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Volume Author/Editor: Duncan McC. Holthausen, Malcolm L.
Merriam, Rolf Nugent

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Chapter Author: Duncan McC. Holthausen, Malcolm L. Merriam,
Rolf Nugent

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Meaning of Terms, Coverage and Limitations of the Data

THE term consumer instalment credit, as employed in this and other consumer financing studies of the National Bureau, means credit extended to consumers which requires them to repay principal and interest in regular payments scheduled in advance. Our definition also stipulates that the instalment basis of repayment shall be scheduled under a formal legal instrument, thus excluding charge accounts or open book credit; and that the term of contract shall be relatively short or intermediate, thus excluding home mortgage credit, which is characterized by long maturities.

Consumer instalment credit as thus defined is extended by two types of institutions—retail establishments selling goods, and cash-lending agencies, which advance funds. Accordingly, the estimates presented in this monograph were derived from two bodies of data—retail instalment sales and cash instalment loans. Retail establishments are grouped in six classifications: dealers in new and used passenger automobiles, department stores, furniture stores, household appliance stores, jewelry stores, and a miscellaneous group of “all other stores.” Institutions offering cash instalment loans include five groups—personal loan departments of commercial banks, credit unions, industrial banking companies, personal finance companies, and unregulated lenders.

Four phases of instalment credit are covered by our study—the volume of credit granted, the volume of repayments, the amount of outstanding receivables, and the net credit change. The first two are self-explanatory. Outstandings represent the difference between credit granted and repayments,

i.e., the amount of consumer instalment debt in existence at a specified point of time; average outstandings represent the mean amount of such debt in existence over a specified interval of time. Net credit change is the change in outstandings during a specified time interval.

The data on which our series are based come from the following sources.

In the retail group, the estimates for automobile dealers were worked out from number of cars sold, as reported to the Automobile Manufacturers Association and represent automobile instalment credit initiated by dealers in new and used passenger cars. The figures do not include instalment sales of trucks and accessories, or repairs paid for on an instalment basis.

Estimates of instalment credit for the other five types of retail establishments are derived from data assembled in the 1935 *Census of Business* and the annual *Retail Credit Surveys* of the Department of Commerce. In general, the classifications used are those of the Census of Business. The department store category (which includes sales of mail order houses) and the jewelry store category are identical with those of the Census. The furniture group combines three Census classifications—furniture stores, floor covering and drapery stores, and other home furnishings stores. The household appliance store group includes two of the Census classifications—household appliance and radio stores, and radio dealers. The "all other stores" classification covers the other types of retail establishments which grant credit to consumers on an instalment basis, and these categories are also identical with those of the Census, as follows: country general stores, dry-goods and general merchandise stores, gasoline filling stations, garages, automobile tire and accessory stores and other automotive stores, the entire apparel group, hardware stores, bookstores, sporting goods stores, florists, secondhand stores, drugstores, bicycle shops, fuel and ice dealers, gift, novelty and souvenir shops, and luggage stores.

These retail group estimates do not cover instalment sales

of lumber and building material dealers, farm supply and implement stores, office equipment stores, and a small group of unclassified retail enterprises. In general, however, the instalment transactions of such establishments are primarily grants of producer credit, as distinguished from consumer credit.

For the five institutions in the cash loan group—personal loan departments of commercial banks, credit unions, industrial banking companies, personal finance companies, and unregulated lenders—our estimates are based upon data from the Russell Sage Foundation, whose classifications have been followed both as to definition and coverage, supplemented by data collected by the National Bureau. The commercial bank figures include all commercial banks which are known to extend consumer loans on an instalment repayment basis through their personal loan departments; these figures were built up from data supplied by individual banks directly.

The credit union figures were drawn mainly from state banking department reports and Farm Credit Administration reports.

The estimates for industrial banking companies include firms which are known variously as industrial banks, banks, Morris Plan banks or companies, savings and loan companies, industrial loan companies and discount companies, but which all operate in much the same way. These data were developed by the Foundation from official state reports and individual company reports.

The personal finance company classification comprises all firms operating as licensees under statutes bearing some resemblance to the Uniform Small Loan Law; estimates for these firms were developed largely from state reports.

The estimates for unregulated lenders refer to a miscellaneous group of lending agencies whose principal common characteristics are their very small instalment loans and their very high rates of charge. Most of these lenders do business in states which have no adequate small loan laws, and since they submit no reports to any supervisory agency, the esti-

mates of instalment credit originating with such lenders are necessarily crude.

To supplement the estimates for these five types of cash-lending agencies, a sixth series was developed covering loans insured by the Federal Housing Administration under Title I of the National Housing Act. These estimates were derived directly from data contained in annual reports of the Federal Housing Administration, and include all notes of \$2,000 or less which may be considered consumer credit.

These estimates have been developed both by years and by months, but the time coverage varies to some extent. Annual series from 1926 to 1938 inclusive, covering all four credit items—credit granted, repayments, outstandings, and net credit change—were developed for three classifications in the retail group—automobile dealers, department stores, and furniture stores. For the other three retail classifications—household appliance stores, jewelry stores, and “all other stores”—the annual series cover the years 1929 to 1938 inclusive.

For the six classifications in the cash loan group the annual series cover the years 1929 to 1938 inclusive, and the same four credit items, except that the estimates for unregulated lenders and for FHA loans cover only outstandings and net credit change, and that the series for FHA loans covers the years 1934 through 1938 only.

Estimates by months are also presented. In the retail group they cover all classifications except one (the “all other stores” classification). They cover the years 1929 through 1938 for household appliance and jewelry stores, the years 1926 through 1938 for automobile dealers, department and furniture stores.

In the cash loan group, monthly series run from 1929 through 1938. For industrial banking companies and for personal finance companies these series cover all four credit items; for credit unions they cover outstandings and net credit change only. The commercial bank series cover only outstandings and net credit change from 1929 through 1933, all four items from 1934 through 1938. Monthly estimates on

FHA loans run from August 1934 through December 1938 for two items—outstandings and net credit change.

Table 1 summarizes the coverage of the annual and the monthly series for each classification.

The deficiencies inherent in the working materials available to us impose certain limitations on the results. Appendix D, which describes the methods of estimate employed for the several series, also indicates these limitations in detail. It is sufficient here to caution the reader to bear in mind the following specific qualifications to which the estimates are subject.

1. All outstandings estimates listed by type of retail establishment represent the amount of consumer debt originating in retail instalment sales regardless of whether the retailer himself carries the instalment paper as an account receivable item or has sold part or all of the instalment paper to outside agencies (i.e., sales finance companies, commercial banks, industrial banking companies, and all other purchasers of consumer instalment notes from retailers).
2. Prepayments of instalment accounts, renewals of notes, delinquencies and repossessions are not accounted for in the repayments and outstandings estimates for the automobile dealer series.
3. Estimates of credit granted for all types of cash-lending institutions include renewals of old loan balances; the repayments series include accounting collections on loans renewed. Thus the amount of credit granted (or loans made) by cash-lending agencies cannot be considered to refer exclusively to *new* cash advanced, and the volume of repayments to such agencies cannot be considered to refer only to repayments on new loans.
4. Repayments include charge-offs on bad loans in all series except that for automobile dealers.
5. Interest charges are not included in the personal finance company series, since this type of agency makes its charge each month on the unpaid balance and does not include the charge as a part of the amount of the loan or as a part of the loan balance outstanding. Roughly three-fourths of

TABLE 1

YEARS AND ITEMS COVERED BY ANNUAL AND MONTHLY SERIES FOR 6 RETAIL CREDIT GROUPS AND 6 CASH LOAN CREDIT GROUPS

Credit Group	Years Covered	Items Covered			
		Credit Granted	Repay-ments	Out-stand-ings	Credit Change
ANNUAL SERIES					
<i>Retail Group</i>					
Automobile dealers	} 1926-38	✓	✓	✓	✓
Department stores		✓	✓	✓	✓
Furniture stores		✓	✓	✓	✓
Household appliance stores	} 1929-38	✓	✓	✓	✓
Jewelry stores		✓	✓	✓	✓
"All other stores"		✓	✓	✓	✓
<i>Cash Loan Group</i>					
Commercial banks	} 1929-38	✓	✓	✓	✓
Credit unions		✓	✓	✓	✓
Industrial banking cos.		✓	✓	✓	✓
Personal finance cos.		✓	✓	✓	✓
Unregulated lenders	} 1934-38	..	..	✓	✓
FHA (Title I) loans		..	..	✓	✓
MONTHLY SERIES					
<i>Retail Group</i>					
Automobile dealers	} 1926-38	✓	✓	✓	✓
Department stores		✓	✓	✓	✓
Furniture stores		✓	✓	✓	✓
Household appliance stores	} 1929-38	✓	✓	✓	✓
Jewelry stores		✓	✓	✓	✓
"All other stores"		✓	✓	✓	✓
	No monthly series				
<i>Cash Loan Group</i>					
Commercial banks	} 1929-33	..	..	✓	✓
		1934-38	✓	✓	✓
Credit unions	} 1929-38	..	..	✓	✓
Industrial banking cos.		✓	✓	✓	✓
Personal finance cos.		✓	✓	✓	✓
Unregulated lenders		✓	✓	✓	✓
	No monthly series				
FHA (Title I) loans	Aug. 1934 through Dec. 1938	..	..	✓	✓

all credit unions use a similar lending technique and, to that extent, the credit union series exclude interest charges.

6. The series on loans insured by the Federal Housing Administration contain a small amount of duplication with other series in the study.