Volume Title: The Pattern of Consumer Debt, 1935-36: A Statistical Analysis

Volume Author/Editor: Blanche Bernstein

Volume Publisher: UMI

Volume ISBN: 0-870-14465-0

Volume URL: http://www.nber.org/books/bern40-1

Publication Date: 1940

Chapter Title: 3. Cash Loan Debt

Chapter Author: Blanche Bernstein

Chapter URL: http://www.nber.org/chapters/c6470

Chapter pages in book: (p. 51 - 73)

3

Cash Loan Debt

THIS chapter deals with the market for cash loan credit among non-relief families in the United States in the period 1935-36. It does not indicate the sources from which the cash loans emanated, for no breakdowns are available to show the relative significance, in the extension of this type of credit, of personal finance companies, commercial banks, industrial banking companies, credit unions and insurance companies.[1] Since it is similarly impossible from the data at hand to segregate loans repayable in instalments from those contracted on a straight time basis, the reader whose definition of consumer credit embraces only those obligations which must be paid off in prescheduled amounts is likely to hold that the present findings are far too inclusive. In the absence of any means of determining the terms of the cash loans covered in the present chapter, it may nevertheless be pointed out that such loans were applied on the whole to purposes of consumption, even though some of them represented borrowings by farmers and independent business and professional people for business purposes.[2] From the aspect of their use, therefore, these cash loans may be regarded broadly as instruments of consumer credit, and it is upon this premise that the analysis proceeds. Again we wish to remind the reader that the data presented here relate to net change in cash loan debt and

1 Funds borrowed from relatives or other individuals are excluded from consideration in this study.

2 Loans for non-consumption purposes by occupational groups other than those mentioned here were not included in the data on family expenditures obtained by the Study of Consumer Purchases.

that the expression "families indebted" is used as a synonym for families having a net change in debt.[3]

THE FREQUENCY OF CASH LOAN DEBT[4]

On the basis of sample data it is estimated that more than 2,300,000 families, or over 9 percent of all the non-relief families in the United States, were indebted for cash loans in the year 1935-36. When we consider the extent to which this type of credit was used by the several income groups, we note that 8 percent of the families with annual incomes under $750 had a net change in cash loan debt. Continuing to trace frequency of indebtedness for the various income levels, we find that the proportion rose steadily until it reached 10.8 percent for the $1500-1750 band, declined somewhat, and touched a peak of 11.6 percent at the $2500-3000 level. There was a drop to 9.5 percent in the $3000-4000 group, another rise to 10.8 percent in the $4000-5000 class and finally a decline to 8.4 percent for families in the income level of $5000 and over. If the income groups are classified according to $500 gradations, a more consistent trend emerges, with frequency of debt increasing regularly from a low of 8.0 percent in the $0-500 group to the peak of 11.6 percent already noted for the $2500-3000 band.

The market for cash loan credit may be outlined also in terms of the distribution of families indebted and of the net increase in such debt. Over 90 percent of these families had annual incomes below $3000, and they are credited with almost 98 percent of the $285,000,000 net increase in cash loan debt during the year under discussion. Slightly less than one-third of the families with a net change in cash loan debt had incomes under $1000; these accounted for nearly half of

[3] See above, pp. 13-17.

[4] See Tables B-1, B-2, B-3, B-4 and B-5 for complete data upon which the discussion in this section is based.

the net increase in debt. Almost 50 percent of the families indebted had incomes between $1000 and $2000, but were responsible for only about 40 percent of the net increase. About 25 percent of the debtor families had incomes amounting to $2000 or more, yet they contributed less than 15 percent of the total net increase in cash loan debt.

The statistical pattern of indebtedness changes radically if we consider only the data for non-farm families. Since the intermittent flow of farmers' incomes makes it difficult for them to borrow sums of money which must be repaid in regular monthly remittances, it is reasonable to assume that in farm communities most of the cash loan indebtedness was not contracted on an instalment basis. Conversely, the non-farm data may be regarded as roughly representative of the market for cash loan instalment credit.[5] From these data it

[5] Other studies prepared by the National Bureau have presented estimates of the number of borrowers from instalment cash lending agencies; these estimates for the several agencies when added together range from 5,250,000 to 6,000,000 borrowers. The totals include an estimated 3,000,000 borrowers from personal finance companies at the end of 1937 [see National Bureau of Economic Research (Financial Research Program), *Personal Finance Companies and Their Credit Practices,* by R. A. Young and Associates (1940) p. 23]; 1,000,000 to 1,500,000 customers of personal loan departments of commercial banks in 1938 [see National Bureau of Economic Research (Financial Research Program), *Commercial Banks as Agencies of Consumer Instalment Credit,* by John M. Chapman and Associates (1940) Chapter 1]; and 1,250,000 to 1,500,000 borrowers from industrial banking companies in 1938 [see National Bureau of Economic Research (Financial Research Program), *Industrial Banking Companies and Their Credit Practices,* by R. J. Saulnier (1940) Chapter 1]. Practically all of the borrowers covered in the estimates are concentrated in urban or other non-farm communities. The present estimate of 1,500,000 non-relief families having a net change in cash loan debt in 1935-36 is, of course, far below the estimates obtained in the other studies just cited. Aside from the fact that the two sets of estimates cover different years, it is to be noted that the data presented in this study, unlike the data for the several lending institutions, exclude all single individuals and relief families. Furthermore the larger estimates of the number of borrowers include some duplication, since people borrow from more than one cash lending agency and in addition, different members of a family who are borrowers are counted individually rather than as one family unit. Our estimates thus represent a sizable segment of the group borrowing from instalment cash lending agencies.

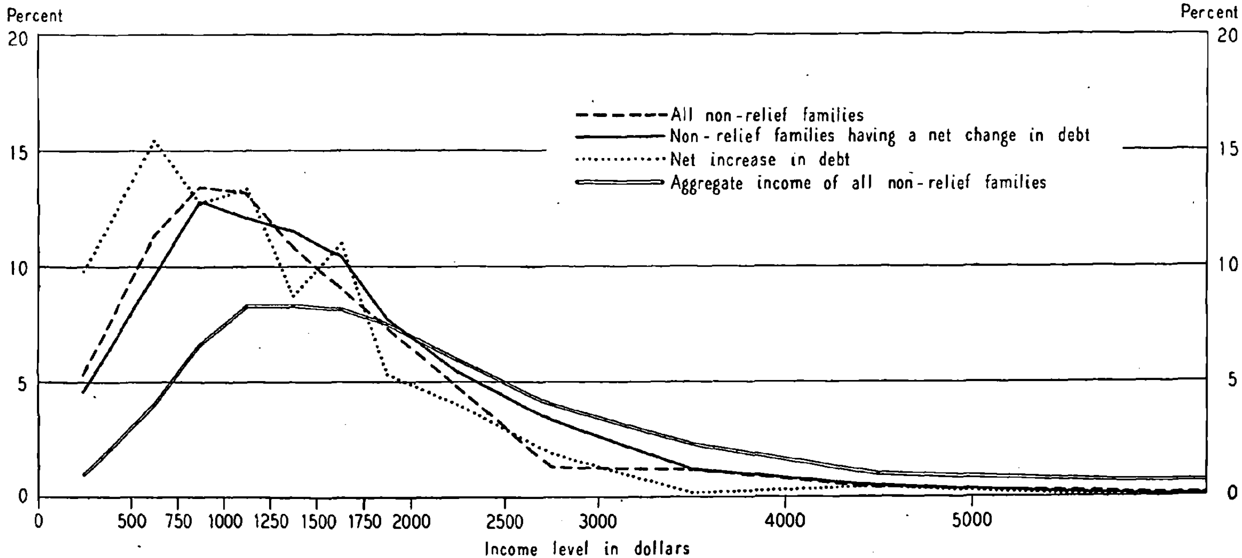
appears that this market is concentrated at higher levels of income than that for cash loan credit as a whole. Less than 23 percent of the non-farm debtors had incomes below $1000 and these were responsible for a slightly smaller proportion—20 percent—of the net increase in cash loan debt for non-farm families. The income group between $1000 and $2000 accounted for over 45 percent of the non-farm families indebted and for about 41 percent of the net increase in cash loan debt. The most striking comparison is to be noted for families with incomes of more than $2000: in the non-farm category about 32 percent of the cash loan debtors had such incomes and these contributed almost 40 percent of the net increase in non-farm cash loan debt, whereas for farm and non-farm families combined the same income grouping included only 25 percent of the debtor families and less than 15 percent of the net increase in cash loan debt.

Returning to the analysis of the market for cash loan credit as a whole, we observe from Chart XIII that except for the lowest income class each successive grouping up to the $1250 level encompassed a smaller proportion of the families indebted for cash loans than of all non-relief families. Above $1250 and up to $5000, each income band exhibited the opposite tendency, for it included a more than proportionate share of families indebted. If we look at the same chart for a comparison of the distribution of all non-relief families and of the net increase in cash loan debt, we find, however, that the income groupings below $750 accounted for a disproportionately large share of the net increase whereas those above $750 generally had less than proportionate shares.

More important perhaps is the finding, also illustrated in Chart XIII, that families in each income level below $1750 incurred a far larger share of the net increase in cash loan debt than was commensurate with their share of the total income. Although these families received only 37 percent of

Chart XIII

Percentage Distribution of All Non-Relief Families, of Non-Relief Families Having a Net Change in Cash Loan Debt, of the Net Increase in Such Debt, and of the Aggregate Income of All Non-Relief Families, 1935-36, by Income Level



the total income, they accounted for more than 80 percent of the net increase in debt. Special note may be made of the fact that families with incomes under $500 received about one-fifteenth of the total income but piled up almost one-fifth of the net increase in debt, and that families with annual incomes of $3000 or more obtained somewhat less than two-fifths of the total income but were responsible for less than one-fiftieth of the net increase in cash loan debt during the period covered here.

We may recall at this point that in the case of instalment debt the share of the net increase attributable to the income levels below $1250 was less than proportionate to the number of families having such incomes, and that the segment of the net increase in instalment debt ascribed to the income classes above $1250 was more than proportionate to the number of families in those classes. A comparison of the distribution of total income and of the net increase in both types of debt shows, however, that for instalment debt each income group below $2500 accounted for a more than proportionate share of the net increase, whereas for cash loan debt it was the income levels below $1750 which contributed disproportionately large fractions of the net increase.

Let us now consider to what extent cash loan credit afforded new purchasing power to the several income groups. Except for the group receiving $5000 and more, the use of cash loan credit effected some addition to income during the period under discussion. For all income groups combined this net increase in debt added only about .6 percent to the total income, but for the lowest income level, representing families with incomes of less than $500, the net increase in cash loan debt added almost 7 percent to purchasing power or income. This ratio went down as income rose; for families with $500-750 it stood at 2.5 percent, declining steadily thereafter to the point where, at the level of $5000 and over, there was a slight drain upon income.

A calculation of the ratio of the net increase in cash loan debt to the aggregate income of families using such credit during the period 1935-36 yields much more startling results. This ratio was slightly under 7 percent for all families having a net change in cash loan debt, but for indebted families with incomes below $500 the addition to purchasing power amounted to more than 83 percent and for families in the $500-750 income level to over 31 percent. It dropped precipitately from the $750-1000 level, where it stood at 14 percent, to the level of $5000 and over where, as noted previously, it resulted in a slight drain.

THE PATTERN OF INCREASE AND DECREASE IN CASH LOAN DEBT [6]

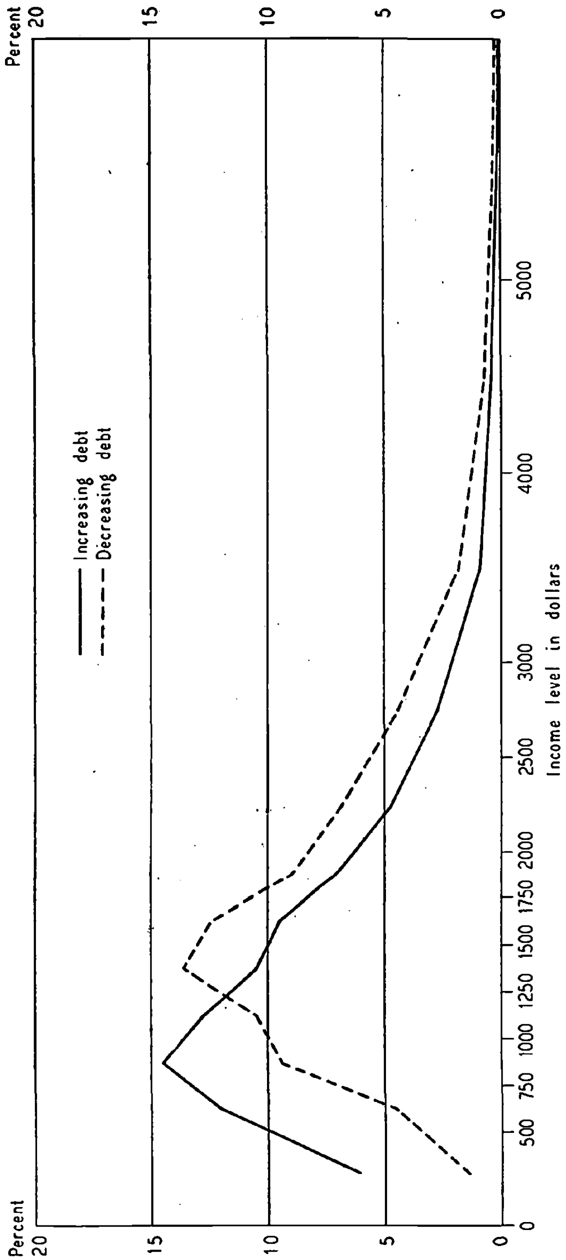
The period 1935-36, characterized as it was by general economic expansion, was marked also by a substantial increase in cash loan indebtedness. Of the 2,300,000 families with cash loan obligations, approximately 68 percent augmented the amount of their indebtedness and 32 percent decreased it. Lower-income families evidenced a much more pronounced tendency toward increasing such debt than did higher-income families. Thus the ratio of the number of families increasing debt to the number of families having a net change in debt varied with income level, declining consistently from a peak of over 91 percent for the group receiving less than $500 [7] to about 37 percent in the income grouping of $5000 and over.

[6] See Tables B-2, B-4, B-6, and B-7 for detailed analyses of the data on this topic.

[7] The large proportion of families increasing debt in the under-$500 income level is to be explained to some extent by the high frequency of cash loan debt in certain farming sections of the country, and particularly by the fact that in the Mountain and Plain, the Pacific and the North Central regions, 62 percent, 30 percent and 25 percent respectively of the families in the under-$250 income group increased cash loan indebtedness.

Chart XIV

Percentage Distribution of Non-Relief Families Increasing Cash Loan Debt and of Non-Relief Families Decreasing Such Debt, 1935-36, by Income Level



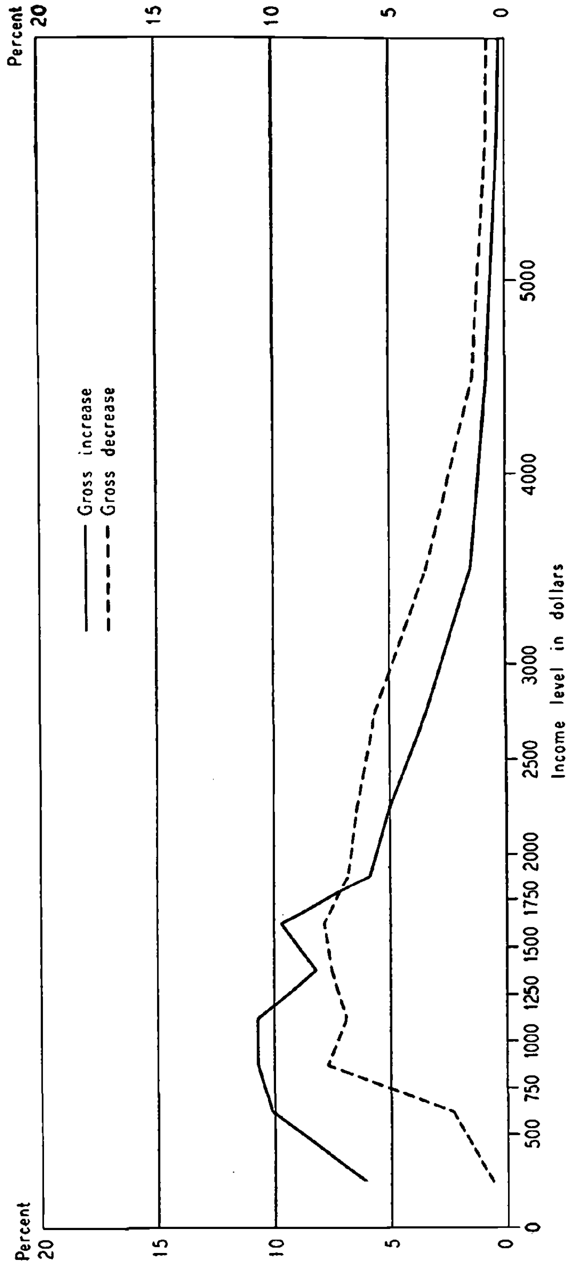
Between the $1250 and $2000 levels, however, this ratio remained almost stable at approximately 62 percent.

It is particularly significant that lower-income families tended to add to their cash loan indebtedness more than higher-income families during this period of economic revival. This finding is substantiated further when we examine the distribution of families increasing debts and of those decreasing debts in Chart XIV, and the distribution of the gross increase and the gross decrease in outstandings illustrated in Chart XV. Each of the income bands below $1250 included a considerably larger proportion of the families increasing than of those decreasing cash loan debt, but the trend was reversed for all income groups above $1250 (Chart XIV). Chart XV shows, however, that in terms of the volume of debt all income groups below $1750 had a larger share of the increase than of the decrease, and that each income group above the $1750 level accounted for a greater share of the gross decrease than of the gross increase in cash loan outstandings. Particularly for the lower-income levels it would appear to be true that consumers are more eager to borrow and lenders more willing to extend credit in anticipation of a rise in income.

Families with incomes below $1250 supplied a less than proportionate share of the gross increase and an even smaller share, relatively, of the gross decrease in cash loan debt: over 51 percent of the families increasing this type of indebtedness but only 27 percent of the families decreasing it fell within this income class, contributing about 44 percent of the gross increase and only 18 percent of the gross decrease. The middle group, consisting of families receiving annual incomes between $1250 and $2000, included 27 percent of the families increasing and 35 percent of the families decreasing debt; to this group is attributed 24 percent of the gross increase and 22 percent of the gross decrease. On the other hand, families with incomes between $2000 and $3000 comprised 15

Chart XV

Percentage Distribution of Gross Increase and Gross Decrease in Cash Loan Debt for Non-Relief Families, 1935-36, by Income Level



percent of those increasing and 22 percent of those decreasing cash loan debt, and were responsible for 16 percent of the gross increase and 24 percent of the gross decrease. The income grouping of $3000 and over included only 7 percent of the families increasing debts but accounted for 16 percent of the gross increase; it comprised 16 percent of the families decreasing cash loan debts and these contributed as much as 36 percent of the gross decrease.

The gross increase in cash loan debt amounted to 1 percent of the income received by all non-relief families. For families with incomes of less than $500, however, the gross increase meant an addition of 7 percent to their total income. The ratio of the gross increase in debt to the incomes of families in the $500-750 group was 2.7 percent; it declined more or less gradually as income rose until it amounted to only .3 percent for families in the group receiving $5000 or more. No such disparity in the drain upon income represented by the gross decrease in cash loan debt was to be noted for the several income groups, nor was any consistent trend apparent. In no income level did the gross decrease amount to more than .7 percent or less than .2 percent of the total income received.

The average amount by which all families increasing cash loan debt added to their obligations was approximately $300 and the average reduction for all families decreasing debt was about $260. On the whole, both average increase and average decrease in cash loan debt rose as income mounted. The average increase ranged from a minimum of $235 in the $500-1000 [8] class to a maximum of $1300 for the $5000-and-over group, and the average decrease from a minimum of $111 in the class with incomes under $500 to a maximum of $770 in the highest income level. The average amount of debt increase was higher for the lowest income group than

[8] The average increase for families with incomes under $500 was larger, $298. See Table B-8.

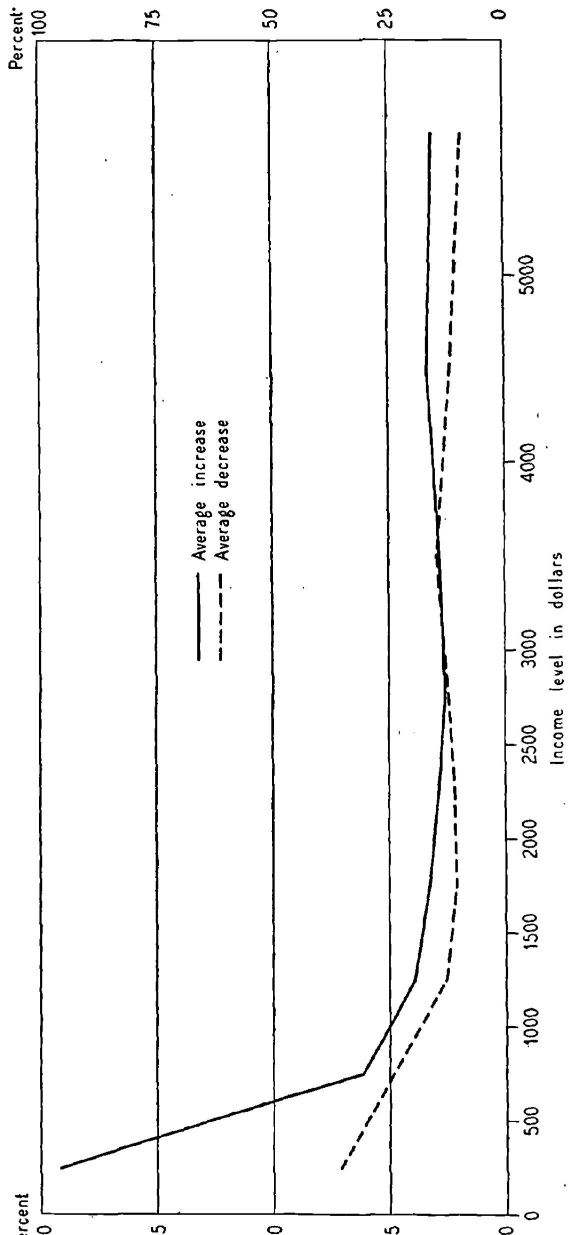
for any other below the $2000 level, and the average decrease was higher for the $500-1000 income band.

In general it appears that as income rose both average increase and average decrease constituted a diminishing proportion of it. As is shown in Chart XVI, average increase in debt incurred by families with annual incomes of less than $500 amounted to over 95 percent of the average income received by families in this group. This ratio declined precipitately to 31 percent for families in the $500-1000 level, and then went down still further until it stood at 15 percent for families in the $5000-and-over group. Average decrease in cash loan debt declined also, from almost 36 percent of average income for the lowest income level and 24 percent for families receiving between $500 and $1000 to only 9 percent for families in the highest income group. For all levels of income combined and in every income group but one ($3000-4000) the average increase in the amount due on cash loans among families increasing such indebtedness was considerably larger than the average decrease among families which were reducing their obligations, a fact which may reflect differences in the length of time the debts had been outstanding as between these two divisions of indebted families.

The findings presented in the foregoing discussion give rise to certain broader speculations. Can we determine, for example, whether in periods of economic stringency people tend to increase their borrowings in order to maintain their customary standard of living despite a cut in their income, and to pay off their debts when conditions improve, or whether they augment their debts only when they can anticipate a rise in income in times of reviving business activity? While the data presented here afford no final answers to questions of this nature, since they relate only to part of one phase of a business cycle, they do point to some tentative conclusions. They suggest, for instance, that during periods of economic expansion more people tend to undertake new

Chart XVI

Ratio of Average Increase and of Average Decrease in Cash Loan Debt for Non-Relief Families to Average Income of Such Families, 1935-36, by Income Level



commitments in consumer debt in order to raise their standard of living than tend to liquidate obligations incurred in time of depression for the purpose of maintaining that standard. The governing factor in the situation may, however, be simply the availability of credit and not the demand for it, for it seems reasonable to suppose that lenders are more willing to extend loans when economic conditions are swinging upward than when the business horizon is clouded.

DIFFERENCES IN CASH LOAN INDEBTEDNESS ACCORDING TO TYPE OF COMMUNITY [9]

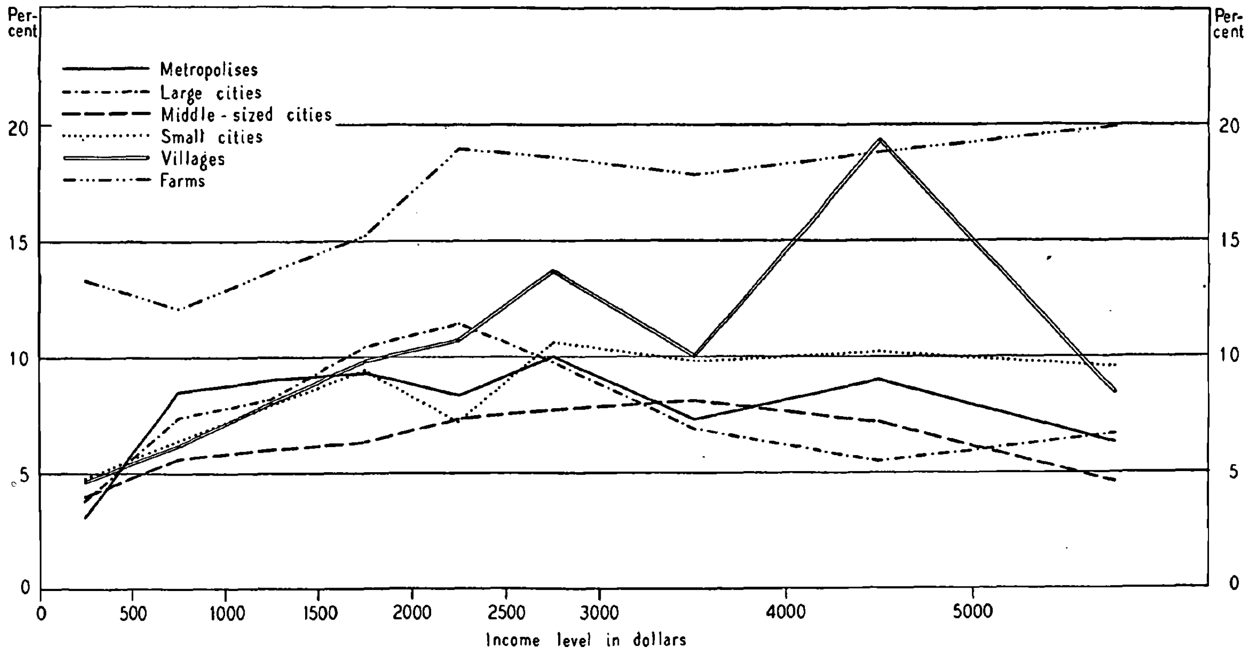
Cash loan credit, as Chart XVII shows, was used more extensively by families living on farms than by those in any other type of community. Among farm families such indebtedness, it should be noted, is not usually paid off in regular monthly instalments. One out of seven farm families [10] was making payments for cash loans, as compared with approximately one out of twelve families in metropolises, large cities and villages, one out of thirteen in small cities and less than one out of sixteen in middle-sized cities. If we group all the non-farm dwellers together, we find that about one in thirteen had a net change in cash loan debt. The market for cash loan credit in terms of its location by types of community is illustrated also in Chart XVIII. From this chart it is apparent that all except farm communities had a larger share of all non-relief families than of cash loan debtors in the period under discussion. The share of net increase in cash loan debt originating in urban communities was less than proportionate to the importance of these communities with respect either to their population or to their fraction of the families carrying such

[9] See Tables B-8 through B-13 for breakdowns of the data covering variations in net change in cash loan debt with reference to type of community.

[10] Among farm families with incomes of $2000 or more, approximately one out of five was indebted.

Chart XVII

Percent of Non-Relief Families Having a Net Change in Cash Loan Debt, 1935-36, in Six Types of Community, by Income Level



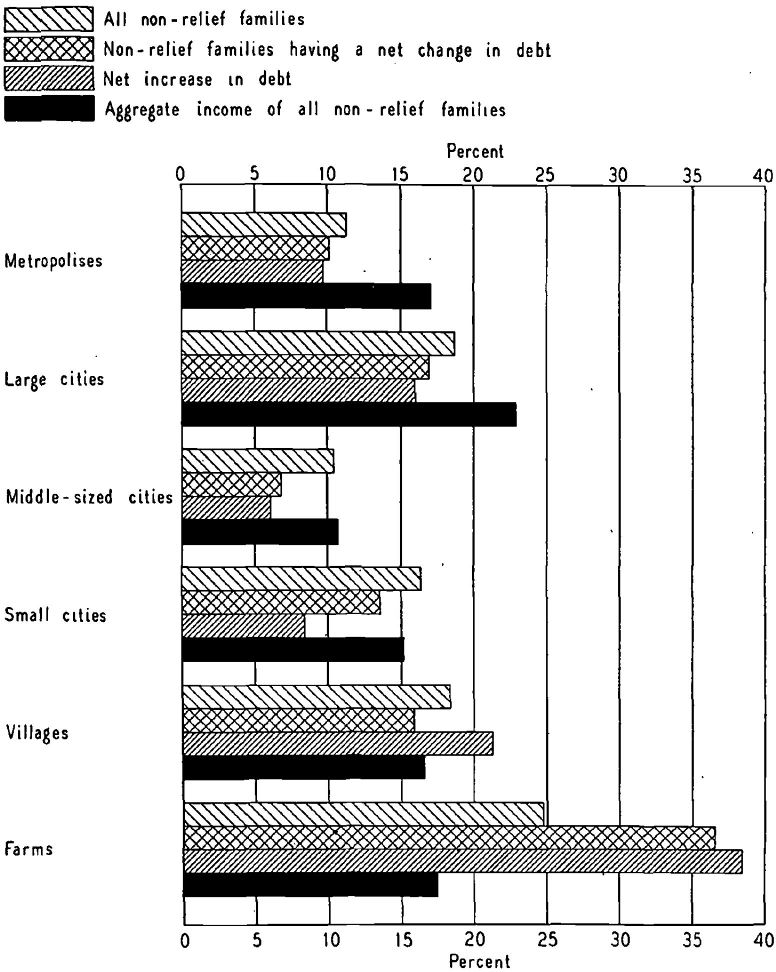
indebtedness, and particularly with respect to the share of the total income received by families in these communities. Almost 66 percent of the aggregate income of non-relief families went to urban communities, but these communities were responsible for only 40 percent of the net increase in cash loan debt. Farm families, on the other hand, although representing only one-quarter of the non-relief families, constituted almost 37 percent of the families with cash loan debts and accounted for nearly 40 percent of the net increase in these outstandings although they obtained less than 18 percent of the aggregate income.

Families living on farms, furthermore, stood highest in frequency of debt in every income level except the $4000-5000 grouping, in which they ranked next to village families. Families in middle-sized cities generally occupied fifth or sixth place in frequency of cash loan debt, but the ranking varied considerably for other types of community. For all communities, however, frequency of debt rose as income advanced up to the $2000-2500 or $2500-3000 level, and then declined. In metropolises, small cities and villages, frequency of debt increased again at the $4000-5000 level, and indeed in villages it reached a peak at this point. In farm communities the increase in the extent of use of cash loan credit mounted steadily with income up to the $5000-and-over level. It must be remembered, however, that the data on cash loan credit for farm families include borrowing for productive needs as well as for purposes of family consumption. If it were possible to compare several types of community with respect to cash borrowing for consumption only we might well find that farm families did not surpass all others in frequency of cash loan indebtedness.

In all types of community more families were increasing than were decreasing their cash loan debts during the period 1935-36. The ratio of the number of families increasing this type of debt to the number of families decreasing it varied,

Chart XVIII

Percentage Distribution of All Non-Relief Families, of Non-Relief Families Having a Net Change in Cash Loan Debt, of the Net Increase in Such Debt, and of the Aggregate Income of All Non-Relief Families, 1935-36, by Type of Community



however, and surprisingly enough was lower for farm families than for families in other communities. Thus if we compare the distribution of families increasing cash loan debt with that of families decreasing such obligations we find that farm communities comprised about 33 percent of the former but over 43 percent of the latter. Then, too, although farm families were responsible for almost 45 percent of the gross increase in debt they are credited with as much as 54 percent of the gross decrease. Finally, it appears that farm families had higher average increases and decreases in their indebtedness. Thus an average increase in debt of $403 and an average decrease of $322 for farm families may be compared with an average increase of $249 and an average decrease of $210 for all non-farm families. From these data we may infer that the average cash loan debt of farm families was higher than that of families in other types of community.[11]

Families in the three larger types of community showed a greater tendency to increase cash loan debt than did families in the smaller ones, for each of these community groupings included a larger proportion of families augmenting their outstandings than of those reducing them. Together these larger communities supplied 37 percent of the families increasing cash loan debt as compared with 27 percent of the families decreasing it. Furthermore their share of the gross increase (27 percent) also was larger than their share of the gross decrease (19 percent). In terms of the volume of debt, then, it is likely that the larger types of community accounted for a disproportionately small segment as compared with their contribution to the number of families increasing or decreasing debt. Small cities and villages included the same proportion of families increasing as of families decreasing debt, but the former accounted for a larger share of the gross decrease than of the gross increase.

[11] No other persistent difference in the average amount of increase or decrease in cash loan indebtedness was apparent for the six types of community studied.

REGIONAL VARIATIONS IN THE PATTERN OF CASH LOAN DEBT[12]

The proportion of families having a net change in cash loan debt varied markedly in the five major regions of the country (Chart XIX). More than one out of five families in the Mountain and Plain region had cash loan debts as compared with approximately one out of ten families in both the North Central and the Pacific regions, one out of twelve in New England and one out of fifteen in the South. The high frequency of debt in the Mountain and Plain region is attributable in large measure to the fact that farm families constituted 36 percent of the population in this region.[13] Farm families, as we have already noted, made exceptionally extensive use of cash loan credit, and it was especially in the Mountain and Plain region that farmers were most severely affected by dust storms and drought during 1935-36.

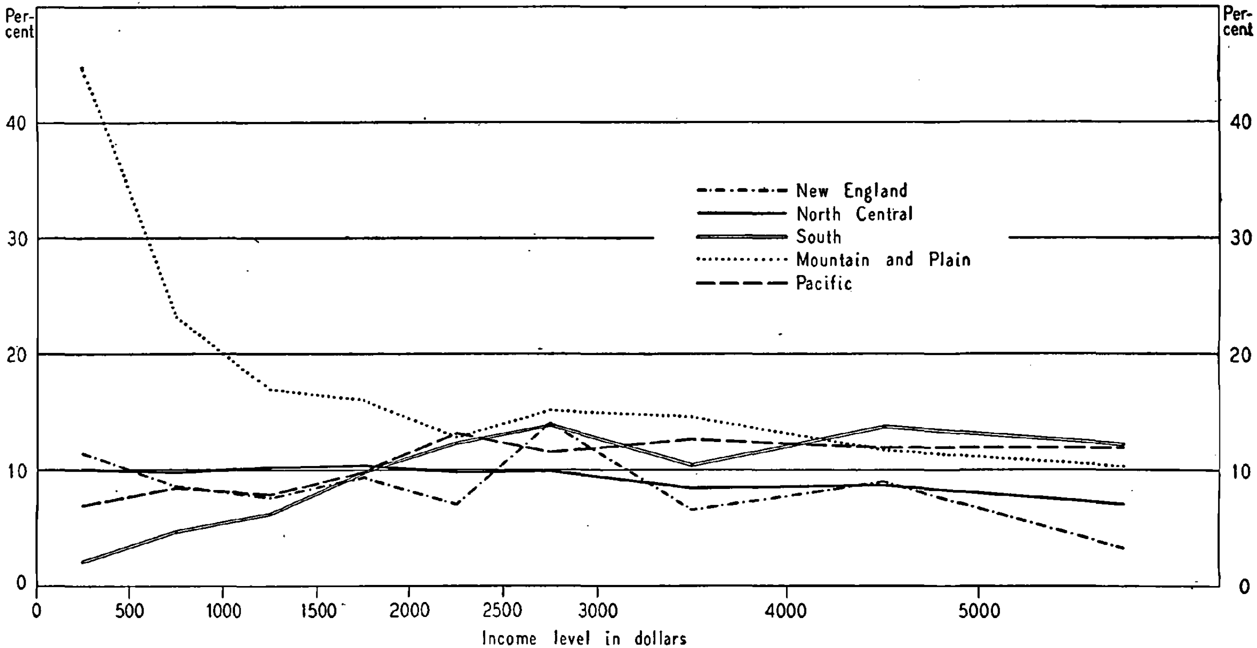
Although the Mountain and Plain region included only 6 percent of all non-relief families in the United States (as is shown in Chart XX) and is credited with not much more than 5 percent of the aggregate income for such families, almost 14 percent of the families indebted were in this region and these accounted for nearly 22 percent of the net increase in cash loan debt. The South, comprising 33 percent of the population, had only about 20 percent of the families indebted for cash loans and contributed less than 25 percent of the net increase. Southern families, however, received only about 25 percent of the total income; they had, in other words, a share of total income proportionate to their segment of the net increase in debt. The North Central region, which embraced almost 52 percent of the debtor families, was slightly

12 See Tables B-14 through B-17 for analyses of the pattern of cash loan debt according to regions.

13 This proportion is exceeded only in the South, where farm families make up 40.7 percent of the non-relief families. National Resources Committee, *Consumer Incomes in the United States* (1938) Table 25B, p. 101.

Chart XIX

Percent of Non-Relief Families Having a Net Change in Cash Loan Debt, 1935-36, in Five Regions, by Income Level



overrepresented in families indebted for cash loans as compared with its non-relief population, while New England was somewhat underrepresented. The North Central region is credited with less than 40 percent of the net increase in cash loan debt though it received 55 percent of aggregate income for all non-relief families. New England, similarly, had a less than proportionate share of the net increase in debt as compared with its share of total income. The Pacific region had a fairly proportionate segment of families indebted in comparison to its general population, and a slightly more than proportionate share of the net increase in debt as compared with its share of total income.

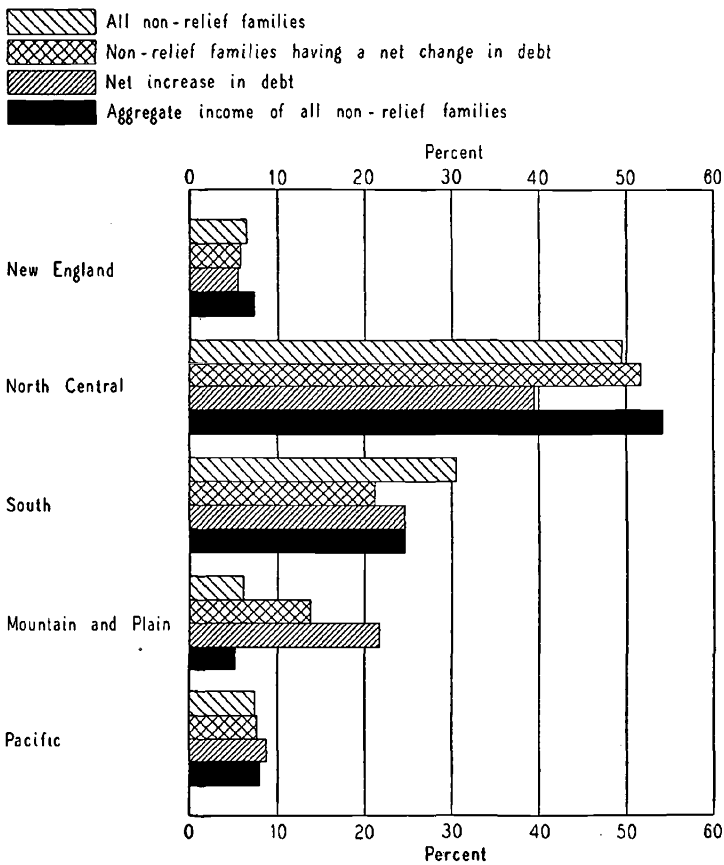
The Mountain and Plain region maintained its lead in frequency of debt in each income class up to $4000.[14] Above this level, however, it was exceeded in this respect by the Southern and Pacific regions. Frequency of debt in the Mountain and Plain region was highest among families receiving less than $500, and declined gradually as income rose. In the North Central region and in New England debt frequency was higher in the $0-500 band than in the income groupings immediately above, but these regions did not reach peak indebtedness until the $1500-2000 and $2000-2500 income levels respectively. In the South frequency of debt rose as income advanced from $0-500 to $2500-3000; the trend was similar in the Pacific region except that here the peak was attained at the $2000-2500 level.

From the foregoing regional analysis, as from the examination of the pattern of indebtedness by types of community, we observe that more families were increasing than were decreasing their cash loan obligations in every section of the country. The ratio of families increasing to families decreasing debts varied, however, from region to region. The tendency to augment the debt burden was most pronounced in

[14] Except in the $2000-2500 income band, for which debt frequency was slightly higher in the Pacific region.

Chart XX

Percentage Distribution of All Non-Relief Families, of Non-Relief Families Having a Net Change in Cash Loan Debt, of the Net Increase in Such Debt, and of the Aggregate Income of All Non-Relief Families, 1935-36, by Region



the Mountain and Plain region and least marked in the North Central region. Every region except the North Central had a larger proportion of the families increasing than of the families decreasing debt, and also a greater share of the gross increase than of the gross decrease in indebtedness. The Mountain and Plain region was outstanding in both respects; it included almost 16 percent of the families increasing but less than 10 percent of those decreasing cash loan debt, and contributed in terms of volume almost 19 percent of the gross increase and 14 percent of the gross decrease. Within the North Central region, on the other hand, were 49 percent of the families increasing cash loan debt but almost 58 percent of the families reducing it. This region also accounted for over 55 percent of the gross decrease in cash loan debt as compared with 46 percent of the gross increase. The Mountain and Plain region, hard hit as it was by drought and dust storms which cut deep into farm incomes, not only had the highest frequency of debt but also contributed disproportionately large shares of the gross increase and the gross decrease in debt as compared to the number of families increasing cash loan debts and decreasing them. We may conclude, therefore, that families in this region had a higher average indebtedness than those in the other four sections of the country.