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Chapter Title: Estimates of Cash Loan Instalment Credit

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Estimates of Cash Loan Instalment Credit

DURING the ten-year period covered by our estimates, total cash loan average outstandings¹ were at their highest point in 1938, when they averaged \$1,124,900,000, or more than 100 percent above their 1929 level; they were lowest during the two years 1933 and 1934, when they approximated \$460,000,000. This is in contrast to retail instalment debt, which rose in 1934 and declined in 1938.

The volume of credit extended to consumers by the four principal cash-lending agencies² was likewise at a peak during 1938, totaling \$1,575,600,000.³ Repayments reached a high in the same year with a volume of \$1,516,800,000.⁴ The low year for both credit granted and repayments was 1933, when these items totaled \$584,300,000 and \$633,100,000 respectively; they then began to rise, increasing approximately 170 percent and 140 percent respectively by 1938 to volumes 60 percent and 76 percent above 1929.

End-of-month outstandings for the four principal types of lending institutions and for FHA loans are shown combined

¹ These figures include commercial banks, credit unions, industrial banking companies, personal finance companies, and unregulated lenders; as well as insured FHA (Title I) loans of \$2,000 or less. See Table B-1. All tables referred to in this chapter will be found in Appendix B.

² Commercial banks, credit unions, industrial banking companies, and personal finance companies. Unregulated lenders and FHA loans are excluded. The estimates of credit granted by cash-lending agencies include renewals of loans (old balances renewed). If an outstanding loan for \$50 is renewed, \$50 is added to payments due in that month and \$50 to loans made. The result is an increase in both loans made and payments due; outstandings, however, remain the same.

³ See Table B-2.

⁴ Estimates of repayments to cash-lending agencies include accounting collections on old balances renewed.

and singly in Chart V.⁵ Total outstandings increased in 1929 and 1930, decreased gradually until the end of February 1934, and again moved upward; from March 1934 to the close of 1938 they increased 167 percent, and were still rising at the close of December 1938, the last month to which our estimates apply.

A marked cyclical movement is exhibited by the personal finance company and the industrial banking company curves shown in Chart V. Personal finance company outstandings rose steadily from 1929 until January 1931, and declined gradually to a low point at the end of October 1933. From this date to the close of 1937, the loan balances of these companies increased 54 percent. Industrial banking company outstandings fluctuated more, dropping 48 percent from the end of the expansion period 1929-30 to February 1934, and rising almost 100 percent by the end of 1938.

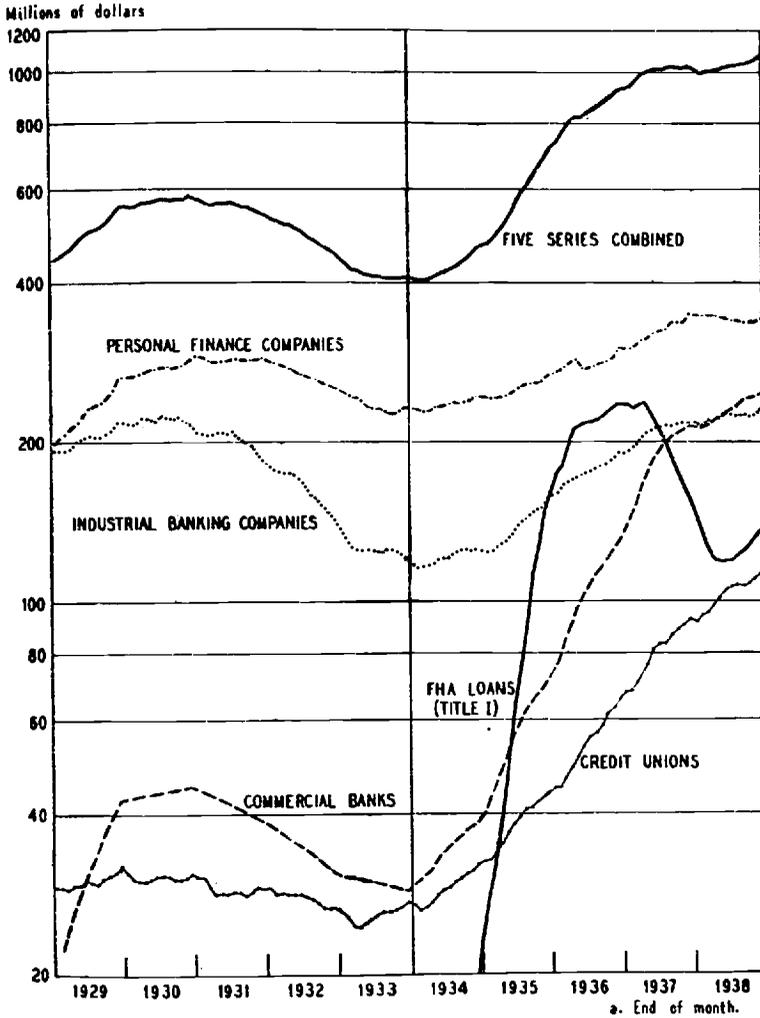
The commercial bank and credit union curves in Chart V move in the same way cyclically as the personal finance company and industrial banking company curves during 1932-33, but show a tremendous secular growth in the period 1934-38. Consumer loan balances of these agencies showed decreases of 36 percent and 21 percent respectively during 1931-33. During 1934-38, however, indebtedness to credit unions multiplied more than four times, and to commercial banks more than eight times.

Insured FHA (Title I) loans were first made in 1934. Average outstandings were highest during 1936, when they amounted to 24 percent of total outstandings of all cash-lending institutions combined. These loans were discontinued, however, during most of 1937, with the result that in 1938 outstandings were only 11 percent of the total.

During 1929-38 personal finance companies held a decreasing proportion of the total loan balances of all lending institutions, and in this same period average outstandings for industrial banking companies also declined in relation to

⁵ See also Table B-3.

Chart V
MONTHLY TOTALS OF INSTALMENT LOAN OUTSTANDINGS*
FOR FOUR TYPES OF CASH-LENDING INSTITUTIONS, FOR
FHA LOANS, AND FOR THE FIVE SERIES COMBINED
1929-1938



other lending agencies; the share of the former dropped from 42 to 31 percent in the ten-year period, and that of the latter was almost cut in half (40 percent to 20 percent).⁶ These decreases reflect the rapid growth of commercial banks and credit unions in the cash loan field; in 1929 only 11 percent of total cash loan indebtedness arose from these two types of institutions but in 1938 they were responsible for almost 30 percent. It does not follow, however, that the loan balances of personal finance companies and industrial banking companies fell off during this period; the cash loan group as a whole more than doubled its volume of business during the ten-year period, and within the group the outstandings of personal finance companies rose 50 percent and that of industrial banking companies 10 percent. The share of total average outstandings held by unregulated lenders changed little during this period, remaining close to 8.5 percent.

INDIVIDUAL CASH LOAN SERIES

Commercial Banks

Credit extended to consumers through personal loan departments of commercial banks was greatest in 1938, when it totaled \$374,900,000.⁷ Repayments, amounting to \$341,900,000, and average outstandings, totaling \$228,500,000, were also highest in that year. Volume of repayments touched the low point in 1929 and volume of loans made in 1933, but average outstandings were low (\$30,000,000) in both these years. The year 1937 witnessed the greatest change in outstandings, a net increase of \$84,800,000.

In connection with this great rise in loan volume between 1933 and 1938, it should be remembered that the number of personal loan departments in commercial banks grew rapidly in that period. Of 1,095 banks reporting personal loan departments to the National Bureau of Economic Research in

⁶ See Table B-4.

⁷ See Table B-5.

1938, 80 percent had established these departments after 1932.⁸

Monthly estimates for commercial banks (Chart VI-A) do not show the distinct seasonal patterns which appear in the retail series.⁹ Outstandings changed very little during the period, but the volume of loans made shows a December seasonal peak, and a secondary peak in June. The repayments curve moves in very much the same direction as the credit granted curve.¹⁰

Credit Unions

Credit unions are quantitatively the least important of the four principal types of lending institutions. Total average outstandings of credit unions were highest in 1938, when they amounted to \$102,600,000. Loans made and repayments were also highest in 1938, totaling \$179,400,000 and \$159,200,000 respectively in that year.

These three credit items were at a low point in 1933, when loans made came to \$32,500,000, repayments to \$32,000,000, and average outstandings to \$25,900,000. The greatest change in loan balances occurred in 1937, when outstandings rose by \$26,800,000. At the close of 1938 average outstandings were 242 percent higher than they had been in 1929.

Monthly figures for credit union outstandings reveal no discernible seasonal pattern (Chart VI-B).¹¹ Monthly data covering loans made and repayments for these institutions are not available.

Industrial Banking Companies

Unlike the commercial bank and credit union figures, the industrial banking company series show no evidences of

⁸ National Bureau of Economic Research (Financial Research Program), *Commercial Banks and Consumer Instalment Credit*, by John M. Chapman and Associates (1940) Table 1, p. 28.

⁹ See also Table B-6.

¹⁰ This is because accounting collections on old balances renewed were included in the total repayments figures.

¹¹ See also Table B-8.

Chart VI
 MONTHLY TOTALS OF INSTALMENT LOANS MADE, REPAYMENTS AND
 OUTSTANDINGS^a FOR FOUR TYPES OF CASH-LENDING INSTITUTIONS,
 FOR FHA LOANS, AND FOR THE FIVE SERIES COMBINED
 1929-1938

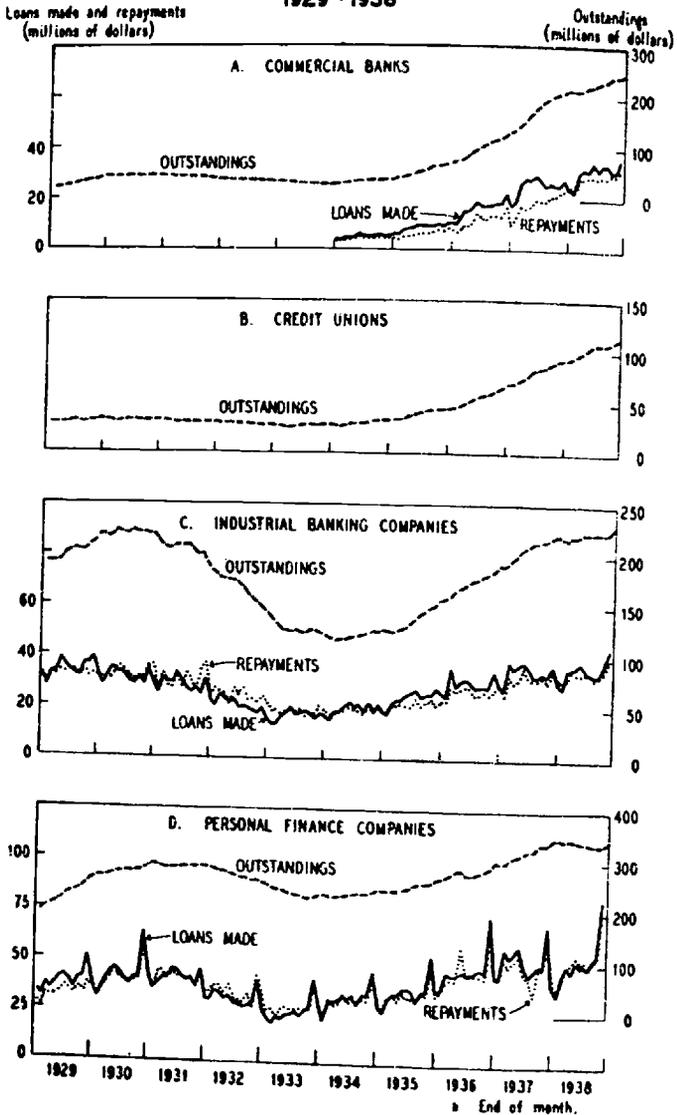
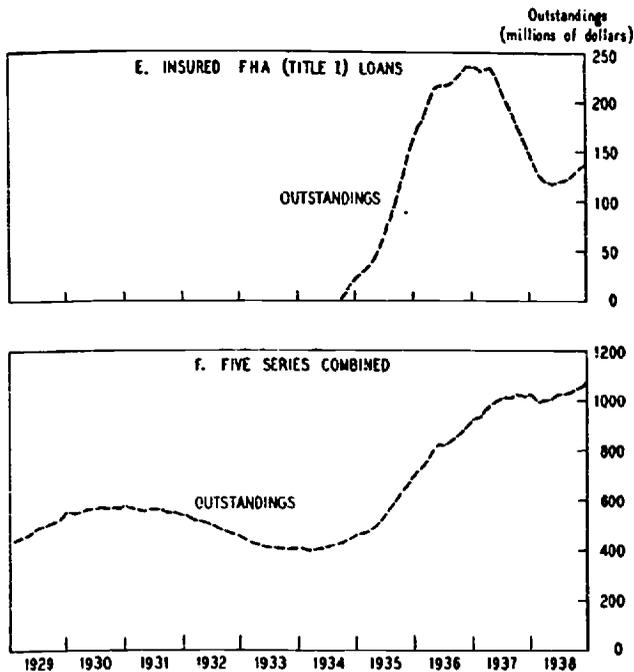


Chart VI (continued)



growth trend. Loans made by industrial banking companies during the ten-year period reached a peak of \$416,900,000 in 1938, and repayments, amounting to \$407,500,000, were likewise at their high point in that year.¹² Both these items showed relatively little change from the pre-depression high points of 1929. Average outstandings were at almost the same high points in 1930 and 1938 (\$220,100,000 and \$222,800,000 respectively).

Loans made and repayments declined gradually from 1929 through 1933, when they reached \$201,600,000 and \$224,000,000 respectively. Average outstandings fell to \$120,500,000 by the end of 1934, and the greatest change in this item took place during 1932, when there was a \$41,300,000 net decrease.

Credit granted and repayments, by months, for industrial banking companies do not show any pronounced seasonal

¹² See Table B-9.

movement, although they tend to rise in December, and some slight concentration of loans made appears during the spring months (Chart VI-C).¹³ For both items the seasonal low occurs in January and February. The outstandings curve shows no distinct seasonal pattern.

Personal Finance Companies

The volume of instalment credit extended to consumers by personal finance companies reached its high point (\$615,300,000) in 1937, and was almost as high in 1938 (\$604,400,000). Repayments and average outstandings were highest in 1938 (\$608,200,000 and \$347,600,000 respectively). Loans made and repayments were lowest in 1933, and average outstandings remained at a low point (approximately \$236,000,000) during the two years 1933 and 1934. A rise of \$70,000,000 during 1929 constituted the greatest change in outstandings over the ten-year period.¹⁴

In general, the series for personal finance companies are more stable than those for other institutions in the cash loan group; compared to other lending institutions their loan balances declined little during 1932-34 and increased slowly during the 1935-38 period of expansion.

Monthly figures on personal finance companies show that for loans made and repayments there are pronounced seasonal peaks in December and troughs in January or February (Chart VI-D).¹⁵ Month-end outstandings likewise come to a slight peak in December.

It is interesting to note that in June 1936 personal finance outstandings showed a sudden decrease of 4 percent, due to repayments made after the distribution of the Veterans' Bonus.

Unregulated Lenders

Figures on unregulated lenders have been included in order to complete the instalment credit totals for all types of cash-

¹³ See also Table B-10.

¹⁴ See Table B-11.

¹⁵ See also Table B-12.

lending agencies, but these estimates are for annual outstandings and net credit change only.¹⁶ Average outstandings for such institutions were highest during 1938 (\$96,100,000), lowest in 1933 (\$38,600,000). The greatest net credit change was an increase of \$19,500,000 in 1936.

Insured FHA (Title I) Loans

Average outstandings on FHA (Title I) loans of \$2,000 or less reached a high point of \$211,100,000 during 1936.¹⁷ The greatest change in actual outstandings took place in 1935, when this item increased by \$140,200,000. Actual month-end outstandings reached a peak point of \$237,100,000 in November 1936 (Chart VI-E).¹⁸ Monthly data covering loans made and repayments for FHA loans are not available.

¹⁶ See Table B-13.

¹⁷ See Table B-14.

¹⁸ See also Table B-15.