

Commercial Banks and Consumer Instalment Credit

BY JOHN M. CHAPMAN AND ASSOCIATES

Financial Research Program
Studies in Consumer Instalment Financing

3

NATIONAL BUREAU OF ECONOMIC RESEARCH

COPYRIGHT, 1940, BY NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.
1819 BROADWAY, NEW YORK, N. Y. ALL RIGHTS RESERVED

PRINTED IN THE UNITED STATES OF AMERICA BY
THE HADDON CRAFTSMEN, CAMDEN, N. J.

Preface

THE National Bureau of Economic Research inaugurated in 1938 a broad program of research in finance, under grants from the Association of Reserve City Bankers and the Rockefeller Foundation. The initial project of this program has been a comprehensive investigation of the instalment financing of consumers. The present study of commercial banks as agencies of consumer instalment credit is one of a series dealing with the important financial institutions which participate in consumer instalment financing. The series also includes studies covering personal finance companies, sales finance companies, industrial banking companies, and government agencies in the field (Federal Housing Administration and Electric Home and Farm Authority).

The consumer instalment financing investigation of which these institutional studies are a part comprises in addition a survey of the legal aspects of this type of credit operation; a study dealing with consumer instalment credit and economic fluctuations, which treats the underlying economic implications of the subject, and two special statistical studies, one presenting measures of the volume of consumer instalment credit, the other picturing statistically the pattern of consumer debt by income groups and thus outlining its broader social and economic significance.

In increasing numbers commercial banks have come to engage in consumer instalment credit activities. Their participation is both direct and indirect. When direct, it takes the form of personal lending and the financing of consumer

purchases on instalment terms, principally through personal loan departments. Indirectly, it takes the form of loans to sales finance companies, personal finance companies, industrial banking companies and credit unions.

The preparation of a comprehensive study in this relatively untouched field has necessitated many personal interviews with bank officers in charge of personal loan departments and of lending to consumer financing agencies. It has required also an extensive circulation of questionnaires, a large volume of correspondence and an examination of published materials and reports.

The principal body of quantitative data for the present study was derived from a series of five questionnaires addressed to banks throughout the country. The first, a simple inquiry (Exhibit I, Appendix A) as to whether the bank operated a personal loan department, was sent with the cooperation of the Federal Deposit Insurance Corporation to all banks in the United States. Nearly 6,000 replies were received, of which approximately 1,750 indicated the operation of such departments. These questionnaire returns were then checked with the lists of personal loan departments prepared by the Russell Sage Foundation and the Consumer Credit Institute of America, Inc., and with special lists made available by several state banking departments, to yield a final list of 2,200 banks reported to be engaged in personal lending on a departmental basis.

Two questionnaires covering consumer instalment credit activities were then sent to the banks reported to have personal loan departments. One of these two questionnaires (Exhibit II, Appendix A), requesting information in detail, was sent to 274 selected banks whose personal loan departments had been functioning, presumably, for several years, and the other (Exhibit III, Appendix A) was sent to the remaining 1,926 banks. Replies indicating the existence of personal loans departments were received from 215 of the

274 banks in the first group and from 853 of the 1,926 banks in the second. In addition, data on 154 banks also operating departments were obtained indirectly from various state banking departments, from the Russell Sage Foundation and from the Consumer Credit Institute of America, Inc. Out of the 2,200 banks, 657 did not reply to either questionnaire and 321 reported that they were not operating personal loan departments. If the 657 banks which failed to report were divided between those with and those without personal loan departments in the same proportions as were the 1,543 banks on which data were received, the total number of individual banks operating such departments during the period of our survey, September 1938 to August 1939, would approximate 1,750. We have adopted a figure of 1,500, however, as a conservative estimate of the total number of departments. On the basis of the latter estimate, it may be assumed that the maximum questionnaire coverage obtained in the present study was about four-fifths of the individual banks engaged in departmentalized personal lending activities.

To cover the activities of banks in financing retail installment sales, that is, in acquiring sales finance paper, a special questionnaire (Exhibit IV, Appendix A) was sent to 1,175 banks, of which 712 did not reply and 198 stated they could not furnish information. Of the banks indicating participation in this type of consumer financing, some did not operate personal loan departments and others did; in general sales financing activities were conducted through such departments.

A final questionnaire (Exhibit V, Appendix A) was designed to treat the activities of commercial banks in financing such consumer credit agencies as sales finance companies, personal finance companies, industrial banking companies and credit unions. Questionnaires on this phase of the subject were circulated among 550 large banks thought to be engaged in such financing; of these 271 did not reply and 74

indicated they did not make loans to these agencies or could not supply the information requested. Supplementary information on the bank borrowing of sales finance companies was obtained from 48 leading companies.

Finally, a selected group of banks was asked to supply special tabulations on the operations of their personal loan departments. In particular, a number of banks provided us with a sample of schedules (Exhibit VI, Appendix B) covering pertinent information from loan application blanks in their personal loan files—data which enabled us to make an intensive experimental analysis of risk factors in personal lending.

In a study of this character we are necessarily under great obligation to many banks and other firms that have cooperated by responding to our questionnaires and providing us with materials. We take pleasure in acknowledging this indebtedness, for without the generous assistance we have received this study would be much less comprehensive and adequate. Many bank officers have given freely of their time, sharing with us the technical knowledge they have gained through years of banking experience.

We are deeply indebted also to the banking departments of several states. These departments cooperated by answering numerous letters concerning the consumer instalment activities of banks under their supervision, and by responding to a special inquiry dealing with the legal status of consumer lending operations of banks incorporated under state law. The department of banking of New York state graciously made available income and expense data on personal loan departments of banks under its supervision which are licensed under state law to operate such departments.

This study has taken final form only as a result of Dr. Chapman's careful planning of questionnaire schedules, his patient and diligent efforts to obtain the maximum number of replies, and his painstaking analysis and tabulation of

returns. The necessity of establishing and maintaining close contacts with bank officers engaged in consumer instalment financing, of consulting frequently with public officials of federal and state bank supervisory agencies, and of supervising a questionnaire survey, made his task particularly arduous. Because of the scope of the study, various members of the financial research staff have been called upon to make special contributions.

Raymond J. Saulnier assisted in much of the original interview work and in the preparation of questionnaires. In addition, he assumed charge of assembling and analyzing the data in Chapter 4 on bank methods and experience in the extension of consumer credit, prepared the analysis of customer charges in bank personal lending contained in Chapter 6, and collaborated in the final revision of the text.

Sidney S. Alexander was in charge of much of the questionnaire tabulation, and prepared the preliminary study of customer charges for Chapter 6. He also made the initial study of the income, expenses and profits of bank personal loan departments, based almost entirely on data covering New York state banks, which is presented in Chapter 7.

Isabel L. Davis assisted in preparing texts of Chapter 2, dealing with the legal status of commercial bank activities in consumer instalment financing, and of the Summary Survey.

David Durand made the study of personal loan borrowers, contained in Chapter 3, and also prepared the ingenious analysis of factors affecting credit risk in personal lending, based on an original sample of schedules drawn from the loan applications of customers of bank personal loan departments, presented in Chapter 5.

The editing of the first draft was done by Elizabeth Todd, and the final editing for publication by Bettina Sinclair.

RALPH A. YOUNG, *Director,*
Financial Research Program

May 1940

Author's Acknowledgments

MY PERSONAL obligation to the many bankers and executives of consumer credit agencies who have assisted and cooperated in this study is very great, but it is impossible to list here the names of all who have given generously of their time and knowledge to make this investigation fruitful.

My greatest debt, of course, is to my associates on the financial research staff of the National Bureau of Economic Research who have collaborated with me in this work: Raymond J. Saulnier, David Durand, Sidney S. Alexander, Isabel L. Davis, Elizabeth Todd and Bettina Sinclair. The burden of statistical tabulation was carried by Aileen Barry, Virginia Crowley, Renée Sullivan, Dorothy Weitzel and Peter Franck.

I wish to acknowledge also the special help of several bank supervisory officials, particularly Charles H. Schoch, Deputy Superintendent, and Vincent C. Reuther, Examiner of Banks in New York; Samuel H. Squires, State Superintendent of Banks in Ohio; and Charles G. Saffin, Attorney-Examiner of the Division of Banks in Ohio. I am indebted for advice and counsel in developing the plan of this study to Winfield W. Riefler, Institute for Advanced Study; Donald Thompson, Chief, Research Division, Federal Deposit Insurance Corporation; C. A. Sienkiewicz, Assistant Vice President, Federal Reserve Bank of Philadelphia; Rolf Nugent, Director, Department of Consumer Credit Studies, Russell Sage Foundation; Margaret M. Grobbs, Economist, Consumer Credit Institute of America, Inc.; Otto C. Lorenz, Management Engineer; and George T. Spettigue, Executive Secretary, Bankers Association for Consumer Credit.

I am naturally very much indebted to Ralph A. Young, Director of the Financial Research Program, for his untiring help and constructive criticism at all stages of the study, and particularly for his assistance in the revision and reorganization of the manuscript.

JOHN M. CHAPMAN,
*Financial Research Staff (National Bureau of Economic
Research)*
and
Columbia University

Contents

PREFACE	ix
AUTHOR'S ACKNOWLEDGMENTS	xiv
SUMMARY SURVEY	3
1. THE RISE OF CONSUMER FINANCING BY COMMERCIAL BANKS	(21-46)
Quantitative Importance of Consumer Instalment Financing by Banks	23
Personal Loan Activities of Commercial Banks	27
<i>The Growth of Personal Loan Departments</i>	27
<i>The Extent of Personal Loan Financing</i>	32
<i>Type and Size of Personal Loans</i>	37
Sales Financing Activities of Commercial Banks	41
2. THE LEGAL STATUS OF THE CONSUMER CREDIT OPERATIONS OF COMMERCIAL BANKS	(47-62)
Licensing and Regulation	50
Customer Charges	51
Size of Loans and Length of Contract	57
Suggested Uniform Personal Instalment Loan Law	58
Time-Sales Financing	60
3. THE CUSTOMERS OF PERSONAL LOAN DEPARTMENTS	(63-79)
Income Characteristics of Borrowers	64
Vocational Characteristics of Borrowers	69
Personal Characteristics of Borrowers	73

Financial Characteristics of Borrowers	75
Amounts Borrowed	76
4. OPERATING METHODS AND COLLECTION EXPERIENCE (80-108)	
Methods of Obtaining Business	81
<i>Personal Loans</i>	81
<i>Sales Finance Paper</i>	82
Organization of Consumer Loan Departments	88
Personal Loan Procedure	90
Sales Finance Procedure	95
Loan Terms	97
<i>Personal Loans</i>	97
<i>Sales Finance Contracts</i>	100
Collection Experience	101
<i>Personal Loan Collections</i>	101
<i>Sales Finance Collections</i>	107
5. FACTORS AFFECTING CREDIT RISK IN PERSONAL LENDING (109-139)	
Procedure in the Analysis of Bad-Loan Experience	111
Applicability of Findings	116
Factors Affecting Credit Risk	119
<i>Personal Characteristics of Borrowers</i>	119
<i>Vocational Characteristics of Borrowers</i>	123
<i>Financial Characteristics of Borrowers</i>	127
<i>Characteristics of the Loan</i>	133
Relative Importance of Risk Factors	137
6. CUSTOMER CHARGES (140-162)	
Cash Instalment Loans	141
<i>Interest Charges</i>	141
<i>Charges for Credit Investigation, Insurance and Delinquency</i>	146

CONTENTS	xix
<i>Aggregate Cost to the Consumer</i>	151
Sales Financing	156
<i>Customer Charges on Direct-to-Consumer Financing</i>	157
<i>Customer Charges and Reserves on Instalment Paper Obtained through Dealers</i>	158
7. INCOME, EXPENSES AND PROFITS	(163-192)
Gross Income	166
Expenses	171
Unit Cost of Personal Loans	172
Relation of Costs to Size of Loan Account	174
Relation of Unit Loan Cost to Loan Characteristics	181
Loan Profitability by Size and Length of Note	182
Personal Loan Department Net Profits	188
Cost of Sales Finance Paper	191
8. COMMERCIAL BANK FINANCING OF CONSUMER INSTALMENT CREDIT AGENCIES	(193-218)
Commercial Banks as a Source of Funds	193
Bank Loans to Sales Finance Companies	197
<i>Terms of Bank Loans to Sales Finance Companies</i>	201
<i>Open Market Paper of Sales Finance Companies</i>	206
<i>Bank Standards for Loans to Sales Finance Companies</i>	207
Bank Loans to Personal Finance Companies	211
<i>Terms of Bank Loans to Personal Finance Companies</i>	213
Bank Loans to Industrial Banking Companies	216
9. COMPETITIVE RELATIONS	(219-242)
General Characteristics	220
Personal Finance Companies and Commercial Banks	222
Industrial Banking Companies and Commercial Banks	227
Sales Finance Companies and Commercial Banks	230

xx		CONTENTS
	Interbank Competition	236
	Relation of Costs to Competition	238
	Cooperative Relations	240
	APPENDIX A. SCOPE AND PROCEDURE OF QUESTIONNAIRE SURVEY	(245-267)
	Contents of Appendix A	245
	APPENDIX B. CREDIT RISK ANALYSIS (SUPPLEMENT TO CHAPTER 5)	(271-308)
	Contents of Appendix B	271
	INDEX	309

Tables

1. Growth in the Number of Banks Operating Personal Loan Departments, 1925-38, by Size of Bank and by Region	28
2. Amount of Year-End Outstandings of Personal Loans, Annual Increase in Outstandings, and Personal Loans in Percent of Total Loans and of Total Loans and Investments, for Four Groups of Reporting Banks, 1934-38	31
3. Number and Amount of Personal Instalment Loans Reported Outstanding, December 31, 1938, by Size of Reporting Bank and by Region	33
4. Number and Amount of Personal Instalment Loans Reported Made During 1938, by Size of Reporting Bank and by Region	34
5. Amount of Personal Loans, Total Loans, and Total Loans and Investments Outstanding; and Personal Loans in Percent of Total Loans and Total Loans and Investments, as of December 31, 1938, by Size of Reporting Bank and by Region	36
6. Percentage Distribution of Personal Instalment Loans Made by Reporting Banks of Different Sizes and Regional Location, 1938, by Type of Loan	38
7. Average Size of Different Types of Personal Instalment Loans Made by Reporting Banks, 1938, by Size of Bank and by Region	40
8. Percentage Distribution of Retail Instalment Paper Acquired by Reporting Banks in Different Regions from Dealers and Individual Customers, 1938, by Type of Commodity Financed	43
9. Amount of Year-End Outstandings on Retail Instalment Paper Acquired by Reporting Banks in Different Regions from Dealers and Individual Customers, 1936-38, 1937-38, 1938	45
10. Legal and Contract Rates in All States and in the District of Columbia	52
11. Percentage Distributions of Cash Borrowers and of Three Population Groups, by Income Level	66
12. Percentage Distribution of Borrowers from Two Personal Loan Departments and Two Personal Finance Companies, and of the Working Population, by Occupation	70
13. Percentage Distribution of Borrowers from 21 Personal Loan Departments and of Non-Farm Workers in the United States, by Industry	72
14. Percentage Distribution of Borrowers from 21 Personal Loan Departments, by Number of Years in Present Employment	73

15. Percentage Distribution of Borrowers from One Personal Loan Department, and of the Gainfully Employed Population of New York City, by Age	74
16. Percentage Distribution of Borrowers from 21 Personal Loan Departments, by Number of Years at Present Address	75
17. Percentage Distribution of Loans Made by Two Personal Loan Departments, by Size of Loan	77
18. Percentage Distribution of Borrowers from One Personal Loan Department, by Intended Use of Funds	78
19. Percentage Distribution of Sales Finance Paper Obtained from Various Sources by Reporting Banks, 1938, by Type of Commodity Financed	86
20. Number of Reporting Banks Obtaining Sales Finance Paper from Various Sources, 1938, by Type of Commodity Financed	87
21. Number of Banks Reporting Various Minimum and Maximum Sizes for Personal Loans	98
22. Number of Banks Reporting Various Minimum and Maximum Contract Lengths for Personal Loans	99
23. Number of Banks Reporting Various Percentages of Delinquency on Personal Loans Outstanding December 31, 1938, by Extent of Delinquency	102
24. Number, Total Amount and Average Amount of Charge-Offs of Personal Loans of 171 Banks, 1938, and Charge-Offs of 209 Banks, 1938, in Percent of Total Personal Loans Outstanding December 31, 1938, by Region	105
25. Total Net Charge-Offs of Personal Loans, and Net Charge-Offs and Loss Reserves in Percent of Total Personal Loans Made, for 65 New York State Banks, 1936-38	107
26. Percentage Distribution of 1,713 Personal Loan Applications Rejected by a Metropolitan Bank, by Reason for Rejection	112
27. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Age of Borrower	120
28. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Sex and Marital Status of Borrower	121
29. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Number of Borrower's Dependents	122
30. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Stability of Borrower's Residence	122
31. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Occupation of Borrower	124
32. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Industrial Affiliation of Borrower	126
33. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Borrower's Tenure of Employment	127

T A B L E S

xxiii

34. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Annual Income of Borrower	128
35. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Amount of Note in Percent of Annual Income of Borrower	130
36. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Selected Asset and Liability Items of Borrower	131
37. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Amount of Note	133
38. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Type of Security	134
39. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Length of Loan Contract	135
40. Percentage Distribution of Good-Loan and Bad-Loan Samples, by Intended Use of Funds	136
41. Relative Importance of Factors Other Than Income in the Appraisal of a Loan Applicant's Credit Standing, as Estimated by 126 Banks	138
42. Number of Reporting Banks Charging Various Discount Rates on Personal Loans, by Region and by Type of Loan	143
43. Average Discount Rates Quoted by Reporting Banks on Three Types of Personal Loans, by Region	144
44. Index of Discount Rates Quoted by Reporting Banks on Three Types of Personal Loans, by Size of Bank	145
45. Number of Banks Reporting Specified Credit Investigation Fees	147
46. Number of Banks Reporting Specified Delinquency Fines	150
47. Number of Reporting Banks Charging Various Specified Interest Rates and Credit Investigation Fees on Comaker Personal Loans	152
48. Total Money Cost and True Annual Interest Rate on 12-Month Personal Loans of \$50, \$100 and \$300, by Various Hypothetical Rate Schedules	154-155
49. Distribution of 39 Banks Replying to Questionnaires, and of Two Groups of New York State Banks, by Gross Income Earned in 1938 per \$100 of Average Personal Loan Account	167
50. Percentage Distribution of Total and Operating Expenses of Personal Loan Departments of Reporting New York State Banks, 1937-38, by Item of Expense	171
51. Distribution of Two Classifications of Reporting New York State Banks, by Operating Cost in 1938 per \$100 of Average Personal Loan Account	173
52. Operating Costs and Total Costs of Personal Loan Departments of Reporting New York State Banks, 1937-38, per \$100 of Loans Made and per \$100 of Average Loan Account	176
53. Two Distributions of Reporting New York State Banks, 1938, by Additional Cost per \$100 of Increase in Loan Account of Personal Loan Departments	178

54. Two Distributions of Reporting New York State Banks, 1938, by Index of Cost Elasticity for Increases in Loan Account	180
55. Hypothetical Net Prime Earnings on Personal Loans of Different Sizes and Durations Under Direct Cost Schedules Consistent with Expenses Reported by 65 New York State Banks for 1938	184
56. Hypothetical Net Prime Earnings on Personal Loans of Different Sizes and Durations When Personal Loan Department Facilities Are Utilized to Point of Lowest Average Direct Cost	186
57. Distribution of Two Classifications of Reporting New York State Banks, by Net Profits in 1938 per \$100 of Average Loan Account	189
58. Sources of Funds of Four Types of Consumer Credit Agencies, 1937, in Percent of Total Assets	194
59. Total Year-End Outstanding Loans, Year-End Outstanding Loans to Various Consumer Credit Agencies, and Consumer Credit Agency Loans in Percent of Total Loans of Reporting Banks for 1937 and 1938, by Type of Borrowing Agency	196
60. Sources of Funds and Receivables of 72 Sales Finance Companies, 1925, and of 48 Sales Finance Companies, 1934-38, in Percent of Total Assets	198
61. Sources of Funds of 3 National, 5 Regional and 40 Local Sales Finance Companies, 1937-38, in Percent of Total Assets	200
62. Percentage Distribution of Short-Term Borrowings of 48 Sales Finance Companies, 1934-38, by Type of Borrowing	202
63. Number of Banks Reporting Various Maximum and Minimum Maturities, and Usual Maturities, Prevailing December 31, 1938, on Loans to Sales Finance Companies	204
64. Number of Banks Reporting Various Maximum and Minimum Rates, and Usual Rates, Prevailing December 31, 1938, on Loans to Sales Finance Companies	205
65. Number of Banks Reporting Various Maximum and Minimum Interest Rates, and Usual Rates, Prevailing December 31, 1938, on Open Market Paper of Sales Finance Companies	207
66. Number of Banks Reporting Various Down Payment Standards Recommended to Sales Finance Companies on New- and Used-Car Retail Paper	209
67. Sources of Funds of 9 Personal Finance Companies, 1934-38, in Percent of Total Assets	212
68. Total Year-End Outstanding Loans to Personal Finance Companies of 102 Reporting Banks for 1937, and of 111 Reporting Banks for 1938, by Type of Loan	212
69. Number of Banks Reporting Various Maximum and Minimum Maturities, and Usual Maturities, Prevailing December 31, 1938, on Loans to Personal Finance Companies	214
70. Number of Banks Reporting Various Maximum and Minimum Rates, and Usual Rates, Prevailing December 31, 1938, on Loans to Personal Finance Companies	215

FINANCIAL RESEARCH PROGRAM OF THE
NATIONAL BUREAU OF ECONOMIC RESEARCH

Studies in Consumer Instalment Financing:
Number Three

Summary Survey

ONE of the most noteworthy developments in contemporary commercial banking has been the rapid expansion of consumer instalment credit activity. Although banks have long participated indirectly in consumer lending by making commercial loans to agencies which specialize in instalment financing, their current interest is in the establishment of their own personal loan and time-sales departments. Through these departments large numbers of commercial banks now extend cash instalment loans directly to consumers, finance instalment purchases on a direct-to-consumer basis and purchase retail instalment paper from dealers. This movement toward direct consumer financing appears to be attributable largely to the need for an outlet for bank funds which may yield higher returns than are available in other fields.

QUANTITATIVE IMPORTANCE OF CONSUMER INSTALMENT FINANCING BY COMMERCIAL BANKS

It is estimated that by the end of 1938, 1,500 commercial banks had functioning personal loan departments. Since many banks have been operating branches through which consumer instalment loans are made, the total number of banking offices now engaged in personal lending probably approaches 3,000. It is estimated further that commercial banks had consumer instalment loan outstandings of \$500,000,000, inclusive of sales finance paper, at the close of 1938, and that during the year their services were used by 1,000,000 to 1,500,000 people.

Commercial banks reached the position just described after a relatively short period of intensive growth in consumer credit operations. Out of approximately 1,200 known personal loan departments, 80 percent were established after 1931. In addition, reports from 100 banks show a combined increase of almost 200 percent in year-end consumer loan outstandings over the five-year period 1934-38.

Despite this rapid rise in outstandings, consumer loans constitute only a small proportion of the total earning assets of commercial banks. That proportion, however, is tending to increase. Thus for the group of 100 reporting banks, consumer loans rose from .8 percent of total loans and investments in 1934 to 1.9 percent in 1938. These figures, moreover, are an inadequate expression of the importance of instalment loans, since the gross return on such transactions is higher than that yielded by most other earning assets.

Comaker notes, averaging \$217 in size, comprised more than half the total volume of consumer loans made by 520 reporting banks in 1938. Secured loans were second in importance; those backed by conditional sales contracts, bailment leases, etc., averaged \$274 and those secured by savings passbooks, life insurance policies, etc., \$255. Probably most of the former were sales financing transactions while the latter were cash loans. Loans made on a single-name basis tended to be smallest, averaging about \$200. As for the time-sales activities of commercial banks, available information indicates that automobile financing is the most important source of business and that the financing of household appliances ranks second.

LEGAL STATUS OF CONSUMER CREDIT ACTIVITIES OF COMMERCIAL BANKS

National and state banks engaged in making cash instalment loans do so in most states under general banking laws that

contain no specific reference to loans repayable in instalments. Special legislation covering such credit grants has been enacted in only 10 states, and even these laws show little uniformity. Four states require a bank to obtain permission from state authorities before it may establish a personal loan department. In some states the legal maximum rate is specified and in a few states provision has been made for charges in addition to interest. One state, New York, prohibits charges other than discount except for fines, court costs and insurance premiums. Only seven states place a maximum limit on the amount to be advanced to a single customer, and in four of these the upper limit is \$1000. Four states have set a maximum length of contract for personal loans. While there has been some attempt to promote a uniform statute to regulate instalment lending, the movement has not yet produced any notable effect on state legislation.

There is even less regulation of time-sales financing: only Indiana, Michigan and Wisconsin have enacted laws applicable to these activities of commercial banks. Here also there is considerable variation. The Indiana law, which is the most comprehensive, requires that financing agencies be licensed, and stipulates in detail the information that must appear on the written contract. The Indiana Department of Financial Institutions is empowered to establish schedules of maximum legal charges and delinquency penalties and to regulate time-sales practices.

Certain features of the general banking statutes likewise affect the instalment credit activities of commercial banks. Provisions concerning the setting up of branches, insofar as they place limits upon the territory in which banks may operate, have a marked influence on consumer financing policies. In this respect the commercial bank is handicapped in comparison to some of the other consumer credit agencies which are permitted to operate on a national basis.

CUSTOMERS OF PERSONAL LOAN DEPARTMENTS

Statistical data on the customers of personal loan departments are by no means adequate but they do point to certain broad characteristics. It is apparent, for example, that people who borrow from personal loan departments have relatively high incomes. Although 35 percent of all families in the United States have annual incomes of less than \$1000, only about 5 percent of the personal loan department customers in our sample were in this income class; the majority received between \$1200 and \$3000. This income distribution is close to that of borrowers from industrial banking companies and somewhat higher than that of personal finance company customers.

The bulk of the personal loan department customers covered by our data were between 25 and 40 years of age. Three-fourths of the borrowers were men, two-thirds were married and two-thirds had one or two dependents. A quarter of the borrowers had maintained the same residence for at least 10 years and a still larger proportion had been at the address given at the time of the loan application from 2 to 10 years. Personal loan departments appear to draw less of their customers from the wage-earning groups than do personal finance companies. About 30 percent of the commercial bank borrowers were wage-earners, some 45 percent were employed in clerical occupations and another 20 percent were classified as managers, superintendents, foremen and proprietors.

The economic and social stability of personal loan department customers is evidenced further by the facts that over one-third of the borrowers studied had held the same job 10 years or more, that 80 percent of them had life insurance and that about one-half had some sort of bank account.

The sums borrowed ranged from \$100 to \$1000, but most of the advances were between \$100 and \$200. For almost one-half of the borrowers the loan amounted to less than 10

percent of annual income and for about 10 percent it came to 20 percent or more.

It is difficult to make a precise analysis of the uses to which the borrowed funds were put. Most frequently borrowers stated that they intended to apply the loan to the payment of debts already incurred. Another common incentive to borrowing is the desire to purchase an automobile or to acquire household goods; some banks attributed almost half of their personal loans to such purposes.

OPERATING PROCEDURES AND POLICIES

In developing their loan volume commercial banks employ advertising techniques similar to those of other consumer credit agencies. Nevertheless the most productive sources of new business are not advertising media but the recommendations of former or current customers. In addition commercial banks have worked out a number of special promotional plans. Some of them by prearrangement offer the employes of certain commercial and industrial firms the use of the bank's financing services; others make personal loans for the payment or consolidation of debts to patients of doctors and dentists and to customers of retail stores. Some banks have sought to attract borrowers from the professional classes by granting them particularly favorable terms.

Commercial banks obtain their time-sales financing business either through dealers or directly from consumers. Reports from 164 banks show that automobile financing for both new and used cars accounted for slightly more than half of their time-sales paper in 1938 and that it was originated by dealers and purchasers in about equal proportions. Retail purchasers supply more household appliance business than dealers, whereas the latter provide most of the paper covering time sales of furniture, soft goods, house-heating equipment and miscellaneous items. Banks which obtain a large

volume of sales finance paper through dealer contacts commonly extend inventory loans to the dealers as well.

In the larger personal loan departments the procedure for handling credit applications has become highly systematized. The credit investigation generally involves a verification of the information submitted by the applicant. The most important items pertain to the borrower's identity, his income and employment, his current indebtedness, his assets and his previous payment record. Questionnaire replies indicate that banks reject between 1 and 25 percent of the applications they receive. When the credit is granted, the borrower receives a cashier's check for the stipulated amount and directions for making instalment payments. The payments are usually made *monthly* and either applied directly to the loan or placed in a special deposit account which is used to retire the loan at maturity.

The procedure followed in the extension of sales finance credit differs from the method described above in that the bank must evaluate the collateral which serves as security. In addition, when the dealer carries some liability on the customer's note, the bank must also investigate his credit standing.

Commercial banks commonly establish certain standards regarding the sizes and maturities of instalment loans. With respect to the size of cash loans, the most frequently reported maximum was \$1000, and the most typical minimum \$50. The most usual maximum contract length was 12 months.

In sales financing, terms covering down payment and length of contract are applied also, although these requirements vary for different commodities. On automobile contracts down payments range from 25 to 40 percent of the cash selling price, with the concentration at $33\frac{1}{3}$ percent. New-automobile paper is generally written for periods up to 18 months, whereas the standards for used-car paper are usually more severe. Household appliances and house-heating

equipment are financed on more liberal terms than automobiles; contracts arising from the instalment purchases of soft goods often are of relatively short span and require no down payment.

COLLECTION EXPERIENCE

In the banks surveyed, both delinquent payments and charge-off losses on cash loans are kept down to relatively low levels. For most of the reporting banks, less than 1 percent of their loans were delinquent by 30 days or less at the end of 1938. Charge-offs in 209 banks reporting for 1938 amounted to .37 percent of their total loans outstanding at the end of that year. A smaller number of banks supplied data from which it has been calculated that in 1938 the average unpaid balance on loans charged off was \$108.

A particularly interesting figure on collection experience is provided by reports to the New York state banking department by 65 state banks. These banks are required to report charge-offs and recoveries classified according to the years in which the loans were made. From these data it appears that by the end of 1938 total charge-offs (less recoveries) on loans made during the year 1936 amounted to .27 percent.

Collection experience on sales finance contracts seems from available information to be slightly more favorable than that reported for cash loans. This difference may be attributable, however, to the fact that where sales financing contracts are purchased with recourse on the dealer the losses arising out of such transactions are carried by him rather than by the financing agency.

RISK FACTORS IN PERSONAL LENDING

An important aspect of this study is the analysis of credit risks based on a random sample of 2,765 cash instalment loans

made by 21 banks operating in 16 cities. This sample, selected from loans made over approximately the same period of time, was about equally divided between loans that paid out without collection difficulty and loans eventuating either in charge-off loss or in excessive delinquency. All cases studied involved actual grants of credit, so that the findings are relevant only to successful applicants for loans and not to the larger body of *potential* borrowers.

The professional group in the sample had a relatively good credit record, and the wage-earning group a relatively poor one. Classified by industrial affiliation, borrowers drawn from professional service, public service and independent hand trades appeared to be relatively good credit risks while those from the building and miscellaneous transportation trades were relatively poor risks. As for personal characteristics, credit experience improves as the age of the borrower increases, and women appear to be better credit risks than men; on the other hand, neither marital status nor the number of the borrower's dependents is significantly related to credit experience.

A study of the relation between a borrower's income and his credit record reveals that debtors in the low income groups met their obligations as punctually as did those in the high income groups and, furthermore, that customers whose notes represented a large proportion of their incomes were not, as might have been expected, less desirable as credit risks than persons whose borrowings amounted to a smaller fraction of their annual earnings.

These findings concerning the bearing upon credit experience of the number of the borrower's dependents, the size of the borrower's income and the borrower's note-to-income ratio suggest that factors of this kind, which would obviously affect a loan officer's judgment of the creditworthiness of a potential borrower, are so effectively taken into account in the selection of borrowers that they do not have any signifi-

cant influence on payment records. Conversely, it appears that factors such as age, occupation and industrial attachment are not evaluated as effectively in the initial sifting of applications.

Further indications of relative credit risk are to be noted in those characteristics which reflect economic and social stability. Borrowers possessing life insurance, bank accounts and real estate or securities appear to have better records than those without such assets. On the other hand, borrowers who stated that they owned automobiles and household goods did not prove more desirable than those who did not. The good-loan sample did, however, include a larger proportion of persons who had maintained the same residence and employment for a number of years than did the bad-loan sample.

The proportion of the borrowers in the bad-loan group with charge and instalment accounts was not notably larger than the proportion of comparable good-loan borrowers. Of several other characteristics—size of note, number of comakers and intended use of funds—only the number of comakers appears to have a bearing on credit risk: notes with three or more comakers had a comparatively poor payment record.

The foregoing analysis was supplemented by questionnaires sent to bank credit officers asking them to state the borrower characteristics which they considered most important in their own appraisal of risks. The results show that the borrower's occupational and financial position receives first consideration, particularly with reference to stability of employment. Considerable weight is given also to the individual's past payment record and to facts that throw light on character or willingness to pay.

These findings are necessarily subject to certain qualifications. In the first place, since the charge-off loss on personal loans is generally less than 1 percent, a particular class of

borrowers may show a relatively bad credit record and yet be worth retaining. In the second place, credit experience is much more important with respect to some groups than to others: a good record is most significant when it applies to a group representing a large segment of the entire body of borrowers. The analysis of credit risk is useful, therefore, primarily as an indication of the characteristics which have proven worthy of more careful consideration.

CUSTOMER CHARGES

Commercial banks customarily quote interest charges on cash instalment loans as a certain rate of discount on the face amount of the note. In addition, banks may charge a credit investigation fee, exact a fine on delinquent payments, and require the borrower to carry group life insurance to cover the unpaid balance of his loan. In any computation of costs to the borrower, these charges must all be considered, as must also the amount of rebate when a loan is repaid before maturity.

Since charges are quoted in many combinations it is extremely difficult to compare aggregate costs to the consumer. Questionnaire returns from a large number of banks indicate, however, that 6 percent per annum is the most frequent discount; that most banks do not charge a credit investigation fee; that the insurance premium is usually 50 cents per \$100 of original unpaid balance; and that in the event of prepayment some rebate, varying in amount, is granted the borrower.

Discount rates vary with the type of loan, the region of the country and the size of the bank. Rates are about equal for comaker and single-name loans (averaging 6.4 and 6.5 percent discount, respectively) and are slightly lower (averaging 6.1 percent discount) for loans secured by savings passbooks, life insurance policies, etc. On loans of all types rates appear

to be lowest in the New England and Middle Atlantic states and highest in the West South Central states. Finally, the rates quoted by the larger banks, for all types of loans and in all regions of the country, are lower on the average than those offered by smaller banks.

Most banks which charge the borrower a credit investigation fee quote it as a flat dollar amount, commonly \$1. Delinquency fines are usually levied as a stipulated percentage of the delinquent payment. Although "6 percent discount and no credit investigation fee" was the most frequently reported combination of charges on comaker loans, the range went all the way from a flat 4 percent discount with no other charges to 12 percent discount with a \$2 fee for credit investigation. The bulk of the loans carried 5 to 8 percent discount with no credit investigation fee; this range accounted for about 70 percent of 543 banks reporting, while about 45 percent of all reporting banks quoted a rate of 6 percent and no credit investigation fee.

From a study of these charges it may be concluded that for a personal loan of \$100 running for 12 months, the cost expressed as true annual interest on declining balances would range from 7.7 percent to 30 percent. The bulk of the reporting banks made loans at rates amounting to annual interest of 12 to 17 percent on declining balances. Since the large banks tend to charge the lowest rates it can be inferred that the bulk of the consumer loans carry rates close to the lower limit of this range. In a few large metropolitan banks, which make loans at 4 percent discount or less, the cost to the consumer in terms of true annual interest would be 7.7 percent or even lower.

An analysis of sales financing costs shows that rates for automobile financing quoted by banks which obtain contracts directly from consumers tend to be slightly lower than those quoted by banks whose business is secured through dealers.

Direct-to-consumer financing of new cars is usually offered at a rate of 5 percent whereas new-car paper discounted for dealers generally involves a rate of 6 percent. Used-car paper is discounted for both consumers and dealers at a rate slightly above that quoted on new-car paper. When financing is transacted through a dealer the bank commonly establishes a reserve to cover losses incurred on paper purchased; any reserve remaining after losses is returned to the dealer.

INCOME, EXPENSES AND PROFITS

Interest or discount accounted for more than 94 percent of the income from grants of consumer credit for all banks reporting to the National Bureau, and for 90 to 95 percent of the gross income of banks reporting to the New York state banking department. The remainder came principally from credit investigation fees and delinquency fines. For a majority of the banks, gross income from personal loans amounted to \$8 to \$12 per \$100 of loan account in 1938.

Since commercial banks do not employ uniform cost accounting methods, it is difficult to ascertain the profitability of personal loan operations. Of 104 reporting banks, 85 stated that their personal loan departments were not charged interest on the funds employed, and of 112 reporting banks, 62 did not allocate any portion of general bank overhead expense to such departments. Both of these findings are probably to be explained on the grounds that personal loan departments are usually integrated closely with other bank operations and that few banks have a volume of personal loans large enough to warrant an intricate cost accounting procedure. It is broadly true, however, that as departments grow in number and size the problem of cost determination becomes increasingly acute.

Information on the distribution of personal loan depart-

ment costs is available only for banks reporting to the New York state banking department. These data indicate that during 1937 and 1938 salaries accounted for 40 percent of total expenses, reserves for charge-offs for 17 percent, and insurance, rent, advertising and legal fees for about 23 percent. The reports show also that the operating costs of 38 out of 65 departments amounted to less than \$5 per \$100 of average loan account. A comparison of data for 1937 and 1938, a period during which the volume of loans made by these reporting banks increased by 18 percent and the average amount of funds employed rose by 45 percent, reveals that additional business entailed a less than proportionate addition to expenses.

A number of banks were asked to submit estimates of the cost of making and handling individual loans. Although they were urged to take into account overhead charges as well as direct costs, there was a wide diversity in reported figures, doubtless attributable to differences in methods of calculation. The reporting banks appeared to agree, however, that the cost of collecting each instalment payment was between 25 and 30 cents. Estimates of the cost of making a loan varied from \$1.50 to \$3.25; thus the cost of acquiring and handling a 12-month loan may be calculated as ranging from \$4 to \$7.

With regard to sales financing, most banks hold that when the dealer supplies the paper the costs per unit transaction are generally lower than for personal loans, because most of the credit investigation is conducted by the seller. On the other hand this type of business entails expenses not encountered in personal lending; and when dealer reserves are established the gross income per \$100 of funds employed may be less than the yield from direct cash instalment lending.

Profitability per loan tends to increase with both size of loan and contract length. If it is assumed that loans are made at 6 percent discount, that acquisition costs are \$1.80,

that per payment collection costs are 20 cents and that special delinquency and charge-off costs for each loan total \$2.50, it is found that the break-even point on loans comes between the \$100 and \$125 sizes. With a slightly lower cost schedule the break-even point occurs between the \$75 and \$100 sizes.

From the limited data available, it appears that profits are greater on personal loans than on other earning assets. Reports on net profits of personal loan departments of New York state banks for 1938 show that 4.5 percent was earned on average loan account after reserves were set up for losses. This rate is considerably higher than that derived from total earning assets by all non-member commercial banks during the same period.

Banks were asked to estimate the minimum annual volume of business they considered necessary to render their departments profitable. It was the consensus of the responses that a department having a single full-time employee should maintain an annual volume of \$75,000 to \$100,000, and that those with 2 to 4 full-time employees should have an annual volume of \$100,000 to \$200,000.

COMMERCIAL BANK LOANS TO CONSUMER CREDIT AGENCIES

For many years commercial banks have financed consumers indirectly by making loans to various instalment credit agencies. Sales finance companies, for example, are seldom entirely free of bank debt; normally they obtain part of their working capital through commercial loans and the sale of open market paper and debentures. The dependence of sales finance companies on bank credit varies in degree from year to year. Thus in 1934 a group of 48 sales finance companies obtained nearly 50 percent of their total funds from short-term loans, of which bank debt represented about one-

half, whereas in 1938 bank loans and open market paper provided about 36 percent of their working funds.

Although loans to sales finance companies represent only a small proportion of the total volume of loans made by commercial banks, the magnitude of these loans is subject to rapid change. At the end of 1937 outstanding loans to sales finance companies accounted for only 6.4 percent of the total loans of 181 large reporting banks; at the end of 1938 the proportion was 3.3 percent. It is important to note, however, that about 30 percent of the decline in all loans and discounts of these 181 banks during this period can be attributed to the drop in loans to sales finance companies.

The proportion of bank loans made to sales finance companies on an unsecured basis has tended to increase over the past 15 years. The maturity terms range from demand to 24 months or longer, and interest is most frequently quoted at about 1.5 percent. National companies, moreover, are usually granted lower rates than regional or local companies. Prevailing maturities on open market paper range up to 6 months, and interest rates (varying from 1.25 to 1.75 percent) are usually somewhat higher than those on prime commercial paper.

The total bank borrowings of personal finance companies are small in comparison to those of sales finance companies. Loans to the former made by 181 reporting banks amounted at the end of 1937 to \$55,000,000, whereas their grants to sales finance companies came to \$440,000,000. Personal finance company loans declined during 1938 by 16 percent, but sales finance company loans dropped as much as 54 percent. Bank loans to personal finance companies are usually unsecured; their maturities tend to be shorter and they generally carry higher interest rates than do grants of credit to sales finance companies.

Industrial banking companies are even less dependent on

commercial banks for working funds, in part because they obtain a large proportion of their capital either from deposits or from the public sale of instalment investment certificates. Loans to these companies are mostly unsecured, maturities seldom run for more than 6 months, and reported interest rates vary from 1.5 to 6 percent.

THE COMPETITIVE SITUATION

Although commercial banks have increased their share of the combined outstandings of all cash loan agencies in recent years, the other cash lending institutions have also enjoyed a steady rise in business volume, and for this reason the competitive situation has not thus far engendered intensive rivalry. Nor do the differences in rates charged by the several agencies invariably constitute a clear-cut competitive issue; while it is true that such differentials are often substantial, consumers tend to be influenced by other considerations.

A number of factors exert a moderating effect upon the competition between personal finance companies and the personal loan departments of banks. The rates charged by personal finance companies, when computed as a percentage of the average unpaid balance, appear to be about twice as high as those commonly set for instalment loans by commercial banks. On the other hand, the former institutions have tended to specialize in single-name loans made on the security of household chattels, whereas commercial banks have made most of their loans on a comaker basis. Again, small loan companies draw more of their customers from the lower-income, wage-earning groups than do personal loan departments, which cater largely to clerical, business and professional occupations.

In some respects industrial banking companies are the closest competitors of personal loan departments. Like the latter, they are active in both cash lending and time-sales

financing and are not generally restricted by law to loans of small amounts. Furthermore, the industrial banking companies whose charters permit them to conduct a complete banking business can offer lending and deposit services equal on many counts to those provided by commercial banks. They quote their rates on the same basis as do commercial banks; their borrowers are drawn from similar income and occupational groups; and there are certain organizational resemblances between the two types of agency. The rates quoted by commercial banks are either equal to or somewhat lower than those offered by their industrial banking company competitors.

Commercial banks meet their keenest competition in the field of sales financing. Some banks have adopted the policy of soliciting business directly from consumers, usually urging their patronage on grounds of economy. In this competitive situation, however, the crucial element is the retail dealer.

With regard to organization there are considerable differences between commercial banks and sales finance companies: the former are generally non-branch units, whereas the bulk of sales finance company business is done by national companies. Banks have developed a number of techniques designed to overcome this competitive disadvantage. Available data, while not conclusive, indicate that the customer charges established by commercial banks are either equal to or slightly lower than those maintained by the larger sales finance companies.

Competition for personal loan business among commercial banks themselves is not as acute as the rivalry between banks and sales finance companies. Nevertheless there are indications that interbank competition is growing in intensity, and it is probably the cause of a number of moves on the part of banks toward reduced rates.

Cooperative relations among banks engaged in consumer credit activities were virtually non-existent until 1939. Early

in that year the Bankers Association for Consumer Credit was formed. The Association initiated a monthly publication—*Time Notes*—devoted to consumer instalment credit, and organized special services for members. In 1940 the Association was merged with the newly-established consumer credit division of the American Bankers Association.

The Rise of Consumer Financing by Commercial Banks

IN RECENT years commercial banks in the United States have engaged, to an increasing extent, in supplying consumers with instalment credit both directly and indirectly. When direct, their activities have consisted of the granting of personal loans¹ repayable in a series of monthly instalments, and of the purchase of retail instalment paper from dealers or from individual customers. Commercial banks have also participated indirectly in the extension of this type of credit by making loans to sales finance companies, personal finance companies, industrial banking companies and credit unions, which in turn specialize in the instalment financing of consumers either through cash loans or through the purchase of retail instalment paper from merchants or dealers.²

Before commercial banks entered the field extensively, the provision of instalment credit facilities for consumers had become established as a highly successful business capable of weathering severe business depression. Although the profitability of such financing was attested in the records of consumer credit companies, which had long been accessible to banks, the latter were for years content to stand aside, allowing the business to be conducted almost entirely by specialized

¹As used in this study the term "personal loans" will refer always to cash loans granted to individuals and repayable on an instalment basis.

²In addition, commercial banks make many short-term loans to consumers which are repayable on single maturity dates rather than on instalment terms, and also lend money to merchants to enable them to carry consumer receivables. In the present survey, however, we are concerned only with their instalment credit operations as defined above.

credit agencies whom they in turn partly or largely financed. One reason for their lack of interest in direct lending to consumers was that bankers were uncertain as to the amount of risk entailed in this sort of financing; another was the social stigma attached to it, which led banks to consider questions of community standing and public relations. More fundamental, perhaps, were other factors. The business of consumer instalment lending differs significantly from that traditionally engaged in by commercial banks: unit transactions are small, unit loan costs high, and the specialized lending and collection techniques required have been the subject of criticism when employed by other agencies. Finally, the state banking laws did not, in most states, specifically give banks the right to finance consumers on an instalment basis at charges in excess of statutory interest rates, so that doubt as to the legal status of bank activities in the field served as an additional restraining influence.

The change in the banks' attitude, so marked in recent years, is ascribable to the pressure of special circumstances. On the one hand, current earnings from loans and investment portfolios have been declining steadily, and lending and investment opportunities considered compatible with banking standards have been so scarce as to provoke exceptionally keen competition among the banks. On the other hand, because of a combination of factors—national monetary and public spending policies, domestic business recovery, international economic forces—bank deposits have risen to levels higher than in 1929 and banks have amassed unprecedented holdings of excess reserves. Under these circumstances, consumer instalment financing provides an outlet for bank resources and prospects of higher returns than are available elsewhere.

Bankers cooperating with this survey have cited a number of typical reasons for their interest in this special field. They have turned toward consumer instalment financing, they say,

because: it provides an outlet for idle funds; other consumer credit agencies have been notably successful in similar undertakings; the higher interest rates make it profitable for them to grant small accommodation loans to customers; the bank's success in handling FHA Title I loans suggests a continuation of instalment business³; the basic shift that has taken place in methods of financing retail distribution, which tends to divert retail merchants' financing from banks, makes some such adaptation desirable; consumer instalment financing permits a wider diversification of business; and instalment lending means the provision of a more complete banking service.

QUANTITATIVE IMPORTANCE OF CONSUMER INSTALMENT FINANCING BY BANKS⁴

Since consumer financing requires a special technique of loan extension and collection, it is usually concentrated in a specialized personal loan (or time-sales) department. Although complete data covering this activity of banks have never been assembled by bank supervisory agencies, it is estimated that at the end of 1938 there were more than 1,500 bank personal loan departments in the United States and that the total amount of consumer instalment credit outstandings of banks—personal loans plus sales finance paper acquired from dealers and individuals—approached or exceeded \$500,000,000. Out of 1,222 commercial banks with functioning per-

³ See National Bureau of Economic Research (Financial Research Program), *Government Agencies of Consumer Instalment Credit: The Federal Housing Administration and the Electric Home and Farm Authority*, by Joseph D. Coppock (ms. 1939), in which the Federal Housing Administrator is quoted as testifying before a Congressional Committee: "The big thing in this (FHA Title I loans) has been to educate the banks to do this kind of business." (ms. p. II-2.)

⁴ The data on consumer instalment financing activities of commercial banks which provide the statistical basis of this study were obtained from questionnaire returns, from correspondence and interviews with bank officers, and from several state banking departments. For a more detailed discussion of the scope and nature of the questionnaire survey, see Appendix A.

sonal loan departments at the end of 1938, 961 reported to the National Bureau outstanding personal loans totaling \$188,300,000.⁵ At that time the total loans and investments of the 1,222 banks amounted to \$11,381,500,000 and those of the 961 banks to \$10,636,800,000—29.3 percent and 27.4 percent, respectively, of the total loans and investments of all commercial banks in the United States.⁶ As is shown in Table 5, the personal loan outstandings of the 961 banks accounted for approximately 2 percent of their total loans and investments.⁷ These outstandings, furthermore, probably represented between 80 and 85 percent of the total of such loans made by all personal loan departments of commercial banks, and between 15 and 20 percent of the total for the four principal "cash loan" agencies—personal finance companies, industrial banking companies, commercial banks and credit unions.⁸

⁵ Sales finance paper is handled by some banks in personal loan departments rather than in special time-sales departments. Consequently our personal loan figures cover also a certain amount of sales finance outstandings—\$7,000,000 to our knowledge, and possibly more. We have not adjusted them for this duplication.

⁶ The percentages are based on total loans and investments of 14,649 commercial banks, as of December 31, 1938. See *Annual Report of the Federal Deposit Insurance Corporation (1938)* p. 161.

⁷ From this percentage of personal loans to total loans and investments, the volume of personal loan outstandings at the end of 1938 of the 1,222 banks known to have had personal loan departments can be estimated at approximately \$200,000,000.

⁸ See National Bureau of Economic Research (Financial Research Program), *Sales Finance Companies and Their Credit Practices*, by W. C. Plummer and R. A. Young (1940) Chapter 1, Table 4, for estimates of average outstandings of the four principal consumer cash loan agencies for 1937. At the end of 1937, according to estimates made by the Russell Sage Foundation, the personal loan outstandings of all commercial banks amounted to \$180,000,000. Our estimate of the 1937 year-end personal loan outstandings of the 961 reporting banks is \$162,000,000 (based on the percentage change found for 482 banks as shown in Table 2, below), which would mean, according to the Russell Sage figure, 90 percent of the total for all banks. The Russell Sage figure, however, appears to underestimate the total personal loan outstandings for all banks by 5 to 10 percent. Neither estimate takes into account personal loan outstandings of banks that have not departmentalized their personal loan activity. At least one state bank supervisor has reported that many banks under his supervision make such loans although they have not organized separate departments to handle them.

Reports from 221 banks engaged in time-sales financing, that is, in acquiring retail paper from dealers or individuals covering instalment purchases of automobiles, refrigerators, heating equipment, furniture and the like, indicated that these banks had outstanding sales finance balances of \$143,600,000 at the end of 1938. Although it is not possible to calculate what proportion the time-sales outstandings of the 221 reporting banks constituted of the total sales finance paper of all banks, it can be estimated that they represented 5 to 10 percent of the total for all sales finance companies.⁹

The volume of commercial banks' indirect financing of consumer instalment credit is more difficult to determine, but the information available provides some indication of its magnitude. For example, 181 large banks situated in the principal commercial centers of the country reported a total of \$505,000,000 at the end of 1937 in outstanding loans to sales finance companies, personal finance companies, industrial banking companies and other consumer credit agencies, and a total of \$254,000,000 at the end of 1938. According to data from 48 of the larger sales finance companies, these firms alone had an aggregate year-end bank debt of \$623,000,000 in 1937 and of \$248,000,000 in 1938.

The importance of the consumer credit activities of commercial banks may be gauged also by the number of customers served. The data available are inadequate to show how many individuals used the sales financing services of commercial banks, but they do provide a basis for an estimate of the number of personal cash loan customers. Of the 961 banks whose year-end personal loan outstandings amounted to \$188,300,000 for 1938, 818 reported both number and volume of such

⁹ At the end of 1937 the retail instalment outstandings of 155 reporting banks amounted to \$224,600,000, and at the end of 1938 to \$137,700,000; the 1937 year-end time-sales outstandings of the 221 reporting banks may therefore be estimated at \$234,000,000. For estimates of the total volume of credit extended by sales finance companies during 1937, see W. C. Plummer and R. A. Young, *op. cit.*, Chapter 1.

outstandings—967,000 accounts totaling \$169,000,000, or an average outstanding of \$175. The total outstanding volume for the 961 banks may then be divided by \$175, to yield an estimate of over 1,000,000 personal loan debtors at the end of 1938.

During the course of the year, however, a much larger number of persons must have been indebted, for 605 banks (see Table 4) reported that they had granted 1,021,160 individual loans in 1938, aggregating \$228,400,000 or an average of about \$220 per loan. These 605 banks had year-end outstandings estimated at \$120,000,000, slightly less than half of the total loans made during the year. It may therefore be calculated that the loans made during 1938 by the 961 banks amounted to approximately \$360,000,000. If the average loan was \$220, as the reports from 605 banks indicate, the total number of individual loans made by this larger group of banks would have been 1,630,000. It has already been suggested that the personal loan business of the 961 banks probably accounts for roughly 85 percent of the volume for all commercial banks; if this assumption is correct the year's volume for all banks was around \$375,000,000.¹⁰ Not all of these loans were made to different customers, since many were "repeat" loans; but even if this factor is taken into consideration the total number of personal loan department customers in 1938 must have stood somewhere between 1,000,000 and 1,500,000. The figures just presented exclude the number of individuals indebted to banks under retail instalment sales contracts acquired by the banks directly from purchasers or from dealers; there is reason to believe that possibly half again as many persons became debtors of commercial banks in 1938 by way of instalment contracts purchased by time-sales departments.

¹⁰ The 85 percent refers to year-end outstandings rather than year's volume, but for the purposes of this rough estimate the difference is not significant.

PERSONAL LOAN ACTIVITIES OF COMMERCIAL BANKS

The Growth of Personal Loan Departments

The growth in the number of personal loan departments is shown in Table 1, which covers a total of 1,222 commercial banks operating such departments as of December 31, 1938; this number represents individual banks exclusive of branches.¹¹ Of the 1,222 banks, 108 were operating 1,425 branch offices. Specific data are not available to indicate how many of these branches maintained a separate personal loan department, but on the basis of questionnaire returns it seems safe to say that more than 1,000 of the branches were active in the field of personal instalment lending. From this estimate we may conclude that the number of banking offices (banks plus branches) which are granting personal instalment loans is in excess of 2,000, and perhaps may even exceed 2,500. This figure takes no account of banks from which no reports were received. If, however, the number of bank personal loan departments (not including branches) exceeds 1,500,¹² as was suggested above, the total number of banking offices engaged in making personal instalment loans probably approaches 3,000.

¹¹ Some other estimates of the number of personal loan departments in operation have treated each branch as a separate entity. See W. G. Sutcliffe, "Competition Problems Discussed," *Personal Finance News*, vol. 24, no. 3 (September 1939) p. 20: "Information on personal loan departments has been, in the past, almost non-existent. In 1936, the Russell Sage Foundation actually located 679 departments in commercial banks. About the same time, the American Bankers Association made a sample study of some 258 departments. During 1937 and 1938, the Consumer Credit Institute corresponded with nearly 1,000 personal loan departments—in this enumeration branches were counted as separate entities. The great trouble is that in many instances country bankers count all loans under \$500 as personal loans even though they may be used for what we would call productive purposes. As far as we can learn, it is safe to say that there are not less than 1,500 personal loan departments of commercial banks." (Italics ours.) See also *American Industrial Banker* (June 1939) pp. 10-11, 17-18.

¹² For an explanation of the derivation of this estimate, see Appendix A.

TABLE I
Growth in the Number of Banks Operating Personal Loan Departments, 1925-38, by
Size of Bank and by Region^a

	DATE OF ESTABLISHMENT OF DEPARTMENT															No Date	TO- TAL
	Re- fore 1925	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938		
<i>Size of Bank^b</i>																	
Under \$150,000	15	..	2	1	1	..	1	..	..	..	1	13	3	5	2	16	60
150,000- 250,000	23	3	1	1	2	1	3	..	..	4	5	10	6	11	10	8	88
250,000- 500,000	27	..	..	..	..	2	7	1	1	4	12	16	20	22	13	15	140
500,000- 750,000	7	1	..	1	..	4	1	3	..	8	10	16	9	14	15	15	104
750,000- 1,000,000	3	..	1	..	1	2	4	2	1	5	12	14	15	10	10	13	93
1,000,000- 2,000,000	4	1	..	1	6	8	2	3	2	8	21	35	45	43	37	22	238
2,000,000- 5,000,000	3	1	1	2	1	4	2	10	2	10	15	47	55	48	30	25	256
5,000,000-10,000,000	1	..	..	4	..	4	1	2	3	5	2	19	25	20	13	5	104
10,000,000-50,000,000	1	1	2	1	1	3	5	2	1	2	7	16	20	19	16	5	102
50,000,000 and over	..	..	..	..	7	1	1	..	..	..	..	9	8	5	3	3	37
ALL SIZES	84	7	7	11	19	29	27	23	10	46	85	195	206	197	149	127	1,222
<i>Region^c</i>																	
New England	1	..	1	1	2	5	2	8	1	4	6	12	14	25	14	10	106
Middle Atlantic	1	..	1	2	1	3	3	4	..	7	15	56	82	61	28	42	306
East North Central	26	1	1	4	4	9	5	2	3	10	30	60	37	41	51	33	317
West North Central	26	2	4	1	5	2	4	2	3	9	12	23	23	24	21	11	172
South Atlantic	7	2	..	1	2	3	3	1	3	8	8	13	19	20	23	9	122
East South Central	7	1	..	2	..	1	1	1	..	3	3	11	7	5	3	8	53
West South Central	5	..	..	..	5	3	4	1	..	3	7	8	15	8	2	5	66
Mountain	8	..	..	..	..	1	4	2	..	1	3	6	5	6	4	4	44
Pacific	3	1	..	..	..	2	1	2	..	1	1	6	4	7	3	5	36
ALL REGIONS	84	7	7	11	19	29	27	23	10	46	85	195	206	197	149	127	1,222
CUMULATIVE TOTAL	84	91	98	109	128	157	184	207	217	263	348	543	749	946	1,095	1,222	

Footnotes for Table I are to be found on opposite page.

Of the 1,222 banks known to have had personal loan departments in operation at the end of 1938, there are 1,095 for which we have ascertained the year in which the department was established; of these 80 percent set up such departments after 1932. While these data justify the conclusion that the development of personal loan departments by commercial banks has been very rapid in recent years, it must be remembered that the coverage is incomplete and that the figures here refer only to personal loan departments continuing from the year of their establishment. A number of personal loan departments established before 1929 were discontinued in the recession years 1930-32. Nevertheless the fact that a large proportion of reported departments were organized after 1932 lends strong support to the statement that commercial bank participation in the extension of consumer credit is of relatively recent origin. It is worthy of note also that 84 departments are reported to have been established before 1925, and 73 from 1925 to 1929 inclusive.¹³

The establishment of personal loan departments seems to

¹³ According to a compilation made by the Russell Sage Foundation, only 2 such departments were organized before 1924, but 208 were established by the end of 1929, possibly a third of which were subsequently discontinued. See Rolf Nugent, "The Growth of Personal Lending," *Banking* (December 1938) p. 26. See also Indiana Bankers Association, *Report of the Research Committee* (1938) pp. 49-52.

Footnotes for Table I.

* Includes in addition to 1,068 banks reporting to the National Bureau, 154 banks on which information was received from the state banking departments of Michigan, New York, Ohio and New Jersey, and from the Consumer Credit Institute of America, Inc.

^b Total loans and investments. Each level is inclusive of the lower figure, exclusive of the higher.

^c The regional divisions follow those of the United States Census. *New England*: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut; *Middle Atlantic*: New York, New Jersey, Pennsylvania; *East North Central*: Ohio, Indiana, Illinois, Michigan, Wisconsin; *West North Central*: Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas; *South Atlantic*: Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida; *East South Central*: Kentucky, Tennessee, Alabama, Mississippi; *West South Central*: Arkansas, Louisiana, Oklahoma, Texas; *Mountain*: Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada; *Pacific*: Washington, Oregon, California.

have been relatively more frequent among banks of larger size (see Table 1). It would appear that by the end of 1938 personal loan departments had been set up by approximately 30 percent of all commercial banks in the country with total loans and investments of \$50,000,000 or over, by 27 percent of those in the \$10,000,000-50,000,000 group, by almost 15 percent of those in the \$1,000,000-10,000,000 group and by about 5 percent of the commercial banks having loans and investments of less than \$1,000,000.¹⁴

Viewed regionally, the increase in the number of personal loan departments seems to have been particularly rapid in New England, where about 20 percent of all commercial banks had organized such departments by the close of 1938. In the Middle Atlantic states the proportion was approximately 13 percent, in the East North Central and Pacific regions it was 10 percent and in the Mountain and Plain states 9 percent. About 7 percent of all commercial banks in the South Atlantic states had established such departments, and in the other regions—West North Central, East South Central and West South Central—the proportion was around 4 or 5 percent.

From 1934 to 1938 there was a rise in personal loan outstandings corresponding to the growth in the number of departments. Table 2 gives the amount of year-end outstandings for four groups of banks for which data have been reported. These figures show that from 1934 through 1937 there were substantial increases in the volume of outstandings—ranging, for the various years and the several groups of banks,

¹⁴In this and the following paragraph the percentages are based on the number of operating commercial banks in the United States, June 30, 1938, as reported by the Federal Deposit Insurance Corporation, *Annual Report 1938*, pp. 140-43. The FDIC classifies banks according to deposits, whereas we have used as a standard the amount of loans and investments. Moreover the FDIC classes as commercial banks a small number of insured industrial banks which are excluded from our tabulation, while our tabulation of banks reporting personal loan departments includes a small number of mutual savings banks which are excluded from the FDIC figures. These differences are not sufficiently important to invalidate the comparisons made here.

TABLE 2

Amount of Year-End Outstandings of Personal Loans, Annual Increase in Outstandings, and Personal Loans in Percent of Total Loans and of Total Loans and Investments, for Four Groups of Reporting Banks, 1934-38*

YEAR	PERSONAL LOAN OUTSTANDINGS (in thousands)	ANNUAL INCREASE (percent)	PERSONAL LOANS IN PERCENT OF		PERSONAL LOAN OUTSTANDINGS (in thousands)	ANNUAL INCREASE (percent)	PERSONAL LOANS IN PERCENT OF	
			Total Loans	Total Loans and Investments			Total Loans	Total Loans and Investments
			<i>100 Banks</i>				<i>292 Banks^b</i>	
1934	\$23,065	..	1.78	.8	..	..	..	..
1935	31,822	38.0	2.31	1.0	..	..	..	..
1936	43,156	35.6	2.84	1.2	\$ 66,899	..	2.25	1.0
1937	58,417	35.4	3.46	1.7	97,646	46.0	2.97	1.5
1938	66,821	14.4	4.13	1.9	112,007	14.7	3.52	1.6
			<i>176 Banks^b</i>				<i>482 Banks^b</i>	
1934	..	..	..	..	..	..	..	..
1935	39,901	..	1.89	.8	..	..	..	..
1936	58,006	45.4	2.51	1.1	..	..	..	..
1937	81,204	40.0	3.20	1.6	113,434	..	2.72	1.4
1938	91,379	12.5	3.80	1.7	131,683	16.0	3.25	1.5

* Since some banks handle sales finance paper in personal loan departments rather than in special time-sales departments, our personal loan figures contain a certain amount of sales finance credit—\$7,000,000 to our knowledge, and possibly more. We have not adjusted them for this duplication.

^b These groups are cumulative; the 176 banks include the group of 100 banks, the 292 banks include the group of 176, etc.

from 35 to 46 percent. From 1937 to 1938, however, the increase tended to be much smaller than in earlier years, varying from about 13 to 16 percent. This deceleration in the rate of increase was doubtless due in part to general business conditions. It is particularly interesting that the 100 banks for which data are available over the entire period had at the end of 1938 almost a 200 per cent increase over their year-end outstandings for 1934.¹⁵

From Table 2 it appears, furthermore, that there was a steady increase in the ratios of personal loans to total loans and to total loans and investments for each of these groups of banks. Personal loans for the group of 100 banks rose from 1.78 percent of total loans in 1934 to 4.13 percent in 1938 and from .8 percent to 1.9 percent of total loans and investments. Increases are to be noted also for each of the other groups.

The Extent of Personal Loan Financing

The 1938 year-end outstandings¹⁶ on personal instalment loans, and the volume of such loans made¹⁷ during 1938, as reported by banks which responded to our questionnaire, are classified by size of bank and by region in Tables 3 and 4. Table 3 indicates that approximately 62 percent of both the number and the amount of outstanding loans made by 818 reporting banks was accounted for by the 13 percent of those banks with loans and investments of \$10,000,000 or over. As for the year's loan volume, Table 4 shows that among 605 banks, those in this category were responsible for more than 69 percent of the number of loans, and for 72 percent of the amount. Next in rank were banks with earning assets between \$1,000,000 and \$10,000,000; they contributed about 29 per-

¹⁵ The growth in the volume of a single type of loan in a single state is indicated by data from the New Jersey department of banking and insurance which show that the year-end outstandings on comaker loans in that state rose steadily from \$1,600,000 in 1934 to \$6,600,000 in 1938, an increase of more than 300 percent.

¹⁶ See Table 3, footnote a.

¹⁷ See Table 4, footnote a.

TABLE 3

Number and Amount of Personal Instalment Loans Reported Outstanding, December 31, 1938, by Size of Reporting Bank and by Region^a

	NUMBER OF LOANS OUTSTANDING	AMOUNT OF LOANS ^c (in thousands)	NUMBER OF BANKS REPORTING	TOTAL AMOUNT OF LOANS ^c (in thousands)	TOTAL NUMBER OF BANKS REPORTING ^d
<i>Size of Bank^b</i>					
Under \$150,000	6,987	\$ 1,080	34	\$ 1,342	45
150,000- 250,000	12,451	1,814	51	2,426	62
250,000- 500,000	20,463	3,526	82	4,086	91
500,000- 750,000	23,863	3,784	59	5,307	75
750,000- 1,000,000	18,990	3,264	52	4,275	65
1,000,000- 2,000,000	75,993	14,797	179	17,333	197
2,000,000- 5,000,000	142,797	25,408	179	28,961	214
5,000,000- 10,000,000	59,295	11,834	72	15,605	88
10,000,000-50,000,000	146,708	28,908	79	31,921	88
50,000,000 and over	459,563	74,624	31	77,050	36
ALL SIZES	967,110	\$169,039	818	\$188,306	961
<i>Region</i>					
New England	55,455	\$ 9,312	72	\$ 10,468	90
Middle Atlantic	387,417	68,602	233	71,297	264
East North Central	92,991	20,030	158	23,926	182
West North Central	74,282	14,374	127	15,203	145
South Atlantic	92,488	16,631	94	20,316	111
East South Central	24,465	3,704	31	5,949	46
West South Central	46,390	7,525	43	11,156	56
Mountain	42,984	7,413	32	8,278	36
Pacific	150,638	21,448	28	21,713	31
ALL REGIONS	967,110	\$169,039	818	\$188,306	961

^a Total outstandings as of December 31, 1938 were reported by 961 banks; of these, 818 reported both the number and the amount of loans outstanding on that date.

^b Total loans and investments. Each level is inclusive of the lower figure, exclusive of the higher.

^c See Table 2, footnote a.

^d Includes, in addition to the 818 banks cited in the first three columns, 143 banks which did not report the number of loans.

TABLE 4
Number and Amount of Personal Instalment Loans Reported Made During 1938, by
Size of Reporting Bank and by Region^a

	NUMBER OF LOANS MADE	AMOUNT OF LOANS (in thousands)	NUMBER OF BANKS REPORTING	TOTAL AMOUNT OF LOANS ^c (in thousands)	TOTAL NUMBER OF BANKS REPORTING ^d
<i>Size of Bank^b</i>					
Under \$150,000	7,444	\$ 939	20	\$ 1,177	24
150,000- 250,000	9,264	1,500	30	1,823	38
250,000- 500,000	19,210	3,516	52	4,030	58
500,000- 750,000	20,167	3,609	41	5,124	47
750,000- 1,000,000	22,599	4,065	38	4,472	40
1,000,000- 2,000,000	54,823	11,456	112	11,767	117
2,000,000- 5,000,000	113,946	23,123	143	24,188	145
5,000,000-10,000,000	65,906	15,078	62	17,065	67
10,000,000-50,000,000	139,106	33,507	74	34,594	76
50,000,000 and over	568,695	131,645	33	131,645	33
ALL SIZES	1,021,160	\$228,438	605	\$235,885	645
<i>Region</i>					
New England	54,324	\$ 10,950	62	\$ 11,121	64
Middle Atlantic	436,519	106,879	179	108,028	185
East North Central	86,262	20,543	108	22,924	114
West North Central	66,498	15,892	85	16,375	94
South Atlantic	83,676	17,038	76	17,254	81
East South Central	18,268	3,666	20	3,931	23
West South Central	60,675	10,174	31	12,888	38
Mountain	28,325	5,782	21	5,817	23
Pacific	186,613	37,514	23	37,547	23
ALL REGIONS	1,021,160	\$228,438	605	\$235,885	645

^a Only 605 banks with personal loan departments reported both the total number and the total amount of loans made during the year 1938.

^b Total loans and investments. Each level is inclusive of the lower figure, exclusive of the higher.

^c See Table 2, footnote a.

^d Includes, in addition to the 605 banks cited in the first three columns, 40 banks which did not report the number of loans.

cent of the number and a slightly larger proportion of the amount of loans outstanding (reported by 818 banks), and 22 percent of the number and roughly 20 percent of the amount of loans made throughout the year (reported by 605 banks).

Of the 818 banks 399, or less than half, were located in Atlantic seaboard (New England, Middle Atlantic and South Atlantic) states; they are to be credited, however, with well over half of both the number and the amount of personal loans outstanding. Another 285 banks were situated in the East and West North Central states; they constituted approximately 35 percent of those reporting, but contributed only 17 percent of the number and 20 percent of the amount of loans outstanding. Although only about 3 percent of the reporting banks were situated in the Pacific states, they accounted for as much as 16 percent of the number of outstanding loans and for 13 percent of the amount outstanding, a relationship which may be explained by the extent of branch banking on the West Coast, especially in California.

The importance of personal loan departments to the commercial banks that operate them is indicated in part by Table 5, which illustrates the relationship of personal loans to total loans and to total loans and investments for 961 reporting banks as of the end of 1938. For all these banks taken together, personal loans constituted almost 4 percent of total loans, and just under 2 percent of total loans and investments. Among the smaller banks, particularly those with earning assets under \$150,000, personal loans amounted to 42 percent of all loans and to 28 percent of aggregate earning assets. At the other extreme, for banks with loans and investments of \$50,000,000 or more, personal loans came to just over 2 percent of all loans and to only 1 percent of loans and investments. From these data it is evident that personal loans diminish in significance in comparison with other earning assets as the size of the bank increases. Personal loans as a percent of all loans were highest in the Mountain and West North Central

TABLE 5

Amount of Personal Loans, Total Loans, and Total Loans and Investments Outstanding; and Personal Loans in Percent of Total Loans and Total Loans and Investments, as of December 31, 1938, by Size of Reporting Bank and by Region

	PERSONAL LOANS OUTSTANDING			TOTAL LOANS OUT- STANDING ^b	TOTAL LOANS AND INVESTMENTS OUTSTANDING ^b	NUMBER OF BANKS REPORTING
	Amount of Loans ^b	In Percent of Total Loans	In Percent of Total Loans and Investments			
<i>Size of Bank^a</i>						
Under \$150,000	\$ 1,342	41.8	28.2	\$ 3,214	\$ 4,753	45
150,000- 250,000	2,426	31.8	19.4	7,621	12,497	62
250,000- 500,000	4,086	20.6	12.4	19,792	32,868	91
500,000- 750,000	5,307	19.0	11.3	27,975	46,904	75
750,000- 1,000,000	4,275	14.3	7.5	29,812	56,868	65
1,000,000- 2,000,000	17,333	11.3	5.9	152,874	291,674	197
2,000,000- 5,000,000	28,961	8.5	4.1	339,648	697,888	214
5,000,000-10,000,000	15,605	4.7	2.2	332,505	698,127	88
10,000,000-50,000,000	31,921	3.9	1.8	812,912	1,736,453	88
50,000,000 and over	77,050	2.3	1.1	3,317,959	7,058,810	36
ALL SIZES	\$188,306	3.7	1.8	\$5,044,312	\$10,636,842	961
<i>Region</i>						
New England	\$ 10,468	2.2	1.2	\$ 476,575	\$ 850,179	90
Middle Atlantic	71,297	4.3	1.7	1,674,241	4,097,434	264
East North Central	23,926	5.0	2.1	476,692	1,144,580	182
West North Central	15,203	6.8	2.9	222,984	521,729	145
South Atlantic	20,316	5.8	3.3	349,147	609,368	111
East South Central	5,949	4.1	2.7	143,432	216,979	46
West South Central	11,156	3.7	2.0	300,816	552,854	56
Mountain	8,278	9.0	4.3	92,353	190,755	36
Pacific	21,713	1.7	0.9	1,308,072	2,452,964	31
ALL REGIONS	\$188,306	3.7	1.8	\$5,044,312	\$10,636,842	961

^a Total loans and investments. Each level is inclusive of the lower figure, exclusive of the higher.

^b In thousands. See Table 2, footnote a.

states, and were next highest in the South Atlantic and East North Central states.

These data understate rather than overstate the importance of the personal loan activities of banks. As subsequent findings will show, gross earnings on personal loan assets and sales finance paper are substantially higher per \$100 of investment than are gross earnings on bank loans and investments generally.¹⁸ Thus as a source of gross earnings they are of more importance than their relationship to total loans and to total loans and investments would indicate.¹⁹

Type and Size of Personal Loans

The personal instalment loans of commercial banks are of three main types: single-name, comaker and secured.²⁰ The secured notes in turn may be subdivided into two groups: those secured by conditional sales contracts, bailment leases, chattel mortgages and the like; and those secured by savings passbooks, stocks and bonds, or life insurance policies.

Table 6, based on questionnaire returns from 520 banks covering 881,267 personal loans made in 1938 and totaling \$196,527,000, shows that in amount²¹ approximately 56 percent of these loans were represented by comaker notes. Single-name notes ranked second in frequency, amounting to 21 percent of the total, and secured loans accounted for the remaining 23 percent (15 percent secured by conditional sales contracts and the like, and 8 percent by savings passbooks, stocks and bonds, or life insurance policies).

¹⁸ See Chapters 6 and 7.

¹⁹ An analysis of the contribution of personal loans to net earnings involves problems of cost allocation. These questions are discussed in Chapters 6 and 7.

²⁰ This classification of loans conforms to business usage and is used throughout this study. Single-name loans include those bearing signatures of husband and wife. Comaker loans carry, on the face of the note, the names of one or more comakers. Secured loans are those which give the lender some form of security other than that provided by a maker's or comaker's name.

²¹ In regard to type of loan the number distribution does not differ significantly from the amount distribution.

TABLE 6

Percentage Distribution of Personal Instalment Loans Made by Reporting Banks of Different Sizes and Regional Location, 1938, by Type of Loan

	PERCENTAGE DISTRIBUTION OF LOAN VOLUME					ALL PERSONAL LOANS		NUMBER OF BANKS REPORTING
	Co-maker	Single-Name	Secured ^b	Secured ^c	Total	Number	Amount (in thousands)	
<i>Size of Bank^a</i>								
Under \$150,000	20.5	62.8	15.7	1.0	100.0	5,909	\$ 688	19
150,000- 250,000	32.9	29.3	34.7	3.1	100.0	9,064	1,482	29
250,000- 500,000	37.0	34.1	23.8	5.1	100.0	17,741	3,017	49
500,000- 750,000	37.0	17.3	36.2	9.5	100.0	15,443	2,611	37
750,000- 1,000,000	46.0	13.7	23.7	16.6	100.0	18,536	2,774	34
1,000,000- 2,000,000	46.9	13.3	35.5	4.3	100.0	48,339	9,837	100
2,000,000- 5,000,000	48.5	9.6	37.7	4.2	100.0	90,435	17,947	116
5,000,000-10,000,000	52.6	6.1	32.9	8.4	100.0	47,606	10,815	48
10,000,000-50,000,000	39.0	14.8	35.7	10.5	100.0	108,296	26,774	61
50,000,000 and over	62.9	26.5	2.5	8.1	100.0	519,898	120,582	27
ALL SIZES	55.6	21.5	15.0	7.9	100.0	881,267	\$ 196,527	520
<i>Region</i>								
New England	54.2	24.0	12.2	9.6	100.0	39,487	\$ 7,730	48
Middle Atlantic	67.6	19.9	2.5	10.0	100.0	394,938	97,330	142
East North Central	38.7	14.7	40.3	6.3	100.0	67,335	15,736	96
West North Central	22.7	16.5	53.2	7.6	100.0	63,163	14,900	80
South Atlantic	52.5	5.4	34.9	7.2	100.0	68,583	13,703	68
East South Central	56.3	11.9	23.6	8.2	100.0	19,368	3,646	19
West South Central	50.1	20.4	18.0	11.5	100.0	50,824	8,030	29
Mountain	35.4	17.2	38.5	8.9	100.0	16,391	3,370	19
Pacific	47.9	40.1	10.4	1.6	100.0	161,178	32,082	19
ALL REGIONS	55.6	21.5	15.0	7.9	100.0	881,267	\$196,527	520

^a Total loans and investments. Each level is inclusive of the lower figure, exclusive of the higher.

^b Secured by conditional sales contracts, bailment leases, chattel mortgages and the like.

^c Secured by savings passbooks, stocks, bonds or life insurance policies.

For banks with total earning assets between \$750,000 and \$10,000,000, comaker loans constituted from 46 to 53 percent of the dollar amount of all personal loans; for those with assets of \$10,000,000 to \$50,000,000 this type of loan accounted for only 39 percent, whereas for the largest banks (\$50,000,000 or more) it rose to nearly 63 percent. Among smaller-sized banks (under \$750,000), from a fifth to over a third of the personal loans were of the comaker type. Single-name notes were relatively more common among banks in this group than among those of intermediate size (\$750,000-2,000,000); for banks with assets of \$2,000,000 to \$10,000,000 the proportion was very low, but for banks having earning assets of \$50,000,000 or more it came to nearly 27 percent. On the whole, the loans secured by savings passbooks, stocks, bonds or life insurance made up the smallest segment. Personal loans secured by conditional sales contracts and the like²² ranged from nearly a sixth to more than a third of personal loans for all groups of banks except those with earning assets over \$50,000,000; for these largest banks less than 3 percent of the personal loans were backed by this type of security.

The comaker personal loan was the most frequent type in New England, the Middle and South Atlantic, East and West South Central, and Pacific regions, accounting in each for about one-half or more of all personal loans. The single-name note was most extensively used in the Pacific region (40 percent of all personal loans in that area) and the loan secured by conditional sales contracts and the like was most widely employed in the East and West North Central, Mountain, and South Atlantic regions, where a third to a half of all loans were of this type. Loans otherwise secured (by savings passbooks, stocks, bonds or life insurance) comprised as much

²² These probably consist principally of cash loans extended to finance the purchase of durable goods.

TABLE 7

Average Size of Different Types of Personal Instalment Loans Made by Reporting Banks, 1938, by Size of Bank and by Region

	COMAKER	SINGLE- NAME	SECURED ^b	SECURED ^c	ALL LOANS
<i>Size of Bank*</i>					
Under \$150,000	\$130	\$122	\$ 87	\$219	\$116
150,000- 250,000	145	120	267	269	164
250,000- 500,000	169	146	203	275	170
500,000- 750,000	165	146	181	196	169
750,000- 1,000,000	143	93	193	219	150
1,000,000- 2,000,000	183	177	240	353	204
2,000,000- 5,000,000	171	182	255	222	198
5,000,000-10,000,000	200	230	283	248	227
10,000,000-50,000,000	213	196	330	263	247
50,000,000 and over	234	201	326	256	232
<i>Region</i>					
New England	186	189	248	220	196
Middle Atlantic	248	239	248	255	246
East North Central	216	201	264	275	234
West North Central	185	164	316	235	236
South Atlantic	172	166	250	305	200
East South Central	177	158	230	237	188
West South Central	156	120	196	232	158
Mountain	205	153	246	190	206
Pacific	184	191	361	395	199
ALL GROUPS	\$217	\$202	\$274	\$255	\$223
Number of banks reporting ^d	493	320	280	261	520

* Total loans and investments. Each level is inclusive of the lower figure, exclusive of the higher.

^b Secured by conditional sales contracts, bailment leases, chattel mortgages and the like.

^c Secured by such collateral as savings passbooks, stocks and bonds or life insurance policies.

^d The number of banks reporting both number and amount of the several types of loans.

as a tenth of all loans in three regions, New England, Middle Atlantic and West South Central.

The average size of various types of loans, and of all loans made by 520 reporting banks is indicated in Table 7. On the average, loans secured by conditional sales contracts ranked first in size (\$274), those secured by savings passbooks and the like came second (\$255), comaker notes third (\$217), and single-name notes last (\$202). This ranking does not hold consistently for banks of all sizes, but secured notes were typically of greater average size than comaker or single-name loans. Banks with earning assets above \$1,000,000²³ generally made loans of higher average amount than did the smaller banks, although there were some exceptions.

The Middle Atlantic and the West South Central regions showed, respectively, the highest and lowest average size of loan (\$246 and \$158). Less than average loan sizes, for loans of all types, were reported for New England, the South Atlantic, the East and West South Central, the Mountain and the Pacific regions; loans predominantly larger or close to average size were reported for banks in the Middle Atlantic and in the East and West North Central states.

SALES FINANCING ACTIVITIES OF COMMERCIAL BANKS

The development of an instalment credit mechanism for financing consumer purchases of durable goods has occurred for the most part without the direct participation of commercial banks. It is to be credited rather to the sales finance companies, which purchase retail instalment paper from dealers, and to retail merchants who have provided customers with special credit facilities. In recent years, however, commercial banks have sought increasingly to share in this type

²³ Since large banks are usually situated in cities of substantial size, it has been suggested that the average size of loan may vary also with the size of the city.

of consumer instalment credit, and today they are acquiring some part of the total volume of sales financing by purchasing retail instalment paper from dealers and by arranging to finance instalment purchases for individual customers through direct loans.²⁴

In the main such financing may be regarded as one phase of the activity of personal loan departments. There are, however, some banks which have special time-sales departments in addition to their personal loan departments; and there are other banks which, though engaged in retail sales financing, have no separately organized personal loan departments. For these reasons it is not easy to obtain a clearly delineated picture of the sales finance operations of commercial banks. The activities of banks in financing consumer instalment purchases are further obscured by the fact that ordinary personal loans may be used for the acquisition of durable goods.²⁵

Table 8 presents data, classified according to region and type of commodity, on the amount of retail instalment paper acquired during 1938 from dealers and individual customers by 184 large banks which reported their retail sales finance business separately. Of the total volume of \$192,500,000, by far the greatest proportion went for the financing of automobiles and household appliances; house-heating equipment accounted for a small fraction, and furniture, "soft" goods and miscellaneous commodities combined, for less than 1 percent. In all regions except the Middle Atlantic, automobile paper represented a greater share of the volume than any other type, ranging from 40 percent in the West North Central to 89 percent in the West South Central. In the Pacific

²⁴ Arthur T. Moyer, in discussing the results of a survey covering reports from more than 200 banks in the Midwest, states in regard to the sources of their retail instalment paper that "26.2 per cent of the banks answering the questionnaire make direct loans only; 23.8 per cent discount dealer paper only; 50 per cent will accept direct loans and discount from a dealer." "Automobile Survey," *Banking* (November 1936) p. 66.

²⁵ The banks' sources of paper, and the extent to which banks have recourse on dealer, manufacturer or purchaser, will be discussed in Chapter 4.

TABLE 8

Percentage Distribution of Retail Instalment Paper Acquired by Reporting Banks in Different Regions from Dealers and Individual Customers, 1938, by Type of Commodity Financed

REGION	TYPE OF COMMODITY						Total	AMOUNT OF PAPER (in thousands)	NUMBER OF BANKS REPORTING
	Automo- biles	Household Appliances	House- Heating	Furni- ture	Soft Goods	Miscella- neous			
New England	82.0	4.7	5.5	1.6	1.3	4.9	100.0	\$ 2,891	12
Middle Atlantic*	16.8	77.2	4.8	.4	.6	.2	100.0	58,553	32
East North Central	87.8	4.2	4.4	1.6	^b	2.0	100.0	4,785	37
West North Central	40.4	34.6	24.2	.2	.4	.2	100.0	11,849	31
South Atlantic	66.8	28.9	4.3	^b	..	^b	100.0	5,441	8
East South Central	72.9	5.2	7.6	..	..	14.3	100.0	786	9
West South Central	89.1	8.1	2.6	.1	.1	..	100.0	4,592	22
Mountain	53.6	7.2	34.5	4.7	^b	..	100.0	2,995	12
Pacific	82.9	17.0	.1	^b	..	..	100.0	100,638	21
ALL REGIONS	59.4	35.8	4.1	.3	.2	.2	100.0	\$192,530	184

* Of the volume reported for this region by 32 banks, 68 percent is attributable to one large bank which handles no automobile paper. If this bank's figures were disregarded, the Middle Atlantic volume distribution among commodities, in the order of their listing above, would be as follows: 52.5, 40.8, 2.6, 1.4, 1.9, 0.8.

^b Less than 0.1 percent.

region, which accounted for well over half of the sales finance paper handled by the reporting banks, 83 percent was credited to automobile financing. The Middle Atlantic, with automobile paper amounting to only 17 percent of the sales finance volume, is a conspicuous exception. Over two-thirds of the volume reported for this region is handled by one large bank which accepts no automobile paper; if this bank had been omitted from consideration the Middle Atlantic region would have had 52.5 percent of its volume in automobile paper. Similarly, household appliances, if the figures for this bank had been disregarded, would have accounted for 41 percent of the volume instead of the exceptional figure of 77 percent. Even among the other regions, however, household appliances showed a somewhat erratic distribution, ranging from 4 to 35 percent. In most parts of the country house-heating equipment accounted for a relatively insignificant proportion of the reporting banks' total retail instalment paper, but in the West North Central region it amounted to nearly one-fourth, and in the Mountain states to more than one-third. These variations in the relative significance of sales financing for the several commodities reflect prevailing differences from one part of the country to another, not only in the needs and buying habits of the population but also in the operating policies of commercial banks.

Fluctuations in the volume of retail instalment paper are more directly synchronized with changes in consumer income than are the fluctuations in personal loans. From Table 9, which gives the year-end instalment paper outstandings of 129 large banks reporting for the three years 1936-38, it may be observed that the outstandings of these banks increased nearly 34 percent from 1936 to 1937 but declined about 36 percent from 1937 to 1938. These findings may be compared with estimated percentage changes for all consumer retail instalment outstandings for the two periods: an increase of

TABLE 9
Amount of Year-End Outstandings on Retail Instalment Paper Acquired by Reporting Banks in Different Regions from Dealers and Individual Customers, 1936-38, 1937-38, 1938*

REGION	1936		1937		1938		1937		1938		1938	
	\$	NUMBER OF BANKS REPORTING	\$	NUMBER OF BANKS REPORTING	\$	NUMBER OF BANKS REPORTING	\$	NUMBER OF BANKS REPORTING	\$	NUMBER OF BANKS REPORTING	\$	NUMBER OF BANKS REPORTING
New England	425	6	588	6	514	6	1,061	8	1,354	8	1,737	11
Middle Atlantic	55,162	25	85,376	25	43,556	25	99,271	28	43,720	28	45,141	38
East North Central	2,797	25	3,206	25	2,809	25	3,355	30	3,083	30	4,011	47
West North Central	31,015	25	34,056	25	16,102	25	34,984	31	16,992	31	17,965	41
South Atlantic	2,381	6	4,152	6	3,594	6	4,152	6	3,594	6	3,927	9
East South Central	299	4	354	4	576	4	401	7	619	7	1,173	12
West South Central	1,618	11	2,026	11	1,578	11	2,254	15	2,426	15	3,125	26
Mountain	1,441	12	2,114	12	3,078	12	2,264	13	3,278	13	3,381	15
Pacific	57,081	15	72,399	15	58,034	15	76,828	17	62,602	17	63,124	22
TOTAL	\$152,219	129	\$204,271	129	\$129,841	129	\$224,568	155	\$137,668	155	\$143,604	221

* Amounts in thousands. See Table 2, footnote a.

10 percent and a decrease of 20 percent respectively.²⁶ Data covering a larger number of banks but only the two years 1937 and 1938 show a slightly sharper percentage decrease from 1937 to 1938 (39 percent). On the other hand, Table 2 above indicates that personal loan year-end outstandings merely registered a slower rate of increase from 1937 to 1938 than from 1936 to 1937. Over one-third of the outstandings of these reporting banks were accounted for by the Pacific region, where sales financing activities of banks, particularly in the field of automobile financing, are more extensive than in other regions. On the whole, the data are insufficient to support any judgment as to whether the sales finance business of commercial banks was growing substantially during this period in comparison with that of other sales finance agencies.²⁷

²⁶ National Bureau estimates of year-end outstandings of instalment credit for six types of retail establishments combined—dealers in new and used passenger automobiles, department, furniture, household appliance, jewelry, and "all other" stores—for these years are: 1936, \$2,446,600,000; 1937, \$2,721,000,000; 1938, \$2,187,500,000. National Bureau of Economic Research (Financial Research Program), *The Volume of Consumer Instalment Credit, 1929-38*, by Duncan Holthausen, Malcolm Merriam and Rolf Nugent (ms. 1940) Appendix A, Table A-1, p. 1. These figures are adjusted to exclude retail instalment sales of trucks, machinery and other producer goods.

²⁷ In general, sales finance companies have contended that commercial banks did enjoy a marked rise in time-sales financing during these years.

The Legal Status of the Consumer Credit Operations of Commercial Banks

ALTHOUGH an extensive body of legislation has long regulated the ordinary operations of commercial banks, their more recent activities as agencies of consumer credit have received but little specific legislative attention. Banks that make personal loans do so in most cases under general banking statutes, state and national, which authorize them to make loans and to discount paper, subject to supervision by the proper authorities. With very few exceptions, however, these laws make no direct reference to loans repayable on an instalment basis. The rate of simple interest on average outstanding balances of instalment loans is higher than the discount rate, depending on the schedule of repayments, and frequently it is high enough to conflict with the provisions of the usury statutes. Commercial banks are therefore in considerable doubt regarding the legality of such loans, except in the few states which have enacted special legislation to cover instalment lending by such institutions. With respect to this phase of their operations commercial banks are in a very different position from industrial banking companies, credit unions and small loan companies, which likewise make instalment loans to consumers but are in many states subject to definite statutory regulation which sets the maximum rate at which they can lend and exempts them from the general statutes governing interest.

Cash instalment lending, however, is but one aspect of the consumer credit activities of commercial banks. There is also

the financing of time sales which, as we have already noted, has been undertaken by many commercial banks in recent years. Except in Indiana, Michigan and Wisconsin, instalment sales financing is covered neither by the special statutes covering personal loan department practice nor by the general provisions of banking law, so that this important branch of banking enterprise remains without specific regulation as to customer charges.

In the following pages we present a summary of the legislation governing the personal loan departments of commercial banks. This information, derived largely from responses to a questionnaire addressed to all state banking departments and from the text of state banking statutes, is arranged to facilitate a comparison of provisions concerning licensing and regulation, customer charges, size of loan, length of contract and time-sales financing.

Replies to the questionnaire were received from all but 2 states, North Dakota and Louisiana. Of the 46 reporting, 10 had taken some legislative action with respect to personal loan departments: Arizona,¹ Delaware,² Maine,³ Michigan,⁴ New Jersey,⁵ New York,⁶ North Carolina,⁷ Ohio,⁸ South

¹ Chapter 69, House Bill No. 169, effective June 14, 1939.

² Laws of Delaware, secs. 121-22, vol. 40. These are secs. 3556-57 of the Delaware laws applying to small loan companies, but national banks, state banks and trust companies are specifically included in their provisions.

³ Maine Banking Law, sec. 27, XIX, specifically empowers savings banks to make personal loans on endorsed notes.

⁴ Michigan financial institutions act (Public Act 341, session of 1937 as amended 1939 by Senate Bill No. 212, Senate Enrolled Act No. 71), sec. 38. This law refers to personal lending as "industrial loan business," but the section cited applies also to personal loans by commercial banks.

⁵ New Jersey Banking Law, sec. 17; 4-31.1-8. A particularly interesting section of the New Jersey law stipulates that any loan contract drawn up under its provisions must include a statement of that fact.

⁶ New York Banking Law, sec. 108-2. No other state has as comprehensive a body of legislation regulating personal loan departments.

⁷ North Carolina Banking Law, 1937 supplement, Chapter 5, Article 5, sec. 220-a.

⁸ Ohio General Code, sec. 710-180 (special-plan banking section) governs the operations of personal loan departments of commercial banks. Sec. 710-148d-1 permits mutual savings banks to operate such departments.

Carolina⁹ and Virginia.¹⁰ In Wisconsin legislation covering personal loan departments was pending.¹¹ Of the 36 states (including Wisconsin) whose banking departments reported that they had no legislation specifically applicable to the granting of personal loans by commercial banks, 12 indicated that such loans would be affected by their general banking statutes.¹²

Almost all states replied to a question¹³ about the legal maximum interest rate for personal loans made by banks. From these responses it is apparent not only that practice varies widely, but also that a considerable degree of uncertainty prevails as to what rates are permitted by law. In addition to the interest charge, the borrower may have to pay one or more special fees—a credit investigation or examination fee, a service charge, brokerage fees, insurance premiums, fines for late payments, fees for the registration of legal instruments, and court costs in case of litigation. It is impossible to determine, from the replies to the questionnaire, whether a given charge is specifically authorized, expressly forbidden, or merely sanctioned as a matter of practice in the absence of any statutory pronouncement; about half the reporting states

⁹ South Carolina Session of 1935, Public Act 270. This statute authorizes banks "to make loans payable in instalments for financing of purchases and other desirable purposes."

¹⁰ Statutes of Virginia relating to banks, trust companies, etc., sec. 5553, 1938 Acts of Assembly.

¹¹ Bill 283-A, dealing with personal loan departments, was referred to a legislative committee March 3, 1939, but was not reported out.

¹² The 12 states whose general banking statutes cover some aspects of personal lending by banks are: Arkansas, California, Connecticut, Iowa, Massachusetts, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas and Wyoming. Oregon and Rhode Island reported that they had no special legislation but that the usury statutes would apply to personal loans made by commercial banks. Tennessee reported no specific regulation of personal loan departments but indicated that such loans were made by some banks and that they could not legally charge more than 6 percent. Wyoming has no special legislation, but its general statutes contain a provision regarding the interest rate on loans up to \$200.

¹³ "Is the maximum rate of interest which a bank in your state may charge on personal loans specified in the banking law? If so, what is this rate? If the usury rate is applicable, please state rate."

authorize or permit one or more of these charges. The fees most commonly allowed are those for credit investigation or service; in about one-fourth of the states reporting, at least one of these charges is permissible,¹⁴ whereas in nine states all special fees and charges are forbidden.¹⁵

LICENSING AND REGULATION

Provisions for licensing and regulating the personal instalment loan business of commercial banks vary greatly among those states which have enacted special legislation. The banking laws of Arizona, Maine, North Carolina, South Carolina and Virginia do not mention the licensing of personal loan departments at all. In Delaware, where banks have the right to operate under the small loan law, they may do so without procuring a certificate of registration from the state bank commissioner. Only in four states are banks required to obtain permission to establish personal loan departments. Michigan banks seeking to engage in the industrial loan business (the term used in the Michigan law to refer to personal and industrial loans) must apply to the banking department, which is directed to consider the financial position of the bank (amount of capital and surplus), and the character and needs of the community to be served, before it grants a certificate authorizing the applicant institution to make such loans. New Jersey banks are required to obtain a license from the state banking department before they may establish a personal loan department. In New York the superintendent of banks may at his discretion grant a bank permission to open a personal loan department if he deems that the convenience and advantage of the community would be served thereby.

¹⁴ The credit investigation fee and the service charge are in theory distinguishable from each other. As used by banks, however, the terms overlap and no exact distinction can be drawn.

¹⁵ Arkansas, Florida, Indiana, Minnesota, Mississippi, Missouri, New Jersey, Oklahoma, Tennessee.

In Ohio a bank must amend its charter, with the approval of the banking superintendent and of its stockholders, to comply with the law for special-plan banks before it may establish a personal loan department.

Personal loan departments of banks in Ohio and New York are subject to periodic examination by the division of banks, conducted in the same general manner as are the examinations of other operations of commercial banks, savings banks and trust companies. The New York law, passed in 1936, provides that the records of personal loan departments "shall be kept in such form as the superintendent may from time to time prescribe." Upon approval of a bank's application to operate a personal loan department, the state banking department sends the bank a copy of the annual report form for personal loan departments and a copy of the regulations covering their operations; it also advises how the interest rate shall be computed and expressed in loan contracts and recommends the use of certain operating practices. New York appears to be the only state which supplies personal loan departments with any supervisory material or report forms.

CUSTOMER CHARGES

All states in the union have enacted laws establishing a legal rate of interest which lenders may not exceed without the borrower's consent. By agreement with the borrower, interest in excess of this amount may be charged in most states, but such an overcharge is limited to the percentage stipulated as the "contract rate." Table 10 lists legal and contract rates¹⁶ for all states and the District of Columbia. Legal rates vary from 4 percent in North Dakota to 8 percent in Florida. The most frequent rate is 6 percent, which applies in 39 states and in the District of Columbia. In 11 states the contract rate is

¹⁶ Both these rates are "legal" in the literal sense of the word. In this discussion we are employing the terms "legal rate" and "contract rate" because such usage conforms to general practice.

TABLE 10

Legal and Contract Rates in All States and in the District of Columbia^a

STATE	LEGAL RATE	MAXIMUM CONTRACT RATE	STATE	LEGAL RATE	MAXIMUM CONTRACT RATE
Alabama	6	8	Nebraska	6	9
Arizona	6	8	Nevada	7	12
Arkansas	6	10	New Hampshire	6	any
California	7	10	New Jersey	6	6
Colorado	6	any	New Mexico	6	12 ^b
Connecticut	6	12	New York	6	6
Delaware	6	6	North Carolina	6	6
District of Columbia	6	8	North Dakota	4	7
Florida	8	10	Ohio	6	8
Georgia	7	8	Oklahoma	6	10
Idaho	6	8	Oregon	6	10
Illinois	5	7	Pennsylvania	6	6
Indiana	6	8	Rhode Island	6	30 ^c
Iowa	5	7	South Carolina	6	7
Kansas	6	10	South Dakota	6	8
Kentucky	6	6	Tennessee	6	6
Louisiana	6	8	Texas	6	10
Maine	6	any	Utah	6	10 ^d
Maryland	6	6	Vermont	6	6
Massachusetts	6	any	Virginia	6	6
Michigan	5	7	Washington	6	12
Minnesota	6	8	West Virginia	6	6
Mississippi	6	8	Wisconsin	6	10
Missouri	6	8	Wyoming	7	10
Montana	6	10			

^a Taken from Polk's *Banker's Encyclopedia* (March 1939). Special exemptions from these rates are to be found in many state laws: loans made by personal finance companies, for example, are almost always exempt from usury statutes: Delaware, Illinois and New York allow any rate agreed upon for demand loans in amounts over \$5000 secured by certain kinds of collateral, etc.

^b This applies to unsecured loans; on collateral loans the rate is 10 percent.

^c On loans up to \$50 the rate is 5 percent per month for the first 6 months, 2½ percent per month thereafter; over \$50 the rate is 30 percent per annum.

^d "The law also allows 4 percent service charge on unpaid balance, in addition to 10 percent maximum rate." Polk, *op. cit.*

also 6 percent; 4 states do not stipulate a contract maximum, and 33 states and the District of Columbia fix a contract rate higher than the legal rate, the former varying from 7 to 12 percent.

Certain types of loans are covered by special legislation which exempts them from the laws limiting interest charges. The interest rate applying to cash advances by personal finance companies, for example, is not restricted by such statutes. Many banks, however, in the absence of specific legislation on this point, have been unable to determine definitely whether their personal instalment loans would be entitled to such exemption. Undoubtedly some banks would attribute their hesitancy to undertake instalment lending to this uncertainty. In New York special legislation allowing banks to establish and operate personal loan departments was not enacted until 1936; before that year several large commercial banks refused to risk violation of the statutes governing interest rates by making small instalment loans.¹⁷ A large number of banks have dealt with this situation by applying the borrower's instalment payments not directly against his outstanding indebtedness but to a savings deposit, known as an "hypothecated account," which accumulates and is applied to the loan upon maturity.¹⁸

¹⁷ While the absence of definite legislation has to some extent deterred commercial banks from making small instalment loans, it is probably true also that in many states this aspect of banking is too recent to have created an active demand for statutory control. According to the Rhode Island state banking department, for example, the volume of such business has not assumed sufficient proportions to warrant special legislation. Massachusetts reports that personal loans are comparatively new in commercial banking institutions in that state, and are not regulated by any statutes other than those governing the lending of funds by commercial banks. Alabama reports that too few banks have personal loan departments to require the issuance of uniform supervisory rules.

¹⁸ The interest charge on a loan of \$1200 extending for 12 months at 10 percent discount is \$120, so that the proceeds of the loan come to \$1080. If monthly payments are applied directly against the indebtedness, the rate of interest is 1.66 percent per month, which is approximately 21 percent per year, depending on the method of calculation; such a rate might be considered usurious by the courts. If the hypothecated account is used, however, the

Not all of the 10 states which have special personal loan legislation applying to commercial banks have set a maximum interest rate for such loans. The section of the Maine law dealing with personal loans does not mention rates. The general legal rate in that state is 6 percent and any contract rate is permitted; moreover the Maine small loan law allows 12 percent per annum on loans up to \$300.¹⁹ In Delaware, New Jersey, North Carolina and Virginia the rate is 6 percent discount payable in advance.²⁰ The contract rate of 7 percent applies in Michigan and South Carolina, and of 8 percent in Arizona, and in all three states interest may be deducted in advance.

New York is the only state which quotes the interest charge as a percent of the average unpaid principal balance. This rate may not exceed 12 percent per annum. Since the legal rate is 6 percent discount on the face of a non-instalment note, which would amount to 11.78 percent on the average unpaid balance of a loan paid off in regular instalments, there is little actual difference between the two methods of quoting legal rates.

In Ohio no specific statute governs the interest rate on so-called special-plan loans. The contract rate is 8 percent, but special-plan banks (those making "industrial loans") and mutual savings banks may require periodic or deposit payments as additional security (with or without an allowance

entire \$1200 indebtedness continues for the full year, since the borrower's "repayments" actually go to build up the deposit account. This is applied in full, at the end of the period, to the liquidation of the debt, as agreed between lender and borrower when the loan is made. In this case the borrower has nominally had the use of \$1080 for the entire year, on which interest of \$120 is only 11.1 percent. To make their position still more tenable from the legal aspect, some banks allow interest on the hypothecated deposit as payments accumulate in the account.

¹⁹ Although the small loan law in Maine specifically excludes banks (sec. 158) the questionnaire return from this state indicated that the 12 percent rate is allowed on bank personal loans.

²⁰ Virginia permits a minimum interest charge of \$1.

of interest on such deposits), thus effecting an increase in the interest rate beyond the statutory maximum of 8 percent.

In addition to the states just mentioned, two or three others have provisions applicable to personal loans made by commercial banks. The Nebraska law makes no explicit stipulation concerning small loans or personal loan departments, but according to its state banking department some Nebraska banks are licensed by the secretary of state; these are exempt from the laws regulating interest and permitted to charge up to 10 percent discount per annum. In Rhode Island interest on all bank loans is subject to the statute governing interest rates.²¹ Wyoming has no personal loan legislation and "the general statutes allow 25 percent per annum on loans up to \$200."²²

Charges other than interest, whether authorized or merely customary, also differ markedly from state to state. Arizona permits only lawful fees for the filing, recording or acknowledgment of legal instruments. Delaware authorizes a credit investigation fee or service charge, and is one of the few states to specify the amount, 2 percent; in addition, non-cumulative delinquency fines of 5 percent are permitted in this state. The Maine law does not mention fees in the section applying to personal loans by banks,²³ and the North Carolina and Virginia laws contain no provisions regarding charges. In Michigan, borrowers may be charged \$1 per \$50 of the loan to cover expenses, including a credit investigation fee and fees for the drawing up of necessary papers, but no charge may be collected unless the loan is actually made and under no circumstances may it exceed \$15. The New Jersey law states that "no further interest or discount charge, nor any other charge whatsoever, shall be made directly or indirectly."

²¹ The Rhode Island law provides further that on loans of \$50 or less, 5 percent interest per month may be charged for the first 6 months, and 2½ percent per month thereafter.

²² Questionnaire return from Wyoming state banking department.

²³ The Maine small loan law forbids any but "lawful fees."

New York forbids all charges except fines and court costs (in cases of default)²⁴ and group insurance premiums. The Ohio law permits a credit investigation fee, of unrestricted amount, but there is no statute either authorizing or forbidding other charges.²⁵ The banking laws of South Carolina provide a minimum charge of \$1 "in lieu of interest" on small loans.

A number of states, in addition to those with special legislation, reported provisions for various charges.²⁶ Some banks consider that such supplementary fees constitute the profit margin on personal instalment loans when interest alone would be inadequate to justify the granting of such credit. Accordingly the legal status of additional charges may be an important factor in a bank's determination as to whether or not it will engage in consumer instalment lending.

²⁴ Default charges are of two kinds: (1) on delinquent principal payments, either interest at no more than the usual 12 percent per annum on the average unpaid balance, or (after five days delinquency) a fine not to exceed 4 percent or \$2 on any one payment (total fines not to exceed \$15 or 2 percent of the total loan); (2) actual expenditures, including reasonable fee to attorney for necessary litigation.

²⁵ According to the state banking department the actual practice in Ohio is to charge up to \$2 per \$100, depending on the size of the loan, the quality of the collateral and the credit record of the borrower. On many loans no charge is made.

²⁶ The questionnaire returns from Georgia, Kentucky, New Hampshire, New Mexico and Vermont state that the laws of those states make no provision for any fees or charges. In Connecticut a credit investigation fee is allowed, but other charges are not specified and any may be imposed. Idaho banks impose a charge of \$1 for each loan. A life insurance charge is permitted in Massachusetts. Nebraska banks may charge, besides interest, a brokerage fee of not more than 10 percent of the amount actually lent, and an examination fee of not more than 50 cents on loans up to \$50. In Nevada special fees are not subject to regulation. The Oregon usury statute exempts "reasonable" fees for credit investigation and for the registration of legal documents. Pennsylvania places no restriction on credit investigation fees and permits fines for late payment. Rhode Island does not restrict credit investigation fees and allows "any incidental charge." The 4 percent "service charge" which Utah permits in addition to interest is said to cover documentary fees for the most part. In Wyoming the maximum interest of "25 percent per annum" which may be applied to loans up to \$200 must include all charges, investigation fees and the like.

SIZE OF LOANS AND LENGTH OF CONTRACT

Of the 10 states which have enacted legislation covering loans by personal loan departments, 8 place a maximum limit on the amount that may be lent to a single customer on an instalment basis. Arizona, New Jersey, Maine and South Carolina set a flat maximum of \$1000,²⁷ and North Carolina stipulates a maximum of \$1500. In New York the limit is variable, from \$500 to \$3500, depending on the population of the city in which the bank is located.²⁸ According to the Delaware law, the maximum size of loan is determined by the amount of the lender's capital and surplus.²⁹ In Michigan no bank may lend to a single borrower more than 3 percent of its capital and surplus.³⁰ Ohio and Virginia do not specifically limit the size of personal loans.

Only 4 states have set a maximum length of contract for personal loans: New Jersey 12 months, New York 15 months,³¹ Michigan 18 months,³² and Ohio 12 months (on loans made by mutual savings banks). South Carolina has fixed a minimum contract length of 6 months, but no maximum.

Michigan permits weekly, semi-monthly or monthly repayment instalments, but requires that they be uniform in amount. New York specifies "equal or substantially equal"

²⁷ South Carolina also sets a minimum of \$10.

²⁸ The various limits are set as follows:

- \$3500 applies in cities with more than 1,000,000 inhabitants;
- \$2500 in cities with not less than 300,000 or more than 1,000,000;
- \$1500 in cities with not less than 25,000 or more than 300,000;
- \$1000 in cities with not less than 4,000 or more than 25,000;
- \$ 500 in communities with less than 4,000.

²⁹ Individuals may borrow up to \$500 from firms having a paid-in capital of \$10,000; firms with a larger capital may lend a single borrower up to 10 percent of their capital stock and surplus.

³⁰ The Michigan law applies to "industrial loan business." Loans for real estate improvements or repairs are excluded from the 3 percent limit.

³¹ Except that in the case of loans running more than one year provision may be made for the omission of repayments during no more than 3 specified months.

³² Loans for improvements or repairs on real estate may, however, extend over 24 months.

instalments at regular intervals of one month. Delaware and Virginia allow weekly, monthly, or other periodic instalments. In South Carolina the only stipulation on this score is that loans shall be "payable in instalments." The uniformity requirement is designed, of course, to eliminate the "balloon note," a device which serves to lengthen the period of borrower indebtedness.

SUGGESTED UNIFORM PERSONAL INSTALMENT LOAN LAW

The questionnaire replies analyzed in the foregoing pages testify to the prevailing confusion regarding the legal status of personal instalment loans made by commercial banks. In states where legislation is lacking, a bank must decide whether it is legally empowered to make personal loans, whether such loans are subject to the provisions of the general banking laws or (in the absence of definite exemption from small loan laws) the small loan law of the state, what operating methods may be adopted, what interest and other fees may be charged, and what records must be kept. On the other hand it must take the risk of adverse court decisions in the event of legal action on any of these points at some later date.

In an effort to foster some degree of uniformity in the state laws regulating cash instalment loans made by commercial banks, the American Bankers Association has prepared a recommended draft of a Personal Instalment Loan Statute. The text of the draft is quoted below.³³

An Act to increase to the public the credit facilities of banks, trust companies and national banks doing business in this State by fixing the rate of interest or discount that may be charged on loans to be repaid in instalments, or by means of deposits, and to limit the charges thereon. . . .

³³ The Association considers that the statutes of New Jersey, New York, North Carolina and South Carolina are modified forms of this proposed law.

1. Any bank or trust company heretofore or hereafter organized under any general or special law of this State, and any national bank doing business in this State, shall have power, in addition to such other powers as it may have to make loans to any person, firm or corporation in an amount not exceeding one thousand dollars (\$1,000) and to deduct in advance from the proceeds of such loan, interest or discount at a rate not exceeding any contract rate permitted by law in this State, upon the total amount of the loan from the date thereof until the maturity of the final instalment, notwithstanding that the principal amount of such loan is required to be repaid in instalments, or notwithstanding the loan is secured by a deposit account opened by the maker or makers concurrently with the making of the loan and assigned as collateral security therefor, which deposit account may evidence deposits made, or require deposits substantially uniform in amount, to be made periodically, with or without interest throughout the term for which the note evidencing such loan runs.

2. No further interest or discount charge, nor any other charge whatsoever, shall be made directly or indirectly on any such loan or discount of such note by such bank, trust company or national bank in addition to the charges herein expressly provided for, except that there may be charged to the borrower

- (a) a penalty not exceeding . . percent (. . %) of the amount of any principal payment or payments in default.
- (b) the actual cost of insurance in the case such bank, trust company or national bank insures the life of the borrower under an insurance policy, and
- (c) a charge in an amount not exceeding one dollar (\$1) per one hundred dollars (\$100), or fraction thereof, of loan for the cost of credit investigation or appraisal of the security offered as collateral.

3. All Acts or parts of Acts inconsistent with this Act are hereby repealed.

4. This Act shall take effect immediately.

TIME-SALES FINANCING

Commercial banks not only make instalment loans directly to consumers but also buy finance paper from dealers and lend money on the security of retail sales contracts. The latter phase of consumer financing by commercial banks has, however, received little legislative attention. As we have mentioned previously, only three states—Indiana,³⁴ Michigan³⁵ and Wisconsin³⁶—have sales finance laws applicable to commercial banks.³⁷

The Indiana "Retail Installment Sales Act" is a comprehensive statute covering transactions up to \$1500, regardless of the agency through which they are handled. It requires that any person, firm or corporation wishing to purchase instalment contracts from a dealer secure a license from the department of financial institutions, and that all agencies except banks be licensed before they may make loans to dealers on the security of retail instalment contracts. The license fee is \$10 annually for banks, \$100 for other agencies. The act stipulates in detail what information must appear on the written contract,³⁸ and the department of financial institutions is given broad powers to establish a schedule of maximum legal charges³⁹ and delinquency penalties, and to regulate time-sales practices.

³⁴ Indiana Bankers Association, *Acts of the State of Indiana Affecting Various Financial Institutions* (1935) Chapter 12, "Retail Installment Sales Act."

³⁵ Michigan Senate Bill No. 166, Senate Enrolled Act No. 144.

³⁶ Wisconsin Statutes, 1937, sec. 218.01.

³⁷ Maine has a licensing act relating to the instalment finance business, but banks are exempt from its provisions. Although South Carolina permits banks to make instalment loans "for financing of purchases and other desirable purposes," the character of the statute indicates that it was not designed to regulate retail instalment sales along the lines discussed here.

³⁸ The stipulated items are cash price, amount of down payment, unpaid balance, cost of insurance, principal balance owed (unpaid balance plus insurance), amount of finance charge, time balance and the number of payments, with the amount and date of each (sec. 4).

³⁹ It is made clear that the law is not to be considered as repealing any earlier

The Michigan act covers the time sales of motor vehicles only, and makes no specific mention of banks. It defines the term "seller" as a person who sells or agrees to sell a motor vehicle, or any legal successor in interest of such person. Here the question is whether a bank which lends funds to a consumer for the purchase of a motor vehicle, taking title to the car from the retail dealer until payment is complete, or a bank which purchases dealer paper, becomes thereby the dealer's "legal successor in interest." If so, banks clearly fall under the provisions of the law which describes, in terms almost identical with those of the Indiana statute, the information which must appear on the written contract, and regulates repossession practice in considerable detail.

The Wisconsin law, described as a licensing act, is similar to the law of Michigan in that it relates to motor vehicle business exclusively. It affects motor vehicle salesmen, motor vehicle dealers and sales finance agencies. Thus banks are plainly included, as is indicated by the definition of a sales finance agency: "any person, firm or corporation engaging in this state in the business, in whole or in part, of acquiring by purchase or by loan on the security thereof, or otherwise, retail instalment contracts from retail sellers in this state." Sales finance agencies as thus defined are required to be licensed by the banking department, the license fee depending on the gross volume of business measured by the unpaid balance of the retail contracts. Broad authority to supervise and

Indiana statutes regarding legal rates of interest, but is merely supplementary thereto.

In view of competitive conditions in the sales finance field, the section of this law dealing with the finance charge is of particular interest. "The department, in determining the fair maximum finance charge which may be contracted for in any retail instalment contracts, shall take into consideration the availability of credit facilities to individuals who do not have the security generally required by commercial banks, and the finance charge which will be necessary in order to induce sufficient amounts of efficiently operated commercial capital to enter the business of making retail instalment contracts. The department shall fix charges sufficient to provide adequate credit facilities for retail instalment sales."

regulate the operations of such agencies is conferred upon the banking commission in connection with its licensing powers. It may, for example, revoke licenses if the sales finance agency makes a finance charge in excess of 15 percent per annum, or in cases of other violations of the act; it is empowered also to examine the books of licensees, to define unfair practices in the motor vehicle industry and to promote the general interests of the retail buyers of motor vehicles. A particularly interesting clause stipulates that sales finance agencies must be licensed as direct loan companies if they wish to make direct loans or to refinance accounts at original contract rates.⁴⁰

⁴⁰ See National Bureau of Economic Research (Financial Research Program), *Sales Finance Companies and Their Credit Practices*, by W. C. Plummer and R. A. Young (1940) Chapter 9, "Abuses in Retail Instalment Financing, and Their Regulation," for a more detailed discussion of statutes pertaining to sales financing.

The Customers of Personal Loan Departments

THE persons who obtain instalment loans from commercial banks may be described in terms of their incomes and their vocational, personal and financial characteristics.¹ The vocational characteristics include occupation, industry and stability of occupation; the personal characteristics are age, sex and marital status, number of dependents and stability of residence; and the financial characteristics cover assets and liabilities. The amount of the loan obtained by the borrower, and the circumstances that induced him to seek a loan are also pertinent factors.

The primary data for this study of borrower characteristics were furnished by three New York City banks² which operate personal loan departments. Since almost half of the banks reporting their personal loan volume in response to our questionnaire were located in the Atlantic seaboard states,³ and since a substantial part of the volume of this regional group originated in a few large institutions in New York City, the data contained in this small sample may be considered representative of a significant part of the dollar volume of personal loans made by commercial banks throughout the country. They are not, of course, representative of all types of market,

¹ In this chapter we discuss only cash borrowers. Data on the characteristics of individuals financing time sales were not available.

² The National City Bank, the Bank of the Manhattan Company and the Manufacturers Trust Company; the samples they furnished consisted of 1,000, 7,112 and 26,567 cases respectively.

³ The New England, Middle Atlantic and South Atlantic states. See Table 1, footnote c, above.

for many relatively small institutions outside of New York City now make personal loans.⁴ To supplement our primary data, therefore, we have made a study of 1,468 loan application schedules supplied by 21 banks in 16 cities situated in 11 states. Besides indicating some of the characteristics of borrowers from non-metropolitan institutions, this sample provides some information not available in the data from the three New York banks.⁵

INCOME CHARACTERISTICS OF BORROWERS

Income is usually considered the most important of the borrower characteristics which a personal loan department must take into account in passing on a credit risk, since the repayment of personal loans depends primarily on this factor.⁶ Table II shows the distributions, by income level, of personal loan borrowers and of various population groups in the United States. The former are classified in three ways: borrowers from commercial banks, as represented by the three New York banks and by the special sample supplied by 21 banks; borrowers from personal finance companies, as represented by the customers of the largest chain lender, a com-

⁴Of 961 reporting banks, almost 40 percent had earning assets (loans, discounts and investments) of less than \$1,000,000, and almost 80 percent had less than \$5,000,000. See Table 3, above.

⁵In several of the tabulations in this chapter we have indicated the "range of variation," which represents the extremes found in the samples of the different institutions. The fact that in some cases no range is mentioned should not suggest that there is no variation, for the range is given only when it is especially conspicuous.

As a whole, the secondary sample is dominated by banks in large cities. It contains, however, data from several banks in smaller communities as well. The sample is not large, and the distributions derived from it must be regarded only as approximate. Originally assembled for the analysis of risk factors in personal lending in Chapter 5 below, it is hereafter referred to as the "special sample."

⁶In relatively few cases is the loan a self-liquidating business loan, and seldom is the loan secured by assets sufficiently valuable to cover the unpaid balance in case of default, foreclosure or repossession.

pany whose operations are reasonably typical;⁷ and non-farm, non-relief families throughout the country having a net change in cash loan debt in 1935-36.⁸ These data give rise to a number of interesting observations, but since they are drawn from several different sources they are not ideal for purposes of comparison. We have therefore found it desirable to introduce a column showing "frequency of debt," by which is meant simply the percent of persons indebted in any selected population group. It is not possible, however, to show frequency of debt in exactly the same way for all three sets of borrowers. Thus the frequency of cash loan debt in the country at large is indicated, for each income level, by the percent of families in that income class having a net change in cash loan debt, whereas the frequency of such debt to banks and to personal finance companies is shown by an index. This index was computed as follows: for banks the percent of "special sample" bank borrowers in each income level was divided by the percent of all metropolitan families in that level;⁹ and for personal finance companies the percent

⁷ This company had offices in 26 states and 280 cities at the end of 1937 and held about 20 percent of all reported outstandings of personal finance companies.

⁸ For a detailed explanation of the term "families having a net change in cash loan debt" see National Bureau of Economic Research (Financial Research Program), *The Pattern of Consumer Debt, 1935-36, A Statistical Analysis*, by Blanche Bernstein (1940) Chapter I and Appendix E. While the term is not equivalent to "families indebted for cash loans," the figures are the only ones available to indicate the frequency of such debt, and for the purposes of this discussion they are reasonably reliable. The estimates were built up by the National Bureau from data assembled by the Study of Consumer Purchases, a Works Progress Administration project conducted by the U. S. Bureau of Labor Statistics and the Bureau of Home Economics in cooperation with the National Resources Committee and the Central Statistical Board.

⁹ These two distributions are not strictly comparable, for the bank distribution contains single individuals, and the family distribution does not. Nevertheless, the comparison is justifiable because the bank-debt index thus computed probably understates the amount of variation among income classes. If single individuals were added to the distribution of metropolitan families, the result would almost certainly be an increase in the percentages for the lower income levels and a decrease in the percentages for the higher brackets, so that the index of cash loan debt frequency in the lowest income level would be somewhat decreased, while that in the highest level would be increased. Further,

TABLE 11
Percentage Distributions of Cash Borrowers and of Three Population Groups, by
Income Level^a

INCOME LEVEL ^b	BANK BORROWERS			PERSONAL FINANCE COMPANY BORROWERS		U. S. NON-RELIEF, NON-FARM FAMILIES HAVING NET CHANGE IN CASH LOAN DEBT, 1935-36 ^c		POPULATION GROUPS ^f		
	Three New York Banks ^e	Spe- cial Sample ^d	Index of Debt Fre- quency ^e	One Large Chain ^f	Index of Debt Fre- quency ^e	Percent- age Dis- tribution	Percent in Each Level	All Fami- lies	All Families and Single Individuals	Families in Metrop- olises
Under \$500	} 4.0 } _j	} 6.0 } _i	} .33	} 1.3	} .38	} 4.6	} 4.3	} 10.6	} 17.01	} 18.2
500-1,000										
1,000-1,500	19.5	20.5	.94	37.2	1.68	24.4	7.9	24.0	22.14	21.9
1,500-2,000	25.3	26.2	1.28	25.3	1.93	21.1	9.4	16.4	13.14	20.5
2,000-2,500	18.2	19.7	1.44	12.2	1.63	12.6	9.2	9.5	7.50	13.7
2,500-3,000	14.0	9.7	1.14	4.6	1.23	8.0	10.5	5.2	3.74	8.5
3,000-4,000	10.1	} 10.3 } _k	} 1.35	} 2.9 } _m	} .42	} 5.7	} 8.2	} 4.8	} 3.43	} 7.6
4,000-5,000	4.1										3.1	1.19
5,000 and over	4.8	4.5	.64			3.3	7.0	3.2	2.34	7.0
ALL LEVELS	100.0	100.0	1.00	100.0	1.00	100.0	7.9	100.0	100.00	100.0

Footnotes for Table 11 are to be found on opposite page.

of borrowers in each income group was divided by the percent of all families and single individuals in the country in that group.

The index of bank debt frequency may be compared not only with the frequency of cash loan debt for all families in the United States but also with the debt frequency index for personal finance companies. The frequency of cash loan debt ranges from 4.3 percent for families with incomes under \$500 to 10.5 percent at the \$2500-3000 level, an increase of 144 percent, whereas the index of bank debt frequency rises from 0.33 for the income levels under \$1000 to 1.44 at the \$2000-2500 level, an increase of 336 percent. On the other hand, the variation in the debt frequency index of personal if we had computed the index by means of the New York bank distribution instead of the special sample distribution, the index for the lower levels would have been still further decreased, and that for the higher levels increased.

Footnotes for Table 11.

^a See also Appendix B, Table B-9.

^b For the borrowers from the three New York banks and from the personal finance chain each income level is exclusive of the lower figure and inclusive of the higher. In all other columns each level is inclusive of the lower figure and exclusive of the higher.

^c Unweighted average of samples from three New York City banks: 1,000 undated loans made by the National City Bank; 7,112 loans made between October 1, 1936, and October 1, 1937, by the Bank of the Manhattan Company; and 26,567 loans made during 1938 by the Manufacturers Trust Company.

^d Based on the special sample of 1,468 undated loans made by 21 banks.

^e For each income level the percent of special sample bank borrowers was divided by the percent of families in metropolises to yield the index of debt frequency. See footnote i below.

^f Based on data for 1937.

^g For each income level the percent of borrowers from the personal finance company chain was divided by the percent of all families and single individuals in the country to yield index of debt frequency.

^h Figures taken from Blanche Bernstein, *op. cit.*, Table B-3.

ⁱ Figures for "All Families" and "Families in Metropolises" taken from National Resources Committee, *Consumer Incomes in the United States (1938)* Table 8, p. 25. These figures, from which families on relief are excluded, cover the period 1935-36. Figures for "All Families and Single Individuals" from *ibid.*, Table 2, p. 6; these likewise cover the period 1935-36, but include families and single individuals on relief.

^j The range of variation for these three income classes was 16-30. See above, p. 64, footnote 5.

^k The range of variation for these three income classes was 7-26.

^l The range of variation for these three income classes was 2.9-11.

finance company borrowers, from 0.38 for income groups under \$1000 to 1.93 for the \$1500-2000 group, is fairly close to that for borrowers from commercial banks. Personal finance companies appear, however, to serve borrowers of lower income than do banks. The income level showing the highest index of debt frequency for personal finance company borrowers is \$1500-2000 as compared with \$2000-2500 for bank borrowers. The income levels below \$1500 accounted for 55 percent of the personal finance company borrowers, but for only about 25 percent of the bank borrowers. In the classes with incomes over \$2500, however, there were one-third of the borrowers from the New York banks and one-quarter of the borrowers from banks in the special sample, but only 7.5 percent of those from the personal finance company chain.

Since the personal finance company distribution is probably weighted by loan operations in middle-sized and smaller communities, while the bank distributions are more representative of metropolitan centers, the two are not entirely comparable. A more detailed breakdown of these figures, showing the distribution of borrowers by region, size of community and other such factors, might modify these contrasts to some degree, but it seems unlikely that it would seriously alter the general picture.

Although only 1.3 percent of the personal finance company borrowers and virtually none of the bank borrowers had annual incomes of less than \$500, it is shown in Table 11 that 4.6 percent of the non-relief, non-farm families in this income group had a net change in cash loan debt during 1935-36. The difference between these two groups suggests that many families in this income class must have had recourse to other cash lending agencies, possibly to pawn shops and remedial loan societies; some may have borrowed small amounts on insurance policies or from credit unions.

VOCATIONAL CHARACTERISTICS OF BORROWERS

Two occupational distributions of cash borrowers are presented in Table 12, which shows also, for purposes of comparison, distributions of gainfully employed persons in New York City and of non-relief families living in non-farm communities throughout the United States.¹⁰ It appears from this table that the occupational distribution of borrowers from personal finance companies is virtually identical with that of the working population. The distribution of borrowers from bank personal loan departments, in contrast, shows about twice the proportion of clerical workers and only about half the proportion of wage-earners as are represented in the data covering the general working population.¹¹

The only information on the industries (as distinguished from the occupations) to which bank borrowers are attached is derived from the special sample. These data are presented in Table 13, which contains also the census classification of workers by industry. The two distributions, while not strictly comparable,¹² point to some significant differences. For example, 38 percent of the nation's workers are engaged in manufacturing and mechanical industries (including build-

¹⁰ These population groups were selected for comparison because personal finance companies and the personal loan departments of banks make most of their loans to the urban population. The distributions in Table 12 may include a few farmers in the business group, and a small number of farm hands who are classified as wage-earners, but such borrowers constitute a very small part of the total.

¹¹ Any occupational grouping is strongly colored by the judgment of those who decide what classifications shall be used. Since the distributions in Table 12 came from different sources they are not strictly comparable. Moreover, in this and in other tables showing comparisons of personal loan borrowers with the general population, it will be noted that the various distributions relate to different periods of time. Thus in Table 12 we compare bank borrowers during 1938 (for the most part) and personal finance company borrowers during 1935-36 with one population group distributed according to the Census of 1930. Since for some groups no more comparable data are available this discrepancy in dates cannot be avoided.

¹² The census has a special classification for clerical occupations, whereas in the sample of bank borrowers these workers are distributed among the various industries in which they are employed.

TABLE 12

Percentage Distribution of Borrowers from Two Personal Loan Departments and Two Personal Finance Companies, and of the Working Population, by Occupation^a

OCCUPATIONAL GROUP	BANK BORROWERS ^b	PERSONAL FINANCE COMPANY BORROWERS ^c	WORKING POPULATION	
			Individuals in N. Y. C. ^d	Non-Relief, Non-Farm Families in U. S. ^e
Wage-earners	28.1 (24-32)	52.4 (45-60)	52	52.9
Unskilled	73.7 (9.5-18)			
Skilled and semi-skilled	14.4			
Clerical	44.4	25.0	25	20.3
Salespersons	77.7			
Office and other non-manual workers	33.3			
Business	20.4	14.6 (10-20)	13	19.4
Managers, superintendents and foremen	9.3			
Proprietors	77.7 (11-24)			
Professional	6.4	6.8 (4-10)	8	7.4
School teachers	2.7			
Others	4.3			
Others	0.7	1.2 ^f	2	...
ALL GROUPS	100.0	100.0	100.0	100.0

Footnotes for Table 12 are to be found on opposite page.

ing trades), while only 19 percent of the bank borrowers are employed in manufacturing and building, a variation which seems too great to be attributable entirely to inconsistencies in classification. Again, the difference between the two groups in the public service classification is wide enough (only 2 percent of the nation's workers as compared with 13 percent of the bank borrowers) to deserve special mention, as is also the difference found for the trade group, which accounts for 33 percent of the bank borrowers but for only 17 percent of the non-farm workers in the United States.¹³

The industrial classification of workers appears to confirm the findings of the occupational classification. Particularly noteworthy is its support of the observation that borrowers from personal loan departments come predominantly from clerical occupations.

Credit managers have for many years attached great importance to an applicant's employment record, believing that a man who retains a position with a reputable concern for a

¹³ Workers in the agricultural, forestry, fishing and mining industries, comprising some 24 percent of the gainfully employed workers in the United States, were eliminated entirely from the census distribution in order to make it more comparable with the distribution of bank borrowers; these industries are underrepresented in the bank sample.

Footnotes for Table 12.

^a See also Appendix B, Table B-6. Hereafter all Appendix tables will be designated simply by the letter B in conjunction with the numeral.

^b Unweighted average of samples from two New York City banks: 1,000 undated loans made by the National City Bank and 26,567 loans made during 1938 by the Manufacturers Trust Company. Figures in parentheses indicate range of variation.

^c Unweighted average of data for 1935-36 from two large personal finance chains. Figures in parentheses indicate range of variation.

^d Derived from 1930 Census and representing population 10 years old and over engaged in gainful occupations. Persons usually working at a gainful occupation but temporarily unemployed are included in this census classification.

^e Based on National Resources Committee, *Consumer Incomes in the United States* (1938) Table 10B, p. 97. The occupational status of the family was determined by the major source of family earnings; thus if members of the family received earnings from two or more occupations the family was classified according to the occupation from which the greater proportion of total family earnings was derived. This tabulation excludes farm families, which constitute about 25.6 percent of all non-relief families in the United States.

^f Farming group.

TABLE 13

Percentage Distribution of Borrowers from 21 Personal Loan Departments and of Non-Farm Workers in the United States, by Industry

INDUSTRY	BANK BORROWERS ^a	NON-FARM WORKERS IN THE U. S. ^b
Manufacturing	18	} 38 ^c
Building trades	1	
Transportation and other public utilities	14	10
Trade	33	17
Wholesale and retail	75	
Other (financial institutions etc.)	78	
Public service	13	2
Professional service (not otherwise specified)	7	9
Domestic and personal service	5	13
Other	9 ^d	11 ^e
ALL INDUSTRIES	100	100

^a Based on the special sample of 1,468 loans made by 21 banks. See also Table B-7.

^b Derived from Census of 1930. These figures exclude workers in agriculture, mining, forestry and fishing.

^c The census classification "Manufacturing" includes mechanical industries, hence building trades.

^d Does not include clerical workers, who in this distribution are divided among the industries to which they are attached.

^e Includes clerical workers.

substantial period of time must be reasonably honest and stable. Table 14, derived from the special loan sample, shows the distribution of borrowers by stability of employment. Over one-third had held the same position ten years or longer, and almost as many had remained at the same job from three to ten years; only about one-fifth reported a tenure of less than three years.

TABLE 14

Percentage Distribution of Borrowers from 21 Personal Loan Departments, by Number of Years in Present Employment^a

NUMBER OF YEARS ^b	PERCENTAGE DISTRIBUTION
Under 1	5
1-2	7
2-3	9
3-6	18
6-10	18
10 and over	38
No information	5
TOTAL	100

^a Based on the special sample of 1,468 loans made by 21 banks. See also Table B-8.

^b Each level is inclusive of the lower figure and exclusive of the higher.

PERSONAL CHARACTERISTICS OF BORROWERS

The age distribution of borrowers from one New York bank is given in Table 15, together with the distribution of gainfully employed persons in New York City. The most striking difference is to be noted for the borrowers in the age class of under 30 years, which includes 32 percent of the gainfully employed population of New York City but only 20 percent of the bank borrowers. This disparity may indicate either that the data are not comparable, or that this bank prefers to make loans to fairly well established persons and deliberately eliminates a certain proportion of younger applicants. It may imply also that financial difficulties which cause a man to borrow tend to arise after he reaches the age of thirty, when his personal responsibilities normally increase.

The special loan sample provides data on the sex and marital status of borrowers. About 61 percent were married men, about 5 percent were married women, about 16 per-

TABLE 15

Percentage Distribution of Borrowers from One Personal Loan Department, and of the Gainfully Employed Population of New York City, by Age

AGE	BANK BORROWERS ^a	GAINFULLY EMPLOYED POPULATION OF NEW YORK CITY ^b
21-30 ^c	20.1 (20-30)	32.1
30-40	34.3	29.0
40-50	26.6	21.0
50-60	14.2	12.0
60 and over	4.8 } (15-25)	5.9
TOTAL	100.0	100.0

^a Based on a sample of 7,112 loans made between October 1, 1936, and October 1, 1937, by the Bank of the Manhattan Company. Figures in parentheses indicate range of variation. See also Table B-2.

^b Derived from Census of 1930. See Table 12, footnote d.

^c Each level is inclusive of the lower figure and exclusive of the higher.

cent single men and 12 percent single women. The remaining 6 percent includes persons divorced, separated, widowed and not reporting.¹⁴ One New York bank found that out of a sample of 7,112 loans, 75 percent were made to men, a result which conforms closely to the proportion of men in the gainfully employed population of New York City, 73 percent.

A classification of borrowers by number of dependents was derived from the special sample. The average number of dependents for these borrowers was approximately 1.5, but more than one-quarter of them had no dependents, and one-fifth had three or more.¹⁵ This sample furnishes data also on the borrowers' permanence of residence, a factor which is

¹⁴ See Table B-3. In this and other discussions based on Appendix tables we refer only to the good-loan samples. Since borrowers whose loans present collection difficulties constitute a very small proportion of all borrowers, and since their distribution is likely to be substantially the same as that of the good-loan samples, this limitation may be disregarded.

¹⁵ See Table B-4.

considered by credit managers to be an index of social stability. As is shown in Table 16, about one-quarter of the borrowers had resided at their current address less than two years, and another quarter had lived in the same place ten years or longer.

TABLE 16

Percentage Distribution of Borrowers from 21 Personal Loan Departments, by Number of Years at Present Address^a

NUMBER OF YEARS ^b	PERCENTAGE DISTRIBUTION
Under 1	13
1-2	14
2-3	13
3-6	20
6-10	10
10 and over	26
No information	4
TOTAL	100

^a Based on the special sample of 1,468 loans made by 21 banks. See also Table B-5.

^b Each level is inclusive of the lower figure and exclusive of the higher.

FINANCIAL CHARACTERISTICS OF BORROWERS

While there is a substantial body of information about borrowers' income, little is known about their income-and-expense balance, and not much more about their assets and liabilities. Some banks, though not all, request the borrower to state on his application the amount of rent he pays, but few ask for any other expense items. The special loan sample provides some indication of the assets and liabilities reported by borrowers of various types.

About 80 percent had life insurance, and not quite 45 percent reported bank accounts; about 18 percent mentioned checking accounts only, 20 percent savings accounts only, and

about 6 percent had both. Approximately 27 percent owned real estate, the proportion ranging from 10 to 40 percent, depending on the community. Apparently borrowers from bank personal loan departments seldom possess securities: only about 5 percent of the borrowers covered in the sample reported holdings of stocks or bonds.¹⁶ These proportions doubtless change from one income level to another, but our sample was too small to warrant analysis of such variations.

On the liability side, 45 percent of the borrowers in the special loan sample had charge accounts. The figures reported by individual banks varied widely, however, from 1 to 85 percent. The special sample shows also that nearly 30 percent of the bank borrowers covered had instalment accounts, including sales finance and cash loan debts, although in this case too the individual bank samples varied considerably.¹⁷

AMOUNTS BORROWED

Unlike small loan companies, which are limited to cash advances of \$300 or less, most of the commercial banks make many loans for substantially larger amounts. Table 17 shows the size distribution of the personal loans of two New York banks. Loans of \$300 or more constituted almost 30 percent of the total number, and those of \$500 or more over 10 percent. Sixteen percent of the number of loans of these two banks were written for amounts under \$100. The range of variation indicates, however, that some banks do not lend less than this amount.

Prudent borrowers restrict their loan demands to a reasonable percentage of their annual income, and many banks as a matter of practice enforce an arbitrary maximum percentage. One New York bank commonly refuses to lend a sum

¹⁶ Only a few banks reported on this item; the variation ranged from 2 to 10 percent.

¹⁷ See Table B-11.

TABLE 17

Percentage Distribution of Loans Made by Two Personal Loan Departments, by Size of Loan^a

SIZE OF LOAN ^b	PERCENTAGE DISTRIBUTION ^c
Under \$ 100	16 (0-17)
100-150	21
150-200	14
200-250	15
250-300	5
300-400	13
400-500	4 } (10-21)
500-1,000	8 }
1,000 and over	4
TOTAL	100

^a Unweighted average of samples from two New York City banks: 1,000 undated loans made by the National City Bank and 7,112 loans made between October 1, 1936, and October 1, 1937, by the Bank of the Manhattan Company. See also Table B-12.

^b Each level is inclusive of the lower figure and exclusive of the higher.

^c Figures in parentheses show range of variation.

amounting to more than 15 or 20 percent of the borrower's annual earnings. Since most bank personal loans have 12-month maturities, monthly payments also are limited to 15 or 20 percent of monthly income. According to data presented in a later chapter,¹⁸ about 10 percent of personal loan customers borrow 20 percent or more of their annual income, whereas almost half borrow less than 10 percent.

A distribution of borrowers from one New York bank, according to the stated reason for borrowing, is given in Table 18. These data should not, however, be considered representative of all banks, for even if the applicants had truthfully reported the real purpose of their loans, there would remain certain discrepancies in the classifications employed by different institutions. There are a number of reasons for borrowing which do not fit precisely into any one category; such

¹⁸ See Chapter 5, Table 35; also Table B-10.

TABLE 18

Percentage Distribution of Borrowers from One Personal Loan Department, by Intended Use of Funds^a

INTENDED USE OF FUNDS	PERCENTAGE DISTRIBUTION ^b
Non-durable consumer goods	
Clothing	2
Household ^c	10 ^d
Durable consumer goods	
Automobiles	5 (5-50)
Alterations and improvements	3 ^d
Medical and dental services	15 (3-30)
Business use	14 (3-25)
Refinancing of debt and other obligations	
Consolidation of debts and general refinancing	31 (10-50)
Taxes	1 (1-4)
Mortgage (principal and interest) and repairs ^e	7 ^d
Insurance	1 (1-3)
Culture and rest	
Vacation	2
Education	2
Miscellaneous	
Help to relatives	1
Other	6
TOTAL	100

^a Based on a sample of 7,112 loans made between October 1, 1936, and October 1, 1937, by the Bank of the Manhattan Company. See also Table B-15.

^b Figures in parentheses indicate range of variation.

^c These might have been classified under "durable consumer goods."

^d The estimated combined range of variation for household expenditures, repairs and furniture is 14-50.

cases are likely to be allocated differently from one bank to another.

In the single bank to which our data apply, the consolidation of existing debts was the reason most frequently reported; medical services and business purposes combined

ranked second in importance. In the case of this bank, loans for the purpose of purchasing automobiles were relatively rare although some institutions (as the range of variation indicates) derive a large part of their personal loan business from loans to finance automobile purchases.

Operating Methods and Collection Experience

THE procedures worked out by commercial banks for granting cash loans to individuals and for financing instalment sales of consumer goods are in general similar to those which have been developed and tested by other instalment credit agencies.¹ There are, nevertheless, certain divergences which can be traced to differences in the kinds of service offered. Thus commercial banks differ from sales finance companies in that they frequently deal directly with the purchaser of the commodity instead of with a dealer; commonly also their personal loan departments exclude a type of business characteristic of most personal finance companies—the extension of credit on the security of household chattels.

Although the basic operating problems of the consumer credit division of a commercial bank are similar to those of comparable consumer credit agencies, they are quite different from the problems encountered in the other departments of the bank. From the outset a personal loan department is confronted with a new type of loan business; it must deal with customers not previously served, except perhaps as depositors, and must devise a technique for handling credit risks which are characteristically unlike those involved in the extension of commercial loans.

¹ References in this chapter to the number of banks reporting on various matters of policy and experience are based on responses to questionnaires sent by the National Bureau to a large number of banks throughout the country. See Appendix A for a statement of the nature and extent of the survey and for facsimiles of the questionnaires distributed.

METHODS OF OBTAINING BUSINESS

Personal Loans

In order to augment the volume of their personal loans, banks employ the advertising media which other consumer credit agencies have found to be fruitful: they write directly to preferred groups of borrowers, and advertise through newspapers, posters, window cards, street-car cards, moving picture screens, billboards and radio. On the whole, however, they find that advertising is less productive than the recommendations of present and previous borrowers; in one large metropolitan bank such recommendations brought in 45 percent of the new business. In addition, banks use a number of special plans for attracting borrowers. One such plan involves the establishment of relations between the bank and industrial or commercial firms whose employees are likely to be desirable customers. In a typical arrangement of this sort the bank is allowed to notify the firm's employees that it will be glad to consider their applications for loans at stated rates. In some cases the bank is permitted to insert a notice to this effect in the house organ of the firm. The bank thus acquires a preferred competitive position; officers of the firm may further enhance the bank's advantage by recommending it to the employees. Where such an accord between bank and employer exists, employees are sometimes granted loans on a single-name basis.

From the viewpoint of the lender, the plan is advantageous because the bank can usually obtain from a designated officer of the firm more complete information on employees' income and tenure than would otherwise be available. It may arrange also to have repayments deducted by the firm from the borrower's paycheck, and thus further reduce the likelihood of collection difficulty. Although many of the larger personal loan departments have developed schemes of this sort, the practice is by no means common; reports from

132 banks show that only 26 of them obtained loan volume in this way.

Then there is the so-called "executive plan" used by banks to build up, from a preferred group of salaried people in relatively secure positions, a volume of loans of greater-than-average size. Business of this type is usually obtained through direct mail solicitation. Loans of \$2500 or more may be extended to such specially selected customers, often on a single-name basis, and at a lower discount rate than is applied to personal instalment loans of lesser amounts.

Some commercial banks, like the personal finance and industrial banking companies, develop loan volume by arranging with doctors and dentists to have their accounts receivable paid off by means of personal loans to clients. In certain cases the doctor is required to guarantee the patient's note, but these plans vary so widely that it is hardly possible to describe them in general terms. Department stores may participate in a similar plan whereby the customer contracts for a personal loan to refinance an open-book account or to finance planned purchases; in most of these transactions the retailer is not required to offer any guarantee of payment.

Sales Finance Paper

Banks obtain business for their time-sales departments either from dealers or directly from individual purchasers. When the bank negotiates with the dealer, it purchases instalment paper originated and sometimes guaranteed by him. In this respect the bank's procedure is no different from that of the sales finance company. Nor have the banks devised any important new schemes for securing the cooperation of dealers. One method, typical of the business in general and of automobile financing in particular, is known as "floor-planning," and involves the extension of credit on a dealer's wholesale stock. Of 141 banks reporting the acquisition of retail automobile time-sales paper from dealers, 74 were extending

wholesale credit to dealers on stocks of new cars and 36 of these were floor-planning used cars. A few banks extend this type of credit even if they acquire retail automobile paper exclusively from non-dealer sources. Thus of 45 banks which reported that they bought no new-car retail paper from dealers, 6 stated that they made wholesale loans on new cars, and of 47 reporting no dealer used-car paper, 2 indicated that they floor-planned used cars.

Data on the dollar volume of retail and wholesale automobile financing were reported by 53 banks; these banks had purchased during 1938 retail instalment paper amounting to \$34,700,000, and had made wholesale loans of \$27,700,000 on new and used cars combined. Still more interesting is a comparison of the amounts of retail and wholesale automobile paper purchased by 43 banks which obtained some or all of their paper from dealers. They reported approximately \$31,800,000 of retail automobile paper purchased and \$22,300,000 of wholesale loans on automobile inventories, of which \$21,500,000 was applied to new-car and \$800,000 to used-car financing. In addition they acquired \$34,100,000 of retail automobile paper from sources other than dealers.

These figures for wholesale and retail financing must be compared cautiously, however. The duration of wholesale loans is generally shorter than that of retail loans, and if these loans were renewed at fairly brief intervals, being considered as new loans with each renewal, the average outstandings on wholesale financing in 1938 would be considerably smaller than the foregoing data indicate. Nonetheless it seems clear that banks obtaining retail sales finance paper from dealers do carry in addition a substantial amount of wholesale loans, incurring the special risks incident to this type of operation.

The method of obtaining time-sales paper described with reference to automobile dealers has been developed also for department stores and public utilities. The department store arrangement is simple: the bank purchases contracts that have

originated in the department store, sometimes on a recourse or insurance basis modeled after the FHA insurance plan, with the store giving the bank a percentage guarantee computed on all the contracts purchased.² This guarantee provides that all uncollectible notes up to the amount of the reserve must be repurchased by the store for the amount of the unpaid balance, or else replaced by non-delinquent notes. Some large banks similarly purchase instalment accounts receivable from mail order houses. The bank buys a block of such accounts and holds this paper until it is paid, the mail order company attending to all credit investigations and collections. A percentage guarantee may provide that if the bank has purchased \$1,000,000 worth of paper it is protected up to \$100,000 of this amount; or the mail order company may agree to substitute new contracts for any that create a collection problem.

Under a related plan banks purchase instalment sales contracts through public utilities and through dealers who sell appliances to the customers of utilities. If a dealer sells the appliances, the interest of the utility company is confined largely to increasing the consumption of power through the sale and use of appliances. The dealer therefore originates the contracts, the utility accepts or rejects them after an investigation of credit risks, and the bank purchases them in groups. The customer usually receives a combined bill for the instalment payment due and for the utility's services. The bank may obtain a guarantee from either the dealer or the utility, or from both; it may also participate in some arrangement for the disposition of repossessed appliances. If, however, the appliances are sold through the utility's own outlets, the utility will sell the instalment contracts thus originated directly to the bank and take all responsibility for collections.

When a bank cannot make arrangements to acquire con-

²The setting up and the administration of loss reserves on retail instalment paper acquired from dealers and other sources are discussed also in Chapter 6.

tracts directly from dealers, or prefers not to do so, it may use other methods of obtaining sales finance business. It may, for example, secure the cooperation of automobile salesmen who will urge customers to finance their car purchases through the bank's time-sales division, or it may even pay a commission to customers who send in new clients.

Banks frequently augment their time-sales business through advertising programs which invite buyers of automobiles or other goods to finance such purchases by means of a direct cash instalment loan. As a variation of this method a small number of banks issue a letter of credit for the convenience of the purchaser. The letter of credit is then presented by the customer to the dealer, who signs a statement to the effect that the deal is made in good faith and correctly described on the appropriate documents. When the dealer has received payment for the merchandise he has no further concern with the transaction, for the buyer now makes his payments directly to the bank. The charge to the borrower includes interest and the cost of whatever credit investigation fee and insurance the bank requires. When a bank employs this method of time-sales financing, it has no recourse on the dealer and must itself dispose of any articles repossessed.³

The relative importance of the several sources from which banks obtain sales finance paper is indicated in Tables 19 and 20. Table 19, based on reports from 164 banks, shows that automobiles accounted for almost 55 percent of the sales finance business done by these banks in 1938, and that 52 percent of their automobile paper was obtained from purchasers and 46 percent from dealers. Of these 164 banks a group of 114, which in 1938 had a combined business amount-

³ All the plans described above are based, of course, on a regular monthly, semi-monthly or weekly payment by the borrower or purchaser. In a predominantly agricultural area, therefore, such schemes are of limited applicability. Some banks in farming communities have worked out arrangements with dealers in agricultural equipment whereby farmers can purchase durable goods under a repayment schedule specially adapted to the irregular flow of farm income.

TABLE 19

Percentage Distribution of Sales Finance Paper
Obtained from Various Sources by Reporting Banks,
1938, by Type of Commodity Financed^a

TYPE OF COMMODITY	SOURCE OF PAPER				TOTAL	TOTAL AMOUNT (in thou- sands)	NUMBER OF BANKS REPORT- ING
	Pur- chasers	Deal- ers	Manu- facturers	Others			
Automobiles	52.4	46.4	....	1.2	100.0	\$ 79,732	149
Household ap- pliances	65.1	28.2	.7	5.0	100.0	57,531	86
House-heating equipment	3.2	84.0	11.8	1.0	100.0	6,764	52
Furniture	31.0	60.0	5.0	4.0	100.0	420	29
Soft goods	27.7	38.4	33.9	...	100.0	112	6
Miscellaneous	37.1	60.7	2.2	...	100.0	502	14
ALL COMMODI- TIES	54.9	41.5	.9	2.7	100.0	\$145,061	164

^a Based on questionnaire returns from 164 banks.

ing to \$32,000,000 in automobile financing alone, reported that this amount was almost equally divided between new and used-car contracts. Table 19 reveals also that dealers were the largest source of paper attributable to instalment sales of all other commodities except appliances; and that for appliances the retail purchaser was the most important source. Manufacturers supplied about one-third of the paper arising from the sale of soft goods.⁴

Table 20, based on reports from 263 banks, shows how many of these institutions received paper from the sources enumerated. There is, of course, a good deal of overlapping, since some banks employ several sources. It is significant, however, that 90 percent of the banks that handled automobile

⁴ About half of the sales finance volume of these 164 banks came from institutions in the Pacific states, which reported that 51.8 percent of their business was obtained from dealers, 47.1 percent directly from purchasers, and 1.1 percent from other sources.

paper acquired at least part of their supply from car purchasers themselves; only 77 percent drew some of their automobile paper from dealers. For all other commodities dealers were the most frequent source of financing business.

TABLE 20

Number of Reporting Banks Obtaining Sales Finance Paper From Various Sources, 1938, by Type of Commodity Financed^a

TYPE OF COMMODITY	SOURCE OF PAPER					NUMBER OF BANKS	
	Purchasers	Dealers	Manufacturers	Finance Companies	Others	Obtaining Paper	Not Obtaining Paper
Automobiles	209	178	12	10	2	232	31
Household appliances	62	152	20	5	3	169	94
House-heating equipment	52	81	7	3	2	103	160
Furniture	26	59	3	2	1	77	186
Soft goods	8	12	4	..	1	20	243
Miscellaneous	18	27	3	1	1	35	228

^a Based on questionnaire returns from 263 banks.

Reports from 145 banks indicate the extent to which sales finance paper is obtained on a recourse or repurchase basis. The great majority of these banks have full recourse on the dealer in case of default. Of 114 banks reporting on their automobile sales finance paper, 88 stated that full recourse was required for all of it; a similar situation prevails with respect to paper obtained from dealers for household appliances, house-heating equipment and other types of merchandise. Paper acquired from manufacturers, on the other hand, is generally bought without recourse, regardless of the type of commodity financed.⁵

⁵ Full recourse, non-recourse and general repurchase agreements are discussed in National Bureau of Economic Research (Financial Research Program), *Sales Finance Companies and Their Credit Practices*, by W. C. Plummer and R. A.

ORGANIZATION OF CONSUMER LOAN DEPARTMENTS

Because the granting of personal loans and the financing of instalment sales require highly specialized operating techniques, many banks have set up separate departments for the conduct of this business. In some cases the departments were not established until a reasonably large volume of business had been developed; in others a personal loan department and a time-sales department were formally organized before any considerable volume of loans was obtained. As we have already noted, many banks make consumer loans but have not set up a special department to handle them.

Departmentalization is designed to facilitate the handling of loan applications and to reduce the costs of collection. Consumer instalment loans are granted only after interviews with prospective borrowers, and if the accounts become delinquent they necessitate numerous follow-up procedures as well. These tasks cannot readily be assumed by other departments of the bank. Furthermore, the amount of detail per dollar of personal loans outstanding is much greater than for regular commercial loans.

Although most banks have acknowledged the advantages of a strictly departmentalized system, many have considered it unnecessary to employ a specially trained person to organize the consumer credit department. Thus 121 out of 138 reporting banks stated that they had not engaged a specially trained man to set up their consumer loan department or departments but had merely transferred an employee from some

Young (1940) Chapter 11. See also Federal Trade Commission, *Report on Motor Vehicle Industry*, 76th Congress, 1st Session, House Document No. 468, pp. 927-28 for definitions of these three plans. As distinct from the full recourse arrangement, the general repurchase agreement calls for no specific dealer liability on individual contracts but does require that the dealer repurchase a repossessed commodity from the financing agency for the amount of the customer's unpaid balance if the article is returned to the dealer in good condition within 90 days after the customer's default.

other department. The banks which did appoint trained men drew them from personal finance, industrial banking or sales finance companies.

Personal loan departments in all commercial banks have the same basic functions: they take loan applications from would-be borrowers, secure and analyze the necessary credit information, decide whether or not to grant the loans, keep records and make collections. Departmental structure varies, however, according to the amount of business transacted. If the volume is small, the bank employees may handle loan operations along with their other duties. If it is large, a full-time employee will probably be assigned to do part of the work, such as interviewing applicants, while the bank tellers will receive payments. Most departments are located in the regular bank offices, so that it is feasible for certain bank employees to do part-time work, but a large, highly specialized department, which may be located in a separate building, cannot operate on this basis.

Because workers in other departments are so frequently employed on a part-time basis in the personal loan department, it is difficult to determine the number of accounts handled per worker, a measure of efficiency often cited by other consumer credit agencies. In the present study, banks were asked to report on the number of full- and part-time employees in their personal loan departments, and usable returns were received from 133 institutions. The average number of workers was then studied in relation to the total personal loan *outstandings* of such departments.⁶ According to this analysis departments with *outstandings* up to \$100,000 employed, on the average, one full-time and one half-time worker; those with \$100,000 to \$250,000 about three full-time workers; those with \$250,000 to \$500,000 four full-time

⁶All part-time workers were counted as half-time workers; this probably resulted in an overstatement of time employed in some departments.

workers and those with \$500,000 to \$1,000,000 about seven full-time workers.⁷

The extent to which time-sales financing is handled in personal loan departments is indicated by reports from 164 banks; in 97 the personal loan department took charge of all sales financing transactions, in 45 cases it handled some of the latter, and in only 22 were the two types of business allocated to separate departments.⁸

PERSONAL LOAN PROCEDURE

The main outlines of lending procedure do not vary substantially from one bank to another. The process of passing on the applicant's credit standing begins with the first interview. If at that time the prospective borrower provides satisfactory information concerning his income and occupation and the purpose of the loan, he is commonly asked to fill out a formal loan application blank. Banks operating branches divide the work of interviewing customers and distributing forms among the various offices. Application forms are usually returned to the head office, where credit investigation is centralized, unless a bank has a large number of branches; in such cases loan applications may be investigated at several different offices.

In banks with a small amount of personal loan business the work of credit investigation is not likely to be highly systematized, but in institutions with a large volume it follows a definite routine. Let us describe the process most commonly

⁷ No attempt was made to study the organization of banks with outstandings in excess of \$1,000,000; this group includes a number of banks that have departments employing several hundred people.

⁸ Departments that handle both types are known by a great variety of names. A partial list follows: Personal Credit Department, Personal Loan Department, Personal Savings Department, Personal Loan-Savings Department, Personal Credit Division, Personal Loan Center, Instalment Loan Department, Loan Service Department, Insured Budget Loan Department, Premium Fund Plan, Year-to-Pay Loan Department, Time Plan Way, Employees Credit Plan, Consumer Credit Department.

used in a department with a substantial volume of loans, where the borrower is likely to be unknown to the bank and where speed in granting credit is an important competitive factor. The application received by the credit department bears a number for general identification, as well as a branch number if the bank has more than one office. It may be time-stamped to provide a check on the speed of investigation. Applications are sorted as received, by type of loan security and perhaps by broad classifications as to size of loan, in order that the credit investigation may be specialized along these lines.

The primary purpose of the credit investigation is to verify the information given on the loan application. The name and address of the borrower may be checked first; a bank with a large loan business may maintain an address file so that it can determine whether any credit difficulties have been experienced with loan applicants or comakers from a given address. If the amount requested is large, say \$1000 or more, a card may be mailed to the applicant, asking for his signature for comparison with that on the loan application. The bank checks the applicant's record in its own credit files; these generally contain names and brief records of all previous makers and comakers.

All banks depend rather heavily on local credit information and credit exchange agencies. Some cities have a number of these organizations, others have very few; even where only one exists its membership may be limited, so that not all lenders in the community can have access to its central files. There are two types of credit agency, and they operate either separately or in combination: the credit information service, which prepares data on the paying record of borrowers; and the "clearing house," which maintains a central file of borrowers and can determine whether the applicant has ever had a loan from any other member of the credit exchange bureau.

The bank using the latter service must find out from the lending agency to which it is referred what the borrower's credit record has been. If the loan is a large one the bank may obtain also a special commercial report and a litigation report covering any suits and judgments in which the applicant has been involved. Banks differ considerably in their evaluation of the several kinds of credit report; some claim, for example, that the borrower's department store credit record is not particularly significant, while others take an opposite view.

According to reports from 141 banks the most important source of credit information concerning applicants for personal loans is the bank's own commercial credit department; the outside sources were ranked by these banks in the following order of importance: retail credit exchange agencies, the applicant's employer, his bank, his creditors, mercantile credit agencies, and bank and other personal loan credit exchange bureaus.

The bank staff checks independently the employment record and income statement of the applicant—if possible with a responsible officer of the employing firm—his bank references, and the telephone number cited by him. It may verify the business position of the applicant who describes himself as owner, partner or officer in a corporation, and check on the statements he has made concerning comakers or the value of his collateral.

When the credit investigation is completed the application is referred to the loan committee or to the officer responsible for granting loans, along with the applications submitted in connection with any previous loans to the same borrower. An applicant who has already been refused a loan may or may not be rejected when this fact becomes known. The record of an earlier loan, of course, provides detailed information concerning collection experience with the prospective borrower.

Although a recommendation to reject may have been made at some point during the investigation, the responsibility of making the final decision rests with the loan officer.

The percentage of loan applications that are ultimately rejected is conditioned by a bank's policies and standards. Reports from 118 banks show that most of them reject between 1 and 25 percent of their applications; 85 reports were distributed evenly within this range. Some banks rejected much more than 25 percent, but these were in the minority.

If a prospective borrower has instalment debts outstanding, the bank usually requires that they be consolidated and paid off from the proceeds of the new loan. Of 135 banks reporting on this topic, 81 made such a demand, 36 did not, and the remainder adapted their policy to the borrower's credit record.

When all documents pertaining to an accepted loan, including the note with appropriate signatures, are filled out satisfactorily, the borrower is notified and a cashier's check is sent to him for the amount of the advance, together with directions for payment. Some banks use a coupon book for this purpose, with a separate page showing the amount and date for every due payment. Accounting cards are set up for accepted loans; the most important of these is the ledger card containing a description of the loan, the schedule of repayments and similar information.

Repayments on loans are either accepted as a direct reduction of the principal of the loan or are treated as hypothecated deposits. Where the latter practice prevails the special deposit built up out of the instalment payments is used at the maturity of the loan to repay the face amount of the note. A total of 128 banks, perhaps not an entirely representative group, replied to a question regarding this practice: 71 reported that payments were applied directly to a reduction of the loan and 57 that they were hypothecated. Most of the

banks paid no interest on these deposits, although a few reported paying as much as 2 percent.

As payments or deposits are received they are posted on the ledger cards. These cards are checked daily for payments due and from them is prepared a list of delinquencies to be handled by the collection department.

Under the usual collection system, the bank notifies the borrower of a delinquency after the waiting period, if one is allowed, has expired, and assesses the delinquency fee at the same time. In general comakers are not notified until the borrower has been given an opportunity to make the payment, and the first notice to comakers is often in the form of a request that they use their influence to have the maker fulfil his obligation. If the delinquency continues, a more urgent notice is sent to both maker and comaker. When the bank gives up all hope of collecting from the maker it may exercise its right to accelerate the note—that is, to require that the entire unpaid balance be paid at once—and concentrate entirely on the comakers. Where the loan is secured by stocks, bonds or a savings passbook the obligation will probably be settled at this point; but in the case of one- and two-name paper the bank may have to threaten court action if payment is not made.

In many cases a delinquent note is adjusted so that the borrower will resume payments. The adjustment may consist of a refinancing of the loan, an extension of its maturity without a new contract, a shifting of payment dates or some other arrangement designed to assist the borrower to meet his commitments.

The procedure outlined above will necessarily vary with the type of loan. Notes secured by automobile collateral, for example, require different collection methods because of the special nature of the security; loans made by special arrangement with outside firms may involve a simpler credit investigation or another collection technique.

SALES FINANCE PROCEDURE

The basic factors in all sales financing operations are the dealer or seller, the purchaser, and the value of the collateral. The relations of the bank with the dealer are conditioned by the terms on which the contract is obtained. If the bank acquires the paper directly from the retail purchaser, the dealer merely receives the advance payment for the merchandise and certifies that the contract is made in good faith. When the paper is bought from the dealer on a recourse or general repurchase agreement a more complete examination of the dealer's credit standing is necessary. Indeed a bank which does a large volume of time-sales financing regards verification of the dealer's credit as an important function of its credit department, and especially when the bank, besides financing a dealer's retail instalment sales, is also making a commercial loan to finance his inventory on the so-called "floor-plan" basis. When such a floor-plan is in effect the bank must maintain an outside force to check the dealer's inventory at frequent intervals and see that the merchandise security is not disposed of in contravention of contractual agreements.

There are other arrangements with dealers besides the dealer recourse or general repurchase plan. For example, a bank may finance time sales of such merchandise as radios or other electric goods under a limited guarantee from the dealer and a full guarantee from the manufacturer, or may enter into agreements with utility companies for the discounting of all paper arising out of instalment sales of appliances to the utility's customers. If under such an arrangement the dealer, manufacturer, utility, or a combination of these, is subject to recourse, the retail purchaser's credit record need not be investigated as carefully by the bank.

When a bank deals directly with the retail purchaser, it requires him to fill out an application blank similar to that used in the personal loan department, covering his employ-

ment, income, address, assets and liabilities, the merchandise to be purchased, the amount of the contract, the down payment and other pertinent items. The credit department verifies these statements by the same methods it employs in making personal loans; sometimes it supplements the information by calling for a credit report from an outside agency. Although the investigation may be less exhaustive when the contract is purchased with recourse on the dealer than when the only security is the buyer's note plus the merchandise sold, the bank never purchases a contract without making some examination of the risk involved.

Regardless of the source of the contract, the customer is always asked to sign a note for the unpaid balance of the purchase price plus an amount representing the credit investigation charge and the interest or financing charge. The cost to the borrower of the insurance required by the bank to protect the collateral may or may not be included in the note. Payments are then arranged according to a plan essentially similar to that employed for cash loans.

In some respects the most significant element in the time-sales financing transaction is the merchandise which serves as security for the loan. Although the bank may act on the assumption that its interests are protected primarily by the purchaser's income, the contract nearly always provides for repossession of the merchandise if the buyer should fail to fulfil his agreement. Whether or not the instalment sales contracts acquired by the bank are purchased under a dealer recourse or repurchase agreement, the bank protects its interest by means of a conditional sales agreement under which title to the merchandise rests with the bank, or a bailment lease whereby the purchaser merely leases the goods from the bank on certain terms and takes title only after the contract has been paid out.

The appraisal of merchandise security is a difficult and complicated task. A bank that finances instalment purchases

of refrigerators, for example, must be familiar with a wide assortment of makes, models and price lines, and must be able to predict the probable decline in their value with the passage of time. Similar difficulties are encountered in the financing of used cars and, to a lesser degree, of new cars as well. In general, however, down payment and maturity requirements offer some protection against depreciation of the value of the commodity which serves as security.

LOAN TERMS

Personal Loans

Commercial banks ordinarily restrict consumer instalment loans to certain amounts and lengths of contract. From questionnaire returns of 563 banks, summarized in Table 21, it appears that nearly all banks have set maximum and minimum limits to the amount they will advance on a personal instalment contract. Slightly more than 25 percent reported \$1000 as a maximum and another 25 percent a maximum of less than \$1000; the remainder were willing to make loans in excess of that amount.⁹ Over 80 percent of these banks also had a minimum limit of \$50 or less,¹⁰ and approximately 16 percent a minimum of over \$50. The most frequent combination was a \$1000 maximum and a \$50 minimum.

Table 22, presenting data on lengths of contract from 594 banks, shows that the most common limitation on maturity, reported by 77 banks, was a maximum of 12 months and no minimum. There is rather wide variation, however, in the limits cited by reporting banks, and this particular combination cannot be regarded as typical of commercial bank policy. General practice can be stated more accurately in terms of

⁹ Those reporting "no maximum limit" are classed with the group willing to lend over \$1000.

¹⁰ Banks reporting "no minimum limit" are classed with this group.

TABLE 21

Number of Banks Reporting Various Minimum and Maximum Sizes for Personal Loans^a

MINIMUM SIZE OF LOAN	MAXIMUM SIZE OF LOAN							NO LIMIT	TOTAL	PERCENTAGE DISTRIBUTION
	\$200 and Under	\$200 to \$500	\$500 to \$1000	\$500 to \$1000	\$1000 to \$3500	\$1000 to \$3500	Over \$3500			
No limit	4	10	11	1	21	10	7	73	137	24.3
Under \$25	2	6	6	1	7	9	17	3	51	9.1
25	3	7	19	3	20	4	3	15	74	13.1
25-50	..	..	2	..	1	1	..	1	5	.9
50	2	13	34	5	76	29	6	33	198	35.2
50-100	..	..	2	..	4	7	2	4	19	3.4
100	..	4	4	1	26	13	1	17	66	11.7
Over \$100	..	1	..	..	1	..	1	1	4	.7
No information	1	..	1	..	..	..	2	5	9	1.6
TOTAL	12	41	79	11	156	73	39	152	563	
Percentage distribution	2.1	7.3	14.0	2.0	27.7	13.0	6.9	27.0		100.0

^a Based on questionnaire returns from 563 banks.

TABLE 22
Number of Banks Reporting Various Minimum and Maximum Contract Lengths for
Personal Loans*

MINIMUM LENGTH OF CONTRACT (in months)	MAXIMUM LENGTH OF CONTRACT (in months)											NO LIMIT	TOTAL	PERCENTAGE DISTRIBUTION
	3	6	9-10	12	14-15	18	20	24	26-30	36	60			
No limit	1	8	1	77	8	36	1	22	..	6	3	11	174	29.4
Under 1	..	..	1	1	..	1	..	..	..	..	..	..	3	.5
1	1	20	1	36	2	17	2	9	2	2	1	..	93	15.6
2- 2½	..	1	1	4	..	2	..	3	1	..	..	..	12	2.0
3	1	1	1	37	5	31	1	13	1	4	1	..	96	16.2
4- 5	..	..	1	11	3	8	..	8	..	2	1	..	34	5.7
6	..	..	..	41	10	43	..	31	..	6	2	..	133	22.4
8-10	..	..	..	2	1	3	2	..	..	..	..	..	8	1.3
12	..	..	..	21	3	8	..	4	..	3	1	..	40	6.7
24	..	..	..	..	..	..	..	..	..	1	..	..	1	.2
TOTAL	3	30	6	230	32	149	4	92	4	24	9	11	594	
Percentage distribution	.5	5.1	1.0	38.6	5.4	25.1	.7	15.5	.7	4.0	1.5	1.9		100.0

* Based on questionnaire returns from 594 banks.

the most common range of limits; thus 545 of the 594 reporting banks set a lower limit of 6 months or less, and 411 set the upper limit between 12 and 18 months.¹¹

Sales Finance Contracts

In time-sales financing the length of the contract is usually limited, and in addition the purchaser is commonly required to make a minimum down payment which is expressed as a percentage of the cash price of the merchandise. These stipulations vary for different commodities, and may fluctuate also over a period of time with changes in credit conditions. They constitute the lender's protection against excessive depreciation of the merchandise which secures the loan. Of 193 banks reporting on automobile paper, 113 stated that the maximum contract length was 18 months, 34 had a maximum of 24 months and 25 a limit of 12 months.¹² For household appliance paper the 95 reporting banks were divided into four almost equal groups, specifying maximum periods of 12, 18, 24 and 30 months each. Lengths of contract for furniture and soft goods seem to be considerably shorter than for the other types of commodity discussed; the most frequently reported maxima were 12 and 18 months for furniture, and 12 months or less for soft goods. The number of reports on these two items was small (41 and 9 respectively) and for this reason the findings cannot be considered conclusive.

More than 90 percent of the 196 banks reporting on the down payments stipulated for automobile contracts stated that their minimum requirement was between 25 and 40 percent; the most common down payment, however, was 33.3 percent.¹³ Terms for household goods were reported by 83

¹¹ Maximum loan sizes are fixed by law in 8 states, and maximum contract lengths in 4 states. See Chapter 2.

¹² Maximum contract lengths tend to be shorter for used-car paper than for new-car paper.

¹³ The minimum down payment for time sales of new cars is generally lower than for used cars.

banks, for furniture by 33 and for soft goods by 4; for these commodities a minimum down payment of 10 percent was favored most widely. Terms for house-heating equipment appear to be somewhat more liberal than those for other commodities; of 57 banks, 20 reported 10 percent, 12 reported 10 to 25 percent, and 11 reported 33.3 percent as the minimum down payment required.

COLLECTION EXPERIENCE

Personal Loan Collections

Like customers of other consumer credit agencies, borrowers from the personal loan departments of commercial banks sometimes terminate their indebtedness before the set date of maturity, either by paying off the debt in cash or by refinancing the loan. Of 55 banks reporting on cash prepayments for the year 1938, 28 stated that from 1 to 5 percent, and 11 that from 6 to 10 percent of their personal loans were so terminated. Prepayment by refinancing may be accomplished in two ways: under one scheme the borrower merely extends the payment period by signing a new note for the unpaid balance; under the other he refinances the old balance and obtains additional funds at the same time. Borrowers who receive additional funds are probably better-than-average credit risks, while those who merely refinance an unpaid balance are more likely to be among the relatively poor risks. In the present study 61 banks reported cases of loans made merely to refinance outstanding balances; about one-half of these indicated that 5 percent or less of their loans were terminated in this way during 1938. Of another group of banks of equal size, one-half reported that 10 percent or less of their loans were paid off by new contracts providing additional cash. If both types of refinancing are combined, it is found that for 44 of the 61 banks the proportion of all loans paid off in 1938 by means of refinancing ranged from 1 to 35

percent, and that for 27 of these banks it varied from 6 to 20.

On the subject of delinquency, the data made available to us are much more conclusive, since they represent reports from 478 personal loan departments. In Table 23 delinquent loans outstanding at the end of 1938 are classified by the extent of delinquency. Because banks define delinquency in different ways, they were asked to measure it uniformly by the

TABLE 23

Number of Banks Reporting Various Percentages of Delinquency on Personal Loans Outstanding December 31, 1938, by Extent of Delinquency^a

EXTENT OF DELINQUENCY ^b	PERCENT OF OUTSTANDING LOANS DELINQUENT						
	0-.9	1-1.9	2-2.9	3-4.9	5-6.9	7-9.9	10 and Over
30 days	177	82	61	43	54	11	50
31-59 days	299	73	43	27	23	3	10
60 days and over	360	51	36	12	11	1	7

^a Based on questionnaire returns from 478 banks.

^b Measured by number of days elapsed from date on which payment was due.

number of days which had elapsed since the date when payment was due, and to state what percentage of their loans outstanding at the end of 1938 were delinquent by 30 days, by 31-59 days, and by 60 days or more. As shown in Table 23, the range most frequently reported on 30-day delinquency was from 0 to 0.9 percent; a number of banks stated that 10 percent or more of their outstanding loans were delinquent to this extent. For the two other delinquency periods the reports were concentrated in the low percent classes.

According to reports from 104 personal loan departments, few comaker loans are paid by the comaker; 46 of these banks stated that less than 0.25 percent of their comaker loans were paid off in this manner, and 89 that less than 1 percent were

so terminated. Of 96 banks reporting on loans paid off by disposal of collateral, 59 had no loans at all in this class and 28 had less than 1 percent.

Before we turn to the final stage of customer default, that is, the point at which loans are charged off as losses, another collection device sometimes used by personal loan departments should be mentioned. The note signed by a cash borrower usually contains an "acceleration clause" giving the holder of the note, in the event of default on a payment, the option of demanding immediate settlement of the entire balance due.¹⁴ Since this demand is not made until all normal collection procedures have failed, the extent of acceleration on notes may be regarded as an indication of serious collection difficulty. The need for such drastic action seems to arise, if at all, before delinquency has passed the 90-day stage. Of 529 reporting banks, 433 indicated that notes were accelerated before they had become 90 days delinquent, and of these 383 set 60 days as the maximum delinquency permitted before acceleration. Only a very small proportion of bank personal loans are accelerated, however. Of 436 banks reporting on this topic, 204 stated that no notes had been accelerated, 93 reported acceleration on less than 1 percent of their notes, 50 banks on 1 to 2 percent, and 33 banks on 2 to 3 percent.¹⁵

It would seem reasonable to assume that almost all accounts for which full payment had been demanded before maturity would be turned over to an attorney for collection if the demand were not met. Questionnaire returns from 101 banks indicate, however, that this step is rarely taken; 72 percent reported either that no accelerated account had been

¹⁴A note is sometimes said to have been "matured" when this option is exercised, but the more common term is "accelerated."

¹⁵From a supplementary breakdown of these figures according to the region in which the bank is located, it appears that these statements are an accurate indication of the experience of various sections of the country.

placed in the hands of an attorney, or that less than 1 percent had been thus treated.¹⁶

Questionnaire returns from 83 banks show what percentage of unsecured and comaker notes turned over to attorneys were taken into court, and what percentage were finally paid; 45 of these banks stated that none of their accounts eventuated in court action, and 19 reported less than 1 percent. Some of the others indicated that nearly all attorney accounts ended up in court. Returns from 52 banks showed that the number of single-name and comaker loans which were turned over to attorneys for collection and finally paid ranged from "none" to "all"; this result is not very illuminating, especially since banks vary widely in their determination of the point at which collection difficulty is considered serious enough to warrant an attorney's attention.

When all attempts to collect a loan are unavailing, the account is charged off as a bad debt. Data on charge-offs of personal loans are available from two sources—responses to our questionnaire and reports made to the New York state banking superintendent by state banks with personal loan departments.

The questionnaire data are presented in a regional breakdown in Table 24.¹⁷ For 171 banks giving both the number and the amount of charge-offs, the average unpaid balance on loans charged off during 1938 was \$108, but ranged from \$83 in the West South Central region to \$140 in the East North Central. A larger number of banks—209—supplied figures on their total personal loan outstandings as of the end of 1938, as well as on the volume of charge-offs during the year,

¹⁶ The low percentage may possibly reflect a misunderstanding of the term "acceleration" in this part of the questionnaire. Although an attempt was made to define the term clearly, some banks may have interpreted the question to mean the percentage of total loans *collected* through an attorney.

¹⁷ The data in Table 24 refer to all charge-offs during 1938 regardless of the date when the original loans were made; they do not include recoveries because questionnaire information regarding the latter was too fragmentary for use.

TABLE 24

Number, Total Amount and Average Amount of Charge-Offs of Personal Loans of 171 Banks, 1938, and Charge-Offs of 209 Banks, 1938, in Percent of Total Personal Loans Outstanding December 31, 1938, by Region^a

REGION	171 BANKS				209 BANKS			
	<i>Charge-Offs</i>			NUMBER OF BANKS REPORTING	TOTAL CHARGE- OFFS ^b	TOTAL OUTSTAND- INGS ^b	CHARGE- OFF PER- CENTAGE	NUMBER OF BANKS REPORTING
	Total Number	Total Amount ^b	Average Amount					
New England	201	\$ 23.8	\$118	12	\$ 31.4	\$ 3,540.0	.89	13
Middle Atlantic	803	88.4	110	43	66.3	20,291.6	.33	51
East North Central	192	26.8	140	32	30.3	9,429.9	.32	37
West North Central	322	30.5	95	27	48.0	9,184.9	.52	35
South Atlantic	153	13.6	89	25	19.9	7,406.8	.27	32
East South Central	49	5.7	116	6	7.7	2,113.7	.36	7
West South Central	58	4.8	83	12	8.7	3,966.4	.22	16
Mountain	33	3.0	91	5	3.2	1,491.3	.21	8
Pacific	156	16.6	106	9	16.4	4,753.2	.35	10
ALL REGIONS	1,967	\$213.2	\$108	171	\$231.9	\$62,177.8	.37	209

^a Based on questionnaire returns. The two groups of banks are not mutually exclusive.

^b In thousands.

thus making possible a computation of the percentage relation of charge-offs to outstandings. These data show that relatively few personal loans were written off as losses. For the country as a whole the average charge-off percentage was 0.37, varying from 0.21 in the Mountain states to 0.89 in New England. If charge-offs were related to the total volume of loans made during 1938 rather than to loans outstanding at the year end, these percentages would be still lower. A common method of estimating volume from outstandings is to multiply the latter by 1.54; applying this method to the figures in Table 24, and relating charge-offs to the resulting estimated volume, we find that the ratio of charge-offs to the total volume of loans made in all regions combined was 0.24 percent.

Data from the New York state banking department, which requires that charge-offs be reported according to the year in which the loan was made, and that they be net of all recoveries on loans granted during that year, provide a charge-off percentage which, though constantly subject to correction, is nevertheless representative of the final experience on loans made during a given year. These data, presented in Table 25, show that at the end of 1938 net charge-offs for the period 1936-38 amounted to 0.12 percent of total personal loans. The percentages for 1936, 1937 and 1938 were 0.27, 0.20 and 0.04 respectively. This downward trend in the charge-off ratio is not unexpected, for at the time the state report was compiled, the loans made in 1938—and to a lesser degree those made in 1937—had not been on the books long enough to give rise to all the charge-offs that would eventually occur. For loans granted during 1937 the charge-off percentage was only 0.05 at the end of that year, a figure which is close to the 0.04 percent reported for loans made in 1938. The low charge-off percentage for the three-year period naturally reflects the small proportion reported at the end of 1938.

For the entire period 1936-38 the charge-off percentage on

TABLE 25

Total Net Charge-Offs of Personal Loans, and Net Charge-Offs and Loss Reserves in Percent of Total Personal Loans Made, for 65 New York State Banks, 1936-38*

YEAR	TOTAL NET AMOUNT CHARGED OFF ^b	TOTAL LOANS MADE	PERCENT OF TOTAL LOANS	
			Net Charge-offs	Reserve for Losses
1936	\$10,766	\$ 3,995,864	.27	.29
1937	48,111	23,815,062	.20	.35
1938	10,630	27,869,378	.04	.52
1936-38	69,507	55,680,304	.12	.43

* Based on reports made to the New York state banking department.

^b Total charge-offs less recoveries. Charge-offs and recoveries are classified according to the year in which the loans were made.

personal loans made by New York state banks was much smaller than the reserve generally set up for losses. According to our questionnaire returns there was considerable variation in bank policy with regard to both loss reserves and the handling of losses on defaulted notes. Most frequently the reserve represented from 0.5 to 2 percent of the face amount of the notes written, or from 1 to 25 percent of the interest earned on loans. A smaller number of banks reported that their reserves covered 0.5 to 2 percent of their outstandings.

Sales Finance Collections

Questionnaire data covering charge-off experience on loans made to finance the instalment purchase of automobiles and other goods likewise show a low ratio of net losses to outstanding loans. A group of 155 banks reported their 1938 charge-offs and recoveries; 119 of them, with automobile finance paper of \$15,500,000 outstanding, reported no losses at all, and 36 others, with outstanding automobile paper of \$69,200,000, had an average net charge-off percentage of 0.12.

On finance paper secured by goods other than automobiles the net percentage was 0.24. The favorable charge-off record for sales finance paper reflects the fact that through recourse and general repurchase agreements a substantial share of the loss risk is transferred to the dealer from whom the bank purchases the paper.

Reserves against sales finance losses are set up in several different ways. In response to our questionnaire 56 banks indicated their methods of computing such reserves; these institutions may be divided about equally into 4 groups: (1) those which set up the reserve as a percentage of average outstanding balances (1 to 4 percent); (2) those treating it as a percentage of the volume of loans made (0.5 to 5 percent); (3) those fixing it as a proportion of gross income (10 to 25 percent); and (4) those measuring it in terms of earnings (1 to 30 percent). Not much significance can be attached to these percentages, however, since a bank's policy may depend primarily upon the length of time the reserve system has been in operation.

Factors Affecting Credit Risk in Personal Lending

THE credit standing of an applicant for a personal loan is investigated intensively because it indicates, within reasonable limits, the likelihood of repayment. It should not be assumed, however, that a bank officer can foretell with certainty how faithfully a borrower will meet his obligations; few applicants have economic prospects so bad that there is not some small chance of repayment, and few are so well situated that there is not some possibility of delinquency or even default. The selection of borrowers must therefore rest on probabilities. On the basis of experience, and to some extent intuition, the loan officer decides which applicants are more likely to default than others or which loans are likely to involve collection costs so great as to render the transaction unprofitable.

Willingness and ability of the borrower to repay the loan are the primary factors to be considered in any appraisal of credit risks. Applicants who may be attempting fraud are clearly undesirable, as are those who, though not strictly dishonest, may appear to be irresponsible. The second criterion, ability to repay, may be tested by several standards: by personal characteristics such as age, sex and family status; and by the borrower's occupational or economic position, income and net worth.

In general, then, the bank is interested in the moral, personal, vocational and financial characteristics of the applicant for a personal loan. The would-be borrower is asked to

supply credit references, banking connections and information concerning his charge accounts, since these give some evidence of his probity. Age, sex, marital status, number of dependents and permanence of residence, are pertinent personal characteristics. The nature of the applicant's occupation, his tenure of employment, and the industry in which he is engaged are clues to his ability to pay. His income, assets (real estate, household goods, automobiles, stocks and bonds) and debts (mortgages, charge accounts and instalment accounts) serve to indicate his financial capacity. These characteristics are all, of course, interrelated. Personal traits affect, and are in turn affected by, an applicant's occupation and earning power. A balanced income-expenditure relationship, or a substantial net worth, reflects not only the borrower's financial capacity but also his prudence and foresight in the management of his affairs.

The following pages are devoted to a statistical analysis of the principal factors affecting credit risk. The information on which the study is based was obtained from a sample of 2,765 applications of persons to whom loans were granted. The data, secured through the cooperation of 21 large banks operating personal loan departments in 16 cities situated in 11 states,¹ are presented in a series of tables giving the distributions of good and of bad loans according to the several risk factors selected. The information covering this group of borrowers pertains only to their financial, personal and vocational characteristics. No direct information was requested on past payment record, legal actions or the quality of references given, and consequently the analysis provides no ade-

¹The cooperating banks were asked to provide random samples of good and bad loans. Good loans were defined as those which paid out without any special collection difficulty and bad loans as those which either were excessively delinquent or ended in default. The drawing of the samples was subject to only two conditions: (1) that the loans in both samples were made within the same period of time; and (2) that their distributions over that period were nearly identical. Although there is no certainty that the drawing was truly random we have based our conclusions on such an assumption.

quate treatment of what we have called moral characteristics. These may be inferred from the data only insofar as they are suggested by such related factors as stability of employment and of residence, and character of occupation.

PROCEDURE IN THE ANALYSIS OF BAD-LOAN EXPERIENCE

Our sample consists of records of actual borrowers, some of whom repaid their personal loans substantially as scheduled and some of whom did not. Since these borrowers had already passed through a selection process at the hands of credit men, the sample cannot be considered completely representative of the general run of personal loan applicants. The results may suffice to show whether or not credit men should have been more selective than they were, but they do not indicate whether they should have been less selective. There is no way of measuring what proportion of rejected applications would have proved satisfactory if accepted, and it is therefore impossible to eliminate the bias attributable to the prior selection of risks.

The nature of this bias is illustrated in Table 26 which summarizes the reasons for the rejection of 1,713 personal loan applicants by a metropolitan bank. The first two reasons—too much borrowing and weak statement—account for about 50 percent of the total number of rejections and suggest that the vocational and financial characteristics of these prospective borrowers were unsatisfactory. Rejections of this nature might well be expected to bias the sample. On the other hand, rejections for “failure to mention existing loans with other members,” a reason which presumably indicates dishonesty or irresponsibility, may not bias the sample appreciably; and the same may be true of the last four items in the table. The reason “poor previous credit record with us or others” may indicate dishonesty or irresponsibility, in

TABLE 26

Percentage Distribution of 1,713 Personal Loan Applications Rejected by a Metropolitan Bank, by Reason for Rejection

REASON FOR REJECTION	PERCENT
Too much borrowing	8.3
Weak statement	43.9*
Poor previous record with us or others	17.4
Failure to mention existing loans with other members	21.8
Comaker in open legal account with others	1.5
Borrower in open legal account with others	1.5
Judgment record with our bank	.4
Other reasons	5.2
TOTAL	100.0

* This class consists chiefly of applications showing insufficient income, unstable employment, unsatisfactory comakers and the like.

which case these rejections probably are not a source of bias. If, however, rejection attributed to this cause results from financial weakness, it might well bias the sample.

Our study of credit experience is necessarily based on certain arbitrary assumptions. In the first place we have assumed that all loans can be divided into two mutually exclusive classes, one consisting of good loans with which the bank had no special collection difficulty, and one of bad loans which gave rise to one or more of the following collection problems: the bank collected from a comaker; the bank took legal action; the loan was excessively delinquent;² the bank charged off the loan.³ In the second place we have assumed

² "Excessive delinquency" was defined as 90 days or more.

³ In spite of these standardized criteria for characterizing a loan as good or bad, there were inevitably certain borderline cases that could be catalogued as bad loans only arbitrarily. Moreover, there was considerable variation among the samples as to the relative significance of the different types of bad loans. Thus, although legal action or collection from a comaker occurred in 37 percent of the bad-loan cases reported by all banks combined, such treatment was reported by one bank for 96 percent of its cases, and by two others for only 6 percent. See Table B-1.

that each of our supposedly mutually exclusive classes has some distinguishing characteristics, even though in other respects the two samples may be identical.

It is scarcely to be expected that banks operating in different regions, serving different classes of customers and following different policies, would have uniform experience. Therefore, for each of the factors to be analyzed, we have supplemented the composite analysis for all banks by an individual analysis for each bank that submitted a sufficiently large sample. These individual analyses, which are presented in Appendix B, indicate the degree of variation among banks and the extent to which the average experience of all banks typifies the experience of any one bank. It will be seen that in some instances the individual samples differ widely from one another, and thus from the average of the composite sample, and that in others the composite findings are valid also for most of the separate banks.

The tables used in the main body of the following discussion are based on the entire sample, comprising 1,468 good loans and 1,297 bad loans. But in these summary tabulations, which represent a combination of the samples of all banks, the separate distributions of good and of bad loans for each bank have been so weighted that the combined sample may be considered to comprise 1,294 good loans and the same number of bad loans.⁴ The banks cooperating in this survey were asked to submit approximately equal-sized samples of the two types of loans, because an equal division is most efficiently studied. A group of only two hundred cases, for example, would be large enough to be of some interest if it were divided equally; but if the group contained only two or three bad loans out of two hundred—a proportion which might result from a random drawing from all the loans in a bank's portfolio—it would be useless for our present pur-

⁴ For method of weighting see Appendix B, p. 274.

poses.⁵ Even though our good-loan sample accounts for a far smaller proportion of all good loans than the bad-loan sample does of all bad loans, a sample of one hundred good loans is just as representative of an indefinitely large universe of good loans as a sample of one hundred bad loans is of an indefinitely large universe of bad loans. This is true because the sampling error, which measures the extent to which a sample may be considered representative of the larger universe, depends on the absolute number of cases in the sample, and not on its proportion to the whole.

The computation of sampling error is an important part of this analysis. If a sample of good loans shows characteristics different from those of a sample of bad loans, it is always possible that the difference is merely a matter of chance; and the smaller the sample the greater is this possibility. Several tests of statistical significance have been devised to determine the limits of probable sampling error. In the present study we applied the Chi-square test,⁶ using the 1 percent standard of statistical significance. Accordingly, when we found a difference in the distributions of good-loan and bad-loan samples we did not accept this difference as evidence of a genuine characteristic of the whole body of loans from which the sample was drawn unless we could show that there was no more than one chance in a hundred that a difference substantially as large would be found in a random sample from a universe which actually had no such characteristic. For ex-

⁵ But if the difficulty or cost of obtaining samples of one type were greater than that for samples of the other type it would be preferable to have more of the former sample. If, for example, there were reason to suppose that it required much more clerical labor to obtain and tabulate bad-loan as compared to good-loan cases, efficiency would require more good-loan cases than bad.

⁶ A complete description of this test would not be pertinent to the present study. A good explanation, with examples and methods of computation, may be found in George W. Snedecor, *Statistical Methods Applied to Experiments in Agriculture and Biology* (Ames, Iowa, 1937) Chapters 1 and 9. See also R. A. Fisher, *Statistical Methods for Research Workers* (London and Edinburgh, 6th ed. 1936) Chapter 4.

ample, if a sample of 100 good loans contained 45 percent of cases without bank accounts and 55 percent with accounts, and if a sample of bad loans contained 55 percent without and 45 percent with bank accounts, it would not be reasonable to infer any relationship between the ownership of a bank account and bad-loan experience, for there is about one chance in seven that such a sample distribution would be due to chance alone. But if the distribution were 40-60 percent in the good-loan sample and 60-40 percent in the bad-loan sample, it would be reasonable to infer such a relationship, for there is not one chance in a hundred that such a distribution could be due only to chance.

The Chi-square test, on which such computations are based, serves as a check only against the chance errors that are likely to occur when small samples are used; it does not guard against clerical errors, misstatements, and ambiguous or incomplete data, which may be found in samples of any size. We have applied this test to the various distributions presented in the following pages. In a few instances the differences in the good-loan and bad-loan distributions proved of doubtful statistical significance or of no significance at all; in each such case this finding is pointed out in the text.

Because of the nature of personal lending it is customary in the business to assume that any applicant is a good risk unless positive evidence can be found to the contrary. In credit analysis it is therefore more important to determine the characteristics of the particularly bad borrowers than it is to determine the characteristics of the good ones. The following tables show the ratio of the percentage of bad loans to that of good loans in each class; this ratio is called the "index of bad-loan experience." Since the ratio or index for all classes combined is 1 (100 percent to 100 percent), a ratio greater than 1 indicates a worse-than-average risk, and conversely. This method gives no indication of the ratio of all bad loans to all good loans in any particular class. If the gen-

eral ratio of all bad loans to all good loans for all classes had been determined by some other means, we could have arrived at a rough estimate of the absolute ratio for any particular class merely by multiplying the absolute general ratio by the bad-loan index for that class; under present circumstances, however, the absolute ratio of bad loans to good could not be calculated.

APPLICABILITY OF FINDINGS

It should be evident from the foregoing discussion of the nature of the data and of the assumptions basic to the analysis, that the results obtained cannot be applied mechanically and without regard for special circumstances. Statistical analyses of the kind we are here attempting are necessarily based on averages and probabilities, and therefore can reveal only tendencies, not certainties. It cannot be too strongly emphasized, moreover, that this study serves only to evaluate the relative merits of actual borrowers, and does not touch upon the qualities of potential borrowers who have been denied or who have never sought loan service. If, as a matter of policy, a bank sought to reduce its losses by cutting down its loan volume, a study of this sort would indicate the most unsatisfactory types of current borrowers, and these could be eliminated first. If, on the other hand, it were the bank's policy to increase volume through the extension of loan service to new classes of borrowers, a study based on actual current borrowers would give but little indication of the characteristics of the better risks. In such a case probably the only feasible procedure would be to make experimental loans to persons of various classes hitherto considered unacceptable; after enough experience had been gained, the more unsatisfactory groups could be eliminated.

There are other important considerations which must not

be neglected in any interpretation of the results of this analysis—especially the interrelationships between credit risks, volume of business and profits. The tables presented in the following pages show numerous classes of borrowers which are distinctly below average in the sense that they contain a larger proportion of all the bad loans than of all the good loans. For example, the class of unskilled and semi-skilled laborers (Table 31) accounts for 11.1 percent of the bad loans and for only 5.8 percent of the good loans, but a credit official would not be likely to decide to refuse loans to all such workers merely because the group as a whole stood below average. On the contrary, he would have to weigh the advantage of eliminating the 11.1 percent of bad loans against the disadvantage of eliminating the 5.8 percent of good loans. Since the number of good loans in the bank's portfolio is much larger than the number of bad loans, elimination of 5.8 percent of the former would involve a greater reduction of volume than cutting out 11.1 percent of the latter. A decision to eliminate any given class of borrowers would depend on other factors, for example the rate charged on loans or the ordinary costs of handling loans in addition to the estimated bad-debt loss for the class in question.

Considerations such as these—we shall not attempt to present an exhaustive list—suggest how the findings should be modified in regard to particular circumstances. It is possible, however, to apply a statistical test in order to determine which factors are in general the more reliable indicators of risk. The Chi-square test serves to eliminate certain factors for which there is no statistical evidence of significance, but it sheds no light on the relative importance of the factors that do appear to be significant.

In order to show their relative merits as risk indicators, we have computed for each of the factors under consideration

a very rough gauge called the "index of distribution difference" or simply the "efficiency index." Such computation is a relatively simple procedure.

For any given factor the various classes constituting the distribution may be recombined into two general groups, those whose index of bad-loan experience shows them to be worse than average, and those which appear from the index to be average or better than average. The worse-than-average group will contain a certain percent of the bad loans and a somewhat smaller percent of the good loans.

The efficiency index is the difference between these two percentages, and is equivalent to the difference between the percentages of good and of bad loans in the group made up of average and better-than-average loans. If this index is 0, obviously all classes are average classes, and the distribution of good loans is identical with that of bad loans; therefore if any class of borrowers is rejected, the same percentages of good loans and bad loans will be eliminated. If the index is 100, the better-than-average group contains all the good loans and the worse-than-average all the bad loans; thus rejection of any worse-than-average class would eliminate only bad loans. The nearer the index stands to 100 the greater is the difference between the percentage of bad loans and the percentage of good loans that would be eliminated if a worse-than-average class were rejected.

When the various risk factors are compared, those with the larger indexes of distribution difference are those with the greater differences between the good-loan and bad-loan distributions, and hence they are the factors to be regarded as the more reliable indicators of credit risk. This index, then, provides a rough estimate of the reliability of any factor as an indicator of credit risk, although the degree of reliability is necessarily conditioned by various modifying influences.

FACTORS AFFECTING CREDIT RISK

Personal Characteristics of Borrowers

We have examined for their bearing upon credit experience such personal characteristics of borrowers as age, sex, marital status, number of dependents and duration of residence. Percentage distributions of our good-loan and bad-loan samples, and indexes of bad-loan experience, are shown according to these characteristics in Tables 27, 28, 29 and 30.

It appears from an analysis of borrowers' ages that this factor is significantly related to credit risk. The index of bad-loan experience for borrowers over 50, as shown in Table 27, is only 0.58, while that for borrowers between 21 and 25 years of age is 1.15. Not only is this difference too large to be attributed to sampling error, but it is confirmed by the tabulations of the individual bank samples.⁷ This observed relationship must nevertheless be weighed against other circumstances, since age as a factor in credit risk is necessarily related to and modified by other factors, such as marital status, income, occupation, tenure of employment, permanence of residence and the like. Indeed the apparent connection between bad-loan experience and age of borrower may reflect in large measure the indirect influence of these other factors.

Credit risk seems to be affected also by the sex of borrowers, as is shown in Table 28, but its relation to marital status is at best questionable. The index of bad-loan experience for married men is 1.08 and for single men 1.37, and the corresponding indexes for women are 0.44 and 0.43. The comparatively favorable credit index for women as compared with that for men may be due, however, to other factors. Women are more commonly employed in clerical positions, which are among the better-risk occupations, and there are relatively few women borrowers in the wage-earning class, which comprises comparatively poorer risks. The fact that women bor-

⁷ See Table B-2.

TABLE 27

Percentage Distribution of Good-Loan and Bad-Loan Samples, by Age of Borrower^a

AGE OF BORROWER	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE ^b
	Good	Bad	
21-25	12.4	14.2	1.15
26-30	19.8	20.2	1.02
31-35	17.1	20.8	1.22
36-40	15.3	18.1	1.18
41-45	13.2	11.8	.89
46-50	9.6	7.9	.82
Over 50	12.6	7.0	.58
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information ^c	1,267	1,250	
Percent not reporting information ^d	2.2	3.5	
Index of distribution difference ^e	8.7		

^a Based on a sample of 1,468 good loans and 1,297 bad loans obtained from the personal loan departments of 21 banks in 16 cities in 11 states. Individual bank samples are presented separately in Appendix B; they were consolidated for this table and subsequent tables by weighting of each bank's good-loan and bad-loan distributions, so that the combined sample may be considered to comprise the same number (1,294) of good and of bad loans.

^b Ratio of the bad-loan percentage to the good-loan percentage.

^c This is not strictly a definite number of cases, but rather a conservative indication of the size of the sample for the purpose of determining sampling error. The percentage distributions of these totals are averages weighted so that the good-loan samples of individual banks constituting the average are roughly of the same size as the bad-loan samples. The composite average distributions may be considered to be based on a number of cases at least as large as the number here given. The "effective number" excludes cases not reporting and will differ from the total number (1,294) from table to table.

^d Number of cases not reporting, in percent of the number reporting. A percentage computed in this way is more comparable with the distribution percentages than one based on the total number of loans.

^e This index, which is a percentage, represents the proportion of each percentage distribution for which there is no counterpart in the other. For example, if a given class interval contains 10 percent of the good loans and 15 percent of the bad loans, the smaller of the two percentages may be considered as common to both distributions, and the difference, 5 percent, may be regarded as belonging exclusively to the bad-loan distribution. The sum of the smaller percentages of all classes, deducted from 100, is an index of the difference between the two distributions; it is also equal to half the sum of the differences, or the sum of the differences in all the worse-than-average classes, or the sum in all the better-than-average classes. It is necessarily 0 percent if the two distributions are identical in form, and it approaches 100 as they become more and more dissimilar. See above, pp. 117-18.

rowers engage in better-risk occupations serves partly, though by no means entirely, to explain their better credit records. The differences in the indexes for married and for single men, and for married and for single women, are not statistically significant. Thus on the basis of these figures marital status cannot be regarded as a relevant consideration.

TABLE 28

Percentage Distribution of Good-Loan and Bad-Loan Samples, by Sex and Marital Status of Borrower^a

SEX AND MARITAL STATUS OF BORROWER	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE
	Good	Bad	
Married			
Male	61.4	66.3	1.08
Female	5.0	2.2	.44
Single			
Male	16.1	22.1	1.37
Female	11.6	5.0	.43
Others ^b	5.9	4.4	.75
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information	1,294	1,294	
Index of distribution difference		10.9	

^a See footnotes to Table 27.

^b Includes persons divorced, separated, widowed and not reporting.

The number of the borrower's dependents seems to have little bearing on his behavior as a debtor. For persons with no dependents the index of bad-loan experience shown in Table 29 is 0.83; for borrowers with one or more dependents it is greater, but not sufficiently to suggest that number of dependents is an important risk factor. The average number of dependents is 1.5 in the good-loan sample, and 1.8 in the bad-loan sample.

TABLE 29
 Percentage Distribution of Good-Loan and Bad-Loan
 Samples, by Number of Borrower's Dependents*

NUMBER OF BORROWER'S DEPENDENTS	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE
	Good	Bad	
0	29.4	24.4	.83
1	27.1	25.5	.94
2	21.2	21.6	1.02
3	12.5	17.9	1.43
4	6.8	6.7	.99
5 and over	3.0	3.9	1.30
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information	1,152	1,135	
Percent not reporting information	10.6	12.3	
Index of distribution difference	6.7		

* See footnotes to Table 27.

TABLE 30
 Percentage Distribution of Good-Loan and Bad-Loan
 Samples, by Stability of Borrower's Residence*

YEARS AT PRESENT ADDRESS	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE
	Good	Bad	
0- 1	13.5	21.6	1.60
1- 2	14.5	18.8	1.30
2- 3	13.7	16.0	1.17
3- 6	21.1	20.2	.96
6-10	10.1	7.2	.71
10 and over	27.1	16.2	.60
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information	1,249	1,240	
Percent not reporting information	3.6	4.3	
Index of distribution difference	14.7		

* See footnotes to Table 27.

Stability of borrower's residence, as covered in Table 30, may be regarded as an indication of risk. The index of bad-loan experience is 0.60 for borrowers who have maintained a continuous residence for 10 years, and rises steadily to 1.60 for those who have dwelt at the same address for less than one year. This difference, though not marked, is confirmed by 10 of the 12 individual bank samples.⁸

Vocational Characteristics of Borrowers

Vocational characteristics, while dependent to a certain degree on personal attributes, may be regarded for purposes of this analysis as essentially distinct. They include the nature of the borrower's work or occupation, the nature of his employer's business (or his own, if he is self-employed) and his tenure of employment.

It was not a simple matter to classify good and bad loans by occupation of borrower. For one thing, the small size of the sample necessitated a division into rather broad occupational groups comprising a somewhat heterogeneous collection of specific occupations. Then too, statements concerning borrowers' occupations were frequently ambiguous or entirely lacking, so that many loans were difficult to classify by any occupational grouping. Such cases had to be classed as miscellaneous or placed arbitrarily in the class that seemed most appropriate. Although the number of cases classified as miscellaneous is less than 5 percent in both loan samples, a much larger proportion of the cases might properly have been allocated to any one of several groups.

Table 31, which presents these data arranged according to the index of bad-loan experience, must therefore be viewed with circumspection. The professional group stands at the top of the list, with an index of 0.58, and the wage-earner group, with an index of 1.52, at the bottom. Among the sub-groups the lowest indexes of bad-loan experience are those

⁸ See Table B-5.

TABLE 31

Percentage Distribution of Good-Loan and Bad-Loan Samples, by Occupation of Borrower^a

OCCUPATION	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE
	Good	Bad	
Professions	11.2	6.5	.58
Teachers, nurses, doctors, technicians, lawyers	8.0	3.6	.45
Artists, actors, musicians, miscellaneous professions	3.2	2.9	.91
Clerical	42.8	34.1	.80
Typists, stenographers, accountants, etc.	24.2	10.6	.44
Retail salespersons	4.0	3.7	.93
Other clerical: agents, messengers, etc.	8.0	8.6	1.08
Outside salesmen, commercial representatives	6.6	11.2	1.70
Policemen, firemen, etc.	2.4	2.0	.83
Proprietors	13.0	13.2	1.02
Retail dealers	2.6	2.5	.96
Others	10.4	10.7	1.03
Managers and officials	8.0	10.2	1.28
Wage-earners	19.6	29.8	1.52
Skilled labor	8.7	11.5	1.32
Drivers	2.4	3.6	1.50
Unskilled and semi-skilled labor	5.8	11.1	1.92
Service trades	2.7	3.6	1.33
Miscellaneous	3.0	4.2	1.40
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information	1,294	1,294	
Index of distribution difference		19.1	

^a See footnotes to Table 27.

of such clerical workers as typists, stenographers, accountants (0.44), and of such professional workers as teachers, nurses, doctors, technicians, lawyers (0.45); the highest are those of unskilled and semi-skilled wage earners (1.92) and of outside salesmen and commercial representatives (1.70). The tendency of professional persons to constitute a better-than-average risk group and of wage-earners to be worse-than-average risks is confirmed by 11 out of 12 of the individual bank samples.⁹

It is difficult also to analyze bad-loan experience according to the industry in which the borrower or his employer is engaged, and the indications mentioned here must be subject to the same reservations that apply to the data on occupational distribution. Table 32 suggests that from the standpoint of credit risk the best industrial affiliations are utilities, professional services, independent hand trades and public service, for which the indexes are 0.67, 0.68, 0.71 and 0.76 respectively. The groups with the worst indexes are building trades (1.71) and miscellaneous transportation (1.51); still below average but considerably better than the two just mentioned are domestic and personal service (1.19) and manufacturing (1.13). The trade group, as a unit, occupies an intermediate risk position (1.05), but its sub-group containing employees of banks and other financial institutions has the lowest index in the table (0.55).

Like stability of residence, tenure of employment (analyzed in Table 33) seems to indicate better-than-average credit risks. For persons holding the same position ten years or more the index of bad-loan experience is 0.59, as compared with 2.28 for those whose employment tenure was less than one year; the same relationship obtained in all individual bank samples.¹⁰ It should be recalled that borrowers in the lower age groups appear to be less favorable credit risks than

⁹ See Table B-6.

¹⁰ See Table B-8.

TABLE 32

Percentage Distribution of Good-Loan and Bad-Loan Samples, by Industrial Affiliation of Borrower^a

INDUSTRIAL AFFILIATION OF BORROWER	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE
	Good	Bad	
Utilities ^b	9.9	6.6	.67
Professional service	6.8	4.6	.68
Independent hand trades	2.1	1.5	.71
Public service	13.0	9.9	.76
Trade	33.0	34.6	1.05
Wholesale and retail	14.6	17.7	1.21
Banking and brokerage	5.5	3.0	.55
Other forms of trade ^c	12.9	13.9	1.08
Manufacturing	18.5	20.9	1.13
Domestic and personal service	4.8	5.7	1.19
Miscellaneous transportation ^d	3.7	5.6	1.51
Building trades	1.4	2.4	1.71
Miscellaneous	6.8	8.2	1.21
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information	1,294	1,294	
Index of distribution difference		11.6	

^a See footnotes to Table 27.

^b Railroad, bus and steamship transportation, communication (other than postal), gas and electric utilities.

^c Real estate, insurance, advertising, printing and publishing, etc.

^d Taxi and trucking service, garage service, auto repair, filling stations, etc.

those in the upper age groups; and since a short tenure of employment is more often than not associated with youth, the high index for short tenure classes may be attributable in part to the lower average ages of the borrowers in these classes.

TABLE 33

Percentage Distribution of Good-Loan and Bad-Loan Samples, by Borrower's Tenure of Employment^a

YEARS IN PRESENT OCCUPATION ^b	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE
	Good	Bad	
0-1	5.7	13.0	2.28
1-2	7.4	11.1	1.50
2-3	9.5	12.4	1.31
3-6	18.5	24.4	1.32
6-10	19.3	15.7	.81
10 and over	39.6	23.4	.59
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information	1,226	1,216	
Percent not reporting information	5.5	6.4	
Index of distribution difference	19.8		

^a See footnotes to Table 27.

^b Each level is inclusive of the lower figure and exclusive of the upper.

Financial Characteristics of Borrowers

For borrowers from commercial banks, the relation of bad-loan experience to income contrasts with that disclosed in findings for both personal finance companies and sales finance companies.¹¹ In the present study the indexes of bad-loan experience (Table 34) show no income class that departs markedly from the average. The lowest index is 0.68 for the group with annual incomes of \$4800 and over, and the highest is 1.15 for persons with \$1200-1800. One might conclude from this table that there is a tendency for bad-loan experi-

¹¹ See National Bureau of Economic Research (Financial Research Program), *Personal Finance Companies and Their Credit Practices* by R. A. Young and Associates (1940) Chapter 4, pp. 96-99, and National Bureau of Economic Research (Financial Research Program), *Sales Finance Companies and Their Credit Practices*, by W. C. Plummer and R. A. Young (1940) Chapter 7.

TABLE 34

Percentage Distribution of Good-Loan and Bad-Loan Samples, by Annual Income of Borrower^a

ANNUAL INCOME OF BORROWER ^b	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE
	Good	Bad	
Under \$1200	11.9	11.0	.92
1200-1800	28.4	32.8	1.15
1800-2400	28.1	28.1	1.00
2400-3000	13.7	14.2	1.04
3000-3600	7.7	6.2	.81
3600-4800	5.5	4.5	.82
4800 and over	4.7	3.2	.68
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information	1,260	1,240	
Percent not reporting information	2.7	4.3	
Index of distribution difference	5.0		

^a See footnotes to Table 27.

^b Each level is inclusive of the lower figure and exclusive of the upper.

ence to improve slightly with income level, but the change is neither regular nor sufficiently marked to be significant.

Although these composite data seem to indicate at least that bank credit men take adequate account of borrower income in selecting personal loan risks, there appears to be considerable variation in the samples of individual banks.¹² For some, credit experience tends to improve as income increases; for others it seems to become worse. In this connection we may observe that certain banks, as a matter of policy, grant no loans to persons in the very low income classes; one metropolitan bank, for example, restricts its personal loan facilities almost exclusively to applicants with annual incomes over \$1000, and principally to those with incomes

¹² See Table B-9.

above \$1200. From the corresponding studies of customers of personal finance and sales finance companies one might infer that such a restrictive policy would eliminate income groups whose index of bad-loan experience is likely to be high. It is more difficult, however, to explain why the higher-income groups do not show up as better credit risks than they appear from this sample. Borrowers' income may well be a less valuable gauge of credit risk than stability of income. The information presented in Table 34 refers to the statement of income at the time of application for credit, but does not show that the income stated was maintained for the duration of the loan. If stability of income is more significant than amount, the factors that reflect stability, such as duration of present employment and nature of occupation, may possibly constitute a more important guide to credit risk than amount of income.

It is generally considered that the amount of a borrower's income determines the amount of loan he can repay without difficulty. Hence Table 35 presents a distribution of the good and bad loans according to amount of note in percent of annual income. Since most of the loans in this sample were made on a 12-month basis this classification is virtually equivalent to a classification according to monthly payment in percent of monthly income. One would expect a high frequency of default when there is a high ratio of monthly payment to income, for such a ratio indicates a considerable burden upon the borrower; indeed, some banks have limited their loans to what they consider the maximum ratio consistent with safe return. It is rather surprising, therefore, to find that the distributions in Table 35 afford scant evidence that low note-income ratios result in better risks. When the note is no more than 4 percent of annual income the index of bad-loan experience is 0.90; when the note is between 15 and 19 percent of income the index is 0.89, though when it is 20 percent or more the index is 1.27. These differ-

TABLE 35

Percentage Distribution of Good-Loan and Bad-Loan Samples, by Amount of Note in Percent of Annual Income of Borrower^a

AMOUNT OF NOTE IN PERCENT OF ANNUAL INCOME OF BORROWER	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE
	Good	Bad	
0- 4	9.8	8.8	.90
5- 9	39.6	40.6	1.03
10-14	26.6	25.0	.94
15-19	12.9	11.5	.89
20 and over	11.1	14.1	1.27
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information	1,254	1,235	
Percent not reporting information	3.2	4.8	
Index of distribution difference		4.0	

^a See footnotes to Table 27.

ences are not sufficiently great—nor is the trend from low to high sufficiently consistent—to indicate significance. Moreover, the individual samples show marked variation.¹³ In general, the findings suggest that bank personal loan departments adhere to such a conservative lending policy that they rarely overtax the borrower's capacity to repay.

The items relevant to the borrower's balance sheet—his assets and liabilities—are covered in Table 36. On the asset side there are four items which seem to be fairly closely related to bad-loan experience: life insurance, bank accounts, real estate and securities. Any one of these items indicates better-than-average risk, and this indication is confirmed, in general, by the individual bank samples.¹⁴ For borrowers with life insurance the index of bad-loan experience is 0.88,

¹³ See Table B-10.

¹⁴ See Table B-11.

TABLE 36
 Percentage Distribution of Good-Loan and Bad-Loan Samples, by Selected Asset and Liability Items of Borrower^a

	PERCENTAGE DISTRIBUTION				INDEX OF BAD-LOAN EXPERIENCE		INDEX OF DISTRIBUTION DIFFERENCE	EFFECTIVE NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT REPORTING IN PERCENT OF TOTAL NUMBER	
	<i>Good Loans</i>		<i>Bad Loans</i>		Yes	No ^b			Good	Bad
	Yes	No ^b	Yes	No ^b						
<i>Asset Items</i>										
Life insurance	81.8	18.2	71.4	28.6	.88	1.57	10.4	1,294	3.0	7.1
Bank account	44.6	55.4	21.5	78.5	.48	1.42	23.1	1,294	5.5	11.1
Real estate	27.3	72.7	13.3	86.7	.49	1.19	14.0	1,294	°	°
Securities	5.4	94.6	2.0	98.0	.37	1.04	3.4	718	12.6	15.3
Automobiles	45.5	54.5	42.5	57.5	.93	1.05	3.0	824	30.2	25.0
Household goods	47.8	52.2	40.6	59.4	.85	1.14	7.2	824	37.7	39.5
<i>Liability Items</i>										
Charge account	45.2	54.8	35.6	64.4	.79	1.18	9.6	1,294	6.7	15.2
Instalment account ^d	27.8	72.2	33.9	66.1	1.22	.92	5.1	1,294	12.2	13.5

^a See footnotes to Table 27.

^b Includes those not reporting.

^c Borrowers not reporting real estate were considered as persons not owning real estate.

^d Includes sales finance and personal loan debt.

and for those without it and those not reporting the index is 1.57. Borrowers reporting bank accounts show an index of 0.48, and those without bank accounts or not reporting have an index of 1.42. The indexes for owners of real estate and securities are 0.49 and 0.37, and for non-owners 1.19 and 1.04 respectively. Of these four assets life insurance is the most common (reported by 82 percent of the good-loan sample and 71 percent of the bad-loan sample), followed in order by bank accounts (reported by less than half of the good-loan and less than one-fourth of the bad-loan sample), real estate (reported by slightly more than one-fourth and one-eighth of the two groups respectively) and securities (reported by very small fractions in both samples).

Less definite indications of credit risk are two other types of assets which are sometimes reported. For the owners of automobiles and of household goods the indexes of bad-loan experience are 0.93 and 0.85 respectively, and for non-owners they are 1.05 and 1.14. These indexes, like those for the four types of assets mentioned above, suggest that ownership makes for a better risk than non-ownership, but since in both cases information was lacking for a large fraction of the total number of borrowers, these findings cannot be considered particularly significant.

Two types of liabilities are analyzed also in Table 36. The index of 0.79 for borrowers carrying charge accounts, as compared with 1.18 for those who do not, indicates that the former are better risks; the index of 1.22 for those with instalment accounts, as compared with 0.92 for those without, shows exactly the opposite for instalment debtors. But since the individual bank samples yield contradictory results,¹⁵ and since a large number of cases reported no information, these liabilities should not be regarded as significant factors in themselves. They do, however, permit the bank to benefit from the recorded experience of other creditors.

¹⁵ See Table B-11.

Characteristics of the Loan

In an examination of factors contributing to credit risk, consideration must be given not only to characteristics of the borrower but also to certain features of the loan transaction itself. Among these are the amount of the loan, the security for the loan, the duration of the repayment period, and the purpose for which the loan is made.

The first of these four considerations, the amount of loan, already treated in its relation to the borrower's income, is not shown to be significantly related to bad-loan experience. Table 37 gives indexes of bad-loan experience which are very much the same for all note amounts over \$100; notes of less than \$100 appear worse than average. In general these findings are contrary to the results of similar analyses of credit

TABLE 37

Percentage Distribution of Good-Loan and Bad-Loan Samples, by Amount of Note^a

AMOUNT OF NOTE ^b	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE
	Good	Bad	
Under \$100	6.8	10.8	1.59
100- 200	42.2	40.2	.95
200- 300	19.4	19.5	1.00
300- 400	15.7	15.3	.97
400- 500	5.2	4.8	.92
500-1000	9.2	7.8	.85
1000 and over	1.5	1.6	1.07
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information	1,289	1,294	
Percent not reporting information	.4	. .	
Index of distribution difference		4.2	

^a See footnotes to Table 27.

^b Each level is inclusive of the lower figure and exclusive of the upper.

risk for personal finance companies where, with the exception of loans of the maximum size (\$300), charge-off experience seems to be worse for the larger debt.¹⁶ It should be emphasized, however, that in both of these analyses the findings are far from conclusive.

The distribution of loans according to type of security in Table 38 shows but one point of interest: loans made on the

TABLE 38

Percentage Distribution of Good-Loan and Bad-Loan Samples, by Type of Security^a

TYPE OF SECURITY	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE
	Good	Bad	
Single-name	18.6	14.9	.80
One comaker	18.7	17.3	.93
Two comakers	47.3	45.4	.96
Three or more comakers	8.2	14.6	1.78
Other (mostly automobile chattel mortgage)	7.2	7.8	1.08
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information	1,294	1,294	
Index of distribution difference		7.0	

^a See footnotes to Table 27.

security of three or more comakers, for which the index is 1.78, seem to be relatively poor risks. This does not mean that an applicant is a bad risk if he can produce a large number of comakers; it indicates, rather, that banks make a practice of requiring additional comakers from persons they pre-judge to be poor risks or from those who originally offered comakers with unsatisfactory credit standing. Conversely, it should not be supposed that single-name security is better than comaker security merely because it shows a slightly

¹⁶ R. A. Young and Associates, *op. cit.*, Chapter 4, pp. 96-99.

lower index of bad-loan experience; the probabilities are that banks grant single-name loans only to borrowers whom they consider better-than-average risks.

It will be observed from Table 39, which shows the distribution of loans according to length of contract, that well over three-fourths of all the loans represented by the sample matured in 12 months. It may be that the lower-than-average indexes of bad-loan experience for loans running less than 12 months are indicative of a general tendency, but this is by no means certain in view of the inconsistencies of the individual samples.¹⁷

TABLE 39

Percentage Distribution of Good-Loan and Bad-Loan Samples, by Length of Loan Contract^a

CONTRACT LENGTH ^b (in months)	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE
	Good	Bad	
1- 6	3.8	2.4	.63
7-11	7.3	5.8	.79
12	78.2	80.8	1.03
13-17	3.6	4.6	1.28
18 and over	7.1	6.4	.90
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information	1,278	1,275	
Percent not reporting information	1.3	1.5	
Index of distribution difference		4.4	

^a See footnotes to Table 27.

^b Each level is inclusive of the lower figure and exclusive of the upper.

A number of qualifications must necessarily be attached to any interpretation of the analysis of loans according to intended use of funds, or reason for borrowing. In the first place, the statement made by the applicant may not be alto-

¹⁷ See Table B-14.

gether true, and it cannot easily be checked by a bank. In the second place, the reported reasons are frequently too diverse for classification. It is customary to classify the intended uses of funds according to standard categories—refinancing of old indebtedness, medical expense, purchase of automobile, business needs and the like—but actually a great many loans cannot be fitted into any one of these categories. One bor-

TABLE 40
Percentage Distribution of Good-Loan and Bad-Loan
Samples, by Intended Use of Funds^a

INTENDED USE OF FUNDS ^b	LOAN SAMPLE		INDEX OF BAD-LOAN EXPERIENCE
	Good	Bad	
Taxes	3.5	1.1	.31
Vacation	3.8	2.2	.58
Household	11.7	7.0	.60
Help for relative	2.8	1.8	.64
Purchase of automobile	12.0	9.9	.83
Miscellaneous	20.4	19.8	.97
Medical and dental	13.3	15.6	1.17
Business	6.6	8.0	1.21
Purchase of clothing	1.7	2.2	1.29
Consolidation of debts	24.2	32.4	1.34
TOTAL	100.0	100.0	1.00
Effective number of cases reporting information	1,294	1,294	
Index of distribution difference		12.4	

^a See footnotes to Table 27.

^b Because so many cases gave a combination of two or more reasons the following system of classification was adopted. Under "consolidation of debts" were included only those cases giving consolidation of debts or general refinancing as the only purpose of borrowing. Under the other headings were included cases giving only the reason indicated by the heading, or giving that reason in combination with consolidation of debts or refinancing. All other combinations—as for example, taxes and vacation—were classified under "miscellaneous," which includes also miscellaneous single reasons and a few cases not reporting reasons.

rower, an accounting-machine mechanic, intended to use the funds borrowed to "purchase a new trumpet and join union"; another wanted a loan for dental expenses and a vacation; a third sought to pay off a loan company and buy spring clothes. Since there are too many possible combinations of reasons to permit a separate classification for each combination, some sort of arbitrary scheme had to be devised for the present purpose. Table 40 presents such an arrangement, with the categories proceeding from low to high indexes of bad-loan experience. The variation in bad-loan experience is considerable, but the significance of this variation is open to some question. The individual samples do not provide substantial confirmation of the indications of the composite sample.¹⁸

RELATIVE IMPORTANCE OF RISK FACTORS

From the foregoing tabulations a number of items of information requested on the application blanks made out by successful applicants for personal loans appear to be relevant indicators of credit risk. These items are not, of course, the only ones that can be held to be pertinent; there are some on which no information was obtained but which bankers nevertheless regard as significant. There are others which might be supposed to be important but which turned out to be of slight relevance in our analysis of credit factors, possibly because they had been fully taken into account by the bank officers who made the initial selection of borrowers. Successful lending necessitates a knowledge of the relative importance of as many credit risk factors as can be isolated, and in making a final decision on a loan application the responsible officer must give due weight to each factor.

Some notion of the bankers' views regarding the problem of risk selection is afforded by Table 41, which represents

¹⁸ See Table B-15.

responses from 126 banks to a request for an appraisal of the relative importance of several credit factors other than income. The various factors are listed in the order of importance indicated by these estimates, which was determined by an arbitrary method of weighted scoring. As arranged in the table, the most important factors are those relating to finan-

TABLE 41

Relative Importance of Factors Other Than Income in the Appraisal of a Loan Applicant's Credit Standing, as Estimated by 126 Banks

CREDIT FACTOR	NUMBER OF BANKS REPORTING			WEIGHTED SCORE ^b
	First Place	Second Place	Third Place ^a	
Financial characteristics	25	30	30	413
Assets	5	5	5	84
Liabilities	15	12	10	183
Income balance	5	13	15	146
Vocational characteristics	23	32	34	400
Work performed	4	8	9	100
Industry and employer	1	..	3	17
Stability of employment	18	24	22	283
Past payment record	20	24	15	254
Character and reputation	30	10	11	235
Credit rating	18	11	6	161
Personal characteristics	3	9	10	121
Age	..	..	3	21
Marital status	..	2	..	18
Number of dependents	3	6	6	70
Stability of residence	..	1	1	12
Loan characteristics	7	10	6	108
Security	5	5	1	53
Duration	2	5	5	55

^a Fourteen banks did not list any factor in third place.

^b Determined for the first five rankings as follows: first place was rated 5, second 4, third 3, fourth 2, fifth 1.

cial strength; only slightly less important are vocational characteristics. The borrower's past payment record, which falls in third place, is closely related to character and reputation, which comes fourth; if these two were grouped together the combined group would take first place.

A table of this sort must be interpreted with caution because of the wide variation in the use of certain terms. Thus when the bank uses the term "credit rating," it may mean character and reputation or past payment record, or it may refer to the bank's own credit appraisal based on all available information.

It is clear from Table 41 that there is considerable diversity of opinion as to what factors are relatively more important. There is, however, some evidence of uniformity in the whole set of judgments. Just over half of the 126 reporting banks listed stability of employment in one of the first three places; 61 gave similar prominence to past payment record and 51 to character and reputation.

In our detailed analysis of credit risks the factors of character and past payment record, which are apparently considered important by bankers, were omitted because no direct data on these characteristics of borrowers were available. Of the factors treated in the analysis, the following, in estimated order of importance, were found to be the most significant indicators of credit risk: possession of a bank account, stability of employment, nature of occupation, permanence of residence, ownership of real estate and industrial affiliation.

Customer Charges

CUSTOMER charges on personal cash loans represent a composite of several different items, as do also the finance charges on time-sales transactions. In the case of the cash instalment loan the total charge may include not only an interest or discount rate, but also a credit investigation fee or service charge, and a charge for group life insurance to cover the unpaid balance if the borrower should die before completing his payments. The fine levied on delinquent instalment payments is also a money cost, but it probably does not enter into the price that the borrower considers at the time he contracts for his loan. If a borrower is choosing between two competing lenders he will, of course, take into consideration not only the interest and credit investigation costs, but also the non-price features of the loan contract, especially the security requirements (comaker, chattel mortgage, or other) and the number of months allowed for repayment. Although these latter features are significant from a competitive point of view, we shall deal exclusively with the price characteristics of loans in the present chapter.¹

The sales finance charge is likewise a composite; it may include—in addition to a charge representing the application of a certain interest rate to the unpaid balance of the cash selling price—a fee for insurance on the purchased commodity which serves as security for the loan, and possibly other costs as well.²

¹ See Chapters 1, 4 and 9 for a discussion of the non-price characteristics of personal cash loans.

² For a discussion of the non-price features of time-sales financing contracts see Chapter 4.

The data for the following sections on cash instalment loan and sales financing charges were obtained from replies to questionnaires distributed by the National Bureau during the period December 1938 to July 1939, and from correspondence with bank officers during the period November 1939 to February 1940. The dating of the information on which the analyses are based is significant in view of the fact that in some communities rates have tended to decline.

CASH INSTALMENT LOANS

Interest Charges

The method used by commercial banks in quoting interest and discount rates on personal cash loans differs considerably from that followed by personal finance companies. While the latter quote a monthly rate on the unpaid balance, the banks customarily quote a rate of discount which they deduct from the face amount of the loan at the time the money is advanced. Of 134 banks reporting on their methods of handling interest charges, 109 followed this practice. The essential difference between the discount method and the method of adding interest to the face of the note is that the former results in a slightly higher charge than the latter: 6 percent discounted is equivalent to 6.38 percent interest added.

A few banks quote combination rates, but by no means as frequently as do personal finance companies. There are scattered instances, for example, in which the discount rate is quoted by banks at 6-5 percent graduated at \$250,³ or 10-8 percent graduated at \$500. An unusual combination rate quoted by one bank is 8-7-6-5 percent, graduated at \$200, \$350 and \$500. Occasionally a minimum charge is set; thus there may be a discount rate of 5 percent and a minimum charge of \$2, or an 8 percent discount with a \$1 minimum

³ With this graduated rate the amount of the loan up to and including \$250 is discounted at 6 percent, and the amount above \$250 at 5 percent.

charge on all loans. A somewhat different principle is followed by one bank which offers 6 percent discount with a minimum monthly charge of \$1.

The form of rate quotation is sometimes complicated by the fact that repayments are frequently accumulated in an hypothecated deposit on which the borrower may receive interest. One bank employing this procedure reports that it pays 1½ percent interest on the hypothecated deposit and deducts its insurance charge from this amount, crediting the borrower with the balance when the loan is paid off.

There are distinct variations in the interest or discount rates applied to personal loans in different parts of the country. Data on this point are presented in Table 42, which is based on questionnaire responses from more than 500 banks in the nine regional divisions⁴ of the country. Since discount rates tend to be lower in large banks than in small banks, as subsequent data will show,⁵ some degree of regional difference may be attributed to the fact that the large and small banks reporting to us were distributed unevenly in the several areas. To make allowance for this possibility "standard" rates computed for each region are included also in Table 42. These standard rates were obtained as follows: the average rate charged by banks in any size class in any region was weighted, not by the number of banks in that size class in that region, but by the number of banks in that size class in the entire country. Thus the "standard" regional rates are the average rates that would be found if the size distribution of banks were uniform throughout all the regions. Because the averages are weighted by the number of banks rather than by the volume of loans made by banks charging different rates, the average rates are somewhat higher than they would have been had we used this alterna-

⁴ U. S. Census regional divisions are used here. For a list of the states in each region see above, Chapter 1, Table 1, footnote c.

⁵ See Table 44, below.

TABLE 42

Number of Reporting Banks Charging Various Discount Rates on Personal Loans, by Region and by Type of Loan

REGION	DISCOUNT RATES						NUMBER OF BANKS REPORTING	AVERAGE RATE ^a	STANDARD RATE ^b
	9% and Over	8%	7%	6%	5%	4% and Under			
New England									
Single-name	..	..	1	33	3	..	37	5.9	5.9
Comaker	..	..	1	41	3	..	45	6.0	5.9
Collateral ^c	..	..	1	30	11	1	43	5.7	5.7
Middle Atlantic									
Single-name	..	1	..	109	12	1	123	5.9	5.9
Comaker	..	1	..	122	13	..	136	5.9	5.9
Collateral ^c	..	..	..	96	21	8	125	5.7	5.8
East North Central									
Single-name	1	6	36	66	8	..	117	6.4	6.3
Comaker	1	6	33	71	9	..	120	6.3	6.3
Collateral ^c	1	4	17	69	25	1	117	6.0	6.0
West North Central									
Single-name	6	30	23	18	2	2	81	7.2	7.0
Comaker	5	33	18	24	3	1	84	7.1	7.0
Collateral ^c	3	21	11	35	8	3	81	6.6	6.2
South Atlantic									
Single-name	2	7	3	52	4	..	68	6.3	6.3
Comaker	2	7	4	59	3	..	75	6.3	6.3
Collateral ^c	..	4	3	55	10	1	73	6.0	6.0
East South Central									
Single-name	1	5	..	13	..	..	19	6.7	6.4
Comaker	1	6	..	16	..	..	23	6.7	6.4
Collateral ^c	1	4	1	17	1	..	24	6.5	6.3
West South Central									
Single-name	14	10	1	5	3	..	33	8.0	8.1
Comaker	13	12	1	6	4	..	36	7.9	8.1
Collateral ^c	13	7	2	12	3	..	37	7.6	7.7
Mountain									
Single-name	3	8	2	2	7	..	22	7.0	6.9
Comaker	3	8	2	2	8	..	23	6.9	6.8
Collateral ^c	3	4	3	3	8	1	22	6.5	6.3
Pacific									
Single-name	3	7	..	10	2	..	22	7.0	7.2
Comaker	4	6	..	12	2	..	24	7.0	7.1
Collateral ^c	1	5	1	11	4	..	22	6.5	6.5
ALL REGIONS									
Single-name	30	74	66	308	41	3	522	6.5	...
Comaker	29	79	59	353	45	1	566	6.5	...
Collateral ^c	22	49	39	328	91	15	544	6.2	...

^a In the computation of the average, rates of 9 percent and over were counted as 9½ percent, and rates of 4 percent and under as 3½ percent.

^b See p. 142 for explanation of method of computing standard rate.

^c Secured by savings passbooks, stocks and bonds, life insurance policies, etc.

tive weighting system. It is likely, furthermore, that weighting by volume would have sharpened the interregional differences.

Discount rates on personal loans are shown by this table to be lowest in the New England and Middle Atlantic states and highest in the West South Central states. The other regions fall roughly into two groups: the discount rates are somewhat lower in the South Atlantic, East South Central and East North Central states than in the Mountain, Pacific and West North Central states. Average rates vary from just under 6 percent in the New England and Middle Atlantic states to about 8 percent in the West South Central states. In the New England and Middle Atlantic regions the minor divergences from the conventional 6 percent rate are mainly downward. In the East North Central, South Atlantic, East South Central and Pacific regions the concentration is also at the 6 percent rate, with the differential moving chiefly up-

TABLE 43

Average Discount Rates^a Quoted by Reporting Banks on Three Types of Personal Loans, by Region

REGION	TYPE OF LOAN			NUMBER OF BANKS REPORTING
	Single-Name	Comaker	Collateral ^b	
New England	6.0	6.0	5.7	34
Middle Atlantic	5.9	5.9	5.7	124
East North Central	6.4	6.3	6.0	112
West North Central	7.0	6.9	6.3	50
South Atlantic	6.2	6.2	5.9	34
East South Central	6.8	6.8	6.7	19
West South Central	8.3	8.1	7.8	29
Mountain	7.1	7.1	6.7	21
Pacific	6.9	6.8	6.4	21
ALL REGIONS	6.5	6.4	6.1	444

^a Each rate is weighted by the number of banks specifying that rate.

^b Secured by savings passbooks, stocks and bonds, life insurance policies, etc.

ward, especially in the Pacific states. The Mountain states show no distinct concentration of rates, but the West South Central region is characterized by a definite concentration at the levels of 8 percent and 9 percent and over. In all regions notes extended on collateral security carried the lowest rate; when the rates quoted on single-name and comaker notes were not identical, those on the latter tended to be slightly lower.

Not all of the banks represented in Table 42 reported rates on all three types of loans. Table 43 shows the average rates charged on single-name, comaker and collateral loans by 444 banks reporting on all three types. From this tabulation it appears that these banks charge, on the average, very nearly the same rates as the banks covered in Table 42.

The relationship between size of bank and quoted discount rates on personal loans is indicated in Table 44, which gives

TABLE 44

Index of Discount Rates^a Quoted by Reporting Banks on Three Types of Personal Loans, by Size of Bank

SIZE OF BANK ^b	TYPE OF LOAN		
	Single-Name	Comaker	Collateral ^c
Under \$150,000	117	117	111
150,000- 250,000	113	112	115
250,000- 500,000	106	106	107
500,000- 750,000	105	106	108
750,000- 1,000,000	103	103	105
1,000,000- 2,000,000	101	99	97
2,000,000- 5,000,000	97	97	97
5,000,000-10,000,000	97	98	96
10,000,000-50,000,000	93	95	94
50,000,000 and over	92	94	93

^a Weighted average of the ratio of the average rate for the specified class in any region to the "standard" rate for that region.

^b Total loans, discounts and securities. Total number of banks reporting was 444.

^c Secured by savings passbooks, stocks and bonds, life insurance policies, etc.

indexes of rates for single-name, comaker and collateral loans. With few exceptions, banks in the larger size classes tend to quote lower interest rates than those in the smaller ones: the index on single-name and comaker notes dropped from 117 for banks with earning assets of less than \$150,000 to 92 and 94, respectively, for banks with \$50,000,000 and over; on collateral notes the decline was from 111 to 93. These findings do not demonstrate conclusively, however, that it is less expensive for the consumer to borrow from a large than from a small bank, for the indexes refer only to the discount element in the total customer charge. Before the entire problem of consumer cost can be resolved, account must be taken of all the component parts of the personal loan charge. Nevertheless, the data presented in Table 47, which indicate that most banks do not charge a credit investigation fee in addition to the discount, suggest that the differentials given in Table 44 are fairly representative of relative consumer costs. Although the latter table is made up of responses from 444 banks which state that they have personal loan departments, it is possible that some of the small-sized banks may actually make their personal loans on a non-instalment basis as they do commercial loans. If this is the case, the discount rates reported by these small banks are (except for the necessary correction to allow for the discounting of interest) approximately the per annum rates realized by such banks on the amount advanced, and not, as in the case of instalment loans, about one-half that rate. But even if faulty reporting may have introduced a bias of this sort, it is probably not serious enough to impair the finding that discount rates are higher in small than in large banks.

Charges for Credit Investigation, Insurance and Delinquency

In states where such action is not prohibited, many banks impose in addition to the interest charge a fee for the investi-

gation of the applicant's credit standing. Out of 594 banks responding to the question, "Do you charge a credit investigation fee?" 170 banks answered affirmatively. Although 9 of them referred to it as a service fee, their method of quotation did not distinguish this charge from a credit investigation fee. In no case did a bank report a total cost to the customer which included both a credit investigation fee and a service charge.

As may be observed from Table 45, which represents the

TABLE 45

Number of Banks Reporting Specified Credit Investigation Fees*

TYPE AND AMOUNT OF FEE	NUMBER OF BANKS REPORTING
Flat dollar fee	107
Under \$1.00	24
1.00	45
1.50	5
2.00	24
2.50	4
3.00	1
5.00	4
Flat percentage fee	44
1 percent or less	12
2 percent	21
Over 2 percent	6
Not specified	5
"Actual cost" of investigation	8
TOTAL	159

* Of 594 banks reporting on this question, 424 replied that they charged no credit investigation fee. Of the remaining 170 there were 9 that called the fee a "service charge." Since 11 of the 170 did not specify their method of charging the fee this table is based on 159 reports.

There were 121 banks which reported that they did not collect a credit investigation fee if the loan application were rejected, and 13 which reported that they did collect it in these circumstances.

replies of 159 banks specifying their methods of calculating the fee for credit investigation, a flat dollar charge regardless of the size of the loan is more common than a fixed percentage charge. Of 107 banks which reported the flat dollar charge, 45 specified \$1 as the amount, 24 charged \$2 and an equal number less than \$1. In 4 banks the fee was as high as \$5. Percentage fees were quoted most often as 2 percent of the loan (21 banks), and the next most frequent charge was 1 percent or less (12 banks). Occasionally the principle of minimum or maximum charge is applied to this fee: it may then be quoted, e.g., as 1 percent with a \$2 minimum, or as 2 percent with a \$10 maximum, but this method appears to be much less common than the flat charge. Another variation is found when the credit investigation fee applies only to loans of a certain size; it may, for example, be 2 percent on loans up to \$300, or 75 cents on loans up to \$100, but this method also is used relatively infrequently.

Out of 134 banks, 121 reported that they did not collect a credit investigation fee if the loan application were rejected; only 13 answered that the fee was collected regardless of the decision on the loan application.

An additional charge sometimes borne by the borrower is the premium for a group life insurance policy which serves to protect comakers or the borrower's estate in the event of his death before full payment of his debt. Commercial banks vary in their attitudes with respect to such insurance; according to questionnaire replies from 133 widely separated personal loan departments, 46 did, and 87 did not, require borrowers to provide life insurance on comaker and unsecured loans. Of those banks which did make the stipulation, about half stated that a separate charge was imposed for this service.

Additional data on charges for group life insurance on personal loans were obtained by correspondence with 22 banks which operate relatively large personal loan departments. This correspondence shows that the cost of insurance

to the borrower is usually quoted as a flat fee per \$100 of funds advanced, although in some cases it is calculated as a flat monthly rate per \$100 of unpaid balance. The former type of rate quotation was cited by most of the reporting banks; it ranged from 50 cents to \$1 per \$100 advanced, with the rates of most of the banks at the upper limit. The small number of companies which quoted their rates on a monthly basis charged 10 cents per month for each \$100 loaned.

There appear to be several methods of computing the cost of this insurance coverage to the bank and of making remittances to the insurance company. Most banks pay the insurance company a sum computed as a stipulated percentage either of the loan balance outstanding at the end of the month or of the average loan balance outstanding over the month. This rate is generally about .1 percent on loan balances outstanding, and comes to approximately 65 percent of the charge commonly paid by the borrower. According to another method, the bank pays 60 or 65 percent of the premiums collected for the policies issued. The difference between the cost of the loan insurance to the bank and the charge collected from the borrower is approximately the same regardless of the method by which the bank makes its remittance. In a few instances banks reported that they received a rebate or dividend, based on claims paid on insured loans; presumably such a rebate would be received only if the bank remitted to the insurance company more than the usual 65 percent of the amount collected from the borrower. Changes in the rates which banks pay to insurance companies for this type of protection are based on changes in the death rate of borrowers or, more rarely, on changes in the average age of borrowers.

Less frequent is the credit insurance scheme whereby a borrower, instead of providing a comaker, pays a fee to protect his loan. Such a plan is now used by the Marquette Na-

tional Bank of Minneapolis,⁶ which requires the borrower who desires to dispense with a comaker to pay, in addition to a 3 percent interest charge and a \$5 service charge, a credit

TABLE 46

Number of Banks Reporting Specified Delinquency Fines^a

TYPE AND AMOUNT OF FINE	NUMBER OF BANKS REPORTING
Percentage of delinquent payment	75
2 percent	5
4 percent	7
5 percent	60
7-15 percent	3
Monetary charge per delinquent payment	14
25 cents	4
50 cents	6
50 cents to \$1.00	3
Graduated ^b	1
Charge according to period of delinquency	6
25 cents per day	1
25 cents first day, 10 cents daily thereafter	1
50 cents first day, 10 cents daily thereafter	1
1 percent per week	1
1 percent per month	1
Graduated ^c	1
Charge according to number of notices	3
25 cents each notice	1
25 cents each notice, except first	1
25 cents first notice, 50 cents second	1
TOTAL	98

^a Of 139 banks reporting on this question 30 replied that they charged no delinquency fee and 1 did not answer definitely. Since 10 of the remaining 108 did not indicate their method of calculating the fee this table is based on 98 reports.

^b Amounting to about 4 percent.

^c Amounting to about 1 percent per day.

⁶ "Marquette National Refunds on Personal Loan Risk Premium," *American Banker* (August 3, 1939) p. 3.

insurance fee of \$5 per \$100 of money borrowed. Part of the insurance fee covers life insurance on the borrower, and the remainder goes into a loss reserve for a group of loans made according to this plan. At the end of the insurance period the unused portion of the reserve is returned, pro rata, to the borrowers in this group.

Charges or fines levied on delinquents seem to be much more common than credit investigation charges. Out of 139 banks replying to a question on this item, 108 stated that they imposed delinquency penalties with a view to discouraging tardy payment. As is evident from Table 46, the methods of calculating this charge are far from uniform. The fine may be expressed as a given percentage of the delinquent payment, as a flat monetary charge per delinquent payment, as a charge proportionate to the number of days of delinquency, or as a given amount per delinquency notice sent to the borrower. The first and most common method was reported by 75 out of 98 banks; four-fifths of this number made a charge of 5 percent. Of the remaining 23 banks, 14 imposed a monetary charge ranging from 25 cents to \$1 per delinquent payment.

Aggregate Cost to the Consumer

The aggregate cost to the consumer for a personal loan from a commercial bank may be computed in monetary terms. While this total money cost cannot be viewed as interest in the legal sense of the word, it may be expressed in terms of interest and compared with respect to different rate schedules.

Table 47 presents a classification of 543 banks according to their quoted discount rates and their credit investigation fees. The table applies solely to comaker loans for which, as we have already noted, the rates are sometimes lower than for single-name notes and usually higher than for loans backed by savings passbooks, life insurance policies and similar forms of security. Moreover, since some banks tend to charge lower rates on loans of larger size, this distribution cannot be con-

TABLE 47

Number of Reporting Banks Charging Various Specified Interest Rates and Credit Investigation Fees on Comaker Personal Loans*

CREDIT INVESTIGATION FEE	INTEREST RATE CHARGED											NUMBER OF BANKS REPORTING
	3%	4%	5%	6%	7%	8%	9%	10%	12%	10-8% at \$150	6-5% at \$250	
Dollar fee												
\$.25-.50	..	..	2	4	1	3	..	..	..	..	..	10
.50-1.00	..	..	6	39	2	..	1	..	..	..	..	48
1.00-1.50	..	..	4	7	..	..	..	..	..	..	..	11
1.50-2.00	..	..	..	22	2	..	..	..	..	..	..	24
2.00-3.00	..	..	1	1	1	1	..	..	1	..	..	5
3.00-4.50	..	..	..	..	..	..	..	..	..	..	..	..
4.50-6.00	1	..	..	..	1	..	..	..	..	..	..	2
Percentage fee												
1 percent	..	..	..	7	..	..	..	..	..	..	..	7
2 percent	..	..	1	9	4	2	..	..	..	..	..	16
3 percent	..	..	..	3	..	..	..	..	..	..	..	3
No charge	..	1	36	247	38	72	2	18	1	1	1	417
TOTAL	1	1	50	339	49	78	3	18	2	1	1	543

* Reports from a small number of banks have been restated so that they will conform to this type of tabulation.

sidered representative of advances in excess of \$300. The latter are rare, however; comaker loans in amounts up to \$300 make up the bulk of personal loans.

Table 48 expresses the total money costs and the true annual interest rates on 12-month loans of \$50, \$100 and \$300 according to various rate schedules. When studied in conjunction with Table 47, this tabulation shows the actual money costs of certain representative rate schedules applying to comaker loans. Thus we may note from Table 47 that of the 543 reporting banks, 339 charged a 6 percent rate on comaker loans, and that of these banks 247 made no charge for credit investigation. We may then observe from Table 48 that the rate charged by these 247 banks, if deducted in advance from the face of the note, would amount to annual interest of 11.8 percent on a declining balance for a \$100 loan of 12-month duration. If interest were added to the face of the note and not deducted from it, the annual interest rate would be 11.1 percent on each of the three amounts of note analyzed in the table. A loan of \$100 extending over 12 months at a 6 percent discount rate plus a credit investigation fee of \$1 would cost the borrower 13.9 percent per annum, exclusive of insurance, and 15 percent inclusive of an insurance fee of 50 cents. The cost to the borrower for a loan larger or smaller than \$100 at these same charges, or for loans made at other rates classified in Table 47, can be estimated readily from Table 48.

A study of these two tables reveals that the charges reported by the banks covered in Table 47 would equal, for a personal loan of \$100 running for 12 months, true annual interest rates ranging from 7.7 percent (for 4 percent quoted discount, with no extra charges) to 30.0 percent (for 12 percent quoted discount, with a \$2 credit investigation fee). The bulk of the reporting banks extend loans at rates amounting to an annual interest cost of approximately 12 to 17 percent on declining balances. Since larger banks tend to

TABLE 48
 Total Money Cost and True Annual Interest Rate on 12-Month Personal Loans of
 \$50, \$100 and \$300, by Various Hypothetical Rate Schedules

RATE SCHEDULE			\$50 LOAN			\$100 LOAN			\$300 LOAN		
Quoted Interest Rate (percent)	Credit Investi- gation Fee	Insur- ance Fee	Total Money Cost	True Annual Interest Rate ^a (percent)		Total Money Cost	True Annual Interest Rate ^a (percent)		Total Money Cost	True Annual Interest Rate ^a (percent)	
3½	..	..	\$1.75	6.5	6.7	\$3.50	6.5	6.7	\$10.50	6.5	6.7
	\$2.00	..	3.75	13.8	15.0	5.50	10.1	10.7	12.50	7.7	8.0
4	..	..	2.00	7.4	7.7	4.00	7.4	7.7	12.00	7.4	7.7
5	..	..	2.50	9.2	9.7	5.00	9.2	9.7	15.00	9.2	9.7
	1.00	..	3.50	12.9	13.9	6.00	11.1	11.8	16.00	9.8	10.4
	2.00	\$50	5.00	18.4	20.5	7.50	13.8	15.0	17.50	10.8	11.4
6	..	..	3.00	11.1	11.8	6.00	11.1	11.8	18.00	11.1	11.8
	..	50	3.50	12.9	13.9	6.50	12.0	12.8	18.50	11.4	12.1
	1.00	..	4.00	14.8	16.0	7.00	12.9	13.9	19.00	11.7	12.5
	1.00	50	4.50	16.6	18.2	7.50	13.8	15.0	19.50	12.0	12.8
	2.00	..	5.00	18.4	20.5	8.00	14.8	16.0	20.00	12.3	13.2
	2.00	50	5.50	20.3	22.8	8.50	15.7	17.1	20.50	12.6	13.5

TABLE 48 (Concluded)

RATE SCHEDULE			\$50 LOAN			\$100 LOAN			\$300 LOAN		
Quoted Interest Rate (percent)	Credit Investigation Fee	Insurance Fee	Total Money Cost	True Annual Interest Rate* (percent)		Total Money Cost	True Annual Interest Rate* (percent)		Total Money Cost	True Annual Interest Rate* (percent)	
7	..	..	\$3.50	12.9	13.9	\$7.00	12.9	13.9	\$21.00	12.9	13.9
	\$1.00	\$50	5.00	18.4	20.5	8.50	15.7	17.1	22.50	13.8	15.0
	2.00	..	5.50	20.3	22.8	9.00	16.6	18.2	23.00	14.1	15.3
8	..	..	4.00	14.8	16.0	8.00	14.8	16.0	24.00	14.8	16.0
	1.00	..	5.00	18.4	20.5	9.00	16.6	18.2	25.00	15.4	16.8
	2.00	50	6.50	24.0	27.6	10.50	19.4	21.6	26.50	16.2	17.9
9	..	..	4.50	16.6	18.2	9.00	16.6	18.2	27.00	16.6	18.2
10	..	..	5.00	18.4	20.5	10.00	18.4	20.5	30.00	18.4	20.5
12	..	..	6.00	22.1	25.2	12.00	22.1	25.2	36.00	22.1	25.2
	2.00	..	8.00	29.5	35.1	14.00	25.8	30.0	38.00	23.4	26.8

* The true annual interest rate given here is computed according to the constant ratio method; $\text{rate} = \frac{24}{n+1} \cdot \frac{I}{P}$ where n is the number of equal monthly instalments, I is the total money interest charge, and P is the amount actually received by the borrower.

The computation of the first column is based on the supposition that charges are added to the interest-bearing amount, of the second on the assumption that charges are deducted from the interest-bearing amount.

charge lower interest rates than smaller banks, the bulk of the loans fall within the lower limit of this range. For a few large metropolitan banks which make personal loans at 4 percent discount or under, the true annual interest rate would be 7.7 percent or less.

The ultimate cost to the borrower of a loan repaid before the final date of maturity cannot be computed unless account is taken of the rebate granted. Under the rebating system very frequently employed, the bank returns to the borrower the full amount of unearned interest for the period for which the loan has been prepaid. Of 86 banks reporting their rebating method in enough detail to justify comparisons, 47 used this full rebate scheme. Other schemes vary only with respect to the system of computation or to the differential between the actual unearned interest and the amount rebated. Several methods are apparently in wide use. One is to return one-half, one-third or three-fourths of the unearned interest; another is to rebate at a rate involving a 1 or 2 percent differential as compared with the original rate of discount; a third is to set a minimum service charge applicable to all prepaid loans and to pay only that part of the unearned discount which is in excess of this amount.

SALES FINANCING

The sales financing activities of commercial banks are conducted according to two general methods:⁷ the bank either obtains sales finance paper directly from the consumer or discounts consumer notes for retail dealers. Although commercial banks tend to follow one practice or the other, such information as is available indicates that the two are sometimes employed concurrently by the same bank. The direct transaction with the consumer is much the simpler of the two methods, at least as far as the problem of customer charges

⁷ See above, Chapter 4.

is concerned, for the second arrangement involves a calculation of dealer loss reserves which is likely to vary from bank to bank.

Customer Charges on Direct-to-Consumer Financing

The time-sales department of a commercial bank usually quotes its direct-to-consumer charge on automobile time-sales contracts as a percentage per annum discount exclusive of insurance charges. Since reports on rates charged are available only from 17 companies, it is not possible to discuss the level of finance charges conclusively. The lowest new-car rate reported was 4 percent discount and the highest 8 percent. Eleven banks charged a 5 percent discount on some of their new-car notes. Rates are higher for used cars, generally by 1 percent, and some banks also provide differentials in rates to take account of differences in the maturity of the loan, the equity of the borrower and the age of the car purchased.

For time sales of automobiles, both new and used, buyers are usually required to purchase fire and theft insurance and collision insurance—\$50, \$75 or \$100 deductible—depending on the value of the car. When a car is financed directly it is customary for the bank to permit the buyer to arrange for the required insurance through any agent he chooses. In the present study some banks reported that they did act as agent in selling automobile insurance, many stated that they received no commission for this service, and one bank wrote that it placed insurance with its own affiliate. Generally, the amount charged for insurance is added to the face of the note and paid off in instalments. A few banks reported exceptions to this procedure, however, for cases where it would reduce the buyer's equity in the car below the point considered desirable by the bank.

In direct financing banks prefer, of course, to set up a reserve out of finance charges to cover losses incident to re-

possession. Only limited data are available on the amount of reserves set up. One commercial bank finances used cars at 6 percent for the two most recent models and at 6 percent plus \$10 for the next two in order of age. The \$10 charge is then treated as a reserve against losses.

*Customer Charges and Reserves on Instalment Paper
Obtained through Dealers*

From the information at hand it appears that where commercial banks finance the instalment purchase of automobiles, new or used, through arrangements with retail car dealers, the customer pays charges which are either equal to or slightly higher than those he would pay for direct financing. Financing transacted directly with the consumer tends to cost around 5 percent on new cars, whereas new-car paper discounted for dealers generally involves a customer charge of 6 percent. Further comparison of the rates paid by consumers under these two methods of financing is afforded by reports from seven banks which engage in both. Four of these institutions maintained the same rates for both types of paper, but three made the direct-to-consumer advances at a lower rate than that charged for paper discounted for dealers. Used-car paper is discounted for both consumers and dealers at a rate 1 or 2 percent higher (depending on the age of the car) than that for new-car paper. For purposes of convenience dealers are sometimes provided with rate charts, similar to those used by sales finance companies. By consulting the chart the dealer can compute readily the finance charge on any given unpaid balance. Some banks have reported, however, that they dispense with the rate chart and simply stipulate the rate at which the customer finance charge is to be computed.

An obvious difference between the two methods of obtaining automobile finance paper, and incidentally one which accounts in part for the customer charge differential, revolves

about the issue of loss reserve. If the dealer assumes liability for losses under a recourse or repurchase arrangement, a dealer reserve is usually set up out of the finance charge.⁸ Several methods of establishing the dealer reserve are followed. First, banks may discount consumer notes for a dealer at a rate lower than that charged the customer. The differential varies between 1 and 2 percent of the amount of the note in the few cases for which information on this point is available. The sum is then set up as a dealer reserve, against which losses on the notes are charged. When the contract is paid out in full, that portion of the dealer reserve which was set up against the contract is released and paid to the dealer at some stated interval—monthly, semi-annually or annually. The amount of the reserve is conditioned mainly by the extent of the dealer's liability, although the dealer's financial standing constitutes another significant factor in its determination. It is commonly observed that the reserves allowed for weaker dealers are usually smaller than those held for the stronger establishments, and that a dealer who is able to originate a large volume of paper is likely to obtain a more liberal reserve arrangement than a dealer whose volume of business is smaller.

Some banks prefer to let the dealer reserve increase to a stipulated percentage of notes outstanding, and then repay the excess to the dealer on a monthly basis. One bank reported this ratio as 5 percent, another as 3 percent and a third as 10 percent. Problems frequently arise in connection with the accounts to be charged against the reserve. One

⁸ A dealer *reserve* is a portion of the finance charge which the financing agency retains in an account for the benefit of the dealer, to be applied against possible dealer losses or repossessions when the dealer endorses the paper or executes a repurchase agreement. When paper is discounted by the financing agency with no dealer liability, any reserve set up out of the finance charge serves mainly to retain the dealer's patronage. Such an account might be termed a dealer *subsidy* or *bonus* to distinguish it from the dealer reserve. A dealer *pack* is an addition made to the standard finance charge and is passed on to the dealer by the financing agency in addition to any reserve which the contract may stipulate.

bank states that any payment 10 days delinquent is charged against the reserve, but apparently the usual practice is to allow the dealer to charge against the reserve any losses he incurs on notes he has guaranteed for the bank. Another bank reports that the reserve on a note is returned to the dealer when one-half the amount of the note has been paid.

In other cases notes originated by dealers are discounted by the bank at the same rate charged the customer, and a portion of the finance charge is set up as a dealer reserve to cover losses arising out of customer default and repossession, reconditioning and resale of the collateral. In effect, this method differs from that described above only in that the note is not formally discounted at a rate lower than the charge to the customer. In both cases the dealer executes a repurchase agreement, and an arrangement is made by which the unused reserve is credited to the dealer. These two methods do not, apparently, make for any difference in the amount of the finance charge paid by the consumer. Sometimes dealers originate time-sales notes which banks discount without dealer endorsement; in such cases the bank may set up its own loss reserve. A different reserve practice, reported by a few banks, is to hold back a certain percent of the amount of the note discounted. This procedure is comparatively rare, however; it is used mainly when banks purchase contracts from dealers who are considered to be in a weak financial position.

A different method of handling dealer paper was described by a few other banks. These institutions vote a line of credit to the dealer, generally at a 6 percent discount rate. The dealer may then borrow up to the limit of this credit line on his 30-, 60-, or 90-day demand notes secured by customers' automobile paper. One bank reported that it loaned up to 75 percent of the posted collateral and that the dealer substituted a new note for an old note that became 65 days delinquent. In this instance the bank had no control over customer charges. Another bank stated that its loans of this type

might be either secured or unsecured. A third permitted the dealer to discount notes up to the amount of his line of credit, on a full recourse basis, but required him to keep a 20 percent cash reserve with the bank against his outstanding notes.

The practice of commercial banks with respect to insurance on cars financed through arrangements with dealers does not vary substantially from that described above in connection with direct-to-consumer financing. The insurance charge is quoted separately in most cases, and normally provides for the same coverage, i.e., fire, theft and deductible collision. Sometimes but not usually the insurance is sold by the bank as agent. The dealer, if permitted by state law, may sell the insurance and receive the commission, or the customer may obtain the necessary policy through an agent of his own choosing, in which case he may include the premium in the amount to be financed. It appears that banks which do a substantial volume of sales finance business, whether direct-to-consumer or through dealers, find it to their advantage to place all of their insurance with one or two companies. In this way they not only achieve accounting economies but also expedite settlements and exert some influence toward having the necessary repairs made by the dealer who sold the car. Repair work is of considerable importance to certain dealers, and since sales finance companies generally arrange to have repairs made on this basis the commercial bank with a large volume of sales finance business is likely to follow suit.

Commercial banks' charges for loans made to finance the instalment purchase of household appliances are roughly similar to their charges for new-automobile financing. Customer paper generally carries a financing charge of either 5 or 6 percent of the original unpaid balance, more frequently the latter. Because many notes arising out of the sale of household appliances are likely to be of small face amount, minimum charges are sometimes stipulated. Thus the basic rate

may be 6 percent discount, with a \$5 minimum for notes running 6 months, \$7.50 for notes maturing in 9-12 months and \$10 for all notes running for 15 months or longer. In most cases the bank provides the dealer with a rate chart, similar to those used by sales finance companies.

In appliance financing, as in automobile financing, dealer reserves and the handling of accounts give rise to special problems. If it discounts dealers' accounts on a full or limited recourse basis, the bank finds it necessary to build up a reserve which usually reverts to the dealer when the customer's note is paid out. Current methods of establishing this reserve are similar to those already described for automobile financing: the paper is discounted at less than the customer rate and the difference is set up as a reserve, or else the notes are discounted at the same rate charged the customer and a portion of the face amount of the customer's note, sometimes as much as 10 percent, is held back as a reserve.

Income, Expenses and Profits

IN BRANCHING out into the field of consumer credit commercial banks have been motivated largely by the desire to secure "an outlet for idle funds," to share in "the success of other consumer credit agencies," or to enjoy "the high interest rates obtainable on small accommodation loans to customers."¹ An examination of the profit experience of banks which have engaged in this activity is therefore of particular interest. Data on the income, expenses and earnings of bank personal loan departments are scarce and difficult to obtain. Some information on the subject has been supplied to us directly by banks responding to our questionnaires, and additional data, furnished by the department of banking of the state of New York, cover personal loan departments of state banks under its supervision for the period 1937-38.

Conclusions based on data of such limited scope must necessarily be tentative, the more so because of the lack of uniform accounting standards for personal loan department records. The latter deficiency is pointedly illustrated by responses to our questions as to whether the personal loan department were charged with some percent of the bank's overhead and whether it paid interest on bank funds employed. Of 112 banks answering the first question, 63 replied that they did not allocate any overhead to their personal loan departments; and of 104 banks reporting on the second, 85 stated that they made no charge for interest on bank funds employed.² Supple-

¹ See Chapter 1.

² In this connection see the correspondence between Walter Meiss, Executive General Agent, The London Assurance, New York, and Lehman Plummer,

mentary information concerning the cost accounting practices of commercial banks operating personal loan departments was obtained from correspondence with a selected group of banks.³ The replies received from 25 widely separated institutions have been used as the basis of the following discussion.

Any consideration of the cost accounting practices of personal loan departments must be prefaced by several general observations. First, there appears to be no broad agreement as to the items which should be classified under "general overhead expense." One bank considers the costs incidental to the maintenance of its general service departments—accounting, advertising, legal, etc.—as overhead expenses but excludes from these its expenses for executives' salaries. Another includes the latter item in general overhead, but treats the former almost entirely on a direct cost basis. In the second place, the problem of cost allocation becomes more complicated with increasing integration of the various departments of the bank. Thus banks which have established their personal loan departments in separate buildings can, and apparently do, allocate costs far more easily than the much larger number which handle part or all of their small personal loans in conjunction with some other bank operation, e.g., with the savings department. In the third place, a bank is not likely to make a careful analysis of personal loan department costs unless that department carries a substantial volume of business; there is a clearly observable tendency for banks to

Vice President, Central National Bank and Trust Company, Des Moines, Iowa, published in *Banking* (July 1939) pp. 22-23.

³ These banks were asked the following questions: To what extent do you allocate general overhead expenses to your personal loan department? How do you determine the amount of such overhead? Have you undertaken to estimate the cost of making personal loans of various types? If so, what items have you included and what is your method of figuring these costs? In particular, have you estimated the per-payment cost of handling personal instalment loans? In accounting for the department's income, do you figure your unearned income on an equal monthly instalment basis or by some other method?

undertake a more precise allocation of costs as the volume of their personal loans increases. Since most consumer installment lending departments are at present closely bound up with general banking operations and have not yet developed a large volume, few banks have made any exhaustive efforts to determine the costs of consumer lending, although many of them are showing increasing interest in this direction.

Despite the lack of uniformity in practice, a bank's method of determining the costs of its personal loans will conform to some one of several typical patterns. Each bank reporting on this topic stated that its department was charged with all the expenses that could be considered direct costs of its operation. These include the salaries of employees in the department, any special advertising expenses, and such outlays as would be required for insurance, stationery and supplies, credit agency reports, court proceedings, telephone and telegraph, and postage. The departments are commonly expected also to carry the expenses involved in the use of special machinery and equipment. Aside from these features, which are common to all methods of cost calculation, practice varies widely. Some banks require the personal loan department to support a share of general overhead expenses, and others do not. The latter generally have such small departments that they consider it unnecessary to make a complete adjustment of costs. If a bank does decide to allocate a share of its general overhead expenses to the personal loan department it must first fix a basis for pro-rating them. Of several methods of pro-rating, the one most frequently reported is as follows: all the expenses of the bank are classified into two groups, direct and indirect. The ratio of total indirect expense to total direct expense is then computed and a given department is charged with an indirect or overhead expense derived by application of this percentage to its direct expenses. Thus, if total indirect expenses are 25 percent of total direct expenses, each depart-

ment adds 25 percent to its direct expenses to cover general overhead.

Another method, less widely employed, requires a distribution of the burden of general overhead according to some rough estimate of the time devoted to the department by the various service departments and officers of the bank. A simpler method was reported by one bank, which charged the cost of operating various service departments on a direct basis, so far as possible, and pro-rated the remainder according to the proportion of the number of employees in the personal loan department to the total number of employees in the bank. Another bank stated that its personal loan department was charged with overhead on the basis of what these expenses might be if it were operating as a separate business. Still another charged the personal loan department with its own direct costs and with an additional 3 percent per annum for the money needed to cover "general overhead expense" and "executive supervision." The amount of money used by the department was calculated in proportion to average daily outstanding loan balances; in addition, the department was charged with its own losses.

In several instances banks reported that their personal loan department operations were closely integrated with those of some other department and that the expenses of both operations were combined. One bank stated that the costs of its personal loan and savings departments were handled in this way; another that its sales financing costs were combined with the expenses of the commercial department in which this operation was conducted.

GROSS INCOME

Gross income of personal loan departments per \$100 of loan account runs higher than gross income on other loans and investments of banks, but the expenses are higher as well. In

Table 49 we have employed this measure of gross income as the basis for the distribution of 39 banks reporting to our questionnaires and of two groups of New York state banks,

TABLE 49

Distribution of 39 Banks Replying to Questionnaires, and of Two Groups of New York State Banks, by Gross Income Earned in 1938 per \$100 of Average Personal Loan Account

GROSS INCOME PER \$100 OF AVER- AGE LOAN ACCOUNT ^a	BANKS REPLY- ING TO QUESTION- NAIRES ^b	NEW YORK STATE BANKS ^c						
		Average Loan Account ^d			Year of Organization of Personal Loan Department ^e			
		\$75,000 or under	Over \$75,000	Total	1936	1937	1938	Total
Under \$6	5	1	..	1	1	..	5	6
6- 8	8	5	2	7	3	4	3	10
8-10	13	7	3	10	5	5	..	10
10-12	11	16	7	23	18	5	1	24
12 and over	2	9	5	14	13	1	1	15
TOTAL	39	38	17	55	40	15	10	65

^a Each level includes the lower figure and excludes the upper.

^b Reporting banks were situated in the following regions: New England, 2; Middle Atlantic, 10; East North Central, 5; West North Central, 5; South Atlantic, 5; East South Central, 1; West South Central, 4; Mountain and Plain, 3; Pacific, 4.

^c Based on data furnished by the New York state department of banking.

^d Refers only to personal loan departments organized before 1938; the average gross return for these 55 banks was 10.8 percent.

^e The average gross return for these 65 banks was 10.6 percent.

one group of 55 divided according to size of average loan account and the other group, consisting of 65 banks, divided according to the year in which their personal loan departments were organized. Of the banks throughout the country replying to our questionnaires, one-third reported a gross income of \$8-10 per \$100 of average loan account, and another third \$10 or more per \$100. A larger proportion of the New York state banks showed the higher rate of gross earnings:

two-thirds of those whose personal loan departments were organized before 1938 earned \$10 or more per \$100 of average funds employed. In both groups 60 percent of the banks earned between \$8 and \$12 per \$100 of average earning assets.

When the New York state banks are classified according to the year in which their personal loan departments were organized it is found that 31 of the 40 banks whose departments began operations in 1936 earned during 1938 \$10 or more per \$100 of average funds employed, but that only 6 of the 15 departments established in 1937 and only 2 of the 10 set up in 1938 reported gross income of this amount.

Since a large proportion of all the banks furnishing information on gross income in response to questionnaires, or reporting such information to the New York state department of banking, charged at least 6 percent discount on personal instalment loans in 1938—amounting on a 12-month loan to an interest rate of 11.8 percent per annum on the unpaid balance—it is surprising that any of these personal loan departments should have reported gross income of less than \$10 per \$100 of average personal loan balance. The finding may be explained, however, on either of two grounds: some banks may grant all or part of their loans at less than 6 percent discount, or they may use a method of accruing income which gives misleading results.

According to information submitted by 20 banks, the discount charged on personal loans is taken into an earned income account in three different ways. Under one method the whole discount is treated as earned income at the time the loan is made; this is called "taking income on a cash basis." By a second method, discount is taken into earnings in equal amounts (daily, weekly or monthly) over the period of the loan. According to the third method, discount is considered earned income by amounts (computed daily, weekly or monthly) that are in proportion to the amount of the

unpaid balance of the loan; for example, on a 12-month loan 12/78 of the discount is taken into earned income at the end of the first month, 11/78 at the end of the second month, etc. The first method operates to anticipate income entirely and the second understates earned income up to a point and overstates it during the remainder of the period. Thus if earned interest is taken in equal monthly instalments the resulting figure is an understatement in years of increasing volume and an overstatement in years of decreasing volume, as compared with the figure that would be obtained if earned income were proportioned to outstandings, a method whereby gross income approximates the per annum equivalent of the loan charge—interest plus investigation, service and other charges.⁴ There was a strong upward trend in the volume of bank personal loan department business from 1937 to 1938; furthermore, many of the departments covered by our data were new enough to be experiencing initial expansion. It is only reasonable to conclude, therefore, that to some extent the cases in which gross income was under \$10 per \$100 of average loan account, presented in Table 49 above, represent understatements resulting from the use of an equal-monthly-payment method of accounting for earned interest.

The gross income of bank personal loan departments is derived, as was shown in Chapter 6, not only from interest or discount on customers' notes, but also from a variety of other charges, such as fees for credit investigation, service or collection fees, insurance charges and fines for delinquency. Interest or discount is the most important source, accounting

⁴ See Otto C. Lorenz and Mott Smith, *Financial Problems of Instalment Selling* (1931) Chapter 13. An acceptable formula for computing earned income for any month so as to make such income proportional to outstandings is $2 \cdot \frac{n-t+1}{n(n+1)} \cdot F$, in which F is the amount of discount (interest plus other charge), n the total number of months the note runs, and t the given month. This formula can be applied immediately to the current loan account if the amount of loans of any given length made in any given month in the past is known.

for 80 to 100 percent of gross income. Of 57 banks replying to our questionnaire, 18 received 100 percent of their gross income from interest or discount charges, 21 received 95 to 100 percent, and 9 received 90 to 95 percent. The median for the entire group was above 95 percent; this may be compared with the median for New York state banks, which was between 90 and 95 percent.

Concerning other sources of income—investigation fees, service charges and delinquency fines—information obtained through questionnaires was far from adequate. Of 54 banks supplying such data, 43 reported no income from credit investigation fees; of the remaining 11 banks, 2 stated that such fees accounted for over 20 percent of their gross income, 2 derived 10 to 20 percent of their gross income in this way, 5 reported 5 to 10 percent, and 2 less than 5 percent.

Little can be said regarding service charges as a source of income. Although such charges are specifically permitted in some states, and are not expressly prohibited in others, they are imposed in a manner which makes it difficult to distinguish them from the credit investigation charge. Indeed, as we have indicated previously, no bank reporting to us stated that it levied both a credit investigation fee and a service charge.

Income from fines on delinquent accounts is a relatively unimportant source of gross earnings. Of 54 banks reporting on this item, 34 realized some income from delinquency penalties but 20 made no charges of this sort. In the former group, 2 banks derived more than 8 percent of their gross income from fines, 8 banks from 4 to 8 percent and 24 banks under 4 percent (19 of these less than 2 percent). For 65 New York state bank personal loan departments operating in 1938 the proportions were much the same: 19 reported no income from delinquency fines, 2 obtained such income in excess of 8 percent, 11 between 4 and 8 percent and 33 under 4 percent (19 of these under 2 percent). For the entire group of 65 New

York state banks the average proportion of gross earnings derived from delinquency fines in 1938 was 4.8 percent.

EXPENSES

The best available data on the costs or expenses of bank personal loan departments are those covering state banks reporting to the New York state department of banking. Table 50 gives the percentage distribution of total expenses (including reserves for charge-offs) and of operating expenses (excluding reserves for charge-offs) of these banks for the period 1937-38. Salaries constituted the major item, accounting for more than two-fifths of total expenses and for more than half of operat-

TABLE 50

Percentage Distribution of Total and Operating Expenses of Personal Loan Departments of Reporting New York State Banks, 1937-38,^a by Item of Expense

ITEM	TOTAL EXPENSES ^b	OPERATING EXPENSES ^c
Salaries	43.2	52.3
Officers	13.0	15.8
Others	30.2	36.5
Reserve for charge-off accounts ^d	17.3	..
Insurance (net) ^e	7.3	8.9
Rent	6.5	7.9
Advertising	5.4	6.5
Legal	2.8	3.3
Other	17.5	21.2
TOTAL	100.0	100.0

^a Based on data furnished by the New York state department of banking covering 55 banks in 1937 and 65 banks in 1938. The cost of money is excluded from expense items by the department of banking.

^b Including reserves for charge-off accounts.

^c Excluding reserves for charge-off accounts.

^d Including actual net charge-off for banks not employing a charge-off reserve.

^e Payments for group life insurance on borrowers, minus charges to borrowers for this service.

ing expenses—proportions that are not inconsistent with expense experience among personal finance companies.⁵ Administrative and supervisory salaries came to as much as 13 percent of total expenses and 16 percent of operating expenses, while other salaries amounted to 30 and 37 percent respectively. Reserves for charge-offs, excluded from operating expenses, accounted for 17 percent of total expenses. Other expenses, ranked in order of importance, were insurance, rent, advertising and legal costs. Miscellaneous outlays, not readily classifiable, amounted to 18 percent of total expenses and to 21 percent of operating expenses.

Operating expenses per \$100 of loan account for the personal loan departments of these New York state banks varied widely. Though observed differences may reflect real variations in costs, they may be attributed also to lack of uniformity in accounting practice, notably with respect to the allocation of bank overhead and, for small personal loan departments, to the allocation of cost factors which are tantamount to overhead from the standpoint of the department.⁶ As Table 51 shows, 34 out of 55 banks whose departments were organized before 1938 reported operating costs of less than \$5 per \$100 of average loan account. Such costs were generally lower, furthermore, for banks with average loan accounts of \$75,000 or less than for banks with loan accounts in excess of \$75,000, and somewhat lower for departments organized in 1937 than for those set up in 1936.

UNIT COST OF PERSONAL LOANS

Seven of the 25 banks that reported on their methods of cost accounting for personal loan departments gave estimates of

⁵ See National Bureau of Economic Research (Financial Research Program), *Personal Finance Companies and Their Credit Practices*, by R. A. Young and Associates (1940) Chapter 5.

⁶ For a small personal loan department operated by a part-time employee, for example, almost all expenses consist of arbitrarily allocated overhead costs.

the expense involved in making individual personal loans. Two of these indicated that the determination of such costs had also shown up differences in the costs of making and handling various types of loans. In all other cases the bank had merely arrived at a figure which represented the total cost of making and collecting a loan, or the cost of making the loan and a per-payment cost of servicing instalment payments. Of two banks reporting a total cost per loan, one estimated the amount at just over \$4.00 and the other at exactly \$5.00. The difficulty of interpreting data of this kind is illustrated by the banks' statements concerning their cost estimates. From these statements it appears that the bank with the higher estimate of cost per loan took less account of overhead expenses than the bank with the lower estimate.

TABLE 51

Distribution of Two Classifications of Reporting New York State Banks, by Operating Cost in 1938 per \$100 of Average Personal Loan Account^a

OPERATING COST PER \$100 OF AVERAGE LOAN ACCOUNT ^b	AVERAGE LOAN ACCOUNT ^c			YEAR OF ORGANIZATION OF PERSONAL LOAN DEPARTMENT			
	\$75,000 or Under	Over \$75,000	Total	1936	1937	1938	Total
Under \$3	7	1	8	5	3	3	11
3- 4	11	2	13	6	7	1	14
4- 5	10	3	13	13	..	..	13
5- 6	4	5	9	9	..	1	10
6- 7	2	2	4	2	2	1	5
7- 8	1	2	3	1	2	2	5
8- 9	1	..	1	1	..	1	2
9-10	1	2	3	2	1	..	3
10 and over	1	..	1	1	..	1	2
TOTAL	38	17	55	40	15	10	65

^a Based on data furnished by the New York state department of banking.

^b Each level includes the lower figure and excludes the upper.

^c Refers only to personal loan departments organized before 1938.

All 3 of the banks that estimated the cost of servicing loans, as distinct from the cost of making them, agreed that the per-payment expense of collection was from 25 to 30 cents. This same cost was reported also by a fourth bank, which calculated further that this personal loan transaction, conducted in its savings department, would cost as much as a savings account transaction. A fifth bank, making its estimate on the same assumption, nevertheless set the cost of collecting each instalment payment at 10 cents. It should be added that in one of the cases just mentioned the estimate of 25-30 cents excluded any charge for money used and made no provision for special collection difficulties.

There was more variation in reports on the separate cost of making a loan. One bank estimated this item at \$1.50, another at \$1.80, and a third at \$3.00 to \$3.25. In each case account was taken of overhead charges, although the details of the calculations, which would doubtless explain the wide discrepancy between the estimates, were not disclosed. If we consider, finally, both the cost of making and the cost of servicing loans, and compare the combined sum with the single per-loan cost estimates, we find that costs of individual loan transactions range from \$4.00 to nearly \$7.00 for this small group of banks.

RELATION OF COSTS TO SIZE OF LOAN ACCOUNT⁷

No extensive body of factual data is available for a study of variations in loan costs according to either the size of the personal loan account or the characteristics of the personal loans made. Nevertheless we shall attempt to treat these matters analytically, drawing upon such fragmentary data as have been made available to us to illustrate their more significant aspects.

As in other types of enterprise in which there are fixed cost

⁷ Size of loan account refers to the volume of loan balances outstanding.

elements, the average loan costs of any personal loan department tend to vary inversely with the size of the account, at least up to the point where per dollar or per unit loan cost is lowest. That level we may designate as the point of optimum utilization of personal loan department facilities. Certain costs, such as officers' salaries and rent,⁸ tend to be constant in dollar amount even with wide ranges of loan volume. By their very constancy they make possible a declining overhead cost per dollar or per unit loan as the loan account increases in size, at least until office space becomes overcrowded, administrative supervision inefficient, or further expansion virtually impossible with existing facilities. Other costs per dollar or per unit loan may, for any but a newly established department, increase or decrease with the size of the loan account, depending more or less on the degree to which they are fixed or overhead elements in personal loan department expense.

The behavior of per dollar personal loan department costs over the two-year period of expanding volume, 1937-38, may be observed from Table 52, which covers state banks reporting to the New York state department of banking. The total volume of loans made by these banks during 1938 was about 18 percent greater than in 1937, but the average amount of funds employed increased nearly 45 percent, indicating a balance of new loans over repayments and perhaps also a lengthening of the average span of loan contracts. From 1937 to 1938 there was an increase in all cost items per \$100 of loans made, except in advertising;⁹ thus operating costs (excluding charge-offs)¹⁰ rose from \$1.87 to \$2.28, while total costs

⁸ As was shown in Table 50, these items together averaged 24 percent of the operating expenses of personal loan departments of reporting New York state banks in 1937-38, and 19.5 percent of the total expenses, including reserves for charge-offs.

⁹ Many of the personal loan departments of reporting banks were new in 1937 and relatively high advertising costs in that year may be ascribed in part to the initial publicity required.

¹⁰ The New York state department of banking encourages the setting up of special personal loan department reserves for handling charge-offs, and

TABLE 52

Operating Costs and Total Costs of Personal Loan
Departments of Reporting New York State Banks,
1937-38, per \$100 of Loans Made and per \$100 of
Average Loan Account^a

ITEM	COSTS PER \$100 OF LOANS MADE		COSTS PER \$100 OF AVERAGE LOAN ACCOUNT	
	1937	1938	1937	1938
Salaries				
Officers	\$.31	\$.35	\$.81	\$.75
Others	.65	.86	1.72	1.85
Insurance (net)	.17	.20	.45	.43
Rent	.14	.18	.38	.39
Advertising	.18	.10	.48	.21
Legal	.04	.10	.10	.21
Other	.38	.49	1.02	1.06
OPERATING COSTS	\$1.87	\$2.28	\$4.96	\$4.90
Reserve for charge-offs ^b	.38	.48	1.01	1.04
Other charge-offs, minus recoveries	.04	.09	.11	.20
TOTAL COSTS	\$2.29	\$2.85	\$6.08	\$6.14

^a Based on reports submitted to the superintendent of banks of the state of New York; figures for 1937 cover 55 banks with average employed funds of \$8,960,981; those for 1938 apply to 65 banks with average employed funds of \$12,972,389. Total personal loans of these two groups were \$23,812,310 and \$27,868,817 respectively.

^b Actual charge-offs minus recoveries against reserves amounted, per \$100 of loans made, to \$.07 in 1937, and to \$.17 in 1938; per \$100 of average loan account they came to \$.18 in 1937 and \$.37 in 1938.

most banks under its supervision treat charge-offs in this way, debiting net charge-offs (charge-offs minus recoveries) to such reserves. As a consequence it has not been feasible here to consider charge-offs of bad loans as an item in operating costs.

mounted from \$2.29 to \$2.85. Expressed in relation to average loan account rather than to volume of loans made, some cost items declined—officers' salaries, insurance and advertising—and some went up—other salaries, rent, legal expense and "miscellaneous." Operating costs per \$100 of average loan account declined from \$4.96 to \$4.90, but total costs rose from \$6.08 to \$6.14.

These changes in loan costs do not accurately reflect the reaction of costs to increases in personal loan business, because some of the personal loan departments of these reporting banks were newly established in 1938. If, however, we consider only the personal loan departments that were operating in 1936 and 1937, and assume that these were well established by 1938, we may draw some general inferences from these data. Table 53 presents two distributions of such banks according to the additional cost per \$100 of the increase in loan outstandings—in other words, the per dollar marginal cost of personal loan department operations.¹¹ The underlying figures are doubtless conditioned by wide variation in methods of allocating costs, and also by divergences in accounting practice; moreover, our assumption that they have been reported by well-established personal loan departments is admittedly arbitrary.¹² Nevertheless even results that are no more than very rough approximations are adequate for our purposes, since the object is merely to illustrate how per dollar marginal loan cost varies with changes in the loan account.

The table shows a wide diversity in per dollar marginal cost among the banks represented, but it shows also a significant central tendency. A total of 43 banks out of 55 had an additional cost of less than \$4 for each \$100 of additional outstandings, and of these 12 had less total expense when they

¹¹This is exclusive of charge-off or bad-loan expense, as explained above.

¹²Of the personal loan departments under review 40 were established in 1936 and 15 in 1937.

TABLE 53

Two Distributions of Reporting New York State Banks, 1938, by Additional Cost per \$100 of Increase in Loan Account of Personal Loan Departments^a

ADDITIONAL COST PER \$100 OF INCREASE IN LOAN ACCOUNT ^b	AVERAGE LOAN ACCOUNT			YEAR OF ORGANIZA- TION OF PERSONAL LOAN DEPARTMENT		
	\$75,000 or Under	Over \$75,000	Total	1936	1937	Total
Negative marginal cost	11	1	12	10	2	12
Under \$1	3	3	6	4	2	6
1- 2	7	2	9	4	5	9
2- 3	6	3	9	7	2	9
3- 4	4	3	7	6	1	7
4- 5	1	1	2	1	1	2
5- 6	..	1	1	1	..	1
6- 7	1	..	1	1	..	1
7- 8	..	..	..	..	..	..
8- 9	1	..	1	1	..	1
9-10	..	..	..	..	..	..
10 and over	4	3	7	5	2	7
TOTAL	38	17	55	40	15	55

^a Based on data furnished by the New York state department of banking, covering 55 banks whose personal loan departments were organized before 1938.

^b Ratio, in dollar terms, of additional expense from 1937 to 1938 to additional funds employed. Each level includes the lower figure and excludes the upper.

employed additional funds, that is, they had a negative per dollar marginal cost. The median marginal cost for all 55 banks was \$2 per \$100 of additional loan account. Of the 38 banks whose average loan account was \$75,000 or under, 31 had a marginal cost under \$4, with the median at about \$1.50, and 11 had a negative marginal cost. Of 17 banks with average loan outstandings in excess of \$75,000, there were 12 which had a marginal cost under \$4, with the median at about \$3, but in this group only 1 showed a negative marginal cost. Marginal costs under \$4 were reported by about the same

proportion of personal loan departments organized in 1937 as of those organized in 1936, but fewer of the more recently established departments had a negative marginal cost.

A comparison of the per dollar marginal cost figures in Table 53 with the average cost figures in Table 51 is particularly rewarding. It reveals, for example, that only 21 of the 55 banks had operating costs of less than \$4 per \$100 of average loan account, but that for 43 of these 55 banks the increase in operating costs per \$100 of additional account came to less than \$4. Among the 38 banks having average personal loan accounts of \$75,000 or less, 18 had operating costs of less than \$4 per \$100 of average loan account and 31 had operating costs of less than \$4 per \$100 of additional loan account. A similar relationship is characteristic of the 17 banks with average loan accounts of more than \$75,000. For all 55 banks the median average cost was a little over \$4, as compared with a median marginal cost of \$2.

If these banks are distributed, as in Table 54, by the ratio of per dollar marginal cost to average cost—a ratio which may be designated as the index of cost elasticity for increases in loan account—another interesting comparison may be drawn. An index of more than 1 means that cost in handling a larger loan account increases more than proportionately to the loan account; an index number between 1 and 0 means that cost increases less than proportionately to the loan account; and if the index is negative, cost and loan account move in opposite directions, the former falling as the latter rises. Of the 55 banks, 18 had elasticity indexes of more than 1, and 26 had indexes between 1 and 0; for 11 banks the indexes were negative. In other words, for nearly half of the New York state banks in 1938, the cost of handling a larger loan account increased less than proportionately to the loan account; for about a third it increased more than proportionately; and for one-fifth cost and amount of loan account moved in opposite directions, the former declining and the

TABLE 54

Two Distributions of Reporting New York State Banks, 1938, by Index of Cost Elasticity for Increases in Loan Account^a

INDEX OF COST ELASTICITY FOR INCREASES IN LOAN ACCOUNT ^b	AVERAGE LOAN ACCOUNT			YEAR OF ORGANIZATION OF PERSONAL LOAN DEPARTMENT		
	\$75,000 or Under	Over \$75,000	Total	1936	1937	Total
Under 0	10	1	11	10	1	11
0- .25	3	4	7	5	2	7
.25- .50	6	1	7	4	3	7
.50- .75	6	3	9	7	2	9
.75-1.00	1	2	3	2	1	3
1.00-1.25	5	3	8	4	4	8
1.25-1.50	1	..	1	1	..	1
1.50-1.75	2	1	3	2	1	3
1.75-2.00	1	..	1	1	..	1
2.00-3.00	1	..	1	1	..	1
3.00 and over	2	2	4	3	1	4
TOTAL	38	17	55	40	15	55

^a Based on data furnished by the New York state department of banking covering personal loan departments organized before 1938.

^b Ratio of per dollar marginal cost to average cost for 1938. Each level includes the lower figure and excludes the upper.

latter rising. Variations in the size of loan departments had little effect upon this distribution except that among the larger loan departments only 1 showed decreasing cost with increasing loan account. Of the 15 departments organized in 1937 a slightly greater proportion—two-fifths, as compared with the average one-third—showed disproportionately large costs for the handling of larger loan accounts. On the whole it seems reasonable to conclude that additional business entailed a less than proportionate addition to expenses, for regardless of department size and degree of development, well over half of the reporting banks showed either decreasing

costs with additional employment of funds, or costs that increased less markedly than the loan business itself.¹³

RELATION OF UNIT LOAN COST TO LOAN CHARACTERISTICS

If costs are analyzed according to the size of the loans which make up the volume, the costs per dollar of loans made, or per dollar of average loan account, will obviously be lower on loans of larger size. The costs per unit loan are quite another matter, however; while they cannot be estimated with any exactitude according to loan size, they are if anything slightly higher on larger loans. A brief consideration of the principal components of loan cost will indicate how differences in loan size tend to affect unit loan costs.¹⁴

Costs of credit investigation are likely to be no greater for larger loans; although it is true that applicants for such loans are generally investigated exhaustively, they are more likely to have well-established connections, and to provide references which simplify the credit investigation. The per-payment cost of collection, or loan service per payment, is necessarily the same for larger as for smaller loans. Special delinquency expense and bad debt loss may be distributed

¹³ The additional expense involved in an expansion of the average loan account will depend to a considerable degree on the type of loan from which the volume is derived.

¹⁴ For purposes of cost analysis, the expenses of bank personal loan departments may be broken down according to two equally logical systems of classification: one arranged according to the *source* of expense, such as personal service, rent, outlays for supplies, legal fees, payment for use of capital or credit; the other according to the *function* for which expense is incurred, such as credit investigation cost, handling or service cost, collection cost arising from delinquency and loss, credit and life insurance cost, administrative cost, advertising and other costs of obtaining business, and money cost, including actual cost of borrowed funds plus a "normal" return on other funds, as reckoned by returns that would be obtainable from alternative uses (opportunity cost). Either classification may have much in its favor for an estimate of per dollar or per unit loan cost, but convenience ultimately requires that costs be combined into as few categories as possible. In the following discussion a functional cost classification is employed.

unequally by size of loan, although data previously presented suggest that such variation is not marked.¹⁵ On the other hand, the cost to the personal loan department of money used is greater for larger loans¹⁶ and fixed expenses or overhead (administrative supervision and rent) may be distributed in such a way as to place an additional burden upon these loans. Higher money costs and possibly a greater proportion of overhead may therefore counterbalance the other items and result in slightly greater costs for larger than for smaller loans, but the difference can scarcely be substantial.

Costs per unit loan appear to vary also with length of note. For present purposes such components of cost as credit investigation expense, delinquency or bad debt loss¹⁷ and money costs may be regarded as constant, irrespective of note duration. But cost of collection, which is probably constant per payment, is proportionate to number of payments; and it is possible that a relatively larger portion of the fixed or overhead costs might appropriately be charged against longer loans.

LOAN PROFITABILITY BY SIZE AND LENGTH OF NOTE

From the point of view of profitability, any personal loan application is worthy of acceptance if the additional cost of acquiring and handling it is less than the additional revenue it will yield. The additional cost will vary, of course, with

¹⁵ See Chapter 5, Table 37.

¹⁶ From very limited data there appears to be wide variation in the cost of money charged to personal loan departments by banks making such a charge. Of 18 banks reporting cost of money charged to personal loan departments, 3 charged 2 percent or less, 6 from 2 to 3 percent, 6 from 3 to 4 percent, and 3 banks 5 percent or over.

¹⁷ It is possible that loans of longer duration may have a higher rate of loss, but such an assumption is not borne out by the sample data discussed in Chapter 5. See also A. L. Kilgus, "Spreading Loans over 18 Months," *American Industrial Banker* (December 1937).

the extent to which personal loan department facilities are utilized. The more closely utilization of facilities approaches the point of lowest direct cost per unit loan,¹⁸ the more nearly is the additional (i.e., marginal) cost per unit loan equal to average direct cost. The following discussion of loan profitability is based on the assumption that this equality is in fact approximated.

Because of the lack of appropriate cost data it is not possible to illustrate the relations between loan profitability and sizes and lengths of notes except by the use of hypothetical cost schedules. Accordingly, Tables 55 and 56 have been constructed to show net prime earnings on loans of various sizes and durations. The net prime earnings on each amount and length of note are calculated by subtraction of the estimated direct cost of making a loan, that is, all costs exclusive of overhead charges, from the income anticipated from the loan. Table 55 presents such figures, computed in such a way as to conform to average cost data reported by 65 state banks to the New York state department of banking for 1938.¹⁹ This table shows the profitability of different sizes and lengths of note according to two cost schedules—one (Schedule A) a medium cost level and the other (Schedule B) a relatively low cost level. In each schedule the direct costs taken into account are: (a) the per-loan cost of investigation and acquisition, (b) the per-payment service cost, (c) a special delinquency collection cost expressed on a per-loan, per-year basis and

¹⁸ This is the point of full utilization of existing operating personnel and equipment, not the point of full utilization of complete personal loan department facilities, including housing space, administrative supervision and other general overhead items. The latter is measured by the lowest *total* cost per unit loan, that is, direct costs plus overhead costs.

¹⁹ Although Table 55 has been constructed to accord with reported figures, this conformity might have been achieved with many other sets of hypothetical figures. The reporting departments were relatively small; three-quarters of them had outstandings of \$75,000 or less. They had been operating, in 1938, for varying lengths of time; 40 were organized in 1936, 15 in 1937 and 10 in 1938.

TABLE 55

Hypothetical Net Prime Earnings on Personal Loans of Different Sizes and Durations under Direct Cost Schedules Consistent with Expenses Reported by 65 New York State Banks for 1938^a

AMOUNT OF NOTE	6-MONTH NOTE			12-MONTH NOTE			18-MONTH NOTE ^b		
	Schedule A		Schedule B	Schedule A		Schedule B	Schedule A		Schedule B
	6 Percent Charge	Combi- nation Charge	6 Percent Charge	6 Percent Charge	Combi- nation Charge	6 Percent Charge	6 Percent Charge	Combi- nation Charge	6 Percent Charge
\$ 25	\$-3.38	°	\$-2.98	\$-4.83	°	\$-4.03	\$-6.28	°	\$-5.08
50	-2.75	°	-2.35	-3.45	°	-2.65	-4.15	°	-2.95
75	-2.13	°	-1.73	-2.08	°	-1.28	-2.03	°	-.83
100	-1.50	°	-1.10	-.70	°	.10	.10	°	1.30
125	-.88	°	-.48	.68	°	1.48	2.23	°	3.43
150	-.25	°	.15	2.05	°	2.85	4.35	°	5.55
175	.38	°	.78	3.43	°	4.23	6.48	°	7.68
200	1.00	°	1.40	4.80	\$5.00	5.60	8.60	\$8.00	9.80
225	1.63	\$2.25	2.03	6.18	5.63	6.98	10.73	9.00	11.93
250	2.25	2.50	2.65	7.55	6.25	8.35	12.85	10.00	14.05
275	2.88	2.75	3.28	8.93	6.88	9.73	14.98	11.00	16.18
300	3.50	3.00	3.90	10.30	7.50	11.10	17.10	12.00	18.30
350	4.75	3.50	5.15	13.05	8.75	13.85	21.35	14.00	22.55
400	6.00	4.00	6.40	15.80	10.00	16.60	25.60	16.00	26.80
450	7.25	4.50	7.65	18.55	11.25	19.35	29.85	18.00	31.05
500	8.50	5.00	8.90	21.30	12.50	22.10	34.10	20.00	35.30

Footnotes for Table 55 are to be found on opposite page.

(d) the cost of establishing a bad-loan reserve. Table 55 treats also two types of charges—a straight charge of 6 percent per annum on the amount of the note and a combination charge made up of a 3 percent per annum discount, a \$1.80 credit investigation fee and a service charge of \$2.40 per annum.

Table 56, constructed from more fragmentary cost information furnished to us by individual banks, presents similar figures; these are appropriate to a medium-sized city bank whose personal loan department has an average account of \$150,000 to \$200,000 and operates close to the point of lowest direct cost per unit loan. The tabulation is based on one cost schedule and on three types of customer charges.

It should be emphasized that in both tables fixed or overhead costs are excluded from the cost schedules and that the classifications given are functional and somewhat crude. They are based, furthermore, on certain assumptions concerning the relations between the direct per-loan cost and the size and length of notes. For example, the cost calculations proceed from the assumption that the credit investigation expense and other costs of acquiring a loan are the same for all

Footnotes for Table 55.

* Net prime earnings equal loan income minus average direct costs. The cost schedules underlying these figures are purely hypothetical, but they have been constructed to conform to expense data reported to the New York state department of banking by 65 New York state banks whose personal loan departments operate at various levels of direct cost. Schedule A represents a medium level of direct cost, Schedule B a low level, as follows:

<i>Direct Costs</i>	<i>Schedule A</i>	<i>Schedule B</i>
Cost of investigation and acquisition, per loan...	\$1.80	\$1.80
Service cost (collection), per payment.....	.20	.15
Special delinquency collection, per loan per year	2.00	1.80
Bad-loan reserve, per \$100 of loans made.....	.50	.50

The combination charge includes \$1.80 credit investigation fee, \$2.40 per annum service charge, 3 percent per annum discount charge. The maximum per annum personal loan charge permitted by the New York banking law is equivalent to 12 percent simple interest on the average unpaid balance.

^b Personal loans made by New York state banks may not run for more than 15 months; moreover, a 6 percent per annum charge on an 18-month note exceeds the legal limit of 12 percent simple interest on average unpaid balance.

^c On notes of this amount and length the combination charge would exceed the legal limit of 12 percent simple interest on the average unpaid balance.

TABLE 56

Hypothetical Net Prime Earnings on Personal Loans of Different Sizes and Durations When Personal Loan Department Facilities Are Utilized to Point of Lowest Average Direct Cost^a

AMOUNT OF NOTE	6-MONTH NOTE			12-MONTH NOTE			18-MONTH NOTE		
	6 Per-cent Charge	8 Per-cent Charge	Combi-nation Charge ^b	6 Per-cent Charge	8 Per-cent Charge	Combi-nation Charge ^b	6 Per-cent Charge	8 Per-cent Charge	Combi-nation Charge ^b
\$ 25	\$-1.81	\$-1.56	\$.32	\$-2.32	\$-1.82	\$.93	\$-2.84	\$-2.09	\$ 1.54
50	-1.27	-.77	.73	-1.03	-.03	1.97	-.80	.70	3.20
75	-.73	.02	1.15	.26	1.76	3.01	1.24	3.49	4.87
100	-.19	.81	1.56	1.55	3.55	4.05	3.28	6.28	6.53
125	.35	1.60	1.98	2.84	5.34	5.09	5.32	9.07	8.20
150	.89	2.39	2.39	4.13	7.13	6.13	7.36	11.86	9.86
200	1.97	3.97	3.22	6.71	10.71	8.21	11.44	17.44	13.19
250	3.05	5.55	4.05	9.29	14.29	10.29	15.52	23.02	16.52
300	4.13	7.13	4.88	11.87	17.87	12.37	19.60	28.60	19.85
350	5.21	8.71	5.71	14.45	21.45	14.45	23.68	34.18	23.18
400	6.29	10.29	6.54	17.03	25.03	16.53	27.76	39.76	26.51
450	7.37	11.87	7.37	19.61	28.61	18.61	31.84	45.34	29.84
500	8.45	13.45	8.20	22.19	32.19	20.69	35.92	50.92	33.17

^a Net prime earnings equal loan income minus average direct costs. The cost schedule underlying these figures is purely hypothetical, but it has been constructed to conform to direct cost data applicable to a loan department which has an average account of \$150,000-200,000, and which operates at approximately its highest efficiency level in terms of direct cost (personnel and equipment, not including overhead). The direct cost schedule is based on the following items:

Cost of investigation and acquisition, per loan	\$1.08
Service cost (collection) per payment	.103
Special delinquency collection, per loan per year	1.30
Bad-loan reserve, per \$100 loaned	.84

^b The combination charge includes \$2 credit investigation fee, \$1.50 per annum service charge and 5 percent per annum discount charge.

sizes of notes²⁰ and that the routine collection costs are constant per payment. Again, the special costs incurred in collecting delinquent accounts are spread uniformly over all loans and treated as a flat amount per year regardless of size and maturity; and the reserve for bad-loan charge-offs is charged on a percentage basis, so that it varies with the amount but not with the length of the notes. Finally, the cost schedules do not take account of the cost of money.²¹

Despite these qualifications some broad generalizations can nevertheless be drawn with reference to the profitability (net prime earnings) of personal loans of various sizes and lengths. Tables 55 and 56 show that larger loans are more profitable (or less unprofitable) than smaller loans, and that, with the exception of the very small loans, profitability is greater on the longer than on the shorter maturities. Table 55 indicates that on loans made at a 6 percent charge and according to Schedule A costs, the break-even point for a 6-month loan falls between the \$150 and \$175 sizes, for a 12-month loan between \$100 and \$125, and for an 18-month loan between \$75 and \$100. Break-even points for loans made according to the lower-cost Schedule B occur, of course, at lower amounts. On the basis of the 8 percent charge shown in Table 56, and of the cost schedule assumed in that table, the break-even point is reached between \$50 and \$75 for 6- and 12-month loans and between \$25 and \$50 for 18-month notes. Under the higher combination charge profitability increases also with both size

²⁰ It is assumed also that the cost is the same for all borrowers, although costs of investigation and acquisition are probably lower on loans made to former and repeat borrowers than on loans to new borrowers.

²¹ Cost of money can be allowed for on any acceptable percentage basis since it will vary with both the amount and the length of the note. It is possible to obtain net prime earnings, inclusive of money cost, by deducting the cost of money on the average amount outstanding for any size of loan. The latter may be derived for a loan repayable in equal instalments by multiplication of the amount of note by $\frac{n+1}{2n}$, where n is the number of equal payments.

and length of note: this rate is found to yield a profit for all sizes and maturities of loans for which it has been computed.

In a state where a maximum inclusive personal loan charge is set by statute, say at 12 percent simple interest per annum on the average unpaid balance, the combination charge cited would result in an illegal rate for the smaller-sized loans. A combination charge set to conform to the legal maximum may be consistent with the latter only for loans of certain sizes and lengths. In Table 55, for example, the combination rate is consistent with the New York state maximum at \$225 for 6-month loans and at \$200 for 12-month and 18-month loans,²² but it is not consistent with that maximum for loans of smaller size.

The foregoing discussion of the combination charge takes account only of loan profitability. It disregards the fact that a charge of this sort bears most heavily upon borrowers of small loans, who as a rule are least able to support the cost. Such a rate, furthermore, is not easily understood by the borrower, who for this reason cannot readily compare it with loan rates charged by other credit agencies.²³

PERSONAL LOAN DEPARTMENT NET PROFITS

The personal loan departments of New York state banks reporting for 1938 showed a net profit of 5.7 percent on the average loan account before setting up reserves for losses and allowance for charge-offs, and a profit of 4.5 percent after provision for such reserves and charge-offs. If accounting accuracy is assumed, both profit rates appear to have been substantially in excess of rates earned by most banks on total

²² Personal instalment loans running 18 months are not legal in New York state.

²³ See T. O. Yntema, "The Market for Consumer Credit: A Case of 'Imperfect Competition,'" *Annals of American Academy of Political and Social Science* (March 1938). See also R. A. Young and Associates, *op. cit.*, Chapter 7.

earning assets. Data covering profits on the entire banking activities of these banks are not available for comparison, but it is known that for 7,231 non-member insured commercial banks in the United States the profit rates on average earning assets were 2.6 and 0.7 percent, before and after charge-offs.²⁴

Table 57 shows that of 55 New York state banks, 2 reported net profits amounting to 8 percent or over on average personal loan account, 30 between 4 and 8 percent, and 18 under 4 percent; 5 had net losses ranging up to 6 percent.

TABLE 57

Distribution of Two Classifications of Reporting New York State Banks, by Net Profits in 1938 per \$100 of Average Loan Account^a

NET PROFITS PER \$100 OF AVERAGE LOAN ACCOUNT ^b	AVERAGE LOAN ACCOUNT			YEAR OF ORGANIZA- TION OF PERSONAL LOAN DEPARTMENT		
	\$75,000 or Under	Over \$75,000	Total	1936	1937	Total
Under 0 (net loss 0-\$6)	4	1	5	4	1	5
\$0-2	4	2	6	4	2	6
2-4	5	7	12	8	4	12
4-6	14	5	19	15	4	19
6-8	10	1	11	7	4	11
8 and over	1	1	2	2	..	2
TOTAL	38	17	55	40	15	55

^a Based on data furnished by the New York state department of banking.

^b Each level includes the lower figure and excludes the upper.

Banks with loan accounts of \$75,000 or under had, in general, higher profit rates than banks with loan accounts in excess of this figure, a fact which may indicate that banks with smaller personal loan departments do not allocate overhead to these divisions as precisely as do those with larger volume.

²⁴ Computed from data on non-member insured bank earnings and expenses in Federal Deposit Insurance Corporation, *Annual Report, 1938*, pp. 216-17.

Only 1 bank with a loan account over \$75,000 reported a net loss, and this loss was less than 1 percent.

Of the banks whose departments were organized in 1937, none had profit rates of 8 percent or more, and only 1 reported a loss (less than 1 percent). Four-fifths of these banks were distributed evenly in the three profit levels between 2 and 8 percent. On the basis of personal loan department net profits, the banks whose departments were organized in 1936 were more widely distributed, but in this group too the majority showed profit rates between 2 and 8 percent on average loan account and there was a marked concentration at 4-6 percent.

There is considerable interest in determining how large a loan account a personal loan department should have if it is to yield a profit. Available data do not serve to answer this question satisfactorily although some useful indications are to be found among questionnaire responses. A number of banks operating personal loan departments made estimates of the minimum annual volume of business necessary to render their departments profitable, taking into account existing personnel, prevailing charges and other relevant considerations. A wide variety of opinion was expressed in these replies, but they may be summarized within the following ranges based on number of employees: one full-time employee, \$75,000-100,000; 2 to 4 full-time employees, \$100,000-200,000; 5 to 10 full-time employees, \$400,000-500,000; 11 to 25 full-time employees, \$500,000-2,000,000. Such estimates, of course, are highly impressionistic; a closer inspection of costs by reporting banks might have produced different responses. As we have stated frequently, there is no agreement among banks as to accounting standards for allocating bank overhead to personal loan departments; nor is there any accord on the equally important question of whether the personal loan department should be charged with interest on the funds it employs.

COST OF SALES FINANCE PAPER

The cost characteristics of sales finance paper acquired by banks from dealers or from individual customers may be described broadly in terms similar to those applied in the preceding discussion to cash instalment loans. Costs per dollar of average sales finance outstandings, or costs per unit of paper handled, are likely, however, to differ in magnitude from similar costs for personal loans. If paper is acquired mainly from dealers or manufacturers, the cost of obtaining and maintaining dealer contacts must be considered. On the other hand, since it is the dealer who originally grants the credit, and since the customer establishes an equity in the article financed by his down payment, the credit investigation is usually less costly than that required for personal loans. The dealer's endorsement under a full recourse or repurchase agreement in effect shifts bad-debt loss to him, although it also necessitates special costs for credit investigation of the dealer by the bank.

Automobile paper probably carries lower per-dollar and per-unit costs than the typical personal loan contract. Frequently it is acquired through dealers or with their collaboration; for the most part the dealer assumes liability in the event of default by the purchaser, and he is therefore responsible for a prior credit investigation. Even when the bank assumes full risk of repayment the cost per dollar and per unit of paper acquired is probably lower than on personal loan paper, for the average size of automobile sales finance contracts runs higher than the average size of notes handled by personal loan departments. Then, too, the purchaser's equity, which is a strong deterrent to delinquency or permanent default, is relatively large in automobile contracts.

Routine collection or service costs probably do not differ appreciably as between personal loans and sales finance paper, but special delinquency costs may be much greater in sales

financing. In addition failure or dishonesty on the part of the dealer may create special costs not encountered in the personal loan business; such costs may arise in connection with both retail and wholesale paper. Again, the low interest rates which banks charge dealers for wholesale paper in order to obtain a share of the retail paper may result in wholesale loans that prove unprofitable. Dealer reserves in sales financing, set up to provide the dealer with a cushion against prospective losses, create an additional cost element; indeed competition with other sales finance agencies may cause banks to establish reserves above anticipated loss levels and thus to decrease their participation in the charge to the customer. Insurance is another special cost in retail sales financing, particularly of automobiles, although it may in practice yield a small income in excess of the expense.

Commercial Bank Financing of Consumer Instalment Credit Agencies

BANKS have long supplied other consumer credit agencies with operating funds, although it is only recently that they have begun to extend instalment credit directly to consumers. Sales finance companies from their inception have relied heavily on bank loans, and personal finance companies, within the last decade, have come to draw nearly one-third of their funds from this source. Industrial banking companies and credit unions, on the other hand, do not as a rule procure funds from banks. The former obtain their working capital largely from deposits and from sales of investment certificates, and the latter are financed through the sale of shares to members; occasionally, however, both these agencies make use of commercial bank facilities.

COMMERCIAL BANKS AS A SOURCE OF FUNDS

The extent to which commercial banks finance consumer credit agencies is indicated in Table 58, which shows the major sources of funds (in percent of total assets) of sales finance companies, personal finance companies, industrial banking companies and credit unions for the year 1937. From these data it is obvious that bank financing was much more important to sales finance companies than to the other three agencies; more than half the combined funds of 48 sales finance companies came in that year from short-term credit

TABLE 58

Sources of Funds of Four Types of Consumer Credit Agencies, 1937, in Percent of Total Assets

SOURCES OF FUNDS	48 SALES FINANCE COMPANIES ^a	20 PERSONAL FINANCE COMPANIES ^b	69 INDUSTRIAL BANKING COMPANIES ^c	2,248 CREDIT UNIONS ^d
Borrowings	69.0	35.3	83.4	2.3
Short-term debt ^e	53.8	29.3	.9	2.3
Deposits	..	..	82.5 ^f	..
Funded debt	15.2	6.0	..	..
Equity account	20.1	48.5	10.1	95.4 ^g
Preferred stock	3.3	15.5	10.1	..
Common stock and surplus	16.8	33.0		95.4 ^g
Total assets ^h	\$1,811	\$226	\$175	\$19

^a Based on year-end (calendar or fiscal) data from 48 sales finance companies and from the National Credit Office, Inc.

^b Based on year-end (calendar or fiscal) data from the National Credit Office, Inc., covering 20 personal finance company chains.

^c Based on year-end data from the Federal Deposit Insurance Corporation for 69 industrial banking companies. Since all states do not grant such companies a deposit-taking privilege similar to that exercised by banks insured by the FDIC, the institutions covered in this table are not representative of the whole body of industrial banking companies. They do, however, represent such a large proportion of the industrial banking volume of the country that the inclusion of companies which are not permitted to take deposits would not be likely to alter these percentages substantially.

^d Year-end data derived from the combined balance sheets of 2,248 federal credit unions reporting to the Farm Credit Administration.

^e Mainly bank debt.

^f Includes \$32,274,000 of hypothecated deposits.

^g Includes shares, undivided profits and profit and loss.

^h In millions.

derived largely from banks. The 20 personal finance companies represented in the table obtained nearly 30 percent of their funds by means of short-term borrowing, while the industrial banking companies and credit unions covered in the tabulation acquired only 0.9 and 2.3 percent respectively in this way. Supplementary data, not included in the table,

show that the proportion of personal finance companies' funds supplied by banks has increased markedly since 1929.¹

Table 59 presents data obtained from 181 large banks whose total outstanding loans amounted to almost \$7,000,000,000 at the end of 1937 and to more than \$6,000,000,000 at the end of 1938. Loans made by these reporting banks to all consumer credit agencies combined came, at the end of 1937, to \$505,000,000 or 7.4 percent of these banks' total outstanding loans, and at the end of 1938, to \$254,000,000 or 4.2 percent.

Loans to sales finance companies were extended by all except 9 of the reporting banks, and constituted in both years by far the largest part of the volume of loans to consumer credit agencies; \$410,000,000 of such loans were outstanding December 31, 1937, and \$201,000,000 a year later. The importance to banks of sales finance company borrowing is illustrated further by the fact that 36 out of the 181 reporting banks also held sales finance company debentures to the amount of \$9,000,000 and \$8,000,000 at the close of 1937 and 1938 respectively.

Of the 181 reporting banks, 109 made loans to personal finance companies, aggregating \$55,000,000 and \$46,000,000 in year-end outstandings for 1937 and 1938 respectively. Loans to industrial banking companies were granted by only 16 of the reporting banks, and were relatively insignificant in volume.

The relationship between commercial banks and other consumer credit agencies is of particular interest because banks not only furnish part of the funds of these agencies but compete directly with them in the consumer instalment credit market. It is noteworthy, therefore, that while the total loans of the 181 reporting banks dropped 11 percent

¹ See National Bureau of Economic Research (Financial Research Program), *Personal Finance Companies and Their Credit Practices*, by R. A. Young and Associates (1940) Table 3, p. 40.

TABLE 59

Total Year-End Outstanding Loans, Year-End Outstanding Loans to Various Consumer Credit Agencies, and Consumer Credit Agency Loans in Percent of Total Loans of Reporting Banks for 1937 and 1938, by Type of Borrowing Agency^a

TYPE OF AGENCY	LOANS OUTSTANDING DECEMBER 31, 1937				LOANS OUTSTANDING DECEMBER 31, 1938				NUMBER OF BANKS REPORTING
	<i>Total Loans</i> ^b	<i>Loans to Consumer Credit Agencies</i>			<i>Total Loans</i> ^b	<i>Loans to Consumer Credit Agencies</i>			
		Amount ^b	Percent of Total Loans	Percentage Distribution		Amount ^b	Percent of Total Loans	Percentage Distribution	
Sales finance companies	\$6,830	\$440	6.4	87.3	\$6,101	\$201	3.3	79.1	172
Personal finance companies	6,047	55	.9	10.9	5,591	46	.8	18.1	109
Industrial banking companies	1,309	2	.2	.3	1,226	1	.1	.4	16
Others	1,729	8	.5	1.5	1,505	6	.4	2.4	30
TOTAL	\$6,862 ^c	\$505	7.4	100.0	\$6,136 ^c	\$254	4.2	100.0	181 ^c

^a Based on questionnaire returns from 181 banks.

^b In millions.

^c If a bank reported that it made loans to more than one type of agency, figures for that bank were included more than once under "Total Loans" and "Number of Banks Reporting." For this reason the totals for these columns do not represent the sum of the individual figures.

In addition to the loans included in this tabulation, 36 of these banks, with total year-end outstanding loans of \$2,314,000,000 and \$2,056,000,000 for 1937 and 1938 respectively, reported \$9,000,000 and \$8,000,000 of sales finance company debentures held at the end of these two years.

from 1937 to 1938, their loans to consumer credit agencies declined by almost 50 percent. The decline was not uniform with respect to all types of agencies, however. Outstanding loans to personal finance companies dropped from \$55,000,000 to \$46,000,000, or about 16 percent, but increased in relative importance, from 11 percent of all loans to consumer credit agencies outstanding at the end of 1937 to 18 percent a year later. Loans to sales finance companies were much more sharply reduced, falling from \$440,000,000 to \$201,000,000, a decline of 54 percent; at the end of 1937 they represented 87 percent of all loans to consumer credit agencies outstanding, but at the end of 1938 only 79 percent.

BANK LOANS TO SALES FINANCE COMPANIES

It is the principal business of sales finance companies to purchase or discount dealers' retail instalment sales paper, but such retail financing is usually closely associated with wholesale financing, that is, the financing of dealers' stocks and inventories. In addition, sales finance companies may make personal cash loans, directly or through a subsidiary, discount accounts receivable, or discount instalment paper to finance the purchase by business firms of commercial and industrial equipment. Their demand for banking accommodation necessarily reflects all of these credit activities. Since the retail dealer's business depends on the flow of consumer incomes, the volume of sales finance company transactions moves in direct correspondence with fluctuations in industrial employment and payrolls. Bank credit therefore serves as a buffer source of funds, expanding as the volume of retail instalment buying grows, contracting as it diminishes. Even in times of severe business depression, however, sales finance companies are seldom free of bank debt, for banks do more than finance a variable margin of working capital according to business fluctuations. They supply regularly some part of the em-

ployed working capital of these companies, not only by making direct loans to them but also by purchasing their notes in the open market and, to some extent, by taking over their debentures.

Table 60 shows the various sources of funds used by 72 large sales finance companies in 1925 and by 48 large companies from 1934 through 1938. The 72 companies in the

TABLE 60

Sources of Funds and Receivables of 72 Sales Finance Companies, 1925, and of 48 Sales Finance Companies, 1934-38, in Percent of Total Assets^a

SOURCES OF FUNDS	1925	1934	1935	1936	1937	1938
Borrowings	69.8	51.3	57.7	64.1	69.0	56.3
Short-term debt	64.9	47.3	53.4	48.4	53.8	36.2
Bank debt	61.6	24.0	32.7	28.9	34.4	20.0
Open market		19.5	18.0	17.1	17.0	12.4
Other	3.3	3.8	2.7	2.4	2.4	3.8
Funded debt	4.9	4.0	4.3	15.7	15.2	20.1
Equity account	23.3	35.3	28.7	22.5	20.1	30.2
Preferred stock	77.9	6.7	6.6	3.6	3.3	4.8
Common stock		28.6	22.1	18.9	16.8	25.4
Surplus	5.4					
Total borrowed and equity funds	93.1	86.6	86.4	86.6	89.1	86.5
Receivables	80.3	82.3	87.1	87.7	88.1	85.1
Total assets ^b	\$687	\$769	\$1,068	\$1,535	\$1,811	\$1,236
Bank lines (in percent of bank debt)	..	259.5	158.5	152.3	138.7	337.2

^a Year-end figures for 1925 adapted from Bank Service Department of the National Credit Office, Inc., *A Study of Specialized Finance Companies* (1927); figures for 1934-38 based on year-end (calendar or fiscal) data from 48 sales finance companies and the National Credit Office, Inc. The 48 sales finance companies are identical for each of the five years.

^b In millions.

first group obtained almost 65 percent of their funds through short-term borrowing, of which approximately 62 percent was represented by bank loans and open market sales of paper; their funded debt constituted about 5 percent of their total assets. For the second group of 48 companies, short-term debt amounted in 1934 to only 47 percent of their funds, of which bank debt accounted for 24 percent and open market sales for almost 20 percent. The relative importance of short-term debt in general and of short-term bank debt in particular fluctuated considerably over the five-year period. For both types of debt the peak was reached in 1937, a year of relatively high sales finance volume, when direct bank loans furnished 34 percent of the total funds of the group of 48 companies; the lowest point came in 1938, a year of relatively small volume, when such bank loans constituted only 20 percent of their funds. Between the end of 1937 and the end of 1938 their total short-term debt decreased by one-third and short-term bank debt by more than 40 percent.

The relative importance of open market sales of paper declined in each year during this period, falling from almost 20 percent of the total assets of the 48 companies in 1934 to about 12 percent in 1938. The sale of debentures increased: in 1934-35 funded debt constituted only about 4 percent of the assets of this group, whereas in 1936-37 it amounted to over 15 percent, and in 1938 to 20 percent.

Table 61 gives sources of funds in 1937 and 1938 for the same group of 48 companies, broken down into national, regional and local firms. In both years direct bank loans were relatively less important to national companies than to regional and local firms. They supplied about 44 percent of the funds of regional and local companies in 1937, and about 32 percent of the funds of the national companies. A similar relationship prevailed in 1938, but there was a general decline in bank loans in that year: regional firms obtained only about 28 percent of their financing from banks, local firms 34 per-

TABLE 61

Sources of Funds of 3 National, 5 Regional and 40 Local Sales Finance Companies, 1937-38, in Percent of Total Assets^a

SOURCES OF FUNDS	3 NATIONAL COMPANIES		5 REGIONAL COMPANIES		40 LOCAL COMPANIES	
	1937	1938	1937	1938	1937	1938
Borrowings	70.4	57.7	62.9	48.9	64.1	54.1
Short-term debt	52.6	33.8	56.1	39.7	62.6	52.4
Bank debt	31.8	17.1	44.7	28.5	43.7	33.7
Open market	18.2	12.6	10.1	8.9	14.9	14.8
Other	2.5	4.1	1.3	1.7	4.0	3.9
Funded debt	17.8	23.9	6.8	9.8	1.5	1.7
Equity account	17.9	29.7	26.5	40.3	27.7	38.7
Preferred stock	2.8	2.2	9.4	13.7	10.8	15.4
Common stock and surplus	15.1	25.5	17.1	26.6	16.9	23.3
Total assets ^b	\$1,440	\$975	\$204	\$137	\$168	\$124

^a Based on year-end (calendar or fiscal) data obtained from 48 sales finance companies. National companies operate in all states, regional companies in 8 or more states, and local companies in less than 8 states.

^b In millions.

cent and nationals 17 percent. According to this table, the sale of open market paper was less important to regional sales finance companies than to the other two groups: the national companies acquired 18 percent and 13 percent of their funds from this source in 1937 and 1938 respectively, local companies about 15 percent in both years, and regional companies only 10 percent in 1937 and 9 percent in 1938.

Table 61 shows also that the significance of debentures as a source of funds varies directly with the size of the company; in both years this source was used most extensively by national companies, to a lesser degree by regional companies, and to a very limited extent by local companies. For each group of

companies its relative importance was greater in 1938 than in 1937.

Cyclical fluctuations in the borrowings of sales finance companies exert a powerful influence on the total loan volume of the commercial banks which accommodate them. As can be computed from Table 60, the total borrowed funds, short- and long-term, of the 48 large sales finance companies, more than tripled between 1934 and 1937 (rising from \$395,000,000 at the end of 1934 to \$1,249,000,000 at the end of 1937); over the same period their direct bank borrowing increased by 238 percent (from \$185,000,000 to \$623,000,000) and their open market borrowing (\$150,000,000 in 1934) doubled. In 1938 their total borrowed funds declined to \$696,000,000, a drop of 44 percent from the 1937 level, while direct bank borrowing fell 60 percent and open market borrowing 50 percent. The 172 large banks (covered in Table 59) which reported loans of \$440,000,000 to sales finance companies at the end of 1937 had a decline in total loans during the following twelve months of \$729,000,000, or 10.7 percent. In this period their loans to sales finance companies dropped \$239,000,000, or 54.3 percent; the reduction in their loans to sales finance companies therefore accounted, in this year of sharp credit contraction, for one-third of the decline in their total loans.

Terms of Bank Loans to Sales Finance Companies

Bank credit lines are usually arranged by sales finance companies according to maximum expected needs, so that they exceed actual borrowings. The 48 companies covered in Table 60, for example, had credit lines over two and a half times as great as their actual bank borrowings at the end of 1934, a year of low sales finance volume, and at the end of 1937, a year of peak volume, their credit lines nevertheless exceeded borrowings by more than a third. Credit lines are subject to revision as business prospects change; thus con-

siderable variation may occur, both from year to year and seasonally within the year, in the actual amount of credit arranged and in the relationship of borrowings to total credit lines.

For more than a decade bank loans to sales finance companies have shown a definite trend from secured to unsecured loans. In 1925 collateral trust notes comprised 65 percent of the total notes payable of 72 larger sales finance companies,² but today most such notes are unsecured. According to Table 62, which shows, by type of loan, the percentage distribution of the short-term borrowings of 48 large sales

TABLE 62

Percentage Distribution of Short-Term Borrowings of 48 Sales Finance Companies, 1934-38, by Type of Borrowing^a

TYPE OF SHORT-TERM BORROWING	1934	1935	1936	1937	1938
Bank loans	50.7	61.3	59.7	63.9	55.4
Unsecured	47.3	57.3	53.8	57.6	48.0
Secured ^b	9.4	9.8	5.6	5.9	7.4
Other	..	.2	.3	.4	..
Open market paper	41.3	33.6	35.2	31.5	34.1
Other	8.0	5.1	5.1	4.6	10.5
TOTAL	100.0	100.0	100.0	100.0	100.0
Total short-term borrowings ^c	\$363	\$571	\$744	\$975	\$448

^a Based on year-end (calendar or fiscal) data obtained from 48 large sales finance companies.

^b Secured by collateral trust notes.

^c In millions.

finance companies, collateral trust loans constituted only 7 percent of all notes payable in 1938, and in each year of the period 1934-37 accounted for less than 10 percent of the

² Based on Bank Service Department of the National Credit Office, Inc., *A Study of Specialized Finance Companies* (1927).

total.³ The trend toward unsecured borrowing has been deplored by some bankers.⁴ Although the fact is not revealed by Table 62, most of the bank borrowing of national companies and of the larger regional firms has been unsecured in recent years; the secured loans have gone chiefly to the smaller sales finance companies.

With respect to maturity, bank loans to sales finance companies range from those made on a demand basis to notes which run for 24 months or, in very rare cases, for an even longer period. Table 63 shows the minimum and maximum maturities on loans to sales finance companies at the end of 1938, as reported by 156 large banks located in various parts of the country. The most frequently mentioned minimum was 3 months, reported by 45 percent of these banks, and the most common maximum was 6 months, reported by 47 percent. A total of 67 banks stated that the bulk of their loans to sales finance companies extended over 6-month periods, 43 reported a preponderance of 3-month loans, and 22 that most of these notes ran 4 to 5 months. For 15 banks the majority of loans to sales finance companies extended longer than 6 months (11 of these banks reporting a period in excess of 9 months) and for 9 banks most of the loans matured in less than 3 months.

The interest rates charged by banks for direct loans to sales finance companies ranged at the end of 1938 from 1 to 12 percent,⁵ according to reports from 142 banks with a large volume of such loans. As Table 64 indicates, for 81 banks, or almost

³ Supplementary data, not tabulated here, show that of the total loans to sales finance companies held by a group of 166 banks at the end of 1937, 82 percent were unsecured, 15 percent were secured and 3 percent were open market; and of all such loans held by a similar group of 177 banks at the end of 1938, 73 percent were unsecured, 19 percent were secured and 8 percent were open market.

⁴ Privately circulated address of A. W. Newton before the Association of Reserve City Bankers at White Sulphur Springs, April 27, 1937, *Finance Companies*, pp. 17-18.

⁵ The 12 percent rate is exceptional.

TABLE 63

Number of Banks Reporting Various Maximum and Minimum Maturities, and Usual Maturities, Prevailing December 31, 1938, on Loans to Sales Finance Companies^a

MINIMUM MATURITY (in months)	MAXIMUM MATURITY (in months)							TOTAL	
	1 to 2	3	4 to 5	6	7 to 8	9	Over 9		
Demand				2			1	2	5
1 to 2	2	4	5	17	3	10	8	49	
3			3	44	2	14	7	70	
4 to 5				9	2		2	13	
6				1		2	3	6	
7 to 8									
9									
Over 9				1			7	8	
TOTAL	2	4	8	74	7	27	29	151 ^b	
Distribution of banks by maturity most frequently required	8	43	22	67	2	2	11	156 ^c	

^a Based on questionnaire returns from 156 banks.

^b Excludes 5 banks which did not report on maximum and minimum maturities.

^c Includes 1 bank which reported demand notes as most customary.

60 percent of those reporting, the minimum rate was 1.5 percent, and for 22 banks it was even lower. Maximum rates between 2.5 and 5.5 percent were reported by over half of the banks, and one-quarter of these obtained rates between 3.5 and 4.5 percent. Only 3 of the 142 banks reported a maximum rate in excess of 6.5 percent. The commonest rate on loans of this sort appears to be 1.5 percent; this was the prevailing rate for most of the sales finance company loans made by 79 of the reporting banks. Of the remaining 63

TABLE 64

Number of Banks Reporting Various Maximum and Minimum Rates, and Usual Rates, Prevailing December 31, 1938, on Loans to Sales Finance Companies^a

MINIMUM RATE ^b	MAXIMUM RATE ^b								TOTAL
	Under 1.5%	1.5% to 2.5%	1.5 to 2.5%	2.5 to 3.5%	3.5 to 4.5%	4.5 to 5.5%	5.5 to 6.5%	Over 6.5%	
Under 1.5%	1	6	2	2	4	4	2	1	22
1.5		13	5	12	29	12	9	1	81
1.5 to 2.5			1	3		1	2		7
2.5 to 3.5				1	1	1			3
3.5 to 4.5					1	5	1		7
4.5 to 5.5						2	7		9
Over 5.5							1	1	2
TOTAL	1	19	8	18	35	25	22	3	131 ^c
Distribution of banks by rate most frequently required	3	79	7	15	13	20	4	1	142

^a Based on questionnaire returns from 142 banks.

^b Each level is inclusive of the lower figure and exclusive of the upper.

^c Excludes 11 banks not reporting on maximum and minimum rates.

banks, 20 extended such loans customarily at 4.5 to 5.5 percent, 15 at 2.5 to 3.5 percent, 13 at 3.5 to 4.5 percent and only 5 banks at 5.5 percent and over. Since most loans to sales finance companies are concentrated among the larger banks from which our sample was drawn, these rates are probably typical.

National sales finance companies obtain lower rates than companies of more limited scope. Of 82 banks reporting on this question, 13 indicated that there was a difference of less than 1 percent between the interest rates for nationals and those for other companies; 34 banks reported a differential

of 1 to 2 percent, 22 banks 2 to 3 percent and 13 banks more than 3 percent.

Open Market Paper of Sales Finance Companies

Since 1922 sales finance companies have procured some of their working funds by selling their paper through commercial paper dealers in the open market. This procedure, which distributes the paper among banks and other financial institutions, developed swiftly—from 1922 to 1926 the number of companies using the open market rose from 6 to 76.⁶ Perhaps the concurrent development of direct lending relations with banks operated to check the growth in the use of open market facilities; at any rate by 1938 only 56 sales finance companies were drawing funds from this source.⁷ Incidentally, commercial paper brokers have stated that foreign central banks which maintain balances in American markets include in their short-term investments some open market paper of sales finance companies.

The maturity terms for sales finance company paper, like those for most open market commercial paper, range up to 6 months. Prevailing interest rates appear, however, to run somewhat higher than those which apply to commercial paper classed by the market as prime. Table 65 classifies reporting banks by minimum and maximum rates required on paper held at the close of 1938, when a rate of 0.625 percent was current in the market for prime paper.⁸ Interest rates received on open market sales finance company paper by these banks ranged from just under 1 to 4.5 percent. Out of 54 banks, 22 reported minimum rates of less than 0.75 percent, and 20 minimum rates between 0.75 and 1.25 percent. For maximum rates 18 banks set rates of less than 1.25 percent, 16 reported 1.25 to 1.75 percent, and 13 obtained rates of 1.75 percent

⁶ National Credit Office, Inc., *op. cit.*

⁷ Records of the National Credit Office, Inc.

⁸ As reported by the Board of Governors of the Federal Reserve System.

TABLE 65

Number of Banks Reporting Various Maximum and Minimum Interest Rates, and Usual Rates, Prevailing December 31, 1938, on Open Market Paper of Sales Finance Companies^a

MINIMUM RATE ^b	MAXIMUM RATE ^b					TOTAL
	Under .75%	.75 to 1.25%	1.25 to 1.75%	1.75 to 2.25%	Over 2.25%	
Under .75%	1	9	9	2	1	22
.75 to 1.25		8	6	2	4	20
Over 1.25			1	2	2	5
TOTAL	1	17	16	6	7	47 ^c
Distribution of banks by rate most frequently required	9	31	9	2	3	54

^a Based on questionnaire returns from 54 banks. Rates on a small amount of open market paper of personal finance companies are included.

^b Each level is inclusive of the lower figure and exclusive of the upper.

^c Excludes 7 banks not reporting on maximum and minimum rates.

and above. The rates yielded by the bulk of open market paper ranged from 0.75 to 1.25 percent for 31 banks; they stood at less than 0.75 percent for 9 banks and at 1.25 percent and over for 14 banks.

Bank Standards for Loans to Sales Finance Companies

The sales finance company differs from the ordinary commercial or financial enterprise with regard to the problem in credit evaluation it presents to the banker. Since the sales finance company rarely has physical assets like real estate, equipment or merchandise inventories, its credit standing must rest chiefly on notes and accounts receivable representing hundreds of relatively small unit transactions. It is the

banker's initial task, therefore, to ascertain the quality of the paper which comprises the company's portfolio, and to acquire a knowledge of the operating policies followed in its accumulation, since such policies must be reflected ultimately in portfolio quality.⁹ Only when he has appraised and approved the general quality of the paper does he find it worthwhile to analyze the balance-sheet relationships and the profit-and-loss account. The poorer the paper, the more acute is the company's collection problem and the higher its ratio of expenses and losses to earnings.

In general, sales finance paper is deemed to be of inferior quality when the credit rating of the makers is unsatisfactory, the down payment or the makers' original equity in the merchandise financed is inadequate, and the average length of the notes is excessive in view of possible interruptions in the flow of the makers' income. The banker cannot determine accurately the character of the makers of the receivables held by a sales finance company, but he can study the company's records of repossessions, delinquencies and losses and thus arrive at a general impression of the character of its customers. He can insist also on information as to the down payments and contract lengths which prevail in the portfolio of a given company and estimate roughly, from past records, the relative risk inherent in its notes receivable.

From long experience in granting credit to sales finance companies, bank credit officers have developed quite definite ideas regarding the down payments and contract lengths that should prevail in the portfolio of a conservative company. Banks responding to our questionnaires were asked to state what terms they considered desirable in connection with automobile financing, which accounts for the bulk of sales finance company business.

⁹ Privately circulated address by A. W. Newton before the Federal Reserve Member Bank Conference, Minneapolis, March 12, 1938, *Instalment Finance Paper*, p. 23.

For new-car sales the down payment most frequently recommended was 33 1/3 percent of the cash price. Table 66 shows

TABLE 66

Number of Banks Reporting Various Down Payment Standards Recommended to Sales Finance Companies on New- and Used-Car Retail Paper^a

DOWN PAYMENT RECOMMENDED ON NEW CARS	DOWN PAYMENT RECOMMENDED ON USED CARS						TOTAL
	25%	30%	33 1/3%	35%	40%	Over 40%	
Under 25%	1	2	4		1		8
25	2	2	25	2	4	1	36
30			5	1	9	1	16
33 1/3	2		42	1	37	9	91
Over 33 1/3						3	3
TOTAL	5	4	76	4	51	14	154

^a Based on questionnaire returns from 154 banks.

that almost two-thirds of the 154 reporting banks, which extend a considerable volume of loans to sales finance companies, favored this down-payment percentage on new cars; almost one-fourth of them endorsed a 25 percent down payment, and one-tenth recommended a 30 percent payment. For used cars, too, the down payment most frequently reported was 33 1/3 percent; this was suggested by half of these banks. One-third of them preferred 40 percent, and almost one-tenth held that the down payment for used-car sales should exceed 40 percent.

Answering a similar question about standard contract lengths for new-automobile financing, a large majority of the reporting banks (122 out of 149) approved an 18-month contract for new cars, 20 banks a 24-month contract, 2 banks a 20-month contract, and 5 banks a contract of less than 18 months. For used cars 132 banks favored a 12-month contract,

although 13 banks were satisfied with a contract of 18 months; a standard maturity of 16 months was favored by 2 banks, and 2 recommended 9 months or less.

These recommendations on average down payment and contract length for sales finance companies are the general reference standards by which the banker tends to assess the risk involved in any sales finance company portfolio. From the standpoint of his own credit operations, he must pass judgment on these matters before he can approve the bank credit lines for sales finance companies. Once satisfied that a company's portfolio conforms closely enough to preferred standards, banks insist that the company's borrowings stand in some specified relationship to its net worth, so that they may be assured a margin of protection. Of 127 banks reporting on this topic, 47 stated that they regarded 2½-to-1 as a satisfactory ratio of borrowed funds to net worth, while 41 allowed a more liberal standard, 3-to-1; 10 banks approved a ratio of 4-to-1 or higher, 22 banks held to the more conservative standard of 2-to-1 and 7 prescribed a still lower ratio.

The ultimate concern of banks which lend to sales finance companies is, of course, the liquidity and eventual solvency of the borrowing firms. It has been said that "if a finance company's debts are so high or its paper is of such length that it cannot liquidate itself in six months, its bankers have every reason to say that it must bring itself to such a liquidity or lose its credit."¹⁰ There is, however, little agreement among bankers as to what constitutes a conservative liquidity position for sales finance companies. Of 117 banks responding to such a question, 65 maintained that a company should be able to liquidate within 5 to 7 months, and 49 specified 6 months. An 8- to 10-month period was mentioned by 24 banks, and an 11- to 13-month period by 17 banks. Only 9 banks recommended periods of 4 months or less, and at the

¹⁰ Privately circulated address of A. W. Newton before the Association of Reserve City Bankers at White Sulphur Springs, April 27, 1937, *Finance Companies*, p. 12.

other extreme 2 banks were satisfied with as long a period as 14 to 16 months.

Because of the importance that bankers attach to the liquidity position of sales finance companies, the latter are frequently required to submit, at prescribed intervals, maturity schedules of their retail notes receivable. Of 167 banks reporting on this question, less than half required such schedules; of the remainder, 24 banks demanded maturity schedules annually, 46 every 6 months, 5 every 3 months, and 7 every month.

BANK LOANS TO PERSONAL FINANCE COMPANIES

Personal finance companies specialize in small cash loans of \$300 or less, usually repayable in equal monthly instalments and subject to interest on monthly unpaid balances. They operate under sanction of special small loan legislation, which requires loan offices to be licensed, sets maximum charges and otherwise regulates credit operations. Loan offices are frequently linked together under common corporate ownership: a few large chain companies account for half or more of the total volume of business. Before 1930 over three-quarters of the total funds of chain personal finance companies were represented by capital stock and surplus, and only one-eighth to one-fifth by borrowings, mostly from banks.¹¹ The situation has changed, however, in recent years; according to Table 67 the borrowed funds (largely bank debt) of 9 personal finance companies rose from about 17 percent of total assets in 1934 to 34 percent in 1938.

Despite the increasing importance of bank credit as a source of funds for personal finance companies, the total volume of their borrowings is small in comparison with that of sales finance companies. Table 68 shows that 102 banks, with total loans of \$6,018,000,000, reported \$56,000,000 of loans to

¹¹ See R. A. Young and Associates, *op. cit.*, Table 3, p. 40.

TABLE 67

Sources of Funds of 9 Personal Finance Companies, 1934-38, in Percent of Total Assets*

SOURCES OF FUNDS	1934	1935	1936	1937	1938
Borrowings	17.4	25.6	29.2	33.5	34.0
Equity account	61.5	69.5	61.7	57.2	36.0
Preferred stock	28.2	78.5	18.7	20.8	77.0
Common stock and surplus	33.3	51.0	43.0	36.4	79.0
Total assets ^b	\$119	\$121	\$156	\$172	\$177

* Based on year-end (calendar or fiscal) data from the National Credit Office, Inc. It was not possible to obtain a breakdown of "Borrowings" for all companies for all 5 years; the figures on this item cover bank debt chiefly.

^b In millions.

TABLE 68

Total Year-End Outstanding Loans to Personal Finance Companies of 102 Reporting Banks for 1937, and of 111 Reporting Banks for 1938, by Type of Loan^a

TYPE OF LOAN	OUTSTANDINGS DECEMBER 31, 1937			OUTSTANDINGS DECEMBER 31, 1938		
	Amount ^b	Percent- age Dis- tribution	NUMBER OF BANKS REPORT- ING	Amount ^b	Percent- age Dis- tribution	NUMBER OF BANKS REPORT- ING
Unsecured	\$51	91.1	77	\$42	89.3	79
Secured ^c	4	6.3	34	3	6.6	45
Open market	1	2.6	14	2	4.1	21
TOTAL	\$56	100.0	102 ^d	\$47	100.0	111 ^d
Total outstanding loans of report- ing banks ^b			\$6,018			\$4,970

* Based on questionnaire returns from 102 banks reporting for 1937 and 111 banks reporting for 1938.

^b In millions.

^c Secured by collateral trust notes.

^d If a bank reported that it made more than one type of loan to personal finance companies, figures for that bank were included more than once under "Number of Banks Reporting." For this reason the totals for these columns do not represent the sum of the individual figures.

personal finance companies at the end of 1937, and that 111 banks, with total loans of \$4,970,000,000 reported only \$47,000,000 of such loans at the end of 1938—in each year less than 1 percent of total loans. About 90 percent of these loans were unsecured. These banks also held \$1,000,000 and \$2,000,000 of open market personal finance company paper at the close of 1937 and 1938 respectively, and collateral trust notes amounting to \$4,000,000 and \$3,000,000.

Terms of Bank Loans to Personal Finance Companies

Maturities for bank loans to personal finance companies were, as indicated in Table 69, generally shorter than those reported for loans to sales finance companies (Table 63). While a minimum maturity of 3 months or less was specified by about 80 percent of the reporting banks for loans to both types of companies, a maximum maturity of 3 months or less was required by over 32 percent of the banks reporting on personal finance company loans but by only 4 percent of those reporting on sales finance company loans. Maturities not exceeding 6 months were prevalent among 90 percent of the banks reporting on personal finance company loans as compared with 56 percent of those reporting on sales finance company loans. Table 69 shows also that for 62 out of 102 banks the bulk of personal finance company loans were made at maturities of 3 months or less, and that for 22 banks the majority of such loans ran for 6 months; only 4 reported that most of their personal finance company loans covered a period longer than 6 months.

Not only do maturities tend to be shorter, but interest rates tend to be higher on loans to personal finance companies as contrasted with sales finance companies. From a comparison of Tables 70 and 64 it appears that over three-fourths of the banks which reported on sales finance company

TABLE 69

Number of Banks Reporting Various Maximum and Minimum Maturities, and Usual Maturities, Prevailing December 31, 1938, on Loans to Personal Finance Companies^a

MINIMUM MATURITY (in months)	MAXIMUM MATURITY (in months)						TOTAL
	Demand	1 to 2	3	4 to 5	6	Over 6	
Demand			1		1		2
1 to 2		4	15	6	8	1	34
3			12	9	23	2	46
4 to 5	1			4	7		12
6					2	1	3
Over 6						1	1
TOTAL	1	4	28	19	41	5	98 ^b
Distribution of banks by maturity most frequently re- quired		10	52	14	22	4	102

^a Based on questionnaire returns from 102 banks.

^b Excludes 4 banks not reporting on maximum and minimum maturities.

loans obtained a minimum rate of 1.5 percent or lower, whereas about 40 percent of the banks reporting on personal finance company loans obtained such a low rate, and almost 40 percent maintained minimum interest charges ranging from 2.5 to 5.5 percent. A corresponding tendency is to be noted with respect to maximum rates: 65 percent of the banks reporting on sales finance company loans set the maximum at 3.5 percent or above, as compared with 76 percent of those reporting on personal finance company loans. For sales finance company loans the greatest concentration of reports on maximum rates was noted for the 3.5 to 4.5 percent range (mentioned by 25 percent of the reporting banks), but for personal finance company loans it was in the 4.5 to 5.5

TABLE 70

Number of Banks Reporting Various Maximum and Minimum Rates, and Usual Rates, Prevailing December 31, 1938, on Loans to Personal Finance Companies^a

MINIMUM RATE ^b	MAXIMUM RATE ^b						TOTAL
	1.5%	1.5 to 2.5%	2.5 to 3.5%	3.5 to 4.5%	4.5 to 5.5%	Over 5.5%	
Under 1.5%	1						1
1.5	10	3	4	12	5	1	35
1.5 to 2.5		1	1	1	4	1	8
2.5 to 3.5			1	2	5	4	12
3.5 to 4.5				4	6	2	12
4.5 to 5.5					8	5	13
Over 5.5						8	8
TOTAL	11	4	6	19	28	21	89 ^c
Distribution of banks by rate most frequently required	31	7	5	19	17	18	97

^a Based on questionnaire returns from 97 banks.

^b Each level is inclusive of the lower figure and exclusive of the upper.

^c Excludes 8 banks not reporting on maximum and minimum rates.

percent range (cited by 30 percent of the reporting banks). Finally, more than half of the banks reporting on sales finance company loans stated that most of these loans were made at a rate of 1.5 percent, but less than one-third of the banks reporting on personal finance company loans applied this rate to the bulk of their personal finance company loans. Rates between 2.5 and 5.5 percent obtained for a majority of the sales finance company loans made by one-third of the banks reporting such grants, but rates of 3.5 percent or higher were charged on most of the personal finance company loans of more than half of the banks reporting transactions in this field.

The shorter maturities and higher rates characteristic of

bank loans to personal finance companies reflect a consensus among bankers as to the relative risk involved in the extension of credit to the two types of consumer credit agencies. This judgment is expressed also in the differences in bank standards covering the proper ratio of borrowed funds to net worth. While 95 percent of the reporting banks stated that for sales finance companies they regarded a ratio of 2-to-1 or higher as conservative, only 42 percent of the banks reporting on personal finance company loans considered this ratio adequate. For the latter type of agency as many as 31 out of 97 reporting banks advocated a ratio of 1-to-1 or better, 13 banks stipulated 1½-to-1, 19 banks 2-to-1, 9 banks 2½-to-1, and only 13 banks held that a ratio higher than this was a satisfactory basis for the extension of bank credit.

BANK LOANS TO INDUSTRIAL BANKING COMPANIES¹²

The consumer credit business of industrial banking companies resembles that of personal loan departments of commercial banks more closely than it does the activities of personal finance or sales finance companies. Like personal loan departments, industrial banking companies engage principally in making small cash loans, with or without comakers and with or without collateral, and many have branched out into time-sales financing as well. Unlike personal loan departments, however, they are subject in most states to legislative regulation of customer charges as well as size and length of note.

In contrast to sales finance and personal finance companies,

¹² The term industrial banking company is used here to refer to both Morris Plan and non-Morris Plan institutions which specialize in instalment loans to consumers and obtain part of their funds through the acceptance of deposits or the sale of instalment investment certificates. See National Bureau of Economic Research (Financial Research Program), *Industrial Banking Companies and Their Credit Practices*, by R. J. Saulnier and Staff (ms. 1940).

whose working funds are obtained largely through bank borrowing and the sale of equity securities, industrial banking companies secure most of their funds from depositors or from the sale of instalment investment certificates. As was indicated in Table 58, the time and demand deposits (including hypothecated deposits) of 69 industrial banking companies accounted for 82.5 percent of their total assets in 1937, while short-term borrowings came to less than 1 percent.¹³ Table 59 showed that 16 large banks, with total outstanding loans and discounts of \$1,309,000,000 at the end of 1937 and of \$1,226,000,000 at the end of 1938, reported that their loans to industrial banking companies amounted to only \$2,000,000 in 1937 and \$1,000,000 in 1938—less than 0.5 percent of their total loans in either year. According to reports from these banks, secured loans constituted about two-thirds of the \$2,000,000 outstanding to industrial banking companies on December 31, 1937, and about half of the \$1,000,000 outstanding on December 31, 1938.

Three out of 14 reporting banks declared that they made loans to industrial banking companies on a demand basis. Of the remaining 11, all but one required a minimum maturity of 3 months or less. With regard to maximum maturity, 7 of the 11 banks set an upper limit of 3 months, 1 allowed a maximum of 5 months and 3 a maximum of 6 months. Only 1 bank granted most of its loans to industrial banking companies for as long as 6 months, whereas 11 made the greater part of these loans on a 3-month basis.

Interest rates on loans to industrial banking companies varied from 1.5 to 6 percent or over, according to reports from a small number of banks. As for the proper relation-

¹³ These 69 firms are not entirely representative of the industrial banking field, for most industrial banking companies do not enjoy deposit-taking privileges, and therefore obtain a larger proportion of their funds from bank borrowings and from the sale of instalment investment certificates. Nevertheless they account for such a large part of all the industrial banking volume of the country that the inclusion of companies which do not exercise deposit-taking privileges would not alter these figures to any great extent.

ship of borrowed funds to net worth for such companies, 6 out of 14 banks reporting advocated a ratio of 1-to-2 or less; the remaining banks favored a higher ratio and one of them stipulated a relationship of 1-to-4.

Competitive Relations

SINCE the entrance of commercial banks into the field of consumer instalment financing, their volume of this business has grown rapidly. Recent estimates of the outstandings of the four principal cash instalment lending agencies—commercial bank personal loan departments, personal finance companies, industrial banking companies and credit unions—show that the total volume of cash loan outstandings of these agencies combined increased steadily from 1934 to 1938.¹ Furthermore, the proportion of these outstandings² held by commercial banks rose from 7.3 to 20.3 percent in this period while the proportions ascribed to other cash lending agencies, with the exception of credit unions, declined.³ Although data are not available to show the distribution of retail instalment outstandings, trade reports indicate that in this field too commercial banks have acquired increasing importance in recent years.

The fact that the total volume of cash loans to consumers has risen steadily since 1934, so that each type of lending agency has been able to increase the aggregate volume of its business, helps to explain the competitive conditions which prevail in the field. If the total volume of personal loan credit were decreasing or even merely constant, the relations among the several types of lending institutions would probably be

¹ See National Bureau of Economic Research (Financial Research Program), *The Volume of Consumer Instalment Credit, 1929-38*, by Duncan Holthausen, Malcolm Merriam and Rolf Nugent (ms. 1940) Chapter 4, Chart V.

² Includes outstandings of the four principal cash loan agencies, unregulated lenders and FHA (Title I) insured loans.

³ *Ibid.*, Table B-4. Proportions are exclusive of FHA loans made by commercial banks.

characterized by more intense rivalry. At the end of 1938 the outstandings of personal finance companies and industrial banking companies were larger than they had been at the close of 1929 or at any other time during the intervening years.⁴ Despite the more rapid growth of the cash loan outstandings of commercial banks and credit unions, the other lending agencies are therefore able to regard their own gains with considerable satisfaction.

GENERAL CHARACTERISTICS

While commercial bank personal loan departments differ from other consumer credit institutions in a number of important respects, they are subject to certain conditions which are common to all types of lending agency. Customer charges, for example, rarely constitute a clear-cut competitive issue. Borrowers are unlikely to compare very closely the charges offered by rival agencies, first, because they are often stated in a manner that makes comparison difficult; second, because the relationship between borrower and lender is sometimes so close that the offer of more favorable terms by a competing lender is not a strong enough inducement to cause the borrower to transfer his patronage; and third, because the customer's monthly instalment is not affected substantially by differences or changes in customer charges. There is, in short, less shifting than one would expect in view of the variations in charges among different consumer credit agencies.

Even if a borrower does make a study of credit costs, he will probably give consideration also to other aspects of the transaction. The number of months permitted for repayment, the type of security required for the loan, the extent and nature of the credit investigation, and the special concessions that may be offered with regard to possible delinquency

⁴ *Ibid.*, Table B-9 and Table B-11.

generally count more heavily with the borrower than the charge alone.

In the financing of retail sales, too, charges play a less significant role in competition than one might at first suppose. Here the primary concern of the consumer is the acquisition of some durable good. The cash selling price, the trade-in allowance he may be offered, or the absolute amount of the periodic payment he is required to make may be of more consequence to him than the finance charge involved. It must be remembered, furthermore, that the agencies that compete for this type of business—industrial banking companies, sales finance companies and commercial banks—are more likely to center their competitive effort on the dealer who sells the commodity than on the ultimate consumer. Once a dealer has established a connection with a consumer installment financing agency, he is expected to sell all of his paper to that agency. For these reasons, the competition between consumer financing agencies frequently consists of attempts to establish dealer relations rather than of campaigns to attract ultimate purchasers. On the other hand, some national sales finance companies have recently advertised directly to customers, and a number of commercial banks and industrial banking companies are now making intensive efforts to reach the consumer directly and to avoid negotiations with dealers. To the extent that these efforts are successful, competition in the field of time-sales financing will tend to resemble more closely that characteristic of cash lending.

In the following sections the competitive situation of the commercial bank as a consumer credit agency will be considered in terms of the bank's relationship to each of the other principal lending institutions. These agencies will be compared with commercial banks in respect to the services they offer, the terms upon which their contracts are written, the markets they serve and the techniques they employ to obtain business.

**PERSONAL FINANCE COMPANIES AND
COMMERCIAL BANKS**

Although there is considerable rivalry between personal finance companies and the personal loan departments of banks, several factors have served to mitigate its intensity. One factor has already been mentioned—the growth in the aggregate volume of personal finance company outstandings, which stood higher at the end of 1938 than at the end of 1934, and slightly higher than at the close of 1929.⁵ Another is the fact that personal finance companies have in general specialized in single-name loans granted mainly on the security of household chattels, while commercial banks extend somewhat over one-half of their personal loans on a comaker basis.⁶ In their advertising personal finance companies have taken advantage of this difference by pointing out the confidential nature of their lending services. They stress as a unique and highly desirable feature the fact that single-name loans secured by household chattels may be obtained without reference to friends or employer. It is doubtless true, indeed, that many borrowers are willing to pay a higher interest rate in order to avoid disclosing their financial position by asking a friend to act as comaker. Moreover, the weight attached to such considerations by large numbers of potential borrowers may have an appreciable effect upon the future competitive position of the agencies which require the signatures of comakers.

Commercial banks and industrial banking companies still make most of their cash loans on a comaker basis because comakers normally increase the protection, enable the lender to offer a lower rate and provide an effective and almost cost-

⁵ See above, pp. 219-20.

⁶ B. E. Henderson. "Competition for Consumer Credit," *Banking* (January 1937) p. 24. The author, president of Household Finance Corporation, states that personal finance companies do not fear the competition of commercial banks because of the comaker requirement of the latter.

less collection service. Nevertheless there is discernible a persistent tendency for both types of institution, and particularly for industrial banking companies,⁷ to grant an increasing proportion of their loans on a single-name basis. They have an advantage over the personal finance companies, furthermore, in that they rarely require the additional security of a chattel mortgage on household furniture. The comaker loan remains, however, the mainstay of the personal loan business of commercial banks. Of more than 881,000 personal loans made in 1938 by 520 reporting commercial banks, 56 percent were of the comaker type, 21 percent were single-name notes and 23 percent were secured by such collateral as conditional sales contracts, savings passbooks, life insurance policies and securities.

In response to the competitive situation, the personal finance companies have tended to grant an increasing number of loans on a single signature without the protection of a household chattel mortgage.⁸ In 1936, for example, Household Finance Corporation established several offices exclusively for the making of unsecured small loans, and the number of these "honor" offices has since been increased.⁹ With respect to similarity of services offered, it appears therefore that the competition between small loan companies and commercial bank personal loan departments is growing sharper.

While there is some overlapping of their respective markets it is nevertheless true that the two types of lending institution cater to substantially different classes of borrowers.¹⁰ The

⁷ See National Bureau of Economic Research (Financial Research Program), *Industrial Banking Companies and Their Credit Practices*, by R. J. Saulnier and Staff (ms. 1939) Chapter 4.

⁸ See National Bureau of Economic Research (Financial Research Program), *Personal Finance Companies and Their Credit Practices*, by R. A. Young and Associates (1940) pp. 49-50.

⁹ *Ibid.*, p. 49.

¹⁰ Personal finance companies sometimes minimize such competition on the ground that banks take only a relatively few carefully selected borrowers and

data available for a study of the borrowers served by commercial banks and personal loan companies are not entirely comparable, but they indicate that the customers of personal finance companies come from lower income groups than those of commercial banks. We have already noted that 55 percent of the borrowers from personal finance companies had incomes of less than \$1500 per annum while only about 24 percent of the borrowers from commercial bank personal loan departments were in this class.¹¹ Wage-earners constituted about 52 percent of the customers of personal finance companies but only about 28 percent of the bank borrowers. On the other hand 44 percent of the bank borrowers were people engaged in clerical work as compared with 25 percent of the personal finance company clientele. Finally, banks made a larger proportion of their loans to business and professional borrowers than did personal finance companies.¹²

The competition between personal finance companies and commercial banks is limited to a significant degree also by the fact that the former are prohibited by the small loan statutes in nearly every state from making loans in excess of \$300. Commercial banks are generally not subject to this sort of restriction¹³ although they may voluntarily limit themselves to loans of a certain size, e.g., \$1500 or less.

Comparative data on the average size of loans show quite clearly the effect of legal restrictions in the case of personal finance companies. The average size of loans made by a very inclusive sample of such companies varied from \$126 in 1933 to \$147 in 1937¹⁴ and the loans made by the two largest chain personal finance companies were only slightly greater in

leave the larger part of the market to other agencies. See B. F. Douthitt, *Personal Finance News* (June 1932) p. 12.

¹¹ See above, Chapter 3, Table 11.

¹² See above, Chapter 3, Table 12.

¹³ See above, Chapter 2, p. 57.

¹⁴ R. A. Young and Associates, *op. cit.*, Table 7, p. 47.

amount.¹⁵ In contrast, the single-name loans made by the personal loan departments of 520 banks in 1938 averaged \$202.

Loans made by personal finance companies are on the average smaller than those of their commercial bank competitors and the former institutions tend to charge higher rates of interest. The most typical commercial bank rates on personal loans range between 11 and 14 percent per annum when computed on declining balances, and the bulk of the bank loans are made at the lower limit of this range; some large metropolitan banks grant personal loans at a discount of 4 percent per annum or even less, so that their effective interest rates are considerably below 11 percent on unpaid balances.¹⁶ It appears that the charges made by personal finance companies¹⁷ come to at least twice as much as the typical rate, computed on unpaid balances, charged by commercial banks.

Another comparison of the interest rates of commercial banks with those of personal finance companies may be made by reference to data on their gross incomes expressed as a percentage of their average employed assets. The gross income of the personal loan departments of 39 banks reporting to the National Bureau ranged from \$8 to \$10 per \$100 of average funds employed,¹⁸ but from supplementary information it appears that a gross of \$12 to \$14 would be more nearly typical.¹⁹ These figures are to be compared with data for the year 1936 on the gross income of personal finance companies, which is calculated to have amounted to about \$27 per \$100 of average assets employed—approximately double the income realized from charges made by the personal loan departments of commercial banks.²⁰

Competition between personal loan departments and per-

¹⁵ *Loc. cit.*

¹⁶ See above, Chapter 6, pp. 141-56.

¹⁷ For a discussion of personal finance company rates, see R. A. Young and Associates, *op. cit.*, pp. 124-28.

¹⁸ See above, Chapter 7, Table 49.

¹⁹ See above, Chapter 6, pp. 151-56.

²⁰ R. A. Young and Associates, *op. cit.*, Table 32, p. 113.

sonal finance companies is influenced also by the fact that the latter may operate branch offices on a wide scale. Statewide branch banking, on the other hand, is permitted in only a few states, and even citywide branch banking is prohibited by a number of states. In localities where branch banking is permitted, the commercial banks have utilized these branches for their personal loan business, frequently concentrating credit work in one office. Particularly in areas where branch banking is prohibited does it appear that an organizational advantage lies with the non-banking lending agencies. The latter benefit, moreover, from their widespread operations in this field: they can gain some efficiency from their large-scale, standardized activities, train and maintain a selected personnel, and diversify the risks more successfully. These advantages are not, however, of paramount importance in the field of consumer lending, because so much of the business is based on personal relationships.

A more significant advantage of personal finance companies is the fact that they can usually adapt the location and character of their loan offices to suit particular market needs more readily than can commercial banks. Personal finance company offices are often located on the second floor of a building and are generally much less ornate than the commercial bank office. To the extent that customers prefer to conduct their borrowing in such surroundings, and with a maximum of privacy, the commercial bank which establishes its department on the first floor of its main office is somewhat handicapped. The short banking hours also tend to give the personal finance company an advantage over the personal loan department that is established in the main banking quarters of a commercial bank. Many banks have attempted to resolve the problem by setting up separate offices for the conduct of their personal loan business where legal and other conditions permit, and in general have tried to conduct these operations in locations other than the principal floor of

the bank or branch. When they establish separate offices they are able, of course, to keep the personal loan department open for business after the regular bank closing hour.

INDUSTRIAL BANKING COMPANIES AND COMMERCIAL BANKS

Primarily because they resemble each other in the kinds of service they offer and in their manner of quoting charges, competition between industrial banking companies and commercial bank personal loan departments is much keener than between banks and other cash lending agencies. Like commercial banks, the industrial banking companies engage in both instalment cash lending and time-sales financing. The industrial banking companies are not restricted, as are the personal finance companies, to relatively small cash loans. Nor do they limit their activities chiefly to sales financing as do most of the sales finance companies. Furthermore, the charters of many industrial banking companies give them the right to do a full banking business; thus in some states they can offer lending and deposit services equal in many respects to those provided by commercial banks.²¹ Even in states where such companies have only limited banking privileges they are often permitted to accept time deposits as well as to lend money. The chief competitive advantage of the commercial bank is the fact that only a few states permit industrial banking companies to accept demand deposits.

Aside from the breadth of their services, industrial banking companies resemble commercial banks also in their manner of quoting cash loan and time-sales financing charges as a certain rate of discount and not (as with the personal finance companies) as a rate per month on unpaid principal balances. Then too, the cash loans of both types of institution are

²¹ See R. J. Saulnier and Staff, *op. cit.*, Chapter 2, for a discussion of the legal status of industrial banking companies.

generally made on a single-name or a comaker basis. While some of the relatively small industrial banking companies make loans on the security of household chattels, they account for a very small part of the total industrial bank credit extended.

Finally, there are certain organizational similarities between commercial banks and industrial banking companies. The two agencies operate in general as independent units, although some exceptions are to be noted. There are a few extensive branch banking systems, for example, in the state of California, and there are also some systems of affiliated industrial banking companies. Where widespread branch banking systems are permitted, commercial banks can operate as statewide consumer credit agencies. In other cases banks may conduct only intracity branches, so that in order to gain the organizational advantages of a system of branches some operate through affiliated companies. Industrial banking companies are in substantially the same position where they operate as "banks" in the legal sense, but they enjoy wider branch office privileges when they function as non-banking agencies. Since, however, there are few important systems of industrial banking companies, it is quite accurate to say that on organizational grounds neither type of agency has any particular competitive advantage over the other.

Data on borrower characteristics are not available in sufficient quantity to enable us accurately to describe and distinguish between the respective markets served by commercial banks and industrial banking companies. It appears from the incomplete evidence at hand that the markets are similar in some respects and different in others. Studies of a sample of 1,259 personal cash loans made by commercial bank personal loan departments and of a sample of loans made by a group of industrial banking companies indicate that about 12 percent of the commercial bank borrowers had incomes of \$1200 or less and that about 16 percent of the industrial

bank loans were made to individuals in this income class. Further examination of these samples shows that about 18 percent of the commercial bank borrowers and 20 percent of the industrial banking company borrowers received incomes of \$3000 and over. For both agencies, therefore, the bulk of borrowers are in the annual income class of \$1200-3000.²² These two lending institutions tend, furthermore, to make loans of about the same size: about 50 percent of the notes of each are written in amounts of \$200 and less. Finally, the available data point to the conclusion that in some areas commercial banks and industrial banking companies serve approximately the same occupational and industrial groups.²³

In a number of cities, however, commercial bank personal loan departments and industrial banking companies cater to quite different groups of borrowers. Broadly speaking, the larger industrial banking companies are in closer competition with the commercial bank personal loan departments than are the smaller companies. The latter appear to supply a market more nearly similar to that served by the personal finance companies. Again, the smaller companies make some loans on the security of household furniture, a practice typical of the small loan company and only rarely followed by the commercial bank.

As regards rate competition between industrial banking companies and commercial banks, it appears that the rates of the latter are, in general, lower than those of the former. It is true that in some cities for which information is available the difference is slight, but in the larger centers the banks with a substantial volume of cash instalment loans quote rates which are either equal to or somewhat lower than those offered by their industrial banking competitors.

Since industrial banking companies and commercial banks

²² Compare above, Chapter 5, Table 34, with R. J. Saulnier and Staff, *op. cit.*, Chapter 6, Table 8.

²³ *Loc. cit.*

are expanding their volume of business, the competition between them is not as intense as it might otherwise be. Indeed some industrial bankers have expressed the thought that the entrance of commercial banks into the field of consumer credit has tended to improve the prospects of industrial banking companies rather than to detract from them. They believe that the prestige traditionally enjoyed by banking institutions has now spread to other consumer credit agencies, and that the practice of lending money to individuals for personal use has been raised to a higher status by the participation of commercial banks.²⁴

SALES FINANCE COMPANIES AND COMMERCIAL BANKS

In the field of sales financing commercial banks encounter the competition of national, regional and local sales finance companies and of industrial banking companies as well. The crucial element in this competitive situation is the dealer rather than the consumer, except in cases where a bank negotiates automobile financing directly with the purchaser. This the bank may do in either of two ways: it may grant a straight cash instalment loan on a single-name or a comaker basis, so that the borrower uses the proceeds to make the purchase desired, or it may finance the purchase of the automobile on a conditional sales contract or bailment lease. Many banks follow the first method in their direct-to-consumer financing, and the extent to which this practice increases must necessarily be reflected in a decline in the proportion of goods purchased on an instalment basis.²⁵ We

²⁴ See *American Industrial Banker* (April 1938).

²⁵ See Holthausen, Merriam and Nugent, *op. cit.*, Appendix A, Table A-6 for data on instalment sales as a percent of total sales for five types of retail establishments. The series for new and used cars shows a tendency for instalment sales to decrease somewhat as a percentage of total sales. The purchase of cars for cash with the proceeds of a commercial bank personal loan may

have noted early in this study that the banks reporting to the National Bureau received slightly more than 50 percent of their total automobile paper directly from purchasers, and the remainder from dealers,²⁶ although in the case of all other commodities except household appliances the bulk of the paper was obtained through dealers.²⁷ Specialized sales financing agencies, on the other hand, acquire most of their paper through dealers.

The increasing significance of commercial bank competition in the field of sales financing has been a matter of deep and growing concern to other agencies. It has been reported that associations of automobile dealers have adopted resolutions pledging their business to the sales finance companies.²⁸ Sales finance companies, in turn, have urged purchasers to patronize them rather than the commercial banks or loan companies, maintaining that for approximately the same charge the sales finance company offers better service than is provided by other institutions.²⁹

be a factor in this situation, but it is not possible to ascertain the degree of its influence as compared to other factors.

²⁶ In some regions the banks rely on dealers for practically all their automobile paper.

²⁷ See above, Chapter 4, Table 19.

²⁸ For example, the members of the South Carolina Automobile Dealers Association, at their Convention on July 26 and 27, 1939, adopted a resolution pledging themselves to place their time-sales paper with finance companies. A similar resolution was adopted by the Pennsylvania Automotive Dealers Association in June 1939. (*American Finance News*, July 18, 1939, p. 2.) Earlier in the same year the Montana Motor Trades Association passed a resolution urging all dealers to continue transacting their entire business with finance companies. (*American Finance News*, April 18, 1939, p. 1.)

²⁹ "The U.C.C. Campaign includes national advertising and letters to all Ford, Mercury, Zephyr and Lincoln dealers. The GMAC effort was initially confined to Cleveland, in which city letters have been sent to all owners of General Motors cars.

"In both campaigns it is pointed out that the purchaser does not usually save money, insurance costs being taken into account, by financing through banks or loan companies, while he runs the risk of less considerate treatment in the event of having difficulty in making his payments." (*Time-Sales Financing*, August 1938, p. 2.)

Commercial banks, too, have developed programs to increase their automobile sales finance volume. Where they seek to obtain the business directly from the consumer, they generally appeal to him on the ground of economy. Or they may urge local insurance agents to influence car buyers to finance their instalment purchases through banks. If the local agent does not write the insurance on cars financed by sales finance companies, and if banks will allow the purchaser to choose his own agent, it may be that the local insurance agent will seek to promote bank financing.³⁰ Furthermore, the commercial bank may have an advantage over the sales finance company if it is possible for the dealer to share in insurance commissions when the bank finances his sales. There is some tendency for sales finance companies to meet this sort of competition by the use of similar methods of providing insurance services to their customers.

If a commercial bank desires to obtain its sales financing contracts through dealers it must offer the dealer terms that are at least as favorable as those current among other sales financing agencies. Several important considerations are involved in such arrangements. First, the bank is very often called upon to finance the dealer's purchases of cars from the factory and his holding of these cars in inventory. Such wholesale financing is known as "floor-planning" and is subject to special risks, particularly fraudulent conversion.

The extent to which commercial banks have engaged in wholesale financing as an adjunct to their retail instalment sales financing is revealed by our questionnaire returns. Out of 141 banks that reported the acquisition of retail automobile paper from dealers, 74 were extending wholesale loans to dealers on new cars and 67 were not; 36 were floor-planning used cars and 96 were not. These returns show further that commercial banks may make loans to dealers to

³⁰ See *American Industrial Banker* (February 1940) p. 20.

enable them to carry their inventories even though the banks make no retail loans on the dealers' instalment sales.³¹

The necessity of meeting the competition of rival agencies through the grant of wholesale loans is not likely to be as great, however, when a bank seeks to finance instalment purchases of goods other than automobiles. Moreover, the investment which must be made in inventory is normally smaller in such cases. Where competition does take the form of granting wholesale loans its effect is likely to be a reduction of the interest rate applied to these loans rather than of the finance charge levied on the consumer.

Competition for dealers' business may be expressed in other ways. A financing agency may, for example, set up a "reserve" which permits the dealer to participate in the finance charge, or it may allow him to "pack" or inflate the scheduled customer charge.³² It may even be willing, in order to keep the dealer's custom, to finance deals it would otherwise have rejected as poor risks. Similarly, the financing agency may accept contracts of longer maturity and lower down payment than would appear appropriate on grounds of credit risk alone. In car financing it is usually necessary, moreover, to finance the retail instalment sales of used cars in order to obtain the new-car business originated by the dealer—a practice which some banks are reluctant to undertake because of the special risks involved.

Nearly all of these features of the competitive picture are absent if the bank obtains its sales finance business directly from the consumer. Then it need make no concessions to dealers; quite independently it can determine its customer charge, set credit standards and fix terms for maturity and down payment. Nor does the bank have to extend wholesale

³¹ See above, Chapter 4, pp. 82-83.

³² See National Bureau of Economic Research (Financial Research Program), *Sales Finance Companies and Their Credit Practices*, by W. C. Plummer and R. A. Young (1940) Chapter 11, for a discussion of dealer "reserves" and "packs" in sales financing.

loans to automobile dealers under such circumstances, although if it seeks rapidly to expand its volume of time-sales financing it generally does turn to dealer contacts. The bank must normally choose, then, between a large gain in outstandings and a more independent credit policy.

If the competition revolves around the struggle for the dealer's favor, the financing agency may allow the dealer to set the customer finance charge. In this case the consumer may benefit very little, and indeed may actually be harmed, by competition.³³ On the other hand, when banks seek to acquire their sales finance business directly from the consumer they must offer lower charges or some special service in order to attract a volume of business. Competitive effort of this kind has a direct effect on consumer charges, and if commercial banks increasingly turn their competitive energies in this direction such charges are likely to decline.

When commercial banks obtain their sales finance paper through dealers they may also provide the latter with customer rate charts.³⁴ This practice characteristic of the sales finance companies seems to have been adopted by some commercial banks which do a substantial amount of instalment sales financing. The rate chart is important not because it is a convenient device for calculating the finance charge in a given transaction, but rather because it indicates that the financing agency is exercising some degree of control over the charges made by the dealer. While an agency's failure to provide a rate chart does not prove conclusively that the dealer is permitted to exact any rate he chooses, it does suggest that he is allowed some degree of freedom in this respect. In reporting to the National Bureau, some banks stated that while they supplied no rate charts they did specify the interest rate to be applied to the cash-selling price so that the cus-

³³ This type of competition may leave customer charges substantially unchanged and result mainly in a more liberal dealer "loss reserve."

³⁴ See above, Chapter 6.

customer's finance charge might be computed for instalment purchases of different types of merchandise.

Available data concerning competitive charges are not very inclusive, but the information at hand indicates that the net sales finance charges (exclusive of insurance) of commercial banks are either equal to or slightly lower than those current among the larger sales finance companies operating in the same area. It must be remembered, however, that it is impossible to gauge the extent of rate competition in terms of the net finance charge alone. Other elements in the customer cost, notably the insurance charge,³⁵ may be more flexible than the interest rate and thus more sensitive to competitive influences. Furthermore, certain concessions which do not involve prices may be incorporated in the financing contract.

As to organizational differences between commercial banks and sales finance companies, the former are generally independent units, while sales finance companies can extend their operations over a wide area by setting up branches or agencies. In 1937 about 84 percent of the automobile financing handled by sales finance companies was concentrated among those operating on a national or regional scale.³⁶ Some banks, to be sure, can conduct their business on a relatively broad geographical basis. This is possible where statewide branch banking privileges are granted them, in which case they can offer a more satisfactory instalment financing service to distributors of goods than can unit banks. Then there are banks which operate through subsidiary or affiliated companies and in this way gain the advantages of a wider market.

It is difficult for a bank to finance the instalment sales of any given manufacturer's product unless it can operate satisfactorily over an extended area. If the product is distributed widely, the bank must conduct a substantial part of its fi-

³⁵ A willingness to accept insurance with less coverage or to accept single interest insurance may exert a considerable influence on customers since the insurance premium, especially on automobiles, is generally a substantial sum.

³⁶ W. C. Plummer and R. A. Young, *op. cit.*, Chapter 11, Table 67.

nancing by mail, and is then handicapped in its task of investigating credits and making collections. This is an important consideration, for many banks would like to expand their business by servicing all the time sales of local producers.

Recently there has been initiated in New England a movement for bank cooperation in a broad program of instalment sales financing. The scheme is designed to operate essentially as follows: the cooperating banks will solicit actively the business of their local manufacturers by promising to finance both producer and consumer goods, and will accept contracts regardless of the location of the buyer. If a manufacturer then makes a sale in a city remote from his local bank, the latter may send the credit application to the cooperating bank closest to the customer concerned. Thus each cooperating member bank can initiate business for itself and for other banks, and receive in turn a certain amount of business from other members.

As in the case of other forms of consumer credit, the competition for sales finance business is influenced by legal restrictions. The laws affecting sales financing are by no means as severe, however, as those which apply to cash lending. Only a few states have passed any legislation governing sales financing transactions, and of these Indiana's law is the most comprehensive. All sales financing agencies in Indiana are required to be licensed, and are subject to regulations covering customer charges, dealer reserves, repossession practice, the keeping of records and advertising policy.

INTERBANK COMPETITION

Competition for consumer loan volume among commercial banks themselves has not been as marked, up to the present time, as the rivalry between banks and other agencies of consumer credit. Nevertheless interbank competition does exist, and it appears to be gaining in intensity. The com-

mercial bank's cash loan market, while substantially different from that of most other cash lenders, is almost identical with the market of its bank competitors, and for this reason inter-bank competition for personal loans is likely to become increasingly keen. It may, indeed, turn out to be as aggressive in this branch of consumer financing as the current competitive struggle between banks and other types of agencies in the field of sales financing. Even now the cash lending policy of a commercial bank is more apt to be influenced by the policy of other banks than by the methods followed by its non-banking competitors.

This sort of competition has developed only in the past three or four years, for prior to that time banks with personal loan departments were for the most part too widely separated to affect one another's business. More recently, however, competition between banks has given rise to rate reductions, elaborate advertising campaigns and carefully prepared programs.

Banks compete with one another also in making loans to non-banking consumer credit agencies. Such competition for commercial loans is probably an indirect cause of the expansion of commercial banks into the personal loan field. As the rate on loans to sales finance and personal finance companies declined in recent years (in December 1938 it was generally 1½ percent), many banks sought to improve their financial position by establishing consumer credit departments of their own.

In many states the competitive relations between banks and non-banking cash loan agencies are influenced by statutory enactments. Most small loan and industrial loan laws provide that the state supervisory authority may refuse a license or permission to incorporate if in his opinion the "advantage and convenience" of the community will not be served by the establishment of a proposed company. On the other hand, sales finance agencies with few exceptions are

untouched by such legal restrictions and personal loan or time-sales departments of national banks are not generally subject to special regulation of their consumer credit activities. Even if state laws were to limit the entry of state banks into the field, they would probably not be rigidly enforced as long as national banks remained comparatively free of restraint. The present New York state law regarding personal loan departments of state banks contains a "convenience and advantage" clause,³⁷ but it refers only to the personal loan departments of state banks. It is unlikely, therefore, that in the absence of comparable restrictions on national banks, interbank competition will be seriously influenced by statutory provisions, although the activities of non-banking cash lending agencies in many states are distinctly affected by similar legislation.³⁸

RELATION OF COSTS TO COMPETITION

In most discussions of the competitive relations between commercial banks and other consumer credit agencies considerable attention is devoted to the special character of the costs of consumer lending by commercial banks. It is argued by many that the commercial banks do not know how much it costs them to make consumer loans and that they therefore tend to quote rates which do not yield profits; the inference, of course, is that if banks did calculate their costs accurately they would find that their current arrangements were unprofitable. Critics of commercial bank personal loan departments frequently point out, moreover, that banks can com-

³⁷ "The superintendent shall issue a certificate of authorization to operate a personal loan department within sixty days of the receipt of a request . . . if he shall find after investigation that the convenience and advantage of the community . . . would be served by granting such a request." New York State Banking Law, Article III, Section 108, 1(b).

³⁸ See R. A. Young and Associates, *op. cit.*, Chapter 1, and R. J. Saulnier and Staff, *op. cit.*, Chapter 2, for discussions of legal limitations on personal finance and industrial banking companies, respectively.

pete favorably with other types of consumer credit agencies because their funds cost them nothing, whereas the non-banking institutions are required to pay relatively high rates for a considerable part of their working capital.

It is probably true that commercial banks have made little effort to determine their consumer loan costs. In most instances personal loan departments are small and do not call for a very substantial addition to plant or personnel. A number of banks have indicated⁸⁹ that the volume of their consumer loan business was insufficient to warrant their making any special attempt to determine the cost of operating the department. Furthermore, many commercial banks maintain that they are not in a position to make the detailed investigation basic to a determination of departmental costs, or that such research would be unjustifiably expensive.

With the marked increase in the number of departments and the volume of loans, the advantages of an adequate cost accounting system in this field are coming to be appreciated more fully. The growing interest in determining the cost of operating a consumer loan department contrasts sharply with the traditional indifference of many banks to departmental costing procedures. While a bank may know its total costs of operation (subject, of course, to the qualification that certain costs are difficult to fix definitely), few are likely to know the separate cost of running any particular department.

The banks, for their part, may well respond to their critics that they are no more ignorant of costs than many other consumer credit agencies. Since a good deal of competitive effort centers around the differentials between rates quoted by the same agency for different types and sizes of loans, it would appear desirable for all agencies—banking and non-banking alike—to ascertain how much it costs them to make and collect the various types of loans. Yet many other consumer

⁸⁹ See above, Chapter 7.

credit agencies are as unfamiliar with the costs of making and handling different types of loans as are the commercial banks. A few non-banking agencies have made systematic attempts to determine the costs of making various types and sizes of loans and some banks have undertaken comparable investigations.⁴⁰

The competitive behavior of commercial banks, as reflected in the rates they quote on loans and especially in the differences between their rates on diverse types of loans, can be affected only slightly by considerations of total cost. In the absence of satisfactory cost data, moreover, there is no evidence to indicate that their rates are unprofitable to them. While in many cases banks may arrive at a rough and ready measure of the profitability of the consumer credit department by taking account only of direct costs, they are now tending increasingly to ascertain the nature and amount of the indirect as well as the direct expenses involved in the acquisition and handling of consumer instalment loans.

COOPERATIVE RELATIONS

Commercial banks engaged in extending credit to consumers have thus far lagged behind other types of consumer lending agency in the establishment of cooperative relationships. Yet in recent months there has arisen a widespread movement to secure more effective cooperation among the personal loan and time-sales departments of commercial banks.

A form of interbank cooperation has existed for some time in certain cities for the exchange of credit information, but the participants in this sort of enterprise are not always commercial banks exclusively. At present commercial bank officers are showing increasing interest in the setting up of a national organization.

One attempt in this direction was the formation early in

⁴⁰ See above, Chapter 7.

1939 of the Bankers Association for Consumer Credit. This Association, organized by several officers of commercial banks which had been active in consumer instalment credit operations, announced as its aim the establishment of "a central point to which any bank might refer for information relative to methods, practices and policies of consumer credit as it related to banks." Although the Association intended from the beginning to expand its activities to a national scale, membership was limited at first to banks in New York, New Jersey, Pennsylvania and Ohio, and later extended to Indiana, Iowa, Massachusetts, Michigan, Missouri and Wisconsin. Some of the state bankers' associations, particularly those in Ohio and Massachusetts, have long been concerned with problems involved in the extension of consumer credit, and since its formation the Bankers Association for Consumer Credit has participated actively in their conferences.

The Association has held two general and several regional meetings devoted exclusively to discussions of consumer credit problems. It has acted also as a kind of clearing house for information on consumer credit, and has planned to participate in the drafting of new legislation. In October 1939 it began to publish a monthly magazine on consumer credit, entitled *Time Notes*. This periodical, termed "a magazine for banks interested in consumer credit," is widely circulated and functions like the usual trade association journal. The Association has another publication in preparation, referred to as a *Manual of Suggested Procedure*, and in addition circulates a series called *Pointers* which contain brief discussions of techniques and procedures.

The officers of the Association have made plans for studies in cost accounting. They have worked out arrangements to provide automobile insurance services and to facilitate clearance of automobile deliveries at factories for dealers financing their instalment sales with commercial banks. Members may employ the Association's "skip service," and arrange

with other member banks for the transfer of accounts. A series of standardized forms for the use of commercial bank consumer credit departments is now in preparation, and the Association welcomes suggestions regarding advertising and promotional activities in both cash lending and sales financing.⁴¹

In January 1940 the American Bankers Association, which had previously made a survey of personal loan department operations and drafted a proposed uniform law relating to commercial bank personal loan activities,⁴² announced the formation of a Consumer Credit Division. On March 30, 1940, the Bankers Association for Consumer Credit reported a decision to merge its activities with those of the new division of the American Bankers Association. The reasons given for the merger were centralization of efforts and expansion of services. It is understood that the program of the new division will be to continue the work initiated by the Bankers Association for Consumer Credit and to undertake research in the field.

⁴¹ See *Time Notes*, vol. 1, no. 5 (February 1940) pp. 8 and 15, for a statement of the Association's plans.

⁴² See above, Chapter 2, pp. 58-59.

APPENDIX A

Scope and Procedure of Questionnaire Survey

Contents

SOURCES AND COVERAGE OF DATA	247
EXHIBITS	
I. Questionnaire to Banks on Instalment Credit Financing	250
II. Questionnaire on Personal Loan Department	250
III. Personal Loan Questionnaire	257
IV. Questionnaire on Methods and Practices of Commercial Banks in Financing the Purchase of Consumer Goods on Instalment Basis	261
V. Questionnaire to Commercial Banks on Methods and Practices of Financing Sales Finance Companies, Personal Finance Companies, Industrial Banking Companies and Other Financing Organizations	264

Sources and Coverage of Data

THE main body of quantitative data for this study was obtained by a series of five questionnaires and two schedules on loan applications sent to banks throughout the country. Additional basic data were received from various government agencies and through direct correspondence with commercial banks, sales finance companies and personal finance companies. Use was made also of various government reports and other published data. Facsimiles of all questionnaires used are presented in this Appendix as Exhibits I to V inclusive.

The first questionnaire (Exhibit I), a brief inquiry designed to determine the number of banks engaged in instalment consumer credit financing, was sent in November 1938 to all banks in the United States with the cooperation of the Federal Deposit Insurance Corporation. Nearly 6,000 banks returned completed questionnaires and of these approximately 1,750 reported that they were operating a personal loan department. Comparison of these returns with lists of banks reported to be operating personal loan departments supplied by various state banking departments, the Russell Sage Foundation and the Consumer Credit Institute of America, Inc., resulted in a final list of 2,200 banks supposed to have functioning personal loan departments. This list of 2,200 banks was used as the basis for further inquiries.

Two questionnaires covered the cash instalment credit activities of commercial banks operating personal loan departments, and several inquiries were made subsequently to obtain the maximum number of returns. One of these two questionnaires (Exhibit II) was sent to 274 carefully selected

banks whose personal loan departments were believed to have been in operation for several years. This questionnaire requested detailed operating information. The other questionnaire (Exhibit III) was sent to the remaining 1,926 banks. Replies indicating the existence of personal loan departments were received from 215 of the 274 banks and from 853 of the 1,926 banks. In addition, data on 154 banks also operating departments were obtained indirectly from various state banking departments, the Russell Sage Foundation and the Consumer Credit Institute of America, Inc. The information received, therefore, covered the personal loan departments of 1,222 banks.

Of the 2,200 banks receiving questionnaires, 657 did not respond to either questionnaire and 321 reported that they were not operating personal loan departments. If the 657 non-reporting banks were divided in the same proportion between those with and those without a personal loan department as were the 1,543 banks on which information was received, approximately 520 additional commercial bank personal loan departments would be accounted for. The number of commercial banks operating personal loan departments during the period of this survey, September 1938 to August 1939, may thus be estimated at 1,750. We have accepted a more conservative figure of 1,500, however, for the total number of banks with personal loan departments. If this estimate of 1,500 banks is fairly accurate, the maximum questionnaire coverage obtained in the present study embraced over four-fifths of the individual banks engaged in departmentalized personal leading activities.

The total number of banking offices (banks plus branches) at which personal instalment loans were being made during 1938 was estimated at close to 3,000. This estimate was derived from reports submitted by 108 of the 1,222 banks. These 108 banks were operating 1,425 branches and it appeared reasonable to assume that personal instalment loans

were being made in 1,000 of these offices. From reports covering 1,222 banks it can be estimated that the total number of banking offices engaged in personal lending is 2,200. When account is taken, however, of the estimate of 1,500 personal loan departments and when it is recognized further that this figure probably excludes a considerable number of departments, it would seem that the total number of banking offices engaged in making personal instalment loans approaches 3,000.

A special questionnaire (Exhibit IV), covering the operations of banks engaged in financing retail instalment sales, was sent to 1,175 banks. Of these 265 responded with some information, 198 replied that they were not engaged in such financing or could not furnish the information requested and 712 did not reply. Some of the banks which indicated participation in this type of consumer financing did not operate personal loan departments, and others did. In most cases sales financing activities were conducted through such departments. The data submitted by 265 banks were neither uniform nor complete; in many instances the banks had been engaged in this type of lending for such a short time that they could not supply data for more than one year.

A final questionnaire (Exhibit V) was designed to cover the activities of commercial banks in financing other consumer credit agencies, namely, sales finance companies, personal finance companies, industrial banking companies and credit unions. This questionnaire was sent to 550 large banks believed to be engaged in this type of financing. Of these banks 205 responded with information concerning their operations, 74 reported that they did not extend loans to such companies and 271 failed to reply. Additional important data were received through the National Credit Office, Inc., New York City, and directly from 48 large sales finance companies.

Exhibits

EXHIBIT I

Questionnaire to Banks on Instalment Credit Financing

I. Personal Loans:

1. Are you now operating a personal loan department? Yes ___ No ___
2. If not, have you done so in the past? Yes ___ No ___
3. If you are not operating a personal loan department, do you make chattel, comaker or character loans payable on an instalment basis? Yes ___ No ___
If you are making such loans, what was the approximate amount outstanding (in round figures) on September 15, 1938? \$ _____

II. Instalment Sales Finance Paper:

4. Did you, at any time in 1937, hold in your portfolio any notes or obligations of sales finance companies, small loan (personal finance) companies, or other institutions engaged primarily in financing consumers on an instalment basis? Yes ___ No ___
If you are making such loans, what was the approximate amount outstanding (in round figures) on September 15, 1938? \$ _____

EXHIBIT II

FORM I
CODE NO. _____

Questionnaire on Personal Loan Department

Note: In answering questions 1-37, please restrict replies, except in question 27, to experience on single-name and comaker loans, loans secured by savings pass-books, life insurance, etc. *Exclude* experience on FHA (Title I) loans, loans secured by conditional sales contracts, bailment leases, chattel mortgages, etc., and discounted dealer paper.

I. General Information

1. When did you organize your personal loan department? _____
Year

2. Check one or more reasons for going into this type of business:
- Success in handling FHA Title I loans _____
 - Outlet for idle funds _____
 - Provide more complete banking service _____
 - Prevent loss of old accounts _____
 - Other reasons (List specific reasons) _____

3. How many employees do you have working in personal loan department?
- Full time _____ Part time _____
4. What percentage of the total applications submitted to your personal loan department in 1938 were rejected by your bank _____ %
5. Has personal loan department brought in other types of business?
Yes _____ No _____ Specify types _____
6. In organizing a personal loan department did you:
- Bring in a specially trained man from outside the bank to manage this department? Yes _____ No _____
 - If yes, what was the former employment of this man? _____
 - If no, what special training, if any, did you give employee assigned to manage this department? _____
7. If you operate branches, please state:
- Total number of branches _____
 - Number of branches making personal loans _____
 - If credit investigation work is concentrated in one office
Yes _____ No _____
8. Does your bank, in computing the cost of operating the personal loan department, charge it:
- With some percentage of general overhead expenses, (i.e., expenses not directly allocable to personal loan department)? Yes _____
No _____
 - With interest on the funds employed in personal loans? Yes _____
No _____ If yes, at what rate? _____ %
9. What is the minimum annual volume of business needed to make your personal loan department profitable, taking into consideration the size of your bank, present interest rates, and the existing personnel in your personal loan department? \$ _____
- II. Credit Information
10. Do you require the applicant to fill out a loan application blank giving full details regarding income and employment? Yes _____ No _____
Please attach copy of your application blank and any other forms which the applicant is required to fill out.
11. Check one or more of the sources from which you receive credit information:
- Own bank's commercial credit department _____
 - Mercantile credit agencies _____

- c) Retail credit exchange agencies _____
 d) Bank personal loan credit interchange agencies _____
 e) Other personal loan credit interchange agencies _____
 f) Customer's own bank _____
 g) Customer's employer _____
 h) Customer's creditors _____
 i) Other sources (List specific sources) _____

12. If you operate branches do you concentrate credit investigation work in one office? a) Entirely _____ b) Partially _____
13. Do you charge a credit investigation fee? Yes _____ No _____
 a) If yes, is it a flat fee? Yes _____ Amount \$ _____ No _____
 b) If the fee varies between types and sizes of loans, please explain:

14. Do you collect an investigation charge if loan application is rejected? Yes _____ No _____
15. Do you require borrowers to carry group life insurance on unsecured and comaker loans? Yes _____ No _____
16. If you require insurance, how is the premium collected? _____

17. Aside from the borrower's income, what other factors do you consider important in determining the credit standing of the borrower? (List five or six factors in order of importance) _____

18. If borrower has a personal loan outstanding from another bank, do you require a consolidation in order to handle the full amount of personal loan indebtedness? Yes _____ No _____
19. List other types of instalment indebtedness which you require to be consolidated.

- III. *Loan Requirements*
20. What is your maximum loan maturity? _____ months. Minimum? _____ months.
21. What is your maximum individual loan limit? \$ _____ Minimum? \$ _____
22. Do you grant a rebate of interest if the loan is paid before maturity? Yes _____ No _____ If yes, how is the amount of the rebate determined? _____

23. What percentage of your loans paid off in 1938 were terminated by:
 a) Prepayment (i.e., paid in full before last payment was due)? _____ %
 b) A new loan made to pay off the unpaid balance (i.e., refinanced)? _____ %
 _____ %

- c) A new loan to pay off unpaid balance and provide additional funds?
_____ %
- 24. What interest rate do you now charge on:
 - a) Single-name loans _____
 - b) Comaker loans _____
 - c) Collateral loans _____
 - d) Other rate quotations (specify) _____
- 25. Is interest collected in advance (i.e., deducted from the face of the note)? Yes _____ No _____
- 26. Do you charge off uncollectible loans as losses? Yes _____ No _____
 - a) If yes, do you treat charge-offs as a current operating expense or do you deduct the loss from a reserve built up to cover such losses? Check (1) or (2) below.
 - (1) Charge to current expense _____ (2) Deduct from loss reserve _____
 - b) If you build up a reserve against potential losses, how is the amount of the reserve determined? _____
- 27. What percent of your collateral loans made in 1938 were secured by:
 - a) Stocks and bonds %
 - b) Savings passbooks %
 - c) Life insurance policies %
 - d) Others (list) (e.g., chattel mortgages, wage assignments, automobiles, etc.) %
 - _____ %
 - _____ %
- 28. Have you made arrangements with any business firms providing for loans to the employees of such firms without comakers? Yes _____ No _____ If so, approximately what percentage of your total loans made in 1938 were obtained in this way? _____ %
- IV. *Collection Experience*
- 29. Are the borrower's instalment payments:
 - a) Applied as a direct reduction of the principal of the loan? Yes _____ No _____
 - b) Accumulated in a special savings account? Yes _____ No _____ If yes, what interest, if any, is paid on such savings accounts? _____ %
- 30. What percentage of your loans outstanding at the end of 1938 were delinquent: 30 days _____ %, 31-59 days _____ %, 60 days and over _____ %? (Measure delinquency as the number of days from the date at which payment was due.)
- 31. Do you impose a late charge on delinquents? Yes _____ No _____ If yes, what is the charge and how is it determined? _____
- 32. a) During 1938, how many loans were "matured" or "accelerated" (i.e., payment in full demanded)? _____

- b) What was the amount of the unpaid balance on these "matured" loans? \$_____
33. How long do you allow loans to remain delinquent before demanding payment in full? _____ days.
34. What percentage of "matured" or "accelerated" accounts are finally turned over to attorneys for collection? _____%
35. What percentage of the number of unsecured and comaker loans turned over to attorneys are:
- a) Taken into court? _____%
- b) Finally paid? _____%
36. Approximately what percentage of the number of your comaker loans were finally paid by the comakers? _____%
37. What percentage of the number of your loans secured by savings bank passbooks, and stocks and bonds, life insurance and like collateral were finally paid by sale of collateral? _____%

TABLE 1
Total Volume of Personal Loans, 1934-1938

YEAR	TOTAL LOANS OUTSTANDING AT END OF YEAR		TOTAL LOANS MADE DURING YEAR		AMOUNT OF DIFFERENT TYPES OF LOANS MADE DURING YEAR							
					<i>Single Name</i>		<i>Comaker</i>		<i>Secured by Savings Pass- books, etc.¹</i>		<i>Secured by Conditional Sales Contracts, etc.²</i>	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1938		\$		\$		\$		\$		\$		\$
1937		\$		\$		\$		\$		\$		\$
1936		\$		\$		\$		\$		\$		\$
1935		\$		\$		\$		\$		\$		\$
1934		\$		\$		\$		\$		\$		\$

¹ Include stocks and bonds, life insurance and like collateral.

² Include bailment leases, chattel mortgages and like collateral.

TABLE 2

Percentage Distribution of Personal Loans Made During 1938 According to Maturity

MATURITY	PERCENT
Under 12 months	_____
12 months	_____
15 months	_____
18 months	_____
Over 18 months	_____
	100.0

CODE NO. _____

TABLE 3

Charge-Offs and Recoveries on Single-Name and Co-maker Loans 1934-1938¹

YEAR	LOANS CHARGED OFF				RECOVERIES ON LOANS PREVIOUSLY CHARGED OFF	
	<i>Single Name</i>		<i>Comaker</i>		<i>Single Name</i>	<i>Comaker</i>
	No.	Amount	No.	Amount	Amount	Amount
1938		\$		\$	\$	\$
1937		\$		\$	\$	\$
1936		\$		\$	\$	\$
1935		\$		\$	\$	\$
1934		\$		\$	\$	\$

¹ If, as a matter of accounting procedure, you do not charge off losses on loans, it is not necessary for you to fill in this table.

TABLE 4

Sources of Income from Personal Loan Business for Year Ending December 31, 1938

Gross income, per \$100 of funds used, from personal loan department:
 \$ _____

Percentage of income derived from:

- a) Interest on loans _____%
- b) Charges for credit investigation _____%
- c) Late charges _____%
- d) Others _____%

FORM II
 CODE NO. _____

EXHIBIT III

Personal Loan Questionnaire

Note: In answering questions 1-11, please restrict replies to experience on single-name and comaker loans, loans secured by savings passbooks, life insurance, etc. Exclude experience on FHA (Title I) loans, loans secured by conditional sales contracts, bailment leases, chattel mortgages, etc., and discounted dealer paper.

1. When did you organize your Personal Loan Department? _____
2. If you operate branches, please state: (1) Total number _____ (2) Number making personal loans _____ (3) Is credit work concentrated in one office? Yes _____ No _____
3. What interest rate do you now charge on each of the following types of personal loans: (1) Single name _____% (2) Comaker _____% (3) Collateral _____% Other quotations _____%
4. Do you charge a credit investigation fee? Yes _____ No _____. If yes, is it a flat fee? Yes _____ Amount \$ _____ No _____. If the fee varies between types and sizes of loans, please explain _____
5. What is your maximum loan maturity? _____ months. Minimum? _____ months.
6. What is your maximum loan limit? \$ _____ Minimum? \$ _____
7. What percentage of your loans have a maturity of: (1) Under 12 months? _____% (2) 12 months? _____% (3) 15 months? _____% (4) 18 months? _____% (5) Over 18 months? _____%
8. During 1938, what percentage of your loans outstanding became delinquent: 30 days? _____% 31-59 days? _____% 60 days and over? _____% (Measure delinquency as the number of days from the date at which payment was due.)

9. How long do you allow loans to remain delinquent before payment in full is demanded? _____ days.
10. During 1938, what percentage of your loans were "matured" or "accelerated" (i.e., payment in full demanded)? _____% What percentage of such accounts were finally turned over to attorneys for collection? _____%
11. Remarks: _____

	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1938		\$		\$		\$		\$		\$		\$
1937		\$		\$		\$		\$		\$		\$
1936		\$		\$		\$		\$		\$		\$
1935		\$		\$		\$		\$		\$		\$
1934		\$		\$		\$		\$		\$		\$

¹ Include stocks and bonds, life insurance and like collateral.

² Include bailment leases, chattel mortgages and like collateral.

TABLE 2

Charge-Offs and Recoveries on Single-Name and Co-maker Loans, 1934-1938

LOANS CHARGED OFF DURING YEAR			AMOUNT RECOVERED DURING YEAR FROM LOANS PREVI- OUSLY CHARGED OFF
Year	No.	Amount	Amount
1938		\$	\$
1937		\$	\$
1936		\$	\$
1935		\$	\$
1934		\$	\$

Please attach a copy of your personal loan application blank.

EXHIBIT IV

Questionnaire on Methods and Practices of Commercial Banks in Financing the Purchase of Consumer Goods on Instalment Basis

1. If you are financing the purchase of consumer goods on the instalment basis, please check in proper column in the following table to show types of goods financed and the source from which you obtain the paper:

ARTICLE	DO YOU ACQUIRE PAPER DIRECT FROM PURCHASER?		DO YOU ACQUIRE PAPER DIRECT FROM DEALER?		DO YOU ACQUIRE PAPER FROM MANUFACTURER?		DO YOU BUY SUCH PAPER FROM OTHER SOURCES?	
	Yes	No	Yes	No	Yes	No	Yes	If yes, please specify
Automobiles								
Household appliances (refrigerators, radios, ranges, washing machines, etc.)								
House-heating equipment								
Furniture								
Soft goods (clothes, etc.)								
Others (Please specify)								

2. To what extent are such loans or purchases of instalment paper handled by your personal loan department? _____

3. Please submit the indicated information on loans made or paper purchased by your bank during 1938:

ARTICLE	TOTAL LOANS AND PURCHASED PAPER OUTSTANDING 12-31-38	TOTAL LOANS AND PURCHASES OF PAPER MADE DURING 1938		PERCENTAGE OF TOTAL RETAIL LOANS OR PAPER PURCHASED DURING 1938 OBTAINED FROM ¹				TOTAL LOANS AND PURCHASES OF PAPER DURING 1937
		No.	Amount	Purchaser	Dealer	Mfr.	Others	
Automobiles	\$ _____		\$ _____	%	%	%	%	\$ _____
Household appliances	\$ _____		\$ _____	%	%	%	%	\$ _____
House-heating equipment	\$ _____		\$ _____	%	%	%	%	\$ _____
Furniture	\$ _____		\$ _____	%	%	%	%	\$ _____
Soft goods	\$ _____		\$ _____	%	%	%	%	\$ _____
Others	\$ _____		\$ _____	%	%	%	%	\$ _____
(Please specify)	\$ _____		\$ _____	%	%	%	%	\$ _____
TOTAL	\$ _____		\$ _____	%	%	%	%	\$ _____

¹ This breakdown may be given in dollar amounts if more convenient to you.

4. What were your total loans and paper purchased outstanding, December 31, 1937? \$ _____; December 31, 1936? \$ _____
5. If you sent us a completed questionnaire on personal loan departments, to what extent are the loan statistics appearing on the present questionnaire duplicated in your reply to the personal loan department questionnaire?
-
6. What percentage of your 1938 retail automobile loans were made to finance the instalment purchase of used cars? _____%
7. Do you make loans to finance the wholesale stock of automobile dealers?
- a) New Cars? Yes _____ No _____ If so, amount made during 1938 \$ _____
- b) Used Cars? Yes _____ No _____ If so, amount made during 1938 \$ _____

8. Please indicate the extent to which you have recourse to the dealer or manufacturer or receive their guaranty, on the financing of the different articles:

ARTICLE	DEALER'S RE-COURSE OR GUARANTY			MANUFACTURER'S RE-COURSE OR GUARANTY			RECOURSE ON PAPER ACQUIRED FROM OTHERS		
	Full	Limited	None	Full	Limited	None	Full	Limited	None
Automobiles	%	%	%	%	%	%	%	%	%
Household appliances	%	%	%	%	%	%	%	%	%
House-heating equipment	%	%	%	%	%	%	%	%	%
Furniture	%	%	%	%	%	%	%	%	%
Soft goods	%	%	%	%	%	%	%	%	%
Others (Please specify)	%	%	%	%	%	%	%	%	%
	%	%	%	%	%	%	%	%	%

9. Indicate below the amount of charge-offs and recoveries made during 1938 on:

	CHARGE-OFFS	RECOVERIES
Automobile paper	\$ _____	\$ _____
All other paper	\$ _____	\$ _____

10. With regard to down payment and length of contract, what minimum down payment and maximum length of contract do you adhere to as standard or conservative?

ARTICLE	MINIMUM DOWN PAYMENT	MAXIMUM NUMBER OF MONTHS
Automobiles		%
Household appliances		%
House-heating equipment		%
Furniture		%
Soft goods		%
Others (Please specify)		%
		%

11. What provisions, if any, are made for setting up a reserve against possible losses resulting from bad loans? Please explain the basis and amount of such reserves. (If additional space is needed, please use reverse side of this page.) _____

FORM IV
 CODE NO. _____

EXHIBIT V

Questionnaire to Commercial Banks on Methods and Practices of Financing Sales Finance Companies, Personal Finance Companies, Industrial Banking Companies and Other Financing Organizations

1. If you are financing sales finance companies, personal finance companies, industrial banking companies or other instalment consumer credit financing organizations, please enter check-marks in the proper column in the following table:

Types of Loans Made, and Classes of Organizations Financed

ORGANIZATIONS	UNSECURED LOANS		LOANS SECURED BY COLLATERAL		PAPER PURCHASED IN MARKET FOR OWN ACCOUNT	
	Yes	No	Yes	No	Yes	No
Sales finance companies						
Personal finance companies (Small loan companies)						
Industrial banking companies						
Other financing organizations (Please state type)						

2. If you make loans secured by collateral to finance organizations engaged in extending consumer instalment credit, indicate below the types of collateral taken by the bank as security from:

- a) Sales finance companies _____
- b) Personal finance companies _____
- c) Industrial banking companies _____
- d) Other financing organizations _____
(Please state type)

3. Statement of total outstanding bank loans and paper purchased in market, on dates indicated, to certain financing organizations lending on instalment basis.

	1938		1937	
	June 30	December 31	June 30	December 31
I. To Sales Finance Companies¹				
a) Unsecured loans	_____	_____	_____	_____
b) Loans secured by collateral	_____	_____	_____	_____
c) Paper purchased in open market for own account	_____	_____	_____	_____
II. To Personal Finance Companies¹ (Small Loan Companies)				
a) Unsecured loans	_____	_____	_____	_____
b) Loans secured by collateral	_____	_____	_____	_____
c) Paper purchased in open market for own account	_____	_____	_____	_____
III. To Industrial Banking Companies				
a) Unsecured loans	_____	_____	_____	_____
b) Loans secured by collateral	_____	_____	_____	_____
c) Paper purchased in open market for own account	_____	_____	_____	_____
IV. To Other Financing Organizations (Specify types)				
a) Unsecured loans	_____	_____	_____	_____
b) Loans secured by collateral	_____	_____	_____	_____
c) Paper purchased in open market for own account	_____	_____	_____	_____
TOTAL	_____	_____	_____	_____

¹ If a borrowing company purchases automobile and other types of paper (excluding personal loans), and also operates a personal finance division,

4. Please indicate the range of maturities of loans made to the following and indicate where within the range the bulk of your loans fall.

ORGANIZATIONS	RANGE OF MATURITIES OF OUTSTANDING LOANS, AS OF DECEMBER 31, 1938	
Sales finance companies	_____ to _____ months,	bulk at _____ months
Personal finance com- panies (Small loan companies)	_____ to _____ months,	bulk at _____ months
Industrial banking com- panies	_____ to _____ months,	bulk at _____ months
Other financing organizations (Specify types)	_____ to _____ months,	bulk at _____ months
	_____ to _____ months,	bulk at _____ months

5. To what extent do you insist on obtaining periodically (say every six months) a maturity schedule of outstanding retail receivables from sales finance companies? _____

6. If you are financing sales finance companies,
- a) What do you regard as a satisfactory "liquidation" period of a company's debt? _____
 - b) What do you regard as the minimum percent of the cost price that the finance company should receive as a down payment on:
 - (1) A new car? _____%
 - (2) A used car? _____%
 - c) What is the maximum number of months for repayment that a sales finance company should allow its customers on purchases of:
 - (1) A new car? _____ months.
 - (2) A used car? _____ months.

7. What has been the amount of losses sustained by your bank during the past two years to:

	1937	1938
a) Sales finance companies	\$ _____	\$ _____
b) Personal finance companies (Small loan com- panies)	\$ _____	\$ _____
c) Industrial banking companies	\$ _____	\$ _____

include any loans to such companies in the group that represents the greatest proportion of the total business done (e.g., a company doing 75 percent of its business in automobile financing and 25 percent in personal finance should be included in Group I above).

¹In determining the liquidation period, cash and wholesale receivables should be deducted from total liabilities to arrive at net debt position. From maturity schedule of outstanding retail receivables should then be determined how many months' collections would be required to liquidate this net debt.

8. What was the range of interest rates which you were receiving on December 31, 1938, and where did the bulk of your loans fall in this range on:
- a) Direct loans to sales finance companies _____ to _____ bulk at ____%
 - b) Direct loans to personal finance companies..... _____ to _____ bulk at ____%
 - c) Open market paper which you held on that date..... _____ to _____ bulk at ____%
9. To what extent did the interest rate charged on direct loans to local sales finance companies differ from that charged on advances to national sales finance companies? _____
-
10. What would you regard as a conservative ratio between borrowed funds and net worth¹ (capital funds) for:
- a) Sales finance companies _____
 - b) Personal finance companies (Small loan companies) _____
 - c) Industrial banking companies _____
11. What, if any, was the amount of debentures or other long-term obligations which you held in your investment portfolios as of December 31st, for:
- | | 1937 | 1938 |
|--------------------------------------|----------|----------|
| a) Sales finance companies..... | \$ _____ | \$ _____ |
| b) Personal finance companies..... | \$ _____ | \$ _____ |
| (Small loan companies) | | |
| c) Industrial banking companies..... | \$ _____ | \$ _____ |

¹ Borrowed funds should include short-term borrowings, debentures and other forms of long-term borrowings; and net worth should include the total of capital stock and surplus (less any investments in outside companies and intangibles).

APPENDIX B

Credit Risk Analysis (Supplement to Chapter 5)

Contents

A NOTE ON METHOD	273
TABLES	
B-1. Percentage Distribution of Bad-Loan Samples of 21 Banks, by Type of Collection Difficulty	275
B-2. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Age of Borrower	276
B-3. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Sex and Marital Status of Borrower	278
B-4. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Number of Borrower's Dependents	279
B-5. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Stability of Borrower's Residence	281
B-6. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Occupation of Borrower	283
B-7. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Industrial Affiliation of Borrower	286
B-8. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Borrower's Tenure of Employment	289

TABLES

B-9. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Annual Income of Borrower	290
B-10. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Amount of Note in Percent of Annual Income of Borrower	292
B-11. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Selected Asset and Liability Items of Borrower	293
B-12. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Amount of Note	301
B-13. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Type of Security	303
B-14. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Length of Loan Contract	304
B-15. Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Intended Use of Funds	305

EXHIBIT

VI. Deferred Payment Contract Analysis	307
--	-----

A Note on Method

THIS appendix contains a set of tables supplementary to the tabulations presented in Chapter 5, which analyzed factors in credit risk as indicated by the good- and bad-loan samples from 21 banks. At the end of the appendix is a copy of one of the schedule forms (Exhibit VI) used to obtain the data on bad loans; the form for good-loan data differed from this only in that item 1 was omitted.

For the tables in Chapter 5 the samples of all 21 contributing banks were consolidated. In this appendix, however, the samples of 10 banks are shown individually, and the other 11 samples, which were too small to warrant individual analysis, are presented as two samples. These twelve samples are identified by the letters A to L; the size and general location of the banks that supplied them are as follows: A and B are central reserve city banks; C, D, E, F, G and H are reserve city banks, the first three being located in the West North Central region, the fourth in New England, and the last two on the Pacific Coast; J is a New England country bank; K represents a consolidation of data from six banks in several regions, and L a consolidation of information from five banks in the South.

In some of the following tabulations the distributions are based on the total number of loan schedules submitted, in others on the number reporting information. In this respect the choice of procedure depended on whether it appeared advisable to include the non-reporting loans in a given class. For example, in cases not reporting age the loans could hardly have been included in any one of the age classes, but

cases not reporting occupation could be consolidated with the miscellaneous and ambiguous cases. Cases not reporting assets or liabilities presented a serious problem for which there was no satisfactory solution; they were finally consolidated with those reporting no assets or liabilities.

Wherever there are cases not reporting information, there is a source of error. To indicate the amount of error possible from such a source, most of the tabulations contain a column giving the percent of cases not reporting information. This percentage may be based on the total number of loans in the sample, or on the number of loans for which there are reports.

The average distributions for all banks combined are weighted averages. For each bank the good and bad distributions were weighted equally, the weight being determined by the total number of loans in the smaller of the two samples; if the bad-loan sample was smaller, the number in that sample was taken as the weight, and conversely. The sum of the weights is, in most cases, 1,294, which may be designated the "effective number of cases." This is a fictitious number used for the purpose of making tests of significance, and does not refer to an actual number of loan schedules. If the average distributions are interpreted as referring to actual samples of 1,294 good loans and 1,294 bad loans the true statistical significance of these distributions will be slightly underestimated. In the distributions based on the number of loans reporting information, the effective number has been reduced in accordance with the percent of loans not reporting information; the result may be called the "effective number of cases reporting." In the columns headed "total number of cases" or "number of cases reporting" we give, in the individual distributions, the actual number of cases or the actual number reporting; but in the average distributions we give the effective number of cases or the effective number reporting.

Tables

TABLE B-1

Percentage Distribution of Bad-Loan Samples of 21 Banks, by Type of Collection Difficulty

SAMPLE	TYPE OF COLLECTION DIFFICULTY			TOTAL	NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT REPORTING IN PERCENT OF NUMBER REPORTING
	<i>Charge-Off</i>	<i>No Charge-Off</i>				
		Legal Action and/or Collection from Comaker	Excessive Delinquency ^a			
A	2.1	95.8	2.1	100.0	193	1.6
B	1.0	41.4	57.6	100.0	99	..
C	..	9.8	90.2	100.0	133	2.3
D	62.6	6.2	31.2	100.0	96	4.2
E	18.7	31.3	50.0	100.0	32	231.1
F	22.2	18.1	59.7	100.0	72	4.2
G	70.6	29.4	..	100.0	17	194.1
H	60.0	16.5	23.5	100.0	85	..
I	14.3	55.1	30.6	100.0	98	5.1
J	48.0	6.0	46.0	100.0	100	..
K	31.4	31.4	37.2	100.0	121	7.4
L	1.2	35.8	63.0	100.0	81	44.5
ALL SAMPLES ^b	22.3	36.7	41.0	100.0	1,127	15.1

^a "Excessive delinquency" was defined as 90 days or more, but in some cases banks included under this heading loans that were delinquent for a shorter period.

^b Includes the entire lot of 1,297 bad loans submitted by all contributing banks.

TABLE B-2

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Age of Borrower

SAMPLE	AGE OF BORROWER							TOTAL	NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT REPORTING IN PERCENT OF NUMBER REPORTING	
	21-25	26-30	31-35	36-40	41-45	46-50	Over 50				
A	Good	13.8	20.9	20.9	13.8	10.7	10.2	9.7	100.0	196	2.0
	Bad	26.1	20.2	15.4	15.9	9.6	9.6	3.2	100.0	188	4.3
B	Good	8.2	12.4	8.2	15.5	14.4	17.5	23.8	100.0	97	2.1
	Bad	9.4	10.4	17.7	21.9	13.5	16.7	10.4	100.0	97	2.1
C	Good	9.6	22.9	19.1	17.2	14.7	6.9	9.6	100.0	157	1.9
	Bad	12.7	20.1	23.1	16.4	14.9	3.8	9.0	100.0	134	1.5
D	Good	12.9	20.4	22.4	8.8	10.2	10.9	14.4	100.0	147	2.0
	Bad	15.2	12.1	16.2	21.2	14.1	7.1	14.1	100.0	99	1.0
E	Good	20.2	17.3	17.3	11.5	16.4	5.8	11.5	100.0	104	4.8
	Bad	14.0	21.0	28.0	19.0	10.0	2.0	6.0	100.0	100	6.0
F	Good	20.3	17.6	12.1	17.6	12.1	9.5	10.8	100.0	74	1.3
	Bad	21.4	20.0	20.0	20.0	10.0	7.1	1.5	100.0	70	7.2
G	Good	10.4	14.6	10.4	26.0	16.7	9.4	12.5	100.0	96	2.1
	Bad	14.9	17.0	14.9	14.9	19.1	8.6	10.6	100.0	47	6.4

TABLE B-2 (Concluded)
Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Age of Borrower

SAMPLE	AGE OF BORROWER							TOTAL	NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT REPORTING IN PERCENT OF NUMBER REPORTING	
	21-25	26-30	31-35*	36-40	41-45	46-50	Over 50				
H	Good	9.2	18.4	20.7	19.5	13.8	10.3	8.1	100.0	87	..
	Bad	10.7	26.2	26.2	14.3	17.9	1.2	3.5	100.0	84	1.2
I	Good	12.4	21.0	19.0	15.2	14.3	5.7	12.4	100.0	105	2.9
	Bad	12.5	28.1	15.6	15.6	10.4	8.4	9.4	100.0	96	7.3
J	Good	6.0	17.0	12.0	14.0	15.0	14.0	22.0	100.0	100	..
	Bad	5.1	16.3	23.5	24.5	7.1	14.3	9.2	100.0	98	2.0
K	Good	10.4	25.6	17.6	15.2	12.0	8.8	10.4	100.0	125	1.6
	Bad	12.8	21.6	21.6	16.0	10.4	10.4	7.2	100.0	125	4.0
L	Good	14.9	22.3	16.9	16.9	12.2	7.4	9.4	100.0	148	4.8
	Bad	8.7	27.0	26.1	19.1	10.4	5.2	3.5	100.0	115	1.7
ALL SAMPLES											
	Good	12.4	19.8	17.1	15.3	13.2	9.6	12.6	100.0	1,267	2.2
	Bad	14.2	20.2	20.8	18.1	11.8	7.9	7.0	100.0	1,250	3.5

TABLE B-3

Percentage Distribution of Good-Loan and Bad-Loan
Samples of 21 Banks, by Sex and Marital Status of Borrower

SAMPLE	MARRIED		SINGLE		OTHERS*	TOTAL	TOTAL NUMBER OF CASES
	Male	Female	Male	Female			
A Good	51.0	6.5	22.5	15.0	5.0	100.0	200
A Bad	54.6	1.5	33.2	5.1	5.6	100.0	196
B Good	67.7	10.1	13.1	5.1	4.0	100.0	99
B Bad	66.7	..	21.2	4.0	8.1	100.0	99
C Good	55.6	4.4	17.5	15.0	7.5	100.0	160
C Bad	67.7	2.9	20.6	6.6	2.2	100.0	136
D Good	40.7	12.7	9.3	30.0	7.3	100.0	150
D Bad	59.0	2.0	24.0	5.0	10.0	100.0	100
E Good	56.9	3.7	18.3	11.9	9.2	100.0	109
E Bad	64.2	3.8	21.7	7.5	2.8	100.0	106
F Good	68.0	..	28.0	2.7	1.3	100.0	75
F Bad	54.7	2.7	30.6	5.3	6.7	100.0	75
G Good	70.4	..	13.3	10.2	6.1	100.0	98
G Bad	82.0	2.0	8.0	8.0	..	100.0	50
H Good	62.1	..	21.8	4.6	11.5	100.0	87
H Bad	68.2	1.2	22.4	2.3	5.9	100.0	85
I Good	61.1	5.6	12.9	14.8	5.6	100.0	108
I Bad	64.1	5.8	21.4	3.9	4.8	100.0	103
J Good	84.0	1.0	8.0	5.0	2.0	100.0	100
J Bad	90.0	1.0	5.0	..	4.0	100.0	100
K Good	65.4	4.7	12.6	9.4	7.9	100.0	127
K Bad	66.1	.8	25.4	6.2	1.5	100.0	130
L Good	69.7	5.8	13.6	7.7	3.2	100.0	155
L Bad	73.5	3.4	16.2	6.0	.9	100.0	117
ALL SAMPLES							
Good	61.4	5.0	16.1	11.6	5.9	100.0	1,294
Bad	66.3	2.2	22.1	5.0	4.4	100.0	1,294

* Includes persons divorced, separated, widowed and not reporting.

TABLE B-4

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Number of Borrower's Dependents

SAMPLE	DEPENDENTS						TOTAL	NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT REPORTING IN PERCENT OF NUMBER REPORTING
	None	1	2	3	4	5 or More			
A Good	44.2	20.6	19.1	10.6	4.5	1.0	100.0	199	.5
A Bad	36.6	24.6	16.8	13.1	5.2	3.7	100.0	191	2.6
B Good	32.6	20.7	23.9	7.6	12.0	3.2	100.0	92	7.6
B Bad	21.6	27.8	23.7	19.6	5.2	2.1	100.0	97	2.0
C Good	18.7	37.3	24.6	12.7	5.2	1.5	100.0	134	19.4
C Bad	14.0	36.0	27.2	14.0	7.0	1.8	100.0	114	19.3
D Good	46.7	17.3	17.3	11.5	5.0	2.2	100.0	139	7.9
D Bad	35.1	17.6	18.7	17.6	9.9	1.1	100.0	91	9.9
E Good	11.0	29.3	29.3	20.7	7.3	2.4	100.0	82	33.0
E Bad	7.9	25.0	26.3	31.6	7.9	1.3	100.0	76	39.5
F Good	30.4	37.7	14.5	10.1	5.8	1.5	100.0	69	8.7
F Bad	37.7	26.2	16.4	9.9	8.2	1.6	100.0	61	23.0
G Good	26.0	29.2	11.5	20.8	8.3	4.2	100.0	96	2.1
G Bad	18.0	26.0	20.0	18.0	8.0	10.0	100.0	50	..

TABLE B-4 (Concluded)

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Number of Borrower's Dependents

SAMPLE	DEPENDENTS						TOTAL	NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT REPORTING IN PERCENT OF NUMBER REPORTING
	None	1	2	3	4	5 or More			
H Good	31.0	28.7	19.5	6.9	9.2	4.7	100.0	87	..
H Bad	24.7	23.5	28.2	10.6	7.1	5.9	100.0	85	..
I Good	33.7	23.5	21.4	16.3	2.0	3.1	100.0	98	10.1
I Bad	34.1	34.1	17.6	13.1	..	1.1	100.0	91	13.2
J Good	18.2	33.3	19.2	11.1	11.1	7.1	100.0	99	1.0
J Bad	7.2	29.6	22.4	22.4	8.2	10.2	100.0	98	2.0
K Good	20.3	26.9	31.7	11.5	7.7	1.9	100.0	104	22.1
K Bad	20.0	19.0	26.7	22.8	8.6	2.9	100.0	105	23.8
L Good	24.8	29.4	17.1	15.5	7.0	6.2	100.0	129	20.1
L Bad	25.0	16.7	17.7	26.0	7.3	7.3	100.0	96	21.9
ALL SAMPLES									
Good	29.4	27.1	21.2	12.5	6.8	3.0	100.0	1,152	10.6
Bad	24.4	25.5	21.6	17.9	6.7	3.9	100.0	1,135	12.3

TABLE B-5

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Stability of Borrower's Residence

SAMPLE	YEARS AT PRESENT ADDRESS						TOTAL	NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT REPORTING IN PERCENT OF NUMBER REPORTING
	0-1	1-2	2-3	3-6	6-10	10 and Over			
A Good	11.1	20.1	10.6	21.6	10.0	26.6	100.0	199	.5
A Bad	15.0	22.3	19.2	25.4	7.3	10.8	100.0	193	1.5
B Good	10.3	10.3	6.2	22.7	12.4	38.1	100.0	97	2.0
B Bad	18.3	16.1	15.1	32.3	7.5	10.7	100.0	93	6.4
C Good	17.5	18.1	13.1	20.0	8.8	22.5	100.0	160	..
C Bad	21.3	19.8	11.8	19.9	5.1	22.1	100.0	136	..
D Good	11.4	14.1	8.0	24.9	10.7	30.9	100.0	149	.7
D Bad	13.6	13.6	12.5	21.6	9.1	29.6	100.0	88	13.6
E Good	22.4	12.2	15.9	16.8	9.3	23.4	100.0	107	1.9
E Bad	29.5	18.1	10.5	20.0	2.9	19.0	100.0	105	1.0
F Good	18.9	14.9	13.5	18.9	8.1	25.7	100.0	74	1.4
F Bad	33.3	19.4	9.7	16.8	6.9	13.9	100.0	72	4.3
G Good	9.5	15.8	13.7	20.0	7.4	33.6	100.0	95	3.1
G Bad	19.1	21.3	8.5	17.0	6.4	27.7	100.0	47	6.4

TABLE B-5 (Concluded)

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Stability of Borrower's Residence

SAMPLE	YEARS AT PRESENT ADDRESS						TOTAL	NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT REPORTING IN PERCENT OF NUMBER REPORTING
	0-1	1-2	2-3	3-6	6-10	10 and Over			
H Good	8.2	15.3	8.2	21.2	7.1	40.0	100.0	85	2.3
H Bad	16.7	25.0	10.7	14.3	11.9	21.4	100.0	84	1.2
I Good	18.2	13.1	13.1	23.3	13.1	19.2	100.0	99	9.1
I Bad	31.8	29.5	5.7	17.1	4.5	11.4	100.0	88	17.0
J Good	1.0	1.0	42.9	22.4	11.2	21.5	100.0	98	2.0
J Bad	1.0	4.0	57.0	17.0	10.0	11.0	100.0	100	..
K Good	17.5	15.8	10.9	17.5	10.0	28.3	100.0	120	5.8
K Bad	26.4	21.6	13.6	20.0	5.6	12.8	100.0	125	4.0
L Good	14.4	17.4	11.3	23.6	11.3	22.0	100.0	132	17.4
L Bad	37.5	14.3	9.8	14.3	9.8	14.3	100.0	112	4.5
ALL SAMPLES									
Good	13.5	14.5	13.7	21.1	10.1	27.1	100.0	1,249	3.6
Bad	21.6	18.8	16.0	20.2	7.2	16.2	100.0	1,240	4.3

TABLE B-6

Percentage Distribution of Good-Loan and Bad-Loan
Samples of 21 Banks, by Occupation of Borrower

SAMPLE	PROFESSIONAL		CLERICAL			
	Teachers, etc. ^a	Artists ^b	Sales- persons	Outside Salesmen	Office Workers ^c	Others
A Good	4.5	2.5	2.5	8.5	30.0	11.0
A Bad	1.5	2.6	4.6	8.7	12.2	5.1
B Good	11.1	5.1	3.0	3.0	14.1	3.0
B Bad	4.0	5.1	2.0	11.1	12.1	10.1
C Good	2.5	2.5	3.8	4.4	44.4	13.1
C Bad	2.2	2.2	4.4	15.5	16.9	11.0
D Good	12.7	2.7	.7	4.7	38.7	..
D Bad	8.0	2.0	4.0	10.0	13.0	9.0
E Good	12.8	.9	7.3	9.2	26.6	..
E Bad	3.8	1.9	4.7	16.0	5.7	8.5
F Good	4.0	2.7	5.3	6.7	13.3	14.7
F Bad	8.0	..	2.7	18.6	6.7	8.0
G Good	7.1	6.1	4.1	9.2	16.3	5.1
G Bad	2.0	2.0	6.0	8.0	10.0	8.0
H Good	5.8	3.5	6.9	5.8	9.2	10.3
H Bad	1.1	3.5	2.4	12.9	4.7	11.8
I Good	7.4	6.5	2.8	3.7	23.1	8.3
I Bad	5.9	3.9	1.9	9.7	9.7	7.8
J Good	12.0	4.0	4.0	9.0	13.0	5.0
J Bad	..	3.0	..	10.0	9.0	6.0
K Good	11.0	2.4	4.7	7.9	22.8	11.8
K Bad	5.4	1.5	3.1	9.2	15.4	13.1
L Good	7.7	2.6	5.2	7.1	18.1	8.4
L Bad	2.6	6.8	7.7	6.8	5.1	6.8
ALL SAMPLES						
Good	8.0	3.2	4.0	6.6	24.2	8.0
Bad	3.6	2.9	3.7	11.2	10.6	8.6

^a Teachers, nurses, doctors, technicians and lawyers.

^b Artists, actors, musicians, miscellaneous.

^c Typists, stenographers, accountants, etc.

TABLE B-6 (Continued)

Percentage Distribution of Good-Loan and Bad-Loan
Samples of 21 Banks, by Occupation of Borrower

SAMPLE	POLICE, FIRE- MEN, ETC.	PROPRIETORS		MANAGERS AND OFFICIALS
		Retail Dealers	Other	
A Good	3.0	6.0	8.5	7.0
A Bad	1.5	1.5	6.1	10.2
B Good	3.0	3.0	26.4	10.1
B Bad	3.0	2.0	10.1	13.1
C Good	.6	..	3.1	7.5
C Bad	2.2	6.7	11.0	11.0
D Good	.7	1.3	5.3	12.7
D Bad	2.0	2.0	14.0	10.0
E Good	1.8	.9	5.5	4.7
E Bad	1.9	.9	12.3	7.5
F Good	1.3	1.3	12.0	12.0
F Bad	..	..	10.7	13.3
G Good	..	4.1	17.4	6.1
G Bad	..	4.0	12.0	20.0
H Good	9.2	3.5	12.6	8.0
H Bad	5.9	4.7	9.4	5.9
I Good	.9	2.8	13.0	6.4
I Bad	1.0	..	12.6	9.7
J Good	3.0	2.0	8.0	8.0
J Bad	1.0	3.0	12.0	5.0
K Good	3.2	3.9	9.4	6.3
K Bad	2.3	3.8	13.1	13.8
L Good	1.9	.7	12.9	8.4
L Bad	2.6	.9	10.2	6.8
ALL SAMPLES				
Good	2.4	2.6	10.4	8.0
Bad	2.0	2.5	10.7	10.2

TABLE B-6 (Concluded)

Percentage Distribution of Good-Loan and Bad-Loan
Samples of 21 Banks, by Occupation of Borrower

SAMPLE		WAGE-EARNERS				MISCEL- LANEOUS ^a	TOTAL	TOTAL NUMBER OF CASES
		Skilled Labor	Un- skilled and Semi- skilled	Drivers	Service Trades			
A	Good	5.5	5.0	4.0	2.0	..	100.0	200
	Bad	11.2	19.4	7.7	5.1	2.6	100.0	196
B	Good	8.1	6.1	1.0	1.0	2.0	100.0	99
	Bad	4.1	10.1	3.0	5.1	5.1	100.0	99
C	Good	6.9	6.3	.6	3.7	.6	100.0	160
	Bad	5.9	6.6	.8	2.9	.7	100.0	136
D	Good	6.6	3.3	2.7	1.3	6.6	100.0	150
	Bad	12.0	5.0	..	1.0	8.0	100.0	100
E	Good	7.4	12.8	3.7	5.5	0.9	100.0	109
	Bad	16.0	6.6	3.8	3.8	6.6	100.0	106
F	Good	10.7	4.0	..	5.3	6.7	100.0	75
	Bad	9.3	12.0	4.0	2.7	4.0	100.0	75
G	Good	12.2	4.1	4.1	3.1	1.0	100.0	98
	Bad	14.0	4.0	6.0	..	4.0	100.0	50
H	Good	10.3	6.9	2.3	4.6	1.1	100.0	87
	Bad	15.3	7.1	7.1	7.1	1.1	100.0	85
I	Good	10.2	7.4	1.9	1.9	3.7	100.0	108
	Bad	12.6	15.5	3.9	3.9	1.9	100.0	103
J	Good	19.0	5.0	4.0	3.0	1.0	100.0	100
	Bad	20.0	20.0	5.0	4.0	2.0	100.0	100
K	Good	7.1	3.9	1.6	.8	3.2	100.0	127
	Bad	7.7	7.7	.8	..	3.1	100.0	130
L	Good	7.1	4.5	1.9	1.9	11.6	100.0	155
	Bad	13.7	10.3	1.7	6.0	12.0	100.0	117
ALL SAMPLES								
	Good	8.7	5.8	2.4	2.7	3.0	100.0	1,294
	Bad	11.5	11.1	3.6	3.6	4.2	100.0	1,294

^aIncludes cases not reporting occupation.

TABLE B-7

Percentage Distribution of Good-Loan and Bad-Loan
Samples of 21 Banks, by Industrial Affiliation of
Borrower

SAMPLE	UTILITIES*	PROFESSIONAL SERVICE	INDEPENDENT HAND TRADES	PUBLIC SERVICE
A Good	4.5	7.5	5.5	11.5
A Bad	8.7	2.6	3.0	10.7
B Good	5.0	8.0	7.1	15.2
B Bad	5.0	5.1	1.0	15.2
C Good	20.6	3.1	.6	5.6
C Bad	10.2	1.5	..	5.9
D Good	13.3	7.3	..	12.0
D Bad	3.0	7.0	6.0	10.0
E Good	11.0	12.8	.9	13.9
E Bad	7.5	4.7	.9	5.7
F Good	12.0	4.0	2.7	6.7
F Bad	2.7	8.0	..	4.0
G Good	5.1	10.2	6.1	8.2
G Bad	4.0	2.0	..	4.0
H Good	5.7	6.9	..	23.0
H Bad	3.5	5.9	2.4	21.2
I Good	6.4	10.2	..	16.7
I Bad	9.7	7.8	..	13.5
J Good	4.0	4.0	..	20.0
J Bad	4.0	5.0	2.0	4.0
K Good	8.7	3.9	2.4	11.8
K Bad	1.5	3.1	.8	13.1
L Good	19.4	5.2	..	13.5
L Bad	13.7	5.1	.9	9.4
ALL SAMPLES				
Good	9.9	6.8	2.1	13.0
Bad	6.6	4.6	1.5	9.9

* Railroad, bus and steamship transportation, communication other than postal, gas and electric utilities.

TABLE B-7 (Continued)

Percentage Distribution of Good-Loan and Bad-Loan
Samples of 21 Banks, by Industrial Affiliation of Borrower

SAMPLE		TRADE			MANUFACTURING			DOMESTIC AND PERSONAL SERVICE
		Whole- sale and Retail	Bank- ing and Broker- age	Other*	Food Prod- ucts	Textiles and Cloth- ing	Other	
A	Good	19.0	11.5	11.5	5.5	6.5	4.0	4.0
	Bad	12.8	4.6	10.2	5.1	12.2	4.6	6.1
B	Good	10.1	5.1	17.2	3.0	1.0	7.1	7.1
	Bad	17.2	7.1	17.2	..	3.0	3.0	8.1
C	Good	14.4	6.3	12.5	7.5	1.9	18.1	2.5
	Bad	33.8	.7	11.8	7.3	1.5	14.0	5.9
D	Good	9.3	6.7	16.0	1.3	3.3	7.3	4.7
	Bad	11.0	4.0	20.0	1.0	..	11.0	4.0
E	Good	16.5	1.8	7.3	6.4	1.9	11.0	4.6
	Bad	14.1	1.9	9.4	12.3	3.8	14.1	3.8
F	Good	13.3	4.0	14.7	4.0	2.7	13.3	6.7
	Bad	12.0	1.3	22.7	2.7	1.3	17.3	6.7
G	Good	18.4	6.1	15.3	2.0	1.0	9.2	8.2
	Bad	28.0	6.0	14.0	..	6.0	14.0	4.0
H	Good	16.1	3.4	4.6	5.8	4.6	8.0	4.6
	Bad	15.3	3.5	15.2	9.4	..	7.1	5.9
I	Good	15.7	2.8	17.6	..	.9	12.1	5.6
	Bad	17.5	1.9	7.8	2.0	2.9	8.7	6.8
J	Good	10.0	3.0	14.0	3.0	..	27.0	4.0
	Bad	14.0	1.0	8.0	5.0	..	42.0	7.0
K	Good	15.7	7.1	8.7	7.9	.8	15.7	4.7
	Bad	20.0	3.8	17.7	5.4	5.4	13.9	2.3
L	Good	14.2	1.9	18.1	2.6	3.8	8.4	4.5
	Bad	17.9	.9	17.9	2.6	4.3	5.1	7.7
ALL SAMPLES								
	Good	14.6	5.5	12.9	4.4	2.6	11.5	4.8
	Bad	17.7	3.0	13.9	4.7	4.0	12.2	5.7

* Real estate, insurance, advertising, printing and publishing, etc.

TABLE B-7 (Concluded)

Percentage Distribution of Good-Loan and Bad-Loan
Samples of 21 Banks, by Industrial Affiliation of Borrower

SAMPLE	MISCEL- LANEOUS TRANS- PORTATION ^a	BUILDING TRADES ^b	MISCEL- LANEOUS ^c	TOTAL	TOTAL NUMBER OF CASES
A Good	2.0	.5	6.5	100.0	200
Bad	7.6	2.6	9.2	100.0	196
B Good	4.0	6.1	4.0	100.0	99
Bad	2.0	4.0	12.1	100.0	99
C Good	3.8	.6	2.5	100.0	160
Bad	2.2	1.5	3.7	100.0	136
D Good	2.7	.7	15.4	100.0	150
Bad	3.0	2.0	18.0	100.0	100
E Good	6.4	..	5.5	100.0	109
Bad	5.7	3.8	12.3	100.0	106
F Good	6.6	1.3	8.0	100.0	75
Bad	6.6	2.7	12.0	100.0	75
G Good	2.0	1.0	7.2	100.0	98
Bad	8.0	6.0	4.0	100.0	50
H Good	5.8	2.3	9.2	100.0	87
Bad	4.7	1.2	4.7	100.0	85
I Good	5.6	1.8	4.6	100.0	108
Bad	9.7	3.9	7.8	100.0	103
J Good	5.0	1.0	5.0	100.0	100
Bad	7.0	1.0	..	100.0	100
K Good	.8	1.6	10.2	100.0	127
Bad	4.6	1.5	6.9	100.0	130
L Good	2.6	.6	5.2	100.0	155
Bad	6.8	.9	6.8	100.0	117
ALL SAMPLES					
Good	3.7	1.4	6.8	100.0	1,294
Bad	5.6	2.4	8.2	100.0	1,294

^a Taxi and trucking service, garage service, auto repair, filling stations, etc.

^b Building and maintenance of roads, shipbuilding, etc.

^c Includes cases not reporting industry.

TABLE B-8

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Borrower's Tenure of Employment

SAMPLE		NUMBER OF YEARS IN PRESENT OCCUPATION						TOTAL	NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT REPORTING IN PERCENT OF NUMBER REPORTING
		0-1	1-2	2-3	3-6	6-10	10 or More			
A	Good	2.6	5.1	8.7	21.0	27.2	35.4	100.0	195	2.6
	Bad	10.6	8.5	10.0	32.8	19.6	18.5	100.0	189	3.7
B	Good	11.0	4.4	5.5	15.4	18.7	45.0	100.0	91	8.8
	Bad	10.5	9.5	11.6	29.5	16.8	22.1	100.0	95	4.2
C	Good	3.8	9.4	8.8	13.3	18.3	46.4	100.0	159	.6
	Bad	6.7	9.7	11.2	26.9	10.4	35.1	100.0	134	1.5
D	Good	8.6	6.4	9.3	11.4	20.7	43.6	100.0	140	7.2
	Bad	9.8	10.9	12.0	16.3	19.6	31.4	100.0	91	8.7
E	Good	6.5	12.0	6.5	23.1	20.4	31.5	100.0	108	.9
	Bad	9.1	18.2	15.2	20.2	14.1	23.2	100.0	99	7.1
F	Good	6.2	12.2	6.2	20.0	15.4	40.0	100.0	65	15.4
	Bad	29.0	21.0	8.1	24.1	8.1	9.7	100.0	62	20.9
G	Good	5.2	8.5	8.4	15.8	20.0	42.1	100.0	95	3.1
	Bad	12.5	4.2	10.4	31.2	14.6	27.1	100.0	48	4.2
H	Good	1.2	4.8	15.5	16.7	20.2	41.6	100.0	84	3.5
	Bad	15.9	7.3	10.9	23.2	22.0	20.7	100.0	82	3.6
I	Good	9.9	11.9	10.9	22.8	19.8	24.7	100.0	101	6.9
	Bad	31.8	29.6	5.7	17.0	4.5	11.4	100.0	88	17.0
J	Good	3.0	2.0	17.2	19.2	13.1	45.5	100.0	99	1.0
	Bad	1.0	..	29.0	30.0	18.0	22.0	100.0	100	..
K	Good	8.5	6.9	6.9	23.9	18.8	35.0	100.0	117	8.5
	Bad	14.8	13.1	9.0	15.6	19.7	27.8	100.0	122	6.5
L	Good	5.1	8.1	11.1	16.2	11.0	48.5	100.0	136	14.0
	Bad	16.7	6.5	14.8	21.3	14.8	25.9	100.0	108	8.3
ALL SAMPLES										
	Good	5.7	7.4	9.5	18.5	19.3	39.6	100.0	1,226	5.5
	Bad	13.0	11.1	12.4	24.4	15.7	23.4	100.0	1,216	6.4

TABLE B-9

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks,
by Annual Income of Borrower

SAMPLE	ANNUAL INCOME OF BORROWER								NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT RE- PORTING IN PERCENT OF NUMBER REPORTING	
	Under \$1200	\$1200- 1800	\$1800- 2400	\$2400- 3000	\$3000- 3600	\$3600- 4800	\$4800 and Over	Total			
A	Good	8.8	30.6	24.8	16.6	10.4	5.2	3.6	100.0	193	3.6
	Bad	7.5	31.2	32.3	15.6	5.4	5.4	2.6	100.0	186	5.4
B	Good	4.1	22.7	27.8	12.4	12.4	8.2	12.4	100.0	97	2.0
	Bad	6.2	27.8	23.7	16.5	7.2	9.3	9.3	100.0	97	2.0
C	Good	18.2	37.8	23.9	7.5	7.6	3.8	1.2	100.0	159	.6
	Bad	10.3	29.4	27.9	17.7	6.6	3.7	4.4	100.0	136	...
D	Good	21.3	22.7	24.0	14.0	4.7	7.3	6.0	100.0	150	...
	Bad	15.6	33.3	19.8	14.6	6.3	8.3	2.1	100.0	96	4.2
E	Good	19.8	35.8	22.7	14.2	4.7	1.9	.9	100.0	107	1.9
	Bad	10.9	42.6	30.7	9.9	2.9	2.0	1.0	100.0	101	5.0
F	Good	8.3	33.3	26.4	15.3	8.3	4.2	4.2	100.0	72	4.2
	Bad	21.7	31.9	14.6	15.9	5.8	7.2	2.9	100.0	69	8.7
G	Good	5.2	21.6	29.9	20.6	1.4	5.1	7.2	100.0	97	1.0
	Bad	2.0	16.3	28.6	28.6	1.2	8.2	6.1	100.0	49	2.0

TABLE B-9 (Concluded)
 Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks,
 by Annual Income of Borrower

SAMPLE	ANNUAL INCOME OF BORROWER								NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT RE- PORTING IN PERCENT OF NUMBER REPORTING
	Under \$1200	\$1200- 1800	\$1800- 2400	\$2400- 3000	\$3000- 3600	\$3600- 4800	\$4800 and Over	Total		
H Good	12.8	25.6	40.7	11.6	6.9	1.2	1.2	100.0	86	1.1
H Bad	3.6	44.7	29.4	9.4	7.0	4.7	1.2	100.0	85	...
I Good	10.4	27.4	28.3	16.9	3.8	10.4	2.8	100.0	106	1.9
I Bad	9.3	28.1	29.2	18.8	9.4	3.1	2.1	100.0	96	7.3
J Good	5.1	29.3	36.3	9.1	7.1	8.1	5.0	100.0	99	1.0
J Bad	5.1	44.4	37.4	9.1	2.0	2.0	...	100.0	99	1.0
K Good	10.5	23.4	29.8	14.5	6.5	5.6	9.7	100.0	124	2.4
K Bad	7.2	29.6	31.2	10.4	11.2	3.2	7.2	100.0	125	4.0
L Good	14.4	23.7	29.5	14.4	9.4	5.0	3.6	100.0	139	11.5
L Bad	33.7	30.8	24.0	9.6	1.9	...	...	100.0	104	12.5
ALL SAMPLES										
Good	11.9	28.4	28.1	13.7	7.7	5.5	4.7	100.0	1,260	2.7
Bad	11.0	32.8	28.1	14.2	6.2	4.5	3.2	100.0	1,240	4.3

TABLE B-10

Percentage Distribution of Good-Loan and Bad-Loan
Samples of 21 Banks, by Amount of Note in Percent
of Annual Income of Borrower

SAMPLE	AMOUNT OF NOTE IN PERCENT OF ANNUAL INCOME					TOTAL	NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT REPORTING IN PERCENT OF NUMBER REPORTING
	0-4	5-9	10-14	15-19	20 and Over			
A Good	7.9	38.2	31.4	17.8	4.7	100.0	191	4.7
A Bad	4.3	43.5	36.0	12.9	3.3	100.0	186	5.4
B Good	17.5	34.1	22.7	14.4	11.3	100.0	97	2.0
B Bad	10.4	28.1	31.2	6.3	24.0	100.0	96	3.1
C Good	10.2	45.9	24.2	10.2	9.5	100.0	157	1.9
C Bad	7.3	44.1	22.1	7.4	19.1	100.0	136	..
D Good	10.7	44.0	25.3	10.0	10.0	100.0	150	..
D Bad	18.7	37.5	21.9	14.6	7.3	100.0	96	4.2
E Good	8.4	38.3	35.5	12.2	5.6	100.0	107	1.9
E Bad	6.9	49.5	22.8	8.9	11.9	100.0	101	4.9
F Good	7.1	23.9	35.2	11.3	22.5	100.0	71	5.7
F Bad	8.7	26.1	24.6	17.4	23.2	100.0	69	8.7
G Good	6.2	26.8	38.1	16.5	12.4	100.0	97	1.0
G Bad	18.4	57.2	12.2	6.1	6.1	100.0	49	2.0
H Good	1.2	31.4	30.2	14.0	23.2	100.0	86	1.2
H Bad	1.1	36.5	25.9	12.9	23.6	100.0	85	..
I Good	18.9	45.3	22.6	7.5	5.7	100.0	106	1.9
I Bad	11.5	52.1	15.6	8.3	12.5	100.0	96	7.3
J Good	7.1	41.4	21.2	16.2	14.1	100.0	99	1.0
J Bad	4.0	28.3	27.3	17.2	23.2	100.0	99	1.0
K Good	11.4	48.8	19.5	10.5	9.8	100.0	123	3.3
K Bad	7.2	42.4	23.2	13.6	13.6	100.0	125	4.0
L Good	8.6	41.0	20.9	12.9	16.6	100.0	139	11.5
L Bad	16.2	41.4	22.2	11.1	9.1	100.0	99	18.2
ALL SAMPLES								
Good	9.8	39.6	26.6	12.9	11.1	100.0	1,254	3.2
Bad	8.8	40.6	25.0	11.5	14.1	100.0	1,235	4.8

TABLE B-11

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks,
by Selected Asset and Liability Items of Borrower

SAMPLE	LIFE INSURANCE				BANK ACCOUNTS						
	Yes	No (and not report- ing)	Total	Number Not Reporting in Percent of Total Cases	Check- ing	Sav- ing	Check- ing and Saving	No (and not report- ing)	Total	Number Not Reporting in Percent of Total Cases	
A	Good	76.5	23.5	100.0	...	8.5	23.5	4.0	64.0	100.0	1.0
	Bad	64.3	35.7	100.0	2.6	2.6	5.6	1.0	90.8	100.0	4.1
B	Good	79.8	20.2	100.0	5.1	28.3	17.2	17.2	37.3	100.0	1.0
	Bad	69.7	30.3	100.0	...	16.1	7.1	6.1	70.7	100.0	...
C	Good	85.6	14.4	100.0	...	15.6	21.3	3.1	60.0	100.0	...
	Bad	77.2	22.8	100.0	...	22.8	9.6	5.1	62.5	100.0	...
D	Good	76.0	24.0	100.0	2.7	18.7	26.0	8.0	47.3	100.0	2.0
	Bad	69.0	31.0	100.0	6.0	15.0	13.0	1.0	71.0	100.0	5.0
E	Good	89.9	10.1	100.0	6.4	13.8	17.4	1.8	67.0	100.0	30.3
	Bad	74.5	25.5	100.0	23.6	5.7	.9	...	93.4	100.0	84.0
F	Good	77.3	22.7	100.0	8.0	13.3	25.3	8.0	53.4	100.0	10.7
	Bad	66.7	33.3	100.0	20.0	13.3	9.3	2.7	74.7	100.0	10.7
G	Good	77.6	22.4	100.0	1.0	20.4	13.3	13.3	53.0	100.0	1.0
	Bad	76.0	24.0	100.0	2.0	18.0	14.0	...	68.0	100.0	...

TABLE B-11 (Continued)

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks,
by Selected Asset and Liability Items of Borrower

SAMPLE	LIFE INSURANCE				BANK ACCOUNTS						
	Yes	No (and not report- ing)	Total	Number Not Reporting in Percent of Total Cases	Check- ing	Sav- ing	Check- ing and Saving	No (and not report- ing)	Total	Number Not Reporting in Percent of Total Cases	
H	Good	89.7	10.3	100.0	...	4.6	20.7	4.6	70.1	100.0	...
	Bad	83.5	16.5	100.0	...	2.3	10.6	1.2	85.9	100.0	...
I	Good	83.3	16.7	100.0	2.8	36.1	8.3	4.6	51.0	100.0	12.0
	Bad	70.9	29.1	100.0	8.7	14.6	6.8	2.9	75.7	100.0	18.4
J	Good	90.0	10.0	100.0	1.0	19.0	27.0	6.0	48.0	100.0	2.0
	Bad	79.0	21.0	100.0	1.0	9.0	8.0	1.0	82.0	100.0	...
K	Good	70.9	29.1	100.0	4.7	28.3	13.4	5.5	52.8	100.0	3.2
	Bad	64.6	35.4	100.0	12.3	19.2	5.4	4.6	70.8	100.0	9.2
L	Good	88.4	11.6	100.0	7.1	40.0	4.5	3.8	51.7	100.0	6.5
	Bad	70.9	29.1	100.0	12.0	13.7	...	.9	85.4	100.0	2.6
ALL SAMPLES											
	Good	81.8	18.2	100.0	3.0	18.3	20.3	6.0	55.4	100.0	5.5
	Bad	71.4	28.6	100.0	7.1	6.9	12.3	2.3	78.5	100.0	11.1

TABLE B-11 (Continued)

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks,
by Selected Asset and Liability Items of Borrower

SAMPLE	REAL ESTATE ^a			SECURITIES			Number Not Reporting in Percent of Total Cases ^b
	Yes	No	Total	Yes	No (and not reporting)	Total	
	A Good	16.0	84.0	100.0	
Bad	3.1	96.9	100.0	..	..	..	..
B Good	37.4	62.6	100.0	..	..	..	..
Bad	14.1	85.9	100.0	..	..	..	..
C Good	22.5	77.5	100.0	2.5	97.5	100.0	.6
Bad	22.1	77.9	100.0	.7	99.3	100.0	.7
D Good	25.3	74.7	100.0	6.0	94.0	100.0	5.3
Bad	12.0	88.0	100.0	3.0	97.0	100.0	13.0
E Good	24.8	75.2	100.0	..	..	..	..
Bad	16.0	84.0	100.0	..	..	..	..
F Good	34.7	65.3	100.0	..	..	..	..
Bad	13.3	86.7	100.0	..	..	..	..

^a Borrowers not reporting real estate were considered as persons not owning real estate.

^b The effective number of cases was 1,294 for real estate, 718 for securities.

TABLE B-11 (Continued)

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks,
by Selected Asset and Liability Items of Borrower

SAMPLE	REAL ESTATE ^a			SECURITIES			Number Not Reporting in Percent of Total Cases ^b
	Yes	No	Total	Yes	No (and not reporting)	Total	
	G Good	42.9	57.1	100.0	8.2	91.8		100.0	..
Bad	16.0	84.0	100.0	2.0	98.0	100.0	6.0
H Good	24.1	75.9	100.0	8.0	92.0	100.0	..
Bad	7.1	92.9	100.0	4.7	95.3	100.0	1.2
I Good	40.7	59.3	100.0	5.6	94.4	100.0	3.7
Bad	24.3	75.7	100.0	4.9	95.1	100.0	7.8
J Good	33.0	67.0	100.0	..	..	..	..
Bad	9.0	91.0	100.0	..	..	..	..
K Good	26.0	74.0	100.0	4.7	95.3	100.0	40.9
Bad	12.3	87.7	100.0	..	100.0	100.0	41.5
L Good	23.2	76.8	100.0	5.8	94.2	100.0	24.5
Bad	16.2	83.8	100.0	..	100.0	100.0	26.5
ALL SAMPLES ^b							
Good	27.3	72.7	100.0	5.4	94.6	100.0	12.6
Bad	13.3	86.7	100.0	2.0	98.0	100.0	15.3

^a Borrowers not reporting real estate were considered as persons not owning real estate.^b The effective number of cases was 1,294 for real estate, 718 for securities.

TABLE B-11 (Continued)

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks,
by Selected Asset and Liability Items of Borrower

SAMPLE	AUTOMOBILES				HOUSEHOLD GOODS			
	Yes	No (and not re- porting)	Total	Number Not Reporting in Percent of Total Cases	Yes	No (and not re- porting)	Total	Number Not Reporting in Percent of Total Cases
A Good	..	..	..	..	..	..	..	..
A Bad	..	..	..	..	..	..	..	..
B Good	..	..	..	..	..	..	..	..
B Bad	..	..	..	..	..	..	..	..
C Good	60.6	39.4	100.0	..	76.9	23.1	100.0	.6
C Bad	85.3	14.7	100.0	..	73.5	26.5	100.0	..
D Good	11.3	88.7	100.0	75.3	20.7	79.3	100.0	72.7
D Bad	19.0	81.0	100.0	9.0	59.0	41.0	100.0	17.0
E Good	22.0	78.0	100.0	78.0	40.4	59.6	100.0	59.6
E Bad	9.4	90.6	100.0	90.6	6.6	93.4	100.0	93.4
F Good	..	..	..	..	..	..	..	..
F Bad	..	..	..	..	..	..	..	..
G Good	48.0	52.0	100.0	..	69.4	30.6	100.0	..
G Bad	42.0	58.0	100.0	..	38.0	62.0	100.0	50.0

TABLE B-11 (Continued)

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks,
by Selected Asset and Liability Items of Borrower

SAMPLE	AUTOMOBILES				HOUSEHOLD GOODS			
	Yes	No (and not re- porting)	Total	Number Not Reporting in Percent of Total Cases	Yes	No (and not re- porting)	Total	Number Not Reporting in Percent of Total Cases
H Good	37.9	62.1	100.0	..	67.8	32.2	100.0	4.6
H Bad	27.1	72.9	100.0	1.2	57.6	42.4	100.0	..
I Good	76.9	23.1	100.0	2.8	26.0	74.0	100.0	58.3
I Bad	68.9	31.1	100.0	7.8	18.4	81.6	100.0	59.2
J Good	..	..	..	..	..	..	..	..
J Bad	..	..	..	..	..	..	..	..
K Good	28.3	71.7	100.0	58.3	22.8	77.2	100.0	70.9
K Bad	26.9	73.1	100.0	57.7	14.6	85.4	100.0	75.4
L Good	74.2	25.8	100.0	12.3	66.4	33.6	100.0	16.8
L Bad	47.9	52.1	100.0	16.2	53.8	46.2	100.0	23.9
ALL SAMPLES*								
Good	45.5	54.5	100.0	30.2	47.8	52.2	100.0	37.7
Bad	42.5	57.5	100.0	25.0	40.6	59.4	100.0	39.5

*The effective number of cases was 824 for both automobiles and household goods.

TABLE B-11 (Continued)

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks,
by Selected Asset and Liability Items of Borrower

SAMPLE	CHARGE ACCOUNTS				INSTALMENT ACCOUNTS ^a				TOTAL NUMBER OF CASES
	Yes	No (and not re- porting)	Total	Number Not Reporting in Percent of Total Cases	Yes	No (and not re- porting)	Total	Number Not Reporting in Percent of Total Cases	
A Good	12.0	88.0	100.0	..	17.0	83.0	100.0	..	200
A Bad	6.1	93.9	100.0	7.1	35.2	64.8	100.0	2.6	196
B Good	18.2	81.8	100.0	1.0	28.2	71.8	100.0	1.0	99
B Bad	4.0	96.0	100.0	..	19.2	80.8	100.0	..	99
C Good	70.6	29.4	100.0	..	18.8	81.2	100.0	..	160
C Bad	55.9	44.1	100.0	..	24.3	75.7	100.0	..	136
D Good	56.0	44.0	100.0	.7	30.0	70.0	100.0	8.0	150
D Bad	37.0	63.0	100.0	4.0	38.0	62.0	100.0	5.0	100
E Good	86.2	13.8	100.0	13.8	23.9	76.1	100.0	76.1	109
E Bad	22.6	77.4	100.0	77.4	23.6	76.4	100.0	73.6	106
F Good	58.7	41.3	100.0	5.3	40.0	60.0	100.0	6.7	75
F Bad	56.0	44.0	100.0	14.7	22.7	77.3	100.0	34.7	75
G Good	1.0	99.0	100.0	1.0	11.2	88.8	100.0	..	98
G Bad	4.0	96.0	100.0	34.0	34.0	66.0	100.0	16.0	50

^a Includes sales finance and personal loan debt.

TABLE B-11 (Concluded)

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks,
by Selected Asset and Liability Items of Borrower

SAMPLE	CHARGE ACCOUNTS				INSTALMENT ACCOUNTS*				TOTAL NUMBER OF CASES
	Yes	No (and not re- porting)	Total	Number Not Reporting in Percent of Total Cases	Yes	No (and not re- porting)	Total	Number Not Reporting in Percent of Total Cases	
H Good	27.6	72.4	100.0	..	10.3	89.7	100.0	5.7	87
H Bad	30.6	69.4	100.0	..	15.3	84.7	100.0	..	85
I Good	33.3	66.7	100.0	33.3	56.5	43.5	100.0	10.2	108
I Bad	27.2	72.8	100.0	29.1	59.2	40.8	100.0	12.6	103
J Good	83.0	17.0	100.0	..	37.0	63.0	100.0	5.0	100
J Bad	92.0	8.0	100.0	1.0	48.0	52.0	100.0	9.0	100
K Good	32.3	67.7	100.0	15.0	31.5	68.5	100.0	17.3	127
K Bad	37.7	62.3	100.0	18.5	26.2	73.8	100.0	17.7	130
L Good	62.6	37.4	100.0	11.0	32.9	67.1	100.0	18.1	155
L Bad	59.8	40.2	100.0	12.0	56.4	43.6	100.0	6.8	117
ALL SAMPLES									
Good	45.2	54.8	100.0	6.7	27.8	72.2	100.0	12.2	1,294
Bad	35.6	64.4	100.0	15.2	33.9	66.1	100.0	13.5	1,294

* Includes sales finance and personal loan debt.

TABLE B-12

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks,
by Amount of Note

SAMPLE	AMOUNT OF NOTE							TOTAL	NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT RE- PORTING IN PERCENT OF NUMBER REPORTING
	Under \$100	\$100- 200	\$200 - 300	\$300- 400	\$400- 500	\$500- 1000	\$1000 and Over			
A Good	8.1	40.4	22.2	12.6	5.6	9.1	2.0	100.0	198	1.0
A Bad	10.2	38.8	27.0	16.3	3.1	3.1	1.5	100.0	196	...
B Good	7.1	36.4	14.1	15.1	7.1	16.2	4.0	100.0	99	...
B Bad	9.1	25.2	11.1	27.3	5.1	14.1	8.1	100.0	99	...
C Good	6.3	56.9	19.6	9.5	1.3	5.1	1.3	100.0	158	1.3
C Bad	6.6	44.9	19.1	11.0	4.4	13.2	.8	100.0	136	...
D Good	12.7	40.6	14.7	21.3	4.7	5.3	.7	100.0	150	...
D Bad	20.0	40.0	13.0	18.0	6.0	3.0	...	100.0	100	...
E Good	12.8	45.0	29.4	6.4	.9	5.5	...	100.0	109	...
E Bad	16.0	42.4	20.8	8.5	7.6	4.7	...	100.0	106	...
F Good	5.4	29.7	17.6	21.6	13.5	12.2	...	100.0	74	1.3
F Bad	10.7	33.4	13.3	17.3	9.3	14.7	1.3	100.0	75	...
G Good	...	27.6	23.5	25.5	7.1	9.2	7.1	100.0	98	...
G Bad	6.0	44.0	26.0	16.0	4.0	4.0	...	100.0	50	...

TABLE B-12 (Concluded)

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks,
by Amount of Note

SAMPLE	AMOUNT OF NOTE							TOTAL	NUMBER OF CASES REPORTING INFORMATION	NUMBER NOT RE- PORTING IN PERCENT OF NUMBER REPORTING
	Under \$100	\$100- 200	\$200- 300	\$300- 400	\$400- 500	\$500- 1000	\$1000 and Over			
H Good	...	39.1	25.4	14.9	8.0	12.6	...	100.0	87	...
H Bad	...	36.4	29.4	16.5	7.1	7.1	3.5	100.0	85	...
I Good	5.5	46.3	16.7	23.1	5.6	1.9	.9	100.0	108	...
I Bad	5.8	50.5	15.5	18.5	2.9	6.8	...	100.0	103	...
J Good	...	46.0	15.0	19.0	6.0	12.0	2.0	100.0	100	...
J Bad	...	42.0	22.0	17.0	7.0	11.0	1.0	100.0	100	...
K Good	11.1	38.9	19.0	12.7	4.0	12.7	1.6	100.0	126	.8
K Bad	11.6	39.2	17.7	14.6	3.1	11.5	2.3	100.0	130	...
L Good	5.8	45.2	15.5	17.4	4.5	11.0	.6	100.0	155	...
L Bad	28.2	43.6	16.2	6.8	1.7	2.6	.9	100.0	117	...
ALL SAMPLES										
Good	6.8	42.2	19.4	15.7	5.2	9.2	1.5	100.0	1,289	.4
Bad	10.8	40.2	19.5	15.3	4.8	7.8	1.6	100.0	1,294	...

TABLE B-13

Percentage Distribution of Good-Loan and Bad-Loan
Samples of 21 Banks, by Type of Security

SAMPLE		TYPE OF SECURITY					TOTAL	TOTAL NUMBER OF CASES
		Single- Name	1 Co- maker	2 Co- makers	3 or More Co- makers	Other ^a		
A	Good	1.5	26.5	49.5	22.5	...	100.0	200
	Bad	...	15.8	49.5	34.7	...	100.0	196
B	Good	14.1	40.4	41.4	4.1	...	100.0	99
	Bad	12.1	25.3	44.4	16.2	2.0	100.0	99
C	Good	.6	8.8	80.0	1.9	8.7	100.0	160
	Bad	.7	13.3	49.3	2.2	34.5	100.0	136
D	Good	40.0	23.3	30.0	6.7	...	100.0	150
	Bad	37.0	19.0	30.0	14.0	...	100.0	100
E	Good	6.4	8.3	62.4	22.9	...	100.0	109
	Bad	3.8	13.2	61.3	20.8	.9	100.0	106
F	Good	10.7	5.3	18.7	1.3	64.0	100.0	75
	Bad	4.0	9.3	26.7	9.3	50.7	100.0	75
G	Good	21.5	12.2	66.3	...	...	100.0	98
	Bad	18.0	12.0	66.0	2.0	2.0	100.0	50
H	Good	...	2.3	90.8	5.8	1.1	100.0	87
	Bad	...	...	87.1	12.9	...	100.0	85
I	Good	13.9	31.5	49.1	3.7	1.8	100.0	108
	Bad	6.8	34.9	44.7	13.6	...	100.0	103
J	Good	86.0	10.0	4.0	...	...	100.0	100
	Bad	88.0	10.0	2.0	...	...	100.0	100
K	Good	37.8	13.4	31.5	11.0	6.3	100.0	127
	Bad	20.0	17.7	37.7	20.0	4.6	100.0	130
L	Good	7.8	29.0	43.2	.6	19.4	100.0	155
	Bad	5.1	30.8	52.1	6.8	5.2	100.0	117
ALL SAMPLES								
	Good	18.6	18.7	47.3	8.2	7.2	100.0	1,294
	Bad	14.9	17.3	45.4	14.6	7.8	100.0	1,294

^a Includes mainly cases of automobile chattel mortgage; also includes cases not reporting.

TABLE B-14

Percentage Distribution of Good-Loan and Bad-Loan Samples of 21 Banks, by Length of Loan Contract

SAMPLE	CONTRACT LENGTH (in months)					TOTAL	NUMBER OF CASES REPORT- ING INFORMA- TION	NUMBER NOT RE- PORTING IN PER- CENT OF NUMBER REPORT- ING
	1-6	7-11	12	13-17	18 or More			
A Good	...	...	100.0	...	...	100.0	192	4.2
A Bad	...	...	100.0	...	...	100.0	188	4.3
B Good	12.1	...	55.6	32.3	...	100.0	99	...
B Bad	2.1	...	53.6	44.3	...	100.0	97	2.0
C Good	...	...	87.4	5.1	7.5	100.0	159	.7
C Bad	...	...	87.2	1.5	11.3	100.0	133	2.2
D Good	7.4	43.0	49.6	...	...	100.0	149	.7
D Bad	...	...	100.0	...	...	100.0	100	...
E Good	...	...	100.0	...	...	100.0	109	...
E Bad	...	...	99.1	.9	...	100.0	106	...
F Good	10.8	1.4	55.4	2.7	29.7	100.0	74	1.3
F Bad	2.8	4.2	62.5	1.4	29.1	100.0	72	4.2
G Good	...	...	52.0	4.1	43.9	100.0	98	...
G Bad	2.0	4.0	80.0	14.0	...	100.0	50	...
H Good	3.4	1.2	56.3	...	39.1	100.0	87	...
H Bad	1.1	1.1	51.9	...	45.9	100.0	85	...
I Good	12.0	22.2	65.8	...	...	100.0	108	...
I Bad	9.9	29.7	55.4	3.0	2.0	100.0	101	1.9
J Good	1.0	2.0	96.0	...	1.0	100.0	100	...
J Bad	...	1.0	99.0	...	...	100.0	100	...
K Good	1.7	.8	93.4	.8	3.3	100.0	121	5.0
K Bad	2.3	.8	93.1	.8	3.0	100.0	130	...
L Good	3.2	20.7	74.2	1.9	...	100.0	155	...
L Bad	10.3	31.9	56.0	.9	.9	100.0	116	.9
ALL SAMPLES								
Good	3.8	7.3	78.2	3.6	7.1	100.0	1,278	1.3
Bad	2.4	5.8	80.8	4.6	6.4	100.0	1,275	1.5

TABLE B-15

Percentage Distribution of Good-Loan and Bad-Loan
Samples of 21 Banks, by Intended Use of Funds^a

SAMPLE	TAXES	VACA- TION	HOUSE- HOLD	HELP FOR RELATIVE	PURCHASE OF AUTOMOBILE	MEDICAL AND DENTAL
A Good	.5	11.5	18.5	3.0	8.0	21.0
A Bad	...	6.6	8.7	4.1	4.6	33.7
B Good	7.1	4.0	19.2	1.0	10.1	13.1
B Bad	1.0	1.0	7.1	...	2.0	19.2
C Good	1.2	4.4	10.0	5.6	10.0	21.9
C Bad	1.5	2.2	2.9	3.7	31.6	8.8
D Good	2.0	3.3	6.7	4.7	12.0	11.3
D Bad	3.0	2.0	8.0	1.0	3.0	9.0
E Good	3.7	5.5	5.5	4.6	7.3	4.7
E Bad	2.8	.9	2.8	...	7.6	9.5
F Good	1.3	1.3	10.7	...	50.8	10.7
F Bad	...	...	4.0	...	45.3	2.7
G Good	6.1	...	30.6	2.0	10.2	16.3
G Bad	...	...	14.0	8.0	4.0	24.0
H Good	9.3	...	18.4	3.4	4.6	19.5
H Bad	...	1.2	16.5	2.3	1.2	16.5
I Good	1.9	2.8	8.3	3.7	12.0	12.0
I Bad	...	1.9	5.9	2.9	5.9	13.6
J Good	13.0	2.0	9.0	...	12.0	10.0
J Bad	2.0	1.0	9.0	...	8.0	11.0
K Good	3.2	.8	9.4	4.7	9.4	9.4
K Bad	...	2.3	7.7	...	3.1	18.4
L Good	1.9	.6	4.5	1.3	11.0	7.7
L Bad	2.6	1.7	2.6	...	6.8	7.7
ALL SAMPLES						
Good	3.5	3.8	11.7	2.8	12.0	13.3
Bad	1.1	2.2	7.0	1.8	9.9	15.6

^aBecause so many cases gave a combination of two or more reasons the following system of classification was adopted. Under "consolidation of debts" were included only those cases giving consolidation of debts or general refinancing as the only purpose of borrowing. Under the other headings were included cases giving only the reason indicated by the heading, or giving that reason in combination with consolidation of debts or refinancing. All other combinations—as for example, taxes and vacation—were classified under "miscellaneous," which included also miscellaneous single reasons and a few cases not reporting reasons.

TABLE B-15 (Concluded)

Percentage Distribution of Good-Loan and Bad-Loan
Samples of 21 Banks, by Intended Use of Funds

SAMPLE		BUSI- NESS	PURCHASE OF CLOTHING	CONSOLI- DATION OF DEBTS	MISCEL- LANEOUS	TOTAL	TOTAL NUMBER OF CASES
A	Good	6.0	2.0	10.5	19.0	100.0	200
	Bad	5.6	4.1	16.3	16.3	100.0	196
B	Good	11.1	3.0	15.2	16.2	100.0	99
	Bad	13.1	3.0	15.2	38.4	100.0	99
C	Good	3.1	3.1	16.3	24.4	100.0	160
	Bad	4.4	3.7	23.5	17.7	100.0	136
D	Good	4.0	2.0	40.7	13.3	100.0	150
	Bad	2.0	1.0	52.0	19.0	100.0	100
E	Good	6.4	.9	53.2	8.2	100.0	109
	Bad	10.4	...	56.6	9.4	100.0	106
F	Good	5.3	1.3	13.3	5.3	100.0	75
	Bad	5.3	...	37.4	5.3	100.0	75
G	Good	14.4	1.0	15.3	4.1	100.0	98
	Bad	2.0	6.0	32.0	10.0	100.0	50
H	Good	5.8	3.4	32.2	3.4	100.0	87
	Bad	10.6	4.7	8.2	38.8	100.0	85
I	Good	11.1	...	19.5	28.7	100.0	108
	Bad	15.5	...	32.0	22.3	100.0	103
J	Good	4.0	2.0	21.0	27.0	100.0	100
	Bad	11.0	...	43.0	15.0	100.0	100
K	Good	4.7	.8	26.1	31.5	100.0	127
	Bad	5.4	3.1	26.2	33.8	100.0	130
L	Good	7.7	...	41.3	24.0	100.0	155
	Bad	11.3	.9	51.1	15.3	100.0	117
ALL SAMPLES							
	Good	6.6	1.7	24.2	20.4	100.0	1,294
	Bad	8.0	2.2	32.4	19.8	100.0	1,294

Exhibit

EXHIBIT VI

"Bad Loan"
2/8/39

Deferred Payment Contract Analysis

Personal Loan Departments of Commercial Banks

Account Number _____

Code Number _____

(Leave CODE blank)

CODE

1. Reasons for classifying this as a "bad" loan.	
a. Did comaker make some payment after demand by bank? Yes____ No____	1a _____
b. Was court action taken to collect loan? Yes____ No____	b _____
c. Has loan been delinquent 90 days or more? Yes____ No____	c _____
d. Was loan charged off? Yes____ No____	d _____
e. Amount due at time of charge-off or when 90 days delin- quent: \$_____	e _____
f. If a current account, does loan show excessive delinquency? Yes____ No____	f _____
2. Primary security behind loan (please check): (Do not include loans secured by savings passbooks, life insurance, stocks and bonds, real estate.)	
a. Comaker ()	
Single-name (unsecured) ()	
Automobile chattel ()	
Household chattel ()	
Wage assignment ()	2a _____
b. Other (please specify): _____	b _____
3. If comaker loan, number of comakers: _____	3 _____
4. Amount of loan: \$_____	4 _____
5. Number of months for repayment: _____	5 _____
6. Principal intended use of borrowed funds, as stated by appli- cant: _____	6 _____
7. Age of applicant: _____ years	7 _____
8. Sex: Male____ Female____	8 _____

9. Nationality: _____	9	_____
10. Married _____ Single _____ Divorced _____ Separated _____ Widowed _____ (please check)	10	_____
11. Number of dependents: _____	11	_____
12. Home owner: Yes _____ No _____	12	_____
13. Number of years at present address: _____	13	_____
14. Number of years at previous address: _____	14	_____
15. Income: yearly _____ monthly _____ (please check): Salary \$ _____, Other \$ _____	15	_____
16. Rent per month: \$ _____	16	_____
17. Occupation:		
a. Owner _____ Partner _____ Officer _____ Employee _____ (please check)	17a	_____
b. Nature of business engaged or employed in: _____	b	_____
c. Nature of work performed: _____	c	_____
d. Number of years at present job: _____	d	_____
e. Number of years at previous job: _____	e	_____
18. Property owned by borrower:		
a. Real estate: Value \$ _____ Liens against \$ _____	18a	_____
b. Bank account: Checking, Yes _____ No _____; Savings, Yes _____ No _____	b	_____
c. Stocks, bonds, etc.: Yes _____ No _____	c	_____
d. Life insurance: Yes _____ No _____	d	_____
e. Automobile: Yes _____ No _____	e	_____
f. Household goods: Yes _____ No _____	f	_____
19. Current liabilities of borrower other than present loan: ¹		
a. Instalment or personal loan accounts: Yes _____ No _____	19a	_____
b. Total unpaid balance on instalment accounts: \$ _____	b	_____
c. Total amount of monthly payments due on instalment or personal loan accounts: \$ _____	c	_____
d. Amount of monthly payment due on mortgage, if any: \$ _____	d	_____
e. Charge accounts: Yes _____ No _____	e	_____

¹ Include under this heading only those liabilities which must be carried by the borrower in addition to the present loan.

Index

- ACCELERATION CLAUSE**—103; Exercise of 94, 104n.
- ADVERTISING**—As Expense Item 171, 176, 177; Methods 81-82, 85, 221.
- AGRICULTURAL EQUIPMENT**—Financing 85n.
- ALABAMA**—Legislation 52, 53n.
- ALTERATIONS AND IMPROVEMENTS**—As Use of Funds 78.
- AMERICAN BANKERS ASSOCIATION**—242.
- AMERICAN INDUSTRIAL BANKER**—27n.
- APPLICATIONS FOR LOANS**—Procedure in Handling 88, 90-93; Rejections 93, 112. *See also* CREDIT INVESTIGATION; PERSONAL LOAN DEPARTMENTS.
- ARIZONA**—Legislation 48n, 50, 52, 54, 57.
- ARKANSAS**—Legislation 49n, 50n, 52.
- ASSETS OF BORROWERS**—As Indication of Credit Risk 130-32.
- AUTOMOBILE FINANCING**—As Use of Funds 78-79, 136; Collection Experience 107, 108; Difficulties in Procedure 97; Floor-Planning 82, 83; Regional Distribution 42-44; Sources 85-87. *See also* DEALERS; SALES FINANCING BY COMMERCIAL BANKS.
- BAD DEBT LOSS**—*See* CHARGE-OFFS.
- BANK CREDIT LINES**—198, 201-03.
- BANK OF THE MANHATTAN COMPANY**—63n, 67n, 77n, 78.
- BANKERS ASSOCIATION FOR CONSUMER CREDIT**—241, 242.
- BERNSTEIN, BLANCHE**—65n, 67n.
- BORROWERS FROM PERSONAL LOAN DEPARTMENTS**—Amounts Borrowed 133; Assets and Liabilities 75-76, 130-32; Comparison with Borrowers from Other Agencies 66-68, 70, 223-24, 228-29; Employment Stability 72-73, 125-27; Estimated Number 25-26; Income Distribution 64-68, 128, 130; Industrial Distribution 69-72, 125-26; Occupational Distribution 69-70, 123-25; Permanence of Residence 74-75, 122-23; Personal Characteristics 73-74, 119-22; Use of Funds 77-79, 136-37. *See also* APPLICATIONS FOR LOANS.
- BRANCH BANKS**—Personal Lending by 226, 228. *See also* PERSONAL LOAN DEPARTMENTS.
- BUSINESS GROUPS**—70, 124. *See also* BORROWERS FROM PERSONAL LOAN DEPARTMENTS.
- BUSINESS NEEDS**—As Use of Funds 78, 136.
- CALIFORNIA**—Legislation 49n, 52.
- CHARGE-OFFS**—Expense 171-72, 176; On Personal Loans 104-07; On Sales Financing 107-08; Reserves for 107, 108, 159-60.
- CHARGES**—Legal Status 47-49, 51-58; On Personal Loans 141-56; On Sales Financing, 156-62.
- CHattel MORTGAGES**—*See* SECURITY.
- CHI-SQUARE TEST**—114, 114n, 115, 117.
- CLERICAL WORKERS**—As Borrowers 69-70, 124-25. *See also* BORROWERS FROM PERSONAL LOAN DEPARTMENTS.
- CLOTHING PURCHASES**—As Use of Funds 78, 136.
- COLLECTION EXPERIENCE**—In Sales Financing 107-08; On Personal Loans 101-07. *See also* ACCELERATION CLAUSE; CHARGE-OFFS; DELINQUENCY.
- COLLECTION PROCEDURE**—*See* PERSONAL LOAN DEPARTMENTS.
- COLORADO**—Legislation 52.
- COMAKER LOANS**—Average Size 40-41; Charges 143-45, 151-52; Credit Experience 134; Definition 37n; Volume 37-39.
- COMPETITION**—219-40.
- CONNECTICUT**—Legislation 49n, 52, 56n.

- CONSUMER CREDIT INSTITUTE OF AMERICA, INC.—27n.
- CONSUMER FINANCING—Definition 21; Development by Banks 23-34; Reasons for Bank Participation 21-23. *See also* CHARGES; COMPETITION; CREDIT RISK; LEGISLATION; PERSONAL LOAN DEPARTMENTS; PROFITS OF PERSONAL LOAN DEPARTMENTS.
- COOPERATIVE RELATIONS—240-42.
- COPPOCK, JOSEPH D.—23n.
- COST ACCOUNTING—164-66, 172. *See also* EXPENSES OF PERSONAL LOAN DEPARTMENTS.
- COSTS—*See* CHARGES; EXPENSES OF PERSONAL LOAN DEPARTMENTS.
- COURT ACTION—In Collection Procedure 104. *See also* COLLECTION EXPERIENCE.
- CREDIT INFORMATION EXCHANGE—91-92.
- CREDIT INVESTIGATION—90-93, 95. *See also* APPLICATIONS FOR LOANS.
- CREDIT INVESTIGATION CHARGE—49-50, 55-56, 146-48, 152, 169, 170.
- CREDIT RISK—And Borrowers' Financial Characteristics 127-32; And Borrowers' Personal Characteristics 119-23; And Borrowers' Vocational Characteristics 123-24; And Loan Characteristics 133-37; Method of Analysis 109-118; Relative Importance of Factors Affecting 137-39.
- CREDIT STANDARDS—On Loans to Industrial Banking Companies 217-18; On Loans to Personal Finance Companies 215-16; On Loans to Sales Finance Companies 207-11; On Personal Loans 137-39.
- CREDIT UNIONS—47, 193-94, 219.
- DEALERS—As Source of Sales Financing 82-87, 95-97, 232-33; Floor-Planning (Wholesale Loans) 82-83, 95, 232; Packs 159n, 233; Reserves 158-62.
- DELAWARE—Legislation 48n, 50, 52, 54-55, 57n, 58.
- DELINQUENCY—Extent 102; Fines 150-51, 169-71; Legality of Fines 49, 56n; *See also* CHARGES; COLLECTION EXPERIENCE.
- DENTISTS—As Sources of Loan Volume 82.
- DEPARTMENT STORES—As Sources of Loan Volume 82-84.
- DEPOSITS, HYPOTHECATED—53, 93-94, 142, 194n.
- DISCOUNT RATES—*See* CHARGES.
- DISTRICT OF COLUMBIA—Legislation 51-53.
- DOCTORS—As Sources of Loan Volume 82.
- DOUTHIT, B. F.—224n.
- DOWN PAYMENT—In Automobile Financing 100; In Other Sales Financing 100-01; Standards Recommended by Banks to Borrowing Credit Agencies 208-09.
- DURATION OF LOANS—*See* LENGTH OF CONTRACT.
- EARNINGS OF PERSONAL LOAN DEPARTMENTS—*See* INCOME OF PERSONAL LOAN DEPARTMENTS; PROFITS OF PERSONAL LOAN DEPARTMENTS.
- EDUCATION—As Use of Funds 78.
- EXPENSES OF PERSONAL LOAN DEPARTMENTS—Difficulties of Determining 163-66, 238-40; Distribution by Type 171-72. *See also* VOLUME OF LOANS.
- FARM CREDIT ADMINISTRATION—194n.
- FEDERAL DEPOSIT INSURANCE CORPORATION—24n, 30n, 189n, 191n.
- FEDERAL TRADE COMMISSION—88n.
- FISHER, R. A.—114n.
- FLOOR-PLANNING—*See* AUTOMOBILE FINANCING; DEALERS.
- FLORIDA—Legislation 50n, 52.
- FURNITURE—Extent of Financing 42-44; Source of Financing 86-87.
- GEORGIA—Legislation 52, 56n.
- GROSS EARNINGS—*See* INCOME OF PERSONAL LOAN DEPARTMENTS; PROFITS OF PERSONAL LOAN DEPARTMENTS.
- HELP TO RELATIVES—As Use of Funds 78, 136.
- HENDERSON, B. E.—222n.
- HOLTHAUSEN, D.—46n, 219n, 230n.
- HONOR LOANS—223.
- HOUSE-HEATING EQUIPMENT FINANCING—43, 86-87.
- HOUSEHOLD APPLIANCE FINANCING—Extent 42-46; Source 85-87; Terms 100-01, 161-62.
- HOUSEHOLD GOODS PURCHASES—As Use of Funds 78.

- IDAHO—Legislation 52, 56.
 ILLINOIS—Legislation 52.
 INCOME ACCRUAL—169.
 INCOME OF PERSONAL LOAN DEPARTMENTS—163-70. *See also* EXPENSES OF PERSONAL LOAN DEPARTMENTS; PROFITS OF PERSONAL LOAN DEPARTMENTS.
 INDEX OF DISTRIBUTION DIFFERENCE—118.
 INDIANA—Legislation 48, 50n, 52n, 60n, 236.
 INDIANA BANKERS ASSOCIATION—29n, 60n.
 INDUSTRIAL BANKING COMPANIES—As Competitors of Commercial Banks 221, 227-30; Borrowings from Commercial Banks 216-18, 193-96.
 INSURANCE ON PERSONAL LOANS—Amount of Charge 96, 148-49; As Expense Item 171, 176-77; As Source of Income 169; As Substitute for Comaker 149-51; Cost to Bank 149; Legality of Charge 56. *See also* CHARGES.
 INSURANCE PREMIUMS—As Use of Funds 78.
 INSURANCE IN SALES FINANCING—157, 161.
 INTEREST—*See* CHARGES.
 IOWA—Legislation 49n, 52.
 KANSAS—Legislation 52.
 KENTUCKY—Legislation 52, 56n.
 KILGUS, A. L.—182n.
 LEGAL RATE—*See* USURY STATUTES.
 LEGISLATION—47-58; Proposed Uniform Personal Instalment Loan Law 58-59.
 LENDING PROCEDURE—*See* PERSONAL LOAN DEPARTMENTS; SALES FINANCING BY COMMERCIAL BANKS.
 LENGTH OF CONTRACT—For Personal Loans 97-100, 135; For Sales Financing 100; Regulation 57; Relation to Credit Experience 135; Relation to Profits 182-88; Standards on, for Bank Loans to Credit Agencies 209-11.
 LETTER OF CREDIT—85.
 LIQUIDATION PERIOD—On Loans to Sales Finance Companies 210-11.
 LOAN SECURITY—*See* SECURITY.
 LOAN SIZE—*See* SIZE OF LOANS.
 LOAN VOLUME—*See* VOLUME OF LOANS.
 LORENZ, OTTO C.—169n.
 LOSS RESERVES—*See* RESERVES FOR LOSSES.
 LOSSES OF PERSONAL LOAN DEPARTMENTS—*See* CHARGE-OFFS; RESERVES FOR LOSSES.
 LOUISIANA—Legislation 52.
 MAIL ORDER HOUSES—As Sources of Sales Finance Paper 84.
 MAINE—Legislation 48n, 50, 52, 54n, 55n, 57, 60n.
 MANUFACTURERS—As Sources of Sales Finance Paper 86-87.
 MANUFACTURERS TRUST COMPANY—63n, 67n, 71n.
 MARQUETTE NATIONAL BANK—149.
 MARYLAND—Legislation 52.
 MASSACHUSETTS—Legislation 49n, 52, 56n.
 MATURED NOTES—*See* ACCELERATION CLAUSE.
 MATURITY OF LOANS—*See* LENGTH OF CONTRACT.
 MAXIMUM RATE—*See* CHARGES; USURY STATUTES.
 MEDICAL AND DENTAL SERVICES—As Use of Funds 78, 136.
 MEISS, WALTER—163-64n.
 MERRIAM, M.—46n, 219n, 230n.
 MICHIGAN—Legislation 48n, 50, 52, 54-55, 57n, 60n, 65.
 MINNESOTA—Legislation 50n, 52.
 MISSISSIPPI—Legislation 50n, 52.
 MISSOURI—Legislation 50n, 52.
 MONTANA—Legislation 52.
 NATIONAL CITY BANK—63n, 67n, 71n, 77n.
 NATIONAL CREDIT OFFICE, INC.—194n, 198n, 202n, 206n.
 NATIONAL RESOURCES COMMITTEE—65n, 67n, 71n.
 NEBRASKA—Legislation 52, 55, 56n.
 NEVADA—Legislation 52, 56n.
 NEW HAMPSHIRE—Legislation 52, 56n.
 NEW JERSEY—Legislation 48n, 50n, 52, 54-58.
 NEW MEXICO—Legislation 52, 56n.
 NEW YORK—Collection Experience in State Banks 106-07; Expenses of State Banks 171-81; Income of State Banks 167-68; Legislation 47-58;

- Personal Loan Department Profits 188-90.
- NEWTON, A. W.—203n, 208n, 210n.
- NORTH CAROLINA—Legislation 48n, 50, 52, 54-58.
- NORTH DAKOTA—Legislation 52.
- NUGENT, ROLE—29n, 46n, 219n, 230n.
- OCCUPATIONS OF BORROWERS—*See* BORROWERS FROM PERSONAL LOAN DEPARTMENTS.
- OHIO—Legislation 48n, 51, 54, 56-57.
- OKLAHOMA—Legislation 50n, 52.
- OPERATING EXPENSES—*See* EXPENSES OF PERSONAL LOAN DEPARTMENTS.
- OPERATING METHODS—*See* PERSONAL LOAN DEPARTMENTS.
- OREGON—Legislation 49n, 52, 56n.
- ORGANIZATION OF PERSONAL LOAN DEPARTMENTS—*See* PERSONAL LOAN DEPARTMENTS.
- PAYMENTS—*See* COLLECTION EXPERIENCE; PERSONAL LOAN DEPARTMENTS.
- PENNSYLVANIA—Legislation 49n, 52, 56n.
- PERSONAL FINANCE COMPANIES—As Competitors of Commercial Banks 222-26; Borrowings from Commercial Banks 193-97, 211-16.
- PERSONAL LOAN DEPARTMENTS—Collection Procedure 94; Growth 27-32; Lending Procedure 90-94; Methods of Obtaining Business 80-87; Number 23, 27-30; Organization 88-89, 92. *See also* BORROWERS FROM PERSONAL LOAN DEPARTMENTS; CHARGES; COMPETITION; CREDIT RISK; EXPENSES OF PERSONAL LOAN DEPARTMENTS; INCOME OF PERSONAL LOAN DEPARTMENTS; PROFITS OF PERSONAL LOAN DEPARTMENTS.
- PLUMMER, LEHMAN—163-64n.
- PLUMMER, W. C.—24n, 25n, 62n, 87-88n, 233n, 235n.
- POLK'S BANKER'S ENCYCLOPEDIA—52n.
- PREPAYMENT OF LOANS—101.
- PROFESSIONAL GROUPS—As Borrowers 69-71, 124-25. *See also* BORROWERS FROM PERSONAL LOAN DEPARTMENTS.
- PROFITS OF PERSONAL LOAN DEPARTMENTS—163-66, 189-90; Related to Size and Length of Notes 182-88. *See also* EXPENSES OF PERSONAL LOAN DEPARTMENTS; INCOME OF PERSONAL LOAN DEPARTMENTS.
- PUBLIC UTILITIES—As Sources of Sales Finance Paper 83-84, 95.
- RATE CHARTS—158, 234.
- RATES—*See* CHARGES.
- REBATES—156.
- REFINANCING DEBTS—As Use of Funds 78, 136.
- REFINANCING OF LOANS—101-02.
- REGULATIONS—*See* LEGISLATION.
- REJECTIONS—*See* APPLICATIONS FOR LOANS.
- RENEWALS—*See* REFINANCING OF LOANS.
- RENT—As Expense Item 171, 176.
- RESERVES FOR LOSSES—108, 158-60, 162, 171, 176, 188. *See also* CHARGE-OFFS.
- RHODE ISLAND—Legislation 49n, 52, 53n, 55n, 56n.
- RISK—*See* CREDIT RISK.
- RUSSELL SAGE FOUNDATION—24n, 27n, 29n.
- SALARIES—As Expense Item 171, 176-77.
- SALES FINANCE COMPANIES—41, 197; As Competitors of Commercial Banks 221, 230-36; Borrowings from Commercial Banks 193-211; Open Market Paper 206-07.
- SALES FINANCING BY COMMERCIAL BANKS—Commodities Financed 42-46; Competition 231-36; Cost of Handling 191-92; Extent 24-25; Procedure in Handling 90, 95-97; Regulation 48, 60-62; Sources 82-87; Terms 100, 156-62.
- SAULNIER, R. J.—216n, 223n, 227n, 229n, 238n.
- SECURED LOANS—Average Size 40-41; Charges 141-46; Credit Experience 134; Definition 37n; Volume 37-39.
- SECURITY—Bank Loans to Credit Agencies 202-03, 212, 217; Personal Loans 37-41; Sales Financing 41-44, 87.
- SINGLE-NAME LOANS—Average Size 40-41; Charges 141-46; Credit Experience 134; Definition 37n; Volume 37-39.
- SIZE OF LOAN—26, 57, 82; Average Size 40-41; Regulation 57; Relation to Credit Experience 129-30, 133-34; Relation to Profitability 182-88.
- SMALL LOAN COMPANIES—*See* PERSONAL FINANCE COMPANIES.

- SMITH, MOTT—169n.
 SNEDECOR, GEORGE W.—114n.
 SOFT GOODS—Financing 43, 86-87.
 SOUTH CAROLINA—Legislation 49n, 50, 52, 54-58, 60n.
 SOUTH DAKOTA—Legislation 49n, 52.
 SUICLIFFE, W. C.—27n.
- TENNESSEE—Legislation 49n, 50n, 52.
 TERMINATION OF LOANS—*See* COLLECTION EXPERIENCE; PREPAYMENT OF LOANS; REFINANCING OF LOANS.
 TERMS—*See* CHARGES; DOWN PAYMENT; LENGTH OF CONTRACT.
 TEXAS—Legislation 49n, 52.
 TIME-SALES DEPARTMENTS—*See* SALES FINANCING BY COMMERCIAL BANKS.
- UNIFORM PERSONAL INSTALMENT LOAN STATUTE—58-59
 UNSECURED NOTES—*See* SINGLE-NAME LOANS.
 USES OF BORROWED FUNDS—Business 78, 136; Clothing Purchases 78, 136; Education 78; Household Goods Purchases 78; Insurance Premiums 78; Medical and Dental Services 78, 136; Refinancing Debts 78, 136; Taxes 78, 136; Vacation 78, 136.
 USURY STATUTES—47, 49n, 51-58.
 UTAH—Legislation 52, 56.
- VERMONT—Legislation 52, 56n.
 VIRGINIA—Legislation 49n, 50, 52, 54n, 55, 57.
- VOLUME OF LOANS—And Personnel Requirements 190; And Profitability 189-90; Change in, and Costs of Operation 174, 181; Growth 30-32; Relation to Size of Bank 33-36.
- WAGE-EARNERS—As Borrowers 69-71, 124-25. *See also* BORROWERS FROM PERSONAL LOAN DEPARTMENTS.
 WASHINGTON—Legislation 52.
 WEST VIRGINIA—Legislation 52.
 WHOLESALE LOANS—*See* DEALERS.
 WISCONSIN—Legislation 48, 49n, 52, 60n, 61.
 WYOMING—Legislation 49n, 52, 55, 56n.
- YOUNG, R. A.—24n, 25n, 62n, 87-88n, 172n, 188n, 211n, 223n, 235n, 238n.
 YNTEMA, T. O.—188n.

PUBLICATIONS OF THE
NATIONAL BUREAU OF ECONOMIC RESEARCH

Contributors of \$25 or more a year to the National Bureau receive all publications before they are released to the public. Teachers in recognized educational institutions, members of scientific societies or of private non-profit research agencies may become Associates by contributing \$5 annually. Associates receive five issues of the *Bulletin* and are entitled to buy copies of National Bureau books at a one-third discount.

- INCOME IN THE UNITED STATES
W. C. Mitchell, W. I. King, F. R. Macaulay and O. W. Knauth
- *1 Volume I, SUMMARY (1921) 152 pp.
 - 2 Volume II, DETAILS (1922) 420 pp., \$5.15
 - 3 DISTRIBUTION OF INCOME BY STATES IN 1919 (1922)
O. W. Knauth 30 pp., \$1.30
 - *4 BUSINESS CYCLES AND UNEMPLOYMENT (1923)
National Bureau Staff and Sixteen Collaborators 405 pp.
 - *5 EMPLOYMENT, HOURS AND EARNINGS, UNITED STATES, 1920-22 (1923)
W. I. King 147 pp.
 - 6 THE GROWTH OF AMERICAN TRADE UNIONS, 1880-1923 (1924)
Leo Wolman 170 pp., \$2.50
 - 7 INCOME IN THE VARIOUS STATES: ITS SOURCES AND DISTRIBUTION, 1919, 1920 AND 1921 (1925)
Maurice Leven 306 pp., \$3.50
 - 8 BUSINESS ANNALS (1926)
W. L. Thorp, with an introductory chapter, "Business Cycles as Revealed by Business Annals," by *W. C. Mitchell* 380 pp., \$2.50
 - 9 MIGRATION AND BUSINESS CYCLES (1926)
Harry Jerome 256 pp., \$2.50
 - 10 BUSINESS CYCLES: THE PROBLEM AND ITS SETTING (1927)
Wesley C. Mitchell 489 pp., \$5.00
 - *11 THE BEHAVIOR OF PRICES (1927)
Frederick C. Mills 598 pp.
 - 12 TRENDS IN PHILANTHROPY (1928)⁶
W. I. King 78 pp., \$1.00
 - 13 RECENT ECONOMIC CHANGES (1929)
National Bureau Staff and Fifteen Collaborators 2 vols., 950 pp., \$7.50
- INTERNATIONAL MIGRATIONS
- 14 Volume I, STATISTICS (1929), compiled by *Imre Ferenczi* of the International Labour Office, and edited by *W. F. Willcox* 1,112 pp., \$7.00
 - 18 Volume II, INTERPRETATIONS (1931), ed. by *W. F. Willcox* 715 pp., \$5.00
 - *15 THE NATIONAL INCOME AND ITS PURCHASING POWER (1930)
W. I. King 394 pp.
 - 16 CORPORATION CONTRIBUTIONS TO ORGANIZED COMMUNITY WELFARE SERVICES (1930)
Pierce Williams and F. E. Croxton 347 pp., \$2.00
- * Out of print.

- 17 PLANNING AND CONTROL OF PUBLIC WORKS (1930)
Leo Wolman 260 pp., \$2.50
- 19 THE SMOOTHING OF TIME SERIES (1931)
Frederick R. Macaulay 172 pp.
- 20 THE PURCHASE OF MEDICAL CARE THROUGH FIXED PERIODIC PAYMENT (1932)
Pierce Williams 308 pp., \$3.00
- 21 ECONOMIC TENDENCIES IN THE UNITED STATES (1932)
Frederick C. Mills 639 pp.
- 22 SEASONAL VARIATIONS IN INDUSTRY AND TRADE (1933)
Simon Kuznets 455 pp., \$4.00
- 23 PRODUCTION TRENDS IN THE UNITED STATES SINCE 1870 (1934)
A. F. Burns 363 pp., \$3.50
- 24 STRATEGIC FACTORS IN BUSINESS CYCLES (1934)
J. Maurice Clark 238 pp., \$1.50
- 25 GERMAN BUSINESS CYCLES, 1924-1933 (1934)
C. T. Schmidt 288 pp., \$2.50
- 26 INDUSTRIAL PROFITS IN THE UNITED STATES (1934)
R. C. Epstein 678 pp., \$5.00
- 27 MECHANIZATION IN INDUSTRY (1934)
Harry Jerome 484 pp., \$3.50
- 28 CORPORATE PROFITS AS SHOWN BY AUDIT REPORTS (1935)
W. A. Paton 151 pp., \$1.25
- 29 PUBLIC WORKS IN PROSPERITY AND DEPRESSION (1935)
A. D. Gayer 460 pp., \$3.00
- 30 EBB AND FLOW IN TRADE UNIONISM (1936)
Leo Wolman 251 pp., \$2.50
- 31 PRICES IN RECESSION AND RECOVERY (1936)
Frederick C. Mills 561 pp., \$4.00
- 32 NATIONAL INCOME AND CAPITAL FORMATION, 1919-1935 (1937)
Simon Kuznets 100 pp., 8¼ x 11¼, \$1.50
- 33 SOME THEORETICAL PROBLEMS SUGGESTED BY THE MOVEMENTS OF INTEREST RATES, BOND YIELDS AND STOCK PRICES IN THE UNITED STATES SINCE 1856 (1938)
F. R. Macaulay 586 pp., \$5.00
"The Social Sciences and the Unknown Future," a reprint of the introductory chapter to Dr. Macaulay's volume: 35 cents; in orders of 10 or more, 25 cents.
- 34 COMMODITY FLOW AND CAPITAL FORMATION, Volume 1 (1938)
Simon Kuznets 500 pp., 8¼ x 11¼, \$5.00
- 35 CAPITAL CONSUMPTION AND ADJUSTMENT (1938)
Solomon Fabricant 271 pp., \$2.75
- 36 THE STRUCTURE OF MANUFACTURING PRODUCTION, A CROSS-SECTION VIEW (1939)
C. A. Bliss 234 pp., \$2.50
- 37 THE INTERNATIONAL GOLD STANDARD REINTERPRETED
William Adams Brown, Jr. (in press)
- 38 RESIDENTIAL REAL ESTATE, ITS ECONOMIC POSITION AS SHOWN BY VALUES, RENTS, FAMILY INCOMES, FINANCING, AND CONSTRUCTION, TOGETHER WITH ESTIMATES FOR ALL REAL ESTATE
D. L. Wickens (in press)

FINANCIAL RESEARCH PROGRAM

I *A Program of Financial Research*

- 1 REPORT OF THE EXPLORATORY COMMITTEE ON FINANCIAL RESEARCH (1937)
91 pp., \$1.00
- 2 INVENTORY OF CURRENT RESEARCH ON FINANCIAL PROBLEMS (1937)
253 pp., \$1.50

II *Studies in Consumer Instalment Financing*

- 1 PERSONAL FINANCE COMPANIES AND THEIR CREDIT PRACTICES (1940)
Ralph A. Young and Associates 170 pp., \$2.00
- 2 SALES FINANCE COMPANIES AND THEIR CREDIT PRACTICES (1940)
Wilbur C. Plummer and Ralph A. Young 300 pp., \$3.00
- 3 COMMERCIAL BANKS AND CONSUMER INSTALMENT CREDIT (1940)
John M. Chapman and Associates 308 pp., \$3.00
- 5 GOVERNMENT AGENCIES OF CONSUMER INSTALMENT CREDIT
J. D. Coppock (in press)
- 6 THE PATTERN OF CONSUMER DEBT, 1935-36
Blanche Bernstein (in press)

CONFERENCE ON RESEARCH IN NATIONAL INCOME AND WEALTH

- STUDIES IN INCOME AND WEALTH (Volumes I-III together, \$7.50)
- Volume I (1937) 368 pp., \$2.50
- Volume II (1938) 342 pp., \$3.00
- Volume III (1939) 500 pp., \$3.50

CONFERENCE ON PRICE RESEARCH

- 1 REPORT OF THE COMMITTEE ON PRICES IN THE BITUMINOUS COAL INDUSTRY
(1938) 114 pp., \$1.25
- 2 TEXTILE MARKETS--THEIR STRUCTURE IN RELATION TO PRICE RESEARCH
(1939) 304 pp., \$3.00
- 3 PRICE RESEARCH IN THE STEEL AND PETROLEUM INDUSTRIES (1939)
224 pp., \$2.00

THE BULLETIN

Subscription to the National Bureau *Bulletin*: 5 issues, \$1; single copies,
25 cents except the issues marked 50 cents.

1936

- 59 INCOME ORIGINATING IN NINE BASIC INDUSTRIES, 1919-1934
Simon Kuznets 50c
- 60 MEASURES OF CAPITAL CONSUMPTION, 1919-1933
Solomon Fabricant
- 61 PRODUCTION DURING THE AMERICAN BUSINESS CYCLE OF 1927-1933
W. C. Mitchell and A. F. Burns 50c
- 62 REEVALUATIONS OF FIXED ASSETS, 1925-1934
Solomon Fabricant

- 63 THE RECOVERY IN WAGES AND EMPLOYMENT
Leo Wolman
1937
- *64 A PROGRAM OF FINANCIAL RESEARCH
Report of the Exploratory Committee on Financial Research
- 65 NON-FARM RESIDENTIAL CONSTRUCTION, 1920-1936
David L. Wickens and Ray R. Foster
- *66 NATIONAL INCOME, 1919-1935
Simon Kuznets
- 67 TECHNICAL PROGRESS AND AGRICULTURAL DEPRESSION
Eugen Altschul and Frederick Strauss 50c
- 68 UNION MEMBERSHIP IN GREAT BRITAIN AND THE UNITED STATES
Leo Wolman
1938
- *69 STATISTICAL INDICATORS OF CYCLICAL REVIVALS
W. C. Mitchell and A. F. Burns
- 70 EMPLOYMENT OPPORTUNITIES IN MANUFACTURING INDUSTRIES
Frederick C. Mills
- 71 HOURS OF WORK IN AMERICAN INDUSTRY
Leo Wolman
- 72-73 INCOMES FROM INDEPENDENT PROFESSIONAL PRACTICE, 1929-1936
Simon Kuznets and Milton Friedman 50c
- 1939
- *74 COMMODITY FLOW AND CAPITAL FORMATION IN THE RECENT RECOVERY
AND DECLINE
Simon Kuznets
- 75 DIFFERENTIALS IN HOUSING COSTS
D. L. Wickens
- 76-77 THE STATISTICAL PATTERN OF INSTALMENT DEBT
R. A. Young and Blanche Bernstein 50c
- 78 COMPOSITION OF GROSS FARM INCOME SINCE THE CIVIL WAR
Frederick Strauss
- *Out of print.

NATIONAL BUREAU OF ECONOMIC RESEARCH
1819 Broadway, New York, N. Y.
European Agent: Macmillan & Co., Ltd.
St. Martin's Street, London, W.C.2