SOME ASPECTS OF CONSUMER CREDIT
IN THE UNITED STATES

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SOME ASPECTS OF CONSUMER CREDIT IN THE UNITED STATES

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FOREWORD

Modern industrial society has always been a credit society. But every human society, for that matter, throughout all time, has also been based upon credit. If one takes the broad view of credit and considers it as consisting of extending assistance and incurring obligations, of obtaining the right to use things before the users are able to pay for them, then one is forced to the conclusion that credit is as old as the human race. The very process of human living is made possible only by advancing to members of the social group the means of life before they are able to pay for them. In other words, all human beings begin life as consumers; they become producers only after a long period of consumption.

It is only in recent years, however, that we have begun to realize the importance of the consumer as an economic entity. In a somewhat narrow sense, we may regard the consumer as a person who exchanges an income for the services and end goods of the industrial world. He stands at the end of the chain of production and, through his purchases, determines the pattern of economic activity. Obviously, unless some kind of consumer credit were provided, production itself would be stopped.

Although every individual is admittedly a consumer, every individual purchaser does not need consumer credit. Such credit is extended in small amounts to wage-earners or to salaried persons of small means for the purpose of assisting them in
securing goods or services not otherwise available to them. This credit is provided by certain institutions which have come down from the past, some with little recent alteration, some of which have been modified and adapted to new conditions.

Our present economic difficulties are not, as some think, due to the fact that we have been living beyond our means; rather, they arise largely from the fact that we have not lived up to our economic possibilities. The masses of people must be provided with goods and services before they actually pay for them by their labor. This can be done only through credit. The sooner we discard the theory that people should not go into debt, and the sooner we realize that there can be little production without debt, the sooner we are likely to have a credit arrangement suitable to the needs of the society in which we live. Of course, the writer would not advocate that we use our credit for all sorts of unnecessary and dangerously speculative ventures; he would insist that our credit resources must be utilized for constructive purposes.

This study attempts to present a brief survey of the major aspects of consumer credit in the United States today: credit institutions in general, co-operative and non-co-operative consumer credit agencies, and the regulation of such agencies. A special chapter is devoted to consumer credit in Texas, with emphasis upon the fight which certain Texas cities are making against the loan-shark evil.
CHAPTER I

CREDIT INSTITUTIONS IN GENERAL

Development of Credit

It has been estimated that nearly ninety-five per cent of the business of this nation is conducted on credit;¹ but, until comparatively recent times our economic system has been practically devoid of agencies that extend credit to the masses of the people for purposes of consumption.²

In medieval society, assistance of the unfortunate by their more fortunate neighbors was the only form of credit extensively practiced; the rich were supposed to have compassion on the poor with respect to credit. The church incorporated this doctrine of neighborly helpfulness in its ethical system, as shown by the prohibitions of the medieval church against any charge on loans.³

Nevertheless, even the authority of the church was not capable of withstanding the far-reaching economic changes which ushered in the Industrial Revolution. With the expanding needs of commerce and industry, producer credit at an early

¹Clyde Beighley and Elmer E. Spanabel, Economic and Business Opportunities, p. 107.
²LeBaron R. Foster, Credit for Consumers, pp. 1-2.
date threw off the yoke of ecclesiastical restrictions. Consumer credit, however, as we think of it today was not necessary so long as production was largely for local use; but as the Industrial Revolution progressed, it increased the importance of the individual as a consumer. The evolution of the factory system, with its resulting large-scale production, caused consumer credit to reach its present form and magnitude. Credit became indispensable to mitigate the insecurity of capitalistic society and to create mass markets in the lower income brackets.\(^4\)

One phase of this evolution of the factory system caused the creation of organizations for supplying cash credit to the consumer to meet the insecurities of modern life which arise from the industrial organization of society. These insecurities have their origin in the concentration of population in large cities, in the growth of small shops into great plants, in factories which are managed impersonally, in the entrance of women into industry as wage-earners, in a money economy in which the laborer exchanges labor for money and money for goods and services, instead of producing a large part of the means of subsistence through home crafts and agriculture. Because the worker became easily replaceable in the mechanism of production, he diminished in importance as a producer; but, at the same time, his importance increased as a market for goods

and services produced by others. In addition to the causes of insecurity that inhere in the present industrial organization of society, certain personal problems originate through such emergencies of daily life as sickness, accidents, and extravagance.

New forms of credit institutions became necessary to supply the funds needed by the individual beset by these forces of insecurity. In the beginning, this necessity was not widely recognized; and even had there been a general recognition of the need, the rigidity of the usury statutes would have prevented the creation of credit institutions.

Consequently, the average worker was forced to go to the loan shark or to the pawnbroker for his credit. In most cases, his interest to the loan shark amounted to 240 per cent per annum; in extreme cases, even to as much as 1,000 per cent annually. If he went to the pawnbroker, he was forced to pledge something of value, in addition to paying interest charges ranging from one per cent to ten per cent per month, or twelve per cent or 120 per cent per annum. Needless to say, loans made by these agencies caused more trouble than they cured.

5Ibid.
6Ibid., pp. 63-65.
7William Trufant Foster, Loan Sharks and Their Victims, p. 7.
Modern Credit Agencies

In want of a suitable credit agency, many workers today must still use the above methods to obtain small loans. True, many banks have small-loan departments; but few people can provide sufficient security for their loans. However, more and more agencies are developing which are designed especially to extend credit to the consumer. Among these are industrial banks, personal finance companies, Remedial Loan Societies, axias, building and loan associations, and credit unions. Open accounts and installment selling are two other widely used methods of extending consumer credit.

In twenty-six states, industrial banks and private small-loan companies are licensed and regulated. In states having good small-loan laws, borrowers may obtain small loans at a maximum interest charge of 3½ per cent per month, or 42 per cent per year. On the face of it, this appears to be rather a high rate; but those who have investigated the matter insist that a high interest charge is necessary for three reasons: first, small loan companies have to pay high rates for the money they use; second, the lending institution does not get funds which it can lend out for interest, as a bank does; and third, the average loan is so small that the costs of investigation and collection constitute an important part of the loan.¹⁰

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⁹ Beighey and Spanabel, op. cit., pp. 118-122.

¹⁰ Louis M. Robinson and Rolf Nugent, Regulation of the Small Loan Business, pp. 134-137.
Personal finance companies generally make loans in sums up to three hundred dollars, under the regulation of state laws. These loans are often called "character loans," since the chief security is the borrower's promise to repay. In states with effective small-loan laws, these agencies are carefully supervised, and, aside from pawnbrokers and credit unions, are usually the workers' only safe credit source.\textsuperscript{11}

In 1859, after extensive studies by the Russell Sage Foundation, the first of a group of small loan associations known as remedial loan societies was organized.\textsuperscript{12} Although the recent development of other agencies in the small loan field has lessened somewhat the need for these societies, some twenty-seven are still operating in the larger cities of the nation, the largest being the Provident Loan Society of New York, with assets of more than $25,000,000. The average loan made by such groups is approximately $75.00, payable either in a lump sum or in monthly installments over a period of a year.\textsuperscript{13}

Among racial groups in the large cities there appears a different type of lending agency, the axia. These agencies, usually unlicensed, are savings and loan organizations existing at the expense of a particular racial or foreign-language

\textsuperscript{11}Foster, op. cit., pp. 15-17.
\textsuperscript{12}Rolf Nugent, Consumer Credit and Economic Stability, note 2, p. 74.
\textsuperscript{13}David F. Jordan, Managing Personal Finances, pp. 202-203.
group. Business is carried on by the use of capital obtained from members, which in turn is loaned only to members. It has been estimated that these organizations advance about $50,000,000 each year to borrowers in the United States. Up to the present time, there has been little formal organization among axias; usually each group is dissolved at the end of each year, and the assets divided among members.

Although primarily savings institutions, building and loan associations serve the credit needs of the consumer who wishes to buy or build his own home. These popular associations have assets totaling nearly six million dollars.

Probably the most phenomenal growth in any consumer credit agency during the last twenty years has been in credit unions. Credit unions are not new in the United States; the first one was organized in 1909 in New Hampshire, and in the same year a credit union law was enacted by the Massachusetts legislature. But their most rapid expansion came after 1921, during the period of depression, under the leadership of Edward A. Filene. Writing in 1933, Roy F. Bergengren, Filene’s

14Evans Clark, *Financing the Consumer*, p. 29.
15Ibid., p. 109.
18Nugent, *op. cit.*, p. 76.
19Roy F. Bergengren, *Soul*, p. 11.
partner in the Credit Union National Extension Bureau, stated:

There are 7,100 credit unions, with 2,000,000 members; the membership increases 12,000 a week; the credit unions except during the summer months from 100 to 200 a month. Obviously, they are of growing importance in the consumer field.

Credit unions make loans of fifty dollars or less on the personal promissory note of the borrower, without security; for larger loans, collateral or the endorsement of one or more members may be required. Loans are made only to members.

Since an entire chapter is devoted to these organizations later in this study, no further discussion is given here. A more complete discussion of the other consumer credit agencies is also given in succeeding chapters.

The Cost of Consumer Credit

An economic concept which is not embodied in reality is that there exists a perfectly competitive market for any commodity. If such a market existed for consumer credit, the use of money or capital would be the commodity; the interest rate, the price; the lenders and the borrowers, the sellers and the buyers. But in reality, price competition in the consumer-credit market is severely limited, largely because of the

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20 Ibid.
differentiation of loan services offered, the camouflaged price structure, and ignorance on the part of the borrowers. \(^{23}\)

Nevertheless, interest rates range from the three to six percent charged by credit unions to the seventy-two to 1,200 percent charged by the illegal loan sharks. \(^{24}\) What, then, are some of the factors which determine the interest rate charged by any given agency?

Credit is extended on the basis of the character, capacity, and collateral of the borrower—the three "C's" of credit. All institutions take into consideration the first two items. Some emphasize collateral more than others. In cases where collateral is sufficient to cover the full value of the loan, the cost of investigation of the borrower is lessened; and, as a result, a much lower rate of interest can be charged. \(^{25}\)

One factor which helps to determine the rate of interest charged by a credit institution is the working capital which it can build up through the financial pyramid afforded by the structure of the institution. Until this financial pyramid exceeds a certain multiple of the institution's paid-in capital, profitable operations are impossible. Commercial banks have a usual ratio of about five to one, with eight to one their optimum ratio and twenty to one the maximum ratio.


\(^{24}\) Foster, op. cit., p. 21.

\(^{25}\) F. Cyril James, The Economics of Money, Banking, and Credit, pp. 66-67.
Morris Plan and other industrial banks usually have a ratio of about three or four to one; while sales finance companies operate with a ratio of about three to one.\textsuperscript{26}

Operating costs naturally affect the interest rates that are charged by various credit agencies.

The expenses of the commercial credit agencies vary, depending upon whether they make large loans or small loans; whether they have to bear the full expense of investigation or can shift part of it back to the borrower; whether within their own particular area of service they are highly selective or cover the whole range; and whether they go deeply into the problem of making a program for the borrower.\textsuperscript{27}

If the expense of investigation is borne by the applicant himself, the rate will not reflect the cost of this item. For example, the accounting statement of a certified public accountant is paid for by the business man but is used by the commercial bank in considering credit extension. The cost of the preparation of the statement is borne by the borrower instead of by the lender.\textsuperscript{28}

Operating costs also depend to some extent upon the volume of business and the size of the unit loan. Commercial banks range from the great city banks which make individual loans amounting to hundreds of thousands or even millions of dollars to the rural banks making, for the most part, loans of less than $1,000. It has been estimated that the average-size loan of the personal loan department of commercial banks

\textsuperscript{26}James, \textit{op. cit.}, pp. 268-269.

\textsuperscript{27}Neifeld, \textit{op. cit.}, p. 70.

\textsuperscript{28}Ibid., pp. 70-71.
is $238; of the industrial or Morris Plan banks, $240; of personal finance companies, $164; and of credit unions, $255. Other factors being equal, if the costs of operation decrease with the increase in the unit size of the loan handled, then it follows that the rate charged should be proportionately lower.

The above facts raise the question of whether the items of expense connected with credit are subject to control and whether they can be cut. Because of the high cost of most of the credit offered to the masses of wage-earners in the lower-income brackets, this question has vital social significance.

If there is sufficient volume of business to justify the existence of a given institution, some of the expenses cannot be reduced; they are inherent to the nature of the institution and the character of the service performed. Until all distinction between the various credit agencies is obliterated, such uncontrollable costs cannot be decreased. There is, however, a tendency to wipe out the distinctions between consumer credit agencies, although it is in the direction of increasing rather than decreasing costs. Commercial banks are rapidly establishing personal loan departments, which finance the purchase of automobiles and make income loans; personal finance companies are experimenting with the buying of financial paper on the lower economic fringes;

\[29\text{Clark, op. cit., p. 154.}\]
industrial banks are entering both fields. If these tendencies bring the advantages which come with a larger ratio for the financial pyramid, the distinction between the various agencies will be greatly lessened and the rate of charges will become correspondingly more nearly equal.30

Another still more effective method of reducing credit costs is to cut down the losses resulting from the over-extension of credit. Such over-extension arises from uncontrolled competition among the credit agencies; such intra-industry competition can be effectively controlled through state regulation. The number of agencies operating in any community could be restricted by applying the rule of "convenience and necessity," thus eliminating the wasteful operation that comes from an over-crowded field. There would follow a reduction of losses and a consequent reduction of rates.31

Clark summarizes the pertinent facts concerning these various agencies in Table 1, which follows:32

<table>
<thead>
<tr>
<th>Agency</th>
<th>Usual Loan Period in Months</th>
<th>Usual Collateral Required</th>
<th>Usual Charges as Levied</th>
<th>Actual Charges</th>
<th>Average Size of Loan</th>
<th>Cost of Doing Business</th>
<th>Percentage</th>
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<tr>
<td>Credit Unions</td>
<td>10</td>
<td>Shares or co-maker loans</td>
<td>1% per mo. on unpd. bal.</td>
<td>12.0</td>
<td>6.0-18.0</td>
<td>255</td>
<td>3.7</td>
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<tr>
<th>Agency</th>
<th>Usual Loan Period in Months</th>
<th>Usual Collateral Required</th>
<th>Usual Charges as Levied</th>
<th>Actual Charges</th>
<th>Average Size of Loan</th>
<th>Cost of Doing Business</th>
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<tr>
<td>Personal Loan Dept. of Comm.</td>
<td>12</td>
<td>Co-maker note</td>
<td>8% total discount and fees in advance</td>
<td>18.1 9.4-22.6</td>
<td>$238</td>
<td>3.0</td>
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<tr>
<td>Commercial Banks</td>
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<tr>
<td>Industrial Banks</td>
<td>12</td>
<td>Co-maker note</td>
<td>6% discount plus 2% in advance (Morris Plan)</td>
<td>17.3 17.3-34.4</td>
<td>240</td>
<td>9.9</td>
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<tr>
<td></td>
<td></td>
<td>Pledge</td>
<td>1.3% per mo. at end of period</td>
<td>26.9 12.0-36.0</td>
<td></td>
<td>3.5</td>
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<tr>
<td>Remedial Loan Societies</td>
<td>12</td>
<td>Chattel mortgage</td>
<td>1.5% per mo. on un-pd. bal. plus 3.1% fee</td>
<td>28.5</td>
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<tr>
<td>Axais</td>
<td>12</td>
<td>Co-maker note</td>
<td>8% discount plus 2% fee in advance</td>
<td>28.5</td>
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<tr>
<td>Pawn-brokers</td>
<td>12</td>
<td>Pledge</td>
<td>3% per mo. at end of period</td>
<td>36.0 12.0-42.0</td>
<td>No data available</td>
<td>8.42</td>
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<tr>
<td>Personal Finance Companies</td>
<td>10</td>
<td>Chattel mortgage</td>
<td>23/4-33/4% per mo. on un-pd. bal.</td>
<td>30.0-42.0</td>
<td>164</td>
<td>17.8-21.6</td>
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<tr>
<td>Unlicensed Lenders</td>
<td>1/2</td>
<td>Wage assignment</td>
<td>20-40% per mo. at end of period</td>
<td>240.0-490.0</td>
<td>240.0</td>
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Sources of Stratification in the Credit Market

Yntema gives the following as the major sources of the stratification which explains the severe restriction of price competition in the consumer credit market.

A. DIFFERENTIATION OF LOAN SERVICES

1. Differentiation by type of security required.--The security for repayment of the loan may take such varied forms as: (a) chattel mortgage covering all household goods; (b) mortgage (or equivalent pledge) of an automobile, a piece of furniture, jewelry, or other personal effects; (c) mortgage on real estate; (d) wage assignment; (e) collateral pledge of marketable securities; (f) guarantees of co-signers; (g) no security; only general assets and resources of the debtor and his future income are relied upon to liquidate his obligation. . . .

Both the risk and the expenses vary with the type of security; consequently the rates at which loans with different security are offered show enormous variation—a range exceeding 5 per cent to 42 per cent a year. . . .

2. Differentiation by loan policy and procedure.--While some lenders will make only extremely safe loans, other lenders will take large risks. . . .

Some lending procedures are simple, private, quickly consummated and, in a word, convenient. Other procedures are lengthy, complicated, embarrassing in various respects, and decidedly inconvenient.

3. Differentiation by collection policy and procedure.--Some lenders insist on prompt payment and "hound" the debtor if he becomes delinquent. Other lenders make every effort to help the debtor through difficulties . . . Sometimes payments may be sent in by mail; in other cases monthly or weekly trips to the loan office must be made in person.

4. Differentiation by size of loan.--Some lenders can offer credit . . . without limitation; others are restricted . . . Since the percentage costs of lending and collecting vary greatly from small to large loans, these "commodities" are, from the viewpoint of the seller, quite different.

5. Differentiation by schedule of payments.--Payment may be required in a lump sum or in a series of installments. . . . To the borrower, the size of the monthly payment may be a deciding factor in his choice of a source of credit.
6. Differentiation by method of charge.—Although the method of assessing charges is not per se a primary cause of real differentiation of loan services, it does serve effectively to cause such differentiation in the minds of most borrowers.

7. Differentiation by status of lender.—In general, a borrower will prefer to deal with a lender of established reputation, who is known to be honest and fair. . . .

8. Differentiation by personal relations.—Courtesy, cordiality, and friendliness are important factors affecting the borrower's selection of a lender. . . . Beyond this, a degree of friendship between the borrower and particular members of the lender's staff may serve to keep a customer from transferring to a competitor's service.

9. Differentiation by association of lending with sale of other goods.—In installment selling, the costs of selling a commodity and of financing its purchase are, to a considerable extent, joint. . . . As a consequence, the financing of installment purchases is not fully competitive with other types of lending to consumers. . . .

B. LIMITATION OF SELLER-BUYER CONTACTS

1. Geographical distribution of lenders and borrowers.—With some exceptions, direct personal contact between the borrower and the lender is regarded as necessary for a credit transaction. . . . As a consequence, offices in distant cities are not at all in competition (except where business is done by mail), and offices in the same city may be only partially competitive. . . .

2. Ignorance of existence of lending agencies by borrowers (and vice versa).—The lending agencies with which a borrower can make contact are limited to those which he knows exist. . . . At best most borrowers are imperfectly aware of alternative sources of credit. 

The lender is also confronted with difficulties in making contacts with possible borrowers. Despite his best efforts at advertising, he never reaches many potential customers. . . .

C. BORROWER'S IGNORANCE OF THE SERVICE

1. Ignorance of the character of the service.—The borrower's ignorance of the lending service and of the terms of credit is traceable to numerous causes—to the complexity in the variations of loan service from lender to lender, to the concealment of the true price by many loan agencies, to the relative infrequency of borrowing, to the private character of the transaction . . . and . . . to the inability
of most borrowers to comprehend the arithmetic of credit costs. Because of such ignorance, borrowers often fail to obtain as cheaply as possible the credit adapted to their needs.

2. Susceptibility to persuasion.--The corollary of ignorance is gullibility. Not knowing the costs and other characteristics of alternative loan services, the borrower is more easily swayed by the advertising and the persuasive talk of any agency which happens to reach him.

3. Masking the price.--The charge for credit may take the form of a flat interest rate on unpaid balances; a combination interest rate . . . a lump sum finance or carrying charge; a discount from the face of the note; an inadequate rebate; a fee; a penalty for delinquency; or some combination of these.

As long as the true cost of credit is masked by other types of statement, the borrower will be unable even to compare the prices at which various kinds of credit are offered by various lenders. 33

33 Yntema, op. cit., pp. 79-82.
CHAPTER II

SOME NON-COOPERATIVE CREDIT INSTITUTIONS

Open Charge Accounts

In a study of twenty-one kinds of businesses in 1935, it was found that credit sales comprised 32.2 per cent of the total sales. This included open account, 21.3 per cent, and installment sales, 10.9 per cent.\(^1\) Such open charge accounts are in reality short-term credit extensions to the public by retail merchants. It is estimated by some credit executives that about sixty-five per cent of their charge customers use their monthly accounts because of the lack of sufficient cash to pay for the purchases made. The other thirty-five per cent probably use such accounts chiefly as a matter of convenience.\(^2\)

Retail stores encourage persons of responsibility to open charge accounts because, generally speaking, the charge customer buys more than the cash purchaser. Besides, charge accounts enable merchants to dispose of luxury merchandise in women's apparel, furniture, Oriental rugs, and similar lines. The account also creates a more personal contact between the buyer and the seller than does the cash purchase.

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\(^2\) A. H. Hert, "Charge Accounts of Retail Merchants," *Consumer Credit*, p. 111.
made by an unknown buyer.\textsuperscript{3} The usefulness of the charge account to both buyer and seller is unquestionable. One advantage accruing to the latter is that he can utilize personalized solicitation or direct-mail advertising, both of which are superior in appeal to newspaper or other forms of advertising. Furthermore, accounts may be analyzed with respect to the buying habits of customers, so that the advertising of a certain item to a given group\textsuperscript{4} may produce better results.

Two advantages of the charge account to the consumer have already been mentioned: convenience, and the ability to purchase goods when ready cash is not available. In addition, charge accounts facilitate adjustments for returned goods and allowances, provide in the monthly statement an itemized summary of all purchases for use in record-keeping, and permit the customer to receive advance notice of special sales or personal notice of items of particular interest to him.\textsuperscript{5}

The chief dangers of charge accounts to the customer are careless buying and imprudent spending. Charge accounts also necessarily add to the operating costs of a business, thereby tending to increase prices to all customers.\textsuperscript{6}

\textsuperscript{3}Ibid., p. 112.
\textsuperscript{4}Ibid.
\textsuperscript{5}Jordan, op. cit., pp. 65-66.
\textsuperscript{6}Ibid., pp. 66-67.
Charge accounts are much abused, for charge customers generally have the attitude, caused partly, it must be admitted, by the merchants, that they are "preferred" patrons, notwithstanding the fact that the cash sale is more profitable than the charge sale. "Statistics reveal that charge customers return more merchandise, make more unjust complaints, and expect more 'free' services than the average cash buyer . . ."7 According to a survey made in 1931 and 1932, it was found that 176 stores in seven kinds of business had returns and allowances of 12.4 per cent on charge accounts, while only 4.7 per cent of the cash sales were returned.8

Credit Investigation

In order to determine which applicant to accept and which to reject, a credit sales manager well versed in credit fundamentals and with sufficient experience in the field is necessary. It is his duty to consider both the moral and the financial status of the customer as a basis for either acceptance or rejection. Specific factors considered by a company in determining whether to accept a credit applicant are "wealth, income, occupation, stability of income, marital relations, length of residence in the city, ownership or rental of residence, standard of living, paying habits, and general reputation."9

7Hert, op. cit., p. 112.
8U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, Retail Credit Survey, January to June, 1932. (Domestic Commerce Series, No. 72), p. 3.
9Beighey and Spanabel, op. cit., pp. 111-112.
In addition to analyzing credit risks, the credit manager has charge of credit sales promotion, controlling the accounts, and collecting accounts.\textsuperscript{10}

Probably the most important factor in saving merchants who carry charge accounts from losses on such accounts, and the main factor which has enabled retailers to formulate their credit policies, is the interchange of credit information by retail stores through credit bureaus and other like agencies. Local associations in various cities compose the National Retail Credit Association. The National Consumer Credit Corporation, an affiliate of the National Retail Credit Association, maintains the credit records of sixty million persons through its 1,200 bureaus. These bureaus and similar agencies are central clearing agencies which gather and disseminate to subscribing members information relative to the paying habits and financial history of those who buy on credit.\textsuperscript{11}

Installment Credit

Installment selling was a corollary of mass production. After the stage of mass production was reached by industry, the next problem was to afford a way whereby people in the small income brackets could afford the price of an increased number of articles of considerable worth, thus increasing the profits of the manufacturer. To overcome this difficulty,

\textsuperscript{10} \textit{The New York Times}, May 16, 1939, p. 41.

installment finance agencies emerged. The practice of the installment credit agency was to let the purchased article itself stand as collateral for the credit.12

Installment selling is the sale of goods or services according to the stipulations of a contract by which part of the purchase price is paid at the time of the sale, the remainder to be paid in specified installments at stated dates or intervals. These two characteristics, a formal contract and a partial payment at the time of the purchase, are two respects in which installment credit differs from open-account credit. Other differences are (1) that installment credit is granted specifically in connection with a single purchase; (2) that the merchant retains title to the article until the full purchase price is paid; and (3) that the initial amount of credit granted on such terms is usually much larger than a merchant would be willing to allow the same customer on open account.13

As stated above, installment selling is no new development.

As a matter of fact, the pay-as-you-use idea is as respectable as antiquity and as chronic as the money economy. Plutarch himself relates how Crassus once acquired half of Rome by the process of buying up houses following holocausts and thereafter selling them on the installment plan. Even in the money economy, the pay-as-you-use idea is coeval with the installment plan.14


Probably the greatest single factor in the recent growth of installment selling was the introduction of the automobile. The average consumer could not pay for an automobile except by the use of some sort of credit; the installment plan in this business was initiated not by the manufacturers but by the demands of the purchasers. During the decade immediately preceding the first World War, from sixty-six per cent to seventy-five per cent of all automobiles were sold thus.\textsuperscript{15} In 1935, automobiles headed the list of commodities purchased on the installment plan both in the per cent of goods purchased (64.8 per cent) and in total sales in dollars ($2,333,381.00).\textsuperscript{16}

This growth in installment selling probably increased the available market for such other new and relatively costly devices as sewing machines, farm machinery, automatic refrigerators, washing machines, and radios.\textsuperscript{17}

Economists disagree as to the social value of installment credit.

Some believe that it leads to excessive buying and to over-expansion of credit. Others believe that it has an important place in our present economic system and performs a useful service to society. A well-known university made a survey in which more than two thousand people who had bought on the installment plan were consulted. The following opinions were found: 69 per cent of the people consulted said that installment buying encouraged people to run into debt and practice extravagance; 31 per cent thought that installment buying encouraged thrift.\textsuperscript{18}

\textsuperscript{15} James, op. cit., p. 270.
\textsuperscript{16} U. S. Bureau of the Census, op. cit., Vol. VI, p. 11.
\textsuperscript{17} Milan V. Ayres, "Installment Selling and Finance Companies," Consumer Credit, p. 121.
\textsuperscript{18} Beighley and Spanabel, op. cit., p. 114.
In truth, a number of factors determine whether or not installment buying is helpful or harmful in any given case. Relatively costly, long-lived commodities are a sound basis for installment purchasing. Some people may use poor judgment and purchase beyond their means to pay; but this does not prove that the installment method is entirely wrong.¹⁹

Although not extending credit directly to consumers, sales finance companies, by virtue of permitting dealers to shift their capital from inventories to receivable through purchasing installment contracts, play as important a part in consumer credit as if granting it directly. The Fidelity Contract Company, a subsidiary of the Foster-Armstrong Company of Rochester, New York, was organized in 1904 "for the purpose of purchasing retail installment contracts from Foster-Armstrong dealers." Apparently, this was the first installment finance company in the United States.²⁰

Personal Finance Companies

The need for financial institutions to meet a demand for emergency funds essential to community welfare was established by studies conducted by the Russell Sage Foundation over a period of six years.²¹ Among such institutions

¹⁹ Ibid.
²⁰ Nugent, op. cit., pp. 78-79.
²¹ Edgar F. Fowler, "The Licensed Lender," Consumer Credit, p. 130.
are licensed lenders known as personal finance companies. Technically, the term applies to "those institutions that are licensed to operate under the small-loan laws of the respective states that have adopted such legislation."\(^{22}\)

In 1937, about 3,600 such lenders were operating in the United States.\(^{23}\) They operate under the Uniform Small Loan Law, based upon a pattern devised by the Russell Sage Foundation, in twenty-six states: Arizona, California, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Louisiana, Maine, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Tennessee, Utah, Virginia, West Virginia, and Wisconsin. These institutions operate under special laws in eight other states: Alabama, Colorado, Delaware, Minnesota, Mississippi, Nebraska, Texas, and Wyoming.\(^{24}\)

As stated in the preceding chapter, personal finance companies, under the Uniform Small Loan Law, may make loans up to three hundred dollars. While the character of the applicant is the chief consideration in determining whether or not credit shall be extended, chattel mortgages and wage assignments are often taken as additional security.\(^{25}\) Under the Uniform Law, 3\(^{1\over 2}\) per cent per month on the unpaid balance

\(^{22}\)Jordan, op. cit., p. 195. \(^{23}\)Fowler, op. cit., p. 131.
\(^{24}\)Jordan, op. cit., p. 193. \(^{25}\)Foster, op. cit., p. 16.
is the maximum interest charge permitted; states with special legislation limit the legal interest rate to a considerably lower figure, often 2½ per cent per month.  

Personal finance companies primarily serve the great American middle class of workers with small or average incomes, as the data in Table 2, the result of a study of the occupational classification of more than 335,000 borrowers, prove. Many of their clients are people who, because of uncertain prospects or lack of security, or because they want only very small loans, would not be considered by lower-cost commercial agencies. Personal finance companies are in business for profit, it is true; but they generally make loans for

TABLE 2

OCCUPATIONAL CLASSIFICATION OF 335,000 CLIENTS OF PERSONAL LOAN COMPANIES

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Per Cent of Total Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled and semi-skilled laborers</td>
<td>35.26</td>
</tr>
<tr>
<td>Office and clerical workers</td>
<td>18.75</td>
</tr>
<tr>
<td>Owners-managers</td>
<td>11.00</td>
</tr>
<tr>
<td>Superintendents and foremen</td>
<td>10.44</td>
</tr>
<tr>
<td>School teachers</td>
<td>8.63</td>
</tr>
<tr>
<td>Salespersons</td>
<td>6.54</td>
</tr>
<tr>
<td>Unskilled laborers</td>
<td>5.01</td>
</tr>
<tr>
<td>Professional persons</td>
<td>2.52</td>
</tr>
<tr>
<td>Others</td>
<td>1.97</td>
</tr>
</tbody>
</table>


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27 Fowler, op. cit., p. 131.
28 Foster, op. cit., p. 16.
a constructive purpose rather than for luxuries, and thus
have more social utility than most other credit institutions.29

Personal Loan Departments of Commercial Banks

An increasing number of commercial banks have entered
the small-loan field during the last two decades.

The segregation of personal loan departments began
around 1923. Their number and loan balances grew
slowly until 1928 when a personal loan department
was organized by the National City Bank of New
York. The publicity which attended the entrance of
what was then the largest bank in the world into the
small loan field encouraged many banks to organize
similar departments, and their growth was rapid there-
after.30

The rapidly increasing number of banks which
make personal loans shows that bankers are more
and more realizing their obligation of social service
in their respective communities, and are recognizing
that the individual is entitled to consideration as
well as the business group. More than seven hundred
large banks have already departmentalized their personal
loan activities and thousands of banks throughout the
country are making small loans to individuals on an
installment repayment basis.31

At the end of 1937, the personal loan departments of
commercial banks in the United States had an estimated 180
millions of dollars in outstanding loan balances.32

These departments operate under the general banking laws
and may, therefore, make loans in excess of three hundred dol-
liers. Although they may not legally impose on small loans
interest rates higher than those legally permissible on their

29 Fowler, op. cit., p. 133.  30 Nugent, op. cit., p. 100.
31 John B. Paddi, "Personal Loan Department of a Large
Commercial Bank," Consumer Credit, p. 141.
32 Foster, op. cit., p. 20.
regular loans, through various devices, such as collecting interest in advance, charging interest on the face of the loan rather than on the unpaid balance, or by imposing fees for investigation, the banks seldom charge less than eight per cent per annum.\textsuperscript{33} Even so, bank rates on personal loans are comparatively low, being usually one-third as high as those of the small loan companies and one-half as much as those of industrial banks.\textsuperscript{34} It has been estimated that the usual charge is twelve per cent, with a possible range of seven per cent to twenty-three per cent.\textsuperscript{35}

Industrial Banks

The first of what later came to be known as industrial banks was organized in 1910 by Arthur J. Morris, in Norfolk, Virginia. These organizations are private, profit-making corporations which pool the savings of people of small incomes in order to make loans to other members of the same class.\textsuperscript{36} Their most rapid development came between 1923 and 1929; in 1923 there were approximately 190 industrial banks in the United States; six years later, this number had increased to some 620.\textsuperscript{37} In 1937 these credit agencies had outstanding loans estimated at $185,000,000.\textsuperscript{38}

\textsuperscript{33}Jordan, \textit{op. cit.}, p. 199. \textsuperscript{34}Paddi, \textit{op. cit.}, p. 140.
\textsuperscript{35}Foster, \textit{op. cit.}, p. 21. \textsuperscript{36}Nugent, \textit{op. cit.}, p. 76.
\textsuperscript{37}Ibid., p. 100 \textsuperscript{38}Foster, \textit{op. cit.}, p. 20.
The terms "industrial bank" and "Morris Plan Bank" are sometimes confused. Morris Plan organizations are simply industrial banks which operate under the trade name of "Morris Plan," derived from the originator of the idea. Neither term should be confused with the term "industrial savings bank," which refers to savings facilities set up within a factory or group of factories to care for the savings of employees.

In twenty-four states, industrial banks operate under special laws governing their transactions. Their method of operation is unique in the field of bank credit. First, the loan is discounted at a rate of six or seven per cent, and a two per cent fee is charged for credit investigation. Thus, at six per cent discount on a $200 loan, the borrower would receive $184. An amortization plan is then formulated. If the borrower can repay the loan at $4.00 per week, it will take forty-six weeks to pay off the amount actually received, and fifty weeks to pay the amount of the note.

Some statisticians calculate that the effective rate of interest on such a loan is 17.3 per cent per annum; others place it at 18.77 per cent; one puts it at 19.5 per cent; Kuhn and Morris set the rate at 19.5 per cent. A bulletin published by the Morris Plan Bankers Association

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39 Ibid., p. 13.
41 Beighey and Spanabel, op. cit., p. 119.
42 Harold, op. cit., p. 143.
states that the "most practical" formula gives a rate of 6.2 per cent annually.\textsuperscript{43} This formula is certainly "practical" for such banks, since it allows them to dupe the public to their own advantage.

There is much controversy as to whether the rates charged by industrial banks are high. While they are indisputably higher than the rates of commercial banks, if they were unreasonably high competition in the small-loan field would soon drive the industrial banks out of business.\textsuperscript{44}

Other salient features which distinguish the operation of industrial banks are the accumulation of cash or other assets to an amount sufficient to cancel the loan, the use of a savings account for the same purpose, and the separate sale of investment certificates to individuals other than borrowers.\textsuperscript{45}

Pawnbrokers

One of the oldest of credit agencies is the pawnbroker; his technique of advancing credit against pledged property as security is as old as the earliest historical records. Pawnbrokers were operating to a considerable extent in many cities in the United States as early as 1800; in New York, in 1838, 149,000 pledges were reported by pawnbrokers.\textsuperscript{46}

\textsuperscript{43} Ibid.
\textsuperscript{44} Ibid., p. 147.
\textsuperscript{45} Ibid., pp. 143-144.
\textsuperscript{46} Nugent, \textit{op. cit.}, pp. 57-58.
The customers of the pawnbroker belong to every conceivable class, but some groups patronize him more than others.

The wealthy spendthrift, who pawns his personal belongings rather than get a loan from his bank, is first. Second come the demi-monde, the gamblers, who invest their excess cash in "ice" against the unfortunate days when they may need to raise money in a hurry.

A third class is made up of the petty entrepreneurs, whose bank credit is worth little but who have something of value to pledge.

Another group comprises the careless artisans who pawn their own tools.

The fifth class includes the private citizen of small means who owns no particularly valuable jewelry, but who has furniture upon which he can obtain some money. At the very bottom are the pitifully poor, who have little of value to pledge and who try to borrow a dollar or two, even a few cents, in order to keep alive.47

Judging from the above statements, it is not the poor, but careless spenders among the rich, who make the pawnbrokers prosper.

Rates on pledged loans are sometimes as low as twenty-four per cent per annum; but in most cases thirty-six per cent annually is common, and in some localities rates range from sixty per cent to 120 per cent.48 Among the factors contributing to these high rates are the excessive losses due to depreciation; the constant presence of large quantities of valuables and cash, necessitating large outlays for insurance, vaults, watchmen, and other safety devices; legal expenses involved because of stolen goods, and unredeemed pledges.49

48 Foster, op. cit., p. 8.
49 Mottershead, op. cit., p. 151.
CHAPTER III

REGULATION OF PRIVATE, NON-COOPERATIVE CREDIT AGENCIES

From Biblical times there have been attempts to prevent usury and regulate the lending of money. One of the first recorded cases of usury involved not money, however, but the exploitation of human rights. Esau, suffering from great hunger, sold his birthright for a mess of pottage.\(^1\) Specifically condemning usury, Moses proclaimed,

\[
\text{Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury: Unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury. . . .} \quad ^2
\]

During the Middle Ages, as stated in Chapter I, lending money at interest became, under the name of usury, a sin prohibited by God and forbidden by the cannon law.

Aristotle's disapproval and the Biblical prohibitions embodied a common observation but were due to contrasting interests and motives. As Aristotle saw it, money was an artifice. Unlike earth and plants and animals, which are fertile and yield increase and profit by nature, money is barren; it cannot breed. The breeding attributed to it, the usury that is the premium or interest, whatever the rate, paid for the use of money lent, is really an exploitation of man by man . . . \(^3\)

Even with the legalization of a reasonable rate of interest,

the social and ethical stigma attached to usury remains. The term today, however, applies to the "taking of a greater rate of interest on a loan of money than the law allows."\(^4\) As will be shown in a later chapter, too often lenders obtain illegal rates of interest through the expedient of masking the actual rate until it appears to be within the legal maximum.

**Regulation of Small-Loan Companies**

Probably the most active agency in behalf of regulation of small-loan companies in the United States has been the Russell Sage Foundation. In 1910 the Foundation first began its intensive study of the small-loan situation in the United States; six years later it presented the first draft of the model small-loan law, subsequently enacted in twenty-six states, previously enumerated, as the Uniform Small Loan Law. Fundamental elements of the law are as follows:

1. A license for all money lenders engaged in the business or charging more than the banking rate of interest, inclusive of fees and charges of all kinds;
2. a bond to secure observance of the law;
3. an adequate interest rate (2 or 3 per cent per month) reckoned on unpaid balances; and fees prohibited, or, if allowed, safeguarded against undue repetition;
4. a supervisory office to enforce the law;
5. adequate penalties for violations, including revocation of the license, fine and imprisonment, and the recovery of excess payments by the borrower;
6. notice to the employer and consent by the wife to an assignment of wages;
7. adequate records kept by licensees and inspected by the supervisory officer; and
8. a copy of the law and a memorandum regarding the loan to be given to each borrower.\(^5\)


Officers of the Foundation who drafted the original law recommended the legal maximum of 3\(\frac{1}{2}\) per cent per month, or forty-two per cent annually, on the unpaid balances as the rate necessary to develop legal lending agencies to compete effectively with the twenty per cent per month illegal lenders. Experience had proved that when the maximum dropped below that figure, most of the legal lenders were forced to go out of business.\(^6\)

Since the original model law in 1916, six drafts of the act have appeared. The essential changes embodied in these amended forms were as follows: in 1919, the enlargement of the requirement of the signature of both the borrower and his wife for wage assignments as security to include chattel mortgages, household furniture liens, or assignment of any form of compensation; in 1923, the inclusion of contingent liabilities in the $300 limit; in 1932, stricter supervision, with the applicant for a license required to have a minimum capital of $25,000. Other amendments were of a minor character.\(^7\)

Many states, by lowering the maximum limit, have seriously hampered the efforts of socially-minded individuals and organizations to regulate small-loan agencies. Attempts to reduce the 3\(\frac{1}{2}\) per cent per month maximum nearly drove legal lenders out of New York, New Jersey, and West Virginia some

\(^6\)Foster, Loan Sharks and Their Victims, p. 6.

\(^7\)Bradway, op. cit., p. 183.
years ago. The Pollak Foundation summarizes the conditions in various states as follows:

1. Oregon's $1 minimum charge encourages the making of $10 loans at very high rates. 2. Failure of the Ohio law to restrict licensees to loans of $300 or less makes trouble. 3. Low rates in Wisconsin may have partially restricted the availability of loans. 4. Classifications of California and Utah are tentative, awaiting experience under laws adopted in 1939. 5. The Hawaii law appears to promise effective regulation, but sufficient experience under the law is lacking. 6. Florida's law is confined, with three exceptions, to counties having a population of 40,000 or more, and the law lacks certain essential features. 7. The laws of Nebraska, Colorado and New Mexico are defective in many ways: they bring in new capital, but they do not keep out loan sharks.

The forces of regulation have gained ground in many states during recent years. A recent decision by the Minnesota Supreme Court dealt a blow to illegal lenders by declaring that a persistent high-rate lender who cheats needy borrowers is a public nuisance. A new law in Utah prevents the loan shark from masking high-rate loans under the pretext of doing business as a pawnbroker and authorizes the Bank Commissioner to determine whether unlicensed lenders are within the law. Missouri, after a three-year fight led by the bar associations, lifted the legal rates to levels enabling legal lenders to operate and outlaw the loan sharks. California voters, on referendum, legalized a maximum rate of $2 per cent per month.

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8 Foster, op. cit.
9 Ibid., pp. 16-17.
10 Ibid., pp. 27-28.
The following table summarizes the existing state legislation on small-loan agencies. 11

**TABLE 3**

**SUMMARY OF EXISTING STATE LEGISLATION INVOLVING SMALL LOAN AGENCIES**

<table>
<thead>
<tr>
<th>State</th>
<th>Usury Laws</th>
<th>Credit Union Laws</th>
<th>Small Loan Laws</th>
<th>Industrial Banking Laws</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>8%Y</td>
<td>1% M(S)</td>
<td>#I</td>
<td></td>
</tr>
<tr>
<td>Arizona</td>
<td>10%Y</td>
<td>1% M(S)</td>
<td>3½% M(S)(U)</td>
<td></td>
</tr>
<tr>
<td>Arkansas</td>
<td>10%Y</td>
<td>10% Y(S)</td>
<td></td>
<td>#</td>
</tr>
<tr>
<td>California</td>
<td>12%Y</td>
<td>1% M(S)</td>
<td>1% M(S)(NU)</td>
<td>#</td>
</tr>
<tr>
<td>Colorado</td>
<td>12%Y</td>
<td>1% M(S)</td>
<td>1% M(S)(NU)</td>
<td>#</td>
</tr>
<tr>
<td>Connecticut</td>
<td>12%Y</td>
<td>3% M(S)</td>
<td>3% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Delaware</td>
<td>6%Y</td>
<td></td>
<td>#I</td>
<td></td>
</tr>
<tr>
<td>Florida</td>
<td>10%Y</td>
<td>1% M(S)</td>
<td>3½% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Georgia</td>
<td>8%Y</td>
<td>1% M(S)</td>
<td>3½% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Idaho</td>
<td>10%Y</td>
<td>1% M(S)</td>
<td></td>
<td>#</td>
</tr>
<tr>
<td>Illinois</td>
<td>7%Y</td>
<td>1% M(S)</td>
<td>3½% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Indiana</td>
<td>8%Y</td>
<td>8% Y(S)</td>
<td>3½% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Iowa</td>
<td>6%Y</td>
<td>1% M(D)</td>
<td>2½ – 3½% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Kansas</td>
<td>10%Y</td>
<td>1% M(S)</td>
<td></td>
<td>#</td>
</tr>
<tr>
<td>Kentucky</td>
<td>6%Y</td>
<td>&quot;R&quot; (S)</td>
<td>2½ – 3½% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Louisiana</td>
<td>8%Y</td>
<td>1% M(S)</td>
<td>3½% M(S)(U)</td>
<td>#</td>
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<tr>
<td>Maine</td>
<td>No Law</td>
<td></td>
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<td>#</td>
</tr>
<tr>
<td>Maryland</td>
<td>6%Y</td>
<td>1% M(S)</td>
<td>3½% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>No Law</td>
<td>&quot;R&quot; (S)</td>
<td>3½% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Michigan</td>
<td>7%Y</td>
<td>1% M(S)</td>
<td></td>
<td>#</td>
</tr>
<tr>
<td>Minnesota</td>
<td>8%Y</td>
<td>1% M(S)</td>
<td></td>
<td>#</td>
</tr>
<tr>
<td>Mississippi</td>
<td>8%Y</td>
<td>1% M(S)</td>
<td></td>
<td>#</td>
</tr>
<tr>
<td>Missouri</td>
<td>8%Y</td>
<td>1% M(S)</td>
<td></td>
<td>#</td>
</tr>
<tr>
<td>Montana</td>
<td>12%Y</td>
<td>1% M(S)</td>
<td></td>
<td>#</td>
</tr>
<tr>
<td>Nebraska</td>
<td>10%Y</td>
<td>Legal</td>
<td></td>
<td>#</td>
</tr>
<tr>
<td>Nevada</td>
<td>No Law</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Hampshire</td>
<td>No Law</td>
<td>Legal (S)</td>
<td>2½ M(S)(NU)</td>
<td>#</td>
</tr>
<tr>
<td>New Jersey</td>
<td>6%Y</td>
<td>1% M(S)</td>
<td>2½ M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>New Mexico</td>
<td>12%Y</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New York</td>
<td>6%Y</td>
<td>1% M(S)</td>
<td>2½ – 3½% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>North Carolina</td>
<td>6%Y</td>
<td>Legal</td>
<td></td>
<td>#</td>
</tr>
<tr>
<td>North Dakota</td>
<td>10%Y</td>
<td>1% M(S)</td>
<td></td>
<td></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>State</th>
<th>Usury Laws</th>
<th>Credit Union Laws</th>
<th>Small Loan Laws</th>
<th>Industrial Banking Laws</th>
</tr>
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<tbody>
<tr>
<td>Ohio</td>
<td>8% Y</td>
<td>1% M(S)</td>
<td>3% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>10% Y</td>
<td>10% Y(S)</td>
<td>* *</td>
<td></td>
</tr>
<tr>
<td>Oregon</td>
<td>10% Y</td>
<td>1% M(S)</td>
<td>3% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>6% Y</td>
<td>1% M(S)</td>
<td>3 1/2% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>No Law</td>
<td>&quot;R&quot;(S)</td>
<td>3 1/2% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>South Carolina</td>
<td>6% Y</td>
<td>7% M(S)</td>
<td>* *</td>
<td></td>
</tr>
<tr>
<td>South Dakota</td>
<td>12% Y</td>
<td>1% M(S)</td>
<td>* *</td>
<td></td>
</tr>
<tr>
<td>Tennessee</td>
<td>6% Y</td>
<td>&quot;R&quot;(S)</td>
<td>3 1/2% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Texas</td>
<td>10% Y</td>
<td>&quot;R&quot;(S)</td>
<td>#</td>
<td>#</td>
</tr>
<tr>
<td>Utah</td>
<td>12% Y</td>
<td>12% Y(S)</td>
<td>3% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Vermont</td>
<td>6% Y</td>
<td>* *</td>
<td>* *</td>
<td></td>
</tr>
<tr>
<td>Virginia</td>
<td>6% Y</td>
<td>1 1/2% M(S)</td>
<td>3% M(S)(U)</td>
<td>#</td>
</tr>
<tr>
<td>Washington</td>
<td>12% Y</td>
<td>12% Y(S)</td>
<td>* *</td>
<td>#</td>
</tr>
<tr>
<td>West Virginia</td>
<td>6% Y</td>
<td>1 1/2% M(S)</td>
<td>2 1/2-3 1/2% M(S)(U)</td>
<td></td>
</tr>
<tr>
<td>Wisconsin</td>
<td>10% Y</td>
<td>1% M(S)</td>
<td>2 1/2-3 1/2% M(S)(U)</td>
<td></td>
</tr>
<tr>
<td>Wyoming</td>
<td>12% Y</td>
<td>* *</td>
<td>* *</td>
<td>#</td>
</tr>
</tbody>
</table>

*#--Existence of law
Y--Yearly
M--Monthly
$--Added fees
"R"--Reasonable rate
S--Supervision by municipality or state
U--Conforms to uniform small loan law (24 states, May, 1934)
NU--Conforms essentially to uniform small loan law except for interest rates
I--Existing law inadequate

Regulation of Installment Purchases

The one great effort to get around the small loan law has been to rely upon the distinction between a loan of money and the sale of a thing.

In the field of installment selling of things, many sellers are honest, ethical, and have fixed their charges as low as they can. Some others are the exact reverse; their charges are outrageous, their contracts are oppressive, their collection methods are intolerable, and the
law says they are all right although the social agencies know better.\textsuperscript{12}

Thus far, efforts to remedy the abuses of installment selling through regulation have failed because no suitable philosophy of regulation has received a consensus of public approval and because administrative machinery for such regulation is still in the experimental stage.\textsuperscript{13} The following is a resume of a statement that was recommended by the Consumers Advisory Board, under the National Recovery Act, but which never actually was incorporated into a code:

The selling of goods on deferred payment involves two separate and distinct functions: the sale of merchandise and the extension of credit. The only accurate and honest way to compute a charge of this type is in terms of a given percentage on the current unpaid monthly balance.\textsuperscript{14}

Three states are outstanding in the field of attempted regulation of installment selling: "(1) ... Massachusetts, contemplating disclosure; (2) ... Indiana, requiring disclosure and setting a maximum rate; and (3) ... Wisconsin, ... contemplating administrative supervision and a maximum rate."\textsuperscript{15}

The Indiana law, passed in 1935, is based upon the

\textsuperscript{12} Smith, op. cit., pp. 191-192.
\textsuperscript{13} Bradway, op. cit., p. 194.
\textsuperscript{14} Ibid.
\textsuperscript{15} Ibid., p. 188.
following recommendations made by a commission appointed to study the problem:

1. General: Enact the Uniform Conditional Sales Act; enact special legislation for contracts of $1,000 or less requiring (1) that such contracts state the cash price, and give the buyer the right to prepay future payments without interest thereon; (2) that the finance charge be computed as a per cent per month of unpaid balance; and (3) that the rate of charge not exceed two-thirds of one per cent per month of unpaid balance unless the paper is immediately assigned to a commercial bank or a loan and investment company, in which case the rate shall not exceed one and one-half per cent per month, or to a licensed finance company, in which case the rate shall not exceed that set by law for such companies.

2. Finance companies: Provide for licensing and supervision of finance companies that invest in paper which bears a rate in excess of two-thirds of one per cent per month.

3. Installment sellers: ... Installment sellers must be licensed as finance companies ... if they hold paper bearing rates in excess of two-thirds of one per cent per month.

4. Commercial Banks: Authorize investment by commercial banks in installment paper bearing a rate of charge not exceeding one and one-half per cent per month.

5. Loan and Investment companies: Authorize investment by loan and investment companies in installment paper bearing a rate of charge not exceeding one and one-half per cent per month.16

Recommendations by two investigating groups have been made for a bill in Massachusetts. The essential recommendations of both plans amount to the following: (1) licensing of retail sales finance companies and regulation of such companies by the Commissioner of Banks under a law similar to that governing personal loan agencies; (2) a "disclosure" statute compelling the seller to provide the customer with

16 Ibid., pp. 184-185.
clear, standard forms of installment sales contracts which would include the statement of the rate of charge expressed as a per cent per month on unpaid balances; (3) no attempt to fix rates by legislation, but rather permitting free competition between finance companies operating under a license system assuring uniformity and clarity of contracts to determine the rates.\textsuperscript{17}

The Wisconsin law, passed in 1935, and amended in 1937, authorizes the state banking commission, before licensing a sales finance company, to investigate the applicant’s general financial standing or any other detail "commensurate with the safeguarding of the public interest." Every retail installment sale must be evidenced by a written contract clearly stating the terms of the sale.\textsuperscript{18}

General Conclusions

It is doubtful that the answer to the problem of the prevention of usury lies in state regulation, or even in any sort of regulation of existing loan agencies. Usurers always have had, and probably will continue to have, a thousand tricks for evading the law. Strict regulation, however, will help not only the consumer but also the legal, licensed lenders, because "it keeps under rigid control the few chiselers who are apt to be found in any business, who tend to lower all standards, and whose sins, when found out, are blamed by the public upon all licensees."\textsuperscript{19}

CHAPTER IV

CONSUMER CREDIT UNIONS

Origin and Development

"For some reason the American people seem to take to cooperative banking more readily than to cooperative selling, buying, or manufacturing." ¹ Perhaps the explanation of this statement lies in the relative cheapness of most commodities in the United States as compared with credit. In other words, probably the public need for credit is today and has been for some time greater than the need for other commodities. ²

As mentioned in Chapter I, one of the most rapidly developing agencies for supplying consumer credit is the credit union. Credit cooperatives, as we know them today, had their origin in Germany early in the nineteenth century. Herrmann Schulze-Delitzsch, a Prussian lawyer, established a cooperative loan bank among the urban workers. Even better known, perhaps, in the cooperative credit movement is the name of Friedrich Raiffeisen, Schulze-Delitzsch's junior by ten years, who did for the agricultural worker what the latter did for urban craftsmen. Raiffeisen's plan flourished "in places and among people where no other form of cooperative organization seemed able to take root," and "by the beginning of the present century the value of the credit union for the agricultural population was recognized throughout the world." ²

¹ Clark, op. cit., p. 82. ² Kallen, op. cit., p. 323.
Credit unions were first organized in the United States about thirty years ago because the banks of America refused to lend money to the average American family on any security which they possessed. Edward A. Filene, father of the movement in this country, learned of the Raiffeisen plan while on a visit to Germany in 1908. When he returned home, he made contact with Alphonse Desjardins, a French-Canadian journalist who had set up a cooperative bank in the parish of Levis in Quebec, and with Pierre Jay, bank commissioner of Massachusetts, who was already interested in people's banks for Americans. Between the three of them, they succeeded in bringing about the passage of the first credit union law in the United States, by the Massachusetts legislature in 1909.

A difficult period of experimentation followed, from 1909 until 1921, during which time only about two hundred credit unions all told were organized. New York enacted a credit union law in 1913; a similar bill was passed by North Carolina in 1915. But not until 1921 and the organization of the Credit Union National Extension Bureau, underwritten by Filene, and with Roy F. Bergengren as executive

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4 Kallen, op. cit., pp. 323-324.

5 Bergengren, Soul, p. 22.

6 Nugent, op. cit., p. 76.
secretary, did the credit movement really gain momentum in this nation.  

The Bureau started on its several objectives of securing adequate legislation in the different states of the Union, educating the public in the theory and practice of cooperative banking, fostering and aiding the formation of credit unions, federating the local into state organizations and combining the state organizations into a national association.

These objectives were reached in little more than a dozen years. In August, 1934, the Credit Union National Association was formed, and on March 1, 1935, it took over the assets and liabilities of the Extension Bureau and the Bureau was liquidated. In its twelve-odd years of labor the Bureau had placed cooperative banking laws on the statute books of thirty-three states and of the District of Columbia; it had secured the enactment of a federal law which enables and controls the formation of credit unions in states with no laws of their own, or in states with bad laws or with an administration inimical to the movement. . . . It had brought the idea of the credit union to all manner and condition of men:

Mr. Bergengren claims 'sixty well-defined types of successful credit-unions.' . . . These 'sixty well-defined types' at present embrace more than 3,000 unions and 750,000 members. Their resources amount to upward of $60,000,000; their credit turnover goes toward the billions, and they are still growing.  

The above figures were published in 1936. In 1940, there were slightly more than 8,500 state and federal credit unions in the United States and Canada, embracing more than 2,500,000 members, and with assets of almost $250,000,000.  

There are several reasons for this rapid growth of credit unions. First, there is a growing need for economical

7Kallen, op. cit., p. 324.  
8Ibid., pp. 324-325.  
9Robert L. Conrod, Report of the Sixth Annual Convention of the Credit Union National Association, in the Monthly Bulletin (June, 1940) to the Denton County Teachers Federal Credit Union.
consumer credit. Second, credit unions are easily established; only a dozen or so persons are needed to start one, and shares generally have a par value of only five dollars. Third, the average worker is beginning to realize that the credit union is the most convenient type of institution for supplying his credit needs.  

Fundamentals of Organization and Operation

The credit union attempts to apply the principles of democracy to economic life; it "is above all an institution aiming at the betterment of its members, rather than profits."  

Each credit union may be likened to a credit family; the members help the union and the union assists every member. This principle is probably part of the explanation of the astonishing growth of the organizations.  

Credit unions operate most successfully in groups closely knit by some common bond such as common employment, an associational bond such as church or lodge membership, or residence in a well-defined neighborhood. Although more members are usually required before very extensive operation can be undertaken, the Federal Credit Union Act, enacted in June, 1934, permits a union to be formed with only seven members, each purchasing or contributing one five-dollar share.  

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10 Filene and Lubin, op. cit., p. 7.
11 Bergengren, Soul, pp. 32-33.
13 M. R. Neifeld, Cooperative Consumer Credit, pp. 187-188.
Each Federal union is organized as a corporation, the charter being approved by the governor of the Farm Credit Administration. The management is in the hands of a board of not fewer than five directors, a credit committee of three or more members, and a supervisory committee of three members, of which not more than one may be a director. All of these are elected by and from the membership of the organization. The board of directors have such general duties as acting upon applications for membership, recommending the declaration of dividends, and managing investments other than loans to members. The credit committee considers applications for loans; the outstanding duty of the supervisory committee is the quarterly and annual audit of the books of the credit union.¹⁴

A Federal credit union may "make loans with maturities not exceeding two years to its members . . . upon such terms as this Act and the bylaws provide and as the credit committee may approve, at rates of interest not exceeding one per centum per month on unpaid balances . . ."¹⁵ Repayment is made on a weekly or monthly installment basis; the loan period is decided upon by the credit committee, based upon the capacity of the borrower to repay.¹⁶

The interest rate of each organization is fixed by the membership, within the limit, of course, of the one per cent per month on the unpaid balance as set by the Federal Act.

¹⁴Ibid., pp. 188-193. ¹⁵Ibid., p. 190.
¹⁶Filene and Lubin, op. cit., p. 8.
Small operating expenses and few losses make possible such low interest rates. The late Edward A. Filene said, "I know of one credit union which did close to two million dollars worth of business in 1929 at a total expense of less than nine thousand dollars." 17

Each year twenty per cent of the net earnings must be set aside as a reserve for bad debts; the remaining earnings revert to the members as dividends. 18 Thus far, however, there has been little need to call upon this guarantee fund, as the losses on loans have been small indeed. In the thirty-six states in which credit unions operate under the state banking laws, it is the duty of the state bank examiner to close credit unions, as well as banks, for cause. During the depression of the twenties, not one of the credit unions organized by the Credit Union Extension Bureau was closed, in spite of the fact that these self-managed organizations were composed of the groups most affected by the adverse economic conditions. 19

This extraordinary record—probably the finest ever established by any form of banking under conditions of similar stress—is easily explained. It is due to two circumstances unique to credit union operation. In the first place, every credit union law provides that loans may be made only for purposes which promise to be of real benefit to the borrower. The first consideration, therefore, when a loan application is pending, has to do with the purpose of the

17 Ibid.
18 Neifeld, Cooperative Consumer Credit, p. 194.
19 Filene and Lubin, op. cit., p. 9.
loan, and it is ordinary human experience that a borrower is much more apt to repay a loan which performed for him a real service. In the second place, credit union members have no collateral in the ordinary acceptance of the term. Substituted for collateral is a better form of security—the character of the individual borrower; his reputation among his fellows who know him best; his will to repay as based on the intimate knowledge which the credit committee has of him—coupled in larger loans with the willingness of those who know him best to back him up with their endorsement. These two circumstances—the purpose of the loan and the character of the borrower—account for the excellence of the record.\(^{20}\)

Advantages of Credit Unions

During the early development of credit unions in the United States, the mistake was sometimes made of trying to build the cooperative movement by attacking the institutions which it sought to displace. Since the passage of the Federal Credit Union Act, however, those responsible for the program have maintained a rational, well-balanced viewpoint, realizing that the credit union movement justifies itself by its own results.\(^{21}\)

The chief advantages of the cooperative credit provided by the credit unions over commercial lenders lie in the lower price of credit made possible by low operating costs, as previously discussed; the financial and social benefits accruing to members, the former through the thrift feature of the unions as well as low-priced credit, the latter from the fellowship among members or, sometimes, from possible


\(^{21}\) Neifeld, *Cooperative Consumer Credit*, p. 90.
business advantages; and the place of the credit unions in the small-loan financial structure: they reach many groups to whom consumer credit would not otherwise be available, and also can make certain types of small loans not offered by any other regulated small-loan agency.22

Groups Served

With few exceptions, credit union members derive their income from a regular payroll. They are chiefly small consumers, with earnings which do not as a rule leave a very large margin between the total amount received and the necessary expenditures.

Thus, the field which the credit union serves is simply the great mass of the urban working population of America—the factory hands, clerks, store employees, railroad men, teachers, Government workers, and the like, whose daily toil keeps the great social and economic machine going. The one big class of consumers among whom credit unions have not yet been organized extensively is the small-farmer class, although with some two hundred credit unions already operating in rural districts a good start has been made.23

Approximately nine out of ten credit unions are organized in groups with employment as a common bond; industrial or business-employee unions comprise about two-thirds of all Federal unions, and approximately the same figures apply to state-chartered credit unions. One-fourth of the total consists of other employee groups, such as government workers and teachers.24 Other groups "are formed from communities, lodges, associations, clubs, churches ..."25

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22 Ibid., pp. 91-92.
23 Orchard, op. cit., p. 156.
24 Ibid.
25 Neifeld, Cooperative Consumer Credit, p. 83.
data on the exact groups served by Federal credit unions are presented in the following table, compiled by Neifeld.26

TABLE 4

TYPES OF CREDIT UNIONS ORGANIZED UNDER FEDERAL CHARTER*
OCTOBER 1, 1934, TO OCTOBER 1, 1935

<table>
<thead>
<tr>
<th></th>
<th>Industrial</th>
<th>Government</th>
<th>Community</th>
<th>Teacher</th>
<th>Association</th>
<th>Church</th>
<th>Total Stable</th>
<th>Total Weak</th>
<th>Total</th>
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<tr>
<td>Oct.-Jan. 1934</td>
<td>43</td>
<td>14</td>
<td>2</td>
<td>9</td>
<td>6</td>
<td>4</td>
<td>57</td>
<td>21</td>
<td>78</td>
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<tr>
<td>January, 1935</td>
<td>17</td>
<td>7</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td></td>
<td>24</td>
<td>8</td>
<td>32</td>
</tr>
<tr>
<td>February</td>
<td>16</td>
<td>7</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>23</td>
<td>6</td>
<td>29</td>
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<tr>
<td>March</td>
<td>44</td>
<td>17</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>61</td>
<td>10</td>
<td>71</td>
</tr>
<tr>
<td>April</td>
<td>56</td>
<td>24</td>
<td>2</td>
<td>3</td>
<td>8</td>
<td></td>
<td>80</td>
<td>13</td>
<td>93</td>
</tr>
<tr>
<td>May</td>
<td>41</td>
<td>12</td>
<td>...</td>
<td>5</td>
<td>2</td>
<td></td>
<td>53</td>
<td>7</td>
<td>60</td>
</tr>
<tr>
<td>June</td>
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<td>4</td>
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<td>...</td>
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<td>8</td>
<td>60</td>
</tr>
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<td>July</td>
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<td>...</td>
<td>2</td>
<td></td>
<td>63</td>
<td>3</td>
<td>66</td>
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<tr>
<td>August</td>
<td>45</td>
<td>16</td>
<td>5</td>
<td>...</td>
<td>6</td>
<td></td>
<td>61</td>
<td>11</td>
<td>72</td>
</tr>
<tr>
<td>September</td>
<td>37</td>
<td>13</td>
<td>1</td>
<td>...</td>
<td>2</td>
<td>1</td>
<td>50</td>
<td>4</td>
<td>54</td>
</tr>
<tr>
<td>Total</td>
<td>388</td>
<td>136</td>
<td>24</td>
<td>27</td>
<td>28</td>
<td>12</td>
<td>524</td>
<td>91</td>
<td>615</td>
</tr>
</tbody>
</table>

*The Farm Credit Administration in "Cooperative Credit" for October 1, 1935, shows the following variations from the above: "Community and Rural"—25; "Fraternal"—23; and "Parish"—17. The table given here was compiled from a study of the organizations having federal credit unions.

Lodge and community credit unions, which tend to become "open" unions, have generally sustained heavy losses. Twenty-three officers of such unions that were liquidated gave the following reasons for failure:

26 Ibid., p. 84.
1. Dishonesty on the part of the officers: Fourteen failures due to the formation of cliques and thefts by officers. Three failures due to poor loans on account of favoritism.

2. Dishonesty on the part of borrowers: One failure due to false or unreliable indorsers.

3. Lack of mutual interest: Two failures due to lack of enthusiasm from the start. One failure due to incapacity of managing officer.

4. Effects of depression: Two failures due to unemployment of borrowers.27

Under the Federal Credit Union Act, credit unions may also act as fiscal agents of the United States, when so designated by the Secretary of the Treasury; furthermore, the latter may designate credit unions as depositories of public funds. Thus far, however, credit unions have not taken advantage of this doubtful privilege; and it is unlikely that the Secretary of the Treasury will ever entrust them with public funds. The Act also provides that credit unions may be used as a market for United States securities; but as yet, the organizations have not been able to provide enough funds for this purpose to be of any importance.28

Conclusions

In concluding the chapter on consumer credit unions, the writer is forced to admit that, while they undoubtedly are one of the most vital elements in the problem of consumer credit, he does not consider them, in their existing form, as an adequate agency for the extension of credit to all classes of people. Those persons who work within a

27 Ibid., p. 143. 28 Ibid., pp. 76-77, 86.
homogeneous occupational group unquestionably can effect a saving by establishing a federal credit union; but, as now organized, the credit union cannot meet the needs of the very poorest classes, constituting at least a third of our people. No credit agency can make loans to an unproductive class of people. The workers of today are unproductive because they are living in a state of enforced idleness; the great social and economic rearrangements must take place before they can all be put to work again. The only institution that can make such momentous changes is government, for only government can represent all groups in the population. Perhaps, then, the first step in reform should be to take all lending out of private hands and make credit a government-owned commodity.

Neifeld suggests the following principles as a basis for a successful credit union program: 29

1. More comprehensive and more rigid requirements for complete, authentic credit union statistics.

2. Restriction of credit unions to making petty loans; probably a maximum loan limit of $300.

3. Strict adherence, regardless of the size of the credit union, to the principle of limited profits.

4. More emphasis on credit unions as thrift agencies rather than loan agencies.

5. Restriction of membership to a thoroughly homogeneous group.

29 Ibid., pp. 162-175.
6. Less dependence of credit unions upon the initiative and leadership of single individuals.

7. Limitation of loans to a reasonable proportion of total assets.

8. The accumulation of adequate reserve funds.

9. Inclusion of a 30-day notice of withdrawal clause in the by-laws, to be invoked in the case of emergencies.

10. Development of the ability of credit unions to cater to marginal entrepreneurs.

11. Careful regulation of "open" credit unions.

12. Wider operation of credit unions in rural districts.

13. Limitation of the responsibility of members to $300, whether as a principal borrower or as a co-maker.

14. Bonding of all credit union officials.

15. Limitation of member investment, probably to some such amount as $2,500.

16. Dissolution of inactive credit unions.

17. Restriction of voting privileges of new members until they have fully absorbed the cooperative ideology and methodology.

18. Subjection of credit union investments to the same restrictions and safeguards as those imposed on savings banks.

19. Encouragement of credit union associations.

20. More positive policing of credit unions by supervisors.

21. Complete mutualization of credit unions, with no preferred creditors, either investors or depositors.

22. No acceptance of deposits from non-members.
23. Prohibition of loans on real-estate.

24. Prohibition of use of borrowed funds as permanent working capital, except in cases where such funds can be used to meet highly seasonal demands and promptly repaid after the seasonal peak is past.

25. No demands made upon credit unions to serve as fiscal agents for the government.

26. Elimination of competition between credit union systems.

27. Realization that credit unions are not business enterprises, but semi-charitable institutions and as such entitled to special support and special sympathy.
CHAPTER V

THE SMALL-LOAN SITUATION IN CERTAIN TEXAS CITIES

Texas is one of the states not operating under the Uniform Small Loan Law; the only limitation imposed by the state upon lenders is that the interest rate must not exceed ten per cent per annum. Because of this lack of any particular regulation, numerous individuals and companies in Texas, through various devices for evasion of the above limitation, are actually lending money at illegal rates. This chapter presents the small-loan situation in certain outstanding Texas cities.

San Antonio

The San Antonio investigation by the Office of the Attorney General of Texas was sponsored by the Anti-Usury Committee of the San Antonio Bar Association, under the able leadership of Al M. Heck, chairman. This committee was appointed in 1938, and in 1939 the loan shark report was made. The committee began an educational campaign against the loan sharks, publishing a magazine, The Subpoena, and sponsoring weekly radio programs, and also giving free legal advice and service to loan shark victims. The following radio program was one of a series given each week for several weeks starting January 14, 1940. The program was number one of the Anti-Usury Series given over Radio Station KMBC, San Antonio, Texas,
at 8:55 a.m., Sunday, January 14, 1940, by Al M. Beck, chairman of the Anti-Usury Committee of the San Antonio Bar Association.

Good morning, ladies and gentlemen:

Each Sunday morning at this time for the next few weeks, there will be presented over this radio station, KMBC, a five-minute program, sponsored by the San Antonio Bar Association's Anti-Usury Committee. This committee has been in existence for over a year, but time does not permit a lengthy account of the appointment of this committee nor a detailed report of what it has done in the past year.

There is a law in Texas, known as Art. 5071, of the Revised Civil Statutes of Texas, that provides that the rate of interest on money loaned shall not exceed 10% per annum--per year. It further provides that any contract for a higher rate of interest than 10% a year shall be void as to any interest. On its face, this is a very simple law, but around it has grown up a vast, profitable and illegal business. Not because it is profitable, but because it is illegal, have lawyers interested themselves in this business and the manner in which it is conducted at present in Texas. Not only is it illegal, but it strikes at those involved as well as those not apparently involved with loan sharks. Despite the unwholesome social condition and economic condition brought on by loan sharks, I personally doubt very sincerely if lawyers would have felt free to enter into a campaign against illegal money lending were it not for the facts that courts and lawyers, by implication, were, by the loan sharks only, involved in this situation.

Here is how lawyers and the courts came into the picture: An illegal money lender was quick to threaten legal action; quick to threaten imprisonment; quick to threaten foreclosure of liens that did not exist; quick to mention imaginary opinions of his attorney; quick to quote from decisions of our courts in cases where litigants had come into court with clean hands. And why, therefore, should not neccessitous borrowers believe what the loan sharks desired to imply, that the lawyers and the courts were a part of their unholy system of extortion if nothing were done to present the truth as this committee attempts to do. Lawyers in San Antonio--and lawyers elsewhere, certainly entered this campaign against illegal money lenders for a number of reasons. And since I am chairman of the San Antonio Bar Association's Anti-Usury Committee, I shall not presume to speak of; plain duty to our fellowmen, our social conscience, our responsibility to society, or any humane instinct we may possess.
I prefer to say that our interest is selfish—that we are jealous of the good reputation our profession has enjoyed for centuries and that we do not propose to allow illegal money lenders to abuse that good reputation. And since we are all officers of the courts, we do not propose to allow the illegal money lenders to include the courts and us in their manipulations. If the illegal money lenders could succeed in having enough people believe what they have told them about us, we could hope to occupy no better position in the community in which we live than the loan sharks occupy. We are not and were not satisfied with that status. We did nothing in our own right that should cause us to be despised, and now, we are going to do everything we can to retain the confidence and respect to which we are entitled. Entitled, only if we are worthy of that confidence and respect, and we submit to you that we will not allow those outside the law to destroy the rights of those who live by it and that we prefer to earn our reputations rather than have one "tailor-made" for us by the loan sharks. Put it down then that the services of the Anti-Usury Committee of the San Antonio Bar Association are extended to those who have real reason to complain of illegal money lenders, free because lawyers are selfish enough to want to be respected by their fellowmen. You are invited to send those who are involved with illegal money lenders to members of this committee, and to come yourself, if you are involved with a loan shark.

Thank you, and good morning.¹

Light is thrown on the activities of illegal lenders in San Antonio in a report by D. Burle Daviss of an investigation of loan sharks in that city, in which he says,

Loan companies in San Antonio, Texas, by harassing, intimidating, and threatening borrowers in every conceivable manner are collecting rates of interest ranging from a minimum of 120 per cent to a maximum of approximately 1,500 per cent per annum.

Threats and intimidations include threats of loss of jobs, threats of having one's credit ruined, threats of legal proceedings, and threats of physical violence emphasized by the exhibiting of pistols and badges. These threats are not only made to the borrower, but are made to the borrower's husband or wife and family.

Harassing methods of collection include the sending of numerous letters and telegrams delivered to the borrower's residence at all hours of the night and to his place of business during the day. Telephone calls, sometimes many a day, are received by these victims at their

¹Copy of program furnished by Al M. Beck, chairman of Anti-Usury Committee of San Antonio Bar Association.
place of business, thereby distracting their atten-
tion, and usurping their time which should be devoted
to their work.

Sworn statements from 130 victims, set out here-
in, indicate that some curb of this insidious and para-
sitical racket in San Antonio, Texas, is needed.²

In pursuing the investigation, Daviss made arrange-
ments with T. J. Turner, secretary of the San Antonio
Vigilance Committee, to notify all loan sharks a week in
advance that they would be interviewed by representatives
of the Office of the Attorney-General of Texas and the Anti-
Usury Committee of the San Antonio Bar Association. The inter-
views began on May 22, 1939; and, as stated above, sworn state-
ments were secured from 130 victims of the loan sharks.³

It was found that one of the chief weapons of loan
sharks in San Antonio was the threat of having delinquent
borrowers released of their credit rating by the Retail
Merchants Association. The loan sharks used this associa-
tion to hide behind, using letterheads, cards, and the Asso-
ciation's name when telephoning delinquent borrowers. Adolph
Rasso, manager of the San Antonio Retail Merchants Associa-
tion, testified that none of the loan sharks belonged to the
Association, but that they were allowed to receive credit in-
formation upon payment of the customary fee; that was the ex-
tent of the assistance given by the Association to such loan
companies.⁴

²D. Burle Daviss, "Loan Shark Investigation--San Antonio,
Texas," Division of Evidence and Research, Office of the
Attorney-General of Texas, p. 1.

³Ibid., pp. 1-2. ⁴Ibid., pp. 2-3.
Another device used by San Antonio loan sharks was the carrying of pistols and the wearing of deputy sheriff's badges by owners, managers, collectors, and other employees of the loan companies. Only sixteen persons connected with loan companies had been issued special deputy-sheriff commissions entitling them lawfully to carry weapons and wear official badges.5

The loan companies investigated in the San Antonio investigation are listed in Appendix I. Typical examples of the actual sworn statements obtained in the investigation are given in Appendix II. The following cases were picked at random from the report, without regard as to borrower or loan company, to show the actual rate of interest paid by borrowers to loan sharks in San Antonio.

In 1937, J. C. Cole, Jr., borrowed $20.00 from the Ace Loan Company. He signed a note for $27.50, and agreed to pay this amount within eleven weeks, at $2.50 per week. At this rate, the interest was approximately 177 per cent per annum. This same Cole borrowed $20.00 from the J. G. Delisi Loan Company in March, 1938, on the same terms as the above loan. In this case, however, the loan was not paid off until about a year later, increasing the interest rate to at least 650 per cent per annum. The first week Cole did not pay on the note, and the loan company called several times by telephone at his place of business. Later, the company telephoned

5Ibid., p. 3.
Cole two or three times daily, worrying him so badly that he did not feel like going to work after being bothered by the collectors.  

Annie Marshall borrowed $10.00 from the Ace Loan Company (now the American Equity Company), and signed a note to pay back $1.85 per week for eight weeks, or a total of $14.80. This loan figured 312 per cent interest per annum. Annie Marshall was unable to repay this note according to schedule, and after making a few payments she renewed the note and borrowed more money (probably at the suggestion of the loan company), and has been paying and renewing this note for four years. Interest in this case will probably figure to around 900 per cent annually; the loan shark claims that she still owes the company $16.25. Annie Marshall also borrowed from the Personal Loan Company, signing a note for $21.00 and receiving $15.00 in cash. She agreed to repay this loan within twelve weeks at $1.75 per week, or at an annual interest rate of about 160 per cent. She has been paying, borrowing on, and renewing this note for three years, thereby greatly increasing the interest. The company claims that she still owes them $19.25; and during March, April, and May of 1939, collectors for the company set about annoying their victim. The loan shark wrote the president of the company employing Annie Marshall, requesting that he demand that the note be paid.

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Gradie Voigt obtained a loan of $25.00 from the J. H. Taylor Company, and signed a note for $27.50 to be paid back in two weeks. This note figured 260 per cent per annum. Voigt, unable to meet the payment schedule, renewed this note every two weeks from October 15, 1937, to March 1, 1938, at a cost of $2.50 for every two weeks. After paying $27.50 to the loan company, Voigt stopped payments; the company immediately began harassing him and threatening to have him dismissed from his job.\footnote{Ibid., p. 84.}

San Antonio now has a loan-shark ordinance, much of the credit for which is due to the Anti-Usury Committee and to the San Antonio Bar Association. The ordinance includes provisions for the payment of an annual license fee by all lending companies, a complete set of records subject to the inspection of the agents of the city, and the assessment of a fine of not more than $200 against any loan company "that communicates with the employer of any borrower relating to any loan made by the licensee to the borrower with intent to harass or annoy the employer of the borrower."\footnote{Park Street, "Subpoena Strikes at Loan Sharks," Texas Bar Journal, III (January, 1940), 17.}

It has been estimated that the annual income of the salaried population of San Antonio is more than $100,000,000, and that approximately one-tenth or more of this amount is taken illegally by loan sharks. The people who pay this $10,000,000 or more are those least able to pay, and consequently, make great sacrifices which might lead to vice.
crime, or immorality. The business men unconsciously feel the effects of this loss of one-tenth of the annual income, because the necessities of life are the primary interests of the group of people affected.10

Much of the power wielded by the loan shark lies in the false assertions which his victims know no better than to believe. The following are typical of those made by San Antonio loan sharks:

We have a license that allows us to charge more than ten per cent a year.

The Ordinance of the City of San Antonio does not apply to us because our company is incorporated.

We have paid a fee to the City of San Antonio that allows us to charge more than ten per cent a year.

You knew what you were signing when you signed the note, and you must pay.

If you do not pay, our lawyers will send you to jail.

This company is a partnership, and we have filed a bond in the Court House that allows us to charge more than ten per cent a year.

I loaned you the money myself and the law about ten per cent does not apply to individual loans of this kind.11

The following statement summarizes the results of the San Antonio investigation:

Sufficient information or evidence has been secured against most of these companies to justify and substantiate a petition to permanently enjoin each of said companies from charging, collecting, accepting or receiving any sum of money whatsoever from any person whosoever for the use, forbearance, or detention of money, whether as interest, charges, fees, deposits, investigation costs, appraisal costs, service charge or collection costs, in excess of simple interest at the rate of 10 per cent per annum.12

10San Antonio Bar Association, The Subpoena, II (November 1, 1939), 2.
11Ibid., p. 8.
12Daviss, op. cit., p. 5.
Corpus Christi

A similar investigation is now being carried on in the City of Corpus Christi, Texas, by the Nueces County Bar Association, under the leadership of Jack Pope and James Martin of the Anti-Usury Committee of the Association. The committee has already found that a large number of loan companies, a few clothing stores, and a few miscellaneous mercantile concerns make a practice of charging exorbitant interest on unsecured or small loans.13 The following cases are typical examples of the activities of loan sharks in Corpus Christi.

In January, 1938, J. W. B. borrowed $20.00 from a loan company and paid $4.00 per month for sixteen months, or a total of about 240 per cent annual interest on the original loan. He is still being harassed for the $20.00 principal which the loan company claims that he owes.14

The nineteen year-old daughter of L. L. M. bought a coat for $22.00 from a chain clothing store in Corpus Christi and agreed to pay ten per cent per month on the purchase, or 120 per cent per annum. She failed to make the payments on the coat; whereupon the collectors for the company harassed and threatened her husband at his place of employment to such

13 James Martin, "Report of Committee Appointed to Investigate the Activities of Unlawful Money Lenders in Corpus Christi" (Report submitted to the Honorable John Lyle, President of the Nueces County Bar Association, 1940, and sent to the writer in manuscript form).

14 Jack Pope, "Loan Sharks in Corpus Christi, Texas," (Manuscript sent to the writer), p. 2.
an extent that he lost his job and had to find employment in another city.15

J. O., a Latin-American, borrowed $10.00 from a loan company, to be repaid at $2.00 per month for fourteen months, a total of $28.00, or approximately 240 per cent per annum on the principal sum. In addition, the loan company is still hounding the borrower for the original $10.00. Throughout the case, the collectors were insulting and offensive, and made many threats.16

In his report, Pope states that many people in destitute and unfortunate circumstances are in the clutches of the loan sharks and that immediate action should be taken to remedy the situation, and rid the people of these vicious agencies. He estimates that forty per cent of the wages paid employees in Corpus Christi are taken by loan sharks in the form of usurious loans.17

An educational program is now being carried on by the Anti-Usury Committee in Corpus Christi, consisting of speeches to civic clubs, articles in the local newspapers, and speeches by radio.18 This work was summarized by Pope, who is chairman of the Anti-Usury Committee, in a speech at Artesian Park on June 21, 1940.

Ladies and gentlemen: In February the Nueces County Bar Association made the following report:
Having determined that the unlawful practices exist, and are of such a nature that they can be

15Ibid., p. 2. 16Ibid., p. 4. 17Ibid., p. 3.
18Statement from a letter from Jack Pope to the writer, dated June 24, 1940.
curbed only by affirmative action on the part of the Nueces County Bar Association, we make the following recommendations, based upon our study of the methods of procedure resorted to by the Bar Associations of other counties in Texas, notably: The San Antonio Bar Association, The Dallas County Bar Association, The Beaumont Bar Association, all of which have graciously furnished your committee with data concerning their respective campaigns and accomplishments.

(1) We recommend that a permanent Anti-Usury Committee of 15 members be appointed to serve until the next regular election of officers of this Association.

(2) That the Committee be authorized to conduct an educational campaign to acquaint the borrowing public with the Usury Laws of this State and their rights thereunder.

(3) That the Nueces County Bar Association recommend to the Mayor and City Commissioners of the City of Corpus Christi that an ordinance be passed similar to that passed by the City of San Antonio, regulating and restricting the activities of lenders.

(4) That the Committee to be appointed be authorized to make it known to the public that it will represent, free of charge, any persons whose legal rights have been denied them by persons making personal unsecured loans at usurious rates of interest, and that the Committee, aided by members of this Association, render such services, for all persons so requesting them; provided that it be established, to the satisfaction of the Committee, that the persons applying for aid have meritorious cases and are in such disadvantageous financial circumstances as to warrant and receive such legal aid.

(5) That the Committee be authorized and instructed to cooperate with similar committees of other Bar Associations throughout the State in making further study of the problem and in taking steps to curb the activities of unlawful lenders, who operate chains throughout the state.

(6) That a copy of this report be furnished to the newspapers of Corpus Christi for publication.

The ordinance against loan sharks now pending in Corpus Christi consists, in the main, of practically the same provisions as the San Antonio ordinance: an annual license fee, a complete set of records subject to the inspection of
representatives of the city, and a fine for communicating with the employer of the borrower.19

Dallas

The fight against loan sharks in Dallas, Texas, was started by the Dispatch-Journal, a Dallas newspaper, in 1938, with the appointment of Pat Kleinman as a special reporter to investigate the loan shark activities in this city. Through his investigation, Kleinman found that approximately 50,000 small-salaried men and women, or one out of every four adults in Dallas, were being victimized by the usurious rates and harassing methods of the loan sharks. He exposed this fact, and also the misleading advertising, trickery, blackmailing, and threats used by loan sharks in stories in the Dispatch-Journal. As a result of the wave of public indignation and interest which followed, the president of the Dallas Bar Association appointed a special anti-usury committee to aid in the loan-shark fight; the full facilities of the Better Business Bureau were placed at the disposal of the committee; and the aid of Radio Station WRR was enlisted in the campaign, victims of loan sharks appearing three nights each week to tell their experiences over the air.20

These agencies found that on 2,554 loans from seventy-two illegal companies, borrowers had paid more than $85,000

19 Pope, Loan Sharks in Corpus Christi, pp. 16-20.
interest on $55,757. From the first thousand cases considered by the Dallas Anti-Usury Committee, "the lowest interest rate a year was 120 per cent, the average was 271 per cent, and the highest was 1,131 per cent." The Committee estimated, from these thousand cases, that the citizens of Dallas pay $1,262,420 in illegal interest each year.21

The following cases are quoted from The Dallas Loan Shark Fight from sworn statements on file with the Dallas Better Business Bureau.22

In November, 1929, Mr. R. H., middle-aged family man employed by a milling company, faced with family hospital emergency, went to Loan Co. No. 1 and borrowed $20.00 for 30 days. His interest rate was $2.25 per week. Unable to make payments on principal he renewed this note monthly until November, 1933, when he filed his complaint with the Anti-Usury Committee at the Better Business Bureau. He had paid interest totaling $1,053.00, or at the rate of 585% per annum, and still owed a balance claimed due by the Loan Co. of $27.

In July, 1932, this borrower went to Loan Co. No. 23 and borrowed $30. His interest payments were $3.50 per week, and when he filed his complaint, had paid that company a total of $1,211.00 in interest and they were trying to have his employer discharge him because he would not pay a balance they claimed due of $39.80. This was at the rate of 606.6% interest per annum.

In October, 1934, Mrs. M. J., elderly widow who supported her several children by working in a laundry, went to Loan Co. No. 1 and borrowed $15. When she filed her complaint she had paid interest on that loan totaling $364.00 and the Loan Co. was harassing her to pay the principal.

21William Trufant Foster, Loan Sharks and Their Victims, p. 7.

In February, 1931, H. L., an aged colored employee of a railroad company, borrowed $50 from Loan Co. No. 16. When he filed complaint, he had paid in interest on that loan $1,249.00 and the Loan Co. claimed he owed them a balance of $37. In November, 1934, to meet interest payments on first loan, he went to Loan Co. No. 53 and borrowed $20. Since then he has paid interest on that loan totaling $376 and they claim he owed a balance of $16. In February, 1935, to meet payments on both prior loans, he went to Loan Co. No. 28 and borrowed $30. Since then he had paid interest on that loan of $323 and they were endeavoring to collect $29.20 additional. In July, 1936, he went to Loan Co. No. 48 and borrowed $20 on which he had paid interest totaling $235 and yet the loan company claimed a balance due of $18.00.

In October, 1932, Mr. J. W. H., a family man employed by a railroad company, borrowed from Loan Co. No. 13, the sum of $50. When he filed his complaint, he had paid this Loan Co. $864 in interest and they were attempting to collect an additional $79. In November, 1932, this borrower went to Loan Co. No. 51 and borrowed $60 in 4 small loans. He has since paid them in interest $688.00 and they were hounding him to pay an additional $55.

In July, 1933, Mr. W. B. W., a postal employee, to meet hospital emergencies, went to Loan Co. No. 1 and borrowed $25. At the time he filed his complaint with the Bureau, he had made interest payments of $448.50 and the Loan Co. claimed he owed them a balance of $29.75 which they were attempting to collect. In December, 1935, this borrower went to Loan Co. No. 51 and borrowed $25. Since then he had paid them interest totaling $323.40 and they claim he still owes the principal.

In November, 1935, Mr. E. R. M., janitor of an apartment house and family man, borrowed from Loan Co. No. 1 $20. When he filed his complaint, he had paid them interest totaling $315.50 and this company was endeavoring to have him discharged because he would not pay a balance claimed due of $29.50. To meet these interest payments, in December, 1936, he went to Loan Co. No. 52 and borrowed $25 on which loan he has paid interest of $213.00 and they claim still due $30.75. In May, 1937, he was forced to borrow from Loan Co. No. 15, to meet payments of other two companies, the sum of $15, on which loan he had paid $206 in interest and they claimed a balance due of $39.

A number of employees of a local contracting firm turned in complaints against their employer, in which they had receipts showing that for a long period of time they had paid wages, AFTER IT HAD BEEN EARNED, and then deducted 10% of the amount
borrowed each pay day. They testified that when the employees did not borrow a sufficient amount of their wages earned, when he paid them weekly, the employer discontinued paying weekly, but paid semi-monthly to encourage them to borrow a greater amount of their wages, on which he charged 10% per week.

In April, 1932, Mr. L. H. J., a family man and employee of the Telephone Co., borrowed from Loan Co. No. 15, to meet a hospital emergency, the sum of $35. Since then he made interest payments totaling $579.00.

In January, 1937, W. H., a colored porter for a railway company, borrowed from Loan Company No. 14 the sum of $50 and when he filed his complaint, he had paid interest totaling $195.75 and owed a balance of $43.50.

In October, 1935, a young family man employed by a sporting goods company went to Loan Co. No. 4 and borrowed $40, to meet family sickness. He paid them interest totaling $238.95, and the Loan Company was endeavoring to have him discharged when he filed his complaint because he would not pay the principal.

In July, 1924, Mr. W. J. G., an elderly garbage wagon driver for the city, borrowed from Loan Co. No. 49 the sum of $20 to meet sickness emergencies. When he filed his complaint he had paid interest totaling $572, and still owed the principal.

In August, 1932, I. F., colored employe of a drug store company faced with the necessity of an operation on his wife, borrowed from Loan Co. No. 53 the sum of $20. Since then he had paid interest totaling $662.40 and still owed a balance of $16.40.

In June, 1934, Mr. E. S. V., a taxi driver, borrowed from Loan Co. No. 29, the sum of $25; since then had paid $169 in interest and still owed a balance of $26.40, claimed by the shark.

In July, 1935, C. T., a colored employe of a hotel and a family man, borrowed from Loan Co. No. 12, the sum of $20. He since paid interest charges totaling $225, and they were still trying to collect $25.

In December, 1935, Mrs. P. W., a widow with children to support and employed as a dietician, borrowed from Loan Co. No. 48 the sum of $20. Has since paid interest totaling $142, and owed the Loan Co. $18.

In July, 1937, Mr. J. W. R., married man and employe of a meat packing company, borrowed from Loan Co. No. 53 the sum of $50. Since he had paid interest totaling $432, and still owed $66 according to the Loan Company.

In August, 1937, H. B., colored employe of the Telephone Company, borrowed from Loan Co. No. 46, $10. He had repaid in interest $148.20 and still owed the principal. In March, 1937, he borrowed from Loan Co. No. 67 the sum of $10, and had repaid in interest $204 and still owed $10.
In October, 1936, Mr. A. D. W., employe of a bag company, borrowed from Loan Co. No. 29 the sum of $15. He repaid in interest $192.40 and when he filed his complaint, the Loan Company was trying to collect the principal.

In September, 1936, Mr. S. H., employe of a candy and cracker company, borrowed from Loan Co. No. 52 the sum of $15; he repaid $182, in interest, and the Loan Company was endeavoring to collect the principal.

In August, 1936, Mr. G. C., a truck driver, borrowed from Loan Co. No. 53 the sum of $18, in 3 small loans. Since, he has repaid in interest $282.10 and the Loan Company claims he still owes a balance of $12.40.

Below are listed data which illustrate forcefully the results of the first thousand complaints filed with the Anti-Usury Committee of the Dallas Bar Association from October 4, 1936, to December 15, 1936.²³

<table>
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<tr>
<th>Description</th>
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<tbody>
<tr>
<td>Number of Complaints</td>
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<td>Number of Loans</td>
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<td>Amount Due</td>
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<tr>
<td>per annum</td>
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Dallas now has a loan-shark ordinance which went into effect June 25, 1940.

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²³Ibid., p. 15.
The ordinance will force companies specializing in small, unsecured loans to obtain licenses from the city costing $25 a year, and to keep accurate records for inspection by city officials. 24

Austin

In 1939, Gerald C. Mann, Attorney-General of Texas, and Paul Holt, County-Attorney of Travis County, aided by the Anti-Usury Committee of the Travis County Bar Association, made an investigation of the loan sharks in Austin, Texas. Mann and Holt tried to bring injunction suits against nineteen Austin loan companies; but a Supreme Court decision held that "the state, through its Attorney-General, was without authority to bring injunction suits against loan companies. . . . The Legislature had given no express authority for injunctive relief in such litigation."25 This court ruling caused Mann to discontinue a state-wide investigation of loan sharks in Texas through the office of the Attorney-General.

Charles F. Herring, a member of the Anti-Usury Committee in Austin, has furnished the writer with copies of sworn affidavits and sworn petitions given to him in connection with the above-mentioned injunction proceedings. The following cases are resumes of such affidavits, the originals of which are filed in the district court in Austin. 26

24 The Dallas Morning News, June 25, 1940, Section I, p. 5.
25 Ibid., June 23, 1939, Section I, p. 3.
26 Information from a letter signed by Charles F. Herring, addressed to the writer and dated July 10, 1940.
P. L. L., a married man with two children, has lived in Austin for about five years. He worked at several different places during 1938; because of irregular work and the sickness of his baby girl, it became necessary for him to borrow money. Since that time he has become involved with four loan companies: The Peerless Finance Company; J. H. Taylor, Loans; Peoples Finance Company; and The Alamo Finance Company. These companies required the borrower to sign usury releases and used all kinds of annoying collection methods, such as telegrams sent collect to P. L. L. while he was at work, many telephone calls at home and at work, and many annoying visits by collectors. The victim borrowed a total of $120 from these companies and has paid back $150.90 in about a year's time; but, according to the loan sharks, he still owes $145.40. He has paid at least 147 per cent annual interest on these loans, not counting additional increases for partial payments.

In the situation of W. F., a negro cemetery employee, as alleged in a sworn petition filed by the Anti-Usury Committee of the Travis County Bar Association in the Fifty-third District Court of Travis County, the following facts were brought to light:

Alamo Finance Company: From March 10, 1937, to April 1939, borrowed a total amount of $199.90 from this company and in that time paid them back a total sum of $322.20, and still owes $37.40. This covers a maze of small, short-term loans and renewals, etc.
Peerless Finance Company: Borrowed a total sum of approximately $140.00 and paid back a total sum of approximately $316.80, and still owes $66.00. This also covers a number of smaller transactions which are lumped together here. For instance, one loan for $5.00 was paid on at $1.00 per month for twelve months.

Peoples Finance Company: Borrowed a total sum of $69.00 and paid back a total of $87.00, and still owes $47.50. This covers a period of time from about March, 1938, to April, 1939.

J. N. Taylor, Loans: Borrowed a total of $52.00 and has paid back, as interest, $126.00 and still owes on the note the sum of $49.50. In this instance this company required the payment of $9.00 per month as interest on the $52.00 loan for over a year.

Eagle Finance Company: Borrowed $15.00 and has paid back $80.00 as interest and still owes $20.00. This covers a period of approximately two years.

Southern Finance Company: Borrowed $15.00, paid back $96.00, and still owes $25.00. The rate of interest on this loan amounted to $4.00 per month as long as it was owing, or $48.00 a year on $15.00 principal.

Austin Credit Company: Borrowed $15.00 and paid interest of $4.00 per month on same. Approximately $30.00 in interest was paid on this loan from March, 1937, until April, 1939, and he still owed $19.00.

Magnolia Finance Company: Borrowed $23.00 along in the
spring of 1937, and in the spring of 1939, had paid back a total of $72.00, and still owed $18.00.

The above case gives some idea of the predicament of borrowers who find themselves in the clutches of the loan shark. W. P. told of the threats and harassing treatment received from these companies. The collectors of these companies would let him see guns, knives, and black jacks in their automobiles when they came to see him about payment of loans.

The City of Austin now has an ordinance, passed July 20, 1939, "designed to license and regulate persons engaged in the business of lending money without security." 27

At the time the ordinance was passed in Austin . . . twenty or twenty-five companies were doing business . . . Between the time the ordinance was adopted and the time it became effective, a number of the companies either quit business or consolidated with other companies. The result was that in 1939, and again in 1940, only eleven companies were licensed to operate in Austin. The Tax Collector's office reports that no complaints have been made to that office by borrowers, and . . . we have noted a cessation of complaints from citizens of oppression and threats by small loan companies and their agents. It would seem, therefore, that the ordinance is working satisfactorily; at least we have no evidence to the contrary. 28

Houston

According to C. E. Buehmer, executive vice-president of the Better Business Bureau of Houston, there are about one hundred loan sharks in that city, who loan money at rates

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28 Ibid., quoting True O'Quinn, City Attorney for the City of Austin.
ranging from 100 per cent to 500 per cent per annum. Many complaints have been turned into this bureau, and hundreds of loan-shark cases are in their files. The following cases are typical:

Andy Clark borrowed $20.00 from the J. G. Nash Loan Company. He paid $6.00 interest for twenty-four months, a total of $144, or approximately 360 per cent per annum. Clark stopped payments, and the loan company is now trying to collect $39.00 more for the $20.00 principal plus interest for six and one-half months.

G. B. Binsford borrowed money from four different loan companies: Personal Loan Company, American Equity Company, Pacific Company, and the Chesterfield Company. These loans were for $20.00 each; actual interest on each was about 210 per cent per annum. Binsford paid the Personal Loan Company $3.50 a month for two years, or a total of $84.00; the American Equity Company, $3.50 per month for six years, a total of $252.00; the Pacific Company, $3.50 per month for eight months, or $28.00; and the Chesterfield Company, $3.50 per month for one year, or $42.00.

The Texas Situation in General

This survey of the small loans made in these Texas cities forces one to the conclusion that there is a pressing need

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29 From a letter signed by G. E. Buehmer, addressed to the writer and dated July 6, 1940.
30 Ibid.
31 Ibid.
for small-loan regulation in Texas, and for some type of consumer credit to take the place of loan sharks. Texas does not have a small-loan law, as previously stated; and the legal maximum of "10 per cent per annum on the amount of the contract"\textsuperscript{32} has little or no control over the small-loan business, as the actual illustrations cited in this chapter amply prove.

Loan sharks operate at the expense of the majority of the people of Texas—all citizens of the state suffer directly or indirectly from their activities. In the larger cities, it has been estimated that about ten per cent of the total wages go to the loan sharks; in San Antonio, this amounts to the staggering figure of $10,000,000 per year.\textsuperscript{33} Dallas citizens pay an estimated $1,262,420 to the loan sharks each year, in usurious interest over and above the principal loans.\textsuperscript{34} Statistics show that more than fifty per cent of all small loans in the United States are made to skilled or semi-skilled laborers and office and clerical workers;\textsuperscript{35} it is highly probable that these figures hold true in Texas. Thus, the class of people who patronize the loan shark can ill afford to pay the exorbitant interest rates charged for the use of a small amount of money.

\textsuperscript{32}Revised Civil Statutes of Texas, Article 5071.
\textsuperscript{33}San Antonio Bar Association, \textit{The Subpoena}, II, (November 1, 1939), 2.
\textsuperscript{34}Better Business Bureau of Dallas, \textit{op. cit.}, p. 15.
\textsuperscript{35}Edgar F. Fowler, "The Licensed Lender," \textit{Consumer Credit}, p. 131.
Many loan-shark victims told the Dallas Anti-Usury Committee of their experiences in depriving themselves of the very necessities of life, such as food, clothing, rent, medicine and medical care, in order to appease the insistent and intimidating racketeers who charged them interest ranging from 120 per cent to 1,131 per cent per annum.\(^{36}\) This situation may be taken as typical of the loan-shark evil throughout Texas.

Walk down any street in any Texas city: on a conservative average, at least one out of every four persons you meet is now, or recently has been, involved with a loan shark.\(^{37}\) Many of them are involved with several at one time.\(^{37}\)

Advertising in newspapers, by mail, in telephone directories, and on the radio is designed "to make the borrowing of money seem a duty and the repayment of borrowed money a pleasure."\(^{38}\) Such catch-lines as the following are used as bait for the gullible victim: "Loans up to $50.00 on Your Personal Signature"; "If You Have a Job, We'll Loan You Money"; "Auto Loans in 30 Minutes."\(^{39}\)

A certain building contractor in Texas had no need of capital to work out his "racket." He simply charged his workers ten per cent per week on advancing them money already earned. Workers who did not need to borrow money because they were working for a weekly wage were placed on a monthly

\(^{36}\) Better Business Bureau of Dallas, op. cit., p. 15.

\(^{37}\) Booth Mooney, The Loan Shark Evil in Texas, p. 10.

\(^{38}\) Ibid., p. 5.

\(^{39}\) Ibid.
or semi-monthly wage in order to encourage them to get an advance on their already-earned salary.\textsuperscript{40}

During the last few years, public-minded citizens have tried to get a small-loan law enacted in Texas.

To date the loan sharks have blocked all the reform efforts of the Texas social agencies, labor leaders, public officials, newspapers, and legitimate business men, generally. For protection of the poor man, Texas relies upon its 10 per cent a year constitutional limitation. That is exactly what the loan sharks want Texas to do, for at that rate, small unsecured loans cannot be made.\textsuperscript{41}

As pointed out in the first part of this chapter, many leading Texas cities, in the absence of a suitable state law regulating loan-shark activities, are now passing ordinances against such illegal practices. Eventually these ordinances will curb the unlawful and usurious lending by loan sharks; but before any lasting reform can come about, either state regulation must be provided, or other safer consumer-credit agencies, such as credit unions, must arise to serve the desperate borrower now forced to the loan shark.

\textsuperscript{40}William Trufant Foster, \textit{Loan Sharks and Their Victims}, p. 7.

\textsuperscript{41}\textit{Ibid.}, p. 9.
CHAPTER VI

A SUMMARY OF THE FINDINGS, AND SOME RESULTING RECOMMENDATIONS

Summary

Since the earliest dawn of history, society has existed on a credit basis. In medieval times, credit consisted of such assistance as the rich voluntarily extended to the less fortunate, with the church imposing strict prohibitions against interest as being usurious. Even the church, however, bowed before the economic pressure of the needs for credit which developed with the Industrial Revolution; commercial credit agencies, charging various interest rates and serving different classes, inevitably developed.

For a long time, credit was thought of only in terms of the producer; only recently has the need been realized for agencies which will effectively provide credit for the consumer. True, since ancient times the consumer could go to the pawnbroker; and even Shakespeare wrote of the loan shark Shylock who tried to extract his pound of flesh as interest. These agencies, however, harmed the consumer more than they helped him. More recent consumer-credit agencies include industrial banks, personal loan departments of commercial banks, personal finance companies, building and loan associations, remedial loan societies, and credit unions.
Unless carefully regulated, non-cooperative consumer-credit agencies often charge illegal and usurious rates. In states with good small-loan laws, strictly enforced, borrowers may usually obtain loans from industrial banks and personal finance companies for a maximum rate of forty-two per cent per annum. Although this appears to be a high rate, it really protects the borrower much more effectively than does a legal maximum of, say, ten per cent per annum. Commercial institutions cannot extend credit at this low rate; consequently, loan sharks, by making their high rates with various devices, drive the legitimate lender out of business.

Twenty-six states regulate and license lenders under the Uniform Small Loan Law. Under this law, personal finance companies, and other consumer-credit agencies extending loans up to three hundred dollars, may charge a legal maximum of $3\frac{1}{2}$ per cent per month on the unpaid balance of the loan.

A credit agency which holds much promise for remedying the plight of the consumer is the cooperative credit union. Originated in Germany early in the nineteenth century, the plan was brought to the United States by Edward A. Filene. Fundamentally, the credit union operates by pooling the savings of members and loaning in turn to other members. In 1934, a Federal Credit Union Act was passed, permitting the organization of credit unions in states with no credit union legislation of their own, or with poor laws for such organizations.
Credit unions have a remarkable record of success; however, it does not seem feasible for them to displace entirely all other consumer-lending agencies, such as industrial banks. For one thing, experience has proved that to be really successful, credit unions must be organized within a strictly homogeneous group.

Texas is one of the states not operating under the Uniform Small Loan Law. As a result, many large cities are, or have been, known as easy prey for the loan sharks. In Dallas, one loan shark charged actual interest amounting to 1,131 per cent per annum. As the result, however, of recent investigations and campaigns, ordinances regulating such loan sharks have been passed in San Antonio, Dallas, Corpus Christi, Houston, and Austin. Much, however, still needs to be done in this state before the consumer-borrower is adequately protected.

Recommendations

In view of the findings summarized above, the writer offers the following recommendations concerning consumer credit:

1. The Uniform Small Loan Law should be made effective in all states; or else there should be federal legislation of a similar nature to the above law, so that consumers would be adequately protected in all states.

2. In every way possible, the citizens of the United States should be educated in the cooperative idea of credit.
Cooperative credit unions cannot truly be successful until their members grasp the true cooperative principles.

3. Credit unions should consider the twenty-seven point program outlined on pages 49 through 51. While some of these principles are already incorporated in many credit unions, others are new and might well be made a part of the program.

4. In view of the findings in the loan shark investigations in San Antonio, Dallas, Houston, and other Texas cities, a state-wide investigation should be made of the activities of these racketeers, since no Texas city is safe from them.

5. Finally, if credit is ever to be extended to all classes of consumers, consumer-lending should be placed in the hands of governmental agencies. Even cooperative credit unions cannot serve non-productive consumers.
APPENDICES
APPENDIX I

A LIST OF THE LOAN COMPANIES INVESTIGATED IN THE SAN ANTONIO LOAN SHARK INVESTIGATION

Ace Loan Company (Now American Equity Corporation)

Acme Finance Company -- 706 Maverick Building
Local Manager: Mr. M. Oetting
706 Maverick Building
San Antonio, Texas
Owner: Mr. Herbert M. Oetting
4813 Gaston Avenue
Dallas, Texas

Alamo Finance Company -- 506 Brady Building
Local Manager: Mr. Al Drexler
506 Brady Building
San Antonio, Texas
Owner: Mr. Al Drexler
506 Brady Building (or) Blue Bonnet Hotel
San Antonio, Texas

American Equity Corporation -- 806 Maverick Building
Local Manager: Mr. Harry L. Ingersoll
806 Maverick Building
San Antonio, Texas
Owner: Incorporated
(No record available in the Office of the Secretary of State, Austin, Texas)

Atlas Finance Company -- 604 Brady Building
Local Manager: N. B. Johnson
604 Brady Building
San Antonio, Texas
Owner: R. K. Eckard
317 West Evergreen, Apt. #3
San Antonio, Texas

Auto Deal Finance Corporation
(No information in the Office of the Secretary of State, Austin, Texas)

Aztec Furniture Company -- 117 Main Avenue
Local Manager: E. M. Delavan
and Owner: 117 Main Avenue
San Antonio, Texas
Bell Company, The -- 308 Navarro Street
Local Manager: W. D. King
308 Navarro Street
San Antonio, Texas
Owner: R. C. Delavan

Bond Finance Company -- 409 Hicks Building
Local Manager: Claude E. Crowe
409 Hicks Building
San Antonio, Texas
Owner: C. E. Crowe
1739 West Popular
San Antonio, Texas

Boston Finance Company -- 205 Gibbs Building
Local Manager: Norma Hamack
205 Gibbs Building
San Antonio, Texas

Budell's Tire Store -- 526 Labor
Local Manager: R. Budell

J. I. Bynum Loans -- 725 Milam Building
Local Manager: J. I. Bynum
Owner: 725 Milam Building
San Antonio, Texas

Cash Credit Service -- 711 Brady Building
Local Manager: H. E. Hewlett
711 Brady Building
San Antonio, Texas
Owner: John D. Williams
Admiral Apts.

Chesterfield Company -- 408 Brady Building
Local Manager: C. A. Morgan
408 Brady Building
San Antonio, Texas
Owner: W. Lee Moore
435 Wilson Building
Dallas, Texas

City Finance Company -- 303 Texas Theatre Building
Local Manager: F. P. Slyh
303 Texas Theatre Building
San Antonio, Texas
Owner: J. Lee Wilson
163 Park Hill Drive
San Antonio, Texas

Community Finance Company -- 711 Brady Building
(Same as Cash Credit Service)
Coon's, William T., Finance Company -- 5704 South Flores
Local Manager and Owner: W. T. Coon

W. E. Dean & Company -- 522 Broadway
Local Manager: W. E. Dean, President, Texas Agent
Owner: Incorporated
(Incorporated February 5, 1937; home office San Antonio, Texas)

J. G. Delisi Loan Company -- 709 Gibbs Building
Local Manager: J. G. Delisi
and Owner: 709 Gibbs Building
San Antonio, Texas

Discount Company - Loans -- 408 Houston Building
Local Manager: H. E. Lewis
and Owner: 408 Houston Building
San Antonio, Texas

Dixie Finance Company -- 213 Houston Building
Local Manager: B. W. Gray
213 Houston Building
San Antonio, Texas
Owner: B. W. Gray

Eagle Loan Company, The -- 309 Aztex Building
Local Manager: C. B. Parchman
309 Aztex Building
San Antonio, Texas
Owner: C. B. Parchman

Employees Loan Company -- 204 Gunter Building
Local Manager: G. W. Brennan
204 Gunter Building
San Antonio, Texas
Owner: B. J. Harris
Nashville, Texas

Federal Finance Company -- 315 Gunter Building
Local Manager: J. H. Sample
315 Gunter Building
San Antonio, Texas
Owner: M. Theriot
Houma, La.

Finance Service Company -- Mazzanine Floor, Brady Building
Local Manager: Lin D. Greer
Brady Building
San Antonio, Texas
Owner: J. R. Penn
710 Warner Building
Nashville, Tenn.
Fox Finance Company -- 309 Hicks Building
Local Manager: C. W. Mills
            309 Hicks Building
            San Antonio, Texas

Owner: C. E. Crowe
            1739 West Popular Street
            San Antonio, Texas

Garza’s Finance Company -- 103 South Flores
Local Manager: Antonio Garza
            103 South Flores
            San Antonio, Texas

Owner: Antonio Garza, San Antonio, Texas
            Jeronimo M. Terveno, Monterrey, Mexico

Graves Loan Company

Gulf Finance Company -- Aztex Building
Local Manager: W. C. Landrum
            Aztex Building
            San Antonio, Texas

Owner: W. C. Landrum
            1115 West Russell Street
            San Antonio, Texas

Martin Gunkel -- c/o Commercial National Bank of San
            Antonio, Texas

Harley Finance Company -- (Out of business)

T. H. Hudson’s Loans -- Mezzanine Floor, Brady Building
(Same as Finance Service Company)

Leake Finance Service -- 212 Moore Building
Local Manager: L. Topham
            212 Moore Building
            San Antonio, Texas

Owner: P. E. Leake
            P. O. Box 2058
            Atlanta, Ga.

Local Finance Company -- Tztext Building
Local Manager: A. J. Rheiner
            Aztex Building

Owner: J. Lee Wilson
            163 Park Hill Drive
            San Antonio, Texas
Magnolia Finance Company -- 210 Main Avenue
Local Manager: E. M. Stevens
210 Main Avenue
San Antonio, Texas
Owner: E. M. Stevens

McGee Loan Company -- 407 Texas Theatre Building
Local Manager: Mrs. Florence Saathoff
407 Texas Theatre Building
San Antonio, Texas
Owner: Mrs. Lucille Wallin
(Address unknown)

Mission Finance Company -- 110 North Flores
Local Manager: G. W. Delavan
Owner: G. W. Delavan
110 North Flores
San Antonio, Texas

Morris Plan Bank -- Morris Plan Bank Building
President: Louis Le Flore, Jr.
(No record in the Office of Secretary of State, Austin, Texas)

Motor Discount Corporation -- 417 Broadway
Local Manager: Hy Becker, Jr.
(Incorporated Dec. 5, 1932; incorporators, J. T.
Houston, H. Becker, Jr., and H. B. Houston.
Places of business are in Dallas and San Antonio,
Texas.)

National Loan Company -- 1504 Grayson (or) 718½ W. Commerce
Local Manager: J. L. Price
1504 Grayson
San Antonio, Texas
Owner: J. L. Price

Nelson Finance Company -- 407 Maverick Building
Local Manager: P. E. Crum
407 Maverick Building
San Antonio, Texas
Owners: R. D. Ison and J. G. Ison
31½ Poplar Street
Atlanta, Ga.
(Nelson Finance Company's certificate on file in the County
Clerk's Office, Bexar County, Texas, was signed and filed
by Mr. W. A. Nelson, District Manager.)
New Finance Company -- 808 Brady Building
Local Manager: H. P. Sedwick
808 Brady Building
San Antonio, Texas
Owner: Albert Hirschfield
723 Brady Building
San Antonio, Texas

Noel Finance Company -- 111 Solidad Street
Local Manager: A. L. Wolfson
111 Solidad Street
San Antonio, Texas
Owner: E. G. Wolfson
117 East Norwood
San Antonio, Texas

Peoples Loan Company -- 207 Brady Building
Local Manager: Lin D. Greer
207 Brady Building
San Antonio, Texas
Owner: J. R. Fenn
710 Warner Building
Nashville, Tenn.

Personal Company, Loans -- 211 Brady Building
Local Manager: A. H. Wilson
211 Brady Building
San Antonio, Texas
Owner: W. L. Moore
430 Wilson Building
Dallas, Texas

Royal Finance Company -- 718 Gunter Building
Local Manager: August J. Proll
718 Gunter Building
San Antonio, Texas
Owners: F. E. La Hourcade and A. J. Proll

San Antonio Loan & Realty Company -- 107 Main Avenue
Local Manager: A. M. Delavan
107 Main
San Antonio, Texas
Owner: A. M. Delavan

Security Finance Company -- 517 North St., Marys
Local Manager: R. L. Sellard
517 North St. Marys
San Antonio, Texas
Owner: Incorporated November 18, 1932 by Phillip Welhausen, W. E. Green, D. T. Shell; home office, Yoakum, Texas.
J. H. Taylor, Loans -- 307 Maverick Building
Local Manager: B. W. Holbrook
307 Maverick Building
San Antonio, Texas
Owner: J. H. Taylor
Atlanta, Ga.

Terrell & Company -- 916 Travis Building
Local Manager: J. W. Holt
916 Travis Building
San Antonio, Texas
Owner: E. B. Terrell
St. Anthony Hotel
San Antonio, Texas

Texas Acceptance Corporation -- 606 Broadway
(Incorporated November 4, 1932 by J. L. Deutsch, S. M.,
Becker, and A. Albert; home office listed as Houston, Texas.)

Texas Finance Company -- 501 Delorosa
Local Manager: Aaron Katz
501 Delorosa
San Antonio, Texas
Owner: Aaron Katz
522 East Evergreen Street
San Antonio, Texas

Tolteca Loan Company -- 1201 West Houston
Local Manager: M. A. De la Pena
1201 West Houston
San Antonio, Texas
Owner: M. A. De la Pena
119 Helena Street
San Antonio, Texas

Travis Finance Company -- 131 Main Avenue
Local Manager: O. M. Delavan
Owner: O. M. Delavan

Union Finance Company -- 310 Brady Building
Local Manager: R. E. Lee
310 Brady Building
San Antonio, Texas
Owner: W. M. Hubbard
State National Bank Building
Houston, Texas
Western Finance Company -- 506 Travis Building
Local Manager: M. B. Clark
506 Travis Building
San Antonio, Texas

Owner: J. Lee Wilson
1438 Milam Building
San Antonio, Texas
APPENDIX II

COPIES OF SWORN STATEMENTS GIVEN IN THE SAN ANTONIO
LOAN SHARK INVESTIGATION

The statements on the following pages are all copies from those given in D. Burle Daviss' "Loan Shark Investigation—San Antonio, Texas." The numbers of the pages on which each statement is found in the report are given in parentheses immediately after each title. The original of Daviss' report, containing these and many more such statements, may be found in the Office of the Attorney-General of Texas, in the Division of Evidence and Research.
VOLUNTARY STATEMENT OF J. C. COLE, JR. (pp. 45-56)

STATE OF TEXAS
COUNTY OF BEXAR

Before me, the undersigned authority, a Notary Public in and for Bexar County, Texas, on this day personally appeared J. C. Cole, Jr., who being by me duly sworn upon oath, deposes and says:

Mr. name is J. C. Cole, Jr. I live with my mother and father at 116 Gerald Street, San Antonio, Texas. I am employed at Joske Brothers at a salary of $14.00 per week. Sometime in the first part of 1937, I borrowed $20.00 from the Ace Loan Company and signed a note for $27.50 to be repaid on the basis of $2.50 per week for eleven weekly payments. I paid this off and borrowed some more money. I cannot remember exactly how much, but I believe I made at least six loans of $15.00 or $20.00 between 1937, and Jan., 1939, when I finally paid them off. On all of these loans I have paid about $0.20 on $1.00 for money for a 30 day period.

In March, 1938, I borrowed $20.00 from the J. G. Delisi Loan Company, and signed a note for $27.50, to be repaid on the basis of $2.50 a week for eleven weeks. For about a year before this, I had been borrowing from the J. G. Delisi Loan Company and paying them about $0.20 on the $1.00 for every $1.00 for 30 days. After making two or three payments, I fell a little behind, and the Delisi Loan Company started calling me where I worked, Joske Brothers. At first they called me once or twice a week, finally they started calling me two or three times a day. On Monday, May 22, they called me a couple of times, they called me again on Tuesday, May 23, 1939, and Wednesday, May 24, 1939. This is particularly hard on me as I have to stop the work I am doing for my employer and they do not like it and it gets my mind off the business I am in, and it really has jeopardized my position at Joske Brothers. The fact is they had me so worried I felt like not going to work on Tues. and really wanted to quit my job because they had hounded me so much.

In the first part of April, 1939, I borrowed some money from the Nelson Finance Company. I renewed an old note and got $8.00 in cash and they had me sign a note for $15.00. This grew out of borrowing money from them over the period of the past eight months. For this money I had to pay the usual rate of $0.20 for every $1.00 borrowed for a 60 day period.
Sometime in 1938, I borrowed $15.00 from the Chesterfield Finance Company, signing a note for $21.00 to be repaid on the basis of $1.75 a week for eleven weeks. I have renewed this note numerous times, paying them what they called interest and it never being applied to the principal and they claim at the present time I still owe them the same money. The Chesterfield Company used to write a lot of letters to my home harassing me about this loan and bothered my mother so much that she went down to the company and asked them not to lend me any more money. They told my mother that was my business and not hers, and that they would loan money to me if I wanted to borrow it.

My condition became so grave that I was worried and could not do my work properly. It bothered my father and mother, and I figured out that out of my salary after I had paid the Loan companies I was only making about $5.00 per week. My father, mother, and myself made arrangements with Terrell & Company to borrow $100.00 and put up as security the furniture at my mother and father's house. Sometime during May, 1938, they came out to the house and we signed a note for $126.00 and they claimed that they would pay off the companies that I owed money to. They only gave us $18.00 in cash and we received absolutely nothing else. They did clear up the obligation at the Chesterfield Company, and Acme Finance Company, the American Equity Corporation, and the Industrial Finance Company. To sum this up again, we signed a note for $126.00 but received about $18.00 in cash and they paid off the companies above named despite the fact that I more than paid them in interest and other payments.

On November 17, 1938, I needed some additional money to pay some of the other companies off, and my mother, father and myself renewed the note with Terrell & Company. This time although we had already paid them $66.00 on the $100.00 six months before, they gave me $54.00 in cash and again we signed a note for $126.00 to be repaid in twelve months, in payments of $10.50 a month.

I make the above statement voluntarily, and not because of any promise of reward or favor made to me

(Signed)  J. C. Cole, Jr.
J. C. Cole, Jr.

Sworn to and subscribed before me this the 26th day of May, A.D. 1939.

(Signed)  Notary Public in and for Bexar County, Texas
STATE OF TEXAS

COUNTY OF BEXAR

Before me, the undersigned authority, a Notary Public in and for Bexar County, Texas, on this day personally appeared Tom Adams, who being by me duly sworn upon oath, deposes and says:

My name is Tom Adams. I live at 735 Arbor Place. I have a wife and two kids.

In 1931, my mother, who lived in Halletsville, Texas, became ill. I went to the Leake Finance Company and borrowed $50.00 from them. I took the money out to Halletsville, but I did not use all of it and when I came back I gave some of it back to the company. I do not remember how much. In 1932, I borrowed an additional $20.00. I have not gotten any money from this company since 1932 but because of the depression and hard times, I have not been able to pay much on the principal and have paid interest since then. I worked for the Packer Sign Company and every since 1931 and 1932 I have paid $2.00 every two weeks. If I ever missed a payment I would come back the next payment and pay them double so that they cannot say now that I ever missed a single payment all during these years. About 1935, I paid some on the principal and then I started paying $3.00 every two weeks. Since 1935, I have paid $1.50 a week or $3.00 every two weeks to this company. I got tired of paying all this money so I went into the company just before Christmas. I told the manager there that I ought to be about paid out on my loan. I asked him how I was doing. He told me I was coming along very nicely. I told him that I should not only be coming along very nicely but that I should be all paid up. He said I was not all out but I was doing very well. The man I talked to was Mr. Topham. Since Christmas I have not paid them anything and I have made up my mind that I have already paid them enough. They have called up to where I work a couple of times and they would threaten to get my job. They told me that they would talk to my boss, and one time he said to me "you know you want your job." I talked to Mr. Turner right after Christmas about this and he advised me not to pay anymore and I haven't.

In 1934, I borrowed $12.00 from the J. H. Taylor Loan Company. Since that time, I have paid them $1.20 every two weeks as interest. I have never missed a payment because the weeks when I was unable to pay I would come in and make two or three payments of interest at one time.
So now they cannot say I have ever missed a week on this. One time I even had to sell a little property I owned in Hallettsville to pay this interest. In 1938, I had been sick and missed some work, I went over to the company to explain to them and tell them what I had missed and that I would pay them as soon as I could. The manager out there, whose name I do not know but he was a big tall man, told me that I was a 'damn liar' and that I hadn't missed any days work because he had called out there. About three days after that he came out to where I worked and waited until I quit work. He asked me when I was coming in and I told him the following week. He had a woman out there with him so that I could not tell him anything. I also quit paying them at Christmas because I felt that I had paid them too much already. They called me twice at my neighbors, both times on Saturday afternoon and have embarrassed me that way.

In December, 1937, I borrowed $10.00 from the Adams Loan Company, and I have paid them $1.00 every two weeks till the 1st of 1939, as interest. I have never gotten behind in my payments and have never had any trouble with them. I quit paying them at the same time I quit paying the others because I felt that I had paid them too much already.

During all of this time I was paying all these companies interest, they kept me where I couldn't wear clothes and eat hardly unless I didn't pay them and have them bother me. That is why I kept paying them all the way until I finally quit.

The above statement is made voluntarily, and not because of any promise of reward or favor of any kind made to me.

(Signed)  Tom Adams
Tom Adams

Sworn to and subscribed before me this the 25th day of May, A.D. 1939.

(Signed)  T. J. Turner
Notary Public in and for Bexar County, Texas
VOLUNTARY STATEMENT OF ALBERT MONITA (pp. 143-144)

STATE OF TEXAS
COUNTY OF BEXAR

Before me, the undersigned authority, a Notary Public in and for Bexar, County, Texas, on this day personally appeared Albert Monita, known by me, and who, after being first duly sworn, upon oath deposes and says, to wit:

I, Albert Monita, live at 1022 St. James Street, San Antonio, Texas. Sometime in 1936, I borrowed $20.00 from the J. H. Taylor Loan Company. I paid them the interest on this money at the rate of $4.00 per month or twenty cents on every dollar for every month. I continued to pay the interest payments for over a year and have not paid them any since.

Sometime also in 1936, I borrowed $20.00 from the Confidential Finance Company that is now the Alamo Finance Company and paid them the same interest rate, $4.00 per month for the money or twenty cents per month on each dollar. After I paid for about a year on this I stopped paying them.

Sometime in the latter part of 1936, I borrowed $15.00 from the City Finance Company and started paying them at the rate of $3.00 per month interest and paid them for about a year. Just recently I wanted to paint my house and one of the paint stores here was going to sell me the paint and secure a loan to pay for it. When they called the Retail Merchants Association, they told the paint store that I had debts against three loan companies and that my credit was not good. They also told me that if I could straighten that out that I could secure a loan but until then I could not. Actually, although the loan companies call it interest, to each one of these companies I paid back much more than the principle as I was paying four dollars a month for a year to two of them which would be $48.00 on a $20.00 loan, and $3.00 per month for a year on a $15.00 loan which would be $36.00 so I thought that I had paid back the principle and more than enough interest.

I make the above statement voluntarily, without any promise of reward having been made to me.

(Signed) Albert Monita

Sworn to and subscribed before me this the 25th day of May, A. D. 1939.

(Signed) T. J. Turner
Notary Public in and for Bexar County, Texas
VOLUNTARY STATEMENT OF MRS. ANNIE MARSHALL (pp. 68-70)

STATE OF TEXAS

COUNTY OF BEXAR

Before me, the undersigned authority, a Notary Public in and for Bexar County, Texas, on this day personally appeared Mrs. Annie Marshall, who being by me duly sworn upon oath, deposes and states as follows, to wit:

My name is Mrs. Annie Marshall, I am 50 years of age, have one child, Mrs. R. M. Wise, a widow, and reside with my daughter at 138 Carey Street, San Antonio, Texas.

I have been in the employment of Joske Brothers as a tailor in the Men's Department for about five years. I receive $16.00 per week.

About 4 years ago, I obtained a loan through the Ace Loan Company (this company is now the American Equity Company) in the amount of $10.00, I signed a note agreeing to pay this back in eight weekly installments of $1.85 per week. I made several payments on this loan and then renewed it; they made a new note for $21.00 and I obtained about $4.00 or $5.00 in cash. Four or five dollars was the approximate amount left after they had deducted the balance on the original note.

I agreed to pay this second note out in 12 weekly installments of $1.85 a week. I have been paying on this and renewing this loan for the past four years.

At the present time, this company, the American Equity Corporation, claims that I still owe them $18.25.

About three years ago I obtained a loan through the Personal Loan Company of San Antonio, Texas, signing a note for $21.00 and obtaining $15.00 in actual cash, agreeing to pay this out in 12 weekly installments of $1.75 per week. I have been paying on this loan and subsequent loans of renewal for the past three years; several of the loans I obtained through this company were made in order that I could pay other loan companies. I usually received approximately $5.00 or $10.00 on renewal of this note.

This company at the present time claims that I owe them $19.25. For the past two or three months I have had considerable trouble from the collector of this Personal Company, who would call at my place of business and demand that I come to the office and make payment. This past week,
Mr. Calvert, President of Joske Brothers, received a letter from the Personal Loan Company demanding that I pay them the $19.25 that they claim that I owe them at this time.

About three years ago, I obtained a loan through the Chesterfield Loan Company, obtaining $15.00 in cash and signing a note for $21.00, agreeing to pay this back in 12 weekly installments of $1.75 per week. I have been paying on this loan for the past three years, renewing same off and on and receiving $5.00 or $10.00 in cash at the time of renewal and the balance going to make up the balance on the previous note. This company claims that I owe them at the present time approximately $15.00.

About two and a half years ago, I obtained a loan through the Wilke Loan Company of San Antonio, Texas obtaining $15.00 in cash and signing a note for $21.00 agreeing to pay this back in 12 weekly installments of $1.35 per week. I have paid this loan for the past two and a half years at the rate of $1.35 per week and have upon several occasions renewed this loan at which time I would receive $5.00 to $10.00 in cash upon renewal.

This company claims that at the present time I owe them $15.25. About two years ago I obtained a loan through the Acme Finance Company of $15.00 and signed a note for $21.00, agreeing to pay this back in 12 weekly installments of $1.75 each. I have paid on this loan and subsequent renewals for the past two years. Usually upon renewal of these notes which I have made several since I paid the first loan I would receive $5.00 to $10.00 in cash, the balance of the previous note. At the present time this company claims that I owe them $14.00.

Practically all of the companies mentioned in this statement are from time to time calling me upon the telephone, or mailing notices asking that I meet my payment on time.

About three years ago, I obtained a loan through the Fox Finance Company obtaining $15.00 in cash and signing a note for $18.00, agreeing to pay this back in five weekly installments of $3.60 each. I have been paying on this loan and subsequent renewals of this loan for the past three years, the last renewal that I made on this loan was approximately six months ago when I signed a note for $18.00 obtaining no cash and agreeing to pay this out in five weekly installments of $3.60 per week. For the last six months I have been making payments of $3.00 per month as interest on this $15.00 loan and not making any payments on the principal. For about the last two or two and a half months I have had considerable trouble with this Fox Finance Company in regard to their manner of collection. I have received several notices from the Retail Merchants Association of Texas calling to my attention
the fact that this account was past due and that they were turning it over to their collectors for adjustment. I have also received several personal letters and notices of past due accounts and several telephone calls in regard to this loan.

About a year ago I obtained a loan through the Delisi Loan Company of San Antonio, Texas, obtaining $15.00 in cash and signing a note for $21.00 agreeing to pay this back in 12 weekly installments of $1.95 per week. I had considerable trouble with this loan for I have renewed it several times and I don't remember exactly how much I have paid on it, however, the last renewal that I made upon this loan I made a loan of $30.00 receiving in cash at this time $10.00, the balance going to pay off the balance of the previous loan and signed a note for $48.00. I agreed to pay this loan back in twelve weekly installments of $4.00 per week. This company at the present time claims that I owe them $34.62.

About a year and a half or two years ago, I obtained a loan through the Union Finance Company of San Antonio, Texas, obtaining $20.00 in cash and signing a note for $29.00, agreeing to pay this back at the rate of $2.00 per week until this loan had been paid out. I have upon numerous occasions renewed this loan, each time receiving approximately $5.00 in cash upon renewal. I had been paying, however, on the original loan and subsequent loans for the past year or year and a half at approximately $1.85 each week.

At the present time this company claims that I owe them $27.50.

About two years ago, I obtained a loan through the Peoples Loan Company, receiving $10.00 in cash and signing a note for $13.25. I agreed to pay this back in eight weekly installments of $1.65 each. Since I first obtained this loan I have paid them $86.45. Upon numerous occasions I have renewed this loan at which time I would receive $5.00 to $10.00 in cash, the balance going upon the previous note.

At the present time this company claims I owe them approximately $12.00. I have had considerable trouble from this loan company in regard to the telephone calls. I have received numerous telephone calls at my office demanding that I come to the office and make my payments.
I make the above statement voluntarily, and not because of any promise or reward or other favor made to me.

(Signed)  Mrs. Annie Marshall
Mrs. Annie Marshall

Sworn to and subscribed before me on this 22nd day of May, A.D. 1939.

(Signed)  T. J. Turner
Notary Public in and for
Bexar County, Texas
Voluntary Statement of Fred Gregory (pp. 122-123)

State of Texas

County of Bexar

Before me, the undersigned authority, a Notary Public in and for Bexar County, Texas, on this day personally appeared Fred Gregory, who being by me duly sworn upon oath, deposes and states as follows, to wit:

My name is Fred Gregory, and I reside at 526 Montana Street, San Antonio, Texas, with my wife and one child, a boy age 6 years old. I have lived in San Antonio for the past 16 years. I have been employed for the past two and one half years as a pumper for the Southern Pacific Railroad Company at an average monthly salary of $100.00.

In April, 1937, I borrowed the sum of $15.00 from the American Equity Company, Maverick Building, San Antonio. I signed a note for $21.00 for this $15.00 loan and agreed to pay this $21.00 out in six installments of $3.50 each. Since I get paid every two weeks, I was to pay them one installment of $3.50 every two weeks. I paid them the sum of $10.50 in three installments over a period of six weeks and renewed the note. When I renewed the note they gave me $4.50 in cash and I signed a new note for $21.00. This procedure of renewing my note went on from May, 1937, to some time in December, 1937. In other words, I would pay the American Equity Company the sum of $10.50 in three installments of $3.50 each over a period of six weeks, get $4.50 and renew the note for the sum of $21.00. I do not remember how many times this procedure went on but I remember renewing the note every six weeks.

In December, 1937, I owed $10.50 on this note. I had been renewing consistently since the April before the same year, and I renewed the note again. This time I received $14.15 in cash; I still owed them $10.00 and signed a note for $32.00; this $32.00 was to be paid out in four installments, eight dollars each, one installment to be made payable every two weeks. I did this note the same way. I would make two payments of $6.00 each over a period of four weeks and then renew this note receiving $6.00 in cash and signing a new note for $32.00. This procedure of renewing this note kept up until somewhere along the summer of 1938, or about April or May, 1938, when I paid the note up in full. In about fifteen days, after I was paid up in full, I went back and borrowed $15.00 for which I signed a note of $21.00, this note to be paid off then in installments of $3.50 each, one installment to be paid every two weeks. I did this note
the same way as I had the first one for $15.00. I would pay half off or $10.50 and then renew the note for $21.00 and when I renewed it they would also give me $4.50 in cash. This procedure of renewing this note kept on until February or March of 1939, at which time I turned it over to Mr. Turner of the Vigilance Committee and the San Antonio Bar Association. Mr. Engersol of the American Equity Company settled with the San Antonio Bar Usury Committee for the sum of $20.00 and gave them my note back.

When I quit paying the American Equity Company, some time in February, they wrote me numerous letters stating that if I did not pay them they would turn my power of attorney over to the Railroad Company for collection. I signed a power of attorney whenever I borrowed money from them. Their auditor, a Mr. Smith, telephoned me, and told me that if I decided not to pay them they would get my job at the Railroad Company. I told him, for my part, to go to hell, that I would not pay him another dime if he was starving to death. They sent me several letters after this saying that it would be to my interest to come down and pay it, but I did not pay any attention to them.

In about January or February of 1938, I borrowed the sum of $15.00 from the Union Finance Company in the Brady Building, San Antonio, Texas, and signed a note for $21.00. This was to be paid out in six installments of $3.50 each, one installment to be paid every two weeks. About this time I also borrowed the sum of $15.00 from the Atlas Finance Company, located in the Gibbs Building, and about two months later, or in about March or April of 1938, the Atlas merged with the Union Finance Company and since they both held my note for approximately $10.50 each, they merged the two notes into one note of $30.00, but I signed a note for $39.00. This $39.00 was to be paid out in six payments of $6.50 each. This note for $39.00 was signed in about July, 1938. I got cut off from my work in August and was unable to make any payments until sometime in September or October. When I got my job back again I went to the Union Finance Company and gave Mr. Eckhard the sum of $9.80, and when I asked him how much I still owed, he said that he would just keep this $9.80 for the three months past due interest, but that I would owe the $39.00. After that I paid him the sum of $19.50 in three payments. I claim that is all I owe him but he says that I still owe him $39.00 but I say that I just owe him $19.50. I have made no more payments on this note since then.

I have not heard anything from them since they know I have turned it over to the Bar Association.

In February or March, 1938, I borrowed the sum of $15.00 from the Della S. Finance Company, located in the Gibbs
Building, San Antonio, Texas. I signed a note for $21.00 for the $15.00 I received. The note was to be paid out in six installments of $3.50 each, one installment to be paid every two weeks. About two weeks after I signed this note, I made a side loan from him of $5.00 and paid him $6.00 back for the $5.00 two weeks later. This $5.00 side note was renewed every two weeks by paying the sum of $1.00 and I renewed this note and paid the man $1.00 every two weeks for almost one year. In other words, I paid him at least $25.00 in the sum of $1.00 every two weeks for the $5.00 I had borrowed. At the same time I was renewing this $5.00 loan, I would also make a payment of $3.50 on the $21.00. I would pay $10.00 of the $21.00 note and renew it, receiving $4.50 in cash, sign a new note for $21.00. This went on too, until January or February of 1939. Mr. Delisi says I still owe him the original note of $6.00 on the $5.00 loan plus the $21.00 note that I signed one year before that I have been renewing the entire time.

I make this voluntary statement without promise but merely for assisting the Attorney General's investigation.

(Signed) Fred Gregory

Fred Gregory

Sworn to and subscribed before me on this 24th day of May, A.D. 1939.

(Signed) T. J. Turner

Notary Public in and for

Bexar County, Texas
STATE OF TEXAS

COUNTY OF BEXAR

Before me, the undersigned authority, a Notary Public in and for Bexar County, Texas, on this day personally appeared Louis Hildebrand, who being by me duly sworn upon oath, deposes and states:

My name is Louis Hildebrand. I am married and have six children. I live at 419 Corner Street, San Antonio, Texas. I am employed by the Household Furniture Company.

In April, 1938, I borrowed $7.00 from the Mission Finance Company. I paid them between $12.00 and $13.00. Every Saturday the collector comes out to the Household Furniture Company. He tells me that I either have to pay him or he is going to turn me into the company. When I am late they call me on the telephone where I work nearly every other day. One time we had an argument over the telephone, and they said that they were going to turn me in and I said go ahead. The man then hung up on me. They are still trying to collect $1.35 from me.

About May, 1938, I borrowed $5.00 from the Aztec Furniture Company. I paid $0.50 interest every two weeks. I have paid him nearly every two weeks this $0.50 since last May, and I still owe them the $5.00 he claims. He comes out to the Warehouse and gets mad and he keeps on talking and raving around, but I just keep on working and don't pay any attention to him. I am still paying them $0.50 payments.

In 1938, about the middle of the year, I borrowed $10.00 from the Garza Finance Company. I paid them back $1.75 a week for eight weeks. I got behind some, and then I gave them $2.00, and then $1.00. Since that time he quit taking interest from me and said that all he wanted was his $10.00. He wants me to pay him $1.00 a week. I have already paid $7.00 or $8.00, and he still wants $2.00 from me. He told my boss at the Furniture Company where I work to tell me to pay. My boss told me that I had better go in and pay him before he takes this up with the Store.

About eight months ago, I borrowed $10.00 from the Noel Finance Company. I have paid them about $5.00 back and the collector still wants $10.00. His collector has been trying to make a deal with me. The collector owes the Household Furniture Company some money, and wants me to pay this money to the Household Furniture Company and he will straighten me out with the loan company, and clear both accounts. One
time this collector called me up and told me that they turn over their accounts to the Retail Merchants Association. He did this I guess.

I have made the above statement voluntarily, and not because of any reward or favor made to me.

(Signed)  
Louis Hildebrand
Louis Hildebrand

Sworn to and subscribed before me this the 31st day of May A.D. 1939.

(Signed)  
T. J. Turner
Notary Public in and for Bexar County, Texas
STATE OF TEXAS
COUNTY OF BEXAR

Before me, the undersigned authority, a Notary Public in and for Bexar County, Texas, on this day personally appeared Clarence McClure, who being by me duly sworn upon oath, deposes and states as follows, to wit:

My name is Clarence McClure. I am married and live with my wife and one child at 730 South Hackberry, San Antonio, Texas.

About January, 1937, I borrowed $10.00 from the Chesterfield Company, signing a note for $12.00 to be repaid in 30 days. About a month later I got $5.00 more, and signed a note for $18.00 to be repaid in 30 days. From that time until January, 1938, I paid a dollar and a half every payday, or three dollars a month in interest.

I made my last payment about January 3, 1938, and at that time I lost my job and told the Chesterfield Company that I could no longer make payments. I got my job back this year, and immediately they started jumping on me to get me to start paying again, although I had already paid them over $50.00 in interest payments on $10.00 originally borrowed. The collector would come out to the shop around payday, and tell me that I had to come in and get this matter straight; that I still owed them some money. He told me that he would ruin my credit here in San Antonio if I did not make this payment. He also said that he would get my job by turning me in to the Railroad Company if I didn't pay. On May 3, 1939, they sent me the following threatening letter:

Mr. N. W. Yates
Southern Pacific Railway
San Antonio, Texas

In re: Clarence McClure, Wiper

Dear Mr. Yates:

On January 3, 1939, this company made to the above mentioned employee a loan of $18.00, secured by his personal note payable on February 1, 1939. We have contacted him numerous times in regard to this matter, and he has made us numerous promises, none of which have been fulfilled. To date, not one payment has been made on this account.
We are soliciting your assistance in this instance and assure that any attention given this matter will be greatly appreciated.

Thank you very much.

Very truly yours,
Chesterfield Co. - Loans
Chas. A. Morgan, Mgr.

CAM/kz

P.S. PLEASE DO NOT MAKE IT NECESSARY FOR US TO SEND THIS.

This letter has me worried because I have to support my wife and child, and I do not want to lose my job. I know I have repaid this company many times the amount I have borrowed, but when they threaten to get my job they have me plenty worried.

I make the above statement voluntary, and not because of any reward or promise made to me.

(Signed) Clarence McClure

Sworn to and subscribed before me this the 29th day of May, A.D. 1939.

(Signed) T. J. Turner
Notary Public in and for
Bexar County, Texas
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