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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 loans[1] 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

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

[2] In 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 business[3]; 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 BANKS[4]

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 1

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																
	Before 1925	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	No Date	TOTAL
Size of Bank[b]																	
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
Region[c]																	
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 1 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 1.

[a] 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,

[14] In 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[a]

YEAR	PERSONAL LOAN OUTSTANDINGS (in thousands)	ANNUAL INCREASE (percent)	PERSONAL LOANS IN PERCENT OF Total Loans	PERSONAL LOANS IN PERCENT OF Total Loans and Investments	PERSONAL LOAN OUTSTANDINGS (in thousands)	ANNUAL INCREASE (percent)	PERSONAL LOANS IN PERCENT OF Total Loans	PERSONAL LOANS IN PERCENT OF Total Loans and Investments
	100 Banks				*292 Banks*[b]			
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
	176 Banks[b]				*482 Banks*[b]			
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

[a] 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 outstandings[16] on personal instalment loans, and the volume of such loans made[17] 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]
Size of Bank[b]					
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
Region					
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]
Size of Bank[b]					
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
Region					
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 OUTSTANDING[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			
Size of Bank[a]						
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
Region						
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 amount[21] 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)	
Size of Bank[a]								
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
Region								
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 like[22] 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
Size of Bank[a]					
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
Region					
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

[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 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 $1,000,000[23] 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							AMOUNT OF PAPER (in thousands)	NUMBER OF BANKS REPORTING
	Automobiles	Household Appliances	House-Heating	Furniture	Soft Goods	Miscellaneous	Total		
New England	82.0	4.7	5.5	1.6	1.3	4.9	100.0	$ 2,891	12
Middle Atlantic[a]	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

[a] 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[a]

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

[a] 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.