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Preface

IN 1938 the National Bureau of Economic Research inaugurated 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, an undertaking of which the present study of personal finance companies is one part.

The term "instalment financing" is often used to mean only the financing of retail commodity purchases by instalment payments, but in this investigation we employ it to cover all consumer credit which entails the repayment of principal and the payment of interest in prescheduled amounts at regular intervals. Cash loans on instalment terms, as well as sales finance credit, are therefore included in the area of our study. We have further required, however, that the stated commitment of future consumer income be made under a formal legal instrument providing for definite and prompt legal action in the event of consumer default on a single payment, thus specifically excluding charge account or open book credit, whatever the special arrangements for its liquidation. We have also delimited the area of study by arbitrarily excluding home mortgage credit, because of its highly specialized character and long maturities, although today it is an important form of consumer instalment credit. Thus our definition of consumer instalment credit stipulates on the one hand an instalment basis of repayment scheduled under a formal legal instrument, and on the other hand a relatively short or intermediate term of contract.

Within the area of investigation so delimited a series of studies has been made, the ultimate focus of which is the relation between consumer instalment financing and economic stability. A group of five of these studies deals descriptively with the important agencies and institutions which participate in this type of consumer financing. These five studies were undertaken because there existed no accurate delineation of the credit methods and standards of the several specialized agencies of consumer instalment credit and of their role in financial organization. In addition to the present study of personal finance companies this group includes separate studies of sales finance companies, Morris Plan and other industrial banking companies, government agencies in the field (Federal Housing Administration and Electric Home and Farm Authority), and commercial banks as agencies of consumer instalment credit.

Of the other studies constituting the present project, two are statistical inquiries, undertaken to fill special gaps in the quantitative data on consumer instalment credit, and thus facilitate more accurate judgments regarding its growth and change and also its significance in the contemporary economic structure. One such study presents new estimates of the monthly and annual volume of this type of credit; the other depicts the pattern of consumer debt by income classes and by other social-economic characteristics for a recent year, 1935-36. These studies, in conjunction with those that discuss the institutions of consumer instalment financing, provide the factual setting for our investigation of the relationship between such financing and economic stability. This problem of underlying economic implications is the subject of the capstone study of the project.

The personal finance company, described in this volume, is otherwise known as the "small loan company" or the "licensed lender" since it operates under the sanction of special "small loan" legislation. It specializes almost exclusively in the making of cash loans to consumers, and is one of the principal agencies extending this type of instalment credit.

We are obligated to many individuals and organizations for assisting us in the preparation of this study. The Russell Sage Foundation, well known for its pioneering interest and continuing investigations in the small loan field, generously made its files of state supervisory reports available for our use, and Rolf Nugent, Director of the Foundation's Department of Consumer Credit, gave us the benefit of many suggestions and much technical help. The Consumer Credit Institute of America likewise made its file materials available, and its economist, Margaret Grobben, aided us in many ways. A number of state supervisors furnished information in response to our inquiries. We are under special obligation to the three largest companies in the personal finance business, the American Investment Company of Illinois, the Beneficial Industrial Loan Corporation and the Household Finance Corporation. All three companies have made available to us statistical data covering their operations, and their officers have supplied information on various phases of the business and given us many technical suggestions and criticisms. The extent to which we rely on data from these three companies is abundantly evident from the text. We are particularly indebted to the officers of the Household Finance Corporation for making available to us their company's extensive internal studies dealing with credit experience in personal finance lending.

For criticisms of the manuscript we are indebted to the research staff of the National Bureau. Other readers whose critical suggestions have been helpful include Burr Blackburn, Household Finance Corporation; Fred H. Clarkson, Consumer Credit Institute of America; LeBaron Foster, Pollak Foundation; Wilfred Helms, Household Finance Corporation; David Lichtenstein, American Investment

Company of Illinois; M. R. Neifeld, Beneficial Industrial Loan Corporation; W. W. Riefler, Institute for Advanced Study; Roland Robinson, Division of Research, Board of Governors of the Federal Reserve System; William Howard Steiner, Brooklyn College; Theodore Yntema, University of Chicago. We have been aided too by the counsel of many bank credit officers who have had long experience in extending bank loans to personal finance companies, and our obligations to Arthur W. Newton of the First National Bank of Chicago are particularly great. To Frank B. Hubachek, counsel for the Household Finance Corporation, we owe a special acknowledgment for his careful checking of our tabulation of small loan legislation and for his many technical criticisms of our manuscript.

This study has taken final form only as a result of the collaborative efforts of several members of the Financial Research staff; each has made a special contribution, and each has been indispensable to the whole.

Eli Shapiro was responsible for the statistical tabulations presented in Chapters 1 and 5.

Ralph Wood made the initial studies which formed the basis of Chapters 2, 3 and 4, and assisted in preparing other sections of the study.

David Durand made the study of customer charges that is contained in Chapter 6.

Raymond J. Saulnier prepared the study of the effects of legal rate changes in Chapter 7 and also the analysis of relations among lenders presented in Chapter 8, as well as collaborating in other parts of the study.

Isabel L. Davis prepared the original draft of the summary, and assisted in editing the first draft of the manuscript.

Elizabeth Todd was in full charge of editing the manuscript for publication.

George W. Blattner, who served as Director of the National Bureau's Financial Research Project during 1938, was responsible for the initiation and direction of the studies in the field of consumer instalment financing from the inception of the investigation until his illness in the fall of that year. Those of us who were associated closely with him in the formative stages of the various studies included in this project owe him a special debt of gratitude for his cordial assistance in all phases of our work.

RALPH A. YOUNG, *Director*
Financial Research Program

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