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The Loan and Its Market

BORROWERS from personal finance companies represent all walks of life, but in three cases out of four they are wage-earners or clerical employees. They are drawn from the broad annual income range of $500 to $3500 but are concentrated at income levels between $1000 and $2500. On the average the loans they obtain slightly exceed one month's income; repayments, including charges, are spread over 5 to 20 months and require 5 to 10 percent of monthly income.

A clear understanding of the nature of the market for personal finance company loans demands a detailed examination of the characteristics of the loans that are made—their size, duration and security—of the economic characteristics of the borrowers—their incomes and occupations—and of the reasons for borrowing and the use made of the borrowed funds. While available information on such characteristics is limited, it is sufficiently extensive to show the distinguishing features of the business.

LOAN CHARACTERISTICS

Size of Loan

Personal finance lenders, operating under license, are restricted by law as to the sum that may be lent by any one licensee to any one borrower, the limit in most states being $300. Loans are made for all amounts up to this maximum, though as a result of varying economic factors different geographic areas show different tendencies in the predominant size of loans.

Table 6 shows the size distribution of loans made in 14 selected states during 1937 (for Maine, during 1936). In all these states except Indiana and New York loans of $50-100 were numerically the most important; loans of this size constituted, in the various states, from 25 to 32 percent of the total number of loans. On the whole, loans of $150-200 were the fewest, averaging in the neighborhood of 15 percent of all loans.

Among the important factors affecting the predominant size of loans in any state are the extent of industrialization and the height of the maximum legal rate of charge. As a rule agricultural states, where borrower incomes are generally lower than in industrial states, have a larger proportion of loans for $100 and less; a greater proportion of smaller loans is generally found in states that permit a charge of 3½ percent per month than in those allowing only 2½ percent, simply because the higher rate enables licensees to make a profit even on the smaller and more costly loans. But in addition to these general factors certain specific factors affect licensed lending in individual states. In Illinois about 22 percent of the loans are secured by wage assignment. Since this type of loan is usually smaller than loans otherwise secured, Illinois shows a high proportion of loans of $50 and less. In Indiana there are many lenders in agricultural county seats and small towns, where borrowers are likely to have lower cash incomes than urban residents of large cities, and the relatively high proportion of loans of $50 and less may be accounted for in part by this circumstance. Iowa also reports a comparatively large number of smaller loans. This might be expected in view of the agricultural nature of Iowa's economy, but there is another reason in the fact that this state passed its small loan law as early as 1921 and has many well-established independent lenders; in general, such lenders tend to cater to customers borrowing smaller sums than customers of chain lenders.

TABLE 6

PERCENTAGE DISTRIBUTION OF NUMBER OF LOANS MADE BY PERSONAL FINANCE COMPANIES IN 14 SELECTED STATES, 1937, BY SIZE OF LOAN[a]

State	*$50 or Less*	*$50–100*	*$100–150*	*$150–200*	*$200–300*	*Total*
Connecticut[b]	19.6	28.3	16.0	15.5	20.6	100.0
Illinois	24.0	27.7	14.7	13.0	20.6	100.0
Indiana	29.2	26.8	14.2	12.2	17.6	100.0
Iowa	21.9	30.0	17.4	13.5	17.2	100.0
Maine[c]	12.7	30.0	19.2	19.1	19.0	100.0
Maryland	25.8	31.0	13.2	12.0	18.0	100.0
Massachusetts[b]	15.7	27.2	17.7	16.2	23.2	100.0
Michigan	16.5	25.1	17.4	17.0	24.0	100.0
New York	13.5	26.0	16.2	16.1	28.2	100.0
Ohio	19.5	28.7	18.0	14.0	19.8	100.0
Pennsylvania	16.6	26.8	19.3	37.3		100.0
Rhode Island	22.2	28.7	16.5	14.9	17.7	100.0
Virginia	30.0	32.5	14.8	10.6	12.1	100.0
Wisconsin	12.0	27.0	18.5	21.1	21.4	100.0

[a] Based on annual reports of state banking departments or, for states in which such reports are not published, on accountants' reports prepared for state associations of personal finance companies from data filed with the state banking department. States selected according to availability of data. The period covered is the calendar year 1937 unless otherwise indicated. Each size level is exclusive of the lower figure and inclusive of the higher.

[b] Year ending September 30, 1937.

[c] Year ending December 31, 1936.

According to the best available evidence the average loan made by licensed lenders was gradually increasing in size before 1930. Estimates based upon state reports and reports of individual licensees indicate that the average loan, which had amounted to $55 in 1915, was approximately twice that figure by 1920 and reached $145 by 1930, but dropped to $130 in 1932.[1] Incompleteness in state supervisory reports makes it difficult to trace accurately, for any extended period, the average size of loans throughout the industry, but Table 7

[1] L. N. Robinson and Rolf Nugent, *Regulation of the Small Loan Business* (1935) p. 175.

shows average size in the period 1933-37 for all states on which data are available, and for 5 selected industrial states. The average loan for all reporting states rose gradually over this period to $147, approximating the level previously attained in 1930. The sustained differential between the average loan for all reporting states and for the 5 selected industrial states confirms the finding that in agricultural and semi-industrial states the average loan is usually smaller than in industrial states.

Table 7 also shows the average loan made in each year of the period 1933-37 by the three largest chain lenders. These chains together control more than one-sixth of all licensed loan offices and about 50 percent of the total volume of licensed lending. Two of these companies changed their loan policies during the period. The Household Finance Corporation formerly specialized in larger loans at rates below the legal maximum, but recently its loan policies have conformed more closely to the policies of other lenders, and its average loan has diminished. The decline in the average size of loan

TABLE 7

AVERAGE SIZE OF LOANS MADE BY PERSONAL FINANCE COMPANIES, 1933–37[a]

Year	*All Reporting States*[b]	*Five Selected Industrial States*[c]	*Beneficial Industrial Loan Corp.*	*Household Finance Corp.*	*American Investment Co. of Ill.*
1933	$126	$144	$144	$185	$162
1934	135	147	150	180	162
1935	135	146	153	167	148
1936	137	149	155	164	142
1937	147	153	153	169	148

[a] Based on annual reports of state banking departments and on data supplied by the three individual companies.
[b] The number of states represented is 13, except for 1934 and 1936, when it is 14; the states covered, however, are not always the same.
[c] Massachusetts, Michigan, New Jersey, New York, Pennsylvania.

made since 1933-34 by the American Investment Company of Illinois is due to the fact that in 1935 this company, as a matter of operating policy, began to make a larger number of $25 loans. The decline in the average size of its loans would possibly have been greater were it not for the fact that in 1934 the company extended its offices into New York City, where the average size of loans is considerably higher than in the midwest. The average loan of each of these three lenders is consistently larger, however, than that of all lenders combined, although in 1937 the difference between the average loan of all reporting lenders and that of the American Investment Company was negligible.

Duration of Loan

Most loans are now repayable over a period of 5 to 20 months, depending on the amount of the loan and on the credit of the borrower. The standard period for secured loans over $50 is 18 or 20 months, although practice varies among different lenders. At least one large company limits loans of $50 or less to 10 months, and loans on unsecured notes to 15 months. Some lenders do not set up a repayment schedule according to the size of loans, but determine the duration of each loan according to the particular needs of the borrower. In general, personal finance companies favor longer durations as a means of increasing profits, though not to the extent of imperiling their investment by subjecting it to the strain of possible disruptions in the flow of the borrower's current income.

Many present customers arrange new loans in order to pay off existing balances and to obtain additional sums, and therefore the actual life span of all loans,[2] according to the experience of one of the largest chains, ranges, on the average, from 8½ to 12 months. The total period of customer indebtedness typically exceeds the duration of the loan, rang-

[2] Considering each successive loan, as well as the original, as a separate loan.

ing from 26 to 29 months, or more than double the average loan period, according to data from the same chain.

Security for Loan

The security for loans made during 1937 (in a few cases, 1936) in 16 selected states is shown in Table 8. In most of these states about three-fourths or more of the loans were secured by a chattel mortgage. This is usually a blanket claim on house furnishings but frequently it is taken on only one item of the borrower's possessions. Automobiles, for example, provided the security for many loans, although the money may have been borrowed for purposes other than the purchase of the car. Many personal loans are now obtained to finance the purchase of a specific article, with a chattel mortgage on the article itself for collateral. While this type of loan is not new, some personal finance companies are now actively encouraging its use and thus impinging upon the sales finance market.

The use of the unsecured note by personal finance lenders is very widespread, amounting in a number of states to between 10 and 30 percent of all loans extended. The Household Finance Corporation, with 228 offices in 17 states and Canada, established in 1936 several experimental "honor" offices which were to make loans only on unsecured notes, and has gradually increased their number. This development is symptomatic of tendencies in personal finance.

Use of the endorsed and the comaker note, bearing the signature of one or more persons in addition to that of the borrower, varies considerably, ranging in different states from 3 to 23 percent of all loans. Loans on wage assignments, another type of security used by some personal finance lenders, are in most states an insignificant proportion of total loans,[3] but in at least one state, Illinois, 22 percent of all loans made in 1937 were thus secured.

[3] Wage assignments have so often made trouble for employers that it has become a not uncommon practice to dismiss employees when they are dis-

TABLE 8

PERCENTAGE DISTRIBUTION OF NUMBER OF LOANS MADE BY PERSONAL FINANCE COMPANIES IN 16 SELECTED STATES, 1937, BY TYPE OF SECURITY[a]

State	Chattel Mortgages on: Household Goods	Chattel Mortgages on: Automobiles	Chattel Mortgages on: Other Goods	Unsecured Notes	Endorsed and Comaker Notes	Wage Assignments	Real Estate	Other Security	Total
Conn.[b]	...	...	...	18.3	23.4	.1	...	58.2[c]	100.0
Ill.		59.4		...	12.5	22.0	...	6.1	100.0
Ind.	55.0	18.3	9.4	14.1	2.8	...	...	.4	100.0
Iowa	55.1	20.9	3.0	9.6	4.2	5.4	...	1.8	100.0
Ky.[d]		67.0		20.2	12.5	.1	...	.2	100.0
Me.[e]		96.1		...	...	1.3	...	2.6	100.0
Md.	44.7	15.1	.2	30.9	2.7	6.2	...	.2	100.0
Mass.[b]	61.0	10.8	.5	17.6	9.6	.4	...	.1	100.0
Mich.	58.8	21.1	3.3	10.3	3.9	2.0	...	.6	100.0
Mo.	60.4	8.3	1.7	18.2	8.6	...	...	2.8	100.0
N. Y.	59.8	11.4	.6	14.2	8.1	5.4	...	.5	100.0
Ohio	49.8	23.1	4.6	13.7	7.6	.3	...	.9	100.0
Pa.	54.9	11.3	...	11.8	13.1	...	7.6	1.3	100.0
R. I.[e]	42.5	12.8	.1	26.5	17.0	.1	...	1.0	100.0
Va.	34.7	12.4	.1	29.8	15.1	...	...	7.9	100.0
Wisc.		84.7		...	8.2	.5	...	6.6	100.0

[a] Based on annual reports of state banking departments or, for states in which such reports are not published, on accountants' reports prepared for state associations of personal finance companies from data filed with the state banking department. States selected according to availability of data. The period covered is the calendar year 1937 unless otherwise indicated.
[b] Year ending September 30, 1937.
[c] Chattel mortgages cannot be taken in Connecticut, and therefore loans in this state are made principally on husband-and-wife notes.
[d] The percentages are based upon loans outstanding on December 31, 1936.
[e] Year ending December 31, 1936.

covered to have borrowed in this way. Since this gives the lender an opportunity to exploit the borrower's fear of losing his job, public opinion toward the wage assignment has been unfavorable, and in some states this form of security has been made illegal. In 1936 the Household Finance Corporation discontinued the practice of taking wage assignments, and on March 31, 1939, it was discontinued by the Beneficial Industrial Loan Corporation.

BORROWER CHARACTERISTICS

Income of Borrowers

Practically the entire credit market tapped by personal finance companies is composed of individuals, mainly urban residents, whose annual incomes are between $500 and $3500. Few applicants with annual incomes below $500 qualify as borrowers; few who receive annually more than $3500 seek accommodation. But the significance of this range is made clear by comparing it with the National Resources Committee estimates of income distribution in the United States. Over three-fourths of the non-farm income-receiving units of the country[4] were within this income range in 1935-36, and they received about three-fourths of the non-farm national income.[5] These facts suggest that the personal finance business caters to a very large section of the non-farm income-receiving population.

The income distribution of borrowers from the largest chain lender in the personal loan field is compared in Table 9 with the income distribution of the whole non-farm income-receiving population. The income bands of these two distributions are not exactly comparable; moreover, borrowers are grouped by individual income whereas income-receiving units are grouped by family income,[6] and therefore a larger proportion of individual borrowers than of family groups is to be expected in the lower income classes,[7] although this bias is probably offset in part by the difference in income

[4] Family and single-individual income receivers.

[5] Derived from figures of the National Resources Committee, *Consumer Incomes in the United States* (1938). We have excluded non-relief farm families from the total of income-receiving units because only an insignificant fraction of personal finance company borrowers come from this group. See Table 9, footnote e.

[6] Except in the case of sons and daughters who pay for their board and room but do not pool their entire income with that of others in the family.

[7] A borrower may belong to a family whose total income exceeds his own.

classification. The table indicates, however, that while 29 percent of all income-receiving units had annual incomes of $500-1000 in 1935-36, only 16.5 percent of borrowers were in that class. In each income band from $1000 to $3000 the proportion of borrowers was greater than that band's representation among all income-receiving units, but the top band (over $3000) comprised a very small number of borrowers compared to its number of income-receiving units.

TABLE 9

PERCENTAGE DISTRIBUTION OF BORROWERS FROM A PERSONAL FINANCE CHAIN, AND OF GENERAL POPULATION, 1935–36, BY INCOME LEVEL

Annual Income[a]	*Borrowers from Beneficial Industrial Loan Corporation*[b]	*Non-Farm Population*[c]	
		Income-Receiving Units[d]	Aggregate Income[e]
Under $500	1.3	16.9	3.3
500–1000	16.5	28.6	14.3
1000–1500	37.2	22.0	18.1
1500–2000	25.3	13.4	15.5
2000–2500	12.2	7.8	11.7
2500–3000	4.6	3.9	7.1
Over 3000	2.9	7.4	30.0
TOTAL	100.0	100.0	100.0

[a] For the distribution of Beneficial borrowers the income levels are $500 and under, $501–1000, etc.; for the distribution of general population they are under $500, $500–999, etc.

[b] Data supplied by the company, based on reported individual incomes.

[c] Adapted from National Resources Committee, *Consumer Incomes in the United States* (1938).

[d] Families and single individuals, including farm relief families. We have excluded non-relief farm families, numbering slightly over 6,000,000, from the total 39,458,300 income-receiving units.

[e] In computing the figures for non-farm income we have excluded the non-relief farm income from each income group. Table 10-B, p. 97, of the National Resources Committee study, gives a distribution of non-relief farm families by size of income. To obtain an estimate of non-relief farm income we have multiplied the number of families by the mid-point of the income intervals. The resultant figures were subtracted from those given on p. 6 of the National Resources Committee study to obtain non-farm income by income levels.

TABLE 10

PERCENTAGE DISTRIBUTION OF NUMBER AND VOLUME OF LOANS MADE BY 2 PERSONAL FINANCE CHAINS, AND AVERAGE SIZE OF LOANS, 1934–37, BY INCOME OF BORROWER[a]

Annual Income[b]	*Household Finance Corporation*			*American Investment Co. of Ill.*		
	Number of Loans	Volume of Loans	Average Loan	Number of Loans	Volume of Loans	Average Loan
$600 & under	.7	.4	$ 92	21.5	12.7	$ 87
600–1200	16.0	10.1	107			
1200–1800	33.9	30.1	150	41.3	37.4	134
1800–2400	26.8	30.0	189	27.3	35.2	191
2400–3000	11.6	14.3	209	6.5	9.3	209
Over 3000	11.0	15.1	232	3.4	5.4	236
TOTAL	100.0	100.0	168	100.0	100.0	148

[a] Based on data supplied by the two companies.
[b] Each level is exclusive of the lower figure and inclusive of the higher.

It is noteworthy that 91 percent of those who borrowed from the Beneficial Industrial Loan Corporation in 1935-36 had annual incomes between $500 and $2500, whereas this range included only 72 percent of the non-farm income-receiving units; the $1000-2000 range included 62.5 percent of the borrowers and only 35 percent of all income-receiving units.

The scant representation of borrowers from the lowest and highest income groups appears to be broadly typical of the industry as a whole, to judge by data for 1933-37 from two other chain companies, the Household Finance Corporation and the American Investment Company of Illinois.[8] Table 10 shows the income distribution of borrowers from these companies and the average size of loan in each income band. The income groups differ from those in Table 9, thus pre-

[8] The American Investment Company operates offices in 10 states through subsidiaries (General Public Loan Corporation and Public Loan Corporation). The Household Finance Corporation operates offices in 17 states.

cluding exact comparison, but the two tables show the same general pattern. Borrowers with annual incomes up to $1200 received 17 percent of all loans of the Household Finance Corporation and 21.5 percent of those of the American Investment Company. The former company extended 61 percent of its loans to borrowers with incomes from $1200 to $2400, and the latter company 69 percent. The proportion of borrowers with incomes above $2400 was slightly over one-fifth for the first chain as compared with one-tenth for the second, a contrast that undoubtedly reflects basic differences in lending policies as well as special advertising efforts on the part of the former company to attract borrowers from higher income levels.

The three chain companies cited in Tables 9 and 10 control slightly more than one-sixth of the licensed offices of the country and about half the total dollar volume in the licensed small loan field. The experience of this important group, while not conclusive, indicates that three-fourths of all loans made by personal finance companies are to borrowers with individual incomes between $1000 and $2500. About 15,000,000 income-receiving units in the country, or more than two-fifths of the total, excluding non-relief farm units, have incomes within this range. It is probable that roughly one out of seven of this group obtained credit accommodation from personal loan companies in 1936.[9] Furthermore, interpolation reveals that about half of all borrowers fell in the $1000-1800 income band, a proportion much above this band's share of all income-receiving units, which is only about 33 percent.

In Table 10 the distribution of loan volume, as distinct from number of loans, among different income groups re-

[9] If three-fourths of all loans made by personal finance companies were to borrowers with incomes between $1000 and $2500, and there were approximately 3,000,000 borrowers at the end of 1936, then around 2,250,000 borrowers fell within this income range. This is roughly one out of seven of the 15,000,000 non-farm income-receiving units in this income range.

veals that the dollar borrowings of customers with annual incomes under $1200 are considerably less than proportionate to the number of such borrowers; those of customers with $1200-1800 incomes are slightly less than proportionate; and the borrowings of customers with incomes above $1800 are substantially more than proportionate. This can only reflect a direct variation between loan size and income level, thus raising the question of the amount that borrowers in these various income groups typically obtain on personal finance company loans.

In regard to the two chain lenders represented in Table 10, customers in the income band showing the greatest concentration of borrowers—$1200-1800, or $100-150 monthly—received an average loan of $150 from the Household Finance Corporation and $134 from the American Investment Company. In the $150-200 monthly income band the average loan was about the same for both lenders, $189 and $191 respectively. In general, the table indicates that customers with monthly incomes below $200 obtain loans approximately equal to, or greater than, one month's income, while those receiving $200 or more obtain loans somewhat smaller than one month's income.

The size of the loan does not depend solely on the desires of the borrower; it depends also on what the lender is willing as a matter of policy to advance and this, in turn, depends on the lender's views regarding a safe relation between borrower income and amount borrowed. On this question there is no standard practice, but the most common rule is that the loan should not exceed one month's income. As noted above, customers with monthly incomes in excess of $200 do not usually borrow as much as one month's income, perhaps because they are more likely to have savings in various forms to meet family or individual emergencies and special financial needs. Also, as a group, they have readier access to alternative credit sources than do persons in lower income brackets.

Occupations of Borrowers

The distribution of all non-relief families in the period 1935-36, presented in Table 11, confirms the well-known relationship that exists between income and occupation. Three out of four borrowers, it will be recalled, receive annual incomes between $1000 and $2500, and according to Table 11 this range includes 51 percent of all non-relief families in the United States. In almost half of the non-relief families within this income range the principal breadwinner is classified as a wage-earner. This is in striking contrast to families whose annual incomes are over $3500; in this group less than one-tenth of the principal breadwinners are wage-earners.

TABLE 11

PERCENTAGE DISTRIBUTION OF ALL NON-RELIEF FAMILIES, 1935–36, BY OCCUPATION AND INCOME LEVEL[a]

Annual Income[b]	*Wage-Earning*	*Farming*	*Clerical*	*Business*		*Professional*		*Total*
				Salaried	Independent	Salaried	Independent	
$500 and under	4.1	4.5	.3	[c]	.8	.1	[c]	9.8
500–1000	11.0	8.9	2.1	.2	2.0	.3	.1	24.6
1000–1500	11.3	5.8	3.6	.5	2.2	.7	.1	24.2
1500–2000	6.8	3.0	3.5	.9	1.7	.8	.1	16.8
2000–2500	3.1	1.4	2.5	.8	1.1	.7	.1	9.7
2500–3000	1.5	.7	1.4	.5	.6	.4	.2	5.3
3000–3500	.7	.4	.8	.4	.4	.3	.1	3.1
Over 3500	.6	.8	1.0	1.3	1.3	.8	.7	6.5
TOTAL	39.1	25.5	15.2	4.6	10.1	4.1	1.4	100.0

[a] Adapted from National Resources Committee, *Consumer Incomes in the United States* (1938) p. 97.
[b] Each level is inclusive of the lower figure and exclusive of the higher.
[c] Less than 0.05 percent.

TABLE 12

PERCENTAGE DISTRIBUTION OF LOANS MADE BY 3 PERSONAL FINANCE CHAINS, 1934–37, BY OCCUPATION OF BORROWER[a]

Occupational Group	*Beneficial Industrial Loan Corp.*	*Household Finance Corp.*	*American Investment Co. of Ill.*
Wage-earning			
Unskilled	59.1	5.2	9.5
Skilled and semi-skilled		39.4	50.5
Clerical and commercial			
Office and other non-manual workers, including government employees	16.5	18.6	25.1
Commercial and selling	6.7	6.0	4.8
Business			
Salaried employees	5.3	10.2	6.1
Proprietors	4.3	9.9	
Professional			
Schoolteachers	2.7	6.9	1.8
Others	1.4	2.6	1.2
Farming	2.3	[b]	1.0
Persons with independent incomes	1.7	1.2	[c]
TOTAL	100.0	100.0	100.0

[a] Based on data supplied by the three companies.
[b] Included in business and wage-earning groups.
[c] Loans to persons with independent incomes are distributed among the other occupational groups.

Borrowers from personal finance lenders earn their living in a great variety of occupations, as is evident from Table 12, which shows the occupational distribution of customers of the three largest chain lenders during the period 1934-37. The occupations represented in original tabulations furnished by these lenders have been reclassified, when necessary, under five main headings, and arranged in the order of their numerical importance as borrowers: first, the wage-earning group; second, clerical and commercial; third, business; fourth, professional; and fifth, farming. Variation in the geographic and economic scope of the companies' activities results in certain differences in the occupational distribution of their borrowers, but the story told by the three sets of figures is essentially the same.

For two companies about three-fifths of the borrowers, for the other over two-fifths, are wage-earners in unskilled, semi-skilled and skilled occupations. Skilled and semi-skilled occupations have a larger representation than the unskilled group, presumably because their higher incomes give them a superior credit status.

Borrowers from clerical and commercial occupations are second in importance, comprising about one-fourth of the customers of two lenders and three-tenths of the customers of the third. For one lender the salaried and independent business groups provide 10 percent of the borrowers, for another, 20 percent, and for the third only 6 percent, while the professional group supplies about 4, 10 and 3 percent respectively. Farming is a very minor occupational source of demand. There are, finally, a few borrowers with independent incomes.

It is important to note that most personal finance borrowers come from occupational groups other than farming. Being entrepreneurs as well as consumers, farmers tend to intermix their personal and family financing with their business financing, and to use primarily the credit sources—such as commercial banks, mortgage and other farm credit agencies—that are available to them as entrepreneurs. Moreover, seasonal variations in the flow of their cash income make it inconvenient for them to obligate themselves for loans that call for regular monthly amortization. Hence for an indication of how the occupational distribution of personal finance borrowers compares with that of the general population the data on borrowers should be compared not with those on all non-relief families but with the data on such families engaged in non-farm pursuits.

Such a comparison, figures for which are presented in Table 13 for 1935-36, shows that the wage-earner and clerical

TABLE 13

PERCENTAGE DISTRIBUTION OF LOANS MADE TO EMPLOYED BORROWERS BY 3 PERSONAL FINANCE CHAINS, AND OF NON-RELIEF FAMILIES IN THE UNITED STATES, 1935–36, BY OCCUPATION[a]

Occupational Group	*Employed Borrowers*			*Non-Relief Families*	
	Beneficial Industrial Loan Corp.	Household Finance Corp.	American Investment Co. of Ill.	Non-Farm	Total
Wage-earning[b]	59.0	44.5	57.2	52.7	39.3
Clerical[c]	24.7	25.3	30.1	20.3	15.1
Business	9.8	20.3	8.5	19.5	14.5
Professional	4.2	9.9	3.1	7.5	5.5
Farming	2.3	[d]	1.1	...	25.6
TOTAL	100.0	100.0	100.0	100.0	100.0

[a] Data on borrowers supplied by the three companies; data on non-relief families based on National Resources Committee, *Consumer Incomes in the United States* (1938) p. 97.
[b] Skilled, semi-skilled and unskilled manual workers.
[c] Office workers, commercial and sales personnel, and other non-manual workers, including government employees.
[d] Included in business and wage-earning groups.

occupations provided 84 percent, 70 percent and 87 percent of the borrowers from these three companies, and were the income source of 73 percent of all non-farm, non-relief families in the country. It is interesting to note that among the Household Finance Corporation borrowers, wage-earners constituted a proportion about one-fourth less than their proportion for the other two chains, and that the proportion of clerical borrowers was about one-fifth higher in the American Investment total than it was in the totals of the other two companies. The business and professional occupations, sources of livelihood for 27 percent of the non-farm, non-relief families, gave rise to 14, 30 and 12 percent of the personal finance loans extended by the three companies, the Household Finance Corporation extending more than twice as high a proportion of its loans to each of these two groups as did either of the other companies. On the assumption that an occupational distribution of all personal finance company borrowers would conform to the pattern for these three largest chain companies, we may infer that the major source of demand for personal finance credit is urban industrial groups.

Reasons for Borrowing and Uses of Funds

Basically all borrowing is necessitated by a maladjustment, temporary or otherwise, between income and expenditure, by needs or desires that the borrower is unable or unwilling to satisfy at the moment from current income or savings. Any classification of personal finance company loans according to reasons for borrowing and the use made of the funds must be based on borrower statements made at the time of loan application, and is necessarily somewhat arbitrary. That most borrowers from personal finance companies are without substantial savings may be inferred from the distribution of their incomes presented above, and those who possess savings may prefer the discipline of a regular repayment program. Applicants lacking reserve resources may require cash for one of several needs, so that if funds were not borrowed for one use they would probably be borrowed for another. Hence a classification of loans according to the use made of funds serves mainly to indicate various uses for which loans are needed. Nevertheless, such a classification is not altogether without meaning, particularly when it represents the average of several years' experience, for it suggests the dominant types of emergency situations that are immediately responsible for borrowers' demands.

A classification of the "reasons for borrowing," as distinct from "uses of funds," that is, a classification of the circumstances that make it impossible for the borrower to meet an expense out of reserves or current income, is presented in Table 14, based on the experience of the Household Finance

TABLE 14

PERCENTAGE DISTRIBUTION OF LOANS MADE BY A PERSONAL FINANCE CHAIN, 1933–37, BY REASON FOR BORROWING[a]

Reason for Borrowing	*Loans*
Loss of income	
Lack of employment	3.4
Wage-earner sick or injured	1.2
Other loss of income	1.7
Unusual large expenditure	47.7
Miscellaneous	
Failure to save for periodic expenses (taxes, interest, insurance, clothing, coal, etc.)	36.2
Failure to keep current expenses within normal income	5.8
Not reported	1.3
New contracts to readjust monthly payments	2.7
TOTAL	100.0

[a] Based on data supplied by the Household Finance Corporation.

Corporation during 1933-37. Practically half of all loans were sought to meet an "unusual large expenditure"; more than a third were needed because the borrower had failed to provide for periodic expenses such as taxes, interest, insurance, clothing and so on. In about 6 percent of the cases current expenditures had exceeded a normal budget allowance; another 6 percent were caused not by a rise in expenses but by a fall in income, as a result of illness, injury or unemployment of the breadwinner. Finally, about 3 percent of borrowers merely replaced old contracts with new ones, so that their payments could be spread over a greater number of months than provided in original contracts. As has been

TABLE 15

PERCENTAGE DISTRIBUTION OF LOANS MADE BY 3 PERSONAL FINANCE CHAINS, 1934-37, BY INTENDED USE OF FUNDS[a]

Use of Funds	*Beneficial Industrial Loan Corp.*	*Household Finance Corp.*	*American Investment Co. of Ill.*
Non-durable consumer goods	*14.2*	*20.6*	*19.1*
Food	14.2	1.7	2.9[b]
Clothing		9.1	13.1
Rent		3.3	[b]
Fuel		6.5	3.1
Durable consumer goods	*18.4*	*14.7*	*10.0*
Furniture	4.3	5.7	6.2
Automobiles	10.5	4.4	[c]
Repairs	3.6	4.6	3.8
Medical and funeral costs	*10.5*	*18.3*	*16.9*
Medical, hospital and dental	9.9	17.5	16.2
Funeral expense	.6	.8	.7
Business purposes	*6.6*	*6.2*	*5.3*
Business capital	5.1	6.2	5.3
Investment	1.5		
Debt	*39.3*	*24.2*	*35.1*
Consolidation of existing obligations	30.5	10.3	28.0
Taxes	4.8	6.2	3.7
Mortgage principal and interest	2.0	4.6	1.3
Insurance premiums	2.0	3.1	2.1
Cultural and recreational purposes	*4.8*	*7.4*	*7.9*
Education	1.2	2.1	1.5
Travel and vacation	3.6	5.3	6.4
Miscellaneous	*6.2*	*8.6*	*5.7*
Assistance to relatives	2.3	4.3	4.4
Moving expenses	1.6	2.0	1.3
Other	2.3	2.3[d]	...
TOTAL	100.0	100.0	100.0

[a] Based on data supplied by the three companies.
[b] Loans for food and for rent are grouped together.
[c] No data. Few loans to finance payments for automobiles are made by this company; those that are made are classified principally under "Consolidation of existing obligations."
[d] Includes loans that are incurred in order to retire borrowings from competing lending concerns.

suggested, this distribution must not be interpreted too literally; a careful examination of case histories of applicants might reveal that many borrowings classified, for example, as resulting from failure to save for periodic expenses, or from failure to keep current expenses within current income, could be accounted for by an unusually large expenditure in the not too distant past.

A more informative classification is one based on the immediate use to which borrowed funds are stated to be destined. Table 15 provides three sample distributions of this type, based on the loan experience of the Beneficial Industrial Loan Corporation, the Household Finance Corporation and the American Investment Company of Illinois during 1934-37. The approximate similarity of the distributions suggests that the stated reasons for borrowing reflect in considerable measure the actual occasions and emergencies that give rise to the demand for personal finance company loans.

From these data it may be concluded that more than one-sixth of all loans are applied to the basic living expenses which are represented by non-durable consumer goods. Almost another sixth are used for medical needs and funeral expenses. Apart from the "consolidation of existing obligations," medical expenses are mentioned more frequently than any other single item as the intended use of borrowed funds.[10] A special classification of all loans made in the first quarter of 1936 by the Detroit offices of the Household Finance Corporation showed that loans for medical expenses were most numerous in all annual income groups except that exceeding $3000, in which the number of loans for business purposes slightly exceeded those for medical purposes. Loans to borrowers with incomes of $1200 or less were

[10] Except in the data for the Beneficial Industrial Loan Corporation, which show a slightly higher proportion of loans for automobiles than for medical expenses in this period. Data for the Household Finance Corporation show an even higher proportion of loans for medical expenses than for the consolidation of existing debt.

more predominantly used for basic living expenses than were those to borrowers with incomes over $1200, and a larger proportion of loans to manual workers were used for this purpose than were loans to the clerical and professional groups. Similarly, the smaller the loan the more likely was it to be used to defray basic living expenses.

In Table 15 the consolidation of existing obligations accounts for by far the largest proportion of loans in the totals of two of the companies. This item, however, is particularly ambiguous, and there is no standard practice as to what it should comprise. Some companies, for example, classify under this or similar headings all loans used to pay off retail charge accounts, regardless of the purpose for which the charge account debt was incurred, and regardless of whether the outlays were made before or after the loan was negotiated. Loans that are used partly to retire unpaid balances of existing loans, and partly to advance new funds, are also very inadequately classified under this category. But as a matter of fact, the distinction between refinancing existing debts and financing new expenditures is often without much foundation, for it is likely that many who borrow to consolidate old debts have incurred those debts only because of confidence in their ability to care for them by means of a loan from a personal finance company. Thus the effect of licensed lending upon current consumer expenditure cannot be judged merely by the proportion of loans made for purchases that are ostensibly new. All that can be said is that refinancing is the purpose of a significant proportion of total loans, the proportion ranging from 25 to perhaps 75 percent, according to the classifications used. Probably 25 or 30 percent of all loans are made for refunding miscellaneous debts, but many other loans are obtained to repay specific debts already incurred, and this group cuts across the entire classification of loans according to intended use.

It is of some interest that about 6 percent of all loans made by personal finance companies are specifically for business purposes, indicating that no hard and fast line is drawn between producer and consumer credit in personal finance lending. The proportion of loans extended for production purposes is of small quantitative importance, but the figure cited may be an understatement; it is likely, for example, that many who finance the purchase of a car through a cash-lending agency will use the car for business as well as pleasure.