

Problems of Organization and Structure

ON THE NATIONAL LEVEL

A proposal for the merger of the Cooperative League, National Cooperatives, and the National Cooperative Finance Association has been under consideration for several years. The boards of the three organizations had approved a single executive for the three and established a joint committee to work out the details of consolidation. At the national Cooperative Congress in September 1946, after many protracted meetings during the year, the committee presented a surprise report and recommendations which differed completely from previous plans. Briefly, it proposed that, instead of a merger, National Cooperatives would become the national organization for the distributive branch of the cooperative movement, combining commercial activities with educational and publicity work and therefore taking over Rochdale Institute, the Co-op Magazine, Cooperative News Service, and national employee training, all of which had previously been departments or functions of the League. The latter (which celebrated its thirtieth birthday in March 1946) would carry on research, compile statistics and other information, and do public-relations work on an over-all basis. It would become the national organization of all branches of the consumers' cooperative movement in this country—distributive, electricity, credit, insurance, housing, medical care, etc.

The report and recommendations were accepted by the congress, after considerable discussion.

Unlike the situation in many European countries, in the United States each branch of the cooperative movement has developed independently. The REA cooperatives, credit unions, student cooperatives, medical-care associations, and distributive associations each have their own national federation. The federations in the fields of housing, medical care, and provision of meals and rooms for students have only recently been formed and have as yet no great accomplishments to their credit.

The Credit Union National Association ("CUNA") became a fraternal member of the Cooperative League in 1939, and the Cuna Supply Cooperative became a full member in 1942. The affiliation of the latter (a commodity organization) probably will hereafter be through National Cooperatives. The new federations of students' associations and of housing and medical-care cooperatives undoubtedly will affiliate with the League, but no relationship has as yet existed with the REA cooperatives; their affiliation has still to be won. No national insurance federation exists, though some of the most powerful of these associations have been consistent financial supporters of the League.

It appears, therefore, that the solid underpinning of the League at present consists of only the distributive movement and these insurance organizations. Support from the other branches either consists largely of good will or has still to be won. Undoubtedly the new structural plan offers a much wider scope for the League than before, if the latter is successful in rallying to its banner the various service branches of the movement.

ON THE REGIONAL LEVEL

The 1946 annual meetings of Eastern Cooperative League and Eastern Cooperative Wholesale approved a committee draft of a constitution and bylaws of a proposed consolidation of the two that has been under way for some time. The name of the new organization is Eastern Cooperatives, Inc.

In the territory of the above organization, which serves local cooperatives on the whole eastern seaboard as far south as Virginia, a move among some of the New England associations to secede and form a separate wholesale for that region was under study during 1946. The report of a committee, appointed in conformity with instructions from a membership meeting in February, was laid before a special meeting held in September 1946. The committee recommended the establishment of a separate wholesale. Debate at the meeting covered the possible deleterious effects of such a move on the unity of the cooperative movement in the East, and the difficulty of financing a new wholesale. The meeting decided to postpone action until April 1947, with an enlarged committee gathering more facts in the meantime.*

Among the district federations, Cooperative Services, Bruce Crossing, Mich. (handling petroleum products), voted to merge with Copper Country Cooperative Enterprises (a fish-marketing organization that evolved out of a self-help cooperative started during the depression). This action caused some threats of withdrawal of associations that were members of Cooperative Services; no information is available to indicate whether action was actually taken.

Education, Recreation, and Publicity

Realizing that the foundation of a sound cooperative movement is an informed membership, well grounded in the cooperative philosophy, and that well-trained efficient employees are essential to the financial success of the organizations, the cooperative movement lays great stress on educational work directed to both these requirements.

Education.—The central educational organization of the consumers' cooperative movement is Rochdale Institute, established in New

* At the April meeting the proposed separation was rejected, but with a recommendation of greater independence of action for the Cambridge (Mass.) branch warehouse of Eastern Cooperative Wholesale.

York City in 1937 and moved to Chicago in 1944. Provisionally chartered by the University of the State of New York in 1938, it received an absolute charter from that institution in 1945. In 1946 it held two short-term institutes—a 2-week course for educational directors, and a cooperative and labor institute sponsored jointly by the Wisconsin School for Workers. It also offered an 8-week course in the history, philosophy, methods, and practices of cooperation designed for those seeking employment in cooperatives, those already working in cooperatives, and “teachers, ministers, social workers, and co-op lay leaders” wishing to inform themselves about the cooperative movement. At the 1946 Cooperative Congress the director of the Institute reported that, during the 2-year period since the 1944 congress, the school had given 43 weeks of schooling to 436 students.

The Cooperative Correspondence School, initiated by Central Cooperative Wholesale in 1943 but now sponsored by six regional wholesales, continued in 1946 its courses in principles, practice, and administration and was reported to have an enrollment of over 1,000 students.

In addition, many of the regional wholesales themselves offer technical courses for cooperative managers and employees, and either alone or in cooperation with Rochdale Institute also offer advanced courses along the same lines. Under the auspices of Eastern Cooperative League and Wholesale, an institute for cooperative leadership was held in July-August, which also covered personnel matters, and housing. Under the same sponsorship a conference of educators and school administrators held earlier in the year discussed “education for democratic living.” Central Cooperative Wholesale announced the inauguration of “membership clinics” to be held three times a year, to “discuss basic problems, train leadership, plan contact activity, and give an opportunity to exchange suggestions and ideas so that educational effort on the part of the locals and the Central Cooperative Wholesale will meet the greatly expanding requirements.” In connection with the opening of a “co-op supermarket” in Lansing, Mich., a 4-session course in cooperation, open to public as well as members, was given.

During 1946 a score of students from South America came to the United States in a move sponsored by the Bolivarian Cooperative Union,¹⁰ Rochdale Institute, Consumers Cooperative Association, the University of Kansas City, and the U. S. Farm Credit Administration. The training combined academic courses with actual work in cooperative enterprises.

Early in the year Midland Cooperative Wholesale created two annual fellowships of \$1,000 each, for graduate study at the University

¹⁰ A federation of cooperatives in Bolivia, Colombia, Cuba, Panama, Peru, and Venezuela.

of Minnesota in the fields of "business administration and economics, particularly agricultural and consumer economics."

Among the general educational institutions of the country, several were reported to have included cooperative subjects. Cornell University was said to be giving a course in cooperative law, Harvard University continued its course in consumers' cooperation (given for a number of years in cooperation with the New England Cooperative Federation), and the University of Kentucky offered a short course for cooperative officials. The Cooperative and Labor Institute held at the School for Workers of the University of Wisconsin was attended by both CIO and AFL unionists.

A number of cooperative nursery schools—some of which were started in 1946—have come to the attention of the Bureau, mainly in the metropolitan area of Washington, D. C., and in and around Chicago. There are probably many others not known. The advantages of these schools, it is said, are that they provide the children with excellent preschool experience and afford their parents an opportunity to work with and observe training procedures under trained teachers and to participate in a nonprofit, cooperative enterprise.

Recreation.—In the cooperative movement, education and recreation usually go hand in hand, in that each generally contains elements of the other. In various places throughout the United States, local or regional cooperatives sponsor cooperative parks or camps as vacation spots for cooperators and their families; in connection with these, lectures, movies, etc., are usually given which provide information on cooperatives. Several of the regional wholesales also give courses for recreational leaders, in a vacation setting. In addition, the Cooperative Society for Recreational Education each year for a decade has conducted a national recreation school for persons training as cooperative recreation directors. The 1946 school was reported to have drawn the largest enrollment in the history of the organization.

Among the vacation events of 1946 was an auto caravan of cooperators which toured the cooperatives of Saskatchewan and Manitoba, Canada, and several centers in North Dakota, Minnesota, and Wisconsin. In Philadelphia, a "consumers' cooperative theater," Philadelphia Civic Theatre Cooperative, to be operated "for and by Philadelphians of all ages, colors, and beliefs,"¹¹ was started.

Publicity.—Cooperators have for some years been using radio as a means of spreading their message. In August the Federal Communications Commission granted the Potomac Broadcasting Cooperative (Washington, D. C.) permission to construct its own FM (frequency modulation) radio station. The new cooperative will operate in the DC-Maryland-Virginia area. It will issue both common and (non-

¹¹ The Cooperator (New York), October 11, 1946.

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voting) preferred stock, the former to be held by cooperatives in the area, the latter to be offered to individuals and nonprofit organizations. It is reported that an application for an FM license was also made by the Connecticut Cooperative Federation.

Relationships with Other Groups

WITH LABOR ORGANIZATIONS

Closer relationships between the cooperatives and organized labor developed during 1946, continuing a movement that has been under way for a number of years. At the 1946 AFL convention the report of the Federation's executive board noted "significant progress in strengthening the ties between the AFL and the Cooperative League of the USA." It said, further:

We commend the growing interest in consumers' cooperation which is developing among our unions. We urge all affiliated unions to take an active part in the consumer cooperatives in their communities, and where there are no well-managed cooperatives, to organize them.

At the 1946 Cooperative Congress the United Auto Workers (CIO), in a speech by its president, pledged its support in a strong drive to organize consumers' cooperatives in all communities in which it has locals. This is to be done through a series of advisory committees composed of key UAW and cooperative staff members. A month later the first full-time worker under this arrangement was appointed for the Michigan area. UAW workers were reported as being active in the organization of cooperatives at Detroit, Flint, Iron Mountain, Jackson, Lansing, and Pontiac.

The Minnesota State Federation of Labor, at its 1946 convention, adopted a resolution urging all the local unions to appoint committees on cooperatives. Its public relations department will assist these committees in informing the union members about the cooperative movement. In Massachusetts the State Federation of Labor appropriated from its treasury money to pay the tuition of 10 unionists in the course in cooperation offered by the Massachusetts Department of Education. The Federation has for a number of years joined with the New England Cooperative Federation in sponsoring a course on cooperatives given by Harvard University.

Individual local unions are also reported to be actively supporting the organization of new cooperatives in various places. Among these reported as in process of formation in 1946 were cooperatives in Iron River, Mich. (iron miners, CIO), Negaunee, Mich. (miners and steel workers, CIO), Eveleth, Minn. (iron miners and other unionists), Borger and Crane, Tex. (oil-field workers' union), Burlington, Vt. (auto workers, CIO), and Everett, Wash. (aircraft and other unionists). In Arizona, AFL unionists are said to have sponsored the new Arizona Cooperative Association, recently admitted into membership

in the national Cooperative League. In Connecticut a CIO union is reported to have turned over the first floor of its building to accommodate a new branch store opened by the local cooperative.

Several successful labor-cooperative conferences were held in 1946. The resolutions of one of these, held in Milwaukee in September, indicate the scope which such conferences may cover. These resolutions urged cooperative and union assistance for the new national housing and health cooperative federations and the formation of union-sponsored health plans in Wisconsin, recommended the formation of credit unions by every trade-union and cooperative, and endorsed the Wagner-Ellender-Taft housing bill. A labor-cooperative conference in Minneapolis, attended by representatives of AFL, railroad, and CIO unions, resulted in the establishment of a permanent labor-cooperative council for the furtherance of urban cooperatives. Plans were made for the exchange, through the Minnesota Association of Cooperatives, of labor and cooperative news among the periodicals of both groups.

There have been many instances, over the years, of cooperative aid to striking unionists. In 1946 several cooperatives gave aid to striking iron miners in Michigan, Minnesota, and Wisconsin. Among these were the cooperative oil and store associations in Rock, Mich., which donated \$100, the small store in Ishpeming, which voted them half of the store's total earnings of \$200, and the cooperative store at Wakefield, which gave \$50. In addition, the annual membership meeting of Central Cooperative Wholesale (Superior, Wis.) voted to contribute \$1,500, the district petroleum cooperative at Hurley, Wis., gave \$200, and the Van Buskirk cooperative in the same State donated \$100. The 3½-month strike was successful in winning the wage increase and improved working conditions demanded by the workers.

In two strikes, Eastern Cooperative Wholesale reported that it had sold directly to union representatives food supplies needed for their members which the strikers were reported to have been refused by other wholesalers. Striking automobile workers in Toledo were reported to have used the local cooperative as their commissary, spending their strike-fund vouchers for co-op groceries.

The Fort Bragg (Calif.) consumers' cooperative contributed \$100 per month to the relief funds of striking lumber workers.

Striking automobile workers received a carload of wheat from 10 members of a Farmers' Union local in Montana—a step characterized by officials of the farmer and union groups concerned as “symbolic of growing farmer-labor unity.”

WITH CHURCHES AND CHURCH GROUPS

Several conferences of clergymen and cooperatives were held during the year. Among these was one in Minneapolis in October, sponsored by two regional cooperative wholesales and a grain-market-

ing cooperative, which was attended by ministers of many faiths as well as by representatives of cooperatives. Under the aegis of the Federal Council of Churches of Christ in America regional meetings on "the church and labor in consumers' cooperation" were held in Columbus (February), Baltimore (April), and Seattle (December). These meetings reaffirmed the Council's endorsement of the cooperative movement and the wish to "encourage the extension of cooperative techniques and other similar means of bringing about economic justice and brotherhood." The annual meeting of the Unitarian Fellowship for Social Justice, held in May 1946, adopted a resolution urging the American Unitarian Association to consider transferring its investments to consumers' and producers' cooperative enterprises. It was reported¹² that Pope Pius XII, in a message to a conference of French Catholics in Strasbourg, France, advocated the formation of cooperatives in preference to nationalization of industry, declaring that "the cooperative form of economic life is more conformable to the teachings of Christianity, notably in what concerns human personality, the working community, and private prosperity."

CONSUMER-FARMER RELATIONSHIPS

There were numerous indications, during 1946, of the increasing desire of urban dwellers and farmers to come together on common ground. In various places in the Middle West, farmers and town-people were working together for the establishment of new associations to run cold-storage locker plants, retail stores, electrical appliance and service businesses, etc. Meetings were held to explore new ways and means of working jointly for their common good. One such meeting, in Grand Rapids, Minn., in June 1946, was called by a committee representing the Farm Bureau, iron-ore miners, and paper-mill workers, assisted by a department of the cooperative wholesale at Superior, Wis. Another, in Minneapolis, in September, brought together 260 delegates from eight States, representing Farmers' Union locals, cooperatives, and AFL, CIO, and railroad labor organizations.

Several sessions of the 1946 meeting of the American Institute of Cooperation (an organization of farmers' cooperatives) were devoted to consumers' cooperative purchasing.

It has been the policy of cooperative associations sponsored by farm organizations (Grange, Farmers' Union, Farm Bureau, etc.) to admit to membership only members of the sponsoring group; some also practice the policy of check-off of farm-organization dues from any patronage refunds declared by the cooperative. Membership restriction is of course a violation of Rochdale principles. The explanation

¹² Cooperative News Service (New York), September 2, 1946.

of the restriction in this case lies largely in the facts that these farmers' cooperatives in large measure owe their very existence to the educational work done by the parent farm organization, and that only in recent years have the farmers' cooperatives providing consumer goods and services identified themselves in any number with the consumers' movement that practices the Rochdale principles. It is also true of these cooperatives, as well as of those not connected with any farm organization, that they must restrict their membership to farmers if they wish to claim exemption from Federal income tax;¹³ and they must meet certain membership requirements in order to borrow under farm credit laws. However, each year a number of the farmers' retail cooperatives (especially those sponsored by the Farmers' Union) adopt the open-membership policy.

One farmers' cooperative paper in Nebraska is advocating open membership on the grounds that a town family which patronizes the farmers' cooperative in sufficient volume to earn the price of a share of stock has shown its good faith and should be given a voice in its affairs, and that it is doubtful whether the small saving realized by a distributive cooperative through tax exemption compensates for the violation of cooperative principle.¹⁴

A tendency in the opposite direction is indicated in the recent movement of the farmers' marketing cooperatives into retail marketing of farm produce, not through consumers' cooperatives but through outlets owned by the farmers as producers.¹⁵ Cooperative Producer and Consumer Family Foods, started as a department of the Cooperative G. L. F. Exchange at Ithaca, N. Y., in 1941, became an independent organization in 1944. By September 1946 it was operating 20 retail stores, of which 13 were of the supermarket type. In the fall of 1945, the Indiana Farm Bureau announced its adoption of a similar plan. Its first retail outlet was obtained by purchase of a privately owned supermarket in Veedersburg, Ind., in June 1946.

WITH EMPLOYEES¹⁶

The employee-retirement plan adopted by Midland Cooperative Wholesale in 1944 celebrated the end of its first year of operation in September 1946. This plan, financed by employee contributions of 3 percent of wages and association contributions of up to 5 percent of pay roll, initially covered only employees of Midland and of Central Cooperative Wholesale but was later opened to employees of affiliates of these two organizations. New members are accepted only at the

¹³ Nonfarm cooperatives have no exemptions.

¹⁴ Nebraska Cooperator (Omaha), July 17, 1946.

¹⁵ See Bureau of Labor Statistics Bulletin 859, pp. 18-20.

¹⁶ No study of collective agreements or round-up of changes in working conditions in cooperative associations was made by the Bureau. The information in this section therefore includes only the scattered items on this subject that came to the Bureau's attention.

beginning of each operating year. At the end of the first year 875 employees of 84 cooperatives were participating in the plan. At the beginning of October 1946, new adherents raised these numbers to 1,550 employees and 137 associations.

Consumers Cooperative Association (Missouri) announced in July that it would start a similar plan for "workers in regional and local cooperatives throughout the Middle West," beginning September 1, 1946. Retirement age under the plan will be 65 years. The scheme will be on a contributory basis—3¼ percent from employees, and from the employing cooperatives enough "to maintain the plan on a sound basis" (but not over 6 percent of pay roll).

A cost-of-living bonus, based on the U. S. Bureau of Labor Statistics' index of consumer prices, was granted to its employees by Midland Cooperative Wholesale. Under its plan the amount of bonus is determined quarterly in accordance with the rise or fall in the index.

Local associations in increasing numbers are adopting the policy of devoting a specified proportion of the association's earnings to paying bonuses to the employees; thus providing a direct incentive toward improved efficiency.

Associated Cooperatives of California in February 1945 put its warehouse employees on a 5-day, 40-hour week (previously 44 hours). Several months later these workers joined the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers (AFL) and in July the wholesale signed a collective agreement with the local.

For a number of years Eastern Cooperative Wholesale has had an agreement with a local of the International Brotherhood of Teamsters. A sudden strike was called by the union at the end of January 1946, in the effort to enforce demands upon the Wholesale Grocers Association. Although the cooperative was not a member of that association, its employees were also called on strike. The cooperative stated its willingness to accede to whatever terms were obtained from the grocers' association, but requested that its trucks be allowed to operate, as had been done on previous similar occasions. Failing in this, the wholesale signed a contract granting the demands, but served notice that if more favorable terms were given by the union to the grocers' association, it would expect the same consideration.

Range Cooperative Services,¹⁷ Hurley, Wis., at its annual meeting voted its employees an extra day of vacation for each year of service, in addition to the one week already allowed. An extra week's vacation was also given by Greenbelt (Md.) Consumers Services, with the proviso that the time be spent at cooperative conferences, camps and training sessions, with the association also paying for transportation to these sessions as well as "75 percent of other minimum expenses."

¹⁷ Until April 1946 the name of this association was Iron Cooperative Oil Association.

International Cooperative Relationships

International cooperative congress.—In the international field, the event that overshadowed all others was the congress of the International Cooperative Alliance (the first since 1937) held in Zurich, Switzerland, in October. It was attended by delegates from the cooperative movement of 20 countries (including 21 from the Cooperative League of the USA), observers representing the governments of 7 countries (including the United States), the Economic and Social Council of the United Nations, and the International Labor Organization. Among the resolutions passed by the congress were those—

1. Calling for the establishment of formal relationships between the Alliance and the cooperative organizations of agricultural production and the World Federation of Trade Unions.
2. Urging the International Bank to create an administrative unit for cooperatives and give them access to available sources of funds for reconstruction.
3. Favoring free trade among the nations.
4. Urging that the Atlantic Charter be implemented by placing under UN the control and administration of the oil resources of the world, beginning with those of the Middle East, "by and with the consent of the States involved, these resources to be administered in such a way that cooperative organizations can be assured of receiving an equitable share."
5. Favoring cooperative representation in government bodies concerned with the economic and social policies of the State.

The predominant theme of the congress was the furtherance of cooperative international trade. At a conference preceding the congress it was decided that the International Cooperative Trading Agency should absorb the International Cooperative Wholesale Society.¹⁸ International machinery to deal in petroleum products, either as a separate agency or as a department of the Trading Agency, was first proposed at the congress of 1937. No action was taken, however, as only a start in such trade had been made—by one regional wholesale (Consumers Cooperative Association) in the United States—and the time did not seem propitious.

Shortly after VE-day, a national petroleum cooperative was organized in Sweden, which immediately placed a large order for lubricating oil with CCA. In 1946 Norwegian cooperatives formed a petroleum association, and a few months later the Cuban movement did likewise. In order to expedite its shipments, the Swedish association in 1946 bought a 13,500-ton oil tanker which is being used to transport to Sweden its purchases of motor oil produced by the CCA refinery.

¹⁸ The Wholesale Society, established in 1919, had never carried on any commercial activities but was simply a medium of exchange of experience and information among the cooperative wholesales of the various countries.

The 1946 congress of the International Cooperative Alliance completed the organization of the International Cooperative Petroleum Association, the formation of which had been approved in principle by a meeting of representatives of the International Cooperative Alliance and the International Cooperative Trading Agency in September 1945. It was specified that the new association would not come into existence until 10 central organizations had signed up for membership and at least \$500,000 of its authorized capital of \$15,000,000 had been subscribed. However, it was reported before the end of the congress that cooperatives in 22 countries had indicated their intention to participate and that \$900,000 in share capital had already been pledged. The headquarters of the new association are to be in New York City. Howard Cowden, president and general manager of CCA, to whose efforts the creation of the new association is mainly due, is to be its temporary manager.

United Nations.—In February 1946, the General Assembly of the United Nations confirmed the bestowal of permanent consultative status for the International Cooperative Alliance in the Economic and Social Council. Murray Lincoln, president of the Cooperative League of the USA, was appointed by the ICA as its representative at the sessions of the Council in May 1946.

Cooperative relief measures.—Late in 1945, 22 relief agencies in the United States formed a nonprofit cooperative organization for European relief. These agencies were later joined by 3 others. They included the American relief agencies for 7 different countries, the welfare organizations of 7 religious faiths (Catholics, Quakers, Jews, Christian Scientists, Congregationalists, Unitarians, and Churches of Christ), representatives of AFL and CIO unions, the Cooperative League of the USA, and various other relief organizations. The new organization, Cooperative for American Remittances to Europe (CARE), soon got under way. Its packages of food, according to a report made at the 1946 cooperative congress in September, were then being shipped to 11 countries of Europe, the governments of which have agreed not to levy duties or taxes upon them. The cooperative reserves the right to designate the agency within each country which will act as distributor. In France, Finland, and Poland the cooperatives are so designated. In Norway the cooperatives have assisted in the distribution. By September 1946 CARE had shipped some 4 million dollars' worth of food to Europe, the money for which was donated by individuals and groups in the United States. "Patronage refunds" totaling 50,000 \$10 packages of food were declared on the 1946 operations of the organization; in this case, however, the "patrons" were not the donors of the packages but the needy in Europe, who received this extra amount of relief. The

president of CARE is the president of the Cooperative League of the USA.

In 1944 cooperatives of various countries started the so-called "Freedom Fund" for the rehabilitation of cooperatives in war-devastated areas. About 1¼ million dollars was raised, of which cooperatives in the United States contributed nearly \$93,000. Of the latter sum, \$15,000 was invested in CARE, with an additional \$15,000 loaned for one year, and \$5,000 was appropriated to defray the expense of bringing young Italian cooperative leaders here for study of United States cooperatives. Cooperatives in France, China, and Austria had been aided from the general fund.

Laws and Decisions Affecting Cooperatives

STATE LEGISLATION

Few State legislatures met in 1946. Among those which enacted legislation relating to or affecting cooperatives, the Kentucky Legislature authorized (ch. 51) the formation of nonprofit medical-service plans, the services of which are "administered by doctors of medicine." In order to operate, such corporations must receive a certificate of "convenience and necessity" and be adjudged in the public interest; must have the participation of 51 percent of the eligible licensed doctors in the county, and (although specifically exempted from insurance laws) must deposit a surety of \$10,000 with the Custodian of Insurance Securities. The above conditions would probably prevent the operation of a cooperative having its own clinic.

In New York, chapter 787 added a new section to the cooperative law, authorizing the dissolution, by proclamation, of cooperatives that have failed for 3 consecutive years to file required reports with the commissioner of agriculture and markets. Such delinquent associations are given a 3-month period of grace in which to supply these reports, before actual dissolution takes place; a fee of \$25 is imposed on associations which take advantage of this period, for the issuance of a certification of compliance and a fee of \$40 for filing such certificate. The law reserves to associations formed under the cooperative law the right to use the word "cooperative" or any modification or derivative thereof; by chapter 800 of the 1946 laws the word "cooperation" is also reserved for their use. Dental-care benefits are added (by chapter 548) to the medical-care and hospital-care benefits allowed to be provided by membership corporations or cooperative associations. Group Health Cooperative, organized under the cooperative law, is given specific authorization by chapter 675 to reincorporate under the membership corporation law, if within 6 months from the passage of the act (April 10, 1946) all its members vote to do so.

A South Carolina act (Act No. 417) authorized any 10 "leading and capable citizens" to form a nonprofit hospital-service plan on a prepayment basis. Such a plan must be maintained as a nonprofit "cooperative corporation" and must renew its license annually. The directors (not fewer than 9 nor more than 24) must include representatives of the participating hospitals, licensed physicians, and the general public.

DECISIONS AFFECTING COOPERATIVES

Funeral cooperatives in Iowa won a victory in May 1946, under a decision by the State supreme court. It held, in *State of Iowa v. Winneshiek Cooperative Burial Assn.* (22 N. W. (2d) 800) that the cooperative association in the case was properly organized under the Iowa cooperative law, as an association for the purpose of conducting the "mercantile business" authorized by that law; that embalming was a business and not a profession, and that an association with a licensed embalmer may carry on a funeral-service business without contravention of the statute against corporate practice of a profession.¹⁰

REA cooperatives.—Several court decisions were made during the year affecting electricity cooperatives. On the Pacific Coast, the effort of a private power organization to block an REA cooperative from building and operating an electric-power plant in Walla Walla County was rejected by the superior court. In Washington and Oregon, 13 public utility districts and a number of cooperatives formed Interstate Electric, Inc., for the purpose of purchasing the properties of a subsidiary of a holding company that had been ordered by Securities Exchange Commission to dissolve. The cooperative purchase was designed to prevent a proposed consolidation of the subsidiary with another of the same holding company. The cooperative contended that the consolidation would give the new company a monopoly over Bonneville power and impede the growth of public power distribution. Its contention was rejected by the Federal Power Commission as "lacking in substance," and approval for the merger was granted.

In the Middle West, the Wisconsin Public Service Commission denied the application of Badger Electric Cooperative to buy the properties of a privately owned hydroelectric company. The commission held that the cooperative (financed 100 percent by REA) violated the rule against 100-percent financing of utilities and that its bid was too high; the commission also challenged the cooperative's financial ability to service the 7-county area to be covered. Rehearing was denied, and later a suit by the cooperative for judicial review was dismissed by the circuit court of Dane County. In Iowa, a U. S.

¹⁰For review of previous actions, see Bulletins Nos. 768 (p. 3) and 859 (p. 23).

Supreme Court decision, reversing prior decisions by the Federal Power Commission and the Circuit Court of Appeals for the District of Columbia, opened the way for an Iowa REA cooperative to operate a hydroelectric generating station; the court held that permission of the State board (which had twice refused it) was not necessary, and application could be made directly to the Federal Power Commission (*First Iowa Hydro-Electric Cooperative v. Fed. Power Commission*, 328 U. S. 152).

The Minnesota Supreme Court upheld the right (disputed by a private power company) of a cooperative creamery to obtain power from an REA cooperative of which it was a member and of the latter to serve it; specific permission had already been granted by the village in which the creamery was situated and under whose franchise the private power company was operating (*Gen'l. Minn. Utilities Co. v. Carlton County Coop. Power Assn.*, 22 N. W. (2d) 673).

Decisions on taxation.—Several decisions helped to clarify the tax position of cooperatives in 1946. The Commissioner of Internal Revenue ruled that the patron to whom a patronage refund is credited must be notified of the credit by mail, as soon as possible after the refund has been declared. The U. S. Supreme Court, in a case not related in any way to cooperatives (*Comr. of Int. Revenue v. Wilcox et al.*, 327 U. S. 404) enunciated, however, a principle bearing upon the tax issue, that taxable income cannot "accrue from the mere receipt of property or money which one is obliged to return or repay to the rightful owner." In California, the U. S. Circuit Court of Appeals held that to claim exemption from taxation on patronage refunds "there must be a legal obligation on the part of the association, made before the receipt of the income, to return to the members on a patronage basis, all funds received in excess of the cost of the goods sold" (*Amer. Box Shook Export Assn. v. Comr. of Int. Revenue*, 156 Fed. (2d) 629). In Ohio the Circuit Court of Appeals ruled that an electric-power cooperative was exempt from taxation under section 101 (8) of the Internal Revenue Code, as a nonprofit organization "operated exclusively for the promotion of social welfare" (*U. S. v. Pickwick Electric Membership Corp.*, 158 Fed. (2d) 272).

Taxation of Cooperatives

Farmers' cooperatives meeting certain requirements as to membership and nonmember business have exemption from Federal income tax on amounts held in reserves and on interest paid on share capital; nonfarm cooperatives pay taxes on both of these. Neither type of association is taxed on amounts returned in patronage refunds.

Largely because of charges of unfair competition by cooperatives, made by the National Tax Equality Association,²⁰ the Small Business

²⁰ See Bureau's Bulletins Nos. 821 and 826.

Committee of the House of Representatives held hearings over a period of several months in 1945. Its first interim report²¹ was issued in April 1946. In it the committee concluded that tax-exempt farmer cooperatives have a slight tax advantage in their reserve and interest exemptions but that consumers' cooperatives and nonexempt farmers' associations have no advantages not available to all types of competitive business; that, since the cooperative serves only as an agent for its members, to whom its income belongs, taxation of its income would "require a drastic change in the basic principles of our revenue laws"; that "there is substantial evidence to show that the cooperative movement operates as a very successful means of combating monopolistic concentrations and, as such, is a very healthy addition to the American economy"; and that "many of the most vocal opponents of cooperatives are themselves members of cooperatives and their firms engage as members in cooperative enterprises."

The principal recommendations of the committee were that a single Federal agency be authorized to compile statistics of all types of cooperatives; that the Bureau of Internal Revenue amend its regulations to require cooperatives to issue to each patron evidence of his equity; that farmers' purchasing cooperatives be restricted to the handling of farm production supplies; that the retention of refunds be limited to a period of 5 years; and that Congress act to provide a basis for establishment, operation, and federation of nonexempt associations.

This report was followed, according to the chairman of the Committee, by a flood of letters to Congressmen from small businessmen, "on a scale rarely encountered." A statement issued by the Committee early in June 1946 reiterated the belief that cooperatives, far from being "a threat to the free enterprise system," are actually "an integral part" of that system and "a powerful means of combating monopoly."

Numerous decisions of the courts and of the U. S. Tax Court have held that amounts returned in patronage refunds are not taxable income to the association. Some representatives of profit business seem to agree with it. Thus, a representative of the National Association of Manufacturers, in an address delivered before the Indiana State Grange, expressed the opinion that there is "no justification" for "taxing at the source patronage refunds paid to customers of cooperatives," but he believed that amounts not so distributed should be taxed as earnings.

During 1946 several court decisions relating to taxation, involving or applicable to cooperatives, were delivered (see page 35).

Attitude of farmers' cooperatives.—One of the farmers' papers has expressed the view that the tax exemptions of farmers' cooperatives could be eliminated without hurting the associations. It pointed

²¹ House Report No. 1888 (79th Cong., 2d sess.).

out that nearly half do not now claim exemption, preferring to operate on an open-membership basis,²² and that, actually, "the growth of cooperatives is impeded by having exemption."²³ The Illinois Agricultural Association, in its 1946 convention passed a resolution supporting changes in the Internal Revenue Code and regulations that would provide tax exemption for agricultural cooperatives "on only that portion of their earnings which is distributed to their members or patrons."²⁴ Late in the year the National Association of Cooperatives formulated its own recommendations. It proposed legislation recognizing that all forms of business have an equal right to exemption on patronage refunds, taxing refunds retained in the business without the patron's authorization, allowing exemption on dividends or interest on share capital only as to amounts actually paid therefor "at the specially limited rates set up in the law," and requiring all cooperatives to file income-tax returns and to report each patronage refund of \$100 or more. No prediction can, of course, be made as to what if any action on the subject will be taken in the 80th Congress which convened in January 1947.

²² In order to qualify, a farmers' cooperative must show that all its members are farmers and not over 15 percent of its business is done with nonmembers.

²³ Nebraska Cooperator (Omaha), June 19, 1946.

²⁴ Co-op News (Chicago), March 1946.

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File #1420

UNITED STATES DEPARTMENT OF LABOR
L. B. Schwellenbach, Secretary
BUREAU OF LABOR STATISTICS
Ewan Clague, Commissioner

Activities of Credit Unions in 1945



Bulletin No. 894

For sale by the Superintendent of Documents, U. S. Government Printing Office
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Letter of Transmittal

UNITED STATES DEPARTMENT OF LABOR,
BUREAU OF LABOR STATISTICS,
Washington, D. C., January 17, 1947.

The SECRETARY OF LABOR:

I have the honor to transmit herewith a report on the activities of credit unions in 1945, prepared by Florence E. Parker of the Bureau's Labor Economics Staff.
EWAN CLAGUE, *Commissioner.*

HON. L. B. SCHWELLENBACH,
Secretary of Labor.

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*Bulletin No. 894 of the
United States Bureau of Labor Statistics*

[Reprinted from the MONTHLY LABOR REVIEW, December 1946, with additional data.]

Activities of Credit Unions in 1945

THE slight upward trend in business done by credit unions in the United States in 1944, after a serious decline during the war years, was continued in 1945, although the total of loans made was still more than 40 percent below the peak of 1941. This increase took place in spite of a slight reduction in number of loans made, indicating a rise in the average size of loan. Share capital and assets which (notwithstanding the otherwise adverse business experience of the credit unions during the war) have continued to rise steadily, maintained their upward pace in 1945, showing increases of 8.1 and 9.2 percent, respectively. Reserves fell somewhat, however, both in amount and in relation to loans outstanding, declining as regards the latter from 20.7 percent in 1944 to 19.4 percent in 1945.

Both net earnings and dividends paid on share capital increased as compared with 1944. For 1945, credit union members received nearly \$5,900,000 in dividends on their shares.

Because 398 credit unions went out of existence (some of them undoubtedly in war plants now closed) and only 239 were newly chartered, the total number of associations fell from 9,041 at the end of 1944 to 8,882 at the end of 1945. Partly as a result of this, the total membership declined 3.3 percent.

The State-chartered credit unions fared better during the year than the Federal associations.¹ Their membership declined 0.5 percent, as against 6.7 percent for the Federal associations; they increased their business by 0.8 percent, whereas the loans made by the Federal credit unions fell 0.1 percent. The increases in assets of the two groups of associations were 11.0 and 6.1 percent, respectively.

Operations in 1944 and 1945

Data on membership and business of credit unions in 1944 and 1945 are given in table 1.

¹ For the State-chartered associations the statistical data on which the present report is based were in most cases furnished to the Bureau of Labor Statistics by the State official—usually the Superintendent of Banks—charged with supervision of these associations. Reports were received from all States except Iowa. For that State and for certain items concerning which some States do not require the associations to report, estimates were made, based on the trend in other States and on the trend of the other items in the same State. All of the information for the Federal credit unions was supplied by the Credit Union Division of the Federal Deposit Insurance Corporation.

TABLE 1.—Operations of credit unions in 1944 and 1945, by States

[Some revisions in 1944 figures, on basis of later reports]

State, and type of charter	Year	Number of associations ¹		Number of members	Number of loans made during year	Amount of loans—	
		Total	Reporting			Made during year	Outstanding end of year
All States.....	1945	8,882	8,615	2,838,034	1,511,851	\$210,885,783	\$126,277,698
	² 1944	9,041	8,702	2,933,507	1,591,132	209,955,479	120,955,395
State associations.....	1945	4,923	4,858	1,621,409	909,922	132,616,939	91,122,284
	² 1944	4,993	4,907	1,629,706	926,518	131,621,582	86,551,928
Federal associations.....	1945	3,959	3,757	1,216,625	601,929	78,268,844	35,155,414
	1944	4,048	3,795	1,303,801	664,614	78,333,897	34,403,467
Alabama.....	1945	78	76	28,258	34,261	4,147,161	1,929,705
	² 1944	80	77	26,806	³ 26,948	3,155,213	1,534,975
Arizona.....	1945	23	22	3,285	³ 1,367	³ 339,842	135,613
	1944	24	24	3,419	³ 1,350	547,043	117,812
Arkansas.....	1945	25	25	3,059	1,824	194,567	113,615
	1944	27	26	2,862	1,685	163,980	86,860
California.....	1945	444	432	³ 171,391	³ 78,839	³ 12,926,276	8,171,810
	1944	451	442	³ 184,969	³ 89,047	³ 13,481,423	7,761,778
Colorado.....	1945	106	102	25,999	³ 17,312	³ 2,247,274	1,349,980
	1944	107	100	25,645	³ 18,259	³ 2,105,359	1,151,187
Connecticut ⁴	1945	186	180	75,118	41,755	4,821,201	1,744,467
	1944	185	179	89,517	47,962	5,742,389	1,963,648
Delaware ⁴	1945	10	9	2,126	1,003	132,166	71,371
	1944	10	9	2,114	1,148	139,085	67,574
District of Columbia.....	1945	112	108	62,095	³ 33,236	3,825,016	1,976,325
	1944	114	106	66,099	³ 38,052	3,881,868	2,065,336
Florida.....	1945	160	156	35,202	22,659	3,683,161	2,099,007
	1944	168	162	34,991	25,251	3,248,585	1,774,033
Georgia.....	1945	132	128	33,837	³ 22,879	³ 3,090,362	2,068,728
	1944	135	131	34,117	³ 22,744	³ 2,886,066	1,896,131
Hawaii ⁴	1945	96	95	36,112	11,116	2,155,997	930,429
	1944	97	96	37,753	10,076	1,941,163	1,001,467
Idaho.....	1945	31	31	³ 3,971	1,405	185,467	102,729
	1944	33	31	3,895	1,329	173,653	87,049
Illinois.....	1945	762	758	330,830	³ 238,519	28,929,683	14,011,222
	1944	766	756	290,032	³ 226,575	25,698,370	13,135,592
Indiana.....	1945	297	295	³ 93,502	³ 44,616	³ 5,755,008	3,529,359
	² 1944	299	294	³ 97,967	³ 51,326	³ 6,278,072	3,378,962
Iowa.....	² 1945	195	195	40,779	18,446	2,397,601	1,771,508
	1944	201	196	41,395	18,921	2,420,443	1,825,666
Kansas.....	1945	112	110	25,068	13,056	1,971,470	1,082,077
	² 1944	117	111	27,914	³ 14,423	³ 1,952,696	1,071,793
Kentucky.....	1945	104	103	³ 24,582	³ 16,209	³ 1,841,919	³ 1,366,101
	1944	108	107	³ 26,649	³ 15,214	³ 1,752,616	1,366,019
Louisiana.....	1945	131	125	³ 32,405	³ 17,008	³ 2,158,785	1,066,420
	² 1944	139	132	³ 32,241	³ 17,270	³ 2,143,350	³ 1,037,703
Maine.....	1945	38	35	9,273	3,672	450,641	261,743
	1944	44	35	9,080	3,967	441,178	237,840
Maryland.....	1945	64	60	25,109	³ 17,395	³ 1,942,507	804,623
	1944	65	60	26,748	³ 17,458	³ 1,883,517	784,897
Massachusetts.....	1945	539	535	255,007	³ 122,570	22,917,547	16,436,655
	1944	537	532	257,260	³ 122,591	22,654,669	15,466,050
Michigan.....	1945	248	240	108,633	50,172	8,683,432	6,389,549
	² 1944	253	241	114,320	³ 51,950	³ 8,437,474	5,981,086
Minnesota.....	1945	325	324	65,734	28,713	4,598,703	5,806,028
	² 1944	332	329	66,696	³ 33,369	³ 3,662,418	5,451,077
Mississippi.....	1945	26	23	³ 5,553	³ 4,787	³ 462,150	191,042
	1944	27	24	6,640	³ 5,784	³ 530,067	226,352
Missouri.....	1945	369	340	88,761	³ 41,867	³ 4,868,432	3,116,292
	1944	378	359	90,834	³ 44,328	³ 5,432,884	3,185,792
Montana.....	1945	40	37	7,175	³ 2,952	³ 440,493	261,103
	1944	40	37	6,382	³ 2,284	³ 373,912	201,345
Nebraska.....	1945	89	87	19,381	8,795	1,253,906	730,378
	1944	96	88	20,595	9,862	1,320,588	717,155
Nevada ⁴	1945	4	4	584	108	16,185	9,386
	1944	4	4	562	104	13,004	7,169
New Hampshire.....	1945	16	14	5,698	³ 3,017	³ 760,720	640,680
	1944	15	14	6,151	³ 3,557	³ 788,041	653,906
New Jersey.....	1945	247	237	99,042	50,390	5,809,257	2,416,596
	1944	240	233	114,225	63,925	6,362,951	2,632,417
New Mexico ⁴	1945	14	13	1,304	333	46,262	25,220
	1944	14	14	1,324	589	63,358	28,217
New York.....	1945	753	721	258,397	³ 127,090	³ 20,785,191	12,608,773
	1944	763	729	279,116	³ 144,310	³ 23,601,108	12,806,928
North Carolina.....	1945	195	168	35,471	³ 17,801	³ 2,078,429	1,934,614
	1944	173	151	29,387	17,822	2,068,966	1,256,073

See footnotes at end of table.

TABLE 1.—Operations of credit unions in 1944 and 1945, by States—Continued

State, and type of charter	Year	Number of associations ¹		Number of members	Number of loans made during year	Amount of loans—	
		Total	Reporting			Made during year	Outstanding end of year
North Dakota	1945	93	87	11,766	3,300	\$1,115,835	\$805,445
	1944	97	80	10,589	3,241	738,280	486,812
Ohio	1945	583	567	188,522	84,927	11,896,005	6,012,876
	1944	589	575	214,099	97,508	12,317,470	6,311,501
Oklahoma	1945	71	66	² 16,225	² 7,760	² 1,330,282	864,512
	1944	75	72	16,513	² 7,737	² 1,238,328	² 710,019
Oregon	1945	71	68	12,491	4,420	749,837	531,506
	1944	75	71	13,053	5,135	811,167	544,424
Pennsylvania	1945	586	571	213,503	106,331	13,435,747	6,326,211
	1944	587	560	224,151	111,023	13,406,338	6,296,028
Rhode Island	1945	36	35	26,648	6,275	2,445,642	4,510,639
	1944	37	34	25,792	7,082	2,023,922	3,781,404
South Carolina	1945	35	29	6,922	5,651	416,753	204,162
	1944	39	31	7,688	5,346	427,749	190,507
South Dakota ⁴	1945	32	32	4,818	1,970	236,954	99,457
	1944	32	32	5,176	2,547	273,901	119,880
Tennessee	1945	117	115	33,903	² 26,412	² 3,788,965	1,578,663
	1944	127	124	34,567	² 27,298	² 3,581,047	1,428,126
Texas	1945	334	319	76,217	² 44,953	² 6,133,740	3,229,896
	1944	350	328	77,952	² 45,870	² 5,763,109	3,063,612
Utah	1945	64	62	11,375	² 10,152	² 1,328,692	637,293
	1944	66	65	11,577	² 7,625	² 1,204,492	567,092
Vermont	1945	10	9	1,692	² 1,108	² 76,395	27,389
	1944	9	9	1,562	1,265	74,947	27,554
Virginia	1945	86	83	23,391	16,519	1,619,262	843,257
	1944	91	86	25,396	14,366	1,462,221	901,198
Washington	1945	178	174	35,404	² 15,846	² 1,947,710	1,234,717
	1944	188	180	37,739	² 18,999	2,428,191	² 1,280,285
West Virginia	1945	63	59	15,318	9,839	1,026,200	510,424
	1944	67	60	15,857	² 7,983	² 764,907	452,887
Wisconsin	1945	534	534	144,594	70,319	7,265,449	3,625,734
	1944	551	548	151,509	77,640	7,885,115	3,655,518
Wyoming ⁴	1945	18	17	2,504	877	155,504	81,599
	1944	19	18	2,582	947	168,766	86,600

¹ Most of the difference between the total number of associations and the number reporting is accounted for by associations chartered but not in operation by the end of the year and associations in liquidation which had not relinquished their charters.

² Revised.

³ Partly estimated.

⁴ Federal associations only; no State-chartered associations in this State.

⁵ Federal associations only; although State permissive legislation was passed in 1945 no associations had yet been formed under it.

Fifteen States (Alabama, Arkansas, Colorado, Delaware, Florida, Idaho, Illinois, Louisiana, Maine, Montana, Nevada, North Carolina, North Dakota, Rhode Island, and Vermont) showed a membership increase. Their slight gains, however, were not sufficient to overcome the losses in members in the other States.

The prewar level of business was reached or exceeded in 1945 by both State and Federal associations in Alabama, Montana, and Vermont, by the State-chartered associations in Rhode Island, and by the Federal credit unions in Utah.

Data on the financial status of credit unions, by States, is given in table 2.

TABLE 2.—Assets and earnings of credit unions, 1944 and 1945, by States

State, and type of charter	Year	Number of associations ¹		Paid-in share capital	Reserves (guaranty fund, general reserve, etc.)	Total assets	Net earnings	Dividends on shares
		Total	Reporting					
All States.....	1945	8,882	8,615	\$366,201,586	\$24,506,019	\$434,627,135	\$7,839,810	\$5,888,412
	1944	9,041	8,702	338,713,383	25,081,703	397,929,814	5,716,736	5,122,454
State associations.....	1945	4,923	4,858	225,587,624	19,595,211	281,524,015	5,278,300	3,781,036
	1944	4,993	4,907	205,127,236	17,023,389	253,663,658	3,507,152	3,368,794
Federal associations.....	1945	3,959	3,757	140,613,962	4,910,808	153,103,120	2,561,510	2,107,376
	1944	4,048	3,795	133,586,147	8,058,314	144,266,156	2,209,584	1,753,660
Alabama.....	1945	78	76	3,490,315	331,965	3,908,510	94,715	76,509
	1944	80	77	2,753,163	275,891	3,081,166	82,859	62,830
Arizona.....	1945	23	22	340,278	16,331	370,860	7,580	4,908
	1944	24	24	318,418	24,464	349,497	4,908	4,455
Arkansas.....	1945	24	24	280,647	19,108	314,409	6,194	5,841
	1944	28	26	219,261	17,720	232,625	4,932	3,896
California.....	1945	444	432	23,072,165	1,192,163	26,986,463	408,543	286,432
	1944	451	442	22,313,274	1,487,572	25,910,483	407,721	250,641
Colorado.....	1945	106	102	3,534,312	193,990	4,017,658	77,090	53,773
	1944	108	100	2,898,805	229,402	3,354,663	72,654	51,381
Connecticut ²	1945	186	180	10,886,299	323,390	12,517,942	246,542	170,143
	1944	185	179	12,849,767	548,399	13,575,000	207,095	158,189
Delaware ³	1945	10	9	177,527	9,824	192,605	4,463	4,169
	1944	10	9	161,965	13,305	176,276	3,391	3,208
Dist. of Columbia.....	1945	112	108	5,851,332	500,025	6,613,620	202,550	115,011
	1944	113	106	5,472,271	527,168	6,203,746	170,029	111,651
Florida.....	1945	160	156	5,742,807	228,720	6,191,836	122,329	89,530
	1944	170	162	4,629,791	278,735	5,014,622	104,471	73,180
Georgia.....	1945	132	128	1,599,847	475,877	5,339,232	104,657	70,387
	1944	138	131	1,425,875	396,375	4,778,774	100,237	63,359
Hawaii.....	1945	96	95	9,920,711	245,751	10,558,538	173,028	136,026
	1944	97	96	8,785,479	399,350	9,253,563	158,711	112,905
Idaho.....	1945	31	31	362,180	12,587	382,466	5,009	4,152
	1944	33	31	292,468	17,595	312,947	3,709	3,824
Illinois.....	1945	762	758	47,144,644	2,931,533	51,250,789	938,364	778,743
	1944	766	756	42,522,556	2,924,278	46,666,917	322,849	645,723
Indiana.....	1945	297	295	12,893,396	605,425	14,099,255	173,438	134,715
	1944	297	294	12,106,052	869,698	13,217,602	161,751	114,888
Iowa.....	1945	195	195	5,278,339	282,273	6,082,772	70,904	45,410
	1944	201	196	5,172,242	281,504	5,037,066	88,595	93,051
Kansas.....	1945	112	110	3,104,637	125,397	3,372,538	45,765	31,846
	1944	118	111	2,805,222	143,798	3,059,167	48,959	31,585
Kentucky.....	1945	104	103	1,603,451	237,313	3,777,484	43,203	28,979
	1944	108	107	2,865,077	215,170	3,304,051	42,401	28,474
Louisiana.....	1945	131	125	3,135,173	229,695	3,468,822	62,663	49,444
	1944	145	132	2,775,840	281,554	3,081,504	60,209	40,808
Maine.....	1945	38	35	905,029	80,954	1,021,718	10,333	12,092
	1944	44	35	735,914	82,502	889,104	8,287	10,526
Maryland.....	1945	64	60	2,143,396	234,146	2,522,736	64,802	47,013
	1944	66	60	2,029,995	230,933	2,370,134	56,182	40,431
Massachusetts.....	1945	539	535	34,835,929	4,094,449	48,036,635	1,170,221	812,162
	1944	537	532	30,893,107	3,176,049	42,322,457	379,626	609,262
Michigan.....	1945	248	240	1,897,722	866,627	21,265,393	306,032	291,839
	1944	253	241	17,420,056	826,662	19,622,464	320,972	246,189
Minnesota.....	1945	325	324	10,445,037	547,621	14,132,049	195,008	203,950
	1944	365	329	8,995,484	547,967	12,231,282	4,745	170,283
Mississippi.....	1945	26	23	394,429	23,759	619,069	21,793	8,361
	1944	27	24	508,580	53,008	589,365	14,262	6,356
Missouri.....	1945	369	340	12,350,600	554,521	13,550,872	162,124	97,497
	1944	378	359	10,490,289	601,875	11,592,194	160,978	95,154
Montana.....	1945	40	37	631,187	18,386	679,020	14,370	10,049
	1944	42	37	460,586	23,642	495,219	8,565	6,486
Nebraska.....	1945	89	87	2,258,249	119,160	2,806,406	39,891	29,888
	1944	91	88	2,042,738	135,202	2,567,729	44,475	24,207
Nevada ⁴	1945	4	4	30,220	1,412	32,588	487	456
	1944	4	4	25,011	1,741	26,764	119	287
New Hampshire.....	1945	16	14	521,102	89,449	1,352,729	32,026	9,896
	1944	15	14	490,954	85,489	1,114,147	28,528	9,966
New Jersey.....	1945	247	237	11,997,931	526,189	13,734,068	268,184	196,245
	1944	241	233	12,027,205	579,566	13,166,766	202,493	171,265
New Mexico ⁵	1945	14	13	97,912	5,057	104,125	623	816
	1944	14	14	80,794	6,582	87,586	872	862
New York.....	1945	753	721	32,051,449	3,381,877	36,700,864	770,253	558,692
	1944	764	729	31,673,401	3,132,182	36,573,853	682,279	542,878
North Carolina.....	1945	195	168	4,390,565	168,470	6,012,566	32,680	23,266
	1944	173	151	2,796,132	159,545	3,571,806	82,861	37,909

See footnotes at end of table.

TABLE 2.—Assets and earnings of credit unions, 1944 and 1945, by States

State, and type of charter	Year	Number of associations ¹		Paid-in share capital	Reserves (guaranty fund, general reserve, etc.)	Total assets	Net earnings	Dividends on shares
		Total	Reporting					
All States.....	1945	8,882	8,615	\$366,201,586	\$24,506,019	\$434,627,135	\$7,839,810	\$5,888,412
	1944	9,041	8,702	338,713,383	25,081,703	397,929,814	5,716,736	5,122,454
State associations.....	1945	4,923	4,858	225,587,624	19,595,211	281,524,015	5,278,300	3,781,036
	1944	4,993	4,907	205,127,236	17,023,389	253,663,638	3,507,152	3,368,794
Federal associations.....	1945	3,959	3,757	140,613,962	4,910,808	153,103,120	2,561,510	2,107,376
	1944	4,048	3,795	133,586,147	8,058,314	144,266,156	2,209,584	1,753,660
Alabama.....	1945	78	76	3,490,315	331,965	3,908,510	94,715	76,509
	1944	80	77	2,753,163	275,891	3,081,166	82,859	62,830
Arizona.....	1945	23	22	340,278	16,331	370,860	7,580	4,908
	1944	24	24	318,418	24,464	349,497	4,908	4,455
Arkansas.....	1945	24	24	280,647	19,108	314,409	6,194	5,841
	1944	28	26	219,261	17,720	232,625	4,932	3,896
California.....	1945	444	432	23,072,165	1,192,163	26,986,463	408,543	286,432
	1944	451	442	22,313,274	1,487,572	26,910,483	407,721	250,641
Colorado.....	1945	106	102	3,534,312	193,990	4,017,658	77,060	53,773
	1944	106	100	2,896,805	229,402	3,354,663	72,654	51,381
Connecticut ²	1945	186	180	10,886,299	323,390	12,517,942	246,542	170,143
	1944	185	179	12,849,767	548,399	13,578,000	207,095	158,189
Delaware ³	1945	10	9	177,627	9,824	192,605	4,463	4,169
	1944	10	9	161,965	13,305	176,276	3,391	3,208
Dist. of Columbia.....	1945	112	108	5,851,332	500,025	6,613,620	202,550	115,011
	1944	113	106	5,472,271	527,168	6,203,746	170,029	111,651
Florida.....	1945	160	156	5,742,807	228,720	6,191,836	122,329	89,530
	1944	170	162	4,629,791	278,735	5,014,622	104,471	73,180
Georgia.....	1945	132	128	1,599,847	475,877	5,339,232	104,657	70,387
	1944	138	131	1,425,875	396,375	4,778,774	100,237	63,359
Hawaii.....	1945	96	95	9,920,711	245,751	10,558,538	173,028	136,026
	1944	97	96	8,785,479	399,350	9,253,563	158,711	112,905
Idaho.....	1945	31	31	362,180	12,587	382,466	5,009	4,152
	1944	33	31	292,498	17,595	312,947	3,709	3,824
Illinois.....	1945	762	758	47,144,644	2,931,533	51,250,789	938,364	778,743
	1944	766	756	42,522,556	2,924,278	46,666,917	322,849	645,723
Indiana.....	1945	297	295	12,893,396	605,425	14,099,255	173,438	134,715
	1944	297	294	12,106,052	869,698	13,217,602	161,751	114,888
Iowa.....	1945	195	195	5,278,339	282,273	6,082,772	70,904	45,410
	1944	201	196	5,172,242	281,504	6,037,066	88,595	93,051
Kansas.....	1945	112	110	3,104,637	125,397	3,372,538	45,765	31,846
	1944	118	111	2,805,222	143,798	3,059,167	48,959	31,585
Kentucky.....	1945	104	103	1,603,451	237,313	3,777,484	43,203	28,979
	1944	108	107	2,865,077	215,170	3,304,051	42,401	28,474
Louisiana.....	1945	131	125	3,135,173	229,695	3,468,822	62,663	49,444
	1944	145	132	2,775,840	281,554	3,081,504	60,209	40,808
Maine.....	1945	38	35	905,029	80,954	1,021,718	10,333	12,092
	1944	44	35	735,914	82,502	889,104	8,287	10,526
Maryland.....	1945	64	60	2,143,396	234,146	2,522,736	64,802	47,013
	1944	66	60	2,029,995	230,933	2,370,134	56,182	40,431
Massachusetts.....	1945	539	535	34,835,929	4,094,449	48,036,635	1,170,221	812,162
	1944	537	532	30,893,107	3,176,049	42,322,457	379,626	609,262
Michigan.....	1945	248	240	1,897,722	866,627	21,265,393	306,032	291,839
	1944	253	241	17,420,056	826,662	19,622,464	320,972	246,189
Minnesota.....	1945	325	324	10,445,037	547,621	14,132,049	195,008	203,950
	1944	365	329	8,995,484	547,967	12,231,282	4,745	170,283
Mississippi.....	1945	26	23	394,429	23,759	619,069	21,793	8,361
	1944	27	24	508,580	53,008	589,365	14,262	6,356
Missouri.....	1945	369	340	12,350,600	554,521	13,550,872	162,124	97,497
	1944	378	359	10,490,289	601,875	11,592,194	160,978	95,154
Montana.....	1945	40	37	631,187	18,386	679,020	14,370	10,049
	1944	42	37	460,586	23,642	495,219	8,565	6,486
Nebraska.....	1945	89	87	2,258,249	119,160	2,806,406	39,891	29,888
	1944	91	88	2,042,738	135,202	2,567,729	44,475	24,207
Nevada ⁴	1945	4	4	30,220	1,412	32,588	487	456
	1944	4	4	25,011	1,741	26,764	119	287
New Hampshire.....	1945	16	14	521,102	89,449	1,352,729	32,026	9,896
	1944	15	14	490,954	85,489	1,114,147	28,528	9,966
New Jersey.....	1945	247	237	11,997,931	526,189	13,734,068	268,184	196,245
	1944	241	233	12,027,205	579,566	13,166,766	202,493	171,265
New Mexico ⁵	1945	14	13	97,912	5,057	104,125	623	816
	1944	14	14	80,794	6,582	87,586	872	862
New York.....	1945	753	721	32,051,449	3,381,877	36,700,864	770,253	558,692
	1944	764	729	31,673,401	3,132,182	36,573,853	682,279	542,878
North Carolina.....	1945	195	168	4,390,565	168,470	6,012,566	32,680	23,266
	1944	173	151	2,796,132	159,545	3,571,806	82,861	37,909

See footnotes at end of table.

TABLE 2.—Assets and earnings of credit unions, 1944 and 1945, by States—Continued

State, and type of charter	Year	Number of associations ¹		Paid-in share capital	Reserves (guaranty fund, general reserve, etc.)	Total assets	Net earnings	Dividends on shares
		Total	Reporting					
North Dakota.....	1945	93	87	\$2,153,640	\$38,597	\$2,233,424	\$29,759	\$16,756
	1944	95	80	1,560,501	29,867	1,617,913	17,366	10,325
Ohio.....	1945	583	567	22,665,272	788,602	24,223,640	321,372	278,563
	1944	589	575	22,554,131	1,009,014	24,336,012	288,882	242,121
Oklahoma.....	1945	71	66	954,852	79,711	2,246,601	² 43,115	² 31,315
	1944	75	72	764,011	86,153	1,812,545	26,130	19,521
Oregon.....	1945	71	68	1,657,161	91,957	1,819,237	27,014	24,054
	1944	75	71	1,585,523	99,714	1,749,892	26,027	21,137
Pennsylvania.....	1945	586	571	22,109,027	831,494	24,033,969	451,817	381,417
	1944	587	560	19,976,363	1,255,130	22,065,186	380,534	331,854
Rhode Island.....	1945	36	35	4,160,685	430,473	10,904,433	149,536	85,942
	1944	37	34	3,713,056	369,780	9,134,996	129,433	75,431
South Carolina.....	1945	35	29	475,998	30,274	537,129	8,278	8,058
	1944	39	31	492,980	44,716	561,540	8,053	6,947
South Dakota ³	1945	32	32	495,777	19,794	531,688	8,402	8,422
	1944	32	32	432,363	34,466	467,914	7,420	7,302
Tennessee.....	1945	117	115	4,285,476	509,368	4,939,793	120,941	97,514
	1944	127	124	3,613,033	367,724	4,253,506	57,534	76,779
Texas.....	1945	334	319	10,680,407	705,052	11,795,192	205,521	168,980
	1944	354	328	9,565,633	839,769	10,634,060	² 221,783	² 160,116
Utah.....	1945	64	62	1,441,870	72,840	1,612,069	² 34,015	² 23,674
	1944	66	65	1,291,712	80,718	1,444,259	² 32,706	² 21,061
Vermont.....	1945	10	9	67,859	2,250	81,164	1,019	448
	1944	9	9	72,201	2,584	75,826	735	398
Virginia.....	1945	86	83	1,623,534	213,237	2,082,280	39,775	36,130
	1944	91	86	1,629,188	316,819	2,159,086	41,094	31,496
Washington.....	1945	178	174	4,354,530	348,999	4,776,410	95,303	80,769
	1944	200	180	4,074,313	371,762	4,467,146	56,318	44,981
West Virginia.....	1945	63	59	1,185,546	109,095	1,413,816	25,913	22,998
	1944	67	60	1,009,311	129,608	1,201,774	24,446	22,913
Wisconsin.....	1945	534	534	17,144,895	1,546,123	19,065,759	395,744	229,798
	1944	551	548	15,110,319	1,453,581	16,871,283	361,551	219,135
Wyoming ³	1945	18	17	292,789	9,141	309,246	6,428	5,334
	1944	19	18	230,943	15,375	246,337	5,489	4,808

¹ Most of the difference between the total number of associations and the number reporting is accounted for by associations chartered but not in operation by the end of the year and associations in process of liquidation which had not relinquished their charters.

² Partly estimated.

³ Federal associations only; no State-chartered associations in this State.

⁴ Includes interest paid on deposits by State-chartered associations.

⁵ Loss.

⁶ Federal associations only; although State permissive legislation was passed in 1945, no associations had yet been formed under it.

Trend in Formation of Associations in 1945

Table 3 shows, by States, the number of associations formed and dissolved in 1945, and the total and number reporting at the end of the year.

TABLE 3.—*Trend of formation and dissolution of credit unions in 1945*

State and type of association	Number of credit unions					State and type of association	Number of credit unions				
	End of 1944	Chartered in 1945	Canceled in 1945	End of 1945			End of 1944	Chartered in 1945	Canceled in 1945	End of 1945	
				Total	Reporting					Total	Reporting
All States	9,041	239	398	8,882	8,615	Mississippi	27	3	4	26	23
State assns	4,993	143	213	4,923	4,858	Missouri	378	8	17	369	340
Federal assns	4,048	96	185	3,959	3,757	Montana	40			40	37
Alabama	80	2	4	78	76	Nebraska	96	3	10	89	87
Arizona	24		1	23	22	Nevada	4			4	4
Arkansas	27		3	24	24	New Hampshire	15	1		16	14
California ¹	451	7	14	444	432	New Jersey	240	11	4	247	237
Colorado	107	3	4	106	99	New Mexico	14			14	13
Connecticut	185	7	6	186	180	New York	763	14	24	753	721
Delaware	10			10	9	North Carolina ¹	173	29	7	195	168
District of Columbia	114	2	4	112	108	North Dakota	97	4	8	93	87
Florida	168	3	11	160	156	Ohio	589	15	21	583	567
Georgia	135	3	6	132	128	Oklahoma	75		4	71	66
Hawaii	97	1	2	96	95	Oregon	75	1	5	71	68
Idaho	33		2	31	31	Pennsylvania	587	15	16	586	571
Illinois	766	27	31	762	758	Rhode Island	37		1	36	35
Indiana	299	4	6	297	295	South Carolina	39	1	5	35	29
Iowa ²	201		6	195	195	South Dakota	32	1	1	32	32
Kansas	117	4	9	112	110	Tennessee	127	2	12	117	115
Kentucky	108	3	7	104	103	Texas	350	8	24	334	319
Louisiana	139	2	10	131	125	Utah	65	1	3	64	62
Maine	44	2	8	38	35	Vermont	9	1		10	9
Maryland	65	1	2	64	60	Virginia	91		6	86	83
Massachusetts	537	12	10	539	535	Washington	188	26	36	178	174
Michigan	253	6	11	248	240	West Virginia	67	1	5	63	59
Minnesota	332	1	8	325	324	Wisconsin	551	3	20	534	534
						Wyoming	19		1	18	17

¹ Some revisions, on basis of later information.

² Partly estimated.

State Legislation

California.—Several measures were enacted affecting the credit unions. Chapter 1262 eliminated the requirement that the number of persons in the field of membership be specified when a credit union is organized, and limited votes to one per member in all associations organized on or after September 15, 1945. Chapter 651 raised the maximum amount permissible for a secured loan to \$3,000 or 10 percent of the credit union's capital, whichever is greater (but in no case to exceed \$10,000); and provided that on loans over \$3,000 the excess must be secured by real and/or personal property. No loans may be made to directors or committee members in excess of their investment; henceforth a borrower may be elected as director or committee member, but will forfeit his office in case of default on repayment of his loan. Under chapter 438, formal meetings of the credit committee are apparently no longer required, the former provision being amended to require only that loans be approved in writing by a majority of the committee.

The duties of the supervisory committee now include the mandatory requirement that the committee make an annual audit of the books and records (ch. 1262).

A range of examination charges is established, varying according to assets of the credit union (ch. 1318), the Commissioner of Corporations being authorized to make certain adjustments in these, to suspend or revoke the licenses of associations failing to pay such charges before the end of the year, and to make extra charges for special services rendered by his office. Chapter 475 gives him certain powers over credit unions operating on an unsound basis or with impaired capital; provides that if three-fourths of the directors vote to recommend the dissolution of an association, liquidation may be carried out on vote of a majority of members; and specifies procedures for liquidation. It likewise provides for mergers of credit unions with "like community interests," upon majority affirmative vote of the directors and a three-fourths vote of the members.

Annual reports must be made to the commissioner within 90 days of the close of the calendar year, failing which an association may have its charter suspended (ch. 437). Chapter 467 permits any credit union to take out group life insurance for its members.

Colorado.—An amendment (ch. 113) permits members of the immediate family of a credit-union member to join the association and to have joint accounts with him; permits members withdrawing from the field of membership to leave in their shares and deposits, if so provided by the bylaws, but they are prohibited thereafter from borrowing from the credit union amounts in excess of their holdings; requires that 20 percent of annual earnings shall be set aside in the reserve fund until the latter equals 15 percent of loans outstanding, and thereafter 15 percent until the reserve equals 20 percent of outstanding loans; authorizes the directors (instead of membership meeting) to declare dividends; and authorizes the formation of a central credit union.

Connecticut.—This State passed a credit-union law in 1939, but no association was ever formed under it. The 1945 legislature made several liberalizing amendments to the act. By chapter 192b the previous license fee of \$50 was reduced to \$20 and the filing fee was set at \$10. Associations formed under the act may use either the name "credit union" or "mutual benefit association," but must specify "in detail" in their articles of incorporation the proposed field of membership. Shares may be \$5 or a multiple thereof. Copies of the bylaws must be supplied to members on request. The amendment permits credit associations to take out insurance on the lives of borrowers (to safeguard their loans) and to invest in bonds legal for savings banks and (not to exceed 10 percent of assets) in building and loan associations in the State. Annual meetings may vote to pay the

officers compensation for their services. A new provision prohibits proxy voting at meetings.

The limit on unsecured loans was raised from \$100 to \$300 and on the individual member's shareholdings from \$1,000 to \$3,000 (but no more than \$1,000 of this to be added in any calendar year).

Officers other than president, vice president, treasurer, and secretary may be provided for in the bylaws, and the manner of their election (whether by members or directors) may also be specified. The directors must meet at least once a month. A fidelity bond must be provided by the treasurer before entering upon his duties.

Florida.—Act No. 499 (ch. 23013) reduced the voting requirement for dissolution of an association from four-fifths of the members to a majority.

Indiana.—The 1945 amendment (ch. 198) reduces the total reserves required from 20 to 10 percent of the paid-in capital (after this amount is reached no further set-asides are required), permits credit unions to carry an undivided profits account, sets January 31 and July 31 as the dates for reports to the State Department of Financial Institutions, and provides that credit unions shall be subject to the same taxes as savings banks.

Maryland.—Chapter 409 authorizes credit unions to make first-mortgage loans up to \$1,500 (but not exceeding 50 percent of the appraised value of the property), at a rate of interest not over 6 percent, amortized over a period not greater than 20 years; all such loans must have the approval of the Bank Commissioner. The proportion of annual earnings to be set aside in reserves was reduced from 25 to 20 percent (ch. 665); after the reserves are equal to 20 percent of the paid-in share capital, only such sums shall be required to be set aside as are necessary to keep the reserve fund at that level.

Credit unions may hereafter borrow from any source (including other credit unions) amounts not exceeding 25 percent of their assets for not longer than 90 days, but this may be extended for a like period on approval of the commissioner. A credit union may also make loans to another credit union (ch. 315). It may also, upon approval, invest its surplus capital in insured building and loan associations (ch. 666). Chapter 515 imposes a \$10 franchise fee.

Massachusetts.—Chapter 37 authorizes savings banks, cooperative banks (building and loan associations), trust companies, and credit unions holding a first mortgage on real estate to take, in substitution therefore from a bona fide purchaser, a first mortgage in an amount not exceeding that due on the existing first mortgage and accumulated interest, taxes, municipal liens, and other proper charges due thereon. The same organizations are authorized (1) by chapter 46 for a period of 5 years after the termination of the war to make loans to veterans, and all limitations on the loans of such organizations are suspended as

regards veterans' loans, and (2) by chapter 66 to make housing loans. Chapter 81 authorizes and prescribes conditions for trustee accounts in credit unions.

Chapter 82 amends chapter 102 of 1941 to provide that credit unions with assets of not more than \$75,000 may invest not over 50 percent and those with assets of over that amount 70 percent of their shares, deposits, and guaranty fund in real-estate mortgages; however, the total liability of any member upon loans so secured shall not exceed 5 percent of the credit union assets nor \$8,000. The terms upon which such loans may be made are also prescribed.

Minnesota.—By the terms of chapter 540, credit unions in Minnesota, chartered by either the State or the Federal Government, are permitted to become members of other credit unions. Annual reports are required to be filed with the Commissioner of Banks on or before January 15 of each year. The aggregate amount of borrowings of any credit union may not exceed 35 percent of its unimpaired assets. In the case of a loan to a director or committee member which exceeds the amount of his investment in the credit union, the loan must be approved by a joint meeting of the board and both committees.

Nebraska.—Extensive revisions of the credit-union law by chapter 41 require a member to own a fully paid share in order to be eligible for a loan or to vote at meetings, remove the previous limit on the maximum loan to any member and authorize the board of directors to fix the limit, permit loans to directors and committee members in excess of their holdings if approved by the credit committee and a majority of the supervisory committee in the absence of the borrower concerned, authorize the credit committee to require a borrower to pledge his shares as security, and permit the application of the shares of a defaulting borrower or withdrawing member toward payment of his loan. The directors are authorized to determine (instead of recommend, as previously) the rate of dividend on shares; this may be done on the basis of the share and loan balances as of December 15, instead of the end of the association's fiscal year, if the board chooses. It may also fix the treasurer's compensation (previously done by membership meeting). The payment of patronage refunds to borrowers is hereafter permitted, as is also the verification of pass-books by mailed notice to the member, confirmed by the member himself.

New Mexico.—A new credit-union law (ch. 129) was enacted in this State. It places the credit unions under the supervision of the State Bank Examiner, provides a filing fee of \$5 for articles of incorporation and bylaws, and reserves the name "credit union" to associations formed under the act. Such an association is authorized to accept savings either as shares or as deposits, to make loans to mem-

bers (who may be other credit unions as well as individual persons), to invest in any investment legal for savings or trust funds and not over 25 percent of its capital in paid-up shares of building and loan associations and in other credit unions, to borrow money aggregating not over 25 percent of its assets, and to become a member of a central credit union.

Individual membership in any credit union is limited to persons with a common bond or occupation or association or to groups within a well-defined neighborhood, community or rural district, and the members of their immediate family (but special limitations on the rights and privileges may be imposed on this latter group). Organizations of substantially the same group as the credit union membership may also be admitted, as well as other credit unions and their officers and committee members. Members leaving the sphere of operation of the association may leave in their shares and deposits if permitted by the bylaws, but may not thereafter borrow from it in amounts exceeding these holdings. Joint accounts are permitted.

The fiscal year shall end December 31 and the annual meeting must be held within the next 45 days. Special meetings may be called and held as specified in the bylaws. At all meetings each member shall have only one vote; proxy voting is prohibited except that member associations may cast their vote through a delegate.

The board of directors (not less than 5 members), the credit committee (not less than 3), and the supervisory committee (3) are to be elected at the annual meeting for such terms as the bylaws provide.

Officers—president, vice president, treasurer, and clerk (secretary)—are to be elected by the directors from their own number. The board is authorized to act upon membership applications, fix bonds for all persons handling money, determine rates of interest on loans and deposits, declare dividends, fill vacancies in the board and credit committee, set maximum shares and loans allowed per member, and have charge of all investments other than loans.

The treasurer is designated as the general manager of the association. This office may be combined with that of the clerk. No director or committee member shall be compensated as such.

The credit committee has supervision of all loans and it is to prepare the application form for loans, which must set forth the purpose for which the loan is desired, the security (if any) offered, and any other information required by the committee. For the granting of a loan, the unanimous approval of the committee members present (who must constitute a majority of the total committee) is required. Assignment of shares or deposits or the endorsement of a comaker may be regarded as security.

The supervisory committee is required to examine the books at least quarterly, as well as annually, and submit a report to the annual

meeting and to such other meetings as it may regard as necessary. By unanimous vote it may suspend any director, officer, or committee member and call a membership meeting to take such action upon the suspension as the meeting may see fit.

Loans may be made only for provident or productive purposes. No director, officer, or committee member may borrow in excess of his investment in the credit union nor act as endorser for any borrower. Interest on loans is set at not over 1 percent per month on unpaid balances. No credit union may lend an amount exceeding 10 percent of its assets to another credit union.

At the end of the fiscal year, 20 percent of net earnings, plus all entrance fees (25 cents each) and fines, are required to be set aside in a reserve fund until such fund equals 10 percent of the total outstanding loans. Thereafter, only such amounts shall be set aside as are required to keep the fund at the 10-percent level. The reserve is to be used as a reserve against bad debts and losses. It may not be distributed except in case of liquidation of the association. From the net earnings remaining after appropriation for reserve the directors may declare a dividend, not to exceed 6 percent, on all shares outstanding at the end of the year, with proportional payments on shares which became paid up during the year.

A member may withdraw from membership at any time, but notice may be required. A member may be expelled by two-thirds vote of a special meeting of members. Upon withdrawal or expulsion, the holdings of such persons plus any dividend or interest due, minus any amounts owed to the association, shall be paid as funds become available. For withdrawal of funds, notice of 60 days in case of shares and of 30 days in case of deposits may be required.

Procedure for voluntary dissolution is specified, but requires that dissolution can take place only upon a four-fifths vote of the entire membership at a special meeting the purpose of which is set forth in the notice of the meeting.

Credit unions formed under the act are exempt (as institutions for savings) from all taxation except on property owned and from any stock-transfer tax.

Associations are required to file annual reports with the State Bank Examiner on or before January 20 of each year, upon penalty of fine of \$5 for each day of delinquency. Their accounts are subject to audit by him (except that for associations with assets of less than \$25,000 he may accept the audit of a certified accountant), at fees ranging from \$25 upward.

New York.—Chapter 145 codifies previous enactments, with a considerable number of amendments. These amendments place a maximum of 15 upon the number of directors, permit the election of more than one vice president, and prohibit a member of the supervisory

committee from also serving as a member of the board of directors. New members of a credit union which has been in existence for more than a year may not vote until they have been shareholders for at least 90 days. Credit unions may no longer accept deposits. Dividends from the previous year's earnings may be declared by the board during the first 3 months of the year, but the directors are held jointly and severally liable for any amount of dividend voted which exceeds the amount available for dividend. Changes in loan procedure require endorsed notes when a mortgage on real estate is taken, prevent the withdrawal of any shares pledged as security for loans (except those in excess of the amount of loan) unless approved by a majority of the credit committee, prohibit loans to another credit union in excess of 15 percent of the capital of either association, and limit the association's total investment in shares of other credit unions to 25 percent of its capital. Credit unions, however, may not hereafter invest in obligations of certain school districts or railroads, nor (except associations with assets of more than \$3,000,000) in bonds of public utilities.

The term "surplus account" is to be used hereafter instead of "guaranty fund." Amounts in this account which exceed 20 percent of total liabilities may be transferred to undivided profits upon approval by the Superintendent of Banks. Associations are given permission to act as agents in selling money orders and travel checks.

North Dakota.—Chapter 143 creates a State Credit Union Board, consisting of the Bank Examiner and two members with at least 3 years' experience, chosen by the Governor from a list of 5 persons submitted by the State Credit Union League.

South Carolina.—Act No. 134 exempts from annual license fees all credit unions of State or Federal employees and building and loan associations doing a "strictly mutual business."

Texas.—Chapter 282 of the Acts of 1945 modifies the previous limitation (15 percent of capital and surplus) on borrowings of credit unions by providing that such associations may borrow up to 50 percent of their combined capital and surplus if such loans are secured by Government securities owned by the association. The 2-year limitation on credit-union loans was removed as regards those made under the Servicemen's Readjustment Act of 1944. The annual required set-aside for the guaranty fund was reduced from 20 to 10 percent of net income. The annual meeting may increase this proportion on recommendation of the directors or may decrease it whenever the fund equals or exceeds 10 percent of paid-in share capital. Dividends on shares are limited to 6 percent.

Utah.—Chapter 15 codifies, under the title "cooperative banks for personal credits," the previous enactments which had consisted of scattered provisions in the corporation, banking, and small-loan laws

of the State. Only a few minor changes were obtained, but it was the opinion of a Utah Credit Union League official that desirable amendments would be facilitated in the future by having all the credit union provisions in one chapter.

Wisconsin.—By chapter 58 the annual set-aside for the guaranty fund was changed from 20 percent of net income to 15 percent of gross income and the previous limitation on expenses (50 percent of income) was removed; the name of the auditing committee was changed to "examining committee" and its required examinations reduced from once every 2 months to twice a year. Articles of incorporation may be amended, at a meeting called for the purpose, by a two-thirds vote of those present (instead of two-thirds of all members). Voluntary dissolution is permitted upon unanimous vote of directors and two-thirds membership vote by ballot (previously, approval by two-thirds of entire membership present at meeting), provided not more than 10 members object.

Yearly examinations are required to be made by the State Banking Commission. The examination fees charged by the commission, which had previously ranged from \$5 to \$50 or more were lowered to 25 cents per \$100 of assets or the actual hourly cost of examination, whichever is less.

New provisions added by chapter 58 require detailed annual reports to the Banking Commission by February 1, on penalty of fine of \$1 to \$10 per day of default; authorize the commission to prescribe bookkeeping and accounting methods, which must be followed by the credit unions on pain of fine not to exceed \$10 per day; empower the commission to take over (subject to appeal) for liquidation any credit union violating the law, having its capital impaired, or operating in an unsound manner, and to prescribe the procedure in such cases; and specify procedures for the consolidation or merger of credit unions.

Other enactments regulate the manner of termination of bonds of officers or employees of credit unions (ch. 228) and permit the destruction of obsolete records, upon written consent of the Banking Commission (ch. 315).

Bureau of Labor Statistics Reports on Cooperatives**BULLETINS¹**

- No. 896. Nonprofit housing projects in the United States. (In press.)
No. 890. Operation of consumers' cooperatives in 1945. Price 10 cents.
No. 859. Developments in consumers' cooperative movement in 1945. Price 10 cents.
No. 858. Organization and management of cooperative and mutual housing associations. Price 20 cents.
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No. 821. Developments in the consumers' cooperative movement in 1944. Price 10 cents.
No. 770. Cooperative association in Europe and their possibilities for postwar reconstruction. Price 35 cents.
No. 750. Directory of consumers' cooperatives in the United States, as of January 1, 1943. Price 15 cents.
No. 740. Student cooperatives in the United States, 1941. Price 10 cents.
No. 665. Organization and management of consumers' cooperatives and buying clubs. Price 15 cents.
No. 606. Organization and management of cooperative oil associations. Price 5 cents.

REPRINT PAMPHLETS²

- Serial No. R. 1483. The cooperative movement and the war.
Serial No. R. 1660. International aspects of the cooperative movement. (Reprint of a section of Part 1 of Bulletin No. 770.)
Serial No. R. 1216. Operations of cooperative burial associations, 1939.
Serial No. R. 671. Cooperative telephone associations. (Reprint from Bulletin No. 659.)

¹ For sale by Superintendent of Documents at prices indicated. How to order publications: Address order to Superintendent of Documents, Government Printing Office, Washington 25, D. C., with remittance in check or money order; currency is sent at sender's risk; postage stamps not acceptable.
² Copies free on application to Bureau of Labor Statistics, Washington 25, D. C., as long as supply lasts.

File #1421

10 CLOSE-UPS OF CONSUMER CREDIT



Foreword

DURING 1939, the Consumers' Counsel Division of the Department of Agriculture published in the *Consumers Guide* a series of worthwhile articles on consumer credit. Many illuminating facts are given on where consumers may borrow, the relative costs of credit, and how to select the most advantageous source of credit at the lowest cost.

Because one of the main objectives of Federal credit unions is to help members understand and make wise use of credit, these articles are reprinted in pamphlet form to aid educational committees in developing effective membership educational programs.

The material contained in this pamphlet should also prove of particular value to study groups who are contemplating organizing Federal credit unions and who are anxious to know some facts about consumer credit.

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CREDIT UNION SECTION
 Farm Credit Administration, Washington, D. C.
United States Department of Agriculture

Selling Credit to Consumers

Merchandisers of consumer credit do a 14 billion dollar business in a year. Who they are and how they sell to consumers who must purchase the use of money before they can spend it for goods is told here

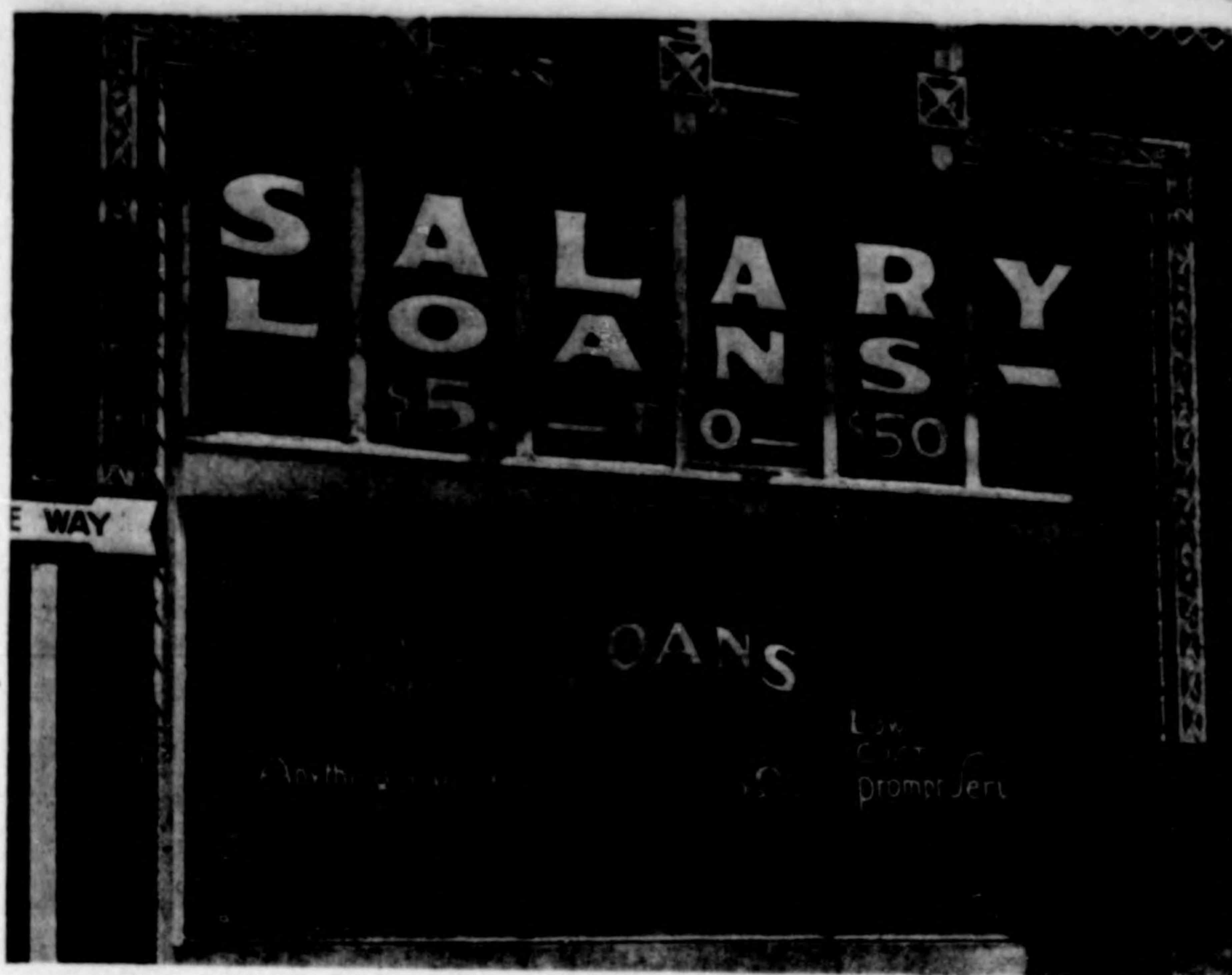
IN PARIS, when Jacques or François needed some cash in a hurry to buy a stove or pay a doctor's bill, he was likely to go to the municipal pawnshop. He would say, "I'm going to see my aunt."

In the United States there are no municipal pawnshops. Instead of "my aunt," there is, to be sure, the private pawnbroker who is "uncle" to his customers. But Americans are less likely to think of the pawnbroker when they think of credit.

There are other places to go for credit, and almost everybody in America uses credit. But not everybody recognizes the cost of credit, and few shop around for credit as carefully as for savings in carrots and turnips or sheets and towels.

Consumers borrow about 14 billion dollars a year. This is the estimate for 1936, which may be taken as a "typical" year. The pencil-pad-and-statistic workers do not include mortgages on homes or unpaid doctor bills—nor do they include loans on insurance policies or loans from friends and relatives—in their 14 billion dollar estimate.

Where did consumers get all this credit? About a billion and a half dollars came from the various loan agencies which advance cash



to borrowers—about 425 million from licensed small loan (or personal finance) companies; 350 million from industrial banks; 200 million from the personal loan departments of commercial banks; perhaps 160 million from loan sharks; about the same amount from pawnbrokers; some 50 million from remedial loan societies; and 80 million from credit unions.

Much larger than cash loans is the volume of loans in the form of goods sold on credit—either on time or on charge accounts. Four and a half billion dollars' worth of goods were sold on the installment plan in 1936; by the end of the year about 2½ billion dollars was still owed on these sales. Amounting to more than all other sources of credit put together were the charge accounts of retailers—totaling over 8 billion dollars during the year, with about 1½ billion still receivable at the year's end.

Industrialists, business men, and farmers have long been accustomed to thinking of credit as a legitimate need. Consumers credit has become important and socially accepted, as it were, much more recently than producers credit. Perhaps we should not be surprised if credit for consumers is not always given its true name, nor its costs always stated honestly and simply. We get credit when we borrow cash; when we charge goods at the store; when we buy cars or radios or encyclopedias on the installment plan. Whether it be to meet an emergency like a hospital bill, to have the use of an auto or a washing machine now and pay

for it later, we are frequently in the market for credit.

The consumer knows he borrows when he goes to an industrial bank or a personal finance company. He borrows also, though neither the fact nor the cost may be clear, if he buys goods on a charge account or by the installment plan.

If he says, "Charge it," at the grocery or the department store, there will—in most communities—be no bill for the credit. If he buys on the instalment plan, there may or may not be a carrying charge stated. In either event, the consumer is doing two things: He is buying merchandise, and he is borrowing the use of a sum of money for a period of time until the purchase is all paid for.

When to Borrow.

Whether borrowing is a good thing is a matter each person, each family, must on each occasion decide for itself. Budgets and needs, family living standards and ambitions, are individual matters; generalization is as likely to go wrong as advice on "whom to marry." If a man needs an operation, there can be no question for his family of the wisdom of a loan to pay doctor and hospital, unless he is lucky enough to be able to contract these services in advance for fixed cash payments. For one man, who lives by selling, a car may be a good investment, even if it has to be bought on time; for his neighbor, a new car may be a luxury which will strain the family's finances and peace of mind for a long time to come. Mrs. Jones may save money as well as backache by borrowing to buy an electric washer. Mrs. Smith may spend only half as much—and pay cash—on a new radio without being able to afford it half as well, Mr. Smith's job being what it is. What third party can tell whether a father should borrow to keep a son or daughter in college?

For credit, as for radios or refrigerators, furniture, or fruits and vegetables, shopping around is possible and necessary. But few people know where to turn. For bread, eggs, and coffee, you go to the grocery; for a car, to the automobile dealer; for a haircut, to the

barber shop. But if you need credit, you may turn to any one of half a dozen types of dealers. Not all are equally cheap or safe, to be sure; but there are all these places you might go.

Consumer credit is expensive credit. The consumer who appreciates this hard fact and knows that most "6 percent" credit for consumers is only a myth, is more likely to get credit on the best terms.

To make up the vast total of dollars loaned each year, there are millions and millions of individual loans. Each loan requires some investigation. Most loans require the extensive bookkeeping of monthly or weekly instalment payments. There are bad debt losses, though these are not large in percentages.

The Federal Government pays an average rate of interest of 2.59 percent on the public debt. An industrial enterprise may borrow \$100,000 from the bank at 6 percent a year. But consumers have to pay, as a rule, anywhere from 10 to 50 percent interest; often a great deal more. Credit granted wholesale costs much less than credit granted in small amounts. A thousand tons of coal costs less per ton than a few tons for the family coal bin; a single bottle of milk delivered at the door costs more per quart than the thousand quarts bought by an ice-cream plant.

Credit Unions.

Cheapest source of consumer credit, and one which tells the consumer what credit is really going to cost him, is likely to be the consumer's own "baby bank." This is the credit union, which is a saving and loan cooperative.

Credit unions are organized among people who not only know each other, but have easy contact with each other—people who work together, or belong to the same church or labor union or cooperative society. Most common form of credit union is that organized by employees in a single factory or shop or business office.

Loans of small sums (under Federal charter, loans of \$100 or less) may be made without collateral or cosigners. On larger loans the member must get cosigners or give collateral.

The credit union states its interest rate as a percentage of the amount each month on the unpaid balance of the loan. Most frequently the rate is 1 percent per month, rarely more—sometimes only one-half or three-fourths of 1 percent per month. At 1 percent per month on the unpaid balance, the true annual interest rate is 12 percent.

The credit union charges interest only for the period the borrower has the money. If he signs a note to repay in 6 months and is able to wipe the slate clean in 4 months, he pays interest only for 4 months. Beyond the stated interest, moreover, there can be no other fees, except a nominal penalty (often waived if the member offers a valid reason) for delay in meeting the scheduled payments.

Credit unions can make their rates low because they lend members their own and other members' savings. There are no large profits to be made, although members' savings usually earn from 3 to 6 percent dividends a year.

Volunteer effort by members takes care of some of the routine work and helps keep costs down. Frequently credit unions operate in donated office space, with clerks' time paid for by employers.

Costs of investigation are low for the credit union, because its members know each other. The credit committee has no trouble finding out a borrower's ability to make use of a loan and to repay it. Since their organization 6 years ago, Federally chartered credit unions have loaned 173 million dollars, with bad debt losses

of less than 124 thousand dollars—a loss rate of 7 one-hundredths of 1 percent of the amount loaned, that is, 7 cents lost on each \$100 loaned.

Credit unions are among the most successful forms of cooperative consumer enterprise. They are to be found in every nation, among farmers, and in the cities among workers and among small business men. In this country, they have been confined almost entirely to urban consumers. The credit-union movement in the United States is only about 30 years old, but there are already some 8,500 credit unions in action. Two and a half million people are members of credit unions, and their savings total 185 million dollars. Their volume of business has been increasing rapidly, and in 1939 they loaned their members about 245 million dollars.

Beginning with the Massachusetts statute of 1909, all but 6 States have now passed laws making it possible for credit unions to incorporate and function. A Federal credit union law allows for Federal incorporation in any State. The Credit Union Section of the Farm Credit Administration stands ready, on request, to send field workers to aid credit unions in meeting problems of organization, of book-keeping and auditing.

Credit unions make loans for what are called "provident or productive purposes." Many societies are revising their definition of "provident purposes" to include more intelligent buying. If members are enabled to pay cash, they can often take advantage of good buys.

When people hard up for cash do not know where to turn, illegal lenders, or loan sharks, have a chance to do a thriving business at interest rates of anywhere from 120 to 480 percent a year. In credit unions, consumers pool their own savings, and make loans to themselves at reasonable interest rates.



Credit unions are financing the purchase of household equipment, clothing, and, in many cases, automobiles. In some credit unions, members have extended cooperation from the credit field to the pooled purchasing of goods for the home—either through discount buying arrangements or the formation of separate consumer cooperatives.

Credit unions lend only to members. Though the number of credit unions has grown steadily, they are still possible sources of credit for only about 1 out of every 25 consumers.

Studies over many years by the Russell Sage Foundation seemed to indicate that people were driven to loan sharks not only because of ignorance of what they were getting themselves into, but also by the lack of any legitimate sources of credit. Usury laws traditionally set 6 percent as the top rate, but the small loan business can hardly do a profitable business at 6 percent. One way to fight the loan shark racket, suggested the Foundation, was to permit commercial small loan companies to operate, under State licensing, at rates high enough to be profitable.

Small Loan Companies.

Licensed small loan companies or personal finance companies are now the largest dispensers of cash credit to consumers. They are licensed in 27 States under Uniform Small Loan Laws, which usually restrict the size of their loans to \$300 and require statement of interest in percent per month on the unpaid balance. Three and a half percent is the maximum permitted in some States; in others it is 2½ or 3 percent per month on the unpaid balance. At 3 percent a month on unpaid balances, however, the actual rate of interest is 36 percent a year. Interest can only be charged for the time the borrower has the money.

Loans may or may not require endorsement by co-signers. Personal finance company executives claim that they, like credit union committees, loan money essentially on "character and ability to pay." But mortgages on furniture and household belongings are usually required; and wage assignments may be asked.

Personal finance companies do not receive deposits, but obtain the money they lend either from the investments of their stockholders or from loans they themselves negotiate at commercial banks. Chains are prominent in the personal finance business. Of the two largest in the field in 1937, one chain reported 372 branches, and the other 228 offices.

Industrial banks are another source of small loans. Industrial banks lend to consumers and small business men, and not to industries. "Morris Plan Banks" are simply the best known and largest group of industrial banks; they are not a chain.

Industrial banks lend on the signature of comakers; sometimes on automobiles or other chattel mortgages. Comakers make themselves as responsible for the repayment of loans as the original signer of the note. Loans vary in size from \$100 all the way up to \$5,000. Repayment, as in practically all types of consumer loans, is on the instalment plan.

Industrial bank loans are generally quoted at 6 or 7 percent. Actually it is 6 or 7 percent discount; that is, interest is deducted in advance. The bank also deducts a 2-percent fee or commission for making the loan. On a \$100 loan, then, the borrower gets only \$92. At \$2 per week, he repays the amount he actually receives in 46 weeks. But he has to keep paying for 50 weeks to repay the face value of the note. Since the 6 percent has to be figured on a constantly diminishing unpaid balance, the interest rate is actually over 17 percent a year.

Commercial banks are another source of credit for the consumer to consider. Except in rural areas, banks have until quite recently been concerned only with wholesaling credit, not with granting it retail. Largely within the last dozen years, some 700 banks have set up "personal loan departments."

Loans are usually made at between 5 and 8 percent discount, and they generally require comakers; they are repaid in equal monthly instalments. At the lowest figure, 5 percent discount, the rate of interest on the unpaid balance is actually 9.7 percent a year.

We have been considering loans which the borrower may get on the basis of his own ability to repay, or the promise of friends who sign the note with him to make good if he does not pay. Loans may also be negotiated on the strength of assets the consumer has; sometimes it pays to investigate these possibilities first.

Life insurance is one possibility. On ordinary life insurance, the policyholder may borrow sums limited by the amount of the company's reserve he has helped to build with his premium payments. He is, therefore, borrowing his own money.

On industrial life insurance, on which premiums are collected in small weekly sums, there usually is no borrowing privilege. This is the kind of insurance most wage-earners are sold if they are insured at all. It is thus the poorest policyholders who cannot borrow the money which they have contributed to the company's reserves.

Insurance companies usually charge 6 percent for policy loans. They are inclined to discourage borrowing on the theory that it will ultimately cut down the amount of the ordinary policyholder's insurance. Policyholders, however, should learn for themselves what their borrowing rights are.

Almost 3 billion dollars was borrowed on life insurance policies in 1935, the amount having almost doubled between 1928 and 1934. Most of these loans were made in order to meet emergencies, some to pay insurance premiums.

Most ancient lineage in the loan business goes with the insignia of the three balls. The pawnbroker is half merchant, half lender. He lends only against the security of the pledge. Since about one of every 2 pledges is not redeemed, he must be shrewd and speedy at appraisal of everything from watches, furs, clothing and luggage to fraternity pins and firearms. Every day, in the city of New York alone, over 5,000 watches and 6,000 pieces of jewelry are "hocked."

Interest rates vary from 12 to 120 percent a year. A model State law drafted by the Russell Sage Foundation—but not widely enacted—allows 3 percent per month on the unpaid balance of the loan.



In almost every city, large or small, are pawnbrokers who charge from 12 to 120 percent a year for their money and annually lend about 150 million dollars, mostly to the poor who cannot get credit elsewhere.

Municipal and government pawnshops, found in almost every foreign country, are absent from the American scene. Some attempt to do the same job of supplying pledge credit at reasonable rates has been made by the remedial loan societies. These are limited-dividend, semi-philanthropic pawnshops, operating, much as ordinary pawnshops, on private capital. Rates run from about 9 to 36 percent a year. They have not succeeded in taking the place of the pawnbroker or in making any great impression on pawnshop rates.

Savings are, of course, the best way to meet emergencies or pay for large purchases. Application of this truism, however, runs head-on into the fact that most families cannot afford savings. Loan agencies, retail charge accounts, and instalment buying will, no doubt, continue to fill a need both for the individual family that borrows and for the economic system whose goods the credit helps to sell.

Buying on Time

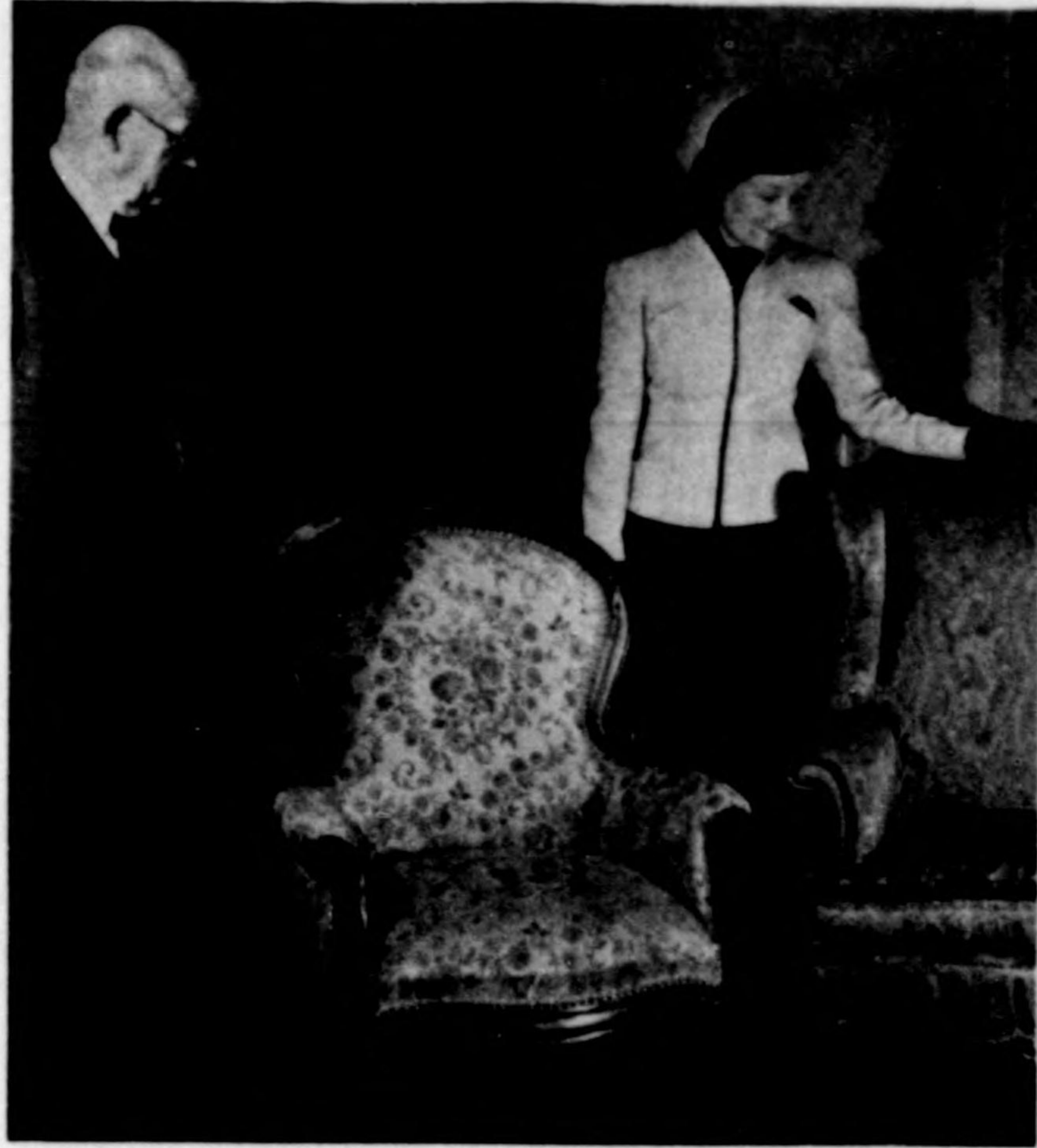
Instalment purchasing leads consumers into a maze of higher mathematics, but for those who must borrow to consume, here's one rule to help in computing credit costs

"IT'S AS simple as A, B, C," was the way a leading sales finance company announced its automobile instalment plan. "Take the unpaid balance, add the cost of insurance, and multiply by 6 percent." But, the announcement confided, "this is not 6-percent interest, but a convenient multiplier which anyone can use and understand."

This attempt to teach consumers a new instalment arithmetic, said the Federal Trade Commission, constituted an unfair trade practice. Far from being something anyone could use and understand, it was downright misleading.

The consumer was left to figure out the A, B, C's of instalment credit for himself, but the Commission sought to take him out of the happy never-never land of "6 percent."

It is important that consumers be able to figure out just how much the privilege of "pay-as-you-use" buying costs them. Consumers buy about 4½ billion dollars' worth of goods on the instalment plan each year. Only retail charge accounts are a larger source of consumer credit, and that for a shorter period of time. As we have seen, consumers borrowed cash sums totaling about 1½ billion dollars in 1936 from credit unions, personal finance companies, industrial banks, personal loan departments of commercial banks, pawnbrokers, remedial loan societies, and loan sharks. But instalment



buying is the kind of credit that—with the possible exception of retail charge accounts—touches American individuals, American families most closely.

Buying on time includes borrowing the use of money. When the consumer proposes to buy on the instalment plan, he is shopping not only for the automobile or the suite of furniture, but for credit. He does not think of it that way as a rule but he is in the market for a loan, just as much as if he went to a bank or personal finance company, or his credit union, to borrow money so as to pay cash for the goods. In fact, he has the alternative of borrowing cash. On the other hand, many cash loans are made solely to refinance instalment payments.

Between cash loans and instalment credit—said the Committee on Consumer Credit in its report to the Governor of Massachusetts—"the similarities are more important than the dissimilarities. The two types of credit use similar techniques, sometimes rely upon the same security, and fall back to some extent upon the same remedies. Whether instalment sales do or do not involve 'loans' is beside the point. Whether the amount due on unpaid balances is called 'interest' or 'carrying charges' or a 'price

differential' is also beside the point. Both money debts and merchandise debts impose a financial burden upon the consumer and expose him to exploitation and abuse. The most significant difference—freedom of action—tends to disappear once the consumer has entered into the contract; for, having committed himself, the consumer often becomes as heavily burdened by an instalment contract as by a money debt."

Difference of Interpretations.

A legal distinction between an instalment sale and a cash loan has been urged by attorneys for dealers and sales finance companies, and has generally been sustained by the courts. Long ago, the courts held that usury law restrictions on interest rates did not apply to the extra charge for credit on a sale of goods, as long as that charge was not stated as "interest." Economists, however, have tended to differ with this legal interpretation; and common-sense consumers have said it's credit no matter how thin you slice it.

"From a common-sense point of view," said a committee of the Wisconsin State legislature which recently investigated automobile instalment buying, "all of these merchandise sales transactions which obligate the buyer to make a series of monthly payments, placing him in exactly the same position as though he had borrowed cash, should be classified as loans and not as sales."

From the investigation it had made, the committee felt called upon to add that the "additional price charged for deferred payments on merchandise makes these transactions in effect loans and not sales, and that due to concealment of charges and evasion of the usury laws, the charge for this credit is sometimes so exorbitant that the consumer would be better off had he not purchased the merchandise."

Used-car dealers, for example, insisted in hearings before the Wisconsin committee that, while they sold their cars on time, cash and instalment prices were the same, and there were no carrying charges. Said the committee:

"The finance charge is concealed in the sales price." Under this arrangement, a cash customer who pays the same price as the instalment buyer pays a finance charge without even getting credit.

Half of all retailers grant credit to their customers. About 1 dollar out of every 3 dollars' worth of retail sales is on a credit basis—either a charge or an instalment sale. Every type of merchandise on the retail market can be bought, somewhere, on credit. How much does instalment credit cost? This is where the consumer, beginning to investigate possible sources of credit, is likely to find himself in a jungle. Interest rates and discounts trip him up; carrying charges, investigation fees, and hidden mark-ups beset his path; delinquency fees and repossession clauses waylay him.

Few consumers even take the trouble to investigate. People who painstakingly shop around from store to store, compare thread count on sheets or trade-in value on refrigerators or radios, often sign an instalment contract without reading half of it, let alone comparing costs of credit at available sources. The consumer, it is true, may have to hire himself a statistician to find out how much credit is going to cost him.

Downright frauds and shady deals are practiced by a minority of instalment dealers and sales finance companies. Entirely apart from these, however, there are two reasons why the consumer can hardly compare costs intelligently on instalment purchases.

Interest Rates Often Concealed.

Interest rates are often not given at all. When they are given, they are seldom what they seem. Usually they are disguised as forms of the time-honored 6 percent. In the course of the years, 6 percent has come for many people to be synonymous with "fair return on investment," and with "credit." Says one merchant, "6 percent has sex appeal for the customer."

The governor's committee in Massachusetts

checked on "6 percent" rates. In 105 cases in which "6 percent" was quoted, here are what the rates actually came to:

- 1 case came to 6 percent
- 6 cases were actually between 7 and 10 percent
- 61 cases amounted to between 11 and 20 percent
- 19 cases were between 21 and 30 percent
- 10 cases were really rates of between 31 and 100 percent
- 8 cases were between 101 and 679 percent.

Most automobile purchasers, the State Legislative Committee in Wisconsin found, thought they were paying between 8 and 12 percent for credit. The real rates, figured the committee, were between 17 and 40 percent, and in many transactions even higher.

Why can't customers tell rates for what they are? A study of 60 stores in one midwestern State showed 8 different ways in which instalment charges are given, or differentiated from cash prices:

- (1) A flat dollar-and-cents charge, with the system of determining the charge not disclosed;
- (2) a discount from the advertised or list price for cash payment, granted in some stores only if the customer demands it;
- (3) a flat percentage levied on the cash price before the down payment is deducted;
- (4) a percentage per year levied on the original unpaid balance;
- (5) a

flat percentage, without relation to the length of the loan, levied on the original unpaid balance; (6) a percentage per month on the actual unpaid balance outstanding each month; (7) "no charge" for instalment credit (this is much the same as the second method, except that cash discounts are not given even on request); (8) a combination of 2 or more of the above plans.

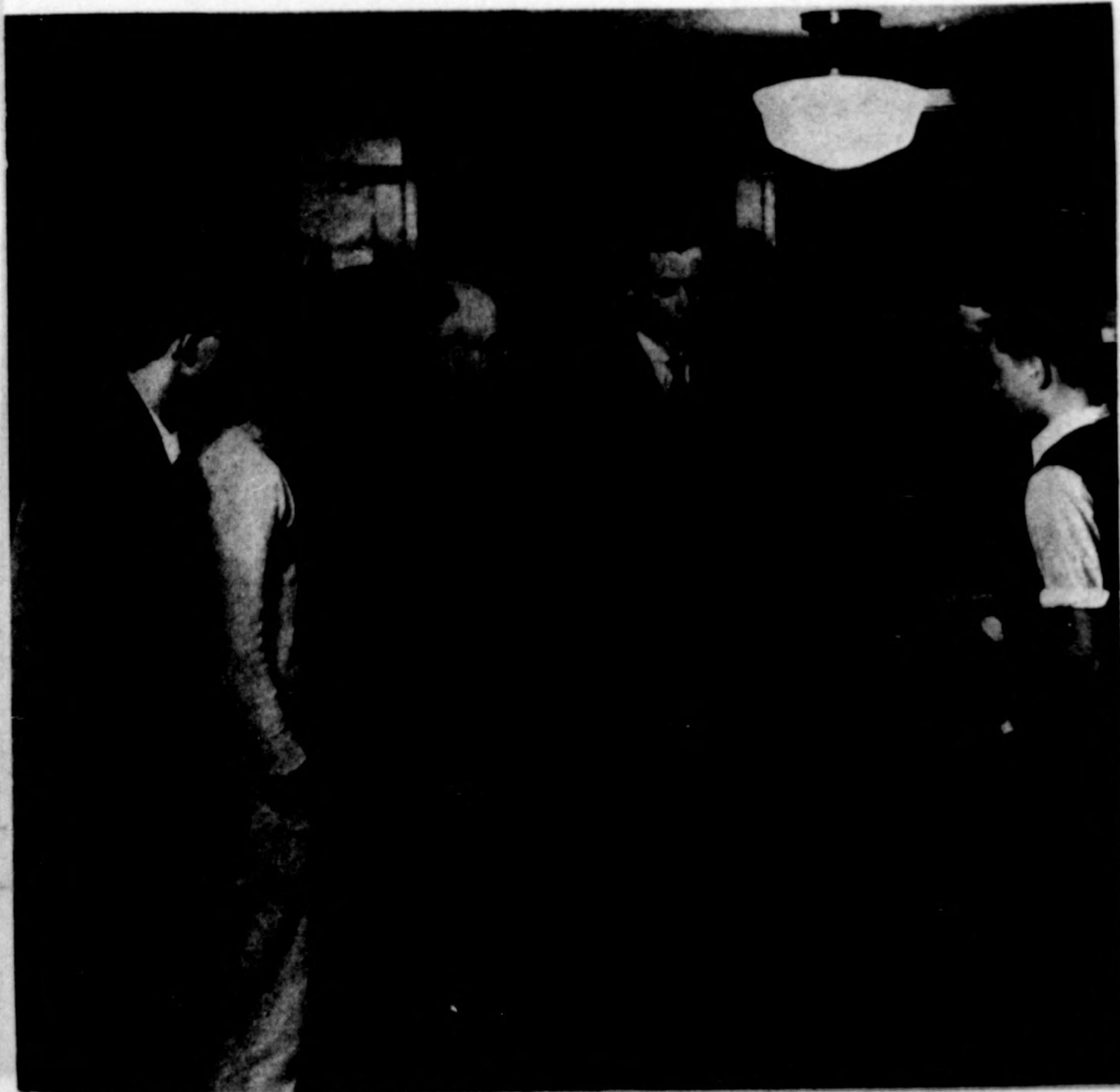
This listing, moreover, omits all the "incidental" charges and fees which may offer a bewildering variety of terms and amounts.

Is there any simple way for the consumer to chart his way through this jungle?

"Most consumers are ignorant of higher mathematics," observes the Massachusetts committee, "yet only through the use of rather complex formulas can instalment credit costs, as now stated, be reduced to a comparable basis." The only comparable basis—since time, size, and number of payments vary—is the rate of interest.

A leading personal finance company has prepared tables from which the consumer can, by the use of some arithmetic, figure out true interest rates on loans or instalment purchases. Quite understandably, the authors of this table would like consumers to compare their interest rates with real rather than fictitiously attractive carrying charges offered by lending institutions and instalment sellers whose ways of stating terms are not regulated by law. This table, however, is not easy to use.

For those with a taste for mathematical exercise, there are a couple of formulas by which one may compute interest rates on instalment



Retailers have not yet decided among themselves how much "soft goods," like clothing, it is wise to sell on time. In some stores all sales are on instalments; in these so-called "borax houses" are to be found many of the dubious practices which plague the business. A simple standardized form of time purchase contract would probably go far to protect consumers and legitimate dealers.

Disguised interest rates characterize many cash loan transactions and most installment sales, but consumers must take part of the blame as long as they fail to demand the facts.



purchases. Least difficult is a formula which gives the interest rate "correct for all practical purposes," when all the instalment payments are of equal amounts. Known as the "constant ratio" formula, it is:

$$\text{Rate per year} = \frac{2mI}{B(n+1)}$$

Here m is the number of payments in 1 year (for monthly payments m is 12; for weekly payments, 52); I is the total carrying charge, or interest, in dollars; B is the unpaid balance at the beginning of the credit period (the cash price less the down payment); n is the number of payments, not counting the down payment.

This formula takes account of the fact that the amount of money which the customer is borrowing diminishes month by month, so that the average amount of which he has the use is about half the original balance.

A set of furniture, for example, sells for \$79, payable \$9 down, and \$10 a month for 7 months, with "no carrying charge." A cash customer can get the furniture for \$7 less, if he asks for the cash price. The cost of credit therefore is \$7. The unpaid balance, the cash price, \$72, less the down payment of \$9, is \$63. That is really the amount of money which the customer is borrowing at the outset. In this case, $m=12$; $I=7$; $B=63$; $n=7$. Applying the formula above:

$$r = \frac{2 \times 12 \times 7}{63 \times (7 + 1)} = \frac{168}{504} = .333 = 33.3\%$$

The rate is, therefore, 33.3 percent a year.

An automobile dealer says: "Try our 6-percent plan on new cars." A customer likes a snappy new model at \$705. The dealer asks a down payment of \$235, and an insurance charge of \$30. He subtracts the down payment from the total cash price, then adds the cost of insurance. On this sum, the customer pays 6 percent for the privilege of making payment in 12 equal monthly instalments.

The unpaid balance of \$470, plus the \$30 insurance charge, is \$500, the principal on which the interest is figured. Six percent of that is \$30, which is the carrying charge. The rate then is:

$$\frac{2 \times 12 \times 30}{500 \times 13}$$

or slightly over 11 percent a year.

In comparing instalment charges with interest rates on various types of cash loans, one must remember to calculate interest on the money only while the borrower has its use. The true interest rate, for example, on a personal finance company loan at 3½ percent a month on the unpaid balance, comes to 42 percent a year. But on a \$100 loan, repayable in 12 monthly instalments, the borrower will not pay \$42 interest; he will pay \$22.75.

On a credit union loan, to take another example, with interest at 1 percent per month on the unpaid balance (a true rate of 12 percent a year), the year's interest would come to \$12 only if the member waited until the end of the year and then repaid the \$100 in a lump

sum. But if he pays it back in equal monthly instalments, total interest for the 12 months will amount to \$6.50.

For rough calculations, if repayment is by equal instalments, figure the use of the total sum of money for half the total time.

Only the borrower himself can decide whether credit is too expensive. A rate which appears high in terms of interest per month or interest per year, may not be too much for the borrower to pay for the immediate use of something he needs or wants. If a man does not have the \$10 cash price of a tire, he may be willing to pay \$1 down, and the balance, plus interest of 10 percent of the full cash price, in 10 weekly instalments. Interest here, because of the short period the loan runs, comes to 104 percent a year. If the alternative is leaving his car idle for 10 weeks, the customer may find this a reasonable credit charge.

Shop for Your Credit.

Let us follow the consumer as he goes out to shop, let us say for a refrigerator—and for credit.

At one store, the refrigerator he selects may sell for \$100, with a \$10 down payment, and the rest in "easy payments" of \$10 a month, with a bookkeeping charge of \$3, and an interest charge of "6 percent." That, it turns out, means \$6 deducted in advance. But if he has to pay \$10 down on his merchandise, the consumer has the use of only \$90, not \$100, and that only for a single month, until he puts down another \$10 payment. For the succeeding month, he is getting the use of only \$80. By the last month he has the use of only \$10.

Six percent of what, says the shopper?

The rate on this deal, computed by the "constant ratio" formula, actually comes to 24 percent a year. At another store, what seems like the best refrigerator buy for his needs is priced at \$110 with "no carrying charges." Taking his courage in hand, the consumer inquires about a cash price. He discovers that if cash is paid, the refrigerator can be had for \$99—with several gadgets, figured at \$4.25 retail value, thrown in.

At a third store, the easy-payment-plan is easier. No money down, and the customer has 20 months in which to pay. The only carrying charge, apparently, is a 50-cent fee per payment. There is a "nominal" insurance fee. Oh, yes, the refrigerator is priced at \$107.50.

By this time, the consumer may be a little worried. He wants to know how much he is paying, not only for the refrigerator, but for credit. It is hard enough to calculate the interest rates for purposes of comparison.

But price is not the only item in an instalment contract. When the buyer has figured out what the merchandise is going to cost him, and how much he is going to pay for credit, there are still other terms and charges to compare.

What penalty fees is he liable to?

What repossession rights does the seller, or the finance company, have?

Exactly to whom does he owe the money?

What security must the customer give?

Is he turning over to the seller the right to collect his salary if he lapses in payment?

Is there any rebate for payment in less time than the contract requires?

These are some of the questions the instalment purchaser wants to ask himself and the dealer.

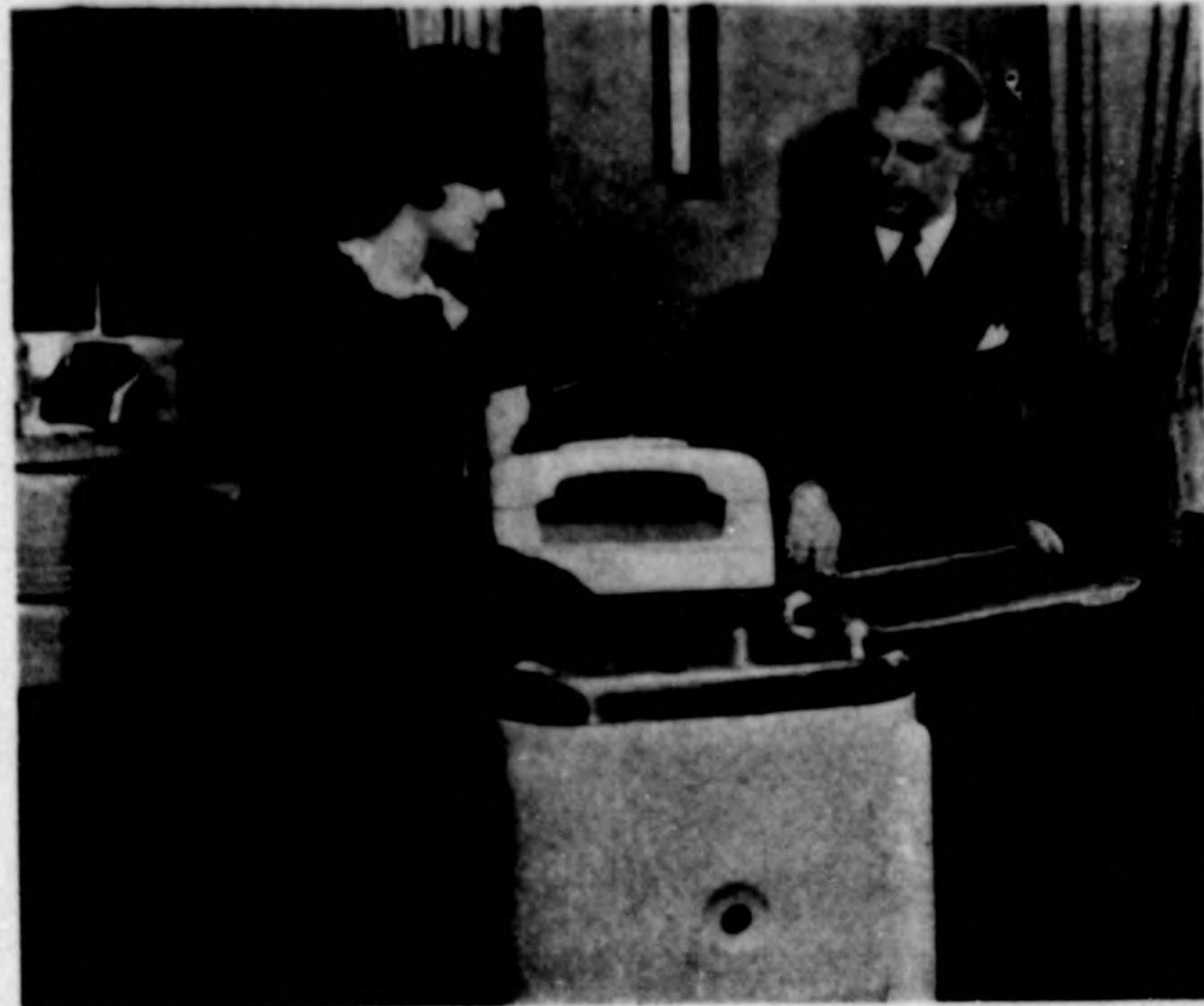
Look Before You Sign

Good faith between sellers and buyers of goods purchased on time can rest only on mutual understanding of instalment contract commitments

AN AUTOMOBILE dealer handed an instalment contract and the fountain pen to Mr. Smith and beamed at him and Mrs. Smith. He did not understand why a third party, previously introduced as Mr. Smythe, should be there, but he beamed at him too. Smythe beamed back, took the contract from Smith, and began to read it with a quick and evidently practiced eye. "You see," Smith explained, "Mr. Smythe is our lawyer, and we have asked him to look over the instalment contract for us. I suppose your lawyer or the sales finance company's lawyers have carefully worked out your contract forms, and we thought you might appreciate our getting legal advice too."

What's the matter with this as a typical scene from the American consumer landscape? It probably never happens—that's all. The average family is not in the habit of dealing with a lawyer except in emergencies, and cannot afford to hire a lawyer to scrutinize the terms of an instalment contract.

Instalment credit rates, and how the consumer can attempt to figure them out, was the subject of "Buying on Time," in the previous section. This section considers the other terms of the instalment contract.



"Most consumers are ignorant of the law," the Committee on Consumer Credit pointed out in its report to the Governor of Massachusetts, "yet the typical instalment contract is a complicated legal document. Most consumers trust in the good faith of the seller or his assignees; yet this faith is sometimes betrayed after the consumer is firmly bound by the terms of his contract."

State laws on instalment selling are almost entirely concerned with protecting sellers. Dealers need to be protected against dishonest buyers, but most American business men in this field agree that the vast majority of consumers are honest and willing to pay their debts. There has been a growing demand for legislation to protect the instalment buyer. Unscrupulous practices penalize both consumers and honest dealers.

Reputable dealers are, no doubt, in the majority. A committee of the Wisconsin State Legislature recently investigated the instalment selling of automobiles. It estimated that sharp practices on auto instalment deals were restricted to about 15 percent of the companies doing business in this field. Undoubtedly broad studies of instalment selling in other industries would likewise reveal the relatively small proportion of questionable business done.

Instalment buying amounted to the enormous total, in 1936, of 4½ billion dollars, or an average of about \$150 for every family in the country.

Two billion eight hundred million dollars were spent that year on the instalment plan for automobiles. Three out of every 5 cars are bought on time; about 4 out of 5 pianos and phonographs; and 9 out of every 10 washing machines and refrigerators. Taking all retail sales, \$10 or \$11 of each \$100 are spent in deferred payment purchases.

This great chunk of American consumer buying is signed and sealed by powerful legal instruments. Contracts are drawn by sellers' attorneys. Buyers usually are in complete ignorance of what legal rights they do have. And buyers, especially of automobiles, who think they drive a shrewd bargain in trade-in price, often accept other terms that victimize them, without a second glance at the contract. That is why consumers have sometimes found hard times come with easy payments.

Central feature of the instalment contract is the fact that while the buyer gets the article to take home with him, the seller retains control over the article itself or over the buyer's source of income. This he does either by a conditional sales contract or a chattel mortgage, or by a wage assignment.

Wage Assignments Drastic.

Most drastic form of security may be the wage assignment. Originally the instalment plan was used to sell only items for which there was a definite resale market. If the family lagged in its payment on the piano or automobile, the dealer could repossess and probably make up the unpaid balance by reselling the article. The merchandise itself was adequate security, until instalment sellers, trying to conquer new markets, made their terms so "easy" that often the unpaid balance exceeded the resale value of the article. At the same time they went into new fields, selling "soft goods" such as clothing, for which resale value was either low or nil. Public sale of a repossessed pair of pants brings no large sum. As added security for deals such as these, the wage assignment came into more prominence.

A factory worker or clerk may give the dealer power of attorney to collect his pay envelope as soon as he misses a payment on his suit or his wife's ring. In the hands of a ruthless or unscrupulous dealer, this is a dangerous weapon.

Ideally, the customer should read carefully every word of the contract he signs, and make sure he understands every word of it. Long contracts with legal verbiage, often in fine type, make this difficult. Many wage assignments are signed because the buyer does not realize the importance of what he is signing. The oversight may be encouraged if the document is headed simply "Contract" or "Chattel Mortgage," and fails to call the buyer's attention to the fact that he is signing away future wages.

Wage-assignment abuses, like other shady practices, are restricted to a small minority of instalment dealers. That they threaten the legitimate dealer as well as the unwary customer is indicated in the suggestion of the National Association of Sales Finance Companies' analyst that the law prohibit any wage assignment made before actual default on the instalment contract.

Some States limit by law the percentage of a wage earner's salary which may thus be assigned to a creditor, or prohibit assignment entirely under certain conditions. In other States the entire pay envelope may be turned over to the instalment dealer.

Wage assignments are not rare phenomena. A few years ago a Chicago newspaper found that it was receiving each year wage assignments against one out of every 12 employees. A Chicago traction company reported a yearly average of 3,400 notices of assignment against its workers. Eight representative employers in New York reported that practically all the demands for wage assignments came from instalment merchants, and that 6 jewelry and clothing dealers were responsible for half of them. Clothing debts accounted for the largest number of wage assignments in 31 cities, a United States Labor Department report showed; auto contracts for comparatively few.

Some employers dislike being bothered with legal forms, and with the added bookkeeping routine involved in turning over wages to a creditor. Employees missing a single instalment payment may then find themselves having their very jobs threatened. An employer as ignorant of the law as his worker and daunted by a formidable legal-sized document on fancy paper headed "Assignment of Wages," may force his employee to settle, or fire him, even when the document staring the employer in the face has no legal validity.

Repossessions are sometimes necessary to protect sellers of instalment merchandise. Contracts usually provide that the buyer's failure to meet a payment allows the seller to repossess immediately. The seller may also get the right to declare the total balance of the contract payable at once, when one payment is skipped. If the buyer is dishonest, such drastic safeguards are necessary. But an honest buyer may miss a payment date because of an emergency—perhaps sickness in the family or lay-off on the job. He naturally hopes for some notice before the company swoops down on his car or refrigerator and carts it off for resale.

A dishonest customer may "skip" out of town or out of the State without paying up for his furniture or his car. But in 1938, reports the National Association of Sales Finance Companies, the number of "skips" was less than 2 in every 1,000 auto instalment deals.

Sales of repossessed merchandise, especially automobiles, offer an avenue of abuse. Frequently there is no requirement for public sale. At a private sale the unethical dealer may dispose of a repossessed car at a sum far below its market value. Even public sales may be "fixed." Honest public sales, of course, do not necessarily bring full market value.

When a sale yields less than the unpaid balance of the instalment price, the dealer may get a deficiency judgment for the remaining sum, plus various plain and fancy costs. On the other hand, in the unlikely event that the sale yields more than the unpaid balance, plus fees, the consumer is, in some States, entitled

Here are some of the questions the instalment buyer should ask himself—and the dealer—before he signs on the dotted line:

- {1} What will the credit actually cost me in money? What rate of interest is charged?*
- {2} Are all the dollars and cents figures in the contract correct? Are there any blank spaces to be filled in later?*
- {3} What are the insurance charges, if any? What insurance is actually provided?*
- {4} To whom will I owe the payments?*
- {5} What penalty charges may be imposed for late payment? Are there any other extra charges?*
- {6} Do I have a right to fair notice before the merchandise can be repossessed? What repossession charges may be collected?*
- {7} What security have I given? Does the security include other merchandise previously bought? Does it include a wage assignment?*
- {8} What legal safeguards and guaranties have I waived?*
- {9} Do terms in fine print commit me to additional obligations?*
- {10} Is there provision for a fair refund on carrying charges if early payment is made?*

to the difference—but usually he does not know this.

Repossession when only one or two payments remain may wipe out the entire equity the purchaser has built up. Ethical dealers find ways of avoiding such repossessions, in the interest of themselves and their customers.

A few companies, most notoriously in the second-hand car field, appear to be in the business of repossessing rather than selling. They make a specialty of drawing up contracts which encourage delinquency, and then, without a moment's notice, when a payment is overdue, seize the car and either sell it at a "fixed" sale or collect exorbitant fees for its return to the customer. In one city, about 70 cars a month are reported to the police as stolen which have been repossessed without the knowledge of their purchasers.

Contracts often leave to the discretion of the dealer or finance company the fees which may be charged a delinquent payer for the return of his repossessed car, radio, or washing machine.

Reputation of dealers is not in itself a sufficient protection to the family buying on time. When the dealer makes the sale, he generally takes a note from the customer and sells it to a sales finance company. Most automobile dealers, and many instalment sellers in other fields, do not put up their own capital to finance their instalment sales, but get it from sales finance companies. Finance companies, in their turn, get most of their working capital from banks.

A good rule for the average family is to *pay down as much as possible, and pay up as fast as possible.* This means a greater portion of each payment going to pay for the merchandise, and less absorbed by the credit charge. It reduces the danger that during the lifetime of the instalment contract the family fortunes will change and that because of lapse of payments the merchandise will be repossessed by the seller. But the family should not over-commit itself by undertaking payments that leave no margin of safety in the budget.

The lower the percentage of the down payment to the total cost of the auto or refrigerator, the higher the percentage of repossessions. The longer the period over which the instalment payments are scheduled, likewise, the greater the repossessions. "Nothing down and 5 years to pay" is risky for both dealer and customer.

"Add-on" or "open-end" contracts, are something for the family not to sign. This kind of

contract is drawn to cover a succession of instalment purchases and provides that the seller retains his title or mortgage on each article until the very last one is paid for. A thousand dollars' worth of home furnishings, bought over 10 years, might be seized because the customer failed to meet a \$5 payment on a recently purchased \$50 item.

Insurance charges should be carefully observed by the customer. An unscrupulous fringe of dealers overcharge for insurance. In some cases the dealers do not even place the insurance.

Any fair dealer will allow the customer a rebate on his carrying charges for payment in less than the stipulated time. Such a provision, however, is omitted from many contracts.

The philosophy of "Let the buyer beware," now happily repudiated by most retailers in the sale of goods, sometimes characterizes the instalment contract. Instalment financing by sales finance companies, rather than by dealers, has emphasized this separation of the performance or guarantee end of the transaction from the credit or payment end. The buyer, who later discovers that his purchase does not conform to the dealer's promise or the manufacturer's guaranty, may find that he has unwittingly signed away all right to refuse payments. The courts may not enforce provisions such as this, regardless of the wording of the contract. Nevertheless the consumer is hardly likely to be aware of the line of judicial decisions or expect to go into court to prove that goods were defective or failed to live up to their guaranty.



When emergencies temporarily upset instalment schedules, merchants often give customers a chance to rearrange payments. Buyers hard pressed by less conciliatory dealers can seldom afford to hire lawyers. They may take their problems to a legal aid society, a trade association, a welfare agency, the local prosecuting attorney, or a small claims court.

Two States have recently made attempts to regulate instalment contracts in the interest of consumers. Wisconsin's statute, passed in 1935, is restricted to the automobile business. Dealers, salesmen, finance companies, and manufacturers' representatives are licensed by the State, and a license is subject to revocation if the dealer willfully defrauds any retail buyer or if he fails to furnish him with required information. The seller must give the buyer a complete copy of the instalment contracts, listing the cash sale price, down payment, trade-in allowance, amount of each instalment payment, an exact statement of the insurance coverage in force, and the difference between the cash and time price. Consumers have the right to complain to the State Banking Department if they feel their contracts are unfair. Over 1,000 adjustments have already been secured by the Department for consumers.

An Indiana law, also enacted in 1935, is more comprehensive. It applies to all lines of instalment selling. Indiana's State Department of Financial Institutions is empowered to set maximum finance charges which may be added for various lines of instalment merchandise. So far the rates have been high enough so that dealers seem willing to operate without question under State licenses.

Regulations under the Indiana law have attempted to wipe out several possibilities of abuse. Maximum penalties which may be assessed for late payments are prescribed. Minimum rates of rebate for prepayment of instalments are required, not only on the finance charge but also on the insurance charge. The "add-on" contract has been outlawed.

In other States than Indiana and Wisconsin, what can the consumer do if he thinks he is being mulcted on an instalment deal? In the States in which there is small-loan legislation, State supervisory agencies are constantly receiving instalment sales grievances, although they have no authority over such cases.

Legal aid societies often help instalment borrowers in the toils. Such societies, which serve people who cannot afford to hire lawyers, do not exist in all communities, and where they do, they are usually overworked.

Local associations of reputable businessmen frequently come to the rescue of victims of a shady instalment dealer. Such bureaus are found in most cities.

Poor Man's Court.

The small claims court is another institution which gives relief, in many cases, to harassed debtors. Feature of this "poor man's court"—set up in over 100 cities—is its speedy and non-technical procedure, and its emphasis on reasonableness in each individual case. Lawyers are not needed in these courts. Fees are low or unnecessary.

Washington, D. C., set up its small claims court in 1938. In its first 10 months of work, this court heard about 10,000 claims arising out of instalment sales. All claims under \$50 are referred to this court. One woman was sued by a jewelry firm for a \$40 payment on a wrist watch. She claimed the watch had never run properly and was able to show that she had taken it back to the store for repair 4 times and finally had left it with the store. She won her case. In many another case, the debtor admits a just claim and gets a reasonable time in which to pay up in full.

Most famous of the courts doing this work is the Detroit Conciliation Court. It can deal with larger cases than the small-claims courts. Detroit's court is a clinic in family financial ailments. The judge hears the story of the debtor—or his wife—and, fixing the amount he thinks the family can pay, collects the payments and apportions them among the creditors. Creditors, who first grumbled about the small payments taken out of debtors' wages, now widely accept the system.

Charge It, Please

The Nation's consumer purchases amount to over 35 billion dollars a year, 8 to 10 billion of which is in charge accounts. What is their cost? Who pays it?

CHARGE accounts, not so many years ago, were a sign of prestige. Comparatively few enjoyed the privilege of saying "Charge it, please." For the merchant, the charge account was a friendly nod to the carriage trade, but not an essential part of the business of retailing.

Nowadays charge accounts are part and parcel of retail merchandising. Of all the forms of consumer credit, the charge account bulks largest. In 1938 American consumers bought almost 8 billion dollars' worth of goods on charge accounts. At the end of any month of that year, retailers' books showed charge customers owing them between 1½ and 2 billion dollars. On charge accounts, customers buy anything—and everything—from groceries to shoes and socks, from jewelry and permanent waves to vacation trips.

From all retail outlets of the Nation, consumers bought 35½ billions of dollars' worth of goods in 1938. They paid cash for over 24 billion dollars' worth. More than 3 billion dollars' worth was bought on the instalment plan. And almost 8 billions—or 22.4 percent of all retail sales—were on charge accounts. In some types of stores, 30-day charges accounted for an even larger portion of sales. In department stores, over 40 percent—and in women's specialty stores, two-thirds of the total volume



of sales—were billed for payment on the first of the following month.

Charge—or "open account" purchases—differ in a number of ways from instalment purchases. Charges do not call for a down payment; most instalment deals do. (Some concerns selling on instalment may offer to waive the down payment, as an added inducement to buying, but such deals are frowned upon by credit experts, and consumers need to be especially careful in their scrutiny of "no money down" and "pay at your own convenience" offers.)

To instalment prices are added carrying charges, which may or may not be disguised. Charge purchases do not add this price for the use of credit; the cost of credit is merged in the price of the article itself, which is paid by cash customers too. For very slow payment of end-of-the-month bills, a few stores tack on a small carrying charge.

Instalment deals are wrapped up in a contract, whose terms—as we have seen in a previous section—the customer ought to read with a shrewd and informed eye. For the customer who buys on an open account, how-

ever, there is no contract to be signed, and hence no right of repossession by the dealer should the customer fail to pay up.

Charge accounts, in the carriage trade days, were generally paid at the first of the following month. But now—and particularly during the depression—retail charges may drag on beyond the nominal 30-day period, to 60 or even 90 days. The average “30-day account,” the United States Department of Commerce found in its annual retail credit survey in 1938, is collected in 63½ days.

This might sound as if stores were “stuck” with a lot of bad debts. But statistics, like the good opinion of American businessmen, back up the typical American family’s reputation for honesty. Bad debts in 1938 came to only 35 cents on each \$100 of retail credit sales. For department stores alone, the bad debt loss was even lower—twenty-seven one-hundredths of 1 percent—or 27 cents on each \$100 bought on charge accounts.

But slow collections have the retailers a bit worried. They notice that many customers, instead of settling in full at the end of each month, pay up in instalments. If charge accounts are to verge into instalment sales, many retailers are saying, we might as well recognize the fact. As it is, customers are inured to paying a carrying charge of some sort on instalment purchases.

So a number of department stores and specialty shops are encouraging customers to buy on a modified form of the instalment plan, the so-called “budget account.” Under a variety of names, this device appears in stores all over the country. It may be called the Letter of Credit Plan, the Junior Club Plan, the Budget Account, the Junior Charge Account, the Revolving Credit Plan, the Ten Week Payment Plan, the Coupon Book Plan. Whatever the name, there is usually a down payment and a carrying charge to be met, and the maximum amount of credit to be allowed is determined between the store’s credit department and the customer when he opens the account.

Typical advertisement for such a plan will

read: “Credit Coupon Plan—4 months to Pay. You purchase a book of coupons which may be used like cash to buy anything in the store (except wines and liquors). A down payment of 20 percent of the face value of the coupon book plus a small service charge is required. The balance may be paid in 4 equal monthly instalments. You may purchase books containing \$25, \$30, \$40, or \$50 in coupons.”

This gets around two of the weaknesses which merchants find in the conventional charge account—the tendency of customers to let their accounts drag for months—and the absence of any ceiling to the amount of credit which a customer might ask.

Budget Accounts Helpful.

For the customer, the budget account has the advantage of allowing payment in instalments, the most convenient method for many. Of course there is the little matter of the carrying charge. Some stores refund that for earlier-than-scheduled payment. At any rate, it is a carrying charge which is frankly stated—and that cannot yet be said for most “regular” instalment charges.

Retail charges, like instalment sales, really amount to loans to the consumer. If the dealer is to stay in business, he has to charge for the use of money as well as for the groceries or furniture or suit of clothes that he sells. Dealers have shown some preference for calling the extension of credit a “service” instead of a loan, of money. Terminology does not change the fact that the cost of “service” or cost of use-of-money has to enter into the price the consumer pays.

Who pays for charge accounts? The question is not whether the consumer pays, because everybody agrees that he does—but which group of consumers actually does the paying? In most stores, there are customers who always pay cash, other customers who run charge accounts, and still others who pay on the instalment plan. The instalment buyer generally pays most of his share of the cost of credit, sometimes a good deal more than his share. He

is accustomed to paying his way in the form of a carrying charge, or a price admittedly higher than the cash price of the merchandise.

"Charge it, please" customers, however, expect to get their goods at the same price as cash purchasers. For several generations American stores have boasted that all customers pay the same price. This means, of course, that in a store where customers can run charge accounts, the cash customers are helping to pay the cost of credit for these who charge. On the other hand, in a store which sells only for cash, and allows no charge accounts, the customer will expect to find lower prices.

As for charges, so for delivery, C. O. D.'s, free parking, sales on approval, and other services. The customer who does not use them has to pay just as much as does the customer who demands everything in the way of service. Perhaps there is no way to avoid that. But with the conventional one-price system, neither is there any incentive to the customer to pay cash for purchases, instead of charging them, or having them sent C. O. D.; nor is any encouragement given to tote little parcels home instead of having a delivery truck roll up to the house with them.

The Twentieth Century Fund, after a fairly exhaustive study of distribution and its costs, has just concluded that a two-price system may have merit. It would have those who make use

of the store's more or less "optional" services pay a slightly higher charge for merchandise than those who are willing to shop without these services.

On the heels of this recommendation, comes the news that one of the Nation's biggest department stores, long famous for its strictly cash policy, has gone on a two-price system.

Charge Accounts Are Costly.

What are the costs of credit? Volumes are published each year on almost every phase of store operation. But retailers themselves generally admit they do not know just how much it costs them to keep charge customers and instalment buyers on their books.

The one expense which can most simply be assessed against the credit department is that of maintaining the credit office, its manager, its clerks, its machines, and its office space. Then there is the interest on the money outstanding in charge accounts, which is money lost to the store. Third, there are bad debts. Then there are the excessive returns of merchandise, complaints warranted and unwarranted, and various "free" services demanded by charge customers. Retailers throw up their hands and say it's impossible to set a money figure on this fourth item in the cost of credit. Finally, there is the item, equally elusive but real to many stores, of loss of possibilities of expansion, loss of good buys and other business opportunities because needed capital may be tied up in "accounts receivable."

Compensations of the charge trade to the retailer are perhaps even less capable of financial valuation. Charge customers are supposed to be more loyal to the store. But they may have charge accounts in every store in town, in which case their loyalty would obviously be somewhat diluted.

Charge customers furnish a mailing list towards which the retailer may direct some of his sales promotion. Charge customers are said to make larger purchases on the average than do cash customers. They buy more, especially of items like rugs and fur coats, which come

Over-use of charge accounts is a great temptation. Don't charge a purchase if you don't think it is worth the price in cash now. The day of payment does arrive.



higher in price. Finally, many retailers feel that, without charge accounts, they simply would not do the volume of business which makes for successful operation. This volume, it is claimed, makes possible lower prices from which cash as well as charge customers benefit.

Whether the charge account is indispensable to volume depends of course on the circumstances of each store in each community. If competitors are allowing customers to run charge accounts, then it would seem hard for stores to avoid the charge system, except by a community policy on credit. At least a few outstandingly successful stores, however, have built their business around the strictly cash transaction.

With the sweets of a charge business come certain bitteresses, retailers say. The costs of a charge business are something of a mystery, and that is uncomfortable. Slow collections turn some charges into instalment deals—without the carrying charge. And, while a charge customer may be a more loyal friend than a cash customer—she may be converted into an enemy if a dunning letter rubs her the wrong way.

Perhaps worst of all, are the demands made on stores by their charge customers—at least by a too shrewd or unscrupulous minority of them. Unreasonable demands for return of goods come most often from charge customers. Complaints of all sorts, including unjustified ones, flow from the same source. Almost legendary in every store is the clerk whose job it is “to get fired” every time a charge customer feels she has not been treated with appropriate consideration.

For this state of affairs, merchants beat their breasts in trade papers and annual meetings, and acknowledge they are largely responsible. They have built up the feeling among charge patrons that they are “preferred customers.” Those consumers who are so thoughtless as to pay cash down on the counter are only “transients.” Hence the feeling among many an average citizen that the only way to get service, or to get a refund on faulty merchandise, is to run a charge account with the store. Of over



With most of their competitors granting charge accounts few merchants can afford to sell only for cash. Most add the cost of this service to the price of all their goods.

one thousand women recently queried in department stores in 17 Ohio cities, 2 out of 3 felt that cash customers were discriminated against.

Practical advice for the family on the use of charge accounts indulges in no mathematical formulas or universal slogans. It is mostly a question of sizing up your family's cash balance and prospects of future income; stacking these against your need of the merchandise you might buy on a charge account—and then keeping your eyes open when you go out to shop.

Compare prices at stores which sell strictly for cash, with the prices you pay if you say “charge it.”

Grocer Kale may sell for cash only; Merchant Spinach for credit, billing (and collecting from) his customers at the end of the month. If Spinach's prices, are, on the average, 10 percent higher than Kale's prices, then his customers—if their purchases be evenly distributed through

the month—will be paying 20 percent interest each month, or 240 percent interest a year, for the credit privilege. But the spread between cash grocers' prices and credit stores' prices is probably narrower than it used to be.

At certain seasons of the year, a charge account may be a great help in getting over the humps of heavy financial demands—for example, fitting the children with school clothes in the fall. Here a charge account—plus intelligent budgeting—may keep the family on an even financial keel otherwise difficult to maintain.

Doctor bills and dentist bills, too, may need to be budgeted over a period of time, and they may be regarded as forms of the "charge account." Doctors and dentists extend a great deal of credit. And they lose a much higher percentage of their accounts in unpaid bills than do retail stores—this in addition to the free services they render without expectation of payment. As in the case of unpaid store bills, however, those who do pay their medical bills must make up for the losses on the "sour" accounts.

Too Much of a Good Thing.

Over-use of charge accounts is a great temptation. A suit or a coat or a new rug looks lovely in the store and it will be delivered tomorrow, for your use and enjoyment. The bill may not come until the first of next month, or even the first of the month after that. But the day of payment does arrive. Don't buy an item on your charge account if you don't think it is worth the price in cash now.

A sizeable proportion of all the people who borrow from licensed small loan companies—at rates running as high as 3 or 3½ percent a month—and some who go to loan sharks at

much worse rates—get into this indebtedness because they finally have to pay up on retail store accounts.

Your temptation to over-use of credit is not always fought by the merchant who enrolls you as a charge customer. For example, the budget account, or coupon book credit, is supposed to be chiefly for customers who do not rate the less restricted open account. But, writes the credit manager of a leading Eastern department store, "a new practice is being developed by some stores, and that is the sending of coupon books directly to good budget account customers even though they have not applied for additional books. Such procedure employs the psychology that the customer, having the buying power in hand, will exercise it." This, it appears, is "good logic, and proving itself a credit sales builder."

Charge accounts, finally, should be a family affair. A good deal of sardonic humor has been lavished on the plight of the American husband whose wife is traditionally supposed to charge gowns, slippers and furs to his account, way beyond his capacity to pay. Probably the fault runs both ways.

More typically, however, the charge account is used as a means of keeping going till next pay day, in a family which thinks of dresses and not gowns, shoes and not slippers, coats and not furs. And nobody really knows how much of a charge business is done between groceries and families on the ragged edge of subsistence, who never get the necessary one yelp ahead of their pack of creditors.

At any rate, it is up to both members of every family to stack income against needs, to shop around, and to know when not to charge as well as when to charge.

The Big Business of Small Loans



Consumers borrow half a billion dollars a year from licensed personal finance companies. Here are a few leads for those who need to borrow

ONLY about 15 out of every 100 people can borrow money from a bank. But many of the other 85 need to borrow money. Rare is the consumer who does not borrow, in one form or another, at some time or other. As we have seen in previous articles in this series on credit, consumers borrow the use of money when they buy on charge accounts and when they buy on the instalment plan, as well as when they borrow cash.

Cash borrowing is most often a matter of emergencies. Mother needs an operation; doctor and hospital must be paid; perhaps a nurse hired. The first cold day of the winter season at least a few tons of coal have to be bought—and paid for. The Joneses have been going along piling up one bill here, another bill there. Maybe they were a little careless about charging, and buying on time. Now the bill collectors are getting pretty insistent, cluttering up the house at all hours, bothering Mr. Jones at the shop, threatening to repossess the furniture or “pull” the washing machine.

These are some of the reasons why the small fellow borrows. Jobs are uncertain, and may give out just when most needed—when a baby comes in the family, or when Sis and Johnny need new clothes to go to school. Employment opportunities and the business cycle do not wait on the family budget.

Medical care has become more expensive with advances in the science of medicine. Hospital care is more often necessary.

To want many things is a sign of the good life, it is proclaimed on all sides. Not to buy them—whether for cash or for credit—is to buck the spirit of the times. Puritan concepts of thrift have gone the way of the covered wagon.

Savings are fine. But they are not come by easily among that third of all the Nation's families who have less than \$780 a year to live on; or even among that middle third of America's families who try to make ends meet on \$780 to \$1,500 a year. And it takes only one serious illness—the loss of a man's job for a month or two—the need of supporting a brother's or a wife's family—to wipe out all the savings there may be. So people borrow.

First reason for getting small loans, almost all the statistics show, is to refinance and centralize a number of debts previously contracted. Then—the statistics tell a human story if you follow them back—come doctor, dentist and hospital bills; and then clothing, fuel, food, and rent. Automobiles make up the fourth big reason, usually much further down the list. Capital for small business, furniture, taxes, trail along as some of the other reasons.

The small borrower has no equality of bargaining power with the lender, for he usually comes to him ignorant and worried in his hour of need. On the other hand, to make small loans is an expensive business, as we have seen in an earlier section, and is profitable only at a fairly high rate of interest, much higher than the usual 6 percent usury laws.

Egyptian papyrus, Babylonian tablet, Mosaic injunction, church prohibition, the old English common law—all testify to the attempt down the ages to prevent the too great exploitation of him who needeth the ready cash, by him who hath it to loan. The American States, too, enacted prohibitions against usury—some in their State constitutions, others in the statute law. Interest was usury if it was more than 6 percent, said some States; make it 8 percent, said others; we'll allow up to 10 percent, said a few Commonwealths. But none of them could make it stick for small loans.

The loan shark thrived; for many were his dodges to avoid the law. And the cries of his victims were loud throughout the land.

Then a different approach was tried. That was to supply other sources of credit for the small borrower, and cut the ground from under the loan shark.

Credit unions, industrial or Morris Plan banks, and semi-philanthropic loan societies all made their appearance about 30 years ago, lending at rates far below those of the bootleg lenders. But they filled the need for only a few of those who were being bled by the loan sharks.

Uniform Small Loan Law.

The Russell Sage Foundation, after several years of exhaustive studies of who borrowed and why and from whom, came forth in 1916 with its famous uniform small loan law. Five times revised since, this law is still the basis for the licensed small loan—or personal finance—business in this country. Its philosophy began with a couple of facts: Many people needed small sums of money in a hurry; and the usury laws had not worked to protect them from the sharks. Authorize and regulate the small-loan business, said the Russell Sage people, allow a rate high enough so that legitimate capital will come into the field.

Today 27 States and Hawaii have small-loan laws patterned after the Russell Sage law. Some 3,700 small loan offices are licensed. Last year consumers borrowed from them about half a billion dollars in sums of \$300 or less. This is

much more than they obtained from industrial banks and credit unions combined.

Main features of the uniform small loan law are: First, a maximum rate profitable for the small loan companies; second, an interest rate stated so it covers all charges, and so anybody can figure out the cost of borrowing; third, close supervision of the business by the State. Companies making loans of \$300 or less may operate without regard to the rates set in the usury laws, if they abide by the small loan statute.

Rates in some States are $3\frac{1}{2}$ percent per month on the unpaid balance; in others the top limit is 3 percent or $2\frac{1}{2}$. In some States there is a graduated rate—like New York's 3 percent on anything up to \$150, and $2\frac{1}{2}$ percent on the remainder. These are high rates, but they nowhere begin to compare with the charges made by loan sharks.

When the rate has been stated, the borrower knows that is all there is to pay. Where the uniform law is operative and scrupulously observed, no examination fees, service charges, brokerage costs, commissions, bonuses, fees, may be charged.

Charges are computed only on the unpaid balance of the loan. As the borrower pays up, month by month let us say, the amount of interest in dollars and cents keeps diminishing as the outstanding balance shrinks. He pays the stipulated rate of interest only on the money of which he has the use.

Interest cannot be deducted in advance from the money the borrower gets. Likewise, if the borrower pays back in less than the agreed time, he can be charged interest only for the time he has had the money.

Charges Stated.

Only in this way of stating charges, can the borrower know what his loan is actually going to cost him. Only by such requirements can the high charge per month possibly be justified.

Three and a half percent a month means an annual interest rate of 42 percent, to be sure. But at $3\frac{1}{2}$ percent a month on the unpaid balance, interest on \$100 paid back in equal

monthly instalments over a year's time comes not to \$42, but to \$22.75. At 3 percent, the charge would be \$19.50.

Supervision is the essential third feature of the uniform law. Lenders must be licensed and bonded, and report in detail to the States. Penalties for violations of the law are severe.

Providing a place to which the individual may bring his complaint if he feels he has been treated unfairly is an important protection under any law. The uniform small loan law makes such provisions. The supervisory agency, frequently under the State banking commission, is in a position to require prompt explanation by the loan company. If the complaint is found justified, the lender will usually comply with the State supervisor's suggestion; if not, a hint of the revocation of a license is usually enough to get justice done, and speedily.

Supervision does not have to wait on complaints. A good State supervisor keeps an eye on all the practices of the small loan business, in the interest of reputable companies as well as consumers. Pennsylvania's secretary of banking, for example, keeps his eye open for false and misleading advertising, and for ads that encourage borrowing for improper purposes. Probably the most undesirable feature in the advertising of licensees is the stress placed upon the ease of repayment of a loan, says this public officer.

All problems are not solved for the consumer at the licensed personal finance company even in the State which has a workable small loan law. Despite regulation by the State and despite a reasonable high standard of business ethics among most small loan offices, the borrower still needs to have his wits about him. There is no factory-made credit garment waiting for him anywhere. He has to have the cloth cut to suit the family budget figures.

Personal finance company credit is expensive credit. Personal finance company people, themselves, will say that. At 3½ percent, or 3, or even 2½ percent on the unpaid balance, a small loan comes to big charges. Monthly payment statements are deceptive half-truths when they tell how small a sum you repay every



Personal finance companies claim no very low rates, but consumers know just what they are paying when they borrow from licensed offices. Legal rates plus State supervision have driven out of business many of the loan sharks who exact 240 percent a year and up.

month without mentioning how many months the instalments run. So make sure of several things before you go to finance companies.

Do you need or want to borrow? Is there no place you can get the money for less?

Friends or relatives sometimes have the cash. Whether one prefers to borrow there or make the loan on an impersonal basis is another matter.

Your credit union, if there is one to which you are eligible, may lend for as little as one-half or three-fourths of 1 percent a month on the unpaid balance; more often at 1 percent.

You may want to borrow against your paid-up insurance premiums, using your policy as security; the rate is comparatively low because the insurance company is lending you your own money. Personal loan departments of commercial banks, and industrial or Morris Plan banks, are other sources of cash cheaper than

small loan companies, though not as cheap as their rates usually sound. Either is likely to demand one or two cosigners to your note. You may not want to ask a friend to cosign for you unless you would be willing yourself to cosign a note for him; and that means being willing to pay up if he defaults.

Suppose you want the money enough to borrow and there is no cheaper source whose conditions you are willing and able to meet. If you go to the personal finance company office, look first of all for the State license on the wall. There are bootleggers even in the States where the small loan law operates.

Shop around a bit. All you have to compare is price: The commodity—United States currency—is the same at each dealer's. Especially in the large cities, it is usually possible to borrow at rates below the top rate of interest allowed by the State law. Even in the same city, rates vary.

Now you are ready to ask for the application form. Before you sign it, hold a family council on the amount and number of payments you will have to meet and how you propose to fit

Borrowing may be easy, if the lender thinks you are a good risk. But "easy payments" are a myth. Says one State loan supervisor: "Advertisements which feature 'repayment on easy installments' can properly be classified as misleading."



them into your budget. It is always easier to borrow than to repay. The lump sum of the loan is handed to you here and now. The payments (including interest) have to be met in the future.

Many personal finance company managers and interviewers have excellent advice to offer on budgeting. The experience in systematic application of budget principles (that means common sense, and a little self-discipline) may be worth as much as the loan itself.

Consider the security you are asked to give. Leaders in the personal finance business say the best business for them is to lend simply on the signature of the borrower, without other security. But security is almost always asked.

Mortgages on household furniture are the most common form of security. They are taken for "psychological effect"; and to give the investigator a chance to look into the borrower's home. The lender occasionally forecloses. But used furniture does not realize much; and foreclosures are bad publicity.

Autos are sometimes used as security. So are wage assignments—documents that give the lender the right to collect the borrower's pay, or part of it, in case of default, from his employer. Most companies are getting away from this type of security; many States have outlawed or severely restricted its use. Employers sometimes discharge workers rather than bother honoring wage assignments. *The borrower will be well advised as a rule not to sign this type of document.*

The loan office makes its investigation of the borrower. Then, if the loan is approved, payments soon begin to come due. They may be met in regular order, and borrower and lender may part company in the stipulated number of weeks or months. Several other courses are possible, however, for the borrower. He may, if he can, pay up sooner, and save interest charges, since he pays only for the time he has the money. On the other hand, he may not be able to meet the payments as scheduled. The loan company may rearrange his schedule of payments, so that he pays over a longer period

of time. That means, of course, paying more interest, but it may be necessary. If hard times really hit the family and chances of repayment seem hopeless, the company is likely to see its way clear to waiving interest and settling for the principal, or even writing off a part or all of the loan. Interest rates are high enough to take care of such losses.

The borrower may sign up for another loan, either to enable him to meet stipulated payments on the first loan, or to finance some other expenditures. The larger the balance of loans outstanding, the greater the possibility of profit for the personal finance company. Some lenders, therefore, encourage borrowers—if they are pretty sure of their ultimate ability to pay—to overload themselves on credit.

“Approximately 60 percent of the total loans granted during the period were made to present borrowers, or repeaters, where additional cash was paid to borrowers,” the Connecticut Division of Small Loans recently warned. “This, it would seem, is a most severe indictment against the operation of a business dedicated to the promotion of thrift and to the elevation of the economic status of the poor man.”

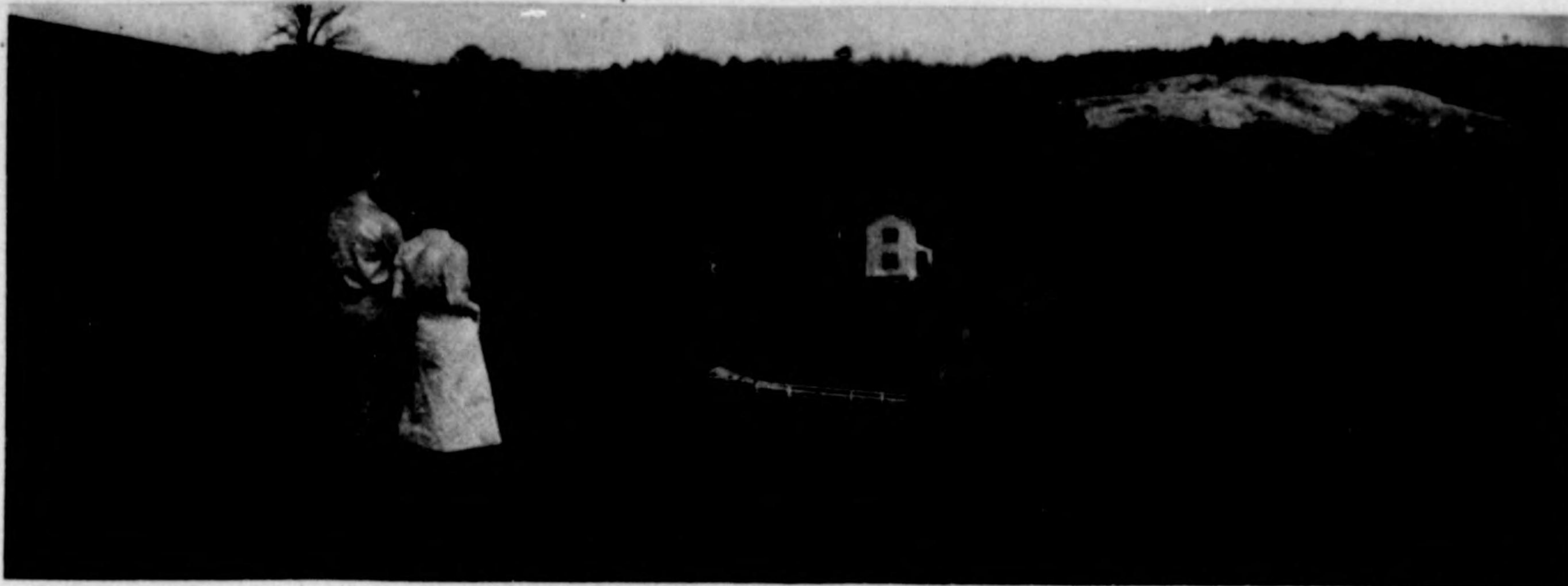
So much for the licensed small loan concerns. The passage of the uniform small loan law, however, does not insure that loan sharks go out of business. There is always some bootlegging,

chiefly at the expense of those who are turned down by the licensed lender, and those who do not take the trouble to find out where else they can borrow.

The loan shark is always a potential threat. In States which have a small loan law, maximum legal rates are necessarily subject to change by the legislature. Agitation for change may come from friends and foes of the law. Some of the demand for lower rates comes from students of the problem who believe the licensees can do a profitable business at somewhat lower rates. Some demand comes from people who cherish the notion that interest means 6 percent. They have usually neglected to investigate the costs of doing a small loan business.

Other cries for drastic rate slashes have been traced to loan shark outfits. Their theory is the Russell Sage Foundation's philosophy turned inside out: Cut the legal rate of interest below where it pays licensed companies to make small loans; and they will either stick to larger, more profitable loans of \$200 or \$300, or retire entirely from the field, and people in need will have to come to us for smaller sums.

Recent attempts at legislating very low rates in several States—notably West Virginia, New Jersey, and Missouri—revealed that is just what happened. West Virginia and New Jersey have since raised their rates.



The price consumers have to pay for credit depends partly upon the security they are able to give; partly upon the types of loan agencies in the community. Cheaper credit for farmers has been obtained not so much by prohibition of usury as by making cheaper sources of loans available to farm families.

Loan Sharks Take Their Toll

"Money while you wait" . . . "Salary loans on just your signature" . . . read typical ads of bootleggers who prey on ignorant buyers of "quick and easy" credit

HARDLY a State legislature meets without having before it at least one "anti-loan-shark" bill. Consumers who understand that credit is a major consumer problem, citizens who want to have the facts before they make up their minds about bills and laws, ask: "Who are the loan sharks?" "Why do we have them in our midst?" "What can be done about the whole problem?"

Loan sharks are lenders of money who operate outside the pale of the law. In the field of credit, they are the bootleggers. In 27 States, with two-thirds of the population of the Union, personal finance companies, or small loan companies, are operating under State license and State supervision. Some people say the interest rates these companies charge are too high, and call them "loan sharks." About rates, opinions vary. But for purposes of discussion it is generally agreed to reserve the term "sharks" for those who operate without license or supervision, and who violate the law's letter as well as its social purpose.

Interest rates on consumer credit seldom are

very low. Making loans in small sums, investigating applicants, collecting on the installment plan, keeping books on many small payments, taking the risks of inadequate security, often borrowing the money from banks to loan to consumers—all these factors run up the costs of legitimate, commercial lenders. Licensed personal finance companies, as we have seen, may charge from 2 to 3½ percent per month on outstanding balances. Lowest going rates consumers can find are usually those of credit unions, at two-thirds or three-fourths or 1 percent per month on unpaid loan balances. At any rate, if consumers understand why they are unlikely to get honest-to-goodness 6 percent credit, they will be past the first hurdle which besets those who are making a dash for credit.

Six percent a year is usually a snare and a delusion; 240 percent is often a reality and a catastrophe which hits those who borrow from bootleg lenders. Percentage figures on loan-shark rates go so high it becomes hard to follow their meaning. One hundred and twenty and 240 percent a year are about the lowest common rates; rates of 1,040 and 2,000 percent a year are not uncommon.

Borrow \$20 from a loan shark till payday 2 weeks off, and you will usually pay back at least \$22. A \$2 charge on \$20 for 2 weeks is

260 percent a year. The same \$2 charge would probably be levied for a week's advance; in that event, the interest rate would be double—520 percent a year.

Worse than the interest rate, however, is the loan shark technique of making it difficult, often impossible, for the borrower to repay the principal. Once a customer, the borrower is tricked or bullied into continuing to pay interest—not only interest on the original balance, but often interest on interest. Allowing him to fall a little behind, the shark may grant him another loan to keep up interest payments on the first loan. The principal is always hanging over his head, perhaps mounting with terrifying speed.

Interest is so high that it does not so much matter to the illegal lender whether the original principal ever gets repaid. In over 700 complaints against loan sharks recently filed with the St. Louis Bar Association, most of the loans had run over 6 months, at 20 percent a month interest. At that rate, it takes the loan shark only 5 months of collecting interest to get back the full principal of the loan; whatever he collects by way of either interest or principal after that is "gravy."

Vicious Collection Methods.

Figures on interest and principal tell only part of the story. Borrowers are harried not only by dollars-and-cents charges but by collection methods typical of operators who are already outside the law. Threats to complain to the borrower's employer, threats to file a wage assignment or garnishee a borrower's salary—which may mean loss of his job—are routine. These may be varied with annoying telephone calls to the borrower's office, visits in which he is loudly denounced in public as a deadbeat and a crook, or terrifying phone calls and messages to the borrower's wife, or even his children at school. The New York district attorney's office brought to light cases in which men were beaten up—some for slowness in payment, others for attempting to pay off the principal of their debts. With 200 post-office employees found in the toils of "unbeatable

obligations" to loan sharks, a postmaster in Texas recently told the State legislature, "We have had one suicide, and one employee sent to the penitentiary for embezzlement directly attributable to loan sharks."

Exactly how much of consumers' money these credit leeches get is hard to tell. Bootleg business collects enormous interest but few statistics. Probably between 150 million and 200 million dollars a year are borrowed from sharks. The amount has been going down for many years, largely because of the competition of less expensive forms of consumer credit. But consumers still go to loan sharks for about 10 or 15 out of every 100 dollars of small loans.

In Missouri, a State official estimated that some 80,000 people borrowed 3 million dollars last year from loan sharks—paying about 240 percent a year interest. A Minnesota State committee some years ago figured there were 20,000 loan-shark victims in Minneapolis alone. In Denver, as the result of the campaign by one newspaper, it was possible to get prosecution of 50 loan sharks, charging up to 750 percent a year. Many of them were convicted.

Occasionally there is such a "drive" and a few loan sharks may be sent to jail. From time to time, their contracts will be challenged in the courts, and thrown out. Generally, however, they rent office space openly; they advertise in the newspapers; they even go to court to collect from their victims. In fact, they usually collect without challenge or question. Before the passage of Kentucky's new small loan act, in a single city during a period of just 5 months 627 people were haled into court by loan sharks. Usurious contracts have no validity in law, but the loan sharks won practically all of their cases.

No other illegal business works so openly or invokes the law with such success to collect its bills. Usury is against the law in practically every State. How do loan sharks get away with it?

Borrowers are ignorant, timid, worried. They do not have the time or the experience to go to law to challenge oppressive contracts or to defend cases brought against them.

Loan sharks know the law; technicalities are found to evade usury laws. Laws better suited to a legitimate small-loan business are lacking in a score of States. The credit bootlegger fills a genuine economic need—or at least appears to, by his initial loan—to many a hard-pressed family.

Usury laws alone have not been sufficient to prevent usury where people needed to borrow. There have always been some methods of collecting extortionate interest which have got by the courts. Most common form of evasion of usury laws is salary buying. The victim does not make a loan; he "sells" the loan shark part or all of his salary. Many courts have held this to be a sale of goods rather than a loan of money; and on a sale of goods the price may be nobody else's business.

On the 15th of the month, for example, the borrower sells \$20 of his salary, due on the 30th, for \$18. The loan shark appoints the borrower his agent to collect the salary on the 30th and deliver it to him. The borrower is threatened with prosecution for embezzlement if he does not deliver. Often there is no attempt to collect the full amount which was "sold"; only the charges are collected, and the loan is renewed for another 2 weeks; and so on indefinitely.

Salary buying first grew to nation-wide importance among railroad workers whose wages were not paid until 2 weeks after they had been earned. Many States have now specifically outlawed salary buying or at least

banned purchase of salaries before they have been earned. Other States have defined it as a loan of money and hence subject to whatever restrictions govern loans.

Loan Shark Dodges.

Other subterfuges are legion. Here are some which have been reported by the Kansas Legislative Council:

(1) *Plain note method.*—The borrower signs a note for the principal he actually receives plus the heavy interest. On this total sum, the note innocently bears "interest after maturity" at the legal rate.

(2) *Two-note plan.*—The shark takes two notes, one for the principal actually loaned, "with interest after maturity," and another for the amount of the interest, bearing the same due date.

(3) *Bonus or contribution plan.*—One note is taken for the amount of a loan; and the borrower signs another document promising to contribute a stated amount to the support of the loan company's office, or pay a bonus to the loan company for securing the loan.

(4) *Insurance racket.*—The borrower has to take out a large insurance policy on his household goods or his auto, for a much longer period of time than the loan is supposed to run. The shark may be the agent for the insurance company; or he may split fees with the agents; or he may collect the money and not have the policy written at all. Life insurance policies may be used to vary this device.

(5) *Merchandise sales.*—The subterfuge here is to sell the borrower—as a condition of the loan—some valueless beads or furniture, say for \$15 on a loan of \$25 in cash, and take a note for \$40.

(6) *Merchandise order plan.*—Here the loan office gives the borrower, who needs cash, an order on a grocery store, say for \$20 worth of groceries. The grocery, which is in on the



Most consumers need to borrow—this year or next year. When emergencies such as sickness come, if the family is not insured against the financial strain, it must know where to turn for cash in a hurry.

scheme, cashes the order for \$15. The borrower, of course, has to repay \$20 next pay day.

(7) *Brokerage*.—Two offices, usually run by the same people, claim to be broker and lender. Application for the loan has to be made through the "broker" who then submits it to the lender. The broker's commission makes a fat interest charge.

(8) *Endorsement selling*.—The loan will not be made unless it is endorsed. There is, "fortunately," someone available who will endorse the note—at the borrower's expense.

This is not meant to be an exhaustive catalog of methods of evading the laws; only a glimpse at typical methods.

First step in an anti-loan-shark campaign which is more than a publicity splurge is to make available other sources of small loans.

Equally important is a campaign of education to tell people more of the facts of consumer credit, to let them know where they can get the best terms and the cheapest credit when they need to borrow. Consumer organizations can do valuable work helping the average family budget go further with less heartache, if they will spread the "do's" and "don't's" of borrow-

ing and buying on time and on charge accounts.

Consumers run their own loan agencies when they form credit unions. Part of the credit union job is education of the members in use of other forms of credit, and education generally in how to make the consumer dollar buy more.

Community agencies should offer legal defense to individuals against loan-shark exactions and intimidation. Legal aid societies and civic, business, and professional groups in many communities have volunteered needed legal protection. The office of the district attorney may also be invoked for protection. Local small-claims courts can give some borrowers relief from loan sharks.

In the long run every move which diminishes the insecurity of modern industrial life helps in wiping out the loan shark. Protection against unemployment, loss of earnings, the financial hazards of sickness, strengthen families in their ability to consume without resort to ruinous credit.

Credit for consumers, however, like credit for agriculture and for industry, is an established part of the going system of producing and distributing goods.

At the Sign of the Three Balls

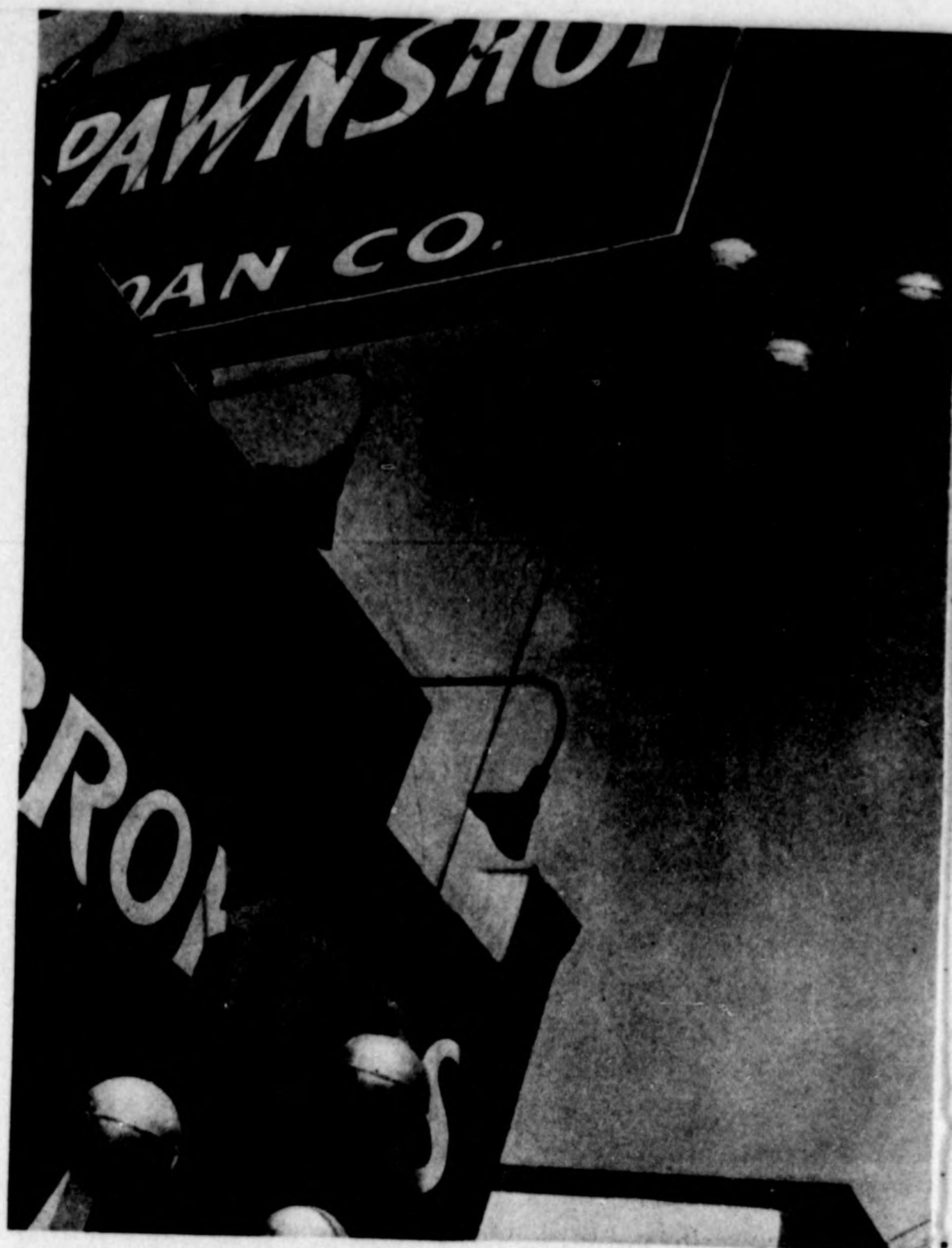
Here are some facts about an ancient source of loans and some questions cautious consumers should ask before raising quick cash at pawnshops

"BAROMETERS of misery" is what they used to call the figures on pawnbrokers' loans. Probably that characterization was never quite accurate. Depressions and panics do send people around to pawnbrokers who have never been there before, and for loans smaller than the average in better years. But pocketbook depression is always with some groups; and there have always been others beside the jobless worker among the customers of the Medici descendants.

It is the poor of the cities, nevertheless, who are the most frequent borrowers, if not the most profitable to pawnbrokers. And it is they who are most in need of the law's protection.

Regulation of the pawnbroking business is rather a twilight zone of public protection. A few States have enacted legislation limiting the interest on pawnbrokers' loans and seeking to maintain ethical business practices in the interest of consumers and of honest dealers. Most States, however, have hardly made a beginning in this direction, beyond exempting pawnbrokers from low interest requirements of the usury laws.

Interest rates on pawnbrokers' loans vary enormously from place to place, and from State to State. In New York City, for example, it is possible to borrow at pawnshops for as little as 2 percent a month. Top interest rate permitted



by the New York State law is 3 percent a month for the first 6 months on a loan of less than \$100; and 2 percent beginning with the seventh month. This comes to a total rate of 30 percent a year. On loans of \$100 or over, the top interest is 2 percent a month for the first 6 months; then 1 percent after that—a total of 18 percent a year.

Legal rates elsewhere vary from the 10 percent a year maximum in Nebraska, to New Mexico's 10 percent a month. In most States, it is simply what the traffic will bear; and there is little or no attempt at regulation.

Cities do a certain amount of regulation, usually as part of their police work. The pawnbroker is a possible market for stolen goods, so police officers keep in fairly close touch with him. New York City requires each pawnbroker to submit a written description of every pledge within 24 hours after it has been left with him.

Few pawnbrokers are in cahoots with criminals. It requires a sort of sixth sense, however,

for the pawnbroker to avoid accepting stolen gems or merchandise. The business itself usually develops in its practitioners this intuition—for if they slip, they lose both interest and stolen pledge. Intuition is usually supplemented by legal talent—lawyers' fees figure significantly among pawnbrokers' expenses.

The pawnbroker makes loans to people who can seldom get money anywhere else. Each consumer credit agency specializes to a large degree in certain types of customers and certain types of security. Rates, of course, reflect the hazards of the business, as well as the lender's cost of obtaining money to operate with, and the overhead of doing business.

When we come to pawnbrokers, we come to loans which do not depend for repayment on the ability of the borrower's friends to make good if he defaults, or on foreclosure of a mortgage, or filing of a wage assignment. The pledge alone is security. Anyone who can dig up some jewels or silverware, a watch, or perhaps a camera, can get a loan without regard to what his income is or will be. To a man out of a job, a pawnshop may be the only place to go for cash.

A loan is quickly made. And, if the borrower wishes, that is where the transaction ends. He leaves his pledge behind; but he incurs no other obligations.

No fines can be charged for delinquency in making payments. The borrower signs no note, and no law suit can be brought for non-payment. The borrower will not have any goods repossessed or his salary attached. No collectors will pursue him if he fails to repay his loan. Loss of the pledge may be a heavy penalty, but it is the only penalty.

The pawnbroker cannot collect a deficiency judgment if he has to sell an unredeemed pledge for less than he loaned. On the other hand, if the sale should bring more than the loan, in theory the customer may collect the surplus. But since the pawnbroker usually bids in this defaulted pledge himself, there is seldom any surplus to collect.

In a sense, the customer is selling an article, while keeping the right to buy it back later on,

within a specified period, for a somewhat higher price.

Pawnbrokers still fill a genuine economic need, though they have in recent decades become less prominent in the American consumer credit picture. They still make about 150 or 160 million dollars' worth of loans a year. Since so much of this business is in very small loans, they are lending to millions of needy consumers each year.

Loans may be as small as a dollar; as large as several thousand dollars. It is on the larger loans that the pawnbroker makes most. But, except in the shops that lend only on jewelry, the average loan is probably less than \$10.

Almost anything may be—and has been—pawned. Jewelry and silverware and watches are the most obvious, and usually the best, pledges. Musical instruments enough to launch a symphony orchestra may be found stored in many a hockshop. Paintings, fabrics,

Inequality of bargaining power which prevails in most fields of consumer credit is clear when the consumer comes to the pawnbroker. But problems of regulation in the public interest are not so acute since the lender has no power over the consumer, unless he wishes to redeem his pledge.



lace and embroideries compete in many establishments with cameras and luggage, guns and pistols, lawbooks and the tools of many trades, for the eye of the consumer who comes to borrow or to buy.

The Paris municipal pawnshop had in storage a human skeleton pawned by a medical student. That establishment, incidentally, built a 2,000-car garage, and knowing Parisians used to claim that the cheapest way to store a car for the winter was to hock it with "my aunt" and redeem it in the spring.

"Rags" are the pawnbroker's term for something not kept in the safe. A mechanic out of work leaves his tools for a few dollars. A newspaper cameraman who has parted too speedily with his pay check may bring his camera into "Uncle's" place; he plans to pick it up again in a few days. A musician says the same for his violin.

Many of these pawns have value only for the person who brings them in; little for the dealer. Sometimes the dealer knows his customers well, and he is sure the man will redeem the Sunday suit he pledges, or the laundress her iron. It is a sad day for this type of borrowing consumer when he cannot redeem his pledge, and hardly profitable for the pawnbroker.

Many shops specialize in one item—jewelry most frequently. Some of the biggest concentrate on diamonds.

Danger of such specialization to the pawnbroker is the threat of a drop in the market. The sagging of the diamond market in the early '30's hit many pawnbrokers hard. And from faraway Shanghai, where pawnshops have been serving the needy Chinese family for 3,000 years, came a sad plaint. The Shanghai pawnbrokers' guild asked that the period allowed for redemption of pledges be reduced from 18 months to a year. Gowns were commonly left in hock; and it seems that, with the

coming of notions of style obsolescence, they were losing all value in the course of 18 months' changes in fashion.

A few bits of advice are in order for consumers who may be seeking to raise some cash in a hurry at the sign of the three balls.

"Do I need the loan more than the pledge?" is obviously the first question for the consumer to ask himself. It is not only a matter of giving up the use of the pledged article at the moment, but plans for later redeeming the pledge are likely to be upset.

Is there a reasonably long period allowed for redemption of the pledge? A year's time is a fair period.

How do interest rates at pawnshops compare with those of other loan agencies in the community? This question may be cruelly academic to those who cannot furnish the security for another type of loan. For others it is a practical consideration.

"Please read your ticket carefully" says the sign in some establishments. It is as sound advice as "read the label" and "watch the scale" in a grocery store or meat market.

Even in the States which have fairly adequate regulations, a certain amount of gypping on rates is possible if the pawnbroker is one of the unscrupulous minority, and the consumer is not aware of his rights. Interest may be deducted in advance contrary to the law's provisions. Or a charge may be exacted "for extra care."

If there is only a slight chance of being able to redeem the pledge, the customer may do better at a second-hand store, selling the article outright. True, many establishments are half pawnshops, half second-hand stores. But comparing offers is one form of sensible shopping around. Another is to see whether your town has not only pawnbrokers, but a remedial loan society which lends on pledges. If so, try it.

States cannot legislate equality of bargaining power between the needy consumer and the lender. But the pendulum has swung a good part of the way back since the time creditors could put delinquent debtors in jail.



Remedial Loan Societies

Crusades against the loan sharks brought forth these semi-philanthropic lenders. Consumers who need to borrow may find some of them useful today

ANNUAL income 20 pounds, annual expenditures 19, result happiness. Annual income 20 pounds, annual expenditures 20 pounds ought and six, result misery.

So Charles Dickens had Mr. Micawber in *David Copperfield* say 90 years ago, and it seemed a reasonable thing to say.

It might still be true today, if things could have stood still. But an industrial revolution has intervened, a movement of a great Nation's population to the cities, cycles of business ebb and flow, an exchange of a spare independence for an inevitably greater interdependence of man upon man, man upon business, and both upon a complex economic process.

It was a change which came swiftly in this country. A change which a man now living could have seen in his own lifetime. In Wisconsin, a committee of the State legislature, investigating credit for consumers a few years ago, mused aloud about it in one of those very human documents which official bodies sometimes produce: "Most of the members of the committee, being men of middle age, recall that in their boyhood the pioneer family was nearly self-sustaining . . . Today, however, it appears that cash is required . . . Society, while making considerable advance in social legislation, has failed to provide families with any regularity of income or with any insurance against catastrophe, while their ability to raise their own food or manufacture their own equipment has almost disappeared."

One result of the flocking to the cities, and the loss of economic self-sufficiency, was the

loan shark. He preyed mostly on wage earners. He came into prominence—one of the city's hazards—during the 1880's and 1890's. He charged outrageously, and he collected cruelly. But he was able to do that only because he appeared to fill a genuine need for people—for workers who had to eat, or pay a doctor bill, between now and the next pay day; for small business people or professional men who needed a bit of ready cash to start in trade, or to carry on till business picked up.

Crusaders crusaded, and moralists moralized, but it abated little of the victim's interest charges. If he could have found cheaper credit somewhere, he would have gone there. But he couldn't, and so he went to the loan shark. A legal campaign might drive some sharks out of business (maybe to another State), and drive others under cover. Still the problem was: Where else, when credit was needed, was it to be had? The pawnbroker was about the one other available lender, and he not only required some valuable to pawn, but charged a pretty stiff rate of interest too.

"Periodic campaigns with spectacular criminal prosecutions," a New York official said, "proved as futile as pulling weeds out of a neglected potato patch. In the whole history of campaigns against loan sharks, the only permanent good has come from the development of new institutions to make cheaper money available to the ordinary worker."

Public Pawnshops Abroad.

How was cheaper money to be made available to those who had to borrow to live? Reformers who looked abroad saw an interesting sight. In Europe there were municipal and State pawnshops lending money at reasonable rates to the average fellow and his family. More looking took the reformers down the perspective of centuries, back to the fourteenth century, when these semi-charitable pawnshops had been originated in Italy, by an order of friars.

In France, they called them *monts de piété*—funds of piety. It was the Government

which assumed responsibility for these funds. It was less of piety, probably, than a feeling that it was cheaper for the community to make credit available to some of its hard-pressed citizens than to have them ground down by money-lenders.

Widespread as were the public pawnshops on the European continent, however, there seemed no immediate possibility of fitting them into the constitutional scheme of the United States. The Federal Government had staked farmers to homesteads on easy terms; and it was later to grant reasonable credit to help farmers climb from tenancy to ownership, from poverty-stricken farming to efficient and self-respecting farming. But around 1900, when the battle against the loan sharks was beginning to rage in many an American city, there seemed no point in talking Government credit for city folks.

It was then that a new type of loan agency came into being. To the moral fervor of the anti-loan shark crusade was added a big practical argument—funds to loan to those who might have been prey of the sharks. Worthy citizens with some capital to spare got together. In a number of cities they set up what were known as remedial loan societies. Some who furnished capital expected to get interest on it; some did not. Some thought they might forego any returns on their money for a few years, but figured that after a while the societies would have to pay interest or else they would not get any more cash to lend.

Some of the remedial loan societies followed the system of the *monts de piété*, and loaned on pledges. They were, in other words, semi-philanthropic pawnshops. Other societies loaned on chattel mortgages—chiefly on household goods.

Interest rates at the remedial societies were lower than those of pawnshops, and much lower than those of the loan sharks. Business ethics of the remedials were higher.

Greatest activity in remedial loan societies came during the 1890's and the early 1900's, when the fight against the loan sharks was getting under way. The remedials served as yardsticks of the new small loan business.

They showed there was a demand for small loans which would require much more capital than semi-philanthropic sources could supply. They indicated the need for special small loan legislation. Finally, they gave some idea of the costs of the business. They showed that, while lending at bank rates—the cherished “6 percent”—was out of the question, the small loan business might be profitable at rates well below those of the loan sharks. By 1915 there were 38 remedial associations in business. But by that time a number of new forms of credit for consumers had begun to make their appearance.

Credit unions, first chartered in Massachusetts in 1909, showed that consumers might organize and cooperatively meet their need for small loans out of their own savings. Their rates were about the lowest at which small sums could be loaned. Industrial banks began to make their appearance just about this time, lending at rates higher than those of credit unions, but far below those of loan sharks, and lower than those of most pawnbrokers. And State legislation made possible the development of a licensed small-loan business, charging somewhat more than the industrial banks, but demanding less by way of security.

These new agencies took the starch out of the remedial society movement. Some of the remedials, in fact, metamorphosed into profitable small-loan businesses. No new remedial societies were founded after 1917.

Few Societies Today.

Today the remedials' national association lists 22 societies. Fourteen of them lend only on pledges, or on pledges as well as on other collateral. The other remedials take mortgages on cars, or household furniture, or ask cosigners (sometimes a difficult form of security for the average consumer to get).

The remedials generally pay limited dividends, usually between 6 and 8 percent. The country's largest society, for example, has been paying, on capital contributed, 6 percent a year every year for 44 years.



Wage earners out of a job, or people in need of some quick cash to meet a doctor's or a hospital bill, are the most frequent borrowers from remedial loan societies. But among the remedials' customers are to be found consumers of all occupations, and even small tradesmen looking for capital to carry on business.

Interest rates charged by the remedial societies range from 9 to 36 percent a year. Lowest rate in the country is that of one New York society, which charges three-fourths of 1 percent a month, or 9 percent a year.

This society, which does the largest business of lending on pledges of personal goods of any organization in the world, illustrates the need which may be filled by the remedial societies at their best. Since regular pawnshops are notoriously reticent about the details of their business, the reports of this vast society's business throw light on the whole pledge-lending picture.

In 1938, at the 21 offices of this remedial loan society in New York, 730,000 borrowers received a total of 36 million dollars in loans.

Some 202,000 loans last year were made to people who borrowed less than \$10. On these loans, of course, the organization lost money. Maintenance of the society's usual rate of return on its capital, however, indicates that low interest lending on pledges is commercially feasible, especially when sufficient volume is obtained. Seven out of each 10 loans were for less than \$50. At that, this society made 32,500 loans for \$200 or over.

Borrowers from this organization may pay back by instalments. Instalment payments may be as large and as frequent as the borrower can afford. The society, however, does not attempt to work out any schedule of instalment repayment with borrowers. On the other hand, it requires, ordinarily, that borrowers pay back at least 5 percent on their loans each year if they want to keep the right of redeeming their pledges.

Total loans by the country's 22 remedial associations in 1938 came to 55 million dollars. Consumers in 21 cities made over a million loans from remedial offices. But the single organization in New York accounted for two-

thirds of the activity of all the country's remedial loan companies.

Some remedial societies, founded in the flush of anti-loan-shark campaigns, have gone out of business. A few have stepped out of their limited dividend character. Some appear to be too stodgy and unaccommodating in their business methods, too conservative in granting loans, to help many of the consumers who most need their services.

In a city where a remedial loan organization operates and lends on pledges, the consumer who is thinking of pawning valuables for quick cash should shop around at the remedial. In other communities, a remedial society may offer an alternative to a small loan company or industrial bank.

At any rate, the alert consumer (and alert consumers must often borrow) will consider this along with other sources of cash-in-a-hurry. He should compare the remedial loan office's interest rate, security demanded, possibility of redeeming the pledge (if that is the security) and terms of repayment, against terms and charges at other sources of ready cash.

Banks Open Their Doors To Small Borrowers

No longer do the commercial banks of the country confine their credit service to business men or the well-to-do. In recent years they have become one of the leading sources of credit to the small consumer.

ME BORROW from the bank? What a quaint idea! Why, I'm only a clerk working on a salary. I haven't any bonds or any other property to offer as security. I wouldn't have the nerve to walk in and ask for even \$50, and even if I had there wouldn't be a chance in a blue moon that I would get a loan."

Up until some 15 years ago that would have been the natural reaction to any suggestion that the ordinary working man or woman, the typical payroll employee, should go to the bank for credit. And the reaction would have been justified.

Working people of modest income did not have much to do with banks, except at the savings department or the Christmas club window. The great business of the banks was loaning money to business men, to producers. Occasionally someone well known to the banker might borrow for personal use, but the loan was made merely as a courtesy or a gesture of friendship. No one thought of consumer loans as a good business field for banks.

It's different now. In late years commercial banks have been discovering that loans to selected classes of consumers can be made both



safely and profitably. Popularity of this new business field has grown by leaps and bounds and today the commercial bank is one of the biggest sources of credit actually used by the wage or salary earning consumer in the United States.

Every year now hundreds of millions of dollars are loaned by banks to men and women who work for regular wages or salaries, and who expect to repay the loans out of their payroll income. No one knows just how great the volume of "consumer credit" extended by commercial banks each year has become. But one authority, on the basis of special studies in different localities and such other data as could be obtained, made rough estimates that indicated a total of such loans outstanding at the end of 1937 of about 900 million dollars. That means that far more than a billion dollars of consumer loans are made each year by commercial banks.

Growth of this type of business among banks has occurred very largely in the last 15 or 20 years. It reached large proportions in the late '20's. Then the crash of 1929 and the severe retrenchment of the following years greatly reduced consumer income and the volume of consumer bank loans. As times improved the consumer became progressively a better risk and the banks again turned more and more to the field of consumer lending. Of late years increase in the volume of this business has been very marked.

Of course, looking at the question from the banker's point of view, it is one thing to make

a short-term loan to a business man to help finance a money-making project and quite another to lend money to a wage earner to be repaid usually over a much longer term out of the weekly pay envelope.

New Set-up Necessary.

You would have to use different ways of finding out whether or not the loan was safe. You would have to know about how long the applicant had been working at his present job, what was his reputation for steadiness and honesty, how promptly he met his obligations. You might want one or more comakers on his note, and when their names were offered, you would also want to look up their standing. Also, if a loan is to be repaid in weekly or monthly instalments there is much more book-keeping detail than when the loan is repaid all at once, or is curtailed and renewed, as with the usual business loan.

These many differences have led banks more and more to set up separate departments for taking care of the business of lending to consumers. Now the so-called "personal loan departments of commercial banks" have become one of the well-recognized sources of credit for the "little fellow."

As far back as 20 years ago a few banks had thus begun to segregate consumer loans from ordinary business loans by handling them through special departments. But only in the last ten years or so, and particularly since about 1934 or 1935, has their growth been so marked as to attract wide attention in financial circles.

No one knows with anything like accuracy just how many banks today have separate personal loan departments. But the number is large.

Two or three years ago the Russell Sage Foundation went to a good deal of trouble to learn the number of such departments and the amount of loans they were carrying on their books. The inquiry disclosed definitely that at least 685 banks were operating personal loan departments at the end of 1936. But the report states that as many as 30 percent of the total

number may have been omitted. If that were the case the number of such departments at that time was about 1,000, and the number has been much increased since.

Despite this development, however, it is apparent that a great part of the consumer loan business is still taken care of by the banks without the aid of these special departments.

It flows through the same channels as the other loan business of the bank and no records are kept that would set off consumer loans from any other. So there is really no way of telling how large such business is. The business that goes through the personal loan department, on the other hand, is easily kept track of, and when tables are made up to show the relative importance of consumer credit the "personal loan departments of commercial banks" are included with credit unions, personal finance companies, industrial banks, etc.

At the end of 1937, according to the study made by the Russell Sage Foundation, the total of outstanding loans in these personal loan departments of banks was some \$216,000,000. This was slightly more than the total for industrial banks and was about twice the total which the same study gave for credit unions.

Getting away from these broad totals, let's see what the everyday consumer might expect to find if he started out to obtain credit at one of these personal loan departments.

While each individual bank has its own rules of procedure the general pattern followed is much the same for all successful personal loan departments, at least in essentials. Let's follow through a typical case, remembering that details may vary.

Taking his courage in his hands (for the ordinary consumer is not much used to asking credit from banks) the applicant enters the bank and is referred to the personal loan department. There he is pleasantly interviewed by the head of the department or someone acting for that official.

The first question, aside from the amount of the loan desired, is likely to be, "Are you permanently employed?" And the second,

"How long have you had your present job?"

Usually a steady employment which appears to be reasonably lasting, or in place of it a steady and assured income from some other source, is a necessary requirement for a loan. Lacking that or sound collateral the applicant is not likely to get very far with his request.

In this first interview the cases which from the bank's point of view appear impossible or doubtful are weeded out. But if the applicant's record and character seem to offer a good prospect that the loan will be repaid according to promise he receives a formal application blank which he is asked to fill out, giving details about his income, debts, and usual expenditures, the purpose for which he wants the money, the kind of security he can offer, etc.

With this statement in hand the bank will probably check up on the applicant's credit rating and general character, using one or more of the sources from which such information is usually to be had. If the answers from these sources are satisfactory, the applicant will probably be informed that the loan will be granted, and he will be asked to call and sign the note and supply the security required.

What conditions and terms will he be likely to have to meet? Steady employment, as stated, is usually the first. Some banks require a minimum from six months to two years of employment in his present job. Most of the borrowers from these personal loan departments are such employed persons, but not all. Some loans are made to small business men and some to well-to-do persons to be repaid in frequent regular instalments.

As to the purpose for which money is wanted, while the banks give themselves a wider range than, for example, that which is usually permitted to credit unions under the law, the records show that the small loans made by banks go for much the same needs as those by other agencies. The two chief purposes are the familiar ones of payment of debts and payment for medical and dental expenses.

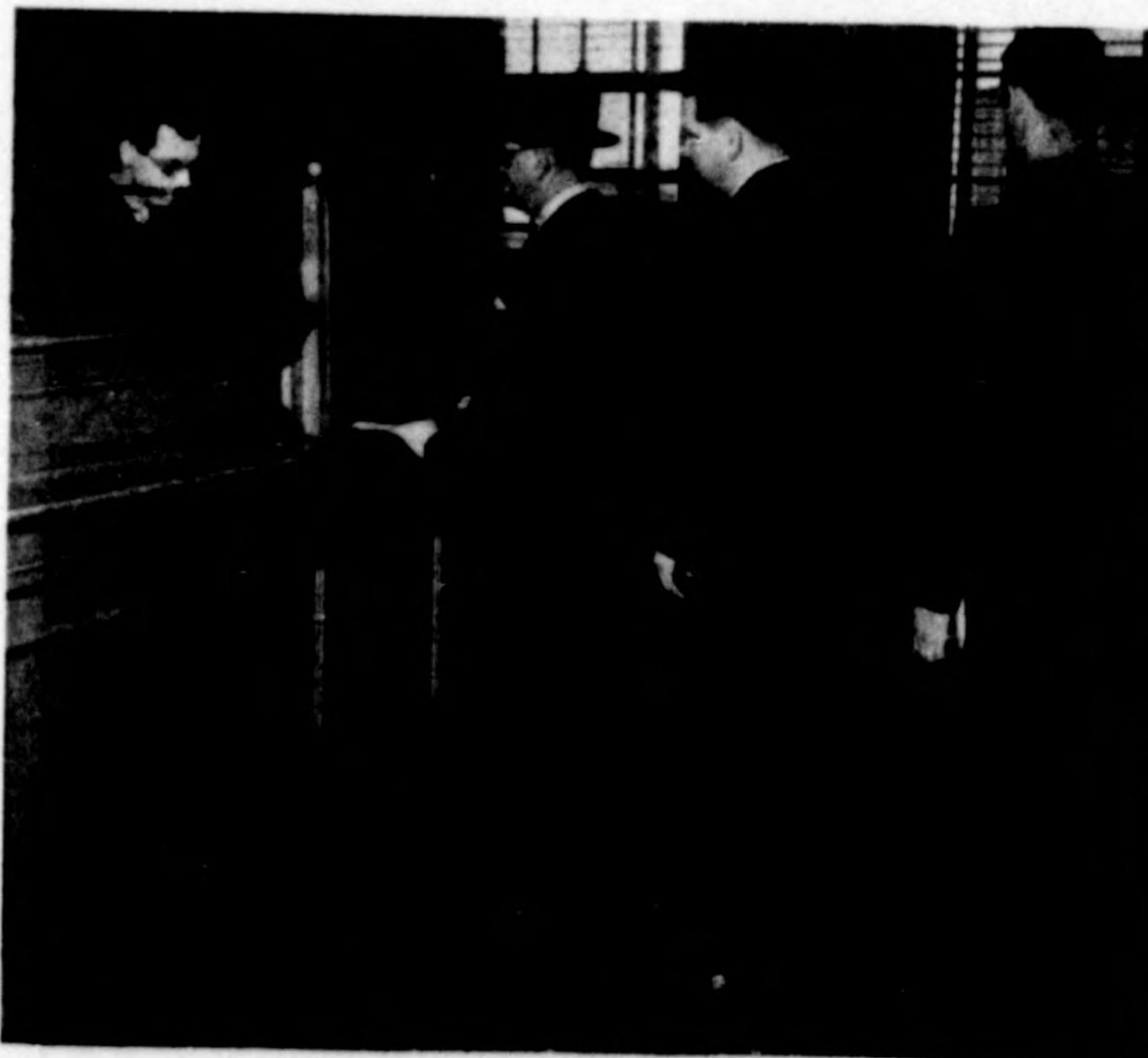
The bank naturally gives close attention to the question of security. Most common security is that of the signatures of one or more

comakers or endorsers, but collateral may be accepted, or the loan may be made simply on the signature of the borrower alone. The more conservative banks prefer that comakers shall not be employed by the same company as the borrower.

What of the terms and the cost of these bank consumer loans? Customarily the loan is made on a discount basis, that is, the interest charge is deducted in advance from the face amount of the loan and the borrower receives the balance. For example, if the nominal amount borrowed was \$100 for a year and the interest rate 6 percent, the bank would deduct \$6 from the \$100 and give the borrower \$94. The borrower would then pay back a total of \$100 in instalments running over a period of a year.

If the borrower had the full use of the \$94 he received for a full year, the \$6 charge would represent only a little more than a 6 percent interest rate. But since he repays the loan by instalments, the time factor in figuring interest charges is almost cut in half, and the \$6 charge therefore means much more than a 6 percent rate on the money actually used. (If the loan is repaid in regular instalments over a year's

Payday regularly brings a line of borrowers to the personal loan window, where loan payments are made in much the same way as regular savings deposits.



time the actual rate would figure out at nearly 12 percent.)

Some banks have followed a custom by which the loan is allowed to run its full course, say of one year, and the borrower, instead of making payments against the note, makes regular payments into a "thrift" or savings account. These payments are of such size that at the end of the time the note is to run the "thrift" account will equal the face of the note, and it is then applied to the payment of the note in full. The bank frequently pays interest (sometimes compounded) on the accumulating savings in the "thrift" account.

Cost of Loans.

The usual rate at which consumer loans are discounted by banks is 5 or 6 percent. That means that the "interest" charge is much the same as the 1 percent per month on unpaid balances which most credit unions charge. Other charges besides interest or discount rates may be made, but they are not usually excessive. Not infrequently the bank will require life insurance by the borrower for the amount and term of the loan, and it may impose "late" charges for failure to pay an instalment on time. But generally speaking the accusation of "hidden charges" which materially increase the cost of a loan is not made against the commercial banks.

The most common length of time for repayment of bank consumer loans is a year, but

frequently it is less. Also it may be longer, although long-term loans are not favored.

Special studies of bank loans to consumers through personal loan departments indicate that such loans are considerably larger, on the average, than those made by credit unions. Out of 229 banks replying to a questionnaire sent out by the American Bankers Association, 141 (almost two-thirds) reported average loans in this field of \$200 or more. These figures are confirmed by other investigations.

Commercial banks recognize that the business of these personal loan departments must be handled quite differently in many respects from the usual run of bank business. They also know that careful management is necessary if a substantial profit is to be realized. They have been turning to consumer loans more and more, however, partly because they do find a fair profit in the business, partly because it gives them an outlet for otherwise idle funds, and partly for the secondary advantages of building goodwill in the community and developing a feeder to the more usual commercial lending.

There has been some speculation as to whether banks would continue to cultivate the personal loan field if the former demand for business loans should return. For the reasons mentioned, however, it is likely that they will continue permanently to be one of the leading sources to which the ordinary consumer with a moderate income can turn for needed credit at reasonable rates.

Consumers Run Their Own Banks

Credit unions, owned and operated by over two million consumers, encourage thrift and make possible borrowing at reasonable rates

"THE CREDIT union showed me how to get out from under a mountain of debts—and it even got me started saving." That's one credit union member speaking.

Another: "If John hadn't been a member of the credit union down at his shop, I don't know how we would have paid all the bills for the doctor and the nurse and the hospital when he had that operation last spring."

"Why, we practically had our baby on the credit union. And we paid back the whole loan in 10 months."

"We've been saving regularly—even if it is only a couple of dollars every payday—since I joined the credit union."

"No, we've never borrowed yet from the credit union—but it's good to know you can borrow the money there in a hurry, if you have to—and not stick your head into a loan shark's jaws."

Previous sections have talked about installment buying, charge accounts, industrial banks, small loan companies, loan sharks, pawnbrokers, remedial loan societies, and personal loan departments of commercial banks. In talking about credit unions, we come to what consumers themselves are doing about credit and savings. And to over 2 million Americans who are members of credit unions—cooperative "baby banks," they sometimes are called.



These folks have saved up at least 175 million dollars with their more than 8,500 credit unions. Out of these savings a total of about 245 million dollars in loans were made to members last year. About one out of every two members needed—or found it economical—to borrow during the course of the year. From the reasonable interest charged the members who borrowed, those whose savings made possible the loans earned "dividends" on their savings of well over 5 million dollars.

Two big purposes of credit unions are to make it possible for members to borrow money reasonably and safely when they need it, and to encourage thrift. The twin purposes work hand-in-hand, because while some folks are putting away their savings, others are borrowing out of this pool of savings.

Credit unions serve the small man. They have been called "people's banks." The average size of credit-union loans last year was just about \$100. Of all the agencies of cash credit for consumers, only pawnbrokers make smaller loans on the average.

Why do folks borrow from their credit unions? Sometimes it is to meet an emergency; sometimes to get out from under a load of high-interest debts; sometimes to do economical purchasing with the borrowed cash.

First in the list of reasons, and explaining about 20 percent of all loans, is the item called

"consolidation of debts." Behind that generalization, of course, are a lot of small debts, often at high rates of interest. Or instalment payments with high carrying charges. Perhaps doctor's bills or dentist's bills. When these press down too hard, a family may seek one lump-sum loan which will keep the collector from the door, and make it easier for them to budget their way out of debt.

Medical and dental bills, and hospital expenses, account for almost one out of five loans by credit union members. Leaving aside the "consolidation of bills," these expenditures for health are the biggest single reason why consumers borrow from their credit unions.

Then come household expenses and the purchase of household equipment; clothing; and automobiles and auto repairs. Auto purchases are increasing in importance, especially with credit unions having quite a bit of spare cash to loan. As a rule, members are allowed to borrow two-thirds of the price of the car, giving the credit union a mortgage on the car until the debt is paid. Such loans give the consumer a chance to shop with cash, and hence to shop with more freedom. At the same time, they seem to be a safe and profitable way for the credit union to put its funds to work.

Joining is Simple.

Mechanics of joining or borrowing from a credit union are simple. To join a credit union, one buys at least one share. Shares sometimes cost \$10, quite often \$5. That doesn't have to be paid all at once, though. One can make a down payment of only 50 cents or a dollar on his share. But money saved does not start drawing dividends until a full share has been paid for.

Only a member may get a loan. But a person may join at the time he is making application for a loan. He doesn't have to pay out money in order to borrow—except for a 25-cent entrance fee, and a down payment on a share. If his application for membership is approved by the board of directors, and the loan application is O. K.'d by the credit committee, he be-

comes a member of the credit union and gets the loan almost at the same time.

Each credit union—within certain broad limits—makes its own rules, and uses its own judgment, in the matter of security for loans.

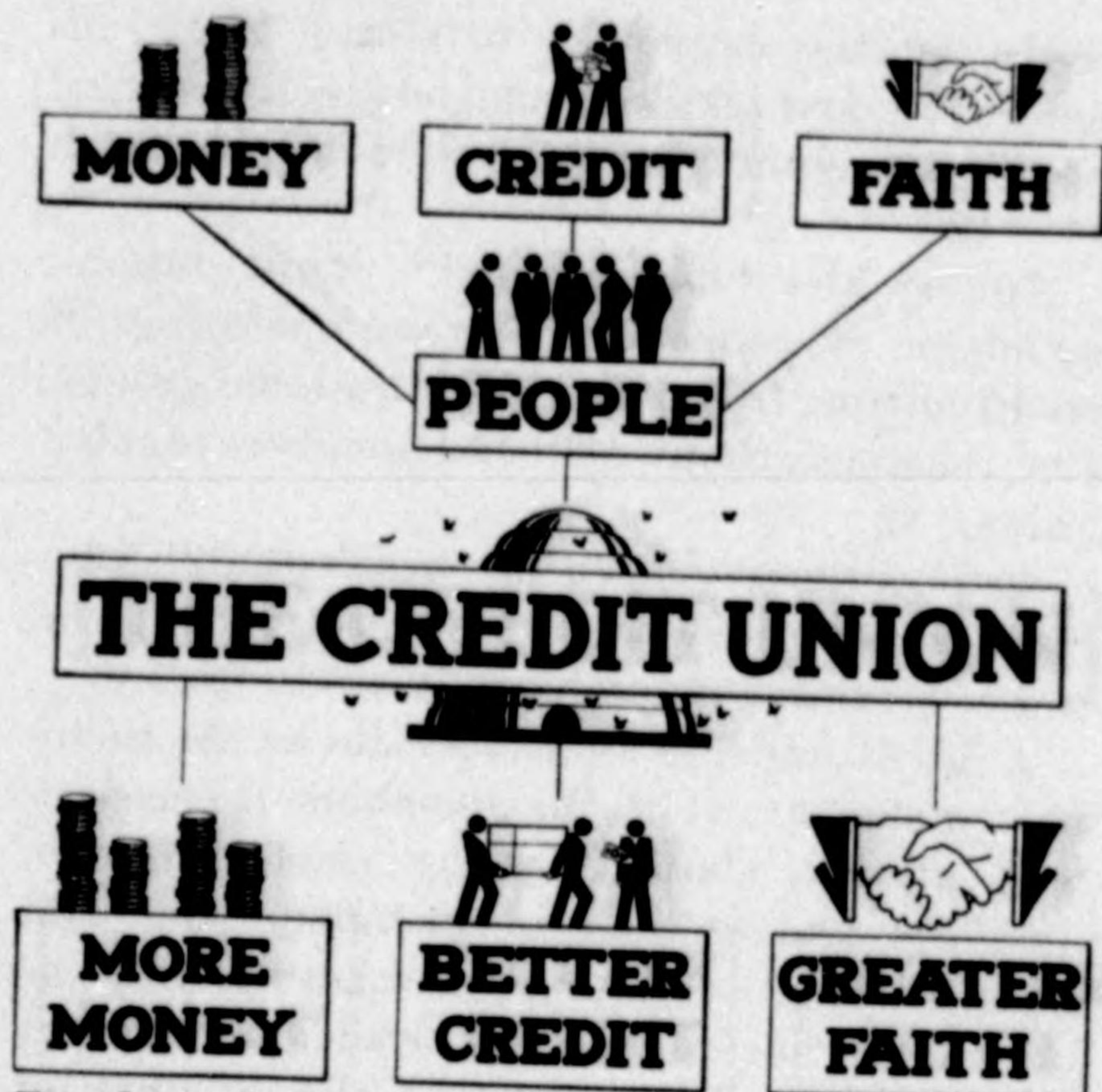
Laws allowing for the incorporation of credit unions generally set the top limit for loans without security—"character loans." Federal law at present allows Federally chartered credit unions to lend no more than \$100 on the unsecured note of a member.

A common form of security is the signature of a cosigner or endorser, by which another member agrees to make good should the borrower fail to pay up. Mortgages on goods bought with the borrowed cash—such as cars or household equipment—may also provide adequate security.

American families are good credit risks, commercial lenders generally agree. Credit union experience amply supports their confidence. Figures for the Federally chartered credit unions show only a tiny fraction of 1 percent charged off as loss from bad debts, seven one-hundredths of 1 percent—that is, only seven cents on each \$100 loaned. In 6 years, these credit unions made loans of 173 million dollars, and found it necessary to charge off only 124 thousand dollars in bad debt losses.

Shopping for instalment credit or a loan at a bank, the consumer finds that interest rates may be pretty complicated things to figure out. Not so at the credit union. Credit unions state their charges clearly and fairly—in terms of percentages per month on the outstanding balance. Since a loan is being repaid in weekly, semimonthly, or monthly instalments, and the balance is dwindling steadily, that is the fairest way of stating the interest—as a percentage of the amount of which the borrower still has the use.

Most common interest rate among credit unions is 1 percent per month on the unpaid balance of the loan. That is the top rate permitted under the Federal Credit Union Act. Many credit unions charge even less—sometimes one-half or two-thirds of 1 percent. A few State-chartered unions charge a little more than 1 percent.



People pool their modest savings in credit unions so they can save conveniently and borrow money cheaply when they need it. When they do borrow from credit unions, one time out of five they borrow to consolidate their debts. Almost as often they borrow to pay medical and dental bills. Other reasons for borrowings, in order, are to take care of household expenses, to buy household equipment, to finance clothing purchases, and to purchase and repair automobiles.

When the rate is stated the borrower knows that is all he has to pay. No additional charges are permitted—no “bookkeeping fees,” or “investigation charges,” or fees “for making the loan.” For lateness in payments, a nominal penalty fee may be assessed. If the member offers any good reason for delay, this penalty is usually waived.

At 1 percent per month, the true interest rate is 12 percent per year. The borrower is paying only for the money of which he actually has the use, so this does not mean \$12 for a \$100 loan. On a \$100 loan, repaid month-by-month in 12 equal instalments during the year, the interest would be \$6.50. If the rate is two-thirds of 1 percent a month, the interest for the whole loan would come to \$4.33.

A member can get a loan from his credit union at a lower rate of interest than he will

find at almost any other source of consumer credit. Only the personal loan departments of commercial banks are likely to offer credit for as little as the 1 percent a month which is the typical credit union rate.

Volunteer service by its members is one reason the credit union—like other cooperatives—keeps down its costs and its rates. The management of a plant or office may allow employees to use company time for credit-union business. Sometimes management donates office space so that many credit unions do not have to pay rent.

But the chief reason why credit unions can make loans at reasonable rates is something which is inherent in the nature of the organization, and in its cooperative character. Costs of investigating make up a large share of the expenses in a commercial small loan agency. In a credit union, on the other hand, the members know each other. The credit committee can decide on applications for loans without extensive and expensive investigation. Knowledge of the applicant, and ability to evaluate the purpose of the loan are usually right at hand in the credit committee.

Thrift is the second major purpose of the credit union. The credit union office is usually handy to the worker on pay day. And the money saved with the credit union earns “dividends” which are generally well above what any savings banks will pay as interest. The usual rate of credit union “dividends” on savings is 4, 5, or 6 percent a year.

If a large sum has been accumulated from the interest on loans paid by members who borrowed, then the credit union may vote to raise its dividend rate. Or it may decide to lower the interest rate which borrowers pay. Or it may just coast along with the same interest, and the same dividend rate, as last year’s, and accumulate a bit more of a reserve, or spend more on education or publicity.

A young credit union, which has been managing on volunteer help, may decide to pay some salary to a hard working treasurer, and perhaps hire paid office help. Another use for accumulated funds is borrowers’ protection insurance

by which the credit union insures the family of a borrower against the risk of having to repay a loan in case the borrowing member dies.

At any rate, the members themselves decide what dividend rate to declare after they hear the treasurer's report and recommendations of its board of directors, at their annual meeting.

World Wide.

The modern cooperative credit movement is almost a century old. It is world-wide. In many countries, cooperative credit societies are organized chiefly among small farmers. In some nations, small businessmen have made extensive use of the method.

In the United States the credit union movement is a consumers' movement. Its largest strength is in towns and cities.

The first State law specifically allowing for the incorporation of credit unions was enacted by Massachusetts 30 years ago. All but seven of the other States have since followed suit.

The Federal Government began issuing charters to credit unions only 6 years ago. There are now over 3,700 Federal credit unions and over 4,800 State-chartered credit unions in existence. Today more people belong to credit unions in Illinois than in any other State; next in credit union membership come New York, Massachusetts, Pennsylvania, California, Wisconsin, and Ohio.

Credit unions are formed by people who know each other and are tied together in some way. Like the people who work together in a factory, a store, or an office. Members of the same trade union, or people in a church, or members of a fraternal order, or of a consumer cooperative society, may form credit unions. So may people who live rather closely together, as in a housing project, or sometimes, in a farming community.

Employment is the most common bond of credit union membership. Among the 3,642 Federal credit unions in operation at the end of July of this year, 3,113 were listed as "occupational." Teachers in public schools had formed 239 credit unions; other Government employees, 517; workers in the petroleum industry, 242

credit unions; employees of stores, 202; railroads, 170; and textiles, iron and steel, electrical products, manufacturing, public utilities, each over 100.

Among the "associational" credit unions, members of cooperatives were operating 99 credit unions; fraternal and professional groups, 124; religious groups, 120; and members of labor unions, 83.

Among those classed as "residential," folks in urban communities were operating 29; and those in rural communities, 74 credit unions.

A credit union is as democratic as the members make it. It is the members themselves who, at their annual meeting, elect their own directors and committee members who run the institution. At a credit union meeting, as in any genuine cooperative, each member has only one vote, regardless of the number of shares he happens to hold.

Like any democratic organization, credit unions are not perfect. In some credit unions, for example, a few people do all the work while most of the members have only a faint idea of the aims or workings of their organization.

Some credit unions are too stodgy or timid. They have large amounts of savings available for loans to deserving members, and yet they make it needlessly difficult for borrowers to get loans—for example, requiring co-signers when other security is adequate. Or they narrow their definition of the "provident purposes" for which a loan may be made.

Too conservative a loan policy may result in stagnation. With few loans being made, a large cash surplus may be accumulated. But with no outlets for most of this money, the credit union may try to set a limit on the amount of any one member's weekly or monthly savings. This discourages membership in the credit union, and eventually there may not be enough money to meet the demands for loans—and thus both the lending and the saving purposes of the credit union are defeated.

Few credit unions are doing enough educational work with their members and prospective members. People who are eligible to membership to the credit union sometimes do not even

know that a credit union exists in their plant or office. Members themselves may be unaware of the possible services of their credit union. For example, they may use the credit union only to get a loan, and fail to start the systematic saving which might help them next time to meet an emergency out of funds already saved. Half of all federally chartered credit unions, however, already have educational committees at work, and the idea seems to be spreading.

Credit unions still have to educate most of their members on the costs of other forms of credit. For example, in a recent canvass of credit union members in a number of industrial plants, many said they were buying goods on the instalment plan because "there are no carrying charges," and "it doesn't cost any more to buy for credit." As a matter of fact, they had probably never compared cash and credit prices for the items they were buying; or carrying charges on instalment deals with interest rates at the credit union. Nor had they learned the first rule of buying on credit—that credit costs money.

With the cooperative method apparently a growing success in the field of consumer credit, alert members in some credit unions have sought to extend the method to other forms of consumer action. They have arranged, for example, for members to save by pooling purchases of household goods.

Leads to Other Activities.

Taking one step further, in some cases, they have taken the initiative in setting up cooperative grocery stores and gasoline stations. Some credit union people have gone in for group payment plans for medical care and group insurance against the costs of hospitalization.

The credit union as such does not step outside its own sphere into these allied activities, but these are some of the possibilities of extension of the cooperative method which credit union members—always in the light of local circumstances—are thinking about.

To some people—both inside and outside of the credit union movement—credit unions look



Slogan of one group of consumers organized into a credit union—a cooperative "baby bank" for savings and loans—is "Shop for Your Credit—Then Shop with It." Credit unions finance many purchases of household equipment, sometimes automobiles, for their members.

most important as a step toward a greater democracy in economic life, toward a share of control by the average man of his own economic destiny.

To other people, credit unions may be simply—and significantly enough—a means of keeping workers out of the clutches of loan sharks and high rate legal lenders.

Members, themselves, may think of their credit union as a reasonable source of money in a pinch or as a place for the regular deposit of savings at a good rate of return, or both.

Some employers feel that credit unions are important because they "keep the workers happy," and at least partially insulated from discontent caused by financial worries and debt; and because they save the employer the bother of having to comply with employees' wage assignments and garnishments.

Many credit-union members and many leaders of trade unions think of the credit union as a place where workers get experience in handling their own financial affairs.

Forty-two State legislatures and the Congress of the United States appear to regard credit unions as a combination of these possibilities. By passing laws allowing for the incorporation of credit unions under State charters and Fed-

eral charter, they have said that it is good public policy to encourage the growth of credit unions—provided the people want them enough to go about setting up their cooperative “baby banks” themselves.

HOW TO FORM A CREDIT UNION

1. Get credit union literature from the Farm Credit Administration, Washington, D. C., or the Credit Union National Association, Madison, Wisconsin.
2. Get a group together and discuss the idea.
3. Talk to local credit union officials and members.
4. If it seems like a good idea, send a preliminary application to the Farm Credit Administration, or write to your State Banking Department for State charter papers.

There is no charge or obligation for the FCA application, and, if you wish, a field representative of the FCA will help you make out the formal papers of incorporation. There are

however, varying charter fees for both Federal and State charters when granted.

Literature to request

Free literature to ask for in writing the Farm Credit Administration, Washington, D. C.:

1. Circular No. 10—“Federal Credit Unions”
2. Circular A-12—“How Consumers Cooperate for Credit”
3. Organization Chart of a Federal Credit Union.
4. Credit Union Study Kit—“Your Money and Mine.”
5. Preliminary Application to Organize a Federal Credit Union.

NOTES

NOTES

A limited number of copies of this publication will be furnished free to Federal credit unions by the Credit Union Section, Farm Credit Administration. Sample copies will be furnished free upon request to others interested in credit unions. Additional copies may be purchased directly from the Superintendent of Documents, Government Printing Office, Washington, D. C., at 15 cents each. Enclose remittance with order; stamps not accepted.

File #1422

UNION LABOR IN CALIFORNIA 1947

STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS
DIVISION OF LABOR STATISTICS AND RESEARCH

- Report No. 1. Union Labor in California, 1944
- Report No. 2. Union Labor in California, 1945
- Report No. 3. Estimates of Total Employees in Manufacturing Industries, California, 1943-46 (Mimeo.)
- Report No. 4. Revised Estimates of Civilian Employment in California, Selected Months, 1940-46 (Mimeo.)
- Report No. 5. Fatal Industrial Injuries in California, 1946 (Mimeo.)
- Report No. 6. Labor in California, 1945-46
- Report No. 7. Union Labor in California, 1946
- Report No. 8. Union Labor in California, 1947

STATE OF CALIFORNIA
EARL WARREN, GOVERNOR

DEPARTMENT OF INDUSTRIAL RELATIONS
PAUL SCHARRENBURG, DIRECTOR

UNION LABOR
IN CALIFORNIA
1947



Report Number 8
DIVISION OF LABOR STATISTICS AND RESEARCH
M. I. GERSHENSON, CHIEF

SAN FRANCISCO
OCTOBER 1948

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FOREWORD

The Labor Code of the State of California charges the Division of Labor Statistics and Research of the Department of Industrial Relations with responsibility for collecting, compiling, and presenting facts and statistics relating to labor in the State. More than half a century ago the original California Bureau of Labor Statistics, in fulfillment of this responsibility, adopted as a policy the systematic collection of facts concerning the organized labor movement. Information collected through the distribution of the Organized Labor Questionnaire for 1947 brings the uninterrupted continuance of that policy to its 52nd year.

The year 1947 proved that the great industrial expansion of the State, though war-stimulated, was not to be merely a temporary wartime phenomenon. Total employment in California in 1947 exceeded that of any previous year, including 1944, a year during which the State's labor force reached a peak which many thought would never again be equalled. This report depicts, as reflected by organized labor, the changes in the State's working population incident to this continued peacetime expansion.

Part 1, in addition to presenting factual data on membership and size of all union locals reporting in 1947, summarizes changes from the preceding year in the industrial, geographic, and sex distribution of organized labor in the State's economy. Because of the increasing interest in the development of the various economic areas within the State, the reports from the union locals have been summarized by localities within the State as well as for the State as a whole.

Part 2 describes briefly a procedure which has been developed for analyzing union agreements in order to make more readily available information on contract provisions in effect in the State.

Paul Selavenburg
Director of Industrial Relations

San Francisco
October 19, 1948

PART I

CHARACTERISTICS OF UNION LOCALS

In response to the 1947 Organized Labor Questionnaire, 2,125 union locals reported a combined membership of 1,093,153. This represents the largest number of locals ever to respond to the annual questionnaire, exceeding the record for the previous year by more than 100.¹

Reports were received from locals of the American Federation of Labor, the Congress of Industrial Organizations, railroad brotherhoods, and independent unions. Although the replies tabulated do not include all locals in California, they cover all parts of the State and represent so large a membership as to be considered characteristic of the California labor movement as a whole.

Reporting locals were classified by industry on the basis of the principal products produced or services rendered by the members.² The industry breakdown differs somewhat from that used in previous years. Slight changes have been made to bring the industry grouping more closely in line with the Standard Industrial Classification. This provides for greater comparability with other industry statistics compiled by the Division of Labor Statistics and Research and by other State and Federal agencies. Changes have been made also in the area breakdown. The area classification (see map), used in this report for the first time, was designed to yield more specific information concerning the various localities of the State. Locals having statewide jurisdiction or jurisdiction over all or the major portion of either northern or southern California were so classified. Those functioning in a more limited geographic area were assigned to one of ten economic areas of the State on the basis of the region over which each local reported having jurisdiction.³ In view of these changes, the data published by industry and area in this report are not strictly comparable with those published in previous years.

Distribution of members by industry

In 1947, as in the previous year, workers in the construction industry comprised the highest percentage of all union members reported. In this industry, 361 locals reported a total of 182,719 members (table 1). The membership of locals in the construction industry has shown a steady relative increase from 11 percent of the total reported membership in

¹ For comparison of data presented in this report with that for earlier years see California Department of Industrial Relations, Division of Labor Statistics and Research, *Union Labor in California, 1946*; also reports for prior years.

² Those locals whose members were distributed over more than one industry were classified in the group which appeared to account for the largest proportion of members. Union locals whose members were Federal, State, or local government employees, and whose work represented a service unique to government, such as the post office, were classified as "government." If the work of government employees was similar to that carried on by private industry, such as shipbuilding, the locals were classified in the appropriate industry group.

³ When the localities over which jurisdiction was reported did not lie entirely within the limits of any one of the economic areas used for this classification, the local was assigned to the area in which the majority of members appeared to be employed. Therefore, the area distribution of union membership should be considered as only approximate.

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TABLE 1—MEMBERSHIP CLASSIFIED BY AREA AND BY INDUSTRY
Reporting Sample of 2,125 Union Locals, California, 1947

Industry	Total		San Francisco Bay Area ^a		Los Angeles County	
	Report- ing locals	Member- ship	Report- ing locals	Member- ship	Report- ing locals	Member- ship
Total	2,125	1,093,153	413	295,152	507	362,894
Manufacturing	594	388,157	140	90,199	167	147,575
Food and kindred products.....	96	129,989	23	16,452	22	33,351
Textiles and apparel.....	33	19,644	11	4,907	16	12,534
Lumber and furniture.....	100	36,017	10	5,967	9	14,639
Printing and publishing.....	91	16,690	15	5,786	22	5,599
Petroleum, chemicals, and rubber.....	46	23,930	19	9,300	18	12,908
Aircraft, ships, and other transporta- tion equipment.....	44	51,453	8	5,945	16	31,901
Metals and machinery.....	112	94,213	36	36,876	36	30,093
Miscellaneous manufacturing.....	72	16,221	18	4,966	28	6,550
Nonmanufacturing	1,531	704,996	273	204,953	340	215,319
Construction.....	361	182,719	55	38,310	63	55,892
Transportation and public warehous- ing.....	330	153,974	58	36,762	55	30,882
Public utilities.....	45	27,270	11	4,482	12	9,535
Trade, wholesale and retail.....	72	78,809	26	43,666	14	19,927
Hotels, eating and drinking places.....	61	76,911	12	33,127	13	21,975
Motion pictures, theaters, and other entertainment.....	88	71,419	11	6,300	29	39,311
Miscellaneous services.....	157	69,456	44	33,559	26	17,351
Government service.....	385	26,036	53	7,122	125	10,746
Miscellaneous nonmanufacturing.....	32	18,402	3	1,625	3	9,700

^a San Francisco Bay Area includes Alameda, Contra Costa, Marin, San Francisco, and San Mateo counties.

1945 and 14 percent in 1946 to 17 percent in 1947. The next largest concentration of union membership was in locals organized in transportation and public warehousing, with 153,974 members in 1947, followed by those in the food manufacturing industry, which reported 129,989 members. Locals in these three industry groups combined (construction, transportation and public warehousing, and food and kindred products) accounted for 43 percent of all union members reported in 1947. Metals and machinery manufacturing and wholesale and retail trade ranked fourth and fifth, respectively.

Los Angeles County—A combined membership of 362,894 (33 percent of the State total) was reported by 507 locals in Los Angeles County. These figures do not include the membership of those locals whose jurisdiction is statewide or extends over several areas, since it was not possible to allocate members of these locals to the respective areas in which they were employed. In Los Angeles, as in the State as a whole, the largest number of union members was reported by locals in the construction industry (55,892). Motion pictures, theaters, and other entertainment ranked second, with 39,311 members, and food and kindred products ranked third, with 33,351 reported members. Locals whose members worked in the production of aircraft, ships, and other transportation equipment were in fourth place with a total reported membership of 31,901.

CHARACTERISTICS OF UNION LOCALS

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*San Francisco Bay Area*¹—In the San Francisco Bay Area, 413 locals whose jurisdiction was confined primarily to this area reported 295,152 members (27 percent of the State total). Members working in wholesale and retail trade outnumbered those reported in any other industry group (43,666 members). Construction was in second place (38,310 members). Ranking third was reported membership of locals classified in metals and machinery manufacturing (36,876 members), followed closely by those in transportation and public warehousing (36,762 members).

Extent of unionization

A comparison of total wage and salary workers in California with reported union membership permits a rough estimate of the extent of unionization in major industry groups. It must be pointed out, however, that since complete data on union membership are not available and the industrial classification used is broad, these comparisons give only a very general picture.

Employees in manufacturing industries comprised 20 percent of an estimated 3½ million wage and salary workers employed in the State in June 1947. Reported union membership in manufacturing industries at that time constituted 36 percent of the total membership, indicating a relatively high degree of unionization prevalent in manufacturing industries. Nonmanufacturing industries employed 80 percent of all wage and salary workers in the State but union membership in this division constituted only 64 percent of all members reported. Considerable variation is apparent in the extent of unionization in individual industries. For instance, 17 percent of all reported union members were in the construction industry, yet this industry represented only 6 percent of all wage and salary workers. The extent of unionization in the construction industry may be contrasted with that in wholesale and retail trade. While workers in wholesale and retail trade constituted 19 percent of all wage and salary employees, the reported union membership was little over 7 percent of the total number of union members reported.

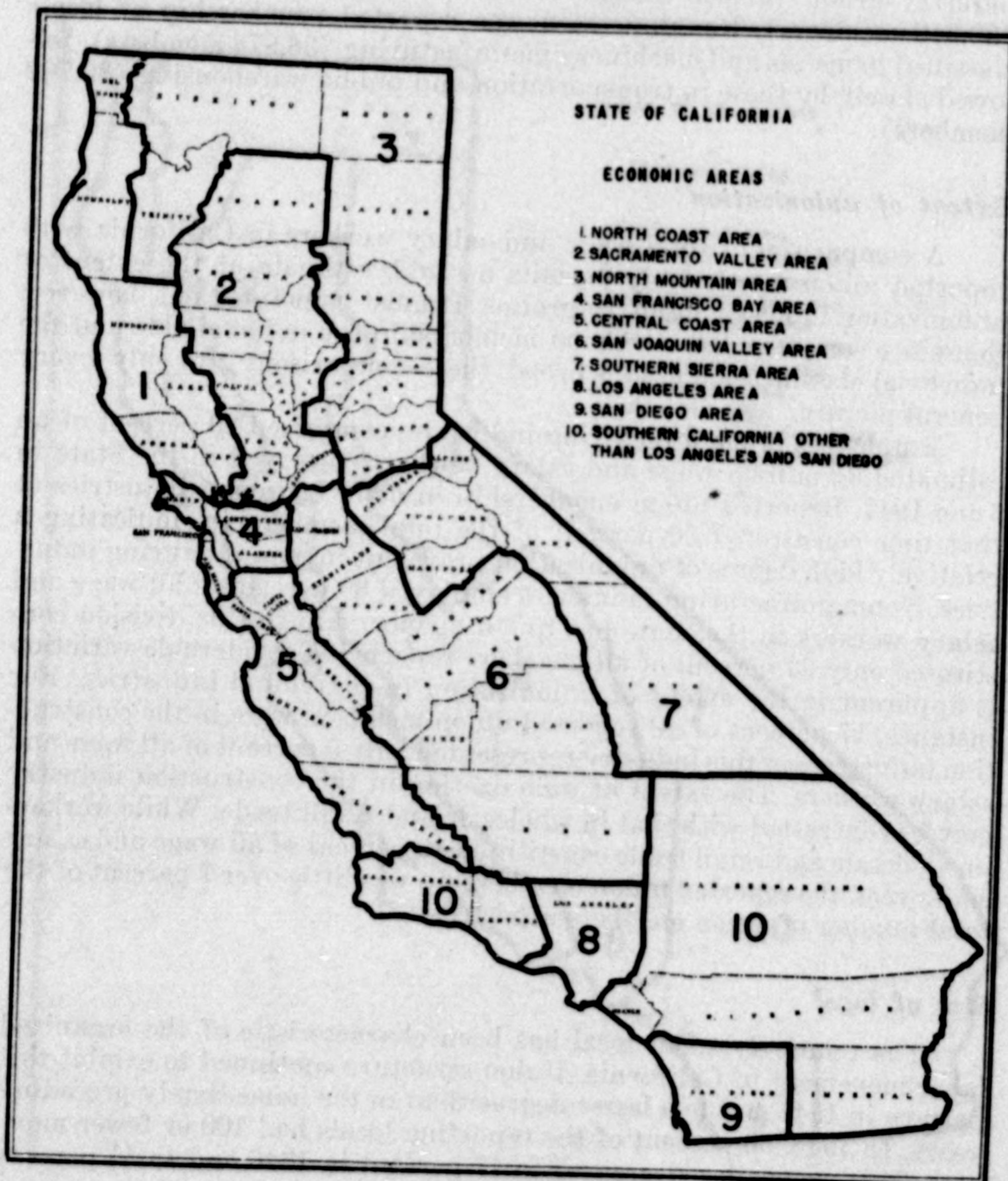
Size of local

The relatively small local has been characteristic of the organized labor movement in California. Union structure continued to exhibit this pattern in 1947, but to a lesser degree than in the immediately preceding years. In 1945, 50 percent of the reporting locals had 100 or fewer members. This proportion decreased to 47 percent in 1946 and to 44 percent in 1947.

As might be expected, a high proportion (two-thirds) of these small locals had jurisdiction in areas outside of the metropolitan centers of Los Angeles County and the San Francisco Bay Area (table 2). One-half or more of all reporting locals in the following areas were comprised of 100 members or less: North Coast Area (64 percent); Sacramento Valley Area (50 percent); North Mountain Area (60 percent); Central Coast Area (59 percent); San Joaquin Valley Area (58 percent); and southern California other than Los Angeles and San Diego (59 percent). Compared

¹ Includes Alameda, Contra Costa, Marin, San Francisco, and San Mateo counties

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CHARACTERISTICS OF UNION LOCALS

with 44 percent for the State as a whole, only 26 percent of the locals in the San Francisco Bay Area and 39 percent in Los Angeles County were in the size group of 100 or fewer members. Among locals having jurisdiction over a wider region, such as northern California, southern California, or the entire State, only 18 percent had fewer than 100 members.

TABLE 2—UNION LOCALS CLASSIFIED BY SIZE AND BY AREA
Reporting Sample of 2,125 Union Locals, California, 1947

Area	Report- ing locals	Number of locals having membership of				
		1 to 100	101 to 500	501 to 1,000	1,001 to 5,000	More than 5,000
Total.....	2,125	939	700	213	250	23
North Coast ^a	106	68	34	4	—	—
Sacramento Valley ^b	167	84	57	17	9	—
North Mountain ^c	84	50	31	2	1	—
San Francisco Bay ^d	413	109	160	59	81	4
Central Coast ^e	150	88	43	7	10	2
San Joaquin Valley ^f	243	142	74	14	12	1
Southern Sierra ^g	17	8	9	—	—	—
Los Angeles County.....	507	200	146	60	93	8
San Diego County.....	87	41	24	11	11	—
Other southern California ^h	207	123	63	18	3	—
All northern California ⁱ	59	13	25	5	13	3
All southern California ⁱ	57	9	21	11	15	1
Statewide.....	28	4	13	5	2	4

^a North Coast Area includes Del Norte, Humboldt, Lake, Mendocino, Napa, and Sonoma counties.
^b Sacramento Valley Area includes Butte, Colusa, Glenn, Sacramento, Shasta, Solano, Sutter, Tehama, Yolo, and Yuba counties.
^c North Mountain Area includes Amador, El Dorado, Lassen, Modoc, Nevada, Placer, Plumas, Sierra, Siskiyou, and Trinity counties.
^d San Francisco Bay Area includes Alameda, Contra Costa, Marin, San Francisco, and San Mateo counties.
^e Central Coast Area includes Monterey, San Benito, San Luis Obispo, Santa Clara, and Santa Cruz counties.
^f San Joaquin Valley Area includes Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus, and Tulare counties.
^g Southern Sierra Area includes Alpine, Calaveras, Inyo, Mariposa, Mono, and Tuolumne counties.
^h Other southern California includes Imperial, Orange, Riverside, San Bernardino, Santa Barbara, and Ventura counties.
ⁱ The northern boundaries of Santa Barbara, Ventura, Los Angeles, and San Bernardino counties are used as the dividing line between northern and southern California.

While a high percentage of the union locals in California are small organizations, the numerical strength of California union membership is concentrated in the relatively fewer large locals. The 939 locals which had fewer than 100 members, although representing 44 percent of all locals reporting in 1947, accounted for only 3 percent of the total reported union membership. In contrast, less than 2 percent (23 locals) had more than 5,000 members, but they included 18 percent of all reported union members in the State (table 3). Reporting more than 1,000 members each, 273 locals indicated a combined membership of 726,246 or two-thirds of the total reported membership. In other words, 2 out of every 3 of the union members reported belonged to a local having more than 1,000 members.

DIVISION OF LABOR STATISTICS AND RESEARCH

TABLE 3—UNION LOCALS AND MEMBERSHIP CLASSIFIED BY SIZE OF LOCAL
Reporting Sample of 2,125 Union Locals, California, 1947

Size of local (members)	Reporting locals		Membership	
	Number	Percent	Number	Percent
Total.....	2,125	100	1,093,153	100
1-100.....	939	44	35,128	3
101-200.....	316	15	46,620	4
201-500.....	384	18	128,460	12
501-1,000.....	213	10	156,699	14
1,001-2,000.....	150	7	214,823	20
2,001-5,000.....	100	5	312,416	29
5,001-10,000.....	18	1	129,201	12
10,001-15,000.....	3	*	35,806	3
More than 15,000.....	2	*	34,000	3

* Less than 1/2 of 1 percent.

Most frequent among manufacturing industries were those locals in the size group 100 to 500 members (table 4). Printing and publishing was the only manufacturing group in which locals of fewer than 100 members were most frequent. Large locals in the manufacturing group with more than 5,000 members were found in food and kindred products (including canning); aircraft, ships, and other transportation equipment; and metals and machinery.

TABLE 4—UNION LOCALS CLASSIFIED BY SIZE AND BY INDUSTRY
Reporting Sample of 2,125 Union Locals, California, 1947

Industry	Report- ing locals	Number of locals having membership of				
		1 to 100	101 to 500	501 to 1,000	1,001 to 5,000	More than 5,000
Total.....	2,125	939	700	213	250	23
Manufacturing	594	198	211	76	102	7
Food and kindred products.....	96	8	27	24	34	3
Textiles and apparel.....	33	11	12	4	6	—
Lumber and furniture.....	100	38	46	8	8	—
Printing and publishing.....	91	62	20	4	5	—
Petroleum, chemicals, and rubber.....	46	13	18	7	8	—
Aircraft, ships, and other transportation equipment.....	44	11	14	7	10	2
Metals and machinery.....	112	27	37	18	28	2
Miscellaneous manufacturing.....	72	28	37	4	3	—
Nonmanufacturing	1,531	741	489	137	148	16
Construction.....	361	128	148	42	39	4
Transportation and public warehousing.....	330	137	136	26	27	4
Public utilities.....	45	17	19	1	6	2
Trade, wholesale and retail.....	72	13	27	12	18	2
Hotels, eating and drinking places.....	61	1	20	16	23	1
Motion pictures, theaters, and other enter- tainment.....	88	35	24	12	15	2
Miscellaneous services.....	157	67	59	14	17	—
Government service.....	385	333	44	5	3	—
Miscellaneous nonmanufacturing.....	32	10	12	9	—	1

CHARACTERISTICS OF UNION LOCALS

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The size of locals organized in nonmanufacturing industries varied considerably. The size group of 100 or fewer members was most frequent. Locals of this membership range predominated in government service, and constituted a large proportion (40 percent or more) in transportation and public warehousing, miscellaneous services, and motion pictures and other entertainment. On the other hand, union locals having more than 5,000 members were found in 7 of the 9 industry groups of the nonmanufacturing division, the two exceptions being government and miscellaneous services.

The industrial distribution of large locals has shown interesting changes over recent years. In 1944, the year of peak wartime employment in California, almost two-thirds of the locals reporting a membership of over 5,000 were composed of members working in *manufacturing* industries. Fifteen reporting locals in this size group were organized in industries producing aircraft, ships, and other transportation equipment. By 1947 a direct reversal of the 1944 distribution had occurred, with more than two-thirds of the locals reporting membership in excess of 5,000 organized in *nonmanufacturing* industries. Within the manufacturing group only two locals of this size were made up of workers in the aircraft, ships, and other transportation equipment industry. This shifting pattern parallels the changes in the industrial composition of the labor force which took place between the wartime employment peak and the return to the traditional relationships of California's economy.

Membership changes, 1946-1947

Of the 2,125 union locals which returned the 1947 Organized Labor Questionnaire, 1,742 also had submitted comparable data in the questionnaire for 1946. A comparison of the data for locals reporting in both years reveals a net increase in membership of 7 percent between 1946 and 1947 (table 5). Total employment of wage and salary workers in the State rose 3½ percent during the same period. For the locals which reported in both years, membership in manufacturing industries was 4 percent higher in 1947 than in the previous year, while the number of members in nonmanufacturing industries increased 8 percent.

The largest increase in membership of unions reporting in both years occurred in construction workers' locals whose total membership rose 20 percent. Printing and publishing reported the next largest gain (18 percent). Paralleling decreases in employment, membership of locals in the aircraft, ships, and other transportation equipment group continued to decline, showing a 17 percent decrease between 1946 and 1947. The only other industry group in which membership reported by identical locals showed a decrease between these two years was transportation and public warehousing (2 percent decline).

Women in labor unions

The influx of women into industry has had a marked effect upon the sex composition of organized labor in California. In 1940 only one-fourth of the reporting unions had women on their membership rosters. By 1944 the proportion of all reporting locals having women members rose to 44 percent and in 1947 to 45 percent.

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TABLE 5—CHANGE IN MEMBERSHIP, 1946-1947, BY INDUSTRY
Reporting Sample of 1,742 Union Locals, California

Industry	Report- ing locals	Membership		
		1946	1947	Percent change 1946-1947
Total	1,742	868,400	929,937	7
Manufacturing	467	296,783	309,987	4
Food and kindred products.....	73	88,160	95,115	8
Textiles and apparel.....	26	13,859	16,179	17
Lumber and furniture.....	79	28,233	32,503	15
Printing and publishing.....	79	13,591	16,020	18
Petroleum, chemicals, and rubber.....	38	15,748	17,924	14
Aircraft, ships, and other transportation equipment.....	39	58,392	48,657	-17
Metals and machinery.....	81	69,108	72,937	6
Miscellaneous manufacturing.....	52	9,692	10,652	10
Nonmanufacturing	1,275	571,617	619,950	8
Construction.....	312	136,203	163,299	20
Transportation and public warehousing.....	272	138,587	135,364	-2
Public utilities.....	43	23,707	26,777	13
Trade, wholesale and retail.....	54	57,577	61,850	7
Hotels, eating and drinking places.....	55	65,655	71,006	8
Motion pictures, theaters, and other entertainment.....	75	58,223	60,996	5
Miscellaneous services.....	122	55,114	61,900	12
Government service.....	318	22,655	23,165	2
Miscellaneous nonmanufacturing.....	24	13,896	15,593	12

In manufacturing, only one-third of the locals reporting in 1940 indicated that they had women members. This ratio rose to two-thirds in 1944 and dropped back slightly to three-fifths in 1947. Among locals in nonmanufacturing the proportion had practically doubled from 21 percent in 1940 to 39 percent in 1947, as may be seen below:

	Percent of reporting locals having women members		
	1940	1944	1947
Manufacturing industries.....	32	66	60
Nonmanufacturing industries.....	21	36	39
All industries.....	25	44	45

Accordingly, the relative number of women and men in unions has changed significantly in recent years. In 1942 women comprised only 10 percent of the total membership reported on the Organized Labor Questionnaire. This proportion increased to 17 percent in 1943 and 21 percent in 1944, reaching a high of 22 percent in 1945. In 1946 the proportion declined to 18 percent, and in 1947 women comprised slightly more than 16 percent of the total reported membership, or approximately 1 of every 6 members.

Table 6 presents total and female membership, classified by industry group, for the 2,059 locals which reported the sex distribution of their membership in 1947. Women comprised a higher percentage of the total membership of reporting locals in manufacturing industries (22 percent) than in nonmanufacturing industries (13 percent). The highest ratio of female to total members was in the textiles and apparel industry group,