

cants who are out of work, 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 starting on the downward road which leads to dependence.

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.

#### 171. THE LOAN SHARK CAMPAIGN<sup>1</sup>

By MALCOLM W. DAVIS

The most extensive organization which is carrying on the work of driving the loan shark out of business at present is the National Federation of Remedial Loan Associations, with which the Division of Remedial Loans of the Russell Sage Foundation co-operates in gathering information and in publishing bulletins on the progress and phases of the work. Founded in 1909, this federation has grown until it embraces thirty-one of the important cities from the Atlantic to the Pacific Coast and has thirty-five companies in active operation. New York, Syracuse, Rochester, Buffalo, and Utica, N.Y., Boston and Worcester, Mass., Providence, R.I., Portland, Me., Newark and Paterson, N.J., Washington, D.C., Baltimore, Md., Louisville, Ky., Cleveland, Cincinnati, and Youngstown, Ohio, Indianapolis, Ind., Chicago, Ill., St. Louis and Kansas City, Mo., Detroit and Grand Rapids, Mich., Minneapolis, St. Paul, and Duluth, Minn., Milwaukee, Wis., Sioux City, Ia., San Francisco, Cal., and Seattle, Wash., are the cities already officially connected by companies, while in Dallas, Tex., Portland, Ore., Philadelphia, Pa., Lynn, Mass., and Colorado Springs, Colo., people are organizing companies, and in Jersey City, N.J., Dayton, Ohio, Los Angeles and Oakland, Cal., and San Antonio and Houston, Tex., they are actively interested and will undoubtedly

<sup>1</sup> Adapted from "The Loan Shark Campaign," *New York Evening Post*, April 11, 1914.

start companies soon. These companies generally loan small amounts of money on mortgage of personal property as security, although a few also accept pledges, endorsed notes, or salaries as a basis. The rates of interest vary from  $\frac{1}{2}$  per cent a month in a few cases to 3 per cent a month, with varying schedules of special fees for investigation of claims and registration.

What these companies have done toward putting the loan shark out of business may be indicated by the experience of one of them. The Detroit company started its work in 1906, after the passage of the Michigan law on loan agencies, and at that time there were over twenty-five loan shark companies operating in the city. For a time no effects of the reliable company's activity were discernible. Then suddenly things began to happen, and within half a year company after company closed up its office, until there remained only one concern which loaned money on salaries, and which was not complying with the law. There were two other companies which accepted the legal limitations, but the rest were put out of business directly through the efforts of the prosecuting attorney, whose first evidence was furnished to him by the remedial loan company.

A common practice among employers has been to adopt a rule discharging all employees who are found to be dealing with money lenders. The remedial loan associations have sought to and in many cases have succeeded in breaking down this practice by making the employers see that they were doing harm by turning their men out into the streets when they were found to have borrowed money without any investigation of the reasons for the borrowing.

In addition to fostering a new spirit among employers, an important part of the modern constructive campaign is the development of co-operative loan societies among employees themselves. This is one of the most effective ways of dealing with the problem of need for money in emergencies on the part of a man who is dependent on a salary. A great deal of the expense of an ordinary commercial company is avoided in the employees' associations, for the men know each other and the recommendation of a credit committee is sufficient warrant for a loan without the costly investigation of personal cases that a company has to make. The men themselves, contributing to the association and managing it, feel a pride in it, and are able to use it with dignity, while by making it a savings association as well, with an office in the company's building ready at hand when the men draw their pay envelopes, it can be made a powerful influence for thrift.

### 172. THE MORRIS PLAN OF LOANING ON PERSONAL RESPONSIBILITY<sup>1</sup>

There was established in New York on December 31, 1914, a bank under the name of the Morris Plan Company of New York. The Morris Plan had been tried on a minor scale for about fifteen years. The purpose of the bank is to make loans of small sums on the basis of mere personal responsibility.

It aims to accommodate the man of small income who has no bank account—that is, the man with an income of from twenty to thirty dollars a week. Such a man when in need of a loan of from fifty to one hundred dollars cannot get one from any bank merely on his note, even though his note be indorsed by one or more of his friends. One reason is the smallness of the amount—too little for the bank to bother with. And yet this poor man's note, with its indorsers, may be quite as good in its relation to the amount involved as the note of some much larger borrower who, having an account with a bank, can with no difficulty secure a loan of some thousands of dollars. The man with a small income when pressed for fifty or one hundred dollars finds his usual recourse to be the loan shark or a lender on chattel mortgages. A third recourse which ought to be open to him—that of credit at a moderate rate of interest—has long been closed.

On the opening day there were 83 applicants for loans, on the second day more than 100, the third day 200, the fourth day between 350 and 400, and on January 11 more than 1,000. During its first two months, January and February, the company made 509 loans, aggregating \$61,780, an average of \$121.38 each. At the end of that time there were but seven delinquencies in weekly payments, only two of which were for as long as one week. Of the borrowers, 476 were men and 33 women. The average weekly income of the borrowers was \$27.10. The favorite amount for loans was \$100, of which there were 206; 132 loans of \$50 were made.

The number of loans made by all the Morris-Plan institutions up to December 31, 1914, was 54,515. The average amount per loan was \$123.50. Losses from bad credits have been less than one-tenth of 1 per cent. In less than 2 per cent of the loans have the indorsers been called upon to pay anything. Profits of the banks have been at the rate of 7.8 per cent.

The plan of making the loans is simple. The applicant must furnish references as to his character and must give information as to

<sup>1</sup> Adapted from the *Literary Digest*, May 15, 1915.

his income. He must have at least two indorsers or co-makers of situation and income at least as good as his own. For each \$50 borrowed he agrees to pay \$1 a week for 50 weeks. The interest is deducted in advance, so that he receives but \$47. Should he fail to make a payment on time he is fined 5 cents and notified of his delinquency. If he gets a week behind, his co-makers are notified. They may be relied upon to see that he catches up again if he can. Should he fail to do so, the co-makers take his place in making the weekly payments.

The profits of a Morris-Plan company are derived, not only from lending its capital, but also from lending the prepaid interest, the incoming payments and money corresponding to deposits—for the plan has its investment as well as its borrowing side.

## B. Co-operative Institutions

### 173. CO-OPERATIVE CREDIT UNIONS\*

By ARTHUR H. HAM AND LEONARD G. ROBINSON

#### I. HISTORICAL SUMMARY

The number of co-operative credit associations or Credit Unions now in existence in all parts of the world has been estimated to be more than 65,000, with a membership approximating 15,000,000 and an annual business amounting to \$7,000,000,000.

Impressive as these figures are, they are less striking than the economic and social results which this form of co-operation has achieved wherever it has found a foothold. It has regenerated and accelerated agriculture, commerce, and industry. It has stamped out usury and raised millions of human souls from the depths of despair to lives of hopefulness and service. It has supplanted shiftlessness by industry; improvidence by thrift; intemperance by sobriety; selfishness by neighborliness; individual effort by concerted action—in fact, has proved to be one of the most potent moral, educational, and social forces in the history of civilization and in the enrichment of the life of the common people.

Credit unionism originated in Germany in 1849. Frederick William Raiffeisen and Franz Hermann Schulze-Delitzsch were the founders of the two systems of co-operative credit which are commonly known as the Raiffeisen system and the Schulze-Delitzsch

\*Adapted from *A Credit Union Primer*. (Division of Remedial Loans, Publication of the Russell Sage Foundation, 1914.)