

REMEDIAL LOANS AS FACTORS IN FAMILY REHABILITATION.*

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The remedial loan associations operating in about twenty-four cities in this country have come into existence through a recognition of the need for temporary loans by millions of people who have no banking facilities and through a realization that the agencies exploiting this need, namely the loan sharks, constitute an important cause of distress. With two exceptions the remedial loan associations now operating in the United States have been organized within twenty years, and their number has increased 50 per cent. within the last year. This is due in part to the recent rapid development of the usurious money-lending business. The pawnbroker is, of course, an old-established institution, but the so-called loan shark who lends money on mortgage of household furniture or assignment of wages at an interest charge of from 10 to 25 per cent. per month is of comparatively recent origin. I wonder how many social workers appreciate the extent to which this evil has grown and give it the place it merits among the important causes of distress?

Accurate information concerning many phases of the usurious money-lending business are obviously impossible of obtainment, but recent investigations have shown fairly conclusively that in every city of more than 30,000 population there is one usurer to every 5,000 to 10,000 people, and one victim to every 20 dwellers in such cities, or one out of every 5 voters. In cities where manufactures employing large numbers of workmen have congregated these figures are greatly increased. A careful estimate places the number of professional money-lenders in Boston at about 100 and the number of borrowers at 100,000. One company alone operating five offices made 45,000 loans last year at an average interest

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charge of 228 per cent. per annum. Atlanta, Ga., supports 58 money-lenders; Syracuse, N. Y., 24; Portland, Me., with a population of only 60,000, has 12 usurers. New York City has from 200 to 300, and the amount of usury extorted from victims of that city each year is twice as much as that required to support the Charity Organization Society, the Association for Improving the Condition of the Poor, the United Hebrew Charities and Bellevue and Allied Hospitals. The effect of extortionate interest charges is very apparent in impaired physical condition caused by overwork and inadequate nourishment, made necessary by the demands of the usurer; decreased industrial efficiency caused by worry over payments coming due and the harassing by collectors, whose practices very often result in loss of employment, in forgery, theft, and in not a few instances in family desertion and suicide. Three cases selected almost at random will illustrate these facts.

A young man holding a responsible position in the New York office of a Western corporation endorsed the note of a friend who had been compelled to borrow \$50 from a salary loan shark. Under the loan shark system the endorser as well as the borrower is required to give an assignment of his wages. Subsequently the borrower, before he had been able to pay off his loan, lost his position and left the city. The loan company called upon the endorser to make good the loan. He was unable to do this, but knowing that his employer would discharge him if it became known that he had had dealings with the loan company, and as the loan shark was already threatening to notify his employer, he went to a second loan company to borrow the amount claimed by the first. This began a chain of transactions that lasted about eighteen months. During that time he had paid the money-lenders about \$250 in excess of the amount received from them and was then indebted to eight separate concerns to the extent of \$300. Unable to get more money from him, one loan company filed upon his wages, and an order came from the Western office to discharge him. An investigation of his accounts showed a shortage. Since his discharge the young man has not been seen by his family, and they fear he has committed suicide.

A policeman with a salary of \$1200 a year was forced on account of his wife's illness and other misfortunes to borrow \$150 from a loan shark. He paid the interest of \$15 a month regularly for two years until his wife died and both children became ill with scarlet fever. The additional expense of his wife's funeral, doctor's bills and paying \$15 a month interest compelled him to contract a larger loan in order to meet current expenses, and the loan agent gladly increased the loan to \$300. He agreed to pay \$30 a month interest and kept up his payments for a long time. Eventually he became delinquent in his payments, the loan agent foreclosed upon his furniture, and filed upon his wages, which resulted in his losing his position. The man, who had been sober and industrious, turned to drink and is now an inmate of a county home.

A woman in a Southern city last year borrowed \$4 from a loan company, agreeing to pay \$1.60 a month for the use of the \$4. After making eleven monthly payments aggregating \$17.60, she was taken sick. The company then foreclosed the mortgage and took from her home furniture for which she had paid over \$100, and held the same to satisfy a debt of \$5.60 and court costs. The goods were subsequently sold, but no money was returned to the woman. The net results of her transactions with the loan companies were as follows: For seven years she had the use of \$4 and paid for the same \$134.40. For three years she had the use of \$5 and paid for it \$64.80. For eleven months she had the use of \$4, for which she paid \$17.60, and finally lost her household furniture, her home was broken up and she came under the care of a relief society.

If only people who needed money for an emergency borrowed from the loan sharks the distress would be greatly lessened, but many of the victims are victims of their own improvidence and extravagance. This is shown by the fact that the backbone of the usury business is furnished by city employees and employees of large public service corporations, whose pay is regular and above the average and whose positions are more or less permanent. Many of these men have no cause to borrow except a fancied need to which the loan shark caters by his alluring and misleading

advertisements. Once infected with the borrowing germ a man will often borrow from every possible source till at last he gets into deep water, his family suffering as a result of his transactions and he himself finally becoming a veritable slave, with his entire earning capacity mortgaged to the loan shark. Such conditions in our cities have brought about the organization of remedial loan agencies founded on three distinct bases: (1) Philanthropic competition; (2) voluntary protective effort, and (3) money-making desire. The first class includes semi-philanthropic societies which have been organized by prominent men desirous only of improving loaning conditions and who are satisfied with a very moderate return on their investment. An example is the Workingmen's Loan Association of Boston, established in 1888 by Robert Treat Paine. The second class includes co-operative savings and loan associations organized by the employees of certain large establishments for the purpose of replacing the loan shark with an institution that offers loans at reasonable rates and affords an opportunity to the workman to deposit small portions of his earnings in a savings account which returns him an interest greater than that paid by regular savings institutions. (Savings and Loan Association, Celluloid Club, Newark.)

The third class is made up of companies formed to loan money at reasonable rates by men seeking a good return on their investment and who recognize the value as an advertisement of a plan which, though largely money-making, is a great improvement over the loan shark system. Because of their effect we are forced to include the latter class among remedial loan agencies, yet we realize they fall far short of the requirements of the ideal remedial loan society which the Russell Sage Foundation and the National Federation of Remedial Loan Associations are attempting to organize in every large city in the United States. With such a society, extending financial aid to applicants is only one of its functions. It seeks also to secure adequate legislation and its enforcement, to give publicity to loaning conditions in its city, to secure settlements on an equitable basis for the victims of the usurers, to discourage ill-advised borrowing, to give helpful advice, to encourage thrift and saving, to secure employment for

applicants who are out of work (one society got employment for 75 men in one year), to fill the gap existing in our financial world between the banks and the organized relief societies. By extending relief to the deserving and by helpful advice the remedial loan association aims to prevent its clients from becoming started on the downward road which leads to dependence and the relief societies.

The remedial loan field extends to all families who by force of circumstances, by improvidence, by bad management, or by whatever cause have fallen below the somewhat vague line of normal standard of living.

The successful remedial loan agent must understand the needs and resources of each applicant, and, keeping in mind the factors which go to make up a normal standard, must thoroughly investigate the elements of each applicant's distress. Unnecessary borrowing is discouraged; legitimate borrowing is made inexpensive and a valuable experience to the borrower. A man applied to a remedial loan society for a loan. He had not sufficient security for the amount required, but satisfied the manager of the loan association that he was honest, and a loan of \$50 was made to him on about \$25 worth of furniture. He used the money to buy out a small grocery stand in a growing section of the city. During the next few years he borrowed several times. This money enabled him to expand his business and he is now a prosperous grocer and has reached out in other directions.

A widow with two children, no employment and no resources, applied to a remedial loan society. A loan of \$25 was made to her and the society assisted the woman to find employment for herself and her son. The family is now in comfortable circumstances. A man who had always been a steady workman, earning good wages, but who had never been able to save any money, lost his position through the closing of the factory in which he worked. At the same time he and his wife became ill. Their resources were soon exhausted and debts began to accumulate. Soon the man was able to work again, but had no funds to carry him along until his first pay would become due. The loan was made to him by a remedial loan society. Soon he became accustomed to the

habit of making regular payments on his loan, and when his indebtedness had become paid he was encouraged by the manager of the remedial loan society to start a savings account. He now has a tidy sum on deposit and owns some of the stock of the remedial loan association.

In many States the monthly pay system used by railroads and other large employers is a contributing cause of the loan shark evil and resultant distress. A mechanic skilled in railroad shop work obtained a position with the Pennsylvania Railroad in an Ohio city. Employees of the Pennsylvania Railroad receive their wages once a month and two weeks' pay is always held back by the company. This man went to work on the 15th of the month and on the next pay-day, which came on the first of the following month, he received no money. Having no credit, he was unable to finance himself and family during the next month and was obliged to give up his position. He secured a position with a second company, where he found similar conditions in the pay system. This went on for some time. Being a sober and industrious workman, he was able to get positions without much difficulty, but because of the pay system could never hold them until the regular pay-day. Finally he drifted into the hands of the loan sharks, who assisted him on the downward road until he applied to the associated charities for relief. A well-timed loan in the beginning by a remedial loan association would have saved this man and his family.

Although the remedial loan association has two principal functions: to relieve distress and to prevent it, it is first of all a business organization in the mind of the borrower who comes as a client rather than a suppliant. As a commercial institution, regular monthly installment repayments on loans are demanded; borrowers are not allowed to become lax in their dealings with the agency, and the procedure makes possible perhaps the most important part of the work, the creation of habits of thrift that often result in savings accounts after the loan is paid, thus providing in advance for future contingencies and putting the family beyond the need of future relief. These business-like requirements, however, bring about certain limitations in the work of the remedial

loan associations. It may not loan to applicants who have no household furniture or other security to pledge (though this rule is sometimes stretched in emergency cases); it may not loan to an applicant permanently unemployed by reason of accident or chronic illness, nor to a family whose present or prospective income does not promise fairly regular repayments on a loan. Such applicants cannot be cared for by the remedial loan agency, but must be sent to the organized aid societies. In this connection it is important to consider the increased efficiency of the work of caring for distressed families that might result under further co-operation between relief societies and remedial loan agencies. The remedial loan association manager should not only understand the elements of a normal standard, but should know the purposes and methods of the agencies and social forces which aim to supply these elements. The relief society should understand the methods, functions and limitations of the remedial loan work, and should adjust itself to meet the organization of remedial loan associations. It should act as a bureau of general information and refer all persons to the remedial loan association whom a loan would benefit and who can properly be cared for by a remedial loan agency. It should go further when necessary and guarantee the loan if the applicant cannot qualify under the remedial loan association requirements. Among the families that apply to the organized aid societies are many who do not want charity, but a temporary loan which they promise to repay. Many of these might be rehabilitated by a loan properly administered when a gift or a grant might be great harm. Many relief societies undertake to provide for these cases by making loans out of a self-support fund. Unfortunately the experiences of most societies in this connection show that the feeling of self-respect and independence that prompted the applicant to seek a loan rather than a grant of relief becomes vitiated by the knowledge that he is dealing with a charitable institution that cannot enforce payments. Consequently most of these loans are not repaid, and the effect upon the borrower has been harmful instead of beneficial. In one Western city the secretary of a relief society entirely squandered his self-support fund in a very few years by making loans under

such conditions. During a period of four years a charitable society in another Western city gave out \$22,000 in direct relief and only two recipients repaid the amount loaned to them. With the organization of the Welfare Loan Agency of Kansas City a new plan has been adopted by the Jewish charities, which is worthy of consideration by all relief societies. Each applicant for relief is carefully investigated, and if the agent decides that a loan is likely to improve the family's condition the applicant is referred to the remedial loan association. If he cannot qualify under the requirements of the remedial loan association the loan is guaranteed by the Jewish Charities. This guarantee is made without the knowledge of the borrower, to whom the loan at once becomes a business transaction. During the five months from December 7, 1910, to May 1, 1911, 52 loans amounting to about \$2,000 have been made by the Welfare Loan Agency of Kansas City under this arrangement with the Jewish Charities, and already 25% of the money loaned has been repaid. This is a very large part of the amount due. Such an arrangement might be entered into by the relief societies and the remedial loan associations in all cities, thus extending the field of the latter and relieving the former of the administration of a fund in which they have not been over successful.

The problem of extending aid to families falling below the normal line is how to avoid demoralization, how to prevent the loss of self-respect, independence, self-reliance and the sense of responsibility for those dependent upon the head of the family. There is in most people a wholesome dread of becoming dependent, a pride in being able to support one's self and family. To guard against its impairment is the function of the remedial loan association.