to say on this sudden interest in small loans.

"....The banks were so busy throwing other peoples' money away on gigantic 'investments' that they turned this profitable loan field over to sharks even more usurious than they. Certainly personal integrity could not be a less favorable basis for a loan than some of the collateral bankers glibly accepted because any huge building or big name impressed them as evidence of great wealth." ¹

"....This field of small but assured profit was ignored by the bankers because of incompetence and their insane desire to get big money quickly, not to say unscrupulously." ²

"The Bank of America National Trust and Savings Association (4th largest bank in the U. S. with 442 branches in California) has copyrighted the trade mark 'Timeplan'. This term devised to tie together the five following types of loans:

1. Real estate loans under the National Housing Act;
2. Automobile financing of new and used cars;
3. Personal credit $50 to $1,000;

¹ Christian Century, January 26, 1938, p. 11.
² World's Work, September 1928, p. 475.
4. Home-appliance financing through authorized dealers on purchases of refrigerators, ironers, washing machines, etc., completed in the store where purchases are made; and

5. Modernization loans under the Federal Housing Administration." 1

"Whether they admit it or not, banks are going further and further into the business which once belonged exclusively to the finance companies. They are soft-pedaling and inventing new nomenclature, because they don't want to hurt the feelings of good customers on whose toes they may be stepping." 2

"Why so many banks have sought new investment channels is a matter of common knowledge. The commercial loans, backbone of bank earning in the old days, just aren't there any more.

"Lending to the man of small means is the business of the banker just as it is to finance big endeavors, Mr. Ottenger pointed out. He looks to many other institutions to follow the lead of the National City Bank." 3

"Attorney-General Ottenger can be credited with starting this movement. When he had the banking law amended in the last legislature to eliminate salary buyers and instituted an inquiry into loan shark methods, he checked these enterprises sharply. This made it difficult for the small borrower to obtain funds--literally at any price--and Mr. Ottenger sought to remedy this new situation. A series of conferences between the Attorney-General and his staff,

together with representative bankers, has borne fruit in
the plan of the National City Bank."  

Statement by Mr. Bernhard of Hudson County National
Bank which appeared in the New York Times:  

"In recent years the growth of the personal loan
department in banks throughout the country has been phenom-
enal. The reason for this is twofold: First, it represents
a profitable outlet for large amounts of uninvested bank
funds; second, it is the tacit acceptance of a fundamental
change in the general trend of American banking practices."

Promotion "The personal loan business of commercial
banks is to be regarded as a movement gaining momentum.
In the case of the Manufacturers Trust Company, it has been
proved that through personal loans we can make more friends
and obtain a good interest return on some of our surplus
funds. When we sell personal loan service, we sell every
service of the bank, and the practical effect is that we
are promoting an endless campaign to develop good will in
our public relations, and making it finance itself."  

The advertising scheme of the Bank of America National
Trust and Savings Association for obtaining part of the
consumer credit market is outlined as follows:  

1. Automobile financing loans will be sold by 640

3. Paddi, John B., The Personal Loan Department of a Large
Commercial Bank, p. 141. The Annals of The American Academy
of Political and Social Science, March 1938.
outdoor advertising displays covering the entire state of California.

2. Car cards will continue to sell personal loans—they have been used for 15 months and the volume of loans has increased 500%.

3. Radio will carry the home building and modernization message; mailing pieces to do the follow-up job containing drawings and plans for homes costing between $7,500 and $10,000.

Rates

Personal loan rates at banks are comparatively low because this service is only one of several and the operation of another unit does not increase their overhead to any great extent. Usually these low bank rates are about one-third of those of the small loan companies and one-half of those of industrial banks. They do not in any way try to confuse the cost of the loan by publishing vague statements and are always very explicit in explaining the true cost of the loan. The New York Banking Act enables state banks and trust companies to conduct personal loan departments at rates not to exceed 12% interest per annum on unpaid balances. The rates at the Manufacturers Trust Company of New York on co-maker loans are 5% discount, which is equivalent to 9 and 7/10 percent on unpaid balances and 4% discount on collateral loans and those without co-makers which is equivalent to 7 and 7/10 percent on unpaid balances. They pay the cost of the insurance and there are no other
charges whatsoever except fines for late payments. ¹

To avoid collection difficulties and loss of good will the Manufacturers Trust Company of New York decided that volume was desirable but they would discriminate as far as possible in the selection of their risks and would not offer the liberal inducements of some of their competitors. Because of these conservative policies, less than one percent of the number of their outstanding accounts is thirty days or more in arrears. Only two out of every 100 borrowers have been sufficiently in default to require the attention of the Legal Division, and even these loans when matured, have been reduced on the average, by 40%. ²

Used Car The low losses and large profits obtained by the automobile finance companies have led banks to consider this new source of profit. Loans up to 66% of the delivered price are made on new cars and 60% on old cars for one year periods. The chief incentive is the low interest charge: 6% interest plus 2% service on new; 7% plus 2% on used. If periodic payments on the loan are made promptly 2% is paid on the deposits. Borrower must furnish fire and theft insurance and may place it where ever he chooses. Maintenance cost is 3% less. ³

The National City Bank This is the largest and best known

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2. Ibid., p. 139.
of the banks that have personal loan departments and does as much business as all the other banks put together. 1

Loans of from $50 to $1000 are made without collateral at 6% and with no other charges. 2

"One of the earliest consumer credit ventures was that of the National City Bank of New York which started making personal loans back in 1927." 3 The first personal loan department was started by the Hudson County National Bank of Jersey City in October 1924. 4

Loans are made for one year on the guaranty of two co-makers and interest is compounded monthly on deposits made in repayment. 5

"The National City Bank of New York which offers accommodation to small borrowers minus service fees of any kind, has made a move which jars personal loan traditions. That the idea is feasible for a very large institution is indicated by the announcement that the Bank of the United States, which has been studying the situation for months, announces it will make personal loans, without charging any extra fee and on the same terms as those offered by the National City Bank, the money to be repaid into a compound interest account." 6

A folder printed by the National City Bank gives the following information: 7

1. Clark, Evans, Mass Credit, Survey, November 1, 1930, p. 121.
2. Outlook, May 23, 1928, p. 150.
4. Clark, op. cit.
5. Outlook, op. cit.
7. Ibid.
Interest is compounded at 3% on repayments. To secure a loan you must have resided in New York at least a year, be 21 years of age, and have been employed for at least six months. Rebates of 6% are allowed when loans are repaid before maturity. Fines of 5¢ on each dollar are made for late payments. Generally a loan of not more than 20% of the borrowers yearly salary can be obtained.

Statistics During the first two years of the Personal Loan Department of the Manufacturers Trust Company of New York, they made about 30,000 co-maker loans amounting to nearly $10,000,000 averaging a little over $300 per loan, and 3700 collateral loans totaling $1,000,000 averaging $270 per loan. At the same time they made 15,000 modernization loans totaling $15,000,000 averaging $810 per loan. They ranked fifth among the banks of the country in volume. Altogether they have loaned about $33,000,000 and for 1938 have loaned $18,000,000 against which they have unapplied payments of $9,000,000. 1

Purpose and Type of Loans 2

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidation and Payment of Debts</td>
<td>30</td>
</tr>
<tr>
<td>Medical and Dental Services</td>
<td>20</td>
</tr>
<tr>
<td>Business Requirements</td>
<td>20</td>
</tr>
<tr>
<td>Home Furnishings and Improvements</td>
<td>10</td>
</tr>
<tr>
<td>Clothing</td>
<td>5</td>
</tr>
<tr>
<td>Education</td>
<td>5</td>
</tr>
<tr>
<td>Mortgage Payments and Taxes</td>
<td>5</td>
</tr>
<tr>
<td>To Help Relatives</td>
<td>5</td>
</tr>
</tbody>
</table>

2. Ibid., p. 139.
Purpose and Type of Loans (continued)

<table>
<thead>
<tr>
<th>Type</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaried Employees</td>
<td>30</td>
</tr>
<tr>
<td>Business Men, such as Partners, Officers</td>
<td>20</td>
</tr>
<tr>
<td>of Corporations, and Storekeepers</td>
<td></td>
</tr>
<tr>
<td>Salesmen</td>
<td>12</td>
</tr>
<tr>
<td>Department Heads and Foremen</td>
<td>8</td>
</tr>
<tr>
<td>Mechanics</td>
<td>8</td>
</tr>
<tr>
<td>Professional Men</td>
<td>6</td>
</tr>
<tr>
<td>Federal, State, and City Employees</td>
<td>6</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>10</td>
</tr>
</tbody>
</table>

Applicants range from those with incomes from $1000 to $50,000. Many very prominent people with large incomes are personal loan customers. 1

The creation of personal loan departments is valuable to the bank because it creates good will if handled properly. The Manufacturers Trust Company of New York have actually obtained a great many new commercial, special interest, and Christmas Club accounts, safe deposit box rentals, foreign remittances, and sale of travelers' checks, as a result of the thousands of personal loan transactions. 2

Atmosphere "A happy, cheerful company these would-be borrowers seem to be. They are an entirely different type from the harried men and women who are often seen in private loan concerns. The surroundings seem to inspire them with confidence. They have the air of persons coming to consult their bank about their financial affairs, and such they are." 3

2. Ibid., p. 137.
REFERENCES

1. The Outlook, May 23, 1928.
4. Business Week, April 6, 1935; July 18, 1936; October 24, 1936.
8. Survey, November 1, 1930.
PERSONAL FINANCE COMPANIES

Definition  Personal finance refers to loans of $300 or less granted by agencies operating under state licenses in accordance with a small loan law as distinguished from other agencies granting similar loans but operating outside the small loan law.

History  "We have seen before that the development of the conception of the individual as an economic unit entitled to credit is a recent one. The crystallization of that concept into statutes has taken place only within the last two decades." 1 The history of personal finance is obviously limited to a very short period of time and consequently there is very little to say about it. In reality it is nothing more than a refinement of the loan function which has existed through the ages, and no further discussion of this phase of the subject is, therefore, necessary.

Loans  Loans are granted on character indorsements, or collateral. The making of loans on character requires a specialized technique to guard the lender against loss and prevent the borrower from undertaking something beyond his means and this is costly to both parties. 2

Approximately 500,000,000 is lent each year to about 2,000,000 borrowers. 3

2. Ibid., p. 158.
"Depending on the type of office organization, the level of wage, rent and salaries, the size and character of the community and population, a minimum amount of outstanding loans is necessary for a loan office to break even. It may take one or two years for a new office to reach the point where income matches expense. Beyond that point an added increase in outstanding loans can be handled with the same overhead, so that as the investment grows, there is a wide, favorable margin between income and expense. This process can continue until a point is reached where additional employees must be put in the office to handle the increased business." 1

Security It is customary when granting other types of loans to grant a sum which is generally much smaller than the value of the collateral warrants. In personal finance, however, with the main emphasis being placed upon character and ability to pay, when collateral is used the sum advanced is often greater than the value of the collateral. 2

Common types of security consist of indorsers, mortgages, and wage assignments. Good judgment requires that the loan be such that no undue strain is occasioned in making payment. 3

Earnings An investment of about $314,000,000 yields annually an income of 25% gross and 10% net and from this

2. Ibid., p. 153.
3. Ibid.
latter amount must be deducted such charges as interest and other capital reimbursements. 1

Expenses The average cost of handling an account is about $2 a month which requires that about $60 must be outstanding for the lender to break even. 2

Delinquency It is impossible to conduct the business and not have some delinquents. 2 The Household Finance Corporation of Chicago keeps such losses down by restricting loans to conservative amounts and to stable, earnest people. From 1929 to 1936, their annual net bad debt loss averaged 1.49% of the volume of loans made, or 2.65% of the average amount of loans outstanding. 3

At regular intervals each year notes which are uncollectible or require too great collection cost are written off. Writeoffs are larger during a period of widespread unemployment. Improvement in employment conditions bring smaller writeoffs and larger recoveries from notes previously written off. Writeoffs and recoveries have varied as follows during the past 10 years: 4

<table>
<thead>
<tr>
<th>Year</th>
<th>Written Off</th>
<th>% of Outstanding Recoveries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928</td>
<td>$189,938</td>
<td>1.55%</td>
</tr>
<tr>
<td>1929</td>
<td>452,956</td>
<td>1.66</td>
</tr>
<tr>
<td>1930</td>
<td>669,003</td>
<td>1.33</td>
</tr>
<tr>
<td>1931</td>
<td>971,037</td>
<td>2.23</td>
</tr>
<tr>
<td>1932</td>
<td>2,272,201</td>
<td>5.47</td>
</tr>
</tbody>
</table>

2. Ibid., p. 154.
3. Annual Report for the year 1937, Household Finance Corporation, Chicago, Ill., p. 10
4. Ibid.
December 31   Written Off     % of Outstanding   Recoveries
1933    $2,436,094     6.62%     $260,473
1934    1,825,556     5.24%     615,238
1935    1,098,975     2.36%     735,291
1936    500,758     1.10%     981,125
1937    745,067     1.31%     622,021

The Household Finance Corporation has built up a reserve of 5.24% of customers' notes outstanding for current and future losses (December 31, 1937). 1

Collection Foreclosure is rare except in very evident cases of deliberate attempts to defraud. 2 Value of foreclosures or abandonments vary from 1/10 to 5/10 of 1% of annual value of loans. 3 The amount realized is 40% of claims. 4

Regulation "As a rule, state regulation of the personal finance business is lodged in the several banking departments. There it has been a small part of the departmental activities, and report on its statutes has usually been quite meager. One or two states, notably Massachusetts, have been exceptions and have for many years furnished much financial and statistical information about the business. To provide a source for reliable information about the extent of personal finance in each of the states, there was devised in 1929 a comprehensive Uniform Annual Report. Besides extensive operating and financial information, this report gives, in addition, much

3. Ibid., p. 157
4. Ibid.
valuable social data about the operations of the companies under the Uniform Small Loan Law."¹ An excellent account of regulation is given by Neifeld.²

**Associations**  
About one-third of the 3,667 personal finance companies are members of the American Association of Personal Finance Companies.³ This association, as may be surmised, endeavors to serve the finance companies by disseminating useful information, and doing everything possible to further the interests of the individual companies.

**Statistics**  
The net income for the Household Finance Corporation in Chicago for the years from 1929 to 1937 is as follows:⁴

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>$3,372,419</td>
</tr>
<tr>
<td>1930</td>
<td>4,068,156</td>
</tr>
<tr>
<td>1931</td>
<td>4,154,608</td>
</tr>
<tr>
<td>1932</td>
<td>3,634,280</td>
</tr>
<tr>
<td>1933</td>
<td>3,589,132</td>
</tr>
<tr>
<td>1934</td>
<td>3,646,646</td>
</tr>
<tr>
<td>1935</td>
<td>4,203,926</td>
</tr>
<tr>
<td>1936</td>
<td>5,268,285</td>
</tr>
<tr>
<td>1937</td>
<td>6,582,155</td>
</tr>
</tbody>
</table>

Dividends on common stock have been as follows:⁵

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Rate per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1933</td>
<td>$3.00</td>
</tr>
<tr>
<td>1934</td>
<td>3.15</td>
</tr>
<tr>
<td>1935</td>
<td>4.05</td>
</tr>
<tr>
<td>1936</td>
<td>4.15</td>
</tr>
<tr>
<td>1937</td>
<td>5.00</td>
</tr>
</tbody>
</table>

² Ibid., p. 129-124.  
³ Ibid., p. 133.  
⁵ Ibid., p. 13.
REFERENCES


**Definition**  Remedial Loan Associations are semi-charitable loan organizations which have come into existence since 1857 in the hope of solving the loan problems of the working class.

**History**  The two oldest are the Collateral Loan Company founded in 1857 and the Workingmen's Loan Association founded in Boston, Massachusetts. The biggest is the Provident Loan Society of New York founded in 1894. The Collateral Loan Company was the first to lend on a pawnbroking basis and the Workingmen's Loan Association the first to lend on chattels. 1

These organizations were founded on the idea that it would be better to lend than to give funds outright and that they would eliminate usurious lenders. 2 Part of a report of the Provident Loan Society shows how the capital was subscribed on a philanthropic basis. 3 "The original contributors did not expect that interest would be paid upon their contributions, certainly not at the start. The founders hoped, however, that it might ultimately be possible to pay interest regularly, for they realized that only by paying interest, could the society ever expect to secure

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any large increase of loanable funds."

They were organized to make small loans at reasonable rates ¹ and Mr. Ham expresses it as follows: ²

"With the formation of a national organization of commercial loan companies pledged to uplifting and dignifying the small loan business and assisting state organizations in securing legislation fixing terms fair to the borrower and rates that will yield a fair return to the lender, a new element has entered into the movement for improving small loan conditions...."

Following the passage of regulatory small loan laws, numerous other credit agencies came into existence and the growth of these societies was checked. ³ People now had a choice and the newer companies secured much of the business. Some of the Remedial loan companies concentrated on selling to commercial companies because they felt that they were no longer needed now that properly supervised and conducted companies were coming into existence. ⁴

Most of the Remedial Loan Associations were organized during the period from 1910 to 1915. ⁵ Out of 27 of them, 19 were organized since 1910. ⁶ The Provident Loan Society has 16 offices throughout New York. ⁷

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¹ The Outlook, March 1, 1916, p. 495.
⁴ Ibid., p. 147-148.
⁵ Clark, Evans, Mass Credit, p. 121. The Survey, November 1, 1930
⁷ Clark, Evans, Mass Credit, op. cit.
The National Federation of Remedial Loan Associations is a trade association, and its objects can best be explained by referring to part of its constitution: 1

"The object of the organization shall be to encourage the formation of local organizations and to aid and direct persons interested in the work and who contemplate organizing remedial (loan) societies giving such information and advice concerning legislation, finance, problems of administration and general information necessary for organization and management."

In 1910 The Russell Sage Foundation established a Division of Remedial Loans, later changing the name to the Department of Remedial Loans (1924). This move increased the effectiveness of the National Federation of Remedial Loan Associations. 2

**Dividends**
Dividends varied widely, ten associations paying 6%, five paying 7%, six paying 8%, and, of those having no limitation, eight paid 7%. 3

**Interest**
Interest is charged on the unpaid balance and varies from 1 to 3% per month. 4

**Fees**
Fees are charged by some companies and deducted in

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2. Ibid., p. 87
advance. On an average loan of $78, the fee is about $3.  

Security  The classes of securities required varies and the following tabulation shows which types predominate:

<table>
<thead>
<tr>
<th>Security</th>
<th>No. Companies Requiring It</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pledges or chattels</td>
<td>12</td>
</tr>
<tr>
<td>Chattels only</td>
<td>7</td>
</tr>
<tr>
<td>Pledges only</td>
<td>4</td>
</tr>
<tr>
<td>Chattels, pledges, co-maker</td>
<td>3</td>
</tr>
<tr>
<td>notes</td>
<td></td>
</tr>
<tr>
<td>Chattels and co-maker notes</td>
<td>1</td>
</tr>
</tbody>
</table>

Opposition  There was considerable opposition to Remedial Loan legislation. Some of the attitudes typical of a few of the Congressmen are given by Mr. Ham as follows:  

"The loan-shark bill as presented at the last session would have made it legal to charge 24% a year on money borrowed. This would have been detrimental to the needs of the District and I voted against it. There is not a place in the country where such a rate of interest is tolerated, much less made legal."

Another remarked:

"I do not think the money-lenders who seek to get 27% a month ought to be protected."

Another added:

"There should be a limit of 6% fixed."

It is evident that there was a failure to grasp the problem of the corrective legislation and this lack had to

2. Ibid.
be overcome by proper education as to what the real costs of the business were and what a fair interest rate should be.

Statistics  In 1930 the outstanding loan balance was $32,000,000 backed by a capital of $24,500,000. The total number of loans was 757,000 representing an average loan of $78. The surplus was $9,500,000. 1

In 1936 there were 25 companies but 3 were liquidating and 2 more were weak. 2 They loaned $54,000,000 and had an outstanding loan balance of $34,000,000. 3

Other lending agencies have reduced the position of remedial loan associations to one of secondary importance. "They still keep down a large number of pawn shop rates, and will continue to do so; their business is still growing, but they no longer completely dominate the pledge credit field. The remedial loan society is perhaps entering into a period of gradual decline."

REFERENCES

1. The Outlook, March 1, 1916.

2. The Survey, December 30, 1916; March 10, 1917; November 1, 1930.


Definition

Employer loans refer to loans made by organizations set up or encouraged by employers as an accommodation to employees in their own plants.

History

Here, again, it is impossible to give any detailed information of employer loan plans due to the paucity of literature. The General Electric Company in 1926 organized a Relief and Loan Plan whereby employees who were members of the plan for six months, and had been out of work at least two weeks could borrow up to $200 at the rate of $80 a week.

The Toro Manufacturing Company in 1926 organized a loan association. The loans, depending on the earning capacity and other obligations of the borrower, were made in amounts from $10 to $200 at 3% interest. Neifeld estimates that these plans had about 50,000 borrowers and the funds employed, about $20,000,000. These plans are generally operated on credit union principles. 1

Loans

Loans of less than $25 are generally unsecured. They are repaid in a lump sum. 2 The largest known loan was one for $10,000. 3 In general, the total of the installments averages about $200. 4 Sometimes they take the

2. Ibid.
form of credit orders for groceries and other necessities. 1
The period of repayment varies greatly may extend form one
week to two years. 2 Another estimate placed the average
loan at less than $500. 3

Interest     Generally there is no charge made for interest
on employer loans. 4 Exemptions are sometimes based on the
amount of the loan. 5

Funds     Funds are generally given by the company. 6 Some
plans provide for a contribution both by the employees and
the employer.

Losses     Losses are apt to be frequent. In many instances
it is obvious at the time the loan is granted that repayment
cannot be made and the loan is considered more or less a
loss. 7

1. Company Loans to Unemployed Workers, p. 5. Industrial
Workers' Section, Princetion University, New Jersey, 1932.
3. Ibid.
6. The Business Week, July 27, 1932, p. 11
7. Company Loans to Unemployed Workers, op. cit.
REFERENCES


3. Company Loans to Unemployed Workers, Princeton University, Princeton, New Jersey, 1932. Study made by the Industrial Relations Section on Employer Loan Plans.


AXIAS

Definition

Axias (achtizah) are voluntary, unlicensed, unchartered, and unregulated savings and loan groups found chiefly among foreign language groups (generally Jewish).

History

There is no published material upon which to base an accurate historical account of these organizations. This is due chiefly to the small size and informal organization which is characteristic. Members are generally not in business primarily as a sort of business and no offices are maintained which are open to the public but rather are they fraternal groups, outgrowths of clubs, and family groups. They are very often centered around a mutual benefit organization and are often found in the groups of a particular synagog. Often these little social clubs having axias meet periodically as a social gathering, later collect dues and transact loans, and eventually end up in a dance, or friendly card game. Membership is very common among women's groups and loans are made to help husbands in their business ventures or for household necessities. Sometimes a family may pool their savings which are later lent out only to the members of that family or close personal friends. Sometimes they are the outgrowth of a club which was organized among members who migrated to the United States from the same town in a foreign

country. Business is nearly always conducted from a club room or home.

Neifeld says the word "axia" is a Yiddish corruption for the German "aktie" (pronounced aktzie) meaning "share". Clark maintains that it was derived from the Russian Jewish word, "achtizah".

Some of these groups are perpetual in character while others organize for a specified period. When they are organized for a limited period, they dissolve at the end of that time and distribute the assets and dividends and then reorganize all over again. It is customary for the bookkeeper to receive some small compensation for his trouble if the organization is of such size that considerable time must be devoted to it. Massachusetts in 1926, required that they dissolve or reorganize as credit unions.

Mr. Bernard M. Reisman, a Boston attorney has been associated with two Axias since 1928. He has kindly answered numerous questions which has made it possible to give a brief historical description of the following two associations:

Eaton Associates This organization, named after Eaton Street in the West End of Boston, was the outgrowth of a group of about half a dozen west end residents who began operations in 1928. Each member contributed $2 weekly.

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3. Ibid., p. 110.
In 1926 when they reorganized as a credit union, their assets were $4000. Most of this was outstanding in loans ranging from $25 to $500, the average loan being $200. In 1938, after twelve years of operation as a credit union, its assets have grown to $18,000, and its membership to 175. The average loan is still about $200 and there are about 40 borrowers at all times.

**Atlas Associates**

The Atlas Associates started among a group of Cambridge high school boys as a club in 1922. Later the members decided to pool their savings and loan them to members. It is now reorganized as the Atlas Credit Union and has assets of about $2000 and is operating in about the same manner as the Eaton Credit Union.

**Loans**

Loans are made only to members and sometimes are bid for.  

1. The restriction as to membership, however, is easy to circumvent and the members are generally in two distinct groups, the savers, and the borrowers. The borrowers becoming members only because they wish to borrow and join just prior to making application for a loan and agreeing to purchase shares representing a value equal to the loan. Mr. Henderson 2 estimates that loans of $50,000,000 are made annually and Mr. Neifeld 3 places this value at $350,000,000 annually.

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2. Ibid.
Interest charges vary from 6 - 10%. The real interest is often concealed behind numerous fees and by being discounted in advance. 1 Because its charges are unregulated they sometimes are very high. 2 Fees are usually paid to investigators and organizers who, if the organization is large enough, receive a sizable income. 3

Security  Indorsed notes or shares are the usual form of security. 4 Pawns are never accepted because of the lack of proper appraisal experience on the part of the officers and the disinclination to maintain a place for storage of pawned articles. An individual member may offer a number of shares equal in value to the loan as security for a borrower.

Funds  Funds are obtained from the savings of the members. In certain instances, these funds have a value of several hundred thousand dollars. 5 They are sometimes invested in real estate second mortgages. Mr. Henderson estimates the total of all Axia Funds at $30,000,000. 6

Dividends  It is easy to accumulate savings because the dividends received are higher than could be obtained elsewhere and often pay 20%, the average, however, being

4. Ibid.
5. Ibid.
6. Ibid.
about 10%.

Losses The losses due to dishonesty on the part of borrowers are not as frequent nor as large as those occasioned by the dishonesty of a member administering the funds. He may steal funds openly or cause a loss by unwise credit policies prompted by personal gain or interest.
REFERENCES


3. Clark, Evans, Mass Credit. Survey, November 1, 1930.
STUDENT LOANS

History

The law has always favored the founding of scholarships and loan funds from very early times. 1 Persons desiring a commendable and philanthropic outlet for funds have favored student loan and scholarship funds. These funds have made possible education which otherwise would never have been afforded by the student who had very little money or none at all.

Desirability

It is a common belief that it is better to lend money to students than to give it outright, 2 however, students who graduate heavily loaded with debt have a difficult financial burden oppressive if his field of work is overcrowded or underpaid. Ministers, because of the low income received, are especially hard pressed. Women face another problem which Dr. Paul Papenoe, secretary of the Human Betterment Foundation summarizes as follows: "Loaded with debt at graduation the girl must turn her back on marriage until she pays it off. If a man proposes she cannot answer, 'I should be delighted to wed if you will assume my college indebtedness'. By the time she is ready to listen to proposals the men in her group have married." 3

When the loan or scholarship is of such value that it represents only a part of the student's expenses and this

2. School and Society, January 7, 1933, p. 6
3. The Literary Digest, August 15, 1931, p. 19.
sum must be supplemented by work, the poor student has assumed a burden which bears down upon him throughout his college course and continues on like a plague after graduation. This problem has been realized by many of the leading schools and an attempt to cope with it has been made by granting loans plus scholarships which are of sufficient size that the student can at least be free from worry and devote his full time to studying.

Types of Loan Funds

All sorts of organizations and people establish loan funds which are available for the pre-college student as well as the college and graduate student. The largest are: 1. great foundations provided by gift or bequest, 2. loan funds in common or endowed institutions established by alumni, gifts, or from institutional funds. 1 Lists of loan funds are contained in The Elementary School Journal for October 1931 on page 85 and on page 14 in Bulletin No. 2, Self Help for College Students, Department of the Interior, Bureau of Education, 1929, U. S. Printing Office, Washington, D. C.

In 1933 the American Alumni council proposed the establishment of credit unions to provide $15,000,000 in loan funds to enable 100,000 students to return to school.

A few institutions have emergency loan funds available

1. School and Society, June 1, 1935. p. 733.
for periods up to 90 days to meet sudden temporary financial needs. ¹

**Recipients**  Loans are not made to freshmen, as a rule, until at least one semester's work is completed and about half the colleges feel that they should not receive any loan. ¹ Freshmen can receive loans from high school and other outside funds which will enable them to finance part of the first year. Marriage or fraternity affiliations do not influence the granting of a loan. ¹

"Students of ability, who are known to fulfill undertaken obligations, who are in good health and who do not prepare themselves for overcrowded professions can be considered preferred risks." ²

Henrietta Repperger has written an illuminating article on recipients in the Atlantic Monthly for April 1934 entitled, "The Kept Student". (449)

Character, scholarship, evidence of financial need, industry and thrift are all considered in deciding who the lucky recipients shall be. ³

**Amount of Loan**  Loans vary from $150 to $1000 a year and from $200 to $2000 for the entire college course. ³

**Interest**  Interest is nearly always charged on loans past due and varies from 4 to 10% with the average charge being 6%.

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¹ School and Society, October 22, 1932, p. 538.
² School and Society, February 1, 1936, p. 157.
³ School and Society, October 22, 1932, p. 538.
Repayment  In order to insure repayment the use of guarantors is common. Definite dates are fixed and parents or guardians may be requested to approve. 1

Delinquency  Follow up notes and personal interviews are common methods for getting delinquents to make payments. Sometimes the entire responsibility is placed upon the student, by emphasis on his honor. 1 Collection agencies or legal means may be resorted to in collecting poor accounts but wisdom rules against these methods. 1 Greater success is obtained by emphasis on selection and honor, and no-payments are generally due to inability to pay. 2

Losses  A certain amount of loss is inevitable. Interest income is sometimes able to off-set these losses and prevents the loan fund from being gradually depleted. Losses are reduced by: 1. proper selection, 2. logical repayment plans, 3. guarantors and insurance, 4. efficient administrative procedures. 3

Statistics  Demands for loans have decreased since the FERA employment for college students was made available. 4

The loan fund of the Harvard Business School during its twenty years of operation has loaned $900,000, and requires no security or indorsements.

3. School and Society, February 1, 1936, p. 157
The Yale loan fund loaned $612,223 to 1205 students in 1934. 1

About 282 colleges and universities have loaned funds amounting to $400,000,000. 2

Columbia University has lent more than $1,500,000 to students during the past 25 years. In 1932-1934, about $183,000 was lent to 974 students from a principal amounting to $700,000.

2. School and Society, December 8, 1928, p. 718.
REFERENCES


2. The Literary Digest, August 15, 1931.

   1932, October 22. (An analysis of results of the survey on loan fund administration in the U. S.)
   1933, January 7, July 8, December 30.
   1934, July 28, November 10.
   1935, June 1, July 20, August 17 and 31, December 28.
   1936, February 1.
The weak should be protected from the strong: this is the basic principle which underlies the regulation of loan agencies. Most consumers are ignorant of the law and in addition have no desire to learn about it or to go to the bother of discovering for themselves just what type of a contract they are binding themselves to and how much it is going to cost them. The path of least resistance is to take a loan from the handiest source and sign anything, relying on the honesty of the lender. The complex wording of contracts on the part of some lenders is designed primarily to discourage reading and the consequent revelation of what is going on. In addition the borrower would require considerable education to be able to decipher some of the loan charges.

The complicated relationship of debtor to creditor involves such important things as: the risks involved, including the risk of not being able to meet payments promptly; the sacrifices incident to failure; the true costs of credit; the different credit sources; and the moral responsibility of debt. To understand all these points is probably beyond the ability or desire of many borrowers yet they are the basis upon which a decision must be made.

Regulation is necessary to protect the consumer from the bewildering systems of loan arrangements. With the existence of unregulated agencies, all sorts of complicated loan plans flourish for the sole purpose of hiding from the borrower the true cost of the loan. There are two reasons for this desire to hide information: first, it is the attempt on the part of dishonest lenders to conceal an usurious rate and secondly, it is an attempt on the part of honest lenders (who are charging rates that are fairly low) to lead the borrower to believe that their costs are lower than other agencies. With proper disclosure requirements, all lenders would be required to express their rates in a uniform manner thus making it easy for borrowers to compare costs. The most common methods of concealing true charges are by discounting interest in advance, not allowing interest on repayments, not providing a reduction of interest for shorter periods in the event that loans are repaid, and including various charges for investigation, filing, etc. It follows, naturally, that if a uniform and understandable system of expressing interest is to be effective there should also be a uniform scale of charges.

One thing which is very prevalent in writings upon usury is the habit of taking a small loan plus all interest and charges and showing how terrific the interest has been and how the poor borrower has been taken advantage of. One example of this occurred when a writer related how a person borrowed $5, was charged 6½% interest in advance, and an in-
vestigation fee of $2. Obviously the cost of this loan was excessive but you cannot justly accuse the lender of charging an usurious rate. There is a minimum cost in granting every loan and this element should be kept apart from the interest rate. On small sums from $5 to $50, it causes the net cost of the loan to the borrower to be excessive, but on larger loans the charges are absorbed and seem negligible.

It is only through proper uniform methods both relating to interest, accounting, and reporting that a proper understanding and equitable system of doing business can be achieved. Regulation must be broad and allow a fair rate of return on all loans to prevent the influx of unlicensed lenders and the withdrawal of legitimate lenders because of failure to realize an adequate return upon their investment. Hand in hand with this improvement should be joined a movement of publicity to enlighten the public on the entire subject of borrowing and bring the lending profession into the open and place it on the same status as the banking profession where it belongs.

The future of the loan business, I think lies in the proper absorption of its functions by the banks. It is economically and sociologically justly a part of our banking system. There is a great field for the expansion of banking services and a number of advantages which the bank possesses over the other lenders. Some of the most important advantages are as follows:
1. No great outlay of capital for rent, heat, light, or labor is needed because the loan department can expand from the desk of one official of the bank to its own department in the bank, paying for itself in proportion to its expansion. The other loan agencies must incur heavy promotional expenses for about two years and then charge these off as the business expands.

2. It affords an ideal and profitable outlet for surplus funds.

3. It creates goodwill and can result in increasing depositors.

4. The bank is the ideal place to transact the loan business and the distasteful atmosphere which, undeservedly, surrounds the loan transaction can be successfully removed:--people would feel more at ease borrowing from a bank.

The banks, through lower rates, better facilities, and proper understanding and atmosphere are thus, as I see it, in an ideal position to absorb the lending functions. Competition with mutual organizations where rates are low because of donated services and quarters will be difficult. The use of these organizations is limited and of course subject to a great many personal failings. Through reduction in costs and proper administration, banks should be able to equal the rates offered by mutual organizations and gradually control the lending field until they are the sole source of loans or at least the most predominate.

In conclusion, I wish to stress the importance of the
social aspect of the loan agencies. They are filling a need which is as commendable and often as necessary as the services of our most respected professions. Gradually with the publicity and reforms instituted by various philanthropic agencies they are rendering a commendable service which is driving out the loan sharks and unlicensed lenders. With the right kind of competition further improvements will occur and gradually the fittest will arrive at the top and settle down to its proper position in the economic system.
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