Volume Title: Commercial Banks and Consumer Instalment Credit

Volume Author/Editor: John M. Chapman and associates

Volume Publisher: NBER

Volume ISBN: 0-870-14462-6

Volume URL: http://www.nber.org/books/chap40-1

Publication Date: 1940

Chapter Title: Front matter, tables of content, preface

Chapter Author: John M. Chapman

Chapter URL: http://www.nber.org/chapters/c4726

Chapter pages in book: (p. -23 - 0)

FINANCIAL RESEARCH PROGRAM OF THE

NATIONAL BUREAU OF ECONOMIC RESEARCH

Studies in Consumer Instalment Financing:

Number Three

Relation of the Directors to the Work of the National Bureau of Economic Research

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the Bureau is carried on in strict conformity with this object.

2. To this end the Board of Directors shall appoint one or more Directors of Research.

3. The Director or Directors of Research shall submit to the members of the Board, or to its Executive Committee, for their formal adoption, all specific proposals concerning researches to be instituted.

4. No study shall be published until the Director or Directors of Research shall have submitted to the Board a summary report drawing attention to the character of the data and their utilization in the study, the nature and treatment of the problems involved, the main conclusions and such other information as in their opinion will serve to determine the suitability of the study for publication in accordance with the principles of the Bureau.

5. A copy of any manuscript proposed for publication shall also be submitted to each member of the Board. If publication is approved each member is entitled to have published also a memorandum of any dissent or reservation he may express, together with a brief statement of his reasons. The publication of a volume does not, however, imply that each member of the Board of Directors has read the manuscript and passed upon its validity in every detail.

6. The results of an inquiry shall not be published except with the approval of at least a majority of the entire Board and a two-thirds majority of all those members of the Board who shall have voted on the proposal within the time fixed for the receipt of votes on the publication proposed. The limit shall be forty-five days from the date of the submission of the synopsis and manuscript of the proposed publication unless the Board extends the limit; upon the request of any member the limit may be extended for not more than thirty days.

7. A copy of this resolution shall, unless otherwise determined by the Board, be printed in each copy of every Bureau publication.

(Resolution of October 25, 1926, revised February 6, 1933)

Financial Research Program: Committee

In the conduct of this and other studies under its program of research in finance the National Bureau of Economic Research has benefited from the advice and guidance of its Committee on Research in Finance. The functions of this committee are to review and supervise the specific research plans of the staff of the Financial Research Program. The membership includes:

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

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 instalment 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. Grobben, 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

Tables