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The Effects of Changes in Maximum Legal Rates

THE legal rates of charge permitted licensed personal finance lenders are frequently criticized as excessive. Lenders, however, defend these rates on the ground that costs of small loan retailing are high and necessitate legal rates sufficiently large to encourage licensed operation. Otherwise, they contend, the business will either disappear entirely, cutting off these credit facilities from the low income groups normally constituting the market for personal finance loans, or it will be conducted illegally at still higher rates of charge by persons willing to risk prosecution under the usury statutes. To support this contention of licensed lenders the experiences of states that have drastically changed the maximum rate provisions of their small loan laws—from levels in some cases regarded by licensed lenders as adequate, in some cases as inadequate—are often cited.

For a factual analysis of the result of rate changes it would be desirable to have annual data for each state on at least the following bases of comparison: the number of licensees; the number of loans made; the average size of loan made; the volume of loans outstanding; and the average size of loan office as measured by loans outstanding. Only part of this material is available, and therefore an analysis of the effect on the personal finance business of changes in maximum legal rates must be confined to 5 states for which there is sufficient information: New Jersey, West Virginia, Georgia, Tennessee and Missouri. In New Jersey and West Virginia the maximum legal rate was reduced and subsequently raised; in Georgia, Tennessee and Missouri rates were reduced and continued without further change.[1] In the following pages the changes in these states are discussed in order of severity.

RATE CHANGES IN NEW JERSEY

On May 6, 1929, effective February 15, 1930, a law reducing the maximum legal rate from 3 to 1½ percent per month on unpaid principal balances was passed in New Jersey. The legal maximum was raised again in 1932, and therefore it is the situation existing from 1929 to 1931 that is significant in studying the effects of reductions in legal rates.

Almost immediately after the legislative rate reduction became effective small loan licensees began to liquidate their businesses. This is apparent from Table 39, which shows that between 1929 and 1931 the number of licensed lenders declined from 415 to 117, and outstanding loan balances fell from approximately $20,500,000 to less than $5,500,000. There was a substantial increase in the size of loans made during these years, the average rising from $165 in 1928 to $240 in 1931, a change appearing particularly significant when it is recalled that the maximum legal loan for such lenders was $300. It is interesting to observe, however, that in comparison with changes occurring later, rate reduction had very little effect on the average size of loan office.

Some indication of the degree to which these developments may be attributed to the reduction in the maximum legal rate is obtained by comparing New Jersey experience with the small loan business of the country as a whole, and especially with experience in Massachusetts, where the economic structure of the state is reasonably similar to that of New Jersey but where legal rates remained unchanged. In 1929-31, while outstanding loans in New Jersey were falling off by

[1] In Missouri a new rate went into effect on November 1, 1939.

TABLE 39

NUMBER OF PERSONAL FINANCE LICENSEES, VOLUME OF LOAN BALANCES OUTSTANDING, AND AVERAGE SIZE OF LOAN, NEW JERSEY AND MASSACHUSETTS, 1928–36[a]

Year	NEW JERSEY				MASSACHUSETTS[b]			
	Number of Licensees	*Loans Outstanding*[c]		*Average Loan*[d]	*Number of Licensees*	*Loans Outstanding*[c]		*Average Loan*[d]
		Total	Average per Office			Total	Average per Office	
1928	437	$19,001,000	$ 43,500	$165	106	$ 5,248,000	$49,800	$124
1929	415	20,549,000	49,500	...	137	9,198,000	67,000	150
1930	183	7,948,000	43,400	...	162	12,200,000[e]	75,000[e]	152
1931	117	5,400,000	54,700	240	193	14,557,000	75,500	150
1932	83	6,252,000	75,300	...	204	14,285,000	69,900	145
1933	83	7,730,000	93,100	167	192	13,755,000	71,600	137
1934	82	9,461,000	115,500	176	184	15,274,000	83,000	137
1935	87	10,478,000	132,000	168	184	15,907,000	86,400	138
1936	97	13,474,000	139,000	163	184	16,844,000	91,500	141

[a] Based on annual reports of state banking department of New Jersey and of Massachusetts Bureau of Loan Agencies.
[b] Data include chartered companies and licensed lenders but not Morris Plan banks.
[c] As of December 31st. The average volume per office has been computed by dividing the total volume by the number of licensees.
[d] Based on accountants' reports prepared for the state association of personal finance companies from data filed with the state banking department.
[e] Estimated.

nearly 75 percent, the estimated total of personal finance company receivables throughout the nation increased from \$255,500,000 to \$285,600,000.[2] In Massachusetts, as is evident in Table 39, the number of licensed lenders increased during these years from 137 to 193, and loans outstanding rose from \$9,200,000 to \$14,600,000. Furthermore, while the average New Jersey loan increased significantly in size, the average Massachusetts loan remained about constant.

These data seem to indicate that general economic conditions do not explain the changes in number of licensed lenders, in total volume of loans outstanding, and in average size of loan made, that occurred in New Jersey between 1929 and 1931. In fact, it can be inferred with fair certainty that the 50 percent reduction in the maximum legal interest rate forced many New Jersey lenders out of business and encouraged those who remained to restrict their activities principally to the market for larger loans. Some lenders moved out of the state in search of more favorable lending conditions. An extract from a report of the Pennsylvania state banking department states: "Many of the organizations licensed to do business in New Jersey prior to 1929 removed their offices to Morrisville, Pennsylvania, which is just across the Delaware from New Jersey's capital, Trenton, and to Philadelphia, where on the other side of the Delaware are Camden and many other smaller cities and towns in South Jersey. New Jersey borrowers came from points within a radius of fifty miles to obtain loans from Pennsylvania offices at 3½ percent per month for the reason that there were no facilities in New Jersey where these loans could be obtained at the legal rate of 1½ percent per month."[3]

The Household Finance Corporation has made a report on its operations in New Jersey during the reduced-rate

[2] M. R. Neifeld, *Personal Finance Comes of Age* (1939) p. 14.
[3] Pennsylvania Banking Department, *Report on Small Loan Companies* (February 1937, as per House Resolution No. 180, adopted June 21, 1935) p. 12.

period.[4] This company, although fearing that the new low rates would preclude profitable operation, continued several offices on an experimental basis and found that liquidation of many lending concerns had almost eliminated competition. In consequence the company was in a position to effect numerous economies; it ceased to advertise and operated only offices of about $300,000 in assets because this size was considered most efficient. In spite of the cessation of advertising, applications for loans were so numerous that the company was able to exercise the greatest discrimination in selecting risks and to confine loans to the most profitable size —$200 to $300. By this means it remained possible to operate loan offices at a small profit, the Household Finance Corporation reporting: "While restricting service to the more profitable sizes and better risks, with practically no competition, the corporation was able to earn only 4.40 percent on employed capital, and would have operated at a loss under normal competitive conditions."[5]

The New Jersey small loan law was amended in 1932 to permit a maximum rate of 2½ percent per month on unpaid principal balances, and further indication of the effect of changes in legal rates is given by New Jersey experience between 1932 and 1936 (Table 39). After this amendment the volume of loans outstanding increased from $6,300,000 in 1932 to $13,500,000 in 1936. The average loan fell in 1933 to $167, almost identical with the average loan under the 3 percent maximum rate allowed in 1928. In Massachusetts, on the other hand, where the legal rate was not changed, the volume of loans outstanding and the average size of loan remained fairly constant during this period. It would appear, then, that if other factors are unchanged a rise of this magnitude in the maximum legal rate will tend to increase the

[4] Brief submitted by the Household Finance Corporation to the New Jersey Small Loan Commission, November 23, 1931.
[5] *Ibid.*, p. 1.

volume of loans outstanding and decrease the average size of loan, and vice versa.

One of the most interesting features of the New Jersey experience between 1932 and 1936 is that the increase in maximum legal rate did not cause lenders who had left the field in 1929 to return, nor did it seem to attract new licensed lenders into the small loan business. In consequence the average size of loan office in New Jersey rose rapidly between 1932 and 1936, a tendency found also in Massachusetts, but on a much smaller scale. This development necessitates consideration of certain additional features of the 1932 New Jersey small loan law.

The law included provisions that: (a) a small loan company cannot be granted a license unless it has $25,000 of net worth and $25,000 in liquid assets either invested in small loans or available for such investment; (b) the granting of a license must "promote the convenience and advantage of the community"; (c) the fee for a license should be $200 and all applicants for licenses must pay an additional $50 investigation fee.[6]

Provision (a) was a new departure in New Jersey law, and doubtless explains to some extent the increased size of loan office after 1932.[7] The average size of loan office in 1930 was less than $45,000, and therefore many offices operating at that time could not have met the new requirements of the 1932 law. Provision (b) was, presumably, a device to limit the number of offices in the community in accordance with competitive conditions and, to judge by the marked change in average size of office, must have been so interpreted and administered. Provision (c) was, of course, an added burden on the small office, but would not in itself have kept down

[6] New Jersey Laws of 1932, Chapter 62, Act passed April 12, 1932.

[7] The Commissioner of Banking and Insurance reported in 1932 that "thirty-eight licensees surrendered their licenses because of inability to meet the financial and other requirements of the new Act" (quoted in *Annual Report of the Commissioner of Banking and Insurance*, 1936, p. xxxix).

the number of licensees to the low figure that actually obtained. It seems evident that all of these changes in legal provisions, and not merely the change in maximum rate, had a bearing on the special character of New Jersey experience between 1932 and 1936.

RATE CHANGES IN WEST VIRGINIA

West Virginia's first small loan statute was enacted in 1925, and set the maximum rate at 3½ percent per month on unpaid principal balances. Early in 1929 this law was amended, the change effective in June, to reduce the maximum rate to 2 percent per month on unpaid principal balances. About four years later a second change was enacted: the maximum rate was raised to 3½-2½ percent, graduated at $150, by a law passed on March 11, 1933, effective 90 days from passage. Thus West Virginia provides for consideration a period from 1929 to 1933 during which a reduction was in effect, and the period since 1933, during which the rate has been higher again.

Table 40 shows that between June 30, 1929, and June 30, 1933, the total number of small loan licensees, as reported by the state banking department, fell by about two-thirds, from 62 to 23. Loan balances outstanding were reduced from over $1,500,000 at the end of 1929 to roughly $600,000 at the end of 1932, or nearly 60 percent, but by December 31, 1933, they had increased by more than 100 percent over the 1932 figure. This 1933 increase may have occurred before or after the rate change of June 9, 1933, or may have been spread throughout the year; in the absence of complete data it cannot be entirely explained in terms of rate change. The average size of loan office, as measured by loans outstanding, rose in 1930 by about 20 percent but fell in 1931 and continued to fall in 1932, apparently as the result, at least in part, of certain large lenders ceasing to do business in the state. For

TABLE 40

NUMBER OF PERSONAL FINANCE LICENSEES AND VOLUME OF LOAN BALANCES OUTSTANDING, WEST VIRGINIA, 1929–38

Year	*Number of Licensees*[a]	*Loans Outstanding*	
		Total[b]	Average per Office
1929	62	$1,540,000	$ 24,838
1930	36	1,080,000	30,000
1931	31	650,000	20,967
1932	32	640,000	20,000
1933	23	1,334,000	58,000
1934	32	2,029,832	63,432
1935	34	2,680,373	78,834
1936	34	3,452,769	101,552
1937	34	4,558,140	134,062
1938	41	4,551,925	111,022

[a] Based on state banking department figures, as of June 30th.
[b] Figures for 1929 through 1933, as of December 31st, are taken from M. R. Neifeld, *Personal Finance Comes of Age* (1939) p. 262. Figures for 1934 through 1938, as of June 30th, are taken from reports of the state banking department.

example, the Beneficial Industrial Loan Corporation was operating 7 offices in the state on June 29, 1929, but these offices ceased to do business in 1930 because a 2 percent rate was found unprofitable. Like the total volume of loans outstanding the average volume per office rose very sharply in 1933.

There is some indication that in West Virginia the reduction in the maximum legal rate encouraged illegal lending; the Better Business Bureau of Huntington, West Virginia, reported in 1931 that the rate change had "virtually forced the legitimate lenders out of business and served as an invitation to the high rate operators."[8]

[8] Quoted in the Pennsylvania report, *op. cit.*, p. 12. In view of the fact that there were 32 licensees in business in 1932, when the rate reduction was still in effect, the Bureau's report that legitimate lenders had been virtually forced out of business seems to be somewhat of an overstatement, even if many of these were in a state of liquidation.

On June 9, 1933, the amendment to the small loan law of 1929 became effective. In addition to raising the maximum legal rate to 3½-2½ percent, graduated at $150, the 1933 act requires that licensees pay an investigation fee of $50 and an annual fee of $100, besides bearing the expense of an annual examination, that the banking department grant new licenses only if such action "promotes the convenience and advantage of the community in which the business of the applicant is to be conducted," and that each licensee must have a minimum amount of liquid assets equal to $2000.

In 1934 the number of reported licensees rose sharply and it then remained fairly constant until 1938, when a further increase occurred. Aggregate loan balances outstanding increased greatly during 1933 and 1934, and continued to rise in subsequent years; in 1938 total loans outstanding were over seven times as great as in 1932 and over twice as great as the 1934 figure. The average loan balance outstanding per office rose greatly in 1933 and in 1938 it was nearly double the 1933 figure. This rise was doubtless due both to the increase in the total loan volume, following the rate increase, and to the state banking department's limitation of licensees.

In short, after the legal maximum rate was cut in West Virginia, the total number of licensees fell 63 percent within four years, whereas in the country as a whole the reduction in this period (1929-33) was only 5.5 percent.[9] Loan balances outstanding declined by 58 percent (1929-32), but for the country as a whole there was practically no decrease.[10] In 1933 the law was changed. Subsequently the total number of reported licensees increased by 28 percent (1934-38) while the national increase was only 10 percent. Loans outstanding increased by 70 percent (1934-36) while the increase for the country as a whole was 24 percent.[11]

[9] According to the number of licensees reported by the American Association of Personal Finance Companies.
[10] Neifeld, *op. cit.*, p. 14.
[11] *Ibid.*

In the absence of supplementary data it is not possible to say with certainty that the changes which took place in the personal finance business in West Virginia over the period 1929-38 arose solely from legal action, but these changes tend further to demonstrate that reductions in the maximum legal rate are followed by reductions in both loan volume and number of licensed lenders, and that rate increases are followed by increases in loan volume and number of lenders.

RATE CHANGES IN GEORGIA

On March 26, 1935, Georgia reduced the maximum rate chargeable under its small loan statute from 3½ to 1½ percent per month on unpaid principal balances, and has since continued this rate without change. As shown in Table 41, the number of licensees reported by the state banking department declined precipitately until, in 1937, only 8 remained. Loans declined to such an extent that by 1936, the last year for which data are available, they were only 13.5 percent of 1934 outstandings. It is interesting to note also that the aver-

TABLE 41

NUMBER OF PERSONAL FINANCE LICENSEES AND VOLUME OF LOAN BALANCES OUTSTANDING, GEORGIA, 1934–37[a]

Year	*Number of Licensees*[b]	*Loans Outstanding*	
		Total[c]	Average per Office
1934	58	$4,207,000	$72,534
1935	59	2,560,000	43,389
1936	39	570,000	14,615
1937	8	[d]	[d]

[a] As of December 31st.
[b] Reported by state banking department.
[c] M. R. Neifeld, *Personal Finance Comes of Age* (1939) p. 262.
[d] Not available.

age size of loan office fell 40 percent between 1934 and 1935. The 1936 figure on average size of loan office is of doubtful significance, because some of the reported licensees may not have been operating in that year, as is known to have been the case in 1937. The effect of the rate reduction on the larger lenders is indicated by state banking department information to the effect that the Beneficial Industrial Loan Corporation discontinued in 1936 the 4 offices that it had operated in the state in 1935.

It seems reasonable to assume that total loans outstanding and the average size of loan office were even lower in 1937 than in 1936. Of the 8 licensees reported in 1937, only one company actually confined its business to that of licensed small loans, and this organization is not representative of commercial lenders generally: it is well endowed, has no shareholders, and because of the philanthropic bent of its owner does not need to operate at a profit.

Some formerly licensed lenders now conduct an extra-legal business. One large chain alleges that an applicant for a loan of $100 pays a fee of $2 and executes a note for $108, getting $92 in return, and that this debt is amortized monthly over a period of a year, thus bringing the total charge to about 3½ percent per month. Other lenders engage in a pseudo building and loan business, charging 8 percent interest discounted in advance, and a fee of 2 percent of the face amount of the note; in addition, the borrower is required to buy shares of the lender's stock at a premium of $1.50 per $50 share, and the debt is retired when the borrower completes the monthly payments on the stock and delivers it to the lender. Salary buyers have increased in number, and their charges often exceed 100 percent per year.[12]

Thus in Georgia a very low maximum legal rate has within

[12] Consumer Credit Institute of America, *Report on the Small Loan Situation in the State of Georgia* (1938).

a few years created conditions under which few licensed lenders are willing to operate.

RATE CHANGES IN TENNESSEE

Before February 1937 Tennessee's small loan statute provided for a maximum interest charge of 6 percent per year and a fee for "investigating the moral and financial standing of the applicant, investigating the security, titles, etc., and for other expenses and losses of every nature whatsoever, and for closing the loan"; the fee was not to exceed 3 percent per month of the principal sum lent, and both interest and fee were to be computed on unpaid balance due at the end of each month over the life of the loan. In February 1937 the law was revised and the rate changed. The 6 percent interest charge was continued, but the fee was reduced from 3 to 1 percent per month. This change amounted, in effect, to a reduction from 3½ to 1½ percent per month on unpaid principal balance.

Table 42 presents estimated figures on the personal finance

TABLE 42

NUMBER OF PERSONAL FINANCE LICENSEES AND VOLUME OF EMPLOYED CAPITAL AND OF LOANS MADE, TENNESSEE, 1936–38[a]

Year	*Number of Licensees*[b]	*Employed Capital*[c]		*Loan Volume*[c]
		Total	Average per Office	
1936	57	$3,702,834	$64,962	$5,500,000
1937	12	471,454	39,287	700,000
1938	6	182,000	30,333	[d]

[a] In 1936 and 1937, as of December 31st; in 1938, as of June 30th.
[b] Joseph Frank, *Consumptive Credit Institutions in Tennessee*, unpublished Master's thesis, Vanderbilt University.
[c] Edmund Mottershead's estimates for Consumer Credit Institute.
[d] Not available.

business in Tennessee. After the rate reduction in 1937 many licensed lenders sold out to liquidating companies or stopped lending; by the end of that year the number of licensees was only 21 percent of the number operating in 1936, and by June 30, 1938, it was only 10.5 percent. In 1937 capital invested in the industry was only 13 percent of its 1936 volume, and in 1938 it had fallen to 5 percent; the average capital employed per office declined correspondingly, though not nearly so sharply. According to estimates of the Consumer Credit Institute the total volume of loans made during 1937 was about 13 percent of the 1936 figure. It thus appears that the rate reduction in Tennessee was sufficient to cause drastic decreases both in the number of licensed lenders and in the volume of business conducted.

RATE CHANGES IN MISSOURI

In Missouri a reduction of the maximum legal rate from 3½ to 2½ percent per month became effective on August 29, 1929. The effects of this change differed from those produced in other states by rate reduction, because the Missouri small loan law had been in effect for only two years and the business was still growing rapidly when the rate was reduced, and also because the level to which rates were reduced was not so low as that in any other state we have discussed.

The number of licensees decreased from 174 in 1928 to 95 in 1931.[13] The volume of outstanding loans, however, which had increased from about $6,100,000 in 1928 to almost $10,500,000 in 1929,[14] continued through 1931 at about its

[13] Pennsylvania report, *op. cit.*, pp. 12-13.

[14] The 1929 *Summary of Annual Reports of Personal Finance Companies of Missouri* reports that 27 companies were in business for only part of the year 1929, or failed to make complete reports. The loan balances of these companies amounted to $365,000. Even if this figure is deducted from the loan figure for 1929, it is evident that the personal finance business was growing rapidly in Missouri just before the rate cut, and did not notably decline until about two years after the cut.

1929 level, fell in 1932 to $8,400,000 and in 1933 to less than $7,200,000, but rose by 1937 to nearly $10,200,000.

The average size of loan office, as measured by average loan balances outstanding, was increasing rapidly before the rate change: in 1928 it was $35,000 and in 1929, when the rate change occurred, the 107 offices remaining in business throughout the year had an average loan balance of $94,000. By 1931 the average size had increased further to $125,000, and it fluctuated between $83,000 and $97,000 from 1932 to 1936.

The average size of loans made in Missouri increased immediately after the rate reduction, rising from $122 in 1928 to $153 in 1931,[15] but it showed a slight tendency to decline in subsequent years. This would seem to indicate that although lenders may have refused loans of less than $100[16] they did not turn away $150 loans. The rate reduction was not drastic enough to cause lenders to restrict themselves mainly, as in New Jersey, to loans of $200-300, but it has been suggested that borrowers of very small sums were forced to resort to illegal lenders.[17]

The experience of Missouri shows, then, that the effects produced by reduction in the maximum legal rate will vary according to the stage of development that the personal finance business has achieved when the rate change takes place. The data suggest also that a reduction of the legal rate

[15] Rolf Nugent, "Three Experiments with Small Loan Interest Rates," *Harvard Business Review*, vol. 12 (October 1933) p. 45.
[16] The Pennsylvania report, *op. cit.*, p. 13, states that in Missouri "those lenders who remained in business practically eliminated loans of $100 or less."
[17] The Commissioner of Finance made the following statement in the 1933 *Summary of Annual Reports of Personal Finance Companies of Missouri* (p. 3): "We are aware of the continued existence of high rate, unsupervised agencies, due primarily to the natural demand for loans in small amounts. This demand is being filled at the present time by loan sharks because of the lack of sufficient return on the investment of the regulated licensees to induce them to make loans of smaller amount. It is possible that remedial legislation permitting a higher rate on loans of smaller amounts, $100 or less, would be advisable and serve to eliminate these unlicensed lenders."

from 3½ to 2½ percent affects the small loan business much less than a drastic reduction such as took place in New Jersey.

In 1939 the Missouri law was revised by adding a section outlawing wage buying and increasing the rate to 3 percent on loans of $100 and less.

CONCLUSIONS CONCERNING CHANGES IN MAXIMUM LEGAL RATES[18]

Although there is some variation in the experiences of the states analyzed above, there is sufficient similarity to warrant a few generalizations as to the effect of changes in maximum legal rates on the personal finance business. In all instances it is necessary to bear in mind that it is rate changes from one specific level to another that are in point, and that the effects of any given change doubtless vary according to the level from which the change is made and according to the extent of change.

First, in every case, the number of licensed lenders doing business in the state decreased after a reduction in the maxi-

[18] *Note by W. L. Crum, Director*—This chapter has implied that it is a mistake for maximum charges to be reduced by legislation below a fairly high level. Evidence is presented that such rate reductions have in the past had one or more of the following effects: driving licensed firms out of business; driving customers across state borders; and encouraging unlicensed lenders to do business at exorbitant rates. One question suggested to me by these indicated conclusions is whether the general practice of imposing fairly high maximum rates by state law does not force borrowers with good credit records to pay the same rates as less reliable borrowers, since under present methods of rate control lenders, in order to develop sufficient volume, must encourage loans to poor credit risks. The costs of investigation and the credit losses on such risks are relatively high, and must be borne in part by borrowers whose credit rating is good; in other words, they must provide insurance for those whose rating is poor.

Another question, perhaps even more fundamental, is whether small loan credit might not be granted on a more equitable basis if state regulations did not set maximum rates at all but employed other devices—publicity of accounts, detailed publication of bases of lending, adequate information to borrowers about terms, refusal to enforce contracts involving pledge of collateral unless regulatory requirements had been met—with a view to allowing borrowers whose credit is good to benefit from moderate rates. It seems to me that rates of charge should be so arranged that such borrowers will not be mum legal rate. If this means a removal of offices to other states the adjustment is obviously less difficult for chain lenders than for individual licensees. There was some tendency for the number of licensed lenders to decline most sharply in those states making the most severe reductions, but the experiences of the various states are not strictly comparable because the market for loans varies in the different states, the different rate reductions were in effect for varying periods of time, and the number of licensees operating immediately prior to rate reduction varied considerably.

Second, the volume of outstanding loans declined after the rate reduction in all states except Missouri, where the effect was indeterminate because the reduction was not to such a low level and because the personal loan business had been legalized for only two years before the change took place, and the industry was still in a stage of rapid growth. In this respect too, however, the different conditions prevailing in the different states made for varying degrees of response to the changes.

forced to carry part of the cost incurred on loans to poor-risk borrowers. I feel the more strongly about this because a substantial amount of the loans appear to be for expenditures which might reasonably be called postponable, rather than for actual emergencies.

Authors' Comment—The questions raised by Dr. Crum have not been specifically dealt with in the present chapter, but they have been considered elsewhere in the book. It has been pointed out that the maximum legal rate is not necessarily the rate actually charged on all contracts (p. 124), and that lenders do differentiate to some degree among their customers, as is evidenced by the lower terms quoted to borrowers of superior credit rating (p. 68, also p. 156 below).

In regard to the suggestion of other devices than rates as a means of insuring a more equitable extension of small loan credit, it has been mentioned that such devices exist. The Uniform Small Loan Law, under some variation of which lenders operate in a number of states, provides for the regulation of several phases of lenders' activities in addition to the rates which they may charge (pp. 32-33); it requires, for example, that annual reports be filed with a state supervisory body and that clear statements of loan terms be given to borrowers, and it provides for other devices of the type mentioned by Dr. Crum.

There are no reliable data to indicate exactly what proportion of loans are made to finance postponable expenditures as compared with those that are non-postponable (pp. 60-65).

Third, the effect on the average size of loan office, as measured by loans outstanding, varied in the different states: the average size of office increased in New Jersey but decreased in Georgia and Tennessee (measured here by employed capital); in Missouri and West Virginia it increased and subsequently fell. These results may be misleading, however, because they have been obtained by dividing the total volume of loans by the number of licensees reporting, and it may be that some of the reporting licensees were not actually engaged in making small loans. To the extent that this was the case the figures on average size of office are understated. The figures on total volume of loans outstanding (or of capital employed) are more significant.

Fourth, in those states for which data are available the average size of loan tended to increase after the maximum legal rate was reduced, indicating that at the lower rates lenders do not make as many loans of smaller amount. The effect of this on the borrowers of small amounts is to force them to seek funds elsewhere, either from other consumer credit agencies or from unlicensed lenders.

On the other hand, an increase in the maximum legal rate was followed, in West Virginia, by increases in the number of licensed lenders, in the volume of loans outstanding, and in the average size of loan office. In New Jersey the rate increase was not followed by an increase in the number of licensees, but there was a rise in the volume of outstandings, and also a decline in the average size of loan. The fact that the number of New Jersey licensees was not restored to the level it held before the rate cut can be explained by the financial and other requirements of the 1932 small loan law.