The moral making of markets

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The moral making of markets. Defining the legitimacy of unsecured lending from "loan sharks" to commercial banks, 1900-1945.

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1 Introduction

Since the 2008 crisis, access to credit, both in size and in quality, has been at the center of the public attention. *Subprimes* mortgages, although by definition not consumption loans, seem to have revealed a segmentation of the credit market, with on the one hand individuals who have access to mainstream financial services, *i.e.* those provided by limited set of legitimate intermediaries : large commercial banks and their personal loan services. And "the other half" [Baradaran, 2015], the unbanked, the excluded, those who have to resort to more expensive, more stringent services, regrouped under the expression "fringe banking" - the realm of the "loan shark"[1]. In difficult times, some populations will eventually be pushed over to a more shadowy economy, and into his rapacious clutches: the "loan shark" always stands as a luring presence of the uncivilized, the ever so interest-driven, ready to prey upon the poor, the helpless, the needy. Although the terms used to define this separation, the way it is described and the various solutions offered to mend it differ, these descriptions all point to a correspondence between a social segmentation, a two-tier credit system, and a moral divide between legitimate and illegitimate

[1]The point here is not to discuss the precise contemporary economic or social boundaries in the consumer credit industry. Neither will we discuss the moving categories, often times contradictory expressions used to describe them : "financial exclusion", the "unbanked", "redlining", and so on, cover different realities, and serve different purposes. Some aim at describing access to banking services, others access to credit ; some insist on social or racial determinants, while others put more focus on behavioral considerations or financial literacy issues. A complete assessment of these account would be a laudable enterprise, yet for the purpose of the historical research presented here, it is sufficient to notice the existence of this "great divide" [Foucault, 1988]

forms of financial services. There seems to be a direct correspondence between this moral divide, associating different financial institutions with legitimate and illegitimate credit practices, and a underlying social segmentation of borrowers. On the one hand, banks and their personal loans department ; on the other hand, a wide set of practices ranging from pay day lenders and tax refund services to second-mortgage lenders, auto title lenders or, more recently, cash-back plans. The "fringe" of the supply corresponds to a "marginal" subset of the population: minorities, the poor, the vulnerable, etc [2].

All of these transactions, whether "fringe" or "mainstream" can be described as *unaffected* credit, as the loans made are not attached to the purchase of a specific good or financial asset (as opposed to mortgages loans, car loans, or general installment contracts). Most of these loans are also unsecured loans, they require no collateral as a security for the money advanced [3], but rather rely on the future income capacity of borrowers to determine the terms of the contract. These unsecured loans can either take the form of "personal loans", single loans where the principal is gradually repaid according to a planned schedule, or open lines of credit, where for a small monthly fee a limited sum of money is available for an indefinite period of time.

The emergence of a market for unsecured personal loans dominated by commercial banks is the result of major debates and conflicts which took place in the first half of the 20th century, around the regulation of what was known at the time as the *small loan business*. First of all, *unsecured* loans to individual consumers remained highly illegitimate until the 1940s, and were only offered by unregulated credit agencies, labeled at the time as "loan sharks". Secondly, the idea of providing loans to consumers was completely alien to retail banking up until the 1930s, and only around the middle of this decade did commercial banks start opening Personal Loan Departments, as autonomous financial organizations within their institutions. The first goal of the present article is to describe the various legitimacy struggles, which took place between 1910 and the mid 1940s, and led to the birth of a regulated market of unaffected credit bearing these two features. Our goal is to understand how particular practices and institutions established themselves as the gatekeepers of market legitimacy, and to describe the various legal and status-based struggles which can account for these selection processes. The present research simultaneously argues that these legitimacy divides, necessary to the creation of a moral market, had major stratifying

[2] Although research has shown the organizational links between commercial banks and the fringe sector [Fox, 2004], this doesn't challenge the symbolic divide which separate transactions

[3] Commercial banks offer "secured" loans, usually requiring a car, a house or a savings account as a collateral, but these loans are for much higher amounts, and are usually not unaffected credit : they require a specific investment such a major expense or the refinancing a specific debt.

effects, and produced a social, racial and geographic segmentation of borrowers, the consequences of which are, to some extent, still visible today.

1.1 The moral and economic making of markets

Narratives of market legitimization tend to study morals as a set of articulated norms, either internal to the market and operating through "communities" [Abolafia, 1996, MacKenzie and Millo, 2001, Ho, 2009, 2014, Rao et al., 2003] , or external, with reference to a broader cultural or normative framework [Zelizer, 1983, Fourcade, 2011, Dobbin, 1994, Haveman et al., 2007, Chan, 2009a,b]. In that perspective, morals are constantly affecting markets : the two are far from separate, "hostile worlds" [Zelizer, 2010], and normative considerations are seen as an active type of market practices. This set of research is, however, primarily interested in accounting for market creation, or the legitimization of illegal or illegitimate economic practices, and morals are always kept as an exogenous set of -internal or external, formal or informal- constraints with which actors comply, or struggle to do so.

An interesting recent trend, introduced by [Fourcade and Healy, 2007], has been to consider rather the endogenous production of morals within markets, and the authors rightfully state that "markets are explicitely moral projects, saturated with normativity". Put differently, every market construction or market operation would imply a form of "moral making of the world" [Fassin, 2014], and while we can find empirical examples to give support to this claim [4], this has unfortunately mostly remained at the level of a general and abstract research formulation. As Quinn [2008] abruptly argues: "markets affect morality because there is morality in markets", and economic sociology should look more into the consequences of this "simple but profound" statement. The recent article by Fourcade and Healy [2013] provides an interesting contribution from that perspective, as it tries to specify one possible channel through which moral effects of market activities can operate: the production of classifications about market actors. The authors study the "stratifying" effects of consumer credit rating systems, which produce "boundary classifications", including those who have a credit score, and excluding others ; as well as more continuous classifications, through the ranking of individuals according to an algorithm processing their credit history [5]. The present article aims at contributing in a similar way to

[4] MacKenzie and Millo [2001] show for instance that the construction of the market for derivatives changed both the conception of finance and the place of economic theory in our society.

[5] See also Marron [2007] for an analysis of the effect of credit-rating on consumer subjectivity through risk-evaluation

studies of morals in markets, by paying attention to the legitimacy effects of the construction of a market of unsecured consumer loans : these were channeled through the supply side, by the definition of legitimate “spheres of commerce” [Anteby, 2010] ; and through the demand side by a segmentation of small loan borrowers.

Above all, this is not a standard narrative of market legitimization : both the practices and the actors involved in the business, in the beginning and in the end of the moral struggles, were very different. Contrary, for instance, to the primary and secondary insurance markets [Zelizer, 1983, Quinn, 2008, Chan, 2009a,b], the market for derivatives [MacKenzie and Millo, 2001], or the market of funeral services [Trompette and Boissin, 2000], the stake was not, in this case, to legitimize a particularly unacceptable economic practice – or good - or to frame it in a way compatible with broader religious or normative systems. Similarly, in the case of unsecured small loans, moral discourses didn’t represent a set of “ideologies” or conceptions of the world [Ho, 2009, 2014] shared statically by actors in the organizational field ; the moral making of the market was highly conflictual, and these disputes produced strong immediate (performative) effects on the way the unsecured lending business was organized. The above approaches all somehow posit a degree of separation between moral and economic practices : the symbolic dimension is either an external constraint, or an internal way of making a contradictory economic reality hold together [Althusser, 1969, Ho, 2014]. In the case at hand, the moral evaluation of lending transactions - or contracts - is constantly challenged through normative or legal struggles, and it is impossible to separate the moral, from the economic making of the activity. Anteby [2010] has suggested that the moral sociology of markets should focus more on “how” goods are traded, rather than “what” goods are deemed legitimate objects of formal exchange : his study of the commerce in cadavers in the US shows the efforts of professional gatekeepers of large State chains to separate their activities from the ones of small private dealers, both by the construction of distinctive narratives and the definition of legitimate "practices of trade”. This is particularly relevant in the case of credit, as the variety of money exchanges raises more legitimacy issues than of the exchange of the commodity itself, as opposed to cases of more marginal goods (such as death, organs, blood, etc.). This paper aims at mobilizing the insights of approaches usually applied to marginal, highly symbolic goods, or marginal uses of "normal” commodities, such as gifts of money or local monies [Zelizer, 1989, Blanc, 2000], to better understand some aspects mainstream economics practices, such as consumer loans.

The fight for the regulation of the business implied multiple operations of selection of acceptable market practices, in particular regarding the type of collateral, the amount of loans, and the terms on which they were made ; all of which occurred through moral conflicts between regulated and unregulated lenders, social reformers and, later, commercial retail banks. These conflicts continuously modified the content and limits of the market, up until commercial banks took over and stabilized the market in the 1940s, in the form of "Personal Loans". More specifically, the jurisdiction of regulated small loans restricted the legitimacy of transactions to loans of relatively higher amounts, loans which had to remain exceptional and gradually paid back on installment, as opposed to smaller , "treasury" loans, made as advances on income and which were often renewed for longer periods of time. These intra market disputes [Abbott, 2014] to define its legitimacy boundaries in turn produced stratifying effects, strongly dividing the borrowers on the basis of their access to the regulated market. In summary, this article therefore aims at articulating the endogenous moral making of markets, and the stratifying effects of the produced legal, organizational and technical[6] classifications.

1.2 "Loan sharks" and the legitimacy of unsecured consumer lending

The stigma against money lending is probably one of the oldest moral restraint, and studying it as a piece of "first order" moral, or cultural phenomenon [Abend, 2014] doesn't provide much original results (see "Loan Shark" box). The fight against early 20th century loan sharks is insightful provided that one takes into account the precise economic and organizational practices carried by both regulated and unregulated lenders, and considers this critique as a discursive cue, indicative of deeper and more intricate interactions of morals and markets. Indeed, the phrase "loan shark" can be analyzed as a form of "labelling", continuously used to describe illegitimate, generally illegal lenders or practices, keeping in mind that while the idiom itself remained intact until today [7], the realities the term tries to categorize, as deviant or immoral, massively varied across historical periods. In the late 19th century, the figure of the "loan shark" emerged as a modern embodiment of usury in an industrial society. The phrase was, at first, meant to describe all transactions involving unaffected loans of money made by unregulated lenders : it was commonly used by social reformers, implicitly defining, until the 1940s, what good business practices legitimate small loans lenders were supposed to adopt. The story of the campaign against loan sharks, carried in particular by the Russell Sage Foundation and its

[6] We will pay attention to the type of collateral asked, as well as the method to report the costs and charges of loans.

[7] See for instance the widespread references to "loan sharks" in the microfinance industry, http://www.nytimes.com/2011/01/15/opinion/15yunus.html

organized movements of local intermediaries, has been widely documented in the recent years. Unfortunately, however, most of these accounts remain very cultural or institutional, and pay little attention neither to the actual market or organizational practices, nor to the detailed history of the legal struggles involving small loan transactions Calder [2009], Marron [2009], Hyman [2011], Trumbull [2012, 2014]. The few detailed empirical analyses, on the contrary, tend to focus excusively on the passage of the Uniform Small Loan Laws, with no regards for their actual implementation, or the larger debates in economic moralities [Anderson, 2008, Carruthers et al., 2012].

Krippner [2002] suggests that, rather than positing the existence of a invariant market, economic sociology should study the actual practices of actors involved in the design of a specific economic activity, without making any *a priori* assumptions about the scope of economic exchanges which can be regrouped as a "market", or a "business". Personal loans, as a formal business, didn't exist in the beginning of the 20th century, not only because of moral restrictions, but also because of legal, economic and organizational factors. An unregulated business was already well established by the 1900s, providing small loans of unaffected money to urban consumers, and in the 1910s these lenders, described as "loan sharks", started to be massively criticized by social reformers regarding their unsound commercial practices : sky-high interest rates, violent debt collection methods and a general disrespectability became a public commonplace critique of small loans. Social reformers, soon joined by a fraction of unregulated lenders, fought for a legal reform of the small loan business, which established legal exceptions to States usury caps for loans of amounts lower than $300 [Clark et al., 1930, Robinson and Nugent, 1935, Michelman, 1970]. These very general dispositions, along with various clauses insuring respectability of money loans made to individual consumers, were drafted in a series of bills, the Uniform Small Loan Laws, which were successfully passed in many States between 1917 and 1921 [Carruthers et al., 2012].

We argue that, even though social reformers had precise ideas about the general moralization of the market, the initial legal reforms paid little attention to the actual transactions carried, their variety, as well as the general purpose of this new form of credit. The separation between legitimate and illegitimate unaffected consumer lending involved a "qualification" of a particular set of economics transactions, and moral categories were established to evaluate the social "worth" of this new type of business. One specific question arose, which polarized the debate until the take-over by retail commercial banks, and concerned the type of collateral required to apply for regulated lending. In particular, could small loans be justified as unsecured loans, based only on the workers' future wages, or, put differently, was the future capacity of consumers to repay a legitimate basis to insure the worth of the market ? These moral conflicts, over the valuation of credit collateral, were more than purely technical or legal debates: they crystallized general interrogations about the role of credit in an industrial, wage-earning, society, and the conditions under which loans of money could actually enhance the "welfare" of American consumers. Indeed, social reformers and regulated lenders always opposed structural forms of indebtedness for the working class: legitimate loans had to remain exceptional, and budgeted around carefully thought repayment plans. In particular, the principal had to be repaid in a finite number of installments, with a fixed overall interest rate of the remaining balance. On the contrary, up until the 1930s, unsecured loans based on notes or wage assignment contracts, were very small loans, renewed indefinitely at each pay day : they were "treasury" loans, made to consolidate existing debt, payback bills or face daily household expenses. Hence, they would usually run for a long time and a discount fee was charged at each new renewal, not unlike modern credit-lines. The latter features made this type of lending unacceptable, both regarding its business ethics model[Abend, 2014] and the effect it would have on borrowers' welfare, and this led regulated lenders to focus exclusively on chattel mortgages, loans of higher amounts based on a lien on the borrowers property. Only when commercial banks took over the business in the mid 1930s were they able, through status distinction, to establish a legitimate form of unsecured lending, while at the same time producing a strong "boundary classification" between legitimate and illegitimate small loan borrowers.

Hence, this is not purely a "strategic view of market legitimacy" [Anteby, 2010] : contrary, for instance, to the clear distinction strategies of "nouvelle cuisine" French chefs [Rao et al., 2003], this article wishes to contribute to a "practice-based view of moral markets" [Anteby, 2010], without positing institutional change in a market as an *a priori* necessary outcome. These struggles were carried at the local – municipal or State -level, principally through legal battles, supported by massive public scandalization tactics [De Blic and Lemieux, 2005] ; which, along with detailed empirical accounts of credit companies' commercial and organizational practices, constitute the basis of this study. As [Fourcade and Healy, 2007] put it, a "focus on conflict over meaning[,] opens the prospect of linking local battles over particular transactions with large-scale shifts in categories of worth".

In the second section, we will see that at the beginning of the 20th century, "loan sharks", or unregulated lenders of unaffected money, were providing a wide array of loans : the range of loan amounts, the type of collateral required, and the populations resorting to their services, were all very diverse. Nevertheless, we can already identify, within these loans, a legitimacy divide, both in the practices of lending companies and the public perception of the business. Indeed, the business was segmented, sometimes within individual agencies, between very small loans, ranging from $1 to $20, or $50, lent as money advances on the next payday, and larger loans (between 50 and $400, although these separations are fluctuating), usually linked to a lien of the borrower's property, a contract known as a chattel mortgage. The passage, in various States, of the Uniform Small Loan Laws in the late 1910s was an important step in the construction of a legitimate business of small loans to consumers, yet we will analyze in a third section the indeterminacy which followed the legislative reform, and the ongoing struggles linked with legal enforcement and legal solidification [Pedriana and Stryker, 2004, Edelman et al., 2011]. The smaller, unsecured loans, raised many legal and moral debates, and the "loan shark" came to represent in the 1920s the figure of the "payday" usurer, known as the "salary buyer" at the time.

These debates emphasized quite opposite visions of consumer lending, as we said earlier, and in the 1920s through the late 1930s, the market was therefore strictly separated between regulated credit companies, specialized in secured chattel mortgages, and unregulated "salary buyers" dealing in smaller, unsecured loans. The regulated business was thought as a service for the growing class of working men and women, yet it was their quality of property owners, and not solely their status of wage earner, which guaranteed access to regulated loans : collateral was the sign of a social earmarking of credit [Zelizer, 1989]. Such a partition implied a strong social segmentation of borrowers, between the chattel owners who could comply with the collateral requirements and afford higher loans, and the rest of the working class, and this segmentation translated along strong racial and geographical lines, which will be documented from various sources.

In the last section, we will analyze how the stratifying effects of market creation became even more visible as commercial banks gradually took over the small loan business, from the mid 1930s until the 1940s. After the financial crisis of 1929, commercial banks were looking to re-establish their place in the nation's economy, and saw in the field of personal loans, as bankers were referring to it, a way to both make profit and rebuild links with the "community". Very much at odds with what had been done by regulated lenders up until then, banks very early adopted a model of unsecured loan contract: "personal loans" were described as salary loans, made to wage earners, and based solely on their future income capacity to repay. Part of the reason lies in the post-crisis regulation set up by the FHA, which triggered commercial banks' interest in making unsecured lending to individual consumers [Hyman, 2011, Trumbull, 2014], yet, this legal explanation was only one aspect of the story. Bankers truly believed that a proper supply of unaffected money to American consumers could not be tied to property ownership. Commercial banks were able to, through their higher institutional and economic status, take over the business of regulated small loans, and impose a legitimate unsecured form of personal loans. Simultaneously, the PLDs of banks sharpened the earlier segmentation of borrowers, arguing that legitimate personal loans could only be made to the "cream of the community", the growing middle class. The legitimacy divides in the market for unaffected loans, which had been until the mid 1930s an unexpected consequence of law implementation, became a conscious market effort from banks to establish themselves banks as legitimate providers of legitimate personal loans . The earmarking of consumer credit drifted from an indirect social segmentation in the 1920s, operating through security requirements, to a direct social selection of borrowers, relegating to the "fringe" most of the early borrowers who relied on small, unaffected loans of money.

The "loan shark" figure[a] **:**

References to "money sharks", or "land sharks" are very common in the 19th century, and they embody very specific figures. The former is closely attached to the Wall Street financial community, and above all bankers, who were seen as controlling the liquidities, the supply of which had been one of the major societal issues from the 1860s onwards [Carruthers and Babb, 1996, Babb, 1996] ; whereas the latter referred to land estate intermediaries who made a profit out of overpricing bad lots to pioneers settling on the Frontier, and took advantage of their fragility. The expression "loan shark" started appearing at the end of the 19th century, and signaled a shift in the cultural conflicts about uses of money [Zelizer, 1989], although the general idea of exploitative monetary transactions taking advantage of dominated clients was still very present. The early 20th century usurer represented specifically the lender of unaffected credit who made a business of providing small loans to workers in poor urban environments. It was very much attached to a representation of anomy and the loss of traditional social links, in particular credit links, due to processes or urbanization, and stabilization of a wage earning society. Workers in big cities were seen as having no social ties as well as very little property, and having to resort to "loan sharks" as a way to make ends meet until payday arrived. This criticism was very specific, all merchants practicing money lending were not accused of being "loan sharks". In particular, neither pawn brokers, who required that the pawned-property was moved to the loan office, nor retail merchants who practices open account credit, were even accused of doing immoral or illegitimate money advances on a general level. The expression was targeting loan companies who relied, in case of default, on garnishment procedures, whether levying on the workingman or woman's property, or assigning his or her wages directly from the employer. This was closely linked to a rhetoric revolving around the figure of the "breadwinner" : those usurious industrial loans were preventing American households, and especially male wage-earners, to support themselves and their families, precisely because they drew liens on their goods, or their "living wage" [Glickman, 1999]. Interestingly, this imagery bore no implicit religious or ethic underpinnings: no traces have been found of actual references to Jewish communities, even where explicit mentions of Shylocks, the Merchant of Venice, or rapacious money lenders are very common. This shows that the "loan shark" was a very historically situated figure, linked to the particular liquidity issues raised by the trajectories of workers in the industrial society of the turn of the century.

[a]The following elements are summarized from a systematic analysis of press articles mentioning the phrase "loan shark", or associated idioms such as "loansharking", "loansharkery", "money shark" and "land shark", from 1880 until 1945. The three databases used are online newspaper archives. We have chosen the "Chronicling America" series of the Library of Congress, which compiled a representative sample of 100 000 newspaper pages per State, until the year 1922 (http://chroniclingamerica.loc.gov/about/). For a national newspaper counterpart for later years, we have chosen to read the New York Times archives. Finally, as this article focuses on local crusades carried in Atlanta, Georgia, we have chosen to analyze more precisely various Georgia newspapers, such as the Atlanta Journal and Constitution (the records were covered on site at the Atlanta Fulton Public Library), the Atlanta Georgian, and local publications of other major cities, Savannah, Macon and Athens. For a full description of the newspapers digitalized, see http://dlg.galileo.usg.edu/MediaTypes/Newspapers.html

2 Who were the loan sharks ? 1900-1920

We have shown that the expression "loan sharks" came to represent a very specific type of lender, those specializing in unaffected loans of money, but what type of credit were they selling and what population were they servicing ?

2.1 Different Loan "pools" show a social earmarking of unaffected credit

Loan distribution and loan "pools" Unregulated credit agencies were operated as chain-agencies: with headquarters located in a major city, they established branches of similar sizes, often way across State lines. The initial agencies were build out of family capital, or personal funds earned by the owner at some other trade [8], and when business was supposed to be extended, the standard practice was to allocate $1000 as funds to lend in a delocalized branch. Agencies were organized along a patterned structure, employing a manager, an assistant, often one or two clerks and debt collection agents. Various elements show that there was a lot of mobility and turnover within, and across agencies : an employee who started as an outside collection agent could easily move up the hierarchy as new agencies were opened. The two larger chains, which will we document extensively in this article, appeared to be very centralized : operations of accounting, auditing, or advertising decisions had to be made by the main offices, and branch agencies were mostly focusing on turning the capital into "active accounts" [9].

Regarding the loan practices themselves, we have managed to gather a representative set of data from one of the major unregulated small loan company [10]. In 1917, the major Northern, Chicago-based, chain of loan sharks was operating over the entire North East and Midwest areas, and was known as the "Mackey Syndicate" [11]. When the 1917 Uniform Small Loan Law was discussed in Illinois, this major "loan shark" company provided social reformers with data taken from an internal study of its customers: the aim of this was to inform the ongoing regulation process, and simultaneously for the former "sharks" to secure an incumbent position

[8] The larger chains' leader started as either merchant, lawyers, or bankers.

[9] A large set of internal correspondence between a branch auditor and managers of a main office in Atlanta shows this internal allocation of tasks. These documents were seized in an investigation of the loan shark business in Covington, Kentucky, in 1932, and are kept in RSF, Box 124, Folder PE Leake and JH Taylor Correspondence

[10] A section of the data was printed in Hodson [1919], pp 59–76, see http://babel.hathitrust.org/cgi/pt?id=njp.32101056350281;view=1up;seq=63

[11] "Memorandum on HFC, Financial History", HSCB Archives

for their company in the future regulated business [12]. Six samples of approximately one hundred customers each, drawn from six various locations in Illinois were taken as a base for the study : each borrower was asked to report the amount of money borrowed, the length of the loan, her or his occupation, and the reason for borrowing the money. The first important result is the wide range of loans offered to borrowers : amounts vary from $5 to $400, and loans run from 2 to 12 months. The first graph of Figure 1 (solid line) represents the distribution of loans according to the level of the principal, and provides interesting insights into the actual loan practices of the company.

First, we can notice that the distribution bears several modes, defining what seems to be different loan "pools". A first set of loans seem to range from 10 to 50 dollars, and those represent the large majority of loans (391). We can identify two profiles of agencies, regarding the way they handled these very small loans : half the branches display a bimodal distribution within the 10-50 $ range, with high frequencies around 10-15 $ and 20-25$ whereas the other half had higher average level of loans below $50, with high frequencies around 20-25 $ and at $ 50. This element suggests more complexities within this lower "pool" of loans.

A second mode of the overall distribution appears around $ 100 and a third one around $200, however, only 45 loans have been made for amounts strictly higher than $100. These represent only 7.6 % of the total number of loans made - although they represent 25% of the total money loaned by these credit agencies. [13]

A hierarchy between small loans This distribution suggests that within the wide range of loans, there were differences as to the type of loans and services offered by "loan sharks", and indeed *very* small loans, those under $50 or under $20, always seem to have a specific status. Smaller loans are indeed mostly made to industry workers, with a majority of railroad men, steel factory employees or day laborers. As for the "reason for borrowing", the smaller loans most often indicate an advance on salaries, a need to consolidate existing debt, or to settle existing bills, in particular medical debt. On the contrary, on average, higher loans are on the opposite made to higher socio-occupational status :engineers and physicians all borrow more than $150,

[12] Hodson [1919], p 59.

[13] Another striking feature is the fairly standardized terms on which loans were made. Similar levels of principal determined similar repayment schedules, and even if unfortunately the data doesn't report interest rates, we can assume that the cost of loans was also standardized across locations and agencies. Similar principals determine similar repayment periods, although plotting this relation shows a strong concavity in the curve : as loans get higher, the average length per dollar loaned diminishes very strongly. Thus, a $5 loan requires a two months repayment period, as another $400 was scheduled to be repaid within 12 months.

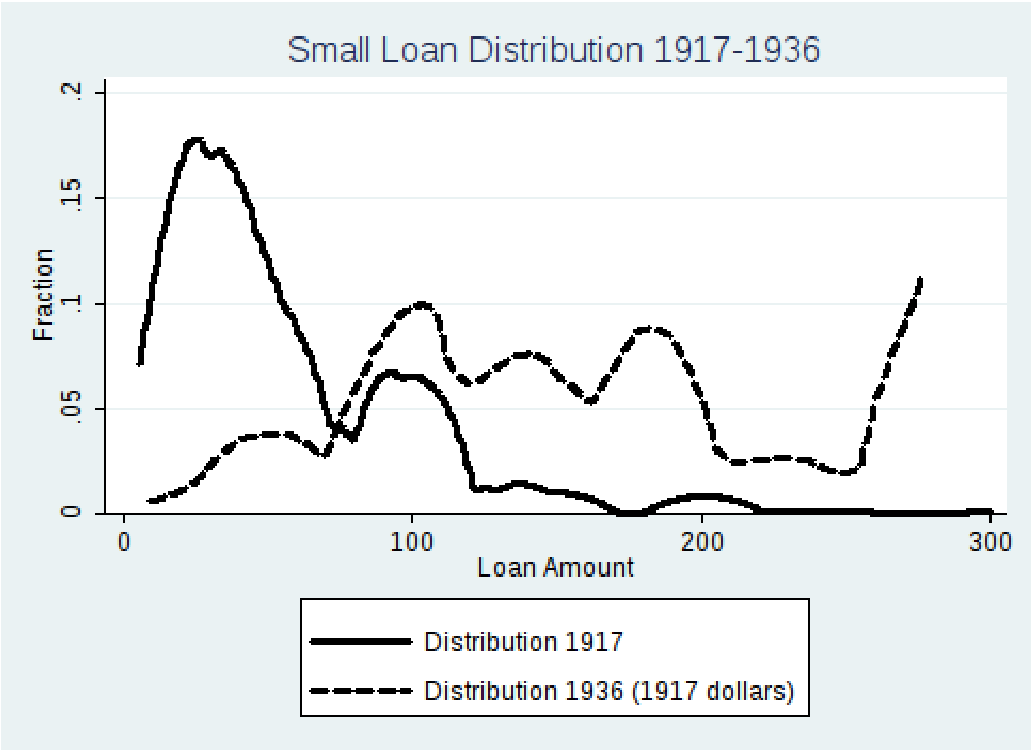


Figure 1: Distribution of loan by principal, 1917-1936.

and so do managers or shop owners, and these populations state a direct and clear expense as a justification for the loan. However, these were average trends, and counter examples may be found: a bell boy who borrowed 200 to buy a store and start a business whereas on the contrary one physician borrowed $50 from the shark "on account of poor collection" from his patients. The data suggests that the hierarchy of loan types matched a particular social distribution of clients: even if a single agency could make loans both to street musicians , industry workers, and State engineers, the type of personal loans they would be offered was socially earmarked.

Indeed, the hierarchy of small loans is associated at the time with different status perception. In 1917, a representative of the Maryland Association of Small Loan Brokers, lamented that, in the city of Baltimore, the "$10 loan specialists" rarely "care much for adding tone or standard to the business" (of small loans). These loans are offered by "neighborhood offices", "not in date and out of tune with the times", they "keep open until late Saturday nights", they "double-up" on loans, they advertise through "cheap and trashy door to door distribution" ; in short, the are "devoid of any business sense or standards whatsoever". More importantly, these "smaller type of loan offices" and their practices, are "conducive to increased borrowing by a class of people who do not reckon it is amiss to carry two or more loans at the same time". This speaker clearly makes a connection between a type of illegitimate supply, which is defined by a lower (both morally and in dollars) type of loan, and a specific "class" of the population which doesn't seem to behave as sound borrowers should [14]. The author seems to suggest that these concerns primarily trade with the "colored population" of Baltimore, which at the time represent only 1/8 of the city population, and do not have access to the "larger", more proper, "down town concerns" [Phillips, 1997].

The data on Illinois do not contain information on the collateral asked for the loans, neither do they indicate the racial distribution of borrowers, so they do not enable us to verify the existence of a separation such as in Baltimore. However, data collected on a second large chain of agencies based in Atlanta seem to confirm these results.

2.2 *Secured* chattel loans and *unsecured* payday plans : a social and racial segmentation

A good example of this internal hierarchy of loans is given by JE Goodwin, loan shark employee, who worked all over the South for more than a decade as a debt collector. In 1925, he decided

[14] *AASLB Annual Report*, 1917 p 48.

to abandon the "loan shark" business and and work for the Russell Sage Foundation, fighting against his former employers. His testimony shows that loan agencies would carry both types of loans, larger chattel mortgages and "small pay day" plans, but these were targeting different populations. The former were usually contracted in a main office, whereas "payday" were usually established as branches, close to a particular factory or industrial shop, and payment would be collected directly at the shops every week. The following example illustrates the functioning of the "payday" plan, at a time when Goodwin was working in Birgmingham AL, the foundry capital of the US:

"I began searching for a good shop to open a small pay day and finally decided to start loaning negroes at Stockham Pipe and Fitting Co [15]. At that time being about one thousand negroes were employed there. My first trip there was Saturday in march 1919. I began lending money this way, $5 and $10 loans taking a straight note and charging $1.85 for two weeks, and for $10 I charged $2.50 for two weeks. I worked this place better than three years without missing one Saturday. After the first sixty days I began turning in $500 each Saturday to the office. Later on I went as high as $80 a week profit at this one place. [...] I had very few customers who borrowed as high as $20. The average loan was $10. All of my customers knew me and they would walk by and pay their interest and say they would see me later."[16]

Agencies were organized at the neighborhood level, so as to keep different "clientèle" separate, something which had important organizational advantages for the lenders. In a city like Atlanta, transportation was tedious for African Americans, and racial relations were very tense [17], and it seems that white borrowers usually went to the downtown agencies, while collectors would directly go to the neighborhoods or the shops to collect money from coloured workers. In the state of Georgia in 1903, a Grand Jury investigation on the "Loan Shark problem" found that their clients were 40% white and 60% black [18], and it seems that there was a strict segmentation of agencies by racial profiles. An account book belonging to a neighborhood manager in Atlanta shows this agency separation [19]. James Murphy Hill was a white small manager and collector based in Darktown, Atlanta, and his records for the year 1910-1911 show a huge majority of African Americans, with loans of very small amounts - between 50c and $5. The addresses indicated in the book confirm that collectors were operating along standard "routes", which

[15] The world's largest valve and fitting company for more than 60 years, the second largest employer of the city, after Sloss Furnaces.

[16] JE Goodwin, *Statement to Atlanta Legal Aid Society*, march 8 1927. RSF, Box 16.

[17] The apex of these tensions came with the Atlanta race riots of 1906, see Bauerlein [2001].

[18] *Report of Fulton County Georgia Grand Jury, to the Judge of superior court of Fulton County*, 1903

[19] *James Murphy Hill Account Book Records, 1910-11.* Georgia State Archives

they followed each week, usually on a bicycle [20]. These collector were common figure of working class neighborhood lives, as one account mentions the weekly ritual of children running about the "wheel", yelling "here comes the loan man !" [21], as he was proceeding with payment collection, . Interestingly, there is quite a strong majority of women present in the accounts, most of them working in domestic services, especially as washerwomen and roomers or managers of boarding houses. Hunter [1997] has documented the lives of black women workers in Atlanta in the first decades of the 20th century, and she shows that some of them, especially washerwomen, had a strong monopoly on their trade, which made them good potential clients for small loan creditors. James Vaughan, a former attorney for the lenders, testified in 1926 before a notary public : "The washerwoman comes in Friday or Saturday. She has delivered the clothes to the owner and received her pay for the work she has done. She borrows five dollars from the loan shark and sign her name on a blank assignment, and agrees to pay for the use of this five dollars, $1.60 per month. [...] He has confidence in this poor old colored women's honesty to pay her debts, therefore he cares not whether the transaction is legal or illegal" [22]. In Macon GA, an association of washerwomen signed a petition and sent it to the city commissioner in 1916 to ask protection from the loan sharks, as the author states: "they claim that white people do not pay them enough and that they are forced to borrow money to make both ends meet, and after doing so they are continually harassed by the collectors, who, they claim, enter their homes and abuse them when they are unable to pay right on the dot"[23]. While it is hard to have a clear view of the gender distribution of borrowers, according to the head of the Atlanta Legal Aid Society, small payday loans in Georgia were made "chiefly to negro women" [24]. Ida Benjamin, an African American nurse testifies in front of the 1903 Fulton Cy Grand Jury on the huge amount of debt she has contracted from multiple money lenders [25]. The loans were made in her name because her husband, employed as a dyer, had a very irregular income, whereas her nursing job was much more stable. She started with a $5 from the RD King Co., but as other bills were piling up, "it looked to me like trouble began opening up in that home of ours like cotton bolls in a warm September sunshine". Over the course of 18 months she has borrowed amounts of 4 and 5

[20] See also Leslie C. Harbison's biography, (HFC Records, HSCB Archives), as the later CEO of the Household Finance Corporation also started as a debt collector in a neighborhood of Philadelphia.

[21] *The Truth about Loan Sharks*, by James L. Vaughan, RSF, box 123 RD King Folder.

[22] James L. Vaughan Statement about "Loan Sharks" in Fulton County, given before NP. RSF, box 16, JLR Boyd Folder

[23] "Washerwomen's League asks City's protection from many collectors", *AJC* archives, September 23 1916.

[24] *Substitutes for Loan Sharks in Atlanta*, JLR Boyd. RSF box 15.

[25] "Told story of interest : it ate up all of her wages", *AJC* archives, November 9 1903.

dollars from eight different lenders, at first she thought she was going to pay back the principal with interests, but as payments "seemed to be coming a little faster than paydays where coming slow", she ended up with "a basket full of papers", trying only to keep up with interest charges [26]. This over representation of women borrowers in African American communities is a well know feature of consumer credit, and it is to some extent still the case today, as Desmond [2012] recently noticed in his study of inner city Milwaukee.

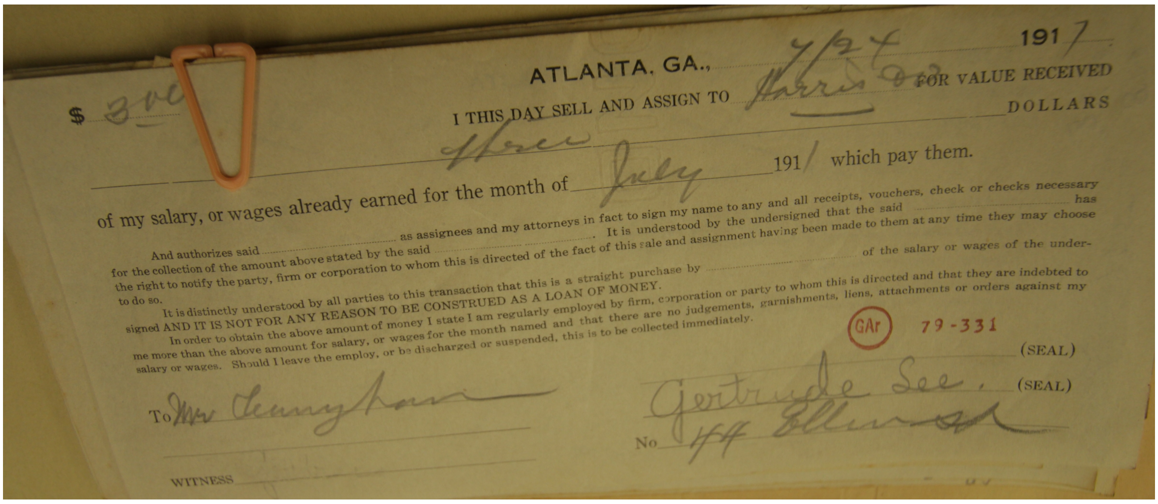
It is impossible to know if this racial segmentation of agencies perfectly matched a specialization of agencies regarding their dominant type of loan and collateral asked, but different empirical elements seem to point in that direction. Confirming the comments mentioned earlier by the Baltimore observer, in 1926, Frank Wood, Commissioner of Labor in the State of Louisiana stresses that in the city of New Orleans, "so far as the railroads are concerned, most of the victims of these sharks are negroes. However, I was in one of the places Saturday, I saw six persons go to one of the cage windows and fill out these salesslips and receive money. These men were white, they looked more like clerks than laborers. With one exception, they seemed to be minors, or at the most, not over 21 or 22 years old"[27]. So, while "it appears" that "these operators are doing everybody they can", there seems to be a strong racial and social segmentation between what the Baltimore observer called the "unsound" neighborhood agencies specializing in "payday" type loans which proceed by door-to-door collection and the more respectable "downtown concerns" were people make their payments directly in the office.

As we can see, in cases of unsecured lending, the money was not loaned on installment: the initial transaction, a money advance, was very often renewed period after period, with a partial repayment and a small fee attached to this renewal ; which also meant that one day the principal was supposed to be repaid in full. These loans were not made on tangible property but on the future capacity of the borrower to repay, and often required wage assignment contracts as a guarantee for the money borrowed. As companies grew in size and stability, lenders could, in cases of default, more easily collect interests and the principal directly on the worker's wages. The assignment note would be signed off when the initial loan was made, and in case of default[28] a letter would be sent to the employer, or the employee's superintendent, to garnish the workers earned wages. These cases were usually settled in very low courts and handled, up until the

[26] *op. cit.*

[27] *New Orleans Times-Picayune*, November 1926

[28] This was usually a last resort for lenders, who most of the time would try to keep account active, even if some payments were skipped.


ATLANTA, GA., 7/24 1917

$ 3.00 I THIS DAY SELL AND ASSIGN TO Harris FOR VALUE RECEIVED Three DOLLARS

of my salary, or wages already earned for the month of July 1917 which pay them.

And authorizes said as assignees and my attorneys in fact to sign my name to any and all receipts, vouchers, check or checks necessary for the collection of the amount above stated by the said. It is understood by the undersigned that the said has the right to notify the party, firm or corporation to whom this is directed of the fact of this sale and assignment having been made to them at any time they may choose to do so.

It is distinctly understood by all parties to this transaction that this is a straight purchase by of the salary or wages of the undersigned AND IT IS NOT FOR ANY REASON TO BE CONSTRUED AS A LOAN OF MONEY.

In order to obtain the above amount of money I state I am regularly employed by firm, corporation or party to whom this is directed and that they are indebted to me more than the above amount for salary, or wages for the month named and that there are no judgements, garnishments, liens, attachments or orders against my salary or wages. Should I leave the employ, or be discharged or suspended, this is to be collected immediately.

GAr 79-331

(SEAL)

Gertrude See. (SEAL)

To Mr Cunningham

No 44 Ellis St

WITNESS

Figure 2: Formal wage assignment contract, 1910 Georgia Archives, James Murphy Hill Business Papers.

1920s at least, by Justices of the Peace [29]. Wage assignment contracts can be found as early as 1884, but they grew in size and became more formal as large industrial organizations developed [Easterly, 2009]. Late 19th century records of Sloss Furnaces in Birmingham AL contain [30], to our knowledge, some of the older hand-written wage assignments notes, signed on loose paper slips. Similar, more formal contracts - typed, and bearing standardized legal clauses - were commonly found in the records of a JP court in Fulton County GA, in 1906, to garnish wages of local railroad employees [31]. These contracts, were not necessarily based upon well defined civil statutes, but it seems that the formal legal appearance of the contract was often sufficient, both for courts and borrowers, to press for prompt and complete payments. We have included one example in figure 2 As payments were collected, and the transaction renewed every payday, the computation of interest was not straightforward and these could appear as sales of wages.

We have emphasized the wide variety of loans made by unregulated lenders, first regarding the terms of the transactions and the type of borrowers they were servicing. The data shows that these were not a continuum of homogeneous interactions: all agencies seemed to differentiate between *two* types of loans, a hierarchy very often translated in moral or symbolic terms by contemporary observers. Beyond the apparent homogeneity of the "loan shark" figure therefore

[29] AHC, *MSS 809 Justice of The Peace Records*, JG Bloodworth 1905-1908

[30] *Sloss Furnaces Records*, Birgmingham Public Library Archives, Folder Wage Assignments.

[31] AHC, *MSS 809*, *op. cit.*

lied major differences in the actual business these lenders were carrying : the line separating secured from unsecured loans was to some extent already operating, and implied a distribution of clients along class and racial lines. We have identified this divide through an analysis of the practices of unregulated small loan companies, but until the late 1910s it had no legal existence, and neither did it separate between a legitimate and an illegitimate market: all unregulated forms of unaffected credit were similarly targeted as questionable forms of money-lending.

3 The legitimization of the *secured* small loan *business*, from 1920 to the mid 1930s

The critique against unregulated "loan shark" lenders grew as a larger, more organized fight in the second half of the 1910s, and it lasted until commercial banks took over the business in the late 1930s. These crusades aimed at legal reforms which were supposed to regulate small loan transactions and build a legitimate market of unaffected consumer lending [32]. The following section will analyze the enforcement of the Small Loan Laws[33], passed in the late 1910s, and the particular struggle against illegitimate "salary buyers", which led to a segmentation of the market in the 1920s.

3.1 Heterogeneous credit practices in face of legal uniformity : law enforcement and the market

The Uniform Small Loan Laws The impetus for legal reform came from a philanthropic institution, the Russell Sage Foundation (RSF), which, in 1905, set up a Department of Remedial Loans, as a solution to the "loan shark evil" [Robinson and Nugent, 1935]. This was seen as one of the most crucial problem faced by the working class and growing middle class in that period [34]. The activities of this institution have been well documented in recent research [Calder, 2009, Marron, 2009, Hyman, 2011, Carruthers et al., 2012], their main strategy consisted in staging

[32] "Anti loan shark crusades" have been waged since 1887, but the fight against unsecured lending became a standard feature of the campaigns after 1920. An exhaustive list of all the 305 local "anti loan shark crusades" carried before 1923 is available in RSF, Box 121, Folder "Loan shark campaigns before 1923". This list detailed the actors involved, the difficulties faced and the achievements for each crusade, and the account given here wishes to represent the most common traits of these campaigns.

[33] Recent, neo-institutionalist developments in the sociology of Law have emphasized the importance of law enforcement processes in institutional changes within organizational fields [Edelman et al., 2011]

[34] Arthur Ham, *The campaign against the loan shark*, Division of Remedial Loans, RSF 1912

local fights, usually at the city level, and try to raise public attention regarding immoral or illegal credit practices. The solution put forward by the Foundation was to authorize higher usury rates for loans of small amounts, which were defined as loans under 300$. This exception in commercial law would, according to its supporters, enable licensed lenders to offer legal loans to "poor borrowers" and working men, while still making a profit. This market solution was intended to drive illegal loan sharks out of business by establishing a "scientific" interest rate, and the choice of this usury "cap" occupied much of the regulation discussions. Anderson [2008] showed that reformers eventually settled on a monthly legal rate of 3.5%, or 42% yearly [35], which was seen as a "scientific" compromise between business interests and philanthropic considerations : it would allow credit companies to make some profits, despite the high credit risk of small loan borrowers, yet those would be limited, as compared to loans made by unregulated lenders. This was carried at the State level, as State legislatures were in charge of usury laws and rates: in 1917, the Foundation drafted a model bill, the Uniform Small Loan Law (USLL), which was to intended be passed in every State legislature and establish a well regulated small loan business country-wide [Michelman, 1970, Carruthers et al., 2012] [36]

Despite the highly symbolic aspect of the loan shark crusades, publically staged as a fight of "good" credit against "evil" sharks, the Foundation also paid close attention to the actual implementation of the Law. [37] Indeed, the aim was to actually regulate the business, which meant establishing functioning credit agencies, obtaining judgement of usury against illegal practices in courts, setting up business associations to uphold good business ethics, etc.: the passing of a law was only one step in the process [38]. The determinants of the passage of the USLL have been well analyzed by Carruthers et al. [2012], however, much still needed to be done after the Law had been passed to effectively implement the regulation, and these consequences of law enforcement have not been studied yet. Pedriana and Stryker [2004] offer an analysis of such law enforcement

[35] This was much higher than former State usury Laws, which varied from 6% to 10% annually interests between legislatures.

[36] In Illinois, this was done with the help and support of local "loan sharks", as mentioned earlier, and the 1917 model Bill was drafted by Frank Hubachek, Frank Mackey's leading attorney. See *Yearbook of American Association of Small Loan Brokers*, p. 37, June 1917.

[37] And this contrary, for instance, to the Temperance movements studied by Joseph Gusfield [1986] on the same period, which were mostly concerned with status recognition.

[38] The expression "passage and enforcement of the Law" is very commonly found in the Foundation's archives, an indicator of the general set of mind which regarded legal reform as a means for regulation, rather than an end in itself, such as in Gusfield's case. See for instance Letter Harbison to Rutherford, October 20 1922, RSF archives Rockerfeller Foundation.

processes in the case of federal anti-discrimination labor regulation : they show that in the case of Title VII, social movements played a central role in the implementation of loosely worded text, and hence participated actively in the definition of anti-discrimination policies in the workplace. The case at hand *a priori* seems to be completely alien to this framework : small loan laws were State laws, and not "broad" federal "statutory constructions" [Pedriana and Stryker, 2004] ; and they defined clear commercial clauses, in particular the legal rate of 42%, which simply implied calculations on the level of principal and the number of installments paid. However, this exclusive focus on business ethics and a fixed interest rate created a homogeneous legal framework for all loans under 300$, whereas as we have already seen, these loans were of very different forms regarding the amounts loaned, the reason for borrowing, the collateral asked and the borrowers' profiles. Because of "transparency" [39] reasons, social reformers always rejected the idea of a scaled legislation, which would have implied variable interest rates depending on the level of principal and the type of security available to the borrower. The underlying heterogeneity of small loans was contradictory with the abstract "uniform" legal and moral status, and this spurred major difficulties in the application of the law, specifically when dealing with smaller, unsecured forms of lending.

Later on, in the 1930s, regulated small loan lenders were commonly referred to as "regulated chattel lenders", and various data show that they were offering almost exclusively secured loans (see section 3.5), based on possessed property, and loans for amounts above $100 or $150, depending on the company. This evolution was not a direct consequence of the legal reforms - the small loan bills passed in various States did not impose such a restriction - and neither was it seen in the 1910s as a necessary feature of the regulated market under construction [40]. It was the enforcement of the USLL in the 1920s which produced a segmentation of small loans, between on the one hand smaller, unsecured transactions, based solely on the worker's future income capacity, and higher secured loans, based on the property owned by borrowers. And this regulation did not only result in a restriction as to the type of collateral necessary to make a moral market, it more generally defined a set of legitimate business practices for *small loan* companies, which in turn had a deep and lasting impact on the segmentation of borrowers. The following section will study the enforcement of the USLL, showing first the legitimacy struggles which produced a segmentation of market practices, and then the consequences this specialization had on the

[39] See Anderson [2008] for an analysis of this notion in the Foundation's discourse.

[40] We found no references to the legitimacy of collateral types in the pre-USLL debates among social reformers, neither in the general or professional press, nor in the conferences held by the NFRLA or the AASLB.

segmentation of borrowers.

3.2 The fight against "salary buyers", legitimate collateral and legitimate borrowers.

As an illustration of the consequences of this regulation, the second graph of Figure 1 plots the distribution of loans from a series of 12 agencies belonging to HFC in the State of Wisconsin for the year 1936 [41]. We have plotted the same graph as before, for the 6 Illinois agencies in 1917, in order show a major shift to the right of the distribution [42]. The average loan made in 1936 amounted to 184$ and lasted for 8.4 months. Additionally, an internal study carried by HFC on its Illinois offices in 1934 shows that the average loan was made for $190, and $138 for the lower income bracket[43]. Although the figures "for unlicensed lenders are based upon exceedingly sparse data", Robinson and Nugent [1935] also noted this evolution : according to their estimates, the average size of loans made by unregulated lenders has decreased from $40 to $25 whereas the average for licensed lenders has increased from $55 to $ 130 between 1915 and 1932 [44], so this shift doesn't seem to be specific to HFC. As the regulation came about in the 1910s and 1920s, regulated lenders specialized in relatively higher loans, along with longer repayment periods. Moreover, this average loan size doesn't seem change to change as we move into the 1930s : a statistical report made by the RSF on licensed small loan lenders in Illinois, shows that the average loan made stopped increasing on the period 1928-1941 [45], suggesting that the early consequences of regulation were at the origin of this evolution.

More than a change in average, there always seems to be a *lower bound* to the loans made by regulated credit agencies, and, even if its level varies across states and companies, it is always present as a sort of counterpart to the legal *upper bound* of $300. In an official publication from HFC to a local newspaper, explaining their business practices, the corporation states "We do not make loans of less than $100": according to them, "loans in sums of $100 to $300" seems to be "sufficient to employ all [their] capital", hence the decision to limit restrict their business to

[41] Data were collected from a survey of 10 554 Wisconsin accounts from HFC clients, RSF box 83, box HFC Analysis of accounts.

[42] These are stated in 1917 dollars. The cumulated inflation rate on the 1917-1936 period, calculated from data reported monthly by the *Bureau of Labor Statistics*, is 8.6%. Hence plotting the distribution in nominal terms doesn't affect much the relative distribution between the two dates.

[43] RSF, box 84, folder HFC Analysis of size loans

[44] Robinson and Nugent [1935], p. 175

[45] RSF, box 57 Folder Illinois Statistics.

the "highest class of loans" [46] . Louis Robinson, the consumer finance department head of the Foundation states, in 1929, that loans made "were formerly much smaller" before the passing of the USLL, which is verified in the case of HFC. In 1936, a report published by the Kansas Legislative Council emphasizes that "very few concerns, outside of those specifically in the loan shark class, make many loans under 50$ if they can avoid it". Some regulated lenders would occasionally provide this type of service, "primarily for accommodation purposes with a view in part to good will and advertising", but these practices had to remain marginal in order for the legitimate lenders not to be associated with the category of "loan sharks"[47]. As we can see, the 1920s "loan shark" was not, as it had been before, a general representation of unregulated money-lending, it was directly associated with one specific subset of practices which became the critique's center of attention. These were loans made of the first, "payday" type identified in the previous section: the "loan shark" became in the 1920s strongly attached to the figure of the "salary buyer" providing income advances to poor industrial workers [48], and which were seen as operating mostly in the South of the country. After the initial passage of the USLL in many States, a national set of aggressive crusades were carried against those "loan shark salary buyers", which used to "reap millions from poor of the South" [49].

This fight was primarily targeting the chain of agencies whose headquarters were based in Atlanta, Georgia, and which were operating up to 700 agencies across the Southwest and up to the Ohio River (see Figure 3) [50]. As Leon Henderson, director of the Department of Remedial Loan of the RSF in the 1920s, notices in 1926 : "Each time a city engages to prosecute a salary buyer it instantly becomes known that Atlanta is the headquarters for this brand of wage eating loan shark" [51]. This chain company, referred to as the "Big Four" [52], had headquarters located in downtown Atlanta, and they dominated the unsecured small loan business during the 1910s and 1920s. The campaigns against loan sharks in Atlanta had begun much earlier, the first one dated

[46] Louis N Robinson, "Drastic cut in interest takes small loan world by storm, *HFC Press*, January 1929

[47] *The Loan Shark Problem in Kansas*, Kansas Legislative Council, Columbia University Archives.

[48] Soederberg [2014] mentions the role of "salary lenders" in the development of what the authors calls the "poverty industry" ; yet her account of this economic practice is based on secondary data, and is highly simplistic. It points, however, to the long term impact salary buying left on the collective imagery, as compared to their size and circumscribed existence.

[49] "Sharks" exact millions from poor of south, *Topeka Daily* Capital, May 2 1926.

[50] These numbers are estimated according to various documents, both newspaper clippings and primary sources documenting the legal cases involving branches of the Atlanta companies, see Appendix B.1 for more details.

[51] *Salary Buying in Atlanta*, Leon Henderson, 1926, RSF box 16.

[52] Which referred to its four principal loan men, Rufus DeWitt King, George E. Roesenbuch, and two brothers, RS Ison and ID Ison

back to 1903 [53], and they went on continuously until 1934. However, these became the nation's center of attention after the passage of the Georgia USLL in 1920 , and remained so until the mid 1930s. In that perspective, the passage of the USLL in Georgia in 1920 was only one step in the process of local regulation : it gave legal support for small loans at the State level, but failed at properly regulating unsecured loans made in the form of "salary purchases" [54]. Hence, the law was primarily seen as a resource which could be mobilized at the local level, to increase public attention, obtain legal victories in lower courts, or get the support of local business leaders, and in particular local employers, to stop dealing with "salary buying loan sharks".

The "loan shark" figure, during the 1920s, was not, as it had been before, a general representation of the "usurer" in a industrial, urban society, but became closely attached nation-wide to unregulated salary buyers operating from Atlanta, Georgia. Grand Juries are put together in cities from Birmingham to Chicago to investigate the activities of the "Atlanta Big Four", radio announcements warn the local citizens of their deviant practices [55], and nation-wide business and labor leaders [56] recognize Atlanta as the new frontier of consumer credit regulation. The "Big Four" have aroused a lot of fascination over the years, both at the time and in recent research [57], but their actual business and organizational practices have not yet been properly documented. Here we will document the local fight against "salary buyers" in Georgia, even though one needs to keep in mind the wider implications of these campaigns for the legitimization of the personal loan business. The fight carried by social reformers in Atlanta set the tone for other similar endeavours country wide, and more generally this gives a very clear view of how the regulation was thought and put into action by local actors after the passage of the State Law.

[53] *Fulton County Grand Jury Report*, 1903, *op. cit.*

[54] The best testimony to the difficulty of law implementation is given by JLR Boyd, president of the Atlanta Legal Aid Society, and one of the most important actor in the regulation process. In August 1926, at the apex of the loan shark crusade and 6 years after the passage of the USLL, he asks the Georgia Superintendent of Banks to create a position and appoint him as "Superintendent of Small Loan Companies". He believes that this would give reformers a more efficient control over the business, and especially over salary buyers: this position would give Boyd an arbitrary right to close down companies and nullify loan contracts, if these were suspected of usury. In other terms, the reformers are trying to by-pass the lower court system, which didn't have the necessary common law support to rule against salary buyers in cases of debt settlement. In reaction to the Superintendent's refusal to do so, Boyd confesses : "my sense of 'frustration' increases", "it looks like I am the 'Moses' appointed to lead Atlanta out of the small loan wilderness, but without the sanction of the Law ». *Letter Boyd to Henderson August 21 1926*, RSF box 16.

[55] *Salary Buying in Atlanta*, *op. cit.*

[56] The Illinois Federation of Labor explicitly mention the "Atlanta Big Four" as responsible for the "salary buying" evil. See "Businessmen open fight against the loan sharks", *Kansas Labor Weekly*, February 10 1927.

[57] See citehyman2011,marron2009,soederberg2014

In this perspective it is possible to give reasons as to why Atlanta became the national capital of "salary buyers" and hence the "anti loan shark crusades" in the 1920s. The first agencies of the Big Four were set up in 1906 by a wealthy dry-food merchant and railroad businessman, Stephen A. Ryan, and were operated by two young managers, a former lawyer and a former employee of RG Dun Co. in Atlanta, RD King [58]: both contributed to the business by the knowledge of various aspect of credit and debt collection procedures. Atlanta had experienced a late industrial boom, and was completely transformed by the railroad industry: a massive and late urbanization along with wage earners settling in stable industry jobs, and this happened in a very segregated city. Kuhn [2005] precisely described industry workers' lives and experiences during this period in the city. The reformers successfully waged for the passage of the USLL in Georgia, but one particular section (XVI) of the bill was never accepted, and it precisely dealt with the nature of "wage sales" [59]. According to social reformers, a transaction involving a purchase of wages before these were earned, and a re-purchase of this money on payday by the worker had to be considered as *bona fide* loans [60], and hence subject to State usury regulations. They had to be repaid on installment, with a specific repayment schedule fixed by the legal annual interest rate of 42%. These transactions, according to the RSF[61], should be governed by the USLL and justified no specific treatment. On the contrary, according to salary buyers, these transactions had to be considered as regular commercial transactions[62], and hence no regulation could limit their conditions and prices [63]. Reformers argued that in the case of small loans, borrowers and lenders could not be considered as equal business partners : the terms of the transaction had to be regulated because of this structural inequality between a thrifty but desperate worker[64], in need of small amounts of money to make ends meet or face an emergency, and a creditor which had a monopoly on the trade of money in small sums. Hence, the national campaign against the

[58] *Atlanta City Directory*, 1910

[59] This was actually the case in most USLLs. The only State where salary buyers were only a minor issue was Illinois, for the reason stated above that agencies formerly carrying these loans accepted the regulation and specialized mostly in chattel loans.

[60] See *Report on Wage assignment laws*, Frank R. Hubachek, 1923. RSF Box 161 Folder "Wage Assignments and Garnishment Laws Relating to".

[61] *Ibid.*

[62] *Ibid.*

[63] In the US, the 14th amendment, through it "Due protect clause", protects the right of individual to contract from invasion by the Federal Government, and this argument is very often used to justify wage purchase as legitimate transactions. "Validity of section 16 of the Uniform small Loan Act : Does section 16 violates due process clause, in the sense that wages is a « chose » guaranteed by the 14th Amendment", RSF, Box 6 Folder "Section 16 Validity".

[64] "Conference with salary buyers", March 5th 1926. RSF Box 16, 1926 Loan Shark Campaign (Boyd).

salary buyers was not only a fight against a specific subterfuge to avoid the law. "Salary buyers" were at the center of what Gabriel Abend [2014] called the "public moral normativity", and this needs to be understood as an important cultural and economic phenomenon. Transactions carried by salary buyers were those of the "payday" plan, and they seem to poorly fit the model loan designed by reformers.

The "anti loan shark crusades" were carried both at the level of court action and in the public sphere : the reformist organizations set up were closely related to the Legal Aid Movement and local business ethics organizations, and the fight was first of all waged at the judicial level[65] Social reformers struggled to gather testimonies from borrowers who had been victims of sharks, but they also investigated the practices of local credit agencies, and through these inquiries tried to obtain rulings of usury in the lower courts, as well as lobby for more important decisions in higher courts. Many of these dramatic cases related to "purchases" of wages made the newspapers in the 1920s and early 1930s. Will Earle, an elderly workman employed by the Southern Railroad Company, made the cover story of the Atlanta Journal and Constitution on August 7 1928 [66]. He had been in the "clutches" of the Big Four between 1910 and 1928, and over the course of these years had paid more than $1500 interests on an accumulated $ 76 loan, "without missing a single month". In 1926, at the apex of the crusades, the story of "Uncle Burl Parrish", "an old time darkie"[67], is reproduced in papers country wide [68]. He borrowed $10 and paid back $2 a week for three years, for a total of $312, "without whittling down the principal a penny". Uncle Burl suddenly becomes, in the most dramatic gesture, the symbol of these "millions poor of South", "held financial slaves" by the loan sharks [69] This is no coincidence, the reformers had a very clear political strategy, they staged these cases as a series of "scandals" to arouse the readers' opinion, and by doing so targeted some credit practices, as both morally unacceptable and economically unsound [70]. It is interesting to see that cases involving African Americans are

[65]These general characteristics are objectified from the 305 campaigns listed in RSF, Box 121 Folder "Loan shark campaigns before 1923".

[66]*AJC* Archives, Atlanta Fulton Public Library

[67]"South begins war on salary buyers", *Providence Rhode Island Journal*, May 2 1926

[68]We found his story in newspaper published in Wilmington DL, Topeka KA, Peoria IL, Syracuse NY, Providence RI, Cincinnati OH and Saint Louis MI ; with similar terms and staged along what appear like standardized criticisms.

[69]"South begins war on salary buyers", *op. cit.*

[70]These crusades were so numerous that the Foundation would issue pre-established binders to local reformers to carry their own "anti loan shark" fight. These pamphlets include pre-written documents with "typical" loan shark stories, with blanks were left out and which were supposed to be filled with names, jobs and amounts of interest rates. They also include many strategic advice regarding the type of communication to follow in order to

more commonly made visible in this perspective, while at the same time race, as a structural dimension of credit relations, is rarely analyzed as such by social reformers. This illustrates well the paternalistic rhetoric often resorted to in "loan shark" narratives, where poor borrowers are presented as irrational, and the sharks most vulnerable victims precisely for this reason. Proper testimonies of African Americans documenting their vision, uses and justification of "loan shark" credit are as rare as their sporadic scandalous appearances are common. Uncle Burl's story is both scandalous and ridiculed, an ambiguity characteristic of the type of discourse found in "loan shark" narratives : he, "who looks as though he could have been a body guard to general Robert E. Lee, needed money because his "chillun was hungry"". The emphasis put on his physical appearance and poor language and grammatical skills seem to underline his social status, that of an "an ignorant negro". "You may wonder" why he "would continue to pay week after week", asked JLR Boyd, and, so it seems, the vulnerability caused by this general ignorance makes the necessity of reform even more stringent. These fragile wage earners, whose "money is being wrung out of [their] blood", are not necessarily illegitimate borrowers, but the type of small, pay day salary loans avaible to them makes their credit highly immoral[71].

Paradoxically, the links between loan sharks and social reformers are much less tenuous than what could be expected of the aforedescribed scandalization campaigns. This was already mentioned in the case of Illinois, but it is confirmed by the analysis of the Georgia campaigns.

3.3 Moral conflicts about the small loan market, what is "unnecessary borrowing"?

Studying the interactions of social reformers and unregulated lenders is interesting because it emphasizes irreconcilable visions of credit "worth", its goals and legitimacy.

Leaders of the salary buyers were interested in the legal reforms of the small loan business: they attended social and legal conferences organized by the RSF [72], requested pamphlets [73], and read the same jurisprudence. In 1926, salary buyers eventually tried to design a model of regulation that would set a legal framework for their transactions, and legitimize the type of money advances they were providing. They submitted this draft to representatives of the RSF,

insure maximal efficiency. See Folder "Campaigns on loan sharks, outlined steps". Binder sent to the *Winston Salem Journal.* RSF, box 120

[71] "South begins war on salary buyers", *op. cit.*

[72] *"Conference with salary buyers"*, meeting minutes, JLR Boyd, president of the Atlanta Legal Aid Society, 1926, RSF Box 16

[73] *Letter E.H. French to W.N. Finley*, chairman of NFRLA, June 20 1912, RSF, box 123, Folder "EH French"

and JLR Boyd, the president of the Atlanta Anti Loan Shark Legal Aid Society, which believed that "if they[salary buyers] were firmly convinced of the necessity of their business and the high rate shared, that [a] proposition be presented to the Foundation", keeping in mind that "the burden of proof was on them" [74]. Regulated lenders opened the meeting held in 1926 by trying to show the representatives of salary buyers, "by their balance sheets, that there was a better return on capital invested in a legitimate chattel loan business than in the risky salary buying business". The salary buyers replied that they have tried to switch to this regulated form of business, converting all their agencies in the city of Pittsburgh ; and this experience proved to be failure, as "only 3% of his customers were retained" and they have lost "$6000 in three months". RD King "emphasized this several times during our conversation as final and lasting proof of his contention that the salary buyers served a group that the chattel lender could not and would not undertake to reach", bu his argument is not picked up on by the reformers. As salary buyers point to the reality of the segmentation of loan practices and a corresponding hierarchy of small loan borrowers, social reformers dismiss the discussion as follows : "we discussed at some length the anti-social effect of salary buying, because I insisted that, no matter how it was disguised or explained, the cost of such loans was a severe drain of the family budget and, being a waste, was responsible for a serious reduction in standard of living." As we see, the argument is here a fairly arbitrary and abstract one, it resembled in particular the type of reasoning made against the regulation of the small loan business at the beginning of the century. The legitimacy of these economic practices is very clearly denied by social reformers : "we think that there are many useless and improvident loans caused by the fact that a man has opportunity to get a loan on his salary. We would rather substitute a credit union or a company loan fund or some other lending mechanism for necessary loans and will work for these" [75]. Here, it is the *business* legitimacy of the "payday plan" which is directly criticized ; if these practices are to be made legitimate, it would have to be outside of the market, or with non-market forms, such as cooperative or corporate credit.

The proposal made by salary buyers was that of a fee-based system, where each interest would be paid at the beginning of the transaction, as a discount on the loan, with a cost proportional to the amount of money loaned. It implied a varying interest rate, and the rate would be charged as a discount, not a as fixed annual rate. The reformers replied that "a sliding scale of charges to be made dependent upon the size of the loan, I explained that such an idea was out of the

[74] "Conference with salary buyers" *op. cit.*
[75] *Idem*

question for several reasons", providing a series of technical legal reasons for this, which do not tackle directly the structural hierarchies of practices. "By going over this [legal and technical] ground, I hoped to impress them with the difficulties which any legislation designed to regulate salary buying would encounter" [76].

The reformers' arbitrary stance against "salary lending" was actually quite widespread, as Robinson and Nugent [1935] explain : "The salary lender was generally in disrepute and to a large extent justly so. While the Foundation did not expressly try to prevent the use of salaries as security, salary lending had caused so much hardship in the past that it looked with equanimity on the limitations which the rate put on the use of this form of security". According to them, chattel mortgages are simply known to better securities than plain notes or wage assignments : "lenders of small sums tended to avoid the burden of visiting the home of the borrower to identify the furniture mortgaged and took the less burdensome, if also less secured, method of lending on salaries or plain notes". This is very much at odds with our previous analyses of wage assignment procedures, which required thorough inquiry into the work status of the borrower, and complicated organizational and legal proceedings in cases of default. And even though the authors also share the "conviction" that salary lending may lead to "thoughtless and unnecessary borrowing" [77], they still conclude in a puzzling way: "the case of the salary lender, [...] has probably never been adequately studied. The persistence of salary lending in unregulated states and the ability of salary buyers in regulated states to build up huge businesses in a few years show that the demand for small salary loans still exists."

These debates emphasize two different visions of the small loan business, offered by social reformers on the one hand and salary buyers on the other, and this echoes the comments of the Baltimore observer mentioned earlier. Salary buyers were putting forward a form of structural debt : the "payday plan" was offering what could be anachronistically defined as a small lines of credit, perpetually renewed at regular periods. The Illinois data of 1917 confirms that the smaller loan were in fact often "treasury" loans, loans made to consolidate existing debt, keep up with expenses or bills, or generally "tie until payday". Social reformers opposed this model, and were pushing for a more exceptional type of debt : loans made on installments were unique transactions, not renewable *a priori*, as the principal was supposed to be repaid gradually. These loans were supposed to be made when families were facing emergencies or an unforeseen event, which implicitly suggested that family budgets were not supposed to rely on small loans. The

[76] *Idem*

[77] Robinson and Nugent [1935] p. 174

separation between secured and unsecured lending closely matched this legitimacy divide in the 1920s : "salary purchases" represented the most dire form of structural indebtedness, and in that sense were unacceptable to the reformers.

The two reasons put forward by small loan reformers to push for the adoption of a purely secured form of personal loans are, one the one hand, the greater risk attached to unsecured lending, and on the other hand, that salary loans are more "exploitative" and put more strain of the borrowers, than chattel mortgages. We find no traces of such positions up until the 1920s, even among social reformers : the legitimacy of secured lending seemed to be a product of the regulation and the stigmatization of lower, unsecured, salary loans made to lower classes of the population. Indeed, the idea that chattel mortgages are safer than wage assignment titles is much more complex that what is put forward by the Foundation, and early commentators were very much aware of the riskiness of small chattel loans. In 1918, a New York credit men, in justifying the necessity of higher rate for small loans, mentioned the very high "Chattel mortgage risks", as, "in event of foreclosure, title of borrower to household furniture may be claimed by an installment furniture house, or by a relative of relatives", while it is also likely "that the landlord will obtain *a priori* lien for rent in arrears, or distrain upon and sell the furniture". "This frequently has occurred, notwithstanding warranty of ownership of freedom from liens, made in each application for loan and chattel mortgage" [78]. Indeed, the property of objects among the working class was far from a stabilized notion at the time, and it was hard for small loan lenders to make sure that they were no previous claims made on items pledged :[79] objects would sometimes be used to leverage multiple loans from multiple lenders, while it was also a very common practice to pawn an object or piece of furniture which belonged to a neighbor or a relative [80]. Regarding

[78] Charles S. Francis,"Why A Higher Rate of Charges than the bank rate of interest is necessary on small loan", *NFRLA Publication*, NY. RSF Folder Kentucky 1918.

[79] Companies such as the Chattel Mortgage Reporter Inc. were hired as intermediaries by the lenders to gather information on the property pledged by applicants, and the inquiring process seemed to be quite uncertain.(see Letter from Chattel Mortgage Reporter Inc. To Imperial Credit Co., August 15 1926, HFC, Folder John Watson Files). In 1903, a railroad employee of Atlanta, "who pays no more than a poll tax", was subject to 98 different claims on his goods, from both furniture dealers and money lenders, and consequently only few of his creditors were able to settle their claims (see Fulton County Grand Jury Report, 1903, *op. cit.*). For an analysis of similar processes in France, see Albert [2014], chapter 8.

[80] In October 1903, the house of two young 20-year old women is levied upon in Atlanta, and all the furniture is taken away. They had inherited those from their late mother and the father had signed chattel mortgages on them, from multiple lenders (*AJC* Archives, October 7 1903). They would eventually get the goods back, which was not the case of another African American housewife, whose story is reported by WB Lackey, working as a collector for the Dixie Loan Company. Mother of six, her husband had pledged all of her furniture in order to

the exploitative nature of "salary loans", it is interesting to notice that early critiques of money lenders rather thought the contrary. In 1903, the Grand Jury set up by the Fulton County District Court of Georgia, to study and report the "Evil growing out of present methods of the Money Sharks", found that "salary assignments" loans were usually made to more stable and well-off workers, while chattel mortgages were more commonly found among the "helpless and defenseless"[81].

As we see, the legitimacy of secured chattel loans over unsecured salary loans is strongly linked to the enforcement of the USLL in the 1920s. In our opinion, this element in inseparable from the change in the average amounts lent by regulated agencies : chattel mortgages were not more legitimate *per se*, but only to the extent that they were made to a more middle class fraction of the borrowers. This close tie between the type of collateral and the amount of the loan transpired through the various discourses of reformers and small loan lenders alike, which intertwine constantly the two dimensions : smaller loans, loans to the poor, salary loans are inherently exploitative and chattel loans are the only one able to enhance the consumers' welfare[82]. The struggle against "salary buyers" built a close tie between unsecured lending for the lower classes, and the dispossession of a wage earner's capacity to support himself and his family. The modern loan shark, by seizing the worker's income, prevented him or her from earning a "living wage", and it had to be eradicated. And at the same time, the regulation, by focusing mostly on higher, chattel loans, produced a segmentation of credit which excluded unsecured lending from the sphere legitimate practices, and the populations for which these forms of credit was the only option.

secure loans, after which he left the city, and, most of her goods having been levied upon, she was "left with nothing but the bare floor on which to sleep" (Forgery Laid to Money Lender AJC Archives, March 5 1904).

[81] See *Report of Fulton County Georgia Grand Jury, to the Judge of superior court of Fulton County*, 1903. Several newspaper stories further seem to exemplify this fact, such as the story of Mariah Curry reported in 1903. The young African American resident of Atlanta took out a $ 6.50 loan to the Walton Loan Company, secured by a mortgage on her "household goods". When she was late on her payments, the company wanted to foreclose the furniture, but "she prevented the bailiff from levying on her household goods". As a result, she was arrested, and had to leave her child and her infant without care at her place. It took two weeks for the woman to be released on bond, and when she returned home the infant had passed and her second child was in critical condition ("Negro Woman Bound Over", *AJC* Archives, May 26 1903).

[82] The justification most commonly found for such a separation targets the procedures of wage assignment, which are, at the time, seen as modern forms of "slavery", and echoed the luring presence of "unfree labor".

3.4 Identifying the effects of this regulation on the segmentation of credit

Indeed, these conflicting visions were not only ideological, and one of the main effect of the regulation campaigns was the restriction of the type of collateral accepted as security from regulated lenders. We have already emphasized the change in the average amount and the distribution of loans which came with the regulation, but other consequences may be identified.

The first major consequence was a legal one: even though salary buying had benefited from a poorly defined status in the USLL, the campaigns of social reformers started having an impact through court decisions during the 1920s. Justices of the Peace were replaced in many States (notably Georgia and Illinois) by Municipal courts [Willrich, 2003], whose judges both had a better knowledge of the law and were more sympathetic to "social" ills, and in particular usury. These progressive courts started ruling against "salary buying", making it more and more difficult for unregulated credit agencies to operate : in 1929, municipal courts in Georgia ruled against salary buyers in 75% of related cases [83], and one important case, ruled by the Georgia Supreme court in 1926, severely affected the legal support of the loan sharks' business [84].

Secondly, data shows that regulated lenders effectively specialized very early in the 1920s in secured chattel mortgages, and very few examples of unsecured lending made by licensed lenders can be found after the 1910s [85]. Following the mid-1920s confrontations with social reformers and the more stringent legal context, the head of the Atlanta salary buyers, RD King, made the decision to abandon the business of "salary buying" and purchase a license as a "personal finance company"[86], which started operating in 1929. He used his 25-year experience in the small loan business as a marketing tool to issue bonds and showcase the soundness of his endeavor in the matter : once the king the of the Sharks, RD King eventually became in his later life the State hero of consumer finance [87], emphasizing, in the case of money lending, the attachment of moral discourses with practices rather than individuals. The first annual report of his regulated company shows a great majority of *secured* loans, almost all of them tied to chattel titles on furniture, as these represent 93% of the companies' yearly assets [88]. Additionally,

[83] See *Letter Boyd to Henderson*, May 1929, RSF, Box 15

[84] "Usury Loan Judgement Upheld in higher court", *AJC* Archives, December 22 1927

[85] Only case of wage assignment was based on local necessities, Missouri , because they were facing the competition of salary buyers, but publicly they would always argue against it. HFC Archives, Folder NA 0102/036 : ledgers and applications.

[86] RSF, Box 81, Folder Fulton Industrial Society.

[87] "Rufus DeWitt King, Booster of Georgia", *AJC* Archives, April 24 1933

[88] *Security Bankers Finance Corporation, First Annual Report*, p7, "Assets and Liabilities", June 1928. RSF,

loans are made to "7310 families" for an average amount of $140.57, which shows a very abrupt upward shift compared to the earlier, 1926 practices: the new company is specializing from the beginning in loans of higher amounts, and the rhetoric is more directly targeting married couples, than individual workers. On a more general level, Robinson and Nugent [1935] notice the same tendency : an entire chapter of their landmark study of consumer credit in the 1930s is dedicated to the "Change in type of security". Even though data was, according to them, difficult to gather on all States, they still notice a major change in States where statistics are well reported. As an example, in Massachussetts in 1913, 78% of small loans were unsecured, whereas after the passage of the State Law, in 1926, these represent only 3% of loans made, the overwhelming majority being secured chattel loans. According to them, the end of the "loan shark era" and the "advent of regulation" [89] brought about this change.

It is very difficult to evaluate the impact of the regulation of the racial distribution of clients, both because company records, even for regulated lenders, are scarce, and because very few kept information on this issue. However, some examples can be given to convey an idea of the impact : the first regulated credit company created in Georgia after the early crusades against the loan sharks reported data on the racial profile of its clients, and whereas African Americans were central actors the small loan business in the beginning of the century, they only represent 90 of the 1250 borrowers of this licensed lender after two years of operation [90]. On the opposite, there are 807 white married men among these customers, and 260 white women, most of them are either divorced or widowers. Later in time, in 1931, the Annual Report of the Atlanta Thrift Society reflected on the consequences of the regulation of the small loan business: according to the reformers, "[t]he situation of the colored clients is truly deplorable. The Loan Shark is afraid of the white man now, but still is brutally domineering and threatening over the negro. Due to the work of this society, the white man now only pays usury voluntarily, because paymasters back up the law. Unfortunately, particularly in some railroad yards, « Straw Bosses » here and there, are caught « bawling out » negro workmen for alleged improvidence when the truth is, that negroes of Atlanta live very economically" [91]. This report shows that the regulation seemed

Box 123 Folder RD King

[89] Robinson and Nugent [1935], p170

[90] There are 18 women and 72 men among those borrowers. *Second Annual Report* of the "Atlanta Saving and Loan Company (the Anti Loan shark Bank)" 1912, RSF Box 95 folder "Atlanta Loan And Saving's company".

[91] *Annual Report of the Atlanta Thrift Society*, 1931. RSF, Box 15, Folder 1931 Loan Shark Campaign. We do not take for granted the above citation, in particular, we tend to believe that even though the role of employers in protecting white workers has played a role, the specialization of small loan lenders in chattel mortgages played an even greater one in this racial division. Moreover, this statement is interesting because it documents the public

successful in protecting white age earners from the "loan sharks", who were now distinctively seen as dealing with African American populations [92]

In addition to this, the regulation strongly impacted the geographical distribution of regulated and unregulated lenders. As we have seen, small loan lenders, and in particular the two largest providers [93] were very strongly implanted in the Midwest and the North East, but never really developed in the South or the West. To objectify these dynamics, we have used various data sources to map the distribution of lenders by States, and while it is hard to gather exhaustive data on this distribution, various evidence still show compelling results. The following maps on Figure 3 show the national distribution of salary lenders and licensed small loan lenders by States for the year 1926. We have chosen this particular date as a point of comparison for several reasons. First of all, this was the peak of both the "salary buying" business and the campaigns waged against it, and consequently it provides the most accurate data on agencies and their location (see appendices for a description of data collection). Among licensed lenders, we have chosen to only map companies which were members of the AASLB, the professional association of personal finance companies. These represent only a small fraction of the lenders [94], but still give an accurate representation of the relative spatial distribution of offices.

The maps of Figure 3 clearly show that regulated lenders were mostly doing business on a North East- Midwest corridor, whereas unregulated salary buyers were operating along a Southwest-Minnesota belt. This is not only interesting in relative terms, as the number of regulated small loan lenders operating (without restriction to the National Federation members) in States outside of the identified corridor is very small : in 1926, there were only 25 licensed lenders in Georgia, and 9 in the State of Florida, and none in Alabama.

In the end of the 1920s, the regulation had translated in a *market divide* the two types of loans previously identified among practices of early century loan sharks. On the one hand, regulated

perception, at the one of social reformers, after the regulation (*i.e.* the passage of the USLL and the enforcement period.

[92] This seems to be contradictory with Martha Olney [1998], as she emphasized than African American customers of installment buying companies were more often given secured contracts, than unsecured ones. However, these as quite different markets, and "wage assignments" are far from a "word", as we have seen, for lenders they were often seen as better securities than chattel goods. Moreover, most of her results concerning the South of the US were not significant, making it difficult to compare the results.

[93] HFC and Beneficial Loan Corporation, which was bought later by the former.

[94] Some comprehensive State data exist, and for these States the fraction of licensed small loan lenders which are members of the AASLB is constant. As we are only interested in the country wide relative distribution, this proxy seems to be a sufficient measure.

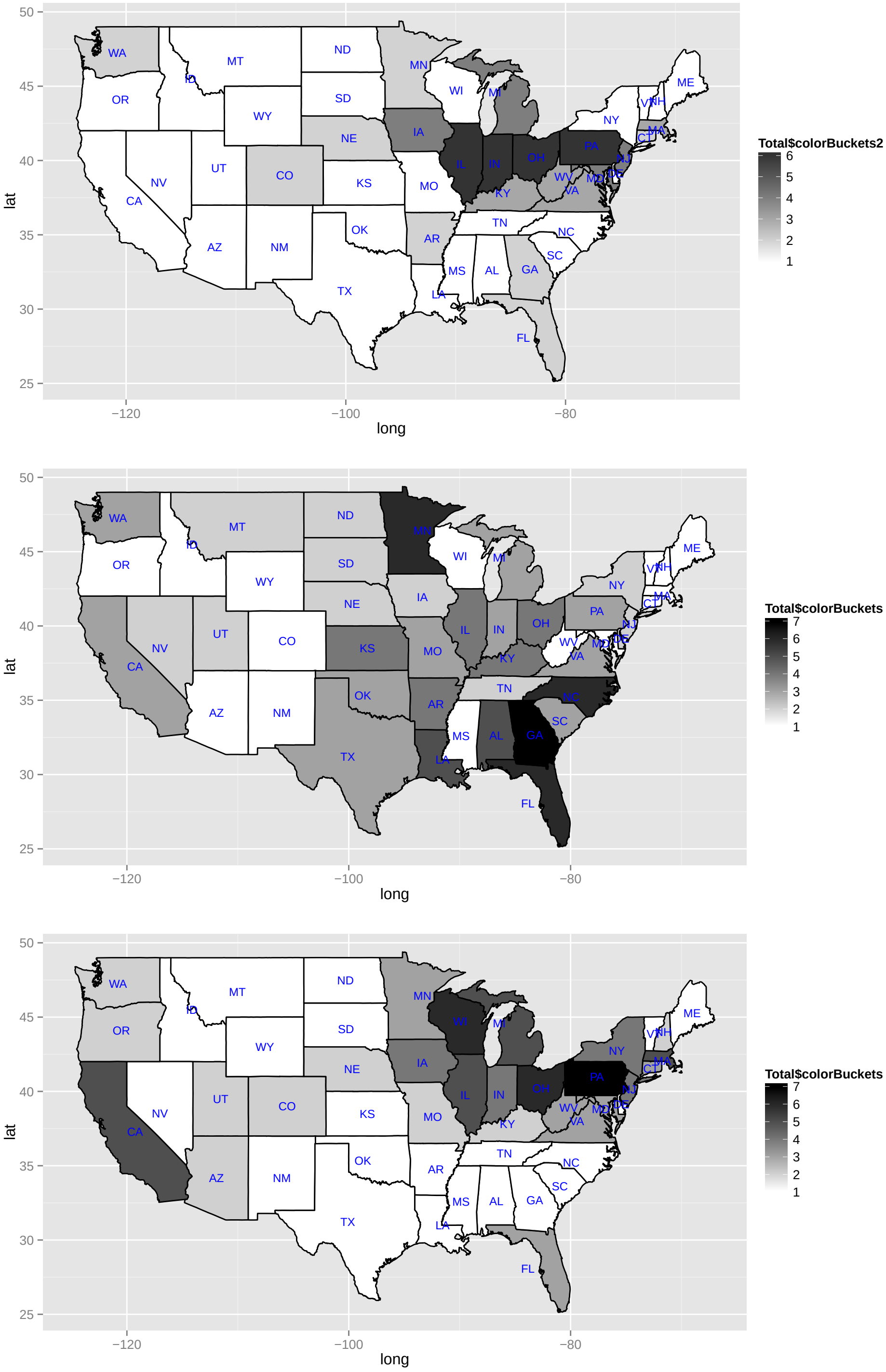


Figure 3: Maps of small loan lenders. *Top* : Licensed Lenders // *Middle* : Salary Buyers // *Bottom* : HFC

small loan lenders, which carried transactions for larger amounts of money and lending mostly on personal property, operating mostly in the North and the eastern part of the Midwest, and on the other hand, unregulated lenders specializing in unsecured loans, of lower amounts, trading all over the South and the west of the Midwest. This evolution was far from a natural consequence of the legal framework designed in the late 1910s, rather, the softness of the law regarding the actual organizational practices required from lenders created a conflict among lending organization to define what were sound business practices for personal loans. "Salary buying" never became a legitimate economic practice, neither as part of the larger USLL framework, nor was there such a thing as a separate "unsecured" regulated loan business, and in the 1930s the regulated small loan lending was very clearly associated with, both in discourses and organizational practices, secured loans of relatively high amounts.

4 The market for Personal Loans : unsecured lending as a legitimate *banking* activity

At the end of the 1920s, the regulation of credit had accomplished a few things. Laws were passed, professional associations were set up and the largest organized group of salary buyers syndicates had been dismantled. It is hard to evaluate whether this evolution increased or decreased the overall amount of lending, as data is only available for regulated small loan lenders in some States. Neither will we draw conclusions on the "democratization" of consumer credit [Prasad, 2012], or on the birth of "credit as welfare" for American consumers [Hyman, 2011, Trumbull, 2014]. Our moral sociology approach rather tried to show that "loan sharks" didn't represent illegal or illegitimate credit in general, but rather a specific type of -legally unclear- unsecured, payday to payday lending very much opposed the model type of personal loans supported by social reformers. The specialization of small loan lenders in secured loans did not come from an early and clear reform idea: we find no sign of this argument in the RSF's discussions. Quite on the contrary, they were trying to design legitimate loans available to all "wage earners" [95]. It rather seems that the focus on business ethics, transparency and a scientific approach to the calculation of an optimal rate, produced the separation between secured and unsecured loans, because the former seemed to fit more directly the spirit (and text) of the regulation. This separation was ingrained to such an extent that the expression "chattel lenders" became synonymous of all

[95] Arthur Ham, *Campaign against loan sharks*, *op. cit.*

regulated small loan lending in the early 1930s[96]. And, if in the early 1930s, small loan lenders were the most important actor of the small loan market, two decades later, most of the business has been taken over by commercial banks. Whereas in 1929, small loan lender handle 86% of loans made on the regulated market [97],an NBER study [98] of 1939 shows that Personal Loan Departments handled over 69 million dollars in loans at that point, compared to the 346 millions for small loan lenders. In 1946, PLD overpass the latter, and this trend continued into the 1950s : the ultimate symbol of this take-over being the decision of HFC to abandon the personal loan business in the late 1950s [99].

The following section will be devoted to the analysis of this take-over, with a special emphasis on organizational and moral dimensions of the business model adopted by commercial banks.Our goal here is to describe in details the "ideal" loan designed by commercial bankers and regulators between 1931 and the mid 1940s, showing that this model implied a much more direct selection of borrowers and loan types. We will show that, as a result of the 1929 crisis, one of the major goals for bankers was to re-establish their place as a legitimate financial intermediary, and this undertaking implied the construction of "personal loans" as a legitimate *banking* activity, distinguished as much as possible from *money-lending*, whether regulated or unregulated.

4.1 Consumer credit in disrepute after the 1930s crisis: "foul" bankers, and "legal usurers"

Commercial banks started expressing an interest in loans to individual consumers in the 1920s, but this was limited to a few local experiences (Hyman [2011], chapter 3). The major impulse came from the Federal Housing Administration, which decided to carry, in 1934, a "Modernization Credit Plan" [100], as part of a general endeavor to stimulate credit and the economy. This plan included both "Industrial and business loans, up to $50 000" and "Character Loans, up to $2000" - unsecured loans based solely on the borrower's "character" - and the federal government would guarantee the loan up to 20% of the principal [101]. Here we are chiefly interested in the latter "character loans" : those were not loans of unaffected money, there were supposed to be

[96]See Walter B. French, *Small Loans, an investment for banks*, p 10. *Small Loan Committee of the New Jersey Bankers Association*, 1936. RSF Box 98 folder Publicity 1936.

[97]Along with credit union and employers' plans

[98]SL Miller, "The Banking Invasion of the Consumer credit field. Credit Buying on increase", *The Annalist*, August 8 1940.

[99]Herman Kogan, *Lending is our business, the story of HFC*,p. 100, 1965. HSBC Archives

[100]RSF, Box 98 Folder FHA formula

[101] *The amended Modernization Credit Plan*, Title I of the NHA, amended by Congress on may 28 1935

made for "modernization purposes", and in particular "home improvements", such as purchasing household equipment or carrying small construction work within the home. Many banks started making "character loans" for purposes of modernization, and, even though this policy known as "Title I loans", stopped in 1937, they continued investing in this new field. Louis Hyman has studied the switch from *affected* Title I loans to *unaffected* "personal loans" : the FHA credit program had shown bankers they could secure a profit out of making unsecured lending to individual consumers, and they "naturally" started opening Personal Loan Departments to provide small loans, with, this time, no investment requirements. We would like to argue, however, that this "natural"switch from Title I to PLD was not only a consequence of the FHA program. Indeed, the way bankers discussed and designed their new consumer lending activity both directly relates to the earlier debates about the regulation of personal loans, and represents an important step in the legitimization of a market for unsecured lending.

Although bankers and professionals of the banking industry had strong disagreements, most of them directly opposed and criticized regulated small loan lenders, while on the contrary they very rarely spoke of "loan sharks". Interestingly, some bankers had perceived that small loan lenders, by focusing mostly on relatively high chattel mortgages, had somehow lost their original purpose. Myron Bone writes in the Industrial Banker of October 1942 that: "Licensees under the various small loan laws have not been serving the purpose for which they were created", "[i]f the RSF is honestly interested in improving "the social and living conditions in the US", it will direct its research to the preparation of treatises on the need for reducing the maximum loan of the licensed lender to $200 or even $150, with the further requirement that a definite percentage must be made below $50". And the uncompromising judgment, "The petty money lenders induced state legislatures to enact their bill on the grounds that they would drive the illegal loan sharks out of existence and would serve the needs of individuals needing small sums of money for short periods of time. They failed, utterly, in both instances. They make few of the smaller loans and, in fact, some of the larger chains try to avoid all loans under $100" [102]. According to the author, banks should be the legitimate provider of consumer loans to relatively better off consumers, while small loan lenders, in order to keep up with their original social purpose, should try to redirect their activity towards very small loan amounts.

In the 1930s, credit, in very general terms, had suffered a severe blow from the financial crisis. Regulated lenders made every effort possible to emphasize that, contrary to commercial banks,

[102]Myron Bone,"The pattern for new law appears", Industrial Banker, n5 VIII, October 1st 1942

they had roamed through the crisis without much damage [103]. Their specialization on chattel loans might account at least partly for such a good track record, as they were less dependent on their borrowers' income in cases of default. Thus, the effect of the crisis on the small loan business seem to have been more symbolic than material at first. The relatively high USLL rate of 42% annual started to be strongly criticized as a form of "legal usury", and the expression "42% loan sharks" - referring to the annual USLL rate of 42% - quickly spread in the public debate [104] . The oxymoron "legal usury", would have been nonsensical in the 1910s and 1920s, and its appearance shows a strong evolution from the earlier period : it seems that the legitimacy regulated lenders had slowly struggled to build up around legal regulation, was directly challenged in the early 1930s. The fight against the "42 percenters" was, among others, lead by congressman Fiorello LaGuardia, in line with his more general crusades against financiers [105], these "foul birds of prey". Their main goal was to reduce the legal small loan rate below its historic 42% cap. In a piece entitled "Usury : the curse of humanity" [106], the soon-to-be mayor of NYC, deplored that since 1914 "money lenders and usurers have had pretty much their own way". According to him, "regarding the history of usury in this country we must admit that a great deal of progress has been made, and what we are complaining of today are the methods and the devices which are the result of the *anti-usury crusades*". The congressman then spends some time scorning "legalized usury", as, according to him, these loans bear "no risk" for the lenders : "the loan shark covers himself either by actual possession of chattels as security or by actual bill of sale of household effects, even the baby's cradle, or by complete assignment of wages. The loan shark takes absolutely no chance. He practically gets his money before he gives it". We see that here the "loan sharks" encompass both earlier salary buyers and regulated chattel lenders, proving the fluidity of the expression. "Since the depression of 1929, the curse has been accentuated", and "legalized financial institutions, with their assumed, hypocritical air of rendering public service and engaging in philanthropy", proceed to "installment trickery", this "systematized plan of oppression". The author specifically targets the largest provider of small loans, the Household Finance Corporation, and the legislatures which have been deluded "by the glib sophistries of

[103] A report of the Chicago Journal of Commerce on HFC notes that "continued progress has been recorded by the company over the period of several years, uninterrupted by the incidence of depression". Among reasons given by the analysis stand: "the conservation expansion policy, economical operation, reasonable rates and a constant factor of security for loans made". "HFC", *Chicago Journal of Commerce*, December 12 1931.

[104] See, for instance, "Legalized loan sharks are raising huge slush funds according to recent reports" *Atlanta News*, October 14 1932.

[105] See Zinn [2010] chap 15.

[106] *Brass Tacks*, October 1932.

this hand of plunderers", then calling for the same legislatures to "drive this loan-mongering crew, not back to the Curb, but to the gutter where they belong". This account goes contrary to some narratives which tend to see moral progress in the market, or legitimization processes, as linear ones, with no hick-ups or reorientation [Hyman, 2011, Trumbull, 2014, Zelizer, 1983, Calder, 2009][107]. As we have seen, the struggle against loan sharks and the consequential design of the personal loan business is far from a linear one. In particular, the various crusades led by the RSF against loan sharks up until the 1920s have not democratized or legitimized consumer lending : if one takes a picture of the moral debates in the early 1930s, the various regulations seem to have rather generated more doubt and reluctance about the possible benefits or small consumer loans.

In the early 1930s, a series of State laws were, which either reduced the legal small loan rate (Robinson and Nugent [1935], p 118) to very low levels, or canceled usury exemptions altogether. And, parallel to this, we observe a strong decline in the number of licensed lenders in the 1930s. Whereas it is difficult to ascertain the direct causes of these drops - moral backfire, slow take-over by banks, or decrease in legal rates - small loan lending was clearly declining in the 1930s [108]. While it difficult to assess the overall impact of the crisis and these symbolic attacks on the small loan business, this growing distrust of regulated lenders fuelled the interest of commercial banks in investigating loans made to individual consumers.

4.2 Commercial banks and the sense of "community", status entry in a discredited business

As we have seen, the consumer lending side of the FHA program spurred the interest commercial bankers started having in personal loans in the early 1930s. However, the aftermath of the 1929 crisis also played a role in the way bankers talked about, and conceived their role in the financial system, which, according to them, had to be renewed. The vice-president of a St Louis national

[107]Governor FD Roosevelt seemed to have had quite similar views on regulated small loans, see "How Personal Finance Helped the Government meet a National Emergency", *AASLB Publication* January 1935, RSF Box 88 ; see also [Baradaran, 2015], p. 45.

[108]Whereas the amount of loans outstanding had been steadily increasing in Georgia since 1900, reaching 5.9 million dollars, these number sharply decrease to a level of 1 million in 1936 and $350 000 in 1940. In Georgia, a law had been passed in 1935 to decrease the legal to 1.5%, but as we see, the decrease in activity was already on the way. In Illinois, where no such legal drawback happen, the amount of loans outstanding start slowly decreasing in 1930, from a maximum level of 40 million dollars, to a level of 33.5 millions in 1940. RSF, Box 57 Folder Georgia Summaries Volume of loans outstanding and size of average loan. Folder Illinois, *idem*

bank clearly expresses this new vision in the journal of the American Banker Association : "[i]n its broad aspect, the function of a bank is to help the people of the community solve their financial problems. The bank, looked upon as a community leader, is expected to promote those things which will help make the community a better place to live" (1929, 8157). Banks are, at the time, highly criticized for being, at least partly, responsible for the 1929 crisis [109] and one of the way they wished to react was to extend their business to personal loans made to individuals. In his address speech, the president of the Financial Advertisers Association, a collective put together to work specifically on the public image of the banking system and institutions, clearly stated that "extending personal loans" will help "recapture the bank's in the nation's financial structure". Although there is a large consensus among bankers that they will not make a great profit out of this activity [110], this is not only a purely symbolic or marketing issue. Many bank leaders expressed they intention to provide a specific type of service as part of a extension of banking operations, those are "loans for the little fellow", loans "fair to the working man", as an editor of the *Burroughs Clearing House* puts it [111]. The president of a large Nebraska bank asks the question in a address given at the Mid West Conference of the ABA in 1936 : "[i]f 85 per cent of the people in America do not have credit established or available at commercial banks, are we not, as bankers, overlooking a very real service opportunity, as well as a source of revenue that is constant, legitimate, and absolutely fair to the borrower, as well as being helpful to him ?"[112]. The idea that banks could make a profit and provide an helpful service to consumers is not strictly a post-crisis reaction, but it became generally accepted as a legitimate endeavor during the decade following the crisis.

Bankers argue that, being more competitive financial institutions than small loan lenders, they could provide the same type of service for lower interest rates. As a New Jersey bankers puts in 1928, "we are now confident that such loans may be made profitably at a rate of interest of 6%, provided they are treated in a business-like manner and thoroughly investigated" [113]. This 6% rate became in the late 1930s and early 1940s the industry standard (see section 4.3),

[109] F. Laguardia *op. cit.*, and see more generally Baradaran [2015], chapter 2 and 3.

[110] "Consumer Credit Phantasia", an address given by Roger Steffan - one of the leading banker at the origin of the FHA lending program [Hyman, 2011] - at the convention of the Georgia Banker Association, is a good illustration of this idea : according to him, it was well known that profits will be small, volume would have to be large, and the Depression will hinder, at first, the development of the industry. RSF, Box 98 Folder "Abuses"

[111] "Loans for the little fellow", Fred Barton, *Burroughs Clearing House* June 1st 1927

[112] "Mid Western Banks Discover big profits in Small Loans", American Banker, March 21 1935.

[113] "Personal Loan Departments in Banks : How they have solved the problem left by the discredited loan sharks". President of the Hudson County National Bank,*Journal of Industry*, 1928.

and non-deposit institutions, such as regulated lenders, could not compete with that price, even if some of them where big enough to be incorporated [114].

This take-over was also seen as a way for bankers to build a legitimate business of personal loans, an endeavour at which all preceding attempts, and in particular regulated small loan lending, had failed in the long run. Gunnar Trumbull [2014], in a recent book, argued that banks benefited from the legitimacy struggles carried by social reformers, and in particular the RSF ; that they entered the game in the 1930s, using their economic advantages to build a monopoly on the business, and push former small loan lenders out of the picture. According to us, this vision is quite misleading: as we have seen, the business of small loans was far from being stably legitimized in the 1930s, and banks much rather used their status to bring respectability back to a discredited business. Consumers "trust bankers, and, where the choices was given them to do their consumer credit business with banks or other special licensed lenders, many chose banks", according to Walter B. French, president of the Consumer Loans Department of the ABA [115]. This is also acknowledged by leaders of the small loan industry: commenting on the expansion of Personal Loan Departments of commercial banks in 1939, the president of the Household Finance Corporation, argued that : "the entrance of commercial banks into this type of lending has benefited the small loan business. The banks have added their prestige to a business which has labored under the prejudice against money lenders – a stubborn hold over from the not far distant days when the wage earner could seldom get an emergency loan except from an illegal lender. Prestige and good will are valuable assents in any business. To the extent that personal loan departments of banks have helped to break down prejudices, therefore, they have been helpful to the small loan companies" [116]. Little did he apparently predict this take-over would end up forcing his company to withdraw for the business entirely in the 1950s. In fact, involvement of commercial banks in the personal loan business had been a goal of social reformers from the early stages of their actions. Arthur Ham, the first head of the Department of Remedial Loans at the RSF, always kept that idea in mind, and the small loan framework had been, at least in the beginning, a second best option seeing that banks were not ready to enter this field [117]

[114] Certificate of Incorporation, Household Finance Corporation, October 9 1928, RSF Box 82 Folder "Policy and financial structure 1928"

[115] Walter B. French, Confidential note, 1942. RSF, box 100 Folder ABA.

[116] Burr Blackburn, "Does 6% Mean 6 %", *Banking*, journal of the ABA, March 1st 1939.

[117] "At the time of the Foundation's first studies of loan shark operations, it was realized that one of the reasons for the anti social lending practices was the unwillingness of banks to make consumer loans in small sums on undesirable collateral". "In the face of this unwillingness,[...] the Department had to rely upon the development

It seems quite contradictory that, on the one hand, banks thought they could improve their degraded image by investing the field of personal loans, and at the same time that they could use their status as a way to establish a legitimate form of lending to the individual consumer. However, there is difference between status and image, and even though credit was generally frowned upon after the financial débâcle of 1929, banks still carried an elevated status, at least compared to small loan, money lenders. The idea of servicing the "community", "the little people"[118], was precisely at the intersection of a search for a higher status and a struggle to build a legitimate form of business.

In summary, in the 1930s, many commercial bankers believed they were were supposed to become the legitimate providers of personal loans to consumers. For business reasons : as deposit institutions, they could offer better terms then small loan lenders, and an discount rate of 6% soon emerged as the industry standard. But also for symbolic reasons, as banks believed they had a responsibility in providing for the financial needs of their "community", which so far had been poorly endorsed by regulated small loan lenders. As Walter French, head of Consumer Credit at the ABA, put it : "[w]hen the investment and loan situation became critical for banks in the early thirties, consumer lending was recognised formally by a great many banks, and what had been, up to that time, an unprofitable business, became not only a profitable venture but a fine public relations activity".

4.3 Distinct commercial practices, narratives and clients : are bankers money-lenders ?

BE Henderson, president of HFC, stated in 1939 that "[p]ersonal loans departments compete with small loan companies, to be sure, but the competition has been limited. The bank is and must be highly selective in its choice of costumers and has invaded only the borders of the small loan company's field of service" [119]. PLDs and regulated small loan lenders apparently operated over separate "spheres of commerce" [Anteby, 2010], and this was seen as both a fact and a necessity. Indeed, on the one hand, their products were not tailored to the same type of customers, and on the other, personal Loans were supposed to be defined (both technically and symbolically) as a legitimate **banking** activity, and not a money lending business. John B.

of specialized institutions to supply the demand for small personal loan [...]. Mr Ham continued to believe, however, that there would be a day when banks would enter the personal loan field". Memorandum, Rolf Nugent to Mr. Harrison, April 27 1943. RSF Box 99 Folder "Rate controversy discussion RSF".

[118] *op. cit.*

[119] "Does 6% Mean 6%" *op. cit.*

Paddi's address of in front of Michigan bankers came as an illustration of this endeavor. In 1937, he underlined the very good progress of the Personal Loans business, which now operated over a "dignified plane" thanks to the involvement of commercial banks : "[t]he term "loan shark" was coined to designate a group of individuals not accepted among bankers, who were supposed to prey, and often did, on individuals who found themselves in financial need outside what was then considered the realm of legitimate banking"[120]. This vision emphasized a new interpretation of the "loan shark" label : banks here appear to be the "moral entrepreneurs"[Becker, 2008], they decided on the legitimacy of personal loans ; the institutional reference point was no longer the regulated small loan business, but the banking industry. Banks had extended their commercial jurisdiction to individual consumers, and personal loans had been included, defined as a banking practice, not simply a money-lending activity.

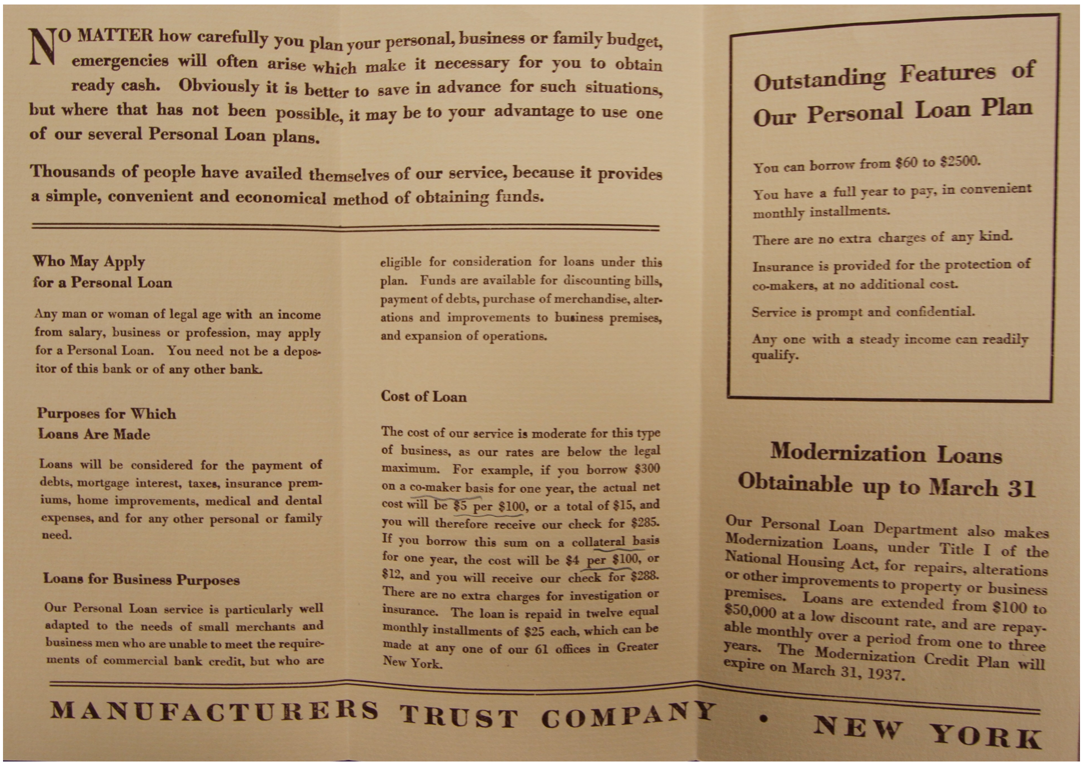
Much of the banks' organizational choices can be analyzed through this double prism, and the necessary definition of different "practices of trade"[Anteby, 2010], and bankers used three channels to separate their activities from loan sharks and regulated small loan lenders alike. First of all, banks pushed for an adoption of a "discount" method to report the cost of loans, and this was seen as a way to avoid the use of annual interest rates. Secondly, "client differentiation" [Abbott, 2014] was also used to insure the legitimacy of the business, and the "worth" of unaffected unsecured consumer lending. Finally, they developed a new model of "unsecured" lending, based not only on future wages, but on a co-maker plan which required the loan to be endorsed by two additional wage earners. As an illustration, Figure 4 displays an advertising flier for a New York based national bank, which bears the different features presented hereafter.

Discount factor over interest rates: The most debated question during the take-over of commercial banks, concerned the method used to report costs and charges. Despite the opposition among bankers on this issue in the mid 1930s, most of them would adopt the discount method in the 1940s, especially after the endorsement and the strong efforts from the ABA in favor of this practice [121].

Historically, commercial banks used a discount rate to report costs of their commercial credit, which meant that these costs would be charged as a initial withdrawal on the loan. If a loan contract is signed for a principal of $100 at a 6% discount, the borrower is given $94 initially, and he or she simply has to pay back this sum in equal installments. Small Loan Lenders, as we

[120] John B Paddi, *Address delivered at the Convention of Michigan Bankers Association at Mackinac Island*, June 1st 1936.RSF, Box 98 Folder Publicity 1936

[121] ABA, "Digest of Model Law", September 1942. RSF, Box 100 Folder ABA.



NO MATTER how carefully you plan your personal, business or family budget, emergencies will often arise which make it necessary for you to obtain ready cash. Obviously it is better to save in advance for such situations, but where that has not been possible, it may be to your advantage to use one of our several Personal Loan plans.

Thousands of people have availed themselves of our service, because it provides a simple, convenient and economical method of obtaining funds.

Who May Apply for a Personal Loan

Any man or woman of legal age with an income from salary, business or profession, may apply for a Personal Loan. You need not be a depositor of this bank or of any other bank.

Purposes for Which Loans Are Made

Loans will be considered for the payment of debts, mortgage interest, taxes, insurance premiums, home improvements, medical and dental expenses, and for any other personal or family need.

Loans for Business Purposes

Our Personal Loan service is particularly well adapted to the needs of small merchants and business men who are unable to meet the requirements of commercial bank credit, but who are eligible for consideration for loans under this plan. Funds are available for discounting bills, payment of debts, purchase of merchandise, alterations and improvements to business premises, and expansion of operations.

Cost of Loan

The cost of our service is moderate for this type of business, as our rates are below the legal maximum. For example, if you borrow $300 on a co-maker basis for one year, the actual net cost will be $5 per $100, or a total of $15, and you will therefore receive our check for $285. If you borrow this sum on a collateral basis for one year, the cost will be $4 per $100, or $12, and you will receive our check for $288. There are no extra charges for investigation or insurance. The loan is repaid in twelve equal monthly installments of $25 each, which can be made at any one of our 61 offices in Greater New York.

Outstanding Features of Our Personal Loan Plan

You can borrow from $60 to $2500.

You have a full year to pay, in convenient monthly installments.

There are no extra charges of any kind.

Insurance is provided for the protection of co-makers, at no additional cost.

Service is prompt and confidential.

Any one with a steady income can readily qualify.

Modernization Loans Obtainable up to March 31

Our Personal Loan Department also makes Modernization Loans, under Title I of the National Housing Act, for repairs, alterations or other improvements to property or business premises. Loans are extended from $100 to $50,000 at a low discount rate, and are repayable monthly over a period from one to three years. The Modernization Credit Plan will expire on March 31, 1937.

MANUFACTURERS TRUST COMPANY • NEW YORK

Figure 4: Manufacturers Trust Company, flyer advertising for personal loans, 1936. RSF Box 105 Folder "Individual Banks, Manufacturers Trust Company"

have seen, were relying on a fixed annual interest rates on the remaining balance : the cost of the loan was dependent on the history of payments, but the interest rate would remain the same as long as some payment was due. In the case of a discount factor, as the cost is paid at the initial period, calculating an equivalent annual interest rate depends on the length of the loan : the shorter the maturity, the higher the rate. If a loan is repaid after one month, the initial 6% discount would actually be a 6% monthly interest rate, hence a much higher annual rate ; if on the contrary the loan lasted for several years, the interest rate would be much lower. Loans were usually made for a year, and in that case a 6% discount is equivalent to a 11.7% annual interest rate [122]. Banks justified the use of the discount factor to show the proximity of personal loans to more traditional commercial banking practices. John Paddi argued that Personal loans were not very different from business loans, and should hence adopt a similar method to report cost, "[t]here is no great difference in the credit which may be extended to a salaried man or to a business man, as both types of loans are based on the ability to repay a certain amount at a specific time. One relies on the future of his business, and the other on his future salary". More generally, interest rates still seemed to point to usury and money lending, and framing the costs differently was a way to further assert this symbolic separation from small loan lenders - see Figure 4, "Cost of Loan".

Also, this was a way to artificially lower the reported percentage, as compared to reporting annual interest rates, and bankers saw this as a way to further diminish the potential stigma on personal loans [123]. In particular, as we said earlier, general usury caps in the United States usually revolved around 8% in most States, and using a 6% discount factor was a way to remain under this legal and symbolic threshold, even if these "percentages" didn't represent the same quantitative measure. Cognitively, it was argued that this would increase the PLD status and chances to "get business" [124], but such a percentage was also a way to justify that these new lending practices required no regulation from the federal, or State authorities. A note from the Federal Reserve Board on the "Statutory Authorization for PLD of National Banks" states that, in 1937, "the legal status of these transactions is exceedingly hazy","most banks have sought to avoid interest rate restrictions by the device of discounting interest at the maximum legal rate

[122] "Pro and con on the 6% discount for personal loans", *American Banker*, March 12 1940. Kenton Cravens, Chairman of the ABA Consumer credit council, "Consumer credit prospects", *Banking*, 1943

[123] Mr. Stewart, President of Miami Deposit Bank, in Yellow Spring OH: "6% is not 11.7%", *Banking*, April 1st 1941

[124] "6% is not 11.7%", *op. cit.*

on the face value of the note" [125], which shows the flexible meaning of the word "rate". This led to an intense fight between bankers professional associations, legislatures and small loan lenders, but in 1943 commercial banks succeeded in securing their right to report discount factors on personal loans [126]. It is interesting to recall that similar plans to report costs according to a discount rate at face value, which would vary according to the length of the loan, were part of the "salary buyers'" proposal to legally regulate their business in the 1920s: contrary to banks, they didn't seem to have the necessary legitimacy to impose a non interest-based report method.

Client differentiation and status hierarchy: Andrew Abbott [2014], in his *System of Professions*, argues that within a professional field, status hierarchy and power distribution often proceeds, at least partly, through client differentiation. The specialization of small loan lenders on higher classes of borrowers was, as we have seen, to a large extent an unforeseen consequence of the regulation process which wouldn't recognize as legitimate a particular spectrum of practices, and in particular smaller, unsecured lending. The social justice purpose at the origin of the small loan reforms probably accounts best for the invisibility of such a segmentation to the actors of the process : arguing that secure chattel lending was more legitimate than unsecured salary loans because it was targeting higher social classes of the population was unacceptable to the reformers. This contradiction was much less of a constraint for banks, whose Personal Loans Departments very early recognized that they would offer their services only the higher classes of borrowers. One commentator goes as far as taking pride in the fact that clients of PLDs are "the cream of the community"[127]. Right after this statement, the banker underlined the disappointment of his board of directors in his PLD's early result, not regarding profit or default rates, as those were on the contrary encouraging, but regarding the fact that "unsecured personal loans [...] have been made to people with lower incomes than they had hoped for. They had anticipated reaching corporation executives, department heads and high grade professional people". The average loan made by the bank during the preceding year has been around $150, hence a relatively high level with respect to earlier small loan standards. However, the bank's board is looking to increase this average to $250 by the following year, and "they are still hopeful, and the next effort will be to prepare advertising that *will* reach that class of people".

Although additional quantitative research will be needed to estimate the long term effect of these early institutional choices, three objective trends can be mentioned at this point. First

[125] RSF Box 98, Folder National Banks

[126] "Memorandum, RN Nugent to Mr Harrison", *op. cit.*

[127] "Income advances" A better name for loans, *The Bankers Monthly*, May 1st 1936.

of all, the average amount loaned by Personal Loan Departments of banks was much higher than what had been done by regulated small loan lenders : it seems to oscillate around $300 [128], although we were not able to gather enough data to represent the entire distribution of loans. Secondly, the socio-occupational characteristics of personal loan borrowers differed from the earlier profiles of small loan borrowers. Louis Hyman has studied the employment situation of customers of the PLD of two large New York banks in 1937. According to him, "[f]rom the available information, it is clear that the majority of borrowers were the new middle-class of white-collar employees (salesmen, government employees, clerical workers, and professionals) and businessmen. Personal loan departments, although they did not exclude workers, were, unlike small loan companies or remedial lenders, primarily aimed at middle-income more working-class-oriented small loan companies." [129]. Respectively 64 and 74 % of the banks' customers were salaried clerical employees, salesmen, or government professionals, while only 12 and 14% of the customers were skilled workers or foremen. And even if Hyman mentions that "the racial and gender limits of that new middle class limited access to the personal loans as well", a study of the precise impact of these institutional choices on the intersectional profile of PLD borrowers remains to be done. Finally, we have included as an Appendix data on the number of PLDs and the total amount of loan made by State for the year 1936, which was available only for a limited number of States. There are very large State differences in the development of PLDs, and this unequal distribution seems to match the early divisions identified in Figure 3 [130], with PLDs developing mostly in the North East and the Midwest.

However, status distinction and client selection need to be understood within the broader effort to define Personal Loans as a legitimate banking practice. In particular, bankers discussed

[128]This stark increase was visible nation-wide, despite important geographic differences. In New York, a report shows that the average loan made by PLDs was $417, and that most loans under $300 are "unprofitable" to banks. In San Francisco, Bank of America reports an average of $300, and in Nebraska this figure is lower and amounted to $ 164. Finally, in Illinois, loans under $500 represented only "2 to 3%" of the overall amount of personal loans made by commercial banks. See respectively,"The Todd Company presents a personal loan system for banks", 1937. RSF, Box 98 / Folder operating techniques ; "These forms aid in handling Small loan at a profit", *Bankers Service Bulletin*, March 1st 1931 ; EN Van Horne, "PLD in Banks" *The Midwestern Banker*, June 1st 1936 ; *Chicago Banker*, March 14 1936. These figures are stated in real terms, but converting them in 1917 dollar would only imply a an 8.6% decrease from a 1940 value.

[129][Hyman, 2011], p 95.

[130]As an example, in 1936 there were 1 PLD in Alabama, 3 in Florida 7 in Louisiana, which respectively made out, for the year 1936, $14 000, $176 000 and $621 000 in loans. As a comparison for the same year, there were 31 PLDs in Indiana, 36 in Massachusetts and 152 in New Jersey, which handled a yearly amount of respectively $4 109 000, $13 983 000 and

extensively the way these new departments would be integrated in their already existing institutions, and many of them argued that an important step would be to make no distinction between their lending and saving practices. "As a matter of delicacy, no signs such as "Industrial Loan Department" are displayed at the desks of the assistant cashiers where these applications are filled out. 'Supposed a neighbor woman saw a friend of hers making a loan application here and reported that 'Mrs. Casey must be hard up, because I saw her borrowing money at the bank" said Mr Sell, [...] That is why we pass up any signs for the department. Any one of the three men at these desks can receive applications, and payments may be made at several windows in the bank, just exactly as any usual deposits are made" [131]. Nevertheless, banks didn't want to restrict their business to their already existing customers ; hence the goal was to tie as much as possible credit operations with existing saving practices. Many banks required that loans would be paid by depositing the money on a savings accounts, which would be emptied at maturity to repay the loan [132]. This would encourage borrowers to become savers, and the acquisition of this thrift habit was one of the condition at which personal loans would be beneficial to consumers [133]. According to the president the a bank based in Ohio quoted above : "this savings feature is one in which the First Trust and Savings Bank of Canton takes real pride, for it has enabled and encouraged many borrowers to start regular savings accounts, and so has brought the bank regular customers formerly unaccustomed to dealing with the bank"[134]. Even though this business model based on an association of saving and lending practices was not adopted by all Personal Loan Departments [135], the general concern with status hierarchy and client differentiation has had a strong impact on the type of loans made and the range of customers which had access to it. Loans were supposed to be made to the segment of borrowers which would indeed build a long term relationship, through savings with the bank ; "personal loans" had to remain exceptional, a one shot transaction which would transition borrowers into more common bank patrons.

[131] D.J. Defoe "Helps them get on their feet", *The Burroughs Clearing House*, September 1927

[132] William Trufant Foster "Consumer Loans by Commercial Banks", *Pollak Foundation* Pamphlet n 40. RSF, Box 98, Folder Publicity 1940.

[133] A commonly found idea is that such a plan would accustom new borrowers to regular banking practices. One commentators argues: "scientists tells us that an act repeated with regularity 45 times becomes a habit", hence borrowers would become savers provided they have made payments a sufficient number of times. "The salary loans movement spreads", HH Reinhard, *ABA Journal*, May 1st 1929

[134] "Helps them get on their feet", *op. cit.*

[135] Letter, Leon Henderson to Weinstock, VP of bank, against this "beautiful theory" that borrowing will increase thrift, May 6 1929. Box 105 Folder Individual Banks, Louisville National Bank and Trust Co.

Personal Loans as a legitimate form of "exceptional" unsecured lending : salary loans and the co-maker plan: Banks adopted a model of "unsecured lending", which was legitimized both through specific narratives built around the "exceptionality of the loans", and through specific collateral requirements which set them aside from loan sharks and small loan lenders alike. Regarding the latter, banks insisted very early on on an different business model than the one which regulated small loan lenders had been dwelling upon : they wanted to provide "salary loans" [136], which was seen as the general, natural form consumer lending should adopt in a capitalist, wage-earning society. "For centuries, the earning capacity of property was high; that of labor low. The gradual increase in wages paid to labor, particularly to skilled labor, has been one the most important factors in the eventual development of lending for consumptive purposes"[137]. This goes with the aforementioned idea than personal loans and commercial loans needed to be assimilated in terms of their purposes and form. The president of a national bank based in Minneapolis suggested that "income advances" would be "a better name for loans", and should hence be used, both in financial advertisements and internal documents such as loan applications, to "emphasize the true nature of commercial loans" [138]. "Too many people [...], had the idea in some years not so long past, that bank loans were based upon the value of property owned, regardless of income. All banks know that this is not a true basis for commercial loans. As a matter of fact, it should never be considered as a basis for any loan. No bank wants to sell the property of the borrower in order to get the money to liquidate the loan. "Income advances", emphasize both to the loan officer and to the borrower, than an income must me known to exist out of which the payment will be made" [139].

Interestingly, the organizational archives of PLDs never mention procedures of wage assignments, which, in bankers' vision, was a very stigmatized practice [140]. Indeed, PLDs would put forward a different security requirement in order to by-pass the prejudice attached to a practice still associated with "loan sharks" : they asked for two co-makers to co-sign the loan, who, in case of default and judicial proceedings, would be also be held responsible for the debt contracted.

[136] "The salary loans movement spreads", *op. cit.*

[137] John B Paddi, *op. cit.*

[138] "Income advances" A better name for loans, *op. cit.*

[139] *Idem*

[140] In a early note published by a banker which distinguishes loans made by banks and money lenders, Arthur E. Hill mentioned that the "plan" does not require the signature of a wage assignment contract "for any of the signers, which eliminates a certain feeling of embarrassment among the better class of borrowers". Letter, Arthur E. Hill, manager of the Chicago First State Industrial Bank, to RL. Crampton, Illinois Bankers Association, December 6 1916. RSF, Box 150 Folder Early History Chicago.

This was seen as a way to rely on the wage-earner's network to insure good settlement of the claim, and alleviate the burden bearing on his own private income. We found traces of this idea as early as 1914, when a bank based in Atlanta had tried to make loans to consumers, "lending money on the security of labor". The writer's reflections on the experiment exposed in the clearest way possible the moral ideals behind the co-maker plan, and its joint legitimization of wages as legitimate securities: " The moral effect on a man of his obligations to his endorsers is one of the surest means of keeping him up to the the mark, moreover, making him a responsible citizen [...] An employee of a newspaper, who was constantly in debt to the sharks and who had become hopeless and irresponsible, borrowed from the bank enough to cancel his loans. Nine of his fellow workers went on his note, so that he had practically his entire office behind him. That man braced up, met every payment, climbed aboard the water wagon, and was restored to to his former usefulness as an employee. Moreover, the more widely this bank and similar banks become known among the working classes, the more working men will feel that their honest labor is a financial security for themselves and their fellows, without taint of charity, and the sounder their endorsements will become. The bank has thus one of the great advantages of the cooperative loan system in specialized industries, without the patronizing features of loans systems conducted by employers". The co-maker plan was seen by bankers as a way to define personal loans as a banking activity in its own right, separated from the money lending business, as service to the community of wage earners.

Attached to this security requirement was an ambiguous narrative which described personal loans, not as form of structural indebtedness but a loan made for "sound investment purposes"[141], or to face a temporary emergency [142]. Stanley Wilson, the head of the PLDs of Bank of America in the city of San Francisco distinguishes between borrowers who, despite their use of a personal loan "usually needed for an emergency", manage to "maintain their good credit standing", and "the chronic borrower, continually living beyond his means. It is our policy to eliminate this type as fast as possible as we feel that no constructive good can come of retaining this individual in consuming debt" [143].

[141] Cornelius Clark, Missouri Saving Bank and Trust Co. "Personal Loans, A specialty Requiring Special Equipment", *The Banker's monthly Chicago*, November 1st 1932

[142] A flyer advertising for the new personal loan service offered by the Manufacturers Trust Company of New York (See Hyman [2011] for details about the specific history of this company) reads : "No matter how carefully you plan your personal, family, or business budget, emergencies will often arise which require that you obtain ready cash. In such circumstances, you should not hesitate to apply for a personal loan at this bank" (Advertisement, *New York Sun*, June 25 1935).

[143] "These forms aid in handling Small loan at a profit", *Bankers Service Bulletin*, March 1st 1931.

This exceptional nature of the loan was a way to insure the positive effect of personal loans on their borrowers trajectories. Many bankers wanted to avoid dealing with borrowers with previous indebtedness, and frowned upon loans applications made, *affected* to, continuous debt consolidation purposes. A Kansas City banker assesses the business of his PLD after two years of operation : 42% of borrowers come to the bank "already in debt", "which is a liability of an uncertain character for a bank borrower to have". So far, "only 30% of total loans are made for home equipment or sound investment purposes", and these number convinced the author that "commercial banks can afford to handle small loans to families in the higher-earning classes", while dealing with "small borrowers" is more complicated, as "almost always a series of advances and add-ons are necessary to bring [him] entirely out into the clearing of debt-free existence". This was an ambiguous narrative because the idea was to retain wage-earning borrowers, but as future savers, and avoid renewals of personal loans as much as possible, as these echoed earlier money lending practices. The data which we have managed to gather on operations of Personal Loan Departments tend to show that this was more an ideal than an actual banking practice, most loans were made to consolidate existing debt, and a large part of the business was made off of long term borrowers who renewed their loans. Very few banks report on the credit history of their own borrowers, but as an example, 60% of loans made by the Louisville National Bank and Trust Company in 1929 are made to previous borrowers, and this number is brought to 75% if co-makers of these previous loans are included [144]. In 1928, the first PLD, opened by the National City Bank of New York [Hyman, 2011], reported that 45% of its loans were made to pay for "medical and dental services", or to "pay debts and loans" [145]. Similarly 50% of loans made by Bank of America in San Francisco in 1931 are either for "medical and dental services", or to meet "outstanding obligations" [146]. In 1936, the Underwriter Trust Company made 52% of their loans for purposes of either "consolidating debt" or "paying urgent bills", such as merchant or medical bills.[147].

[144] Adress, E. Weinstock, Vice President of Louisville National Bank and Trust Company, in Birmingham AL, 1929. RSF, Box 105, Folder Individual Banks.

[145] Purposes of loans, first year of operation, National City Bank, New York, 1928. RSF, Box 104 Folder Statistics / Occupations of borrowers

[146] "These forms aid in handling Small loan at a profit", *op. cit.*

[147] RSF, Box 104 Folder Statistics / Occupations of borrowers.

5 Conclusion

Both democratic candidates to the party primaries, Bernie Sanders[148] and Hilary Clinton[149], have accused major US banks of having lost their "community" purposes. Baradaran [2015], in her recent book, argued similarly than banks have, since the 1970s, broken the social contract morally tying them with the American Nation since the early concerns expressed by Thomas Jefferson[150]: they were given a legitimate statute as the nation's leading financial intermediary, but in return their priority was to be given to the people [151]. It is interesting to see the parallel with the post-1929 crisis reaction of commercial banks : bankers, at the time, sought out new ways of reaffirming their role as providers of financial services to the "communities", and developing Personal Loans to consumers seemed the best way to do so. Today, these reflections are not impulsed by the banking sector, but by politicians and academics who point to the deregulation period of the 1970s to explain this separation between banks and "the little people". Our research seems to show that, despite the impact of the financial reforms carried in the 1970, the model of consumer loans used by commercial banks was already established in the 1940s. This is not simply to point to a different original point in time, but to emphasize the highly restrictive model used by PLDs to develop their business of consumer lending. Personal loans were never thought as a service accessible to everyone, they intended to serve the borrowers which would turn a profit, but also those for which these services would be helpful: the less secured the collateral requirements, the more segmented the market.

The market for small loans underwent drastic changes in the first half of the 20th century, first from a largely unregulated set of practices to a semi-philanthropic regulation which established for the first time licensed small loan lenders specialized in unaffected loans of money. This political and economic movement was able to achieve some legal regulation, and take over a segment from the unregulated *loan sharks*. However, the stigma on money loaned in small amounts was only partially lifted, and this was achieved at the cost of specializing on loans of relatively higher amounts, made exclusively on chattel property. In a second phase beginning in the mid 1930s, commercial banks furthered accomplished this separation between legitimate and illegitimate

[148] http://www.bizjournals.com/bizjournals/washingtonbureau/2015/05/community-bankers-back-bernie-sanders-bill.html

[149] http://time.com/3891520/hillary-clinton-community-banks/

[150] "There is no doubt Thomas Jefferson would have been just as uncomfortable with our current bifurcated nationwide banking systems (one for the rich and one for the poor) as he was with a big-city banking monopoly that left out poor rural farms", [Baradaran, 2015] p. 6

[151] *Idem*, chapter 2.

small loans: the model put forward by PLDs was not indirectly segmenting the market through a social earmarking of collateral, it was directly selecting loans based on the borrowers' status, both as a wage earner and as part of a wage earning community. The evolution described here cannot be reduced to a illegitimate economic practice which was made legitimate through the conscious or unconscious effort of market actors. This operated through a selection of acceptable market practices, and the market itself was morally shaped by these legitimacy struggles. The *moral making* of the market calls for a broader understanding of discourses in market construction : rather than a set of narratives, ideologies or marketing strategies, discourse practices participate in the making of the economic and cannot be detached from the "market", in an ontological sense. Conceptualizing more precisely the channels through which morals operate would require additional empirical studies of different cases, and in this paper we have emphasized one market effect of moral struggles, which operated through the construction of a legitimate business supply. The production of moral classifications, not as general abstract categories, but enacted in day-to-day business and legal practices, had major effects on the structure of small loan borrowers, and the frontier between legitimate and illegitimate practices created a segmentation of the small loan market along social, racial and geographical lines. It is essential to stress the importance of the latter: empirically, even though this phenomenon is very rarely noticed by reformers and lenders alike, contemporary research [Peterson and Graves, 2005, Stegman, 2007] has shown the strong spatial logics dividing the credit industry today, and the present research shows that these trends were already on the way from the beginning of the regulation of this form of consumer lending. Whether or not this divide matches the contemporary segmentations of the credit industry is a question which extends the scope of this article. Answering this would, as we said in our introduction, require a clarification of these categories, the type of practices they describe as well as their normative underpinnings. Theoretically, this suggest that more attention needs to be put on the *"loci"* of moral struggles : in the case of credit regulation, most of the reforms we carried through the State legislatures and implemented at the local, making it difficult to consider the development of a moral market on a general level. Drawing more links between the "culture", and the set of practices we refer to as the "economy" requires a better understanding of how legitimacy conflicts are waged, in specific social and legal spaces.

The "worth" of the market for unsecured lending, was defined across the first half of the 20th century through to two major axes. Security requirements were a first major dimension : salary loans were for a long time highly illegitimate, and seen as inferior loans, as compared to those made on chattel mortgages. But, as commercial banks took over the market through status entry, they were able to impose a legitimate for of unsecured lending, which added the feature of the co maker plan to the sole reliance on a borrower's income. We have emphasized the social earmarking of credit collateral, yet this was far from an *ad hoc* process : status conflicts and power relations between the different market actors governed the categories of legitimacy. Client selection was a second trend, again, with two possible readings : status differentiation definitely played a role in this process, but one could also look at this as a indirect way to control the affectation of money. If purchases cannot be monitored or known in advance, restricting loans to the segment of costumers which are thought to behave thriftily was a way of insuring that the money would be put to good use. Unsecured loans -taking as collateral the future income of the borrower- as a general form of unaffected consumer credit, finally acquired the legitimacy it had failed to build in the early decades of the century, and this was very much due to the status entry of commercial banks. The various restrictions on legitimate lending transactions, to sound, exceptional loans, contracted to finance a family investment or face an unbudgeted emergency, opposed to structural indebtedness, can be read as attempts to *affect* the potential uses of *unaffected* money. The next major evolution of the consumer lending industry will be the development of credit card debt and unsecured credit lines [Hyman, 2011, Trumbull, 2014] in the post-war context. It would be interesting to study how this form of structural indebtedness became a legitimate market practice, in view of the results of this research. Indeed, even commercial banks wanted to avoid permanent loans, and excluded the clients who were seeking these types of services: the stigma associated with loan sharks and loans for the poor still tainted loans where the principal was not gradually repaid on a fixed scheduled of instalment payments. Permanent credit, renewed period after period with small, fixed, charges, was alien to both regulated lenders and commercial bankers alike.

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Appendices

A Accronyms and Records

Accronyms :

- AASLB American Association of Small Loan Brokers
- ABA American Banker Association
- AHC Atlanta History Center
- AJC American Journal and Constitution
- FHA Federal Housing Authority
- HFC Household Finance Corporation
- NFRLA National Federation of Remedial Loan Associations
- PLD Personal Loan Departments (of commercial banks)
- RSF Russell Sage Foundation
- USLL Uniform Small Loan Law

Major Archive Funds:

- Russell Sage Foundation Collection, Library of Congress, Washington DC and Special Records, Rockefeller Foundation, Sleepy Hollow.
- Atlanta History Center, Atlanta, Georgia.
- Georgia Archives, Morrow, Georgia.
- Household Finance Corporation Collection, HSBC Archives, Brooklyn NY.
- Atlanta Fulton Public Library, newspapers and magazines collections.
- Chicago History Museum.
- Company Records, Birmingham Public Library, Alabama.
- New York Public Library and Columbia University Archives.

B Maps and data construction

B.1 Salary Buyers

Lists of offices presumably belonging to the Big Four salary buyers are regularly published in newspapers and internal documents issues by the Foundation. We have also included other chains of agencies, using every information we could find at the city, County or State level (and aggregated them at the State level), keeping in mind that individual agencies are more difficult to track, as they raised less public attention than larger chains. These documents were very numerous, for examples of lists of salary buying offices, see

- Unlicensed lenders in Minneapolis, 1926 1927, RSF, Box 123. Folder Outstanding loan balances 1923-1943.
- Principal salary buyers in Macon. RSF, Box 16 Legislative Campaign 1926.
- Salary buyers in Atlanta GA, 1926. RSF Box 16 Loan Shark Campaign 1927 Folder (Boyd)
- List of salary buyers in Chicago. RSF, Box 17, Folder 1926 Salary Buying.

B.2 Licensed lenders

Some States required their banking authorities to record statistics relative to licensed small loan companies, but not all of them, and it proved very hard to gather exhaustive data on all regulated lenders. Before restricting our analysis to licensed members which held membership at the AASLB, we have checked the State selection bias. Indeed, an under representation of regulated lenders in the South could simply mean that small loan lenders licensed in the Southern States simply didn't join the national federation. This seemed to be marginally true, but there didn't seem to be any patterned bias. In Georgia in 1921, there were 15 licensed lenders and only two of them joined the federation ; in Illinois during the same year, there were 141 licensed lenders and 69 of them held membership. In Florida, there was one license holder, and it held membership. Similarly, in 1929, when the sharks' leaders in the South, King and Roesenbusch, decided to give in and accept the regulation of their business, they immediately joined the national federation. It is first interesting to notice that the National Federation was even more concentrated in Northern and Midwestern States, and while it is true that the National Association might have had trouble implementing a systematic membership policy in some states, we do not think this would significantly affect the relative distribution of licensed lender and the high concentration of these on the Chicago-New York belt. However, we also included a map of offices held by HFC, which grew more and more as a monopoly on regulated personal loans in the 1930s and 1940s, and provide a different sample of agencies countrywide. Finally, as mentioned earlier, small loan offices had quite standardized sizes, which suggests that the number of offices is a good relative proxy for the overall level of lending.

C Distribution of Personal Loan Departments of Commercial banks.

Reporting annual activity was not compulsory in every State, and we have used the results of an internal study carried by Rolf Nugent 1936, who personally sent out inquiries to every PLD manager in the country for them to send back data about their loan amounts. These have been complied for the available States.

State	Number of Departments	Total amount loaned (in thousands dollars)
Alabama	1	14
Florida	3	176
Georgia	18	1983
Illinois	21	1370
Indiana	31	4109
Kentucky	19	3604
Louisiana	7	621
Massachussetts	36	13983
Mississippi	1	154
New Jersey	152	11782

Table 1: Personal Loan Departments, activity by State. *Source:* RSF, Box 103 Folders State Statistics.