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PUBLIC AFFAIRS PAMPHLETS

LOAN SHARKS AND THEIR VICTIMS

BY WILLIAM TRUFANT FOSTER

JAN 1940

DO YOU KNOW THAT:

Loan Sharks commonly charge 240 per cent interest?

Loan Sharks try to prevent you from paying your debt?

Loan Sharks have fifteen ways of fooling you?

PUBLIC AFFAIRS PAMPHLETS
No. 39 1940

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LOAN SHARKS AND THEIR VICTIMS

By WILLIAM TRUFANT FOSTER

WE must admit that it requires sharp tactics to take in $1,053 in nine years on an investment of $20. Yet that is what an outlaw money lender in Dallas, Texas, did with the greatest of ease. This loan shark, typical of illegal lenders of today, is not a furtive, cringing, oily Shylock in a back alley, with a few dollars in his pants pocket. He is the big bootlegger of small loans; the bold, resourceful, rich overlord of a far-flung empire outside the law. This is the modern loan shark, as revealed in investigations made recently in Florida, Georgia, Missouri, Oklahoma, Tennessee, Texas, and Washington.

In these states and in at least a dozen others, the bootleg lenders are kept in power by the law; not a law that says to them, "Go ahead, lend"; but a law that to legitimate companies says in effect, "Thou shalt *not* lend." The demand for

William Trufant Foster, Ph.D., LL.D., formerly President of Reed College, member of the Consumers' Advisory Board of the National Recovery Administration, and member of the State Planning Board of Massachusetts, is now Chairman of the Committee on Consumer Credit, Commonwealth of Massachusetts, and Director of the Pollak Foundation for Economic Research. He is the author of the Public Affairs Pamphlet, *Doctors, Dollars, and Disease* (No. 10, revised, 1939).

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small cash loans is so great—and has been so great for a thousand years—that it must be met. It is met either inside or outside the law. Never has a campaign to enforce a 10 per cent usury law prevented wage earners from borrowing money at 240 per cent. The Kansas Supreme Court went so far as to declare loan shark offices to be disorderly houses and their contracts void; but hard-pressed Kansans kept on borrowing from these outlaw offices.

The Bureau of Business Research of the University of Kentucky says:

> The loan shark business is largely in the hands of a few powerful chains that make it their business to have a hand in state politics. One activity of the combination is directed toward preventing the spread of legislation permitting a higher rate of interest under state supervision than the 6 per cent or 8 per cent usually legal. Lobbying by and for loan sharks is open in most of our state legislatures. They are ready to go to any extreme to keep the legal interest rate low in every state possible. A low legal interest rate keeps out legitimate lenders.

No State Is Free From Danger

Here follows a concrete account of the methods used by the loan sharks to get around or repeal regulatory laws. These methods are used daily in every state. No session of any state legislature is safe from such attacks. Therefore, even in states which now have good laws, well enforced, the people should know the dark and devious channels through which the outlaw lenders work.

Thirty years of trial have shown that unlicensed lenders thrive unless the law permits maximum rates sufficiently high to enable licensed lenders to do business. The *legal, stringently regulated* personal finance companies, now lending money in thirty states at a *maximum* permissible rate of 36 per cent, and at an *actual* rate considerably lower in most cases, are deadly enemies of the *illegal, unregulated* 240 per cent loan sharks.

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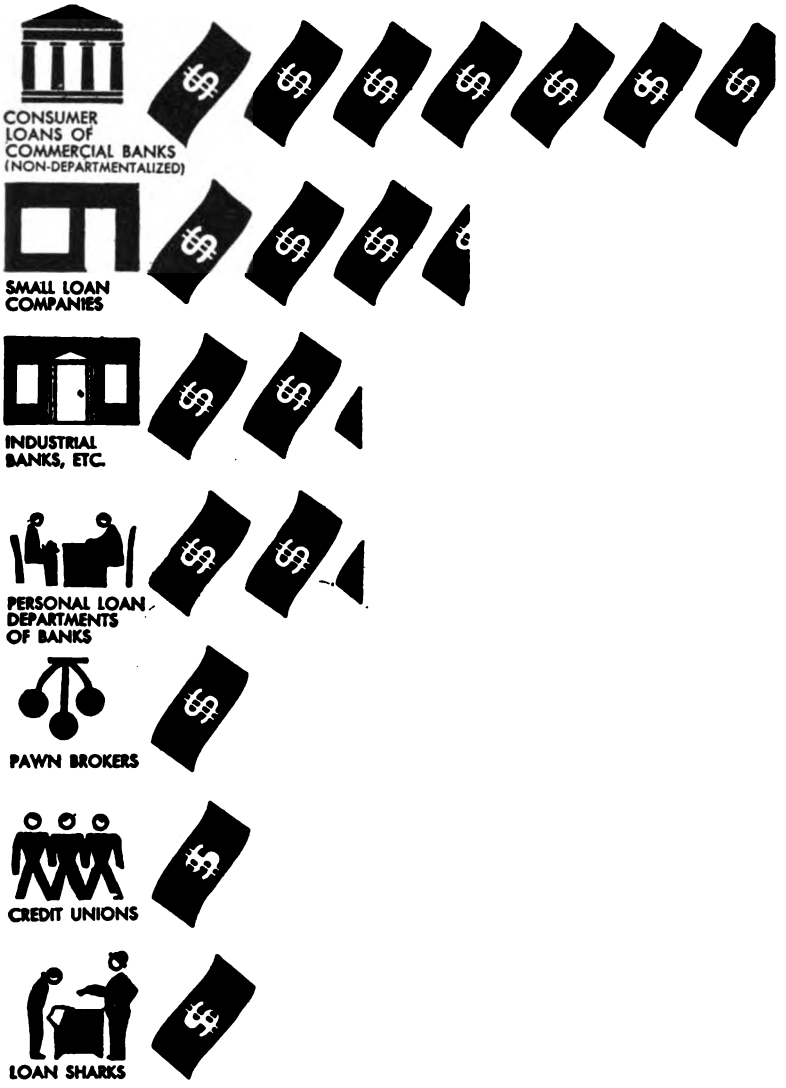
WHO LENDS MONEY TO CONSUMERS?

(LOAN BALANCES OF CASH LENDING AGENCIES AT CLOSE OF 1937)



Each symbol represents 100 million dollars

As estimated by Rolf Nugent in "Consumer Credit and Economic Stability," Russell Sage Foundation, New York, 1939

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All the other legal lending agencies are enemies of the loan sharks, too. None of them, it is true, serves as many of the potential victims of the loan sharks; but together they lend several hundred million dollars each year in small amounts, at reasonable rates, to hard-pressed borrowers, a majority of whom would obtain illegal loans and suffer the consequences, if legal loans were not available.

Why Credit Union Rates Are Comparatively Low

Next to the licensed finance companies, the commercial and industrial banks, the credit unions make greatest inroads on the business of the loan sharks. Credit unions are groups of wage earners, in schools, banks, factories, and government offices, who pool their savings and make loans to each other. They are true consumer cooperatives. The members know the borrowers; they lend their own money; and each member loses if any member fails to pay his debts. Therefore, the expenses of investigation of applicants for loans and the expenses of collection are low. Usually, moreover, the services of many credit union officers are contributed and office space is provided by employers free of charge. Still further to cut down the expenses of credit unions, philanthropists—principally the late Edward A. Filene—and the federal government met a large part of the costs of promotion. For these reasons the rates are low. Where conditions are favorable, the credit union is one of the best ways of keeping wage earners from loan sharks.

Credit unions, however, are not now meeting the needs of a majority of hard-up borrowers. At the end of 1937, according to estimates by Rolf Nugent of the Russell Sage Foundation, their loans totalled 93 million dollars, compared with 220 million for industrial banks and 351 million for licensed personal finance companies.

Personal Finance Companies

Evidently the licensed personal finance companies are the

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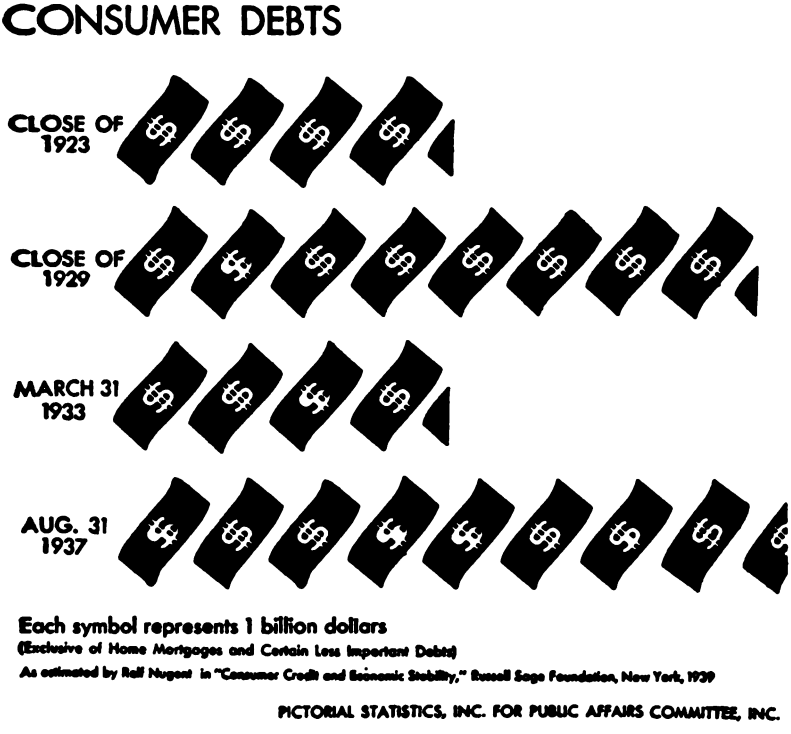
first line of defense. To a far greater extent than any other agency, they meet the needs of the persons who, wherever a legal source of small loans is not at hand, patronize the 240 per cent illegal lenders. Partly for this reason, the costs of doing business are high. The lenders either must spend much money



investigating applicants, advising families, preparing budgets, and making collections or suffer large losses. They could not cover even the costs of this class of loans if they charged as low a rate as 12 per cent a year. At that rate the charge "on a $50 loan, repaid in ten monthly instalments, is $2.75. It costs a commercial agency nearly that much to investigate applicants and close the loan, to say nothing of bookkeeping costs, collection costs, bad debt losses and return on the investment. Banks,

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lending comparatively large amounts on preferred security, can and do lend to consumers at 12 per cent. So do credit unions. With the help of numerous expense short cuts, they make even the smallest loans at one per cent a month. But these agencies fall far short of meeting the entire demand. If the state decides that it wants to make loans available to nearly all employed workers, it must allow charges which cover the necessarily high expenses of this kind of business."[1]

The officers of the Russell Sage Foundation who drafted the first regulatory laws decided that a maximum rate of 3½ per cent a month, on unpaid balances, was necessary in order to develop a legal business with which the 20 per cent per month illegal business could not compete. Gradually, the *legal maximum* rates have been reduced, and the *actual* rates for a large proportion of borrowers have been reduced still further. When, however, the maximum rate, on unpaid balances, is 2 per cent a month or lower, most of the legal lenders shut up shop and leave the state. That actually happened some years ago in New York, New Jersey, and West Virginia. As the lenders are in business to make money, presumably they would stay in business if they could make money at 2 per cent.

How the 10 Per Cent Usury Law Helps the Loan Sharks

To return to our victim in Dallas. One of the illegal lenders let him have $20 to meet the costs of hospital care and charged him $2.25 a week. That was in November, 1929. Every month after that until November, 1938, he renewed his note. By that time he had paid $1,053 for the use of the $20, and he still owed the lending company more than he had borrowed. He had paid interest at the rate of 585 per cent a year. He had found that a little credit from the wrong source is a dangerous thing.

[1] See LeBaron R. Foster, *Small Loan Laws of the United States; A Condensed Summary*, Pollak Foundation, Newton, Mass., 1939. The table on page 9 summarizes the legal charges of all the states.

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Recently many cases of this sort created such a stir in Dallas that the Bar Association, the Better Business Bureau, the Chamber of Commerce, a special Small Loan Committee of business men, the *Dispatch-Journal,* and radio station WRR combined in efforts to stop the traffic. Three nights a week the customers of the loan sharks told their experiences by radio; and the *Dispatch-Journal* assigned a special reporter to cover the high-pressure, blackmailing methods used by the collectors.

The combined agencies found that there were about fifty thousand borrowers in Dallas alone: one out of every four adults. Records of 2,554 loans from 72 illegal companies show that the borrowers had paid more than $85,000 interest on $55,757. Among the first thousand cases before the Anti-Usury Committee, the lowest interest rate a year was 120 per cent, the average was 271 per cent, and the highest was 1,131 per cent. On the basis of these thousand complaints, the Committee estimates that Dallas citizens pay illegal interest of $1,262,420 a year.

Houston, Fort Worth, San Antonio, and Austin, as well as Dallas, are known as "easy pickings." Even the small cities in Texas yield their tribute, as *The Texas Weekly* has shown. One office, which began business with only $1,300 as capital, was soon taking in $600 a month, although the manager declared that he never charged interest at a rate higher than 50 per cent a month!

One loan shark in Texas got along with even less capital: He charged his victims interest for the use of their own money. This lender, who did a contracting business on the side, found that, when his workmen had earned a week's wages, he could make money by postponing payment of their wages and lending them their own wages at 10 per cent interest a week. Whenever a worker managed to get along for a week without borrowing his wages, the contractor-lender put him on a twice-a-month pay plan in order to encourage the habit of borrow-

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240%-"LOAN-SHARK" HEADQUARTERS

Victims Tell of Staggering Profits Taken by Loan Shark

300 Loan Shark Victims Complain To Bar Committee

STATE'S BAR TO AID LOAN SHARK DRIVE

Legislative Unit Is Ordered To Help Draw New Law.

[illegible]

Loan Shark Victim Breaks Down While Telling of Usury Payments

Council of Justice Client Borrows $150, Pays $338 And Still Owes $192, Lenders Claim.

[illegible]

Blames Loan Sharks for Inability to Pay Alimony

[illegible]

Hundreds of Victims Hurry to Identify Loan Sharks.

"TAKE" PUT AT $5,000,000

Thugs Enforced Payments of 1,040% Interest by Beatings and Death Threats.

NO LINK TO SCHULTZ FOUND

WPA Workers and Others in Low-Pay Class Preyed Upon —Many Driven to Crime.

[illegible]

RACKETEERING LOAN SHARKS VICTIMIZE POOR

Gang-Controlled Usurers Use Armed Force on Delinquents; Interest Hits 1000 Per Cent

By Lee Wedemeyer

[illegible]

Billy Barrett Adds Voice to Clamor For Scalps of 'Loan Shark' Racketeers

Legislative Candidate Announces His Desire to Participate in Passage of Law Definitely Tabooing "Salary Buying Sharks"

[illegible]

Loan Tactics Disgust 15 Lawyers

[illegible]

Loan Sharks Are Worse Than Hitler: Victim

South Dallas Man Tells Of "Pound of Flesh" Persecution.

[illegible]

Workless Loan Victim Pays And Pays, But Never Enough To Get Job Lender Promised

[illegible]

RACKETEER IS SHOT DOWN IN BAYONNE CAFE

Stories of Slayer and Witnesses Differ—Former Admits He Carried Gun in Fear of Attack for Unpaid Loan of $30.

[illegible]

COLLECT 240% A YEAR FROM NEEDY

Operate "Union Trading Company" at 5th and Liberty Streets

Patrick C. Mathes, 43, who lives at 2212 Rutherford Wynd owns and operates one of the largest "loan shark" offices in Louisville, located on the [illegible]

War Opened On Loan Sharks

Fletcher Prepares Legislative Curb

[illegible]

Loan Sharks Begin Running Up White Flag Under Probe by Bar

Anti-Usury Committee Reports Lenders Seeking to Compromise Claims to Avoid Suits.

[illegible]

Loan Shark Drive Pressed; State Asks Victims To Aid

McLain Asks Merchants to Help Employe-Victims of Loan Sharks

Threat to Get Job Is Lender's Most Effective Collection Method, Held First Council of Justice.

"LOAN SHARKS" CAUSE SUICIDES,

Withers Declares Racket Being Wiped Out

By Bar Dun Correspondent

TRENTON, March 4.—Small loan sharks are being eliminated entirely from New Jersey as fast as their law violations are discovered, State Banking Commissioner Carl K. Withers announced today in urging these being charged illegal interest [illegible]

LOAN SHARKS BUSY IN RANKS OF WPA

Ridder Starts an Inquiry on Hearing Workers Are Victims of Usurers' Racket.

FORCE IS USED TO COLLECT

Evidence Will Be Given to Judge or Dewey—Relief Hand Again Disclaims Red Inquiry.

[illegible]

BUREAU PROBES LOAN SHARKS

Committee Appointed To Investigate Excessive Rates

[illegible]

To Loan Shark Victims—

Victims of "loan sharks" may obtain free legal assistance by calling at the office of the Better Business bureau in the Line building. An attorney of the special committee named by the Dallas Bar association will be on hand to advise victims of their legal rights and, if necessary, take action to obtain relief for them. The lawyers accept no pay for their services.

LOAN SHARKS ATTACKED BY BUSINESS BUREAU

LOS ANGELES — An intensive campaign against loan sharks swung into high-gear late last week with the publication by the Los Angeles Better Business Bureau of a pamphlet, entitled, "Stop Usury in California."

27 ARRESTED AS USURERS IN SUDDEN MOVE BY DEWEY TO BREAK UP VAST RACKET

Vigorous campaigns against the loan sharks of today are conducted by newspapers in many of the chief centers of illegal lending.

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ing. Why does any man stand for that? Well, in these days, a job is a job.

How the Loan Sharks Block Reforms

To date the loan sharks have blocked all the reform efforts of the Texas social agencies, labor leaders, public officials, newspapers, and legitimate business men, generally. For protection of the poor man, Texas relies on its 10 per cent a year constitutional limitation. That is exactly what the loan sharks want Texas to do, for at that rate, small, unsecured loans cannot be made. Reputable companies, therefore, cannot do business legally in Texas; and since they refuse to do business illegally, this leaves the whole state to the bootleg lenders.

In Alabama, too, according to the findings of the Birmingham *Post,* the 240 percenters "not only ply their shady business without curb of law, but have twisted existing laws and won favorable court decisions, until the very machinery used to protect the citizen affords a club for his oppression." In 1939, the Committee on Banking of the Alabama Senate unanimously recommended passage of a sound bill. To be sure, consideration of the bill was indefinitely postponed without debate on its merits; but the legislature came much nearer than ever before to driving out the loan sharks Evidently their days in Alabama are numbered.

The Astute Zalewski

Even in states where legal rates enable reputable lenders to operate, occasionally a keen loan shark evades the law for months without getting caught. Zalewski certainly was keen. After the Uniform Small Loan Law in Kentucky had driven most of the loan sharks to Texas and other wide-open states, Zalewski was nonplused for a moment.

But only for a moment. Since he could no longer make his 240 per cent loans to Kentucky men from his Kentucky office, he sent applicants across the bridge to New Albany, Indiana.

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There, he said, he felt sure that the kindly Mr. Stanley would take good care of them. In the New Albany office, Mr. Stanley turned out to be Zalewski's assistant, who, across a single desk, carried on the business of several companies. Zalewski avoided regulation by beginning each transaction in one state and completing it in the other. His office in Louisville was merely a front for his office in New Albany. By making loans to Kentucky applicants only in Indiana, and to Indiana applicants only in Kentucky, he avoided detection by the authorities of both states, for several months.

To cover up his tracks still further, he put his companies through lightning changes. As recorded, his Aback Credit Finance Company,[1] on the slightest hint of trouble, went completely out of business, destroyed all written records, and immediately became the "Globe Finance Discount Company," which in turn gave way to the "International Credit Corporation," and, presently, to the "Business Men's Credit Corporation."

Even such high-speed maneuvers were not enough to keep Zalewski's brains fully occupied; so he opened a collection agency on the side, to work hand in glove with his lending agencies. Posing as an attorney, he arranged with business houses to collect their unpaid accounts on a 50 per cent commission. He then demanded full payment from the debtors. Thus he got his victims coming and going.

If they could not pay, as was usually the case, he told them of a friendly loan company that he was sure would help them out. The loan company, which was Zalewski's, would make the loan and the debtor would then pay the bill in full, whereupon Zalewski would retain 50 per cent of the payment and charge the borrower 240 per cent interest on the total amount. That would be 480 per cent on the money with which Zalewski actually parted. At that rate, the interest payments brought back all his money in less than three months. After that, everything was velvet.

[1] The names of many of the illegal companies are fictitious; but in every other detail all the cases and all the figures are authentic.

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Success of the Salary-Buying Dodge

In several states, the loan sharks now escape regulation by means of the salary-buying dodge. Actually, they lend money; technically, they merely buy the right to collect a part of the victim's wages on the next pay day. They cannot use this device in states that have the *complete* Uniform Small Loan Law, for Section 16 declares that a salary purchase shall be deemed a loan, and therefore subject to all provisions of the law. Wherever the loan sharks have succeeded, by hook or by crook, in having Section 16 omitted, they are free, under the dodge of buying salaries, to charge for their loans whatever they please.

A report in 1939 by a committee of the Bar Association of Savannah shows that in Georgia they please to charge 240 per cent a year, and as much more as they can get. The following case, according to the report, is typical:

> A colored man, aged twenty-four, employed at a downtown hotel, borrowed $10 from a salary buyer in order to buy a suit of clothes. The interest payments were $1.50 every two weeks. He would pay $11.50 each pay day and immediately borrow back $10. He continued to make payments in this manner for six to eight months. Discouraged by the fact that the loan was never reduced, he asked whether the company would take $2.50 each two weeks instead of going through the motion of paying over $11.50, and getting $10 back. His request was refused. He then consulted an attorney, who wrote a letter to the salary buyer. The latter immediately advised the colored man's employer and he was discharged. He had then paid between $20 and $24 on the loan and still owed the principal.

A sworn statement, taken at random from more than one hundred such statements in Atlanta, shows how skilfully the salary-buying dodge is worked. According to this declaration, a colored employee of the telephone company borrowed $10 from L. D. French, on which he paid as interest $1.50 every two weeks for six months. He then borrowed $5 more and from that date paid $2 as interest every two weeks. He

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did not receive copies of any of the papers that he was required to sign; nor did he get back the original paper after he had signed a new paper; nor did he receive any receipts for interest payments. These are some of the standard tricks whereby illegal lenders seek to escape and often do escape prosecution. From December, 1935, to December, 1938, he also borrowed money from the Ward Investment Company, the Pacific Finance Company, the State Finance Company, and the Canon Investment Company. This man may have been passed on, in the usual way, from one office to another of the same concern, for the purpose of increasing his debts. In any event, for three years he paid five companies interest at the rate of 240 per cent.

A new study of 520 illegal loans in Oklahoma shows that on the ninety-five loans which ranged from $21 to $30, the average rate charged was 242 per cent. On the eleven loans between $76 and $100, the average was 86 per cent, which is a little more than double the highest rate *permitted* on any loans under the Uniform Small Loan Law, and much more than double the average of the rates *actually* charged.

Typical Salary-Buying Cases in Missouri

Before 1939, when salary buying was outlawed in Missouri, there were thousands of victims in Kansas City alone. A man employed at $125 a month was in debt because of the long illness of his wife. A fellow worker, who received a reward of one dollar for each victim he brought in, advised him to apply to a certain salary buyer. From him, in September, 1935, this man borrowed $10, and later from another lender $10, and in two years paid $78 in interest. He borrowed $20 from another salary buyer, on which he paid $90 in interest.

In 1939, at a hearing on the Missouri bill to eliminate loan sharks, a group of young attorneys brought forward a streetcar operator. Here is his testimony, as reported by the *Kansas City Journal:*

> The victim appeared before the house committee and told

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his story so effectively and simply that he offset the arguments against the bill. Nine years ago, he said, he borrowed $140 from a loan shark. He paid $1,700 in interest and still owes the $140. When unable to make interest payments, he said, he was shifted from loan shark to loan shark, until he finally owed seven of them. "I couldn't have made it if my wife hadn't been working, too," he said. "I got so despondent I went home one day to turn on the gas. My wife talked me out of that. The boys (referring to the lawyers) have taken me out of the clutches of the loan sharks."

Loan Termites Work Under Cover

Most cases of this sort, however, do not come to light: the 240 percenters see to that. They exact their pound of flesh in ways that avoid the law. "It is almost impossible to obtain the records of these companies," says Attorney-General McLain of Tennessee. "They hide their books from us." They even go so far, sometimes, as to try to keep all the figures in their heads instead of running the risk of putting them down on paper. In Missouri, recently, one company was asked why its collector had molested a Negro, after he had paid more than $90 on a loan of $35. The company insisted that he had not paid back what he borrowed. When asked how much he *had* paid back, the agent of the company replied, "I don't know. You know our system of keeping records. I can't tell."

Such hit-or-miss bookkeeping is a mark of business astuteness, for when written records turn up in court, they are so embarrassing that the loan sharks blacklist any borrower who demands receipts: They suspect him of knowing too much about his legal rights.

The illicit lenders, it is true, regularly threaten to bring suit against borrowers who are behind in their payments and frequently start proceedings. Almost always, however, the lenders have a case dismissed at the last minute rather than run the risk of a trial. In Kansas City in 1939, after the Bar Association had appointed a committee to fight the salary buyers, they not only called off all their pending court cases,

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but failed to start any new ones. And when the Bar Association sought to recover alleged usurious payments in thirty actions, the salary buyers brought into court no records whatever to show what payments had been made.



Courtesy of the *New York World*

In Missouri and in several other states, usury is only a misdemeanor. It is impossible, therefore, to get at the real owners of the loan shark chains if the owners are across state lines. This often means that only the agents can be reached, not the culprits higher up and farther away. In Texas, the business of the illegal chains is carried on by agents who maintain that they own no property, not even their office desks.

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To conceal ownership, a chain sometimes operates its illegal branches under different names and the managers refuse to tell who the real owners are.

So successfully do the illegal chains of offices conceal ownership of their branch offices that when the local manager of one office in Minnesota ran away with all the funds, the operators of the chain, located in another state, could not prove that they owned the office. This seems to show that they were stupid; but they collect so much interest at 240 per cent that they can afford to lose, now and then, all the money in a branch office.

Another end play which the law-dodgers work in order to avoid tacklers is illustrated by a recent case in Massachusetts. Since the Uniform Small Loan Law covers only loans of $300 or less, a lender who is not licensed sometimes has his victim sign a note for $301, lends him, let us say, only $200, and charges interest on the fictitious $301. One man having signed a note of this type, and having been reduced by the lender, the Caron Finance Company, to abject poverty and terror, appealed to the state supervisor of small loans. After the law was invoked, the case was decided in favor of the borrower. The Company appealed, but the Superior Court confirmed the findings. Then the Company appealed to the Supreme Judicial Court. On the day set for the hearing, however, as no defendant and no counsel for defendant appeared in that august courtroom, the Caron Finance Company was proclaimed in default. The reason the lender failed to appear is clear: If the case had been argued, a written decision would have been handed down which could be used against activities of this sort in the future.

Illegal Lenders Levy Toll Even on the Unemployed

When there was a large increase in relief payments to the unemployed in Minneapolis, the illegal lenders promptly cashed in. Here are cases taken at random:

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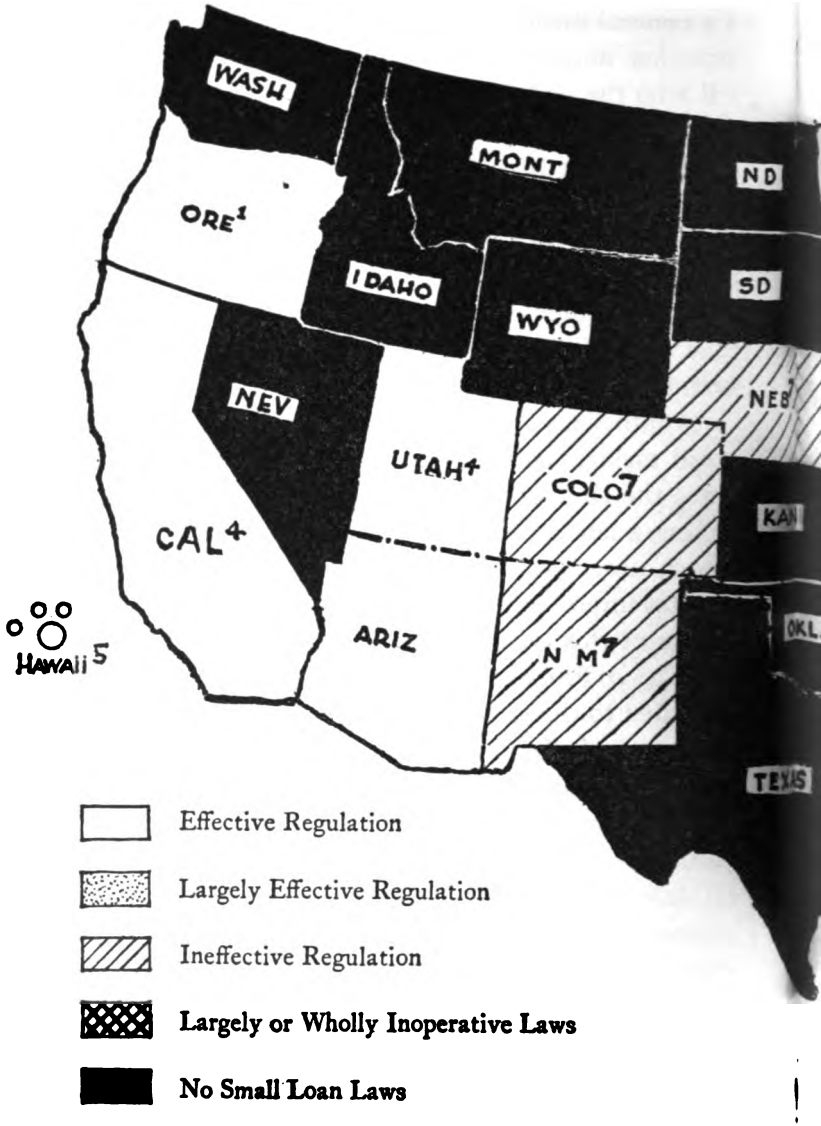
SMALL LOAN LAWS OF



Note: This map, as of December 1, 1939, is adapted from "Small Loan Laws of the United States," by Le Baron R. Foster, Pollak Foundation, Newton, Mass., Pamphlet 37, 1939. Different definitions of "effective" would require different classifications. Moreover, there are many borderline states, and various conditions as well as laws are constantly changing. 1. Oregon's $1 minimum charge encourages the making of $10 loans at very high rates. 2. Failure of the Ohio law to restrict licensees to loans of $300 or less makes trouble. 3. Low rates in Wisconsin

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THE UNITED STATES



POLLAK FOUNDATION

may have partially restricted the availability of loans. 4. Classifications of California and Utah are tentative, awaiting experience under laws adopted in 1939. 5. The Hawaii law appears to promise effective regulation, but sufficient experience under the law is lacking. 6. Florida's law is confined, with three exceptions, to counties having a population of 40,000 or more, and the law lacks certain essential features. 7. The laws of Nebraska, Colorado and New Mexico are defective in many ways: they bring in new capital, but they do not keep out loan sharks.

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Mr. B., a married man on relief, with two children, borrowed $25, at an annual interest rate of 200 per cent.

Mrs. H., a widow on relief with two children, borrowed $30, at 200 per cent.

Mr. S., a married man on relief with three children, borrowed $10, at 1,200 per cent.

The fact that these borrowers were on relief, instead of stopping the lenders, prompted them to lend freely, because they knew exactly when and where the government checks would be paid and were always on the spot to make collections. Other loan sharks collect tribute even from inmates of the National Old Soldiers' Home, in the District of Columbia, whose only incomes are small pensions.

All business men try to keep paying customers on their books. The illegal lenders succeed in doing so by not allowing customers to make partial payments on the principal. Naturally, when a man with a family to support on $30 a week is so hard-pressed that he must borrow $20 and has no security to offer, he cannot contrive to pay back the $20 in a lump sum. He can, however, pay $1 a week as interest. So the loan shark hooks him for life—or until he finds legal aid—by refusing to accept part payment of the principal.

Such tactics are prevented by the Uniform Small Loan Law, now in effect in a majority of states. That law requires all lenders who are licensed under it to accept part payments at any time and immediately to cease charging interest on the part repaid.

Wage-earner bankruptcies furnish further evidence of the efficiency of illegal lenders. In Minnesota, for example, up to 1939, when the Uniform Small Loan Law was passed, the bankruptcies of wage earners were caused in part by illegal lenders. Yet it was these rapacious creditors who lost the least. As the credit manager of one of the department stores in Minneapolis said: "The illegal loan shark always gets his. We are left holding the bag." Many bankruptcy petitions in Minnesota show indebtedness of the bankrupt to several 240 per cent lenders. That it was the charges of these lenders that

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finally drove many of the wage earners into bankruptcy is evident from records produced in the United States District Court.

Putting on the Heat

Ingenious as are the loan sharks in setting traps, they are equally facile in torturing their captives. A blow with a lead pipe in a dark alley—the kind of argument used in the cases which Mr. Dewey prosecuted in New York City—is one of the less refined and more humane of the collection methods. Other methods cause prolonged worry, destitution, and sometimes suicide.

Usually the victim, to obtain a loan, is required to sign papers which he does not understand. Later on, the amounts to be paid are filled in by the lender with such figures as suit his fancy. Sometimes the borrower signs a paper that he is told is an assignment of wages but really is not; at other times, he signs a paper which *is* an assignment of wages but is said not to be. In either case, when the borrower fails to pay on the due date, the lender threatens him with the loss of his job. This method is effective because all employers dislike wage assignments. Indeed, in some establishments a wage assignment, brought to light, means the loss of a job. It is a pity that not all employers are aware that this rule plays directly into the hands of the loan sharks.

In other cases the borrower is made to sign a paper, which turns out to be a check on a bank in which the borrower has no account. Then, if he fails to pay up, the lender threatens to "put the law on him" for passing a bad check. Equally effective at times is the lender's threat to tell the borrower's wife about the debt. To be sure, the lender promises to keep the matter "absolutely secret"; but this promise is forgotten as soon as a payment is overdue.

When such threats fail, a collector sometimes telephones the debtor at his home or even one of his neighbors, preferably

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after midnight; or he telephones the debtor at his place of business, using abusive language in the hope that the frightened man will pay rather than have his employers and fellow workers learn of his trouble.

These methods and many others are effective only because most of the men and women who get into the clutches of illegal lenders are unaware of their legal rights and unable to employ legal aid. They have a fear of "The Law," based on ignorance and nursed by the loan sharks.

Contrast With Legal Companies

Some legal companies, to be sure, are also guilty of harsh methods of collection, partly because their agents, under pressure to avoid losses, sometimes disobey orders. Such cases are the exception among legal lenders, but they are the rule among illegal lenders. Licensed loan companies could not use loan shark methods without running the risk of losing their licenses. In most states, they adhere both to the spirit and to the letter of the law. In some states, more than one hundred thousand loans are made in a single year by licensed companies, without any complaints against them reaching the state supervisor of small loans.

Some state associations of licensed personal finance companies employ social welfare workers, whose business it is to cooperate with family welfare societies, to aid borrowers who are in distress, and to see that extreme measures are taken only when there is deliberate intent of fraud on the part of the borrower. Usually, in case of failure to pay, the legal lender has a legal right to seize the borrower's furniture; but this right is exercised in fewer than one-tenth of one per cent of the cases. Of second-hand cars sold on time, however, 10 per cent or more are repossessed.

On the other hand, most of the legal companies go too far with their "low rate" and "easy payment" appeal. Their rates are not low and cannot be low—except in comparison with illegal rates; and many of their clients, like many of the cus-

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tomers of instalment sellers, are sure to have hard times with "easy payments." There is no such thing as "painless debtistry."

It is too bad, therefore, that the advertising even of the legal companies tends toward overlending. In defense, the best of these companies contend that the poor borrowers would suffer if all the alluring appeals were left to the worst of these companies, and to the unscrupulous instalment sellers who bombard the consumer with offers of "easy terms." There is something to that. The objectionable advertising may be part of the price we have to pay for free competition, which undoubtedly is bringing down the actual rates.

Loan Shark Lobbies

Further evidence of the shrewdness of loan sharks in achieving their ends is the work of the "Congressional Information Service, Inc." This "organization" sent letters to members of state legislatures urging them not to legalize a rate of 3 per cent a month, and speaking with pretended feeling of the sufferings of poor borrowers. The letters were signed by H. C. White, Manager, and the address given was "Room 219, National Press Building, Washington, D. C." Futile efforts were made to locate Mr. White. No such Service had ever occupied Room 219 or any other room of the National Press Building. Thus, the illegal lenders rendered their "service" to the lawmakers without even the expense of hiring a room.

Similarly, the "Protective League" sent letters from a Chicago address, signed by Harry L. Dunn, to members of the Illinois legislature, urging that the poor borrower be protected by a reduction in rates. No such person as Harry L. Dunn could be discovered, and there was no such organization at the stated address.

At another time, the loan sharks offered their "aid" to legislators under the name of "The Citizens' Protective League, Inc.," Des Moines, Iowa. The "League" was organized just before the legislature met. The shrewdness of the loan

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sharks is shown by the fact that the manager of the so-called "Protective League" declined to attend the hearings on the bills which he so vigorously condemned by mail, in spite of the fact that offers were made to pay his traveling expenses.

"In Ohio," says the Better Business Bureau of Columbus, "this sort of thing occurs regularly every two years; but in each case the misleading propaganda emanates ostensibly from a different source, although bearing a remarkable resemblance."

The one aim of all these sham leagues is to have the lawful rate of interest on small loans made so low that the *licensed* lenders cannot do business. This, as already noted, leaves the whole field to the *racketeering* 240 percenters.

The heights of pretended indignation over usurers and the depths of undercover propaganda were reached with an article in *Real America* that attacked the licensed agencies. At the same time, a book entitled "The Small Loan Racket" called for protection of the poor borrower through repeal of the Small Loan Laws. It soon appeared, however, that Charles Corzelle, the author of the article and of the book, was really Charles M. Grant, and Grant was later revealed in a damage suit as the paid publicity agent of the Wagner loan shark chain of Milwaukee. Proof was produced in court of seventy-three payments in nine months to Grant, alias Williams, alias Corzelle. An officer of the chain swore under oath that the chain operated offices in various states with an interest charge of 240 per cent. Eventually, *Real America* apologized for having been duped by the loan sharks; but in the meantime the magazine and the book had been used in various states to prevent passage of effective regulatory laws.

One more case will be enough to illustrate the success of the loan sharks in getting magazines to publish their propaganda. They induced *Macfadden's Weekly* to publish a piece entitled "Gouging the New Jersey Borrower," which condemned the Russell Sage Foundation, the Uniform Small Loan Law, and the licensed personal finance companies. The piece was illustrated with a prominent picture of Edward A.

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Filene, philanthropist and promoter of credit unions, who was quoted as endorsing the article. Mr. Filene completely repudiated it. His letter to that effect was published, but not before the loan sharks had used the article in various efforts to keep their own 240 per cent illegal business free from the competition of legal lenders. And they are still using it. To get so much valuable space, free of charge, takes some kind of ability.

Illegal Lenders Use Good Citizens for Bad Ends

It takes ability, too, to get high-minded men and women to do your work for you; but that is what the loan sharks have done. Campaigns for the repeal of the Small Loan Law or for the reduction of rates to unworkable levels are carried on every year by the joint efforts of reformers, who are trying to help the poor borrower, and loan sharks, who are trying to rob him. For example, a member of the New York legislature, a college professor, is working hard to have the maximum rate in New York State reduced to one per cent a month. If he succeeds, the illegal lenders will move in and the legal lenders will move out. The tricksters would be glad to pay the professor well for his work, but the chances are that he does not even know that he is working for them. He appears to be unaware that small, unsecured loans, repayable in many instalments, cannot be made at the low bank rates which yield profits on large, secured business loans, repayable at one time.

Similar conditions exist throughout the country: Persons who are uninformed, but of good intent, cooperate with persons who are well-informed, but of evil intent.

Without such aid, the loan shark could not succeed, as he still does succeed in some states, against the opposition of all social agencies. Ever since the record of the first 240 per cent loan was chiseled in stone, long before Christ, the outlaw money lender has had all informed and honest persons against him. His sleep is still troubled by the fear that the morning will bring a new campaign to put him out of business. To survive, he must somehow outwit all the legal lenders; the

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credit unions, the personal finance companies, the industrial and commercial banks, and the remedial loan societies.

These agencies are not the only ones that are lined up against him. There are the organizations of labor, Legal Aid Societies, Better Business Bureaus, Chambers of Commerce, Family Welfare Societies, and Associated Charities. Not long ago, representatives of forty social agencies in Massachusetts petitioned the General Court not to make changes in the Small Loan Law that would enable the loan sharks to resume their illegal business in that state. Indeed, many presidents of the National Conference of Social Work have stood solidly against the illegal lenders; and this includes such leaders as Dr. Richard C. Cabot, Edward T. Devine, Homer Folks, John M. Glenn, Robert W. Kelso, Owen R. Lovejoy, and William J. Norton.

In spite of such opposition, the outlaw lenders have prevented the following states from passing completely effective small loan laws: Alabama, Arkansas, Colorado, Delaware, Florida, Georgia, Idaho, Kansas, Mississippi, Montana, Nevada, New Mexico, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Washington, Wyoming. The relative success of the various states in protecting needy borrowers is shown by the map on pages 16 and 17. Thirteen of these states—the black ones on the map—rely on unworkable usury laws.

Even more indicative of the far-flung undercover influence of the high-rate lenders is the fact that they still operate in the District of Columbia, over which Congress has complete control. Clearly, the people as a whole underestimate the abilities and financial resources of men whose loan balances increased from twenty-four million dollars at the end of 1923 to seventy-six million at the end of 1937, and who are still reaping illegal profits of at least one hundred million dollars a year.

Yet it is the people as a whole who suffer. Not one person out of a hundred of the entire population makes money, directly or indirectly, out of bootleg lending. The rest lose.

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The victims pay the loan sharks before they pay the grocers. All legitimate business suffers; all.

Illegal Lenders Still Escape Regulation by Old Tricks

When other tricks fail, and a bill is about to be passed under which legitimate companies can operate, the loan sharks attempt to bribe honest legislators to vote *for* the bill. Thus they cause an outburst of righteous indignation *against* the bill. A few years ago, a man turned up in Olympia, Washington, got in touch with reputable members of the legislature, handed them cards which purported to identify him with the Russell Sage Foundation, and tried to bribe them to vote *for* a sound bill. The trick worked. The bill and the Foundation were denounced on the floor of the House. The fake "agent" of the Foundation, who disappeared the same day, could not be traced; but his work had been done. The bill, which would have put his real employers out of business, did not pass.

Two years ago, in the same state, the loan sharks were not so canny: They were indicted for offering bribes on the floor of the House in efforts to *prevent* passage of a sound bill. However, the whole dirty business created such a furor that the bill was not passed. As usual, the loan sharks had their way; the state remained rich pay dirt for them, even though their lobbyist was convicted and fined $5,000.

"In one western state," said Leon Henderson, of the Russell Sage Foundation, now a member of the Securities and Exchange Commission, "the loan shark representative said he had had me shadowed, had tampered with my mail, and intercepted my telephone calls; but he admitted that it looked as if our bill would pass.

" 'What's the use,' said the loan shark agent, 'of two good men like you and I fighting each other? You take my side of the racket, or I'll take yours, and nothing can stop us.'

"Then he added slyly, 'You'd be better off to take my end because there's more money in it. You can have $10,000 now and $10,000 tomorrow, and no one would ever be the wiser.' "

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Even when no bribes are offered, it is customary for the loan sharks to see to it that at least one member of the legislature rises, just before a vote is taken, and denounces the advocates of the bill for trying to bribe him. This usually prevents some members from voting for the bill, lest they be suspected of having accepted bribes. Members are especially wary when small loan bills are up, because loan sharks have long been a notorious source of "easy money."

Yet they depend more on finesse than on finance. Sometimes they kill a sound bill by gaining the aid of a single politician, as they did in 1939 in one state. The Governor and the Committee on Banking advocated passage; both houses were ready to vote for the bill; but, at the end of the last day of the session, the man in control, double-crossing his own party, prevented passage by the simple device of neglecting to bring the bill to a vote. And this man, before his change of heart, had large political ambitions.

Another trick of the loan sharks is to send telegrams in the names of known *opponents* of the Small Loan Law, urging passage of the law. The telegrams are read on the floor of the Senate, and the men whose names have been forged indignantly repudiate the telegrams. Thus the duplicity of the advocates of the law appears to be proved, for the legislators seldom find out in time that it was the loan sharks, themselves, who sent the telegrams.

The Loan Sharks Are Losing Ground

Good citizens, unaware of the necessarily large costs of making small loans, have been slow to oppose the organized power of chicanery with the organized power of justice. Not long ago, however, the good citizens of Kentucky were sufficiently aroused to marshal all their forces and stay in the fight until a sound law was passed. Thus the loan sharks were dispossessed of one of their most lucrative fields.

In 1939, on many legislative fronts, the fights were hotter than ever. In Georgia, a Uniform Small Loan bill was defeated

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at the last moment by a narrow margin. In Texas and in Oklahoma, also, last-minute shifts among the legislators left these states in the clutches of the high-raters. In Florida, a regulatory bill was defeated when, in the last few minutes of the session, its passage seeming certain, a senator who opposed the bill struck with his cane a senator who favored the bill, and thus threw the Senate into confusion. Since then, however, Joseph A. Padway, Counsel for the American Federation of Labor, has begun against the Florida loan sharks the proceedings which he successfully conducted in Minnesota, in 1939.

In Washington, a regulatory bill failed to pass by only two votes, with the Governor eager to sign it. In Alabama, as we saw earlier, the Senate Committee on Banking unanimously endorsed a sound bill, the first time this has happened in Alabama. Apparently, better days are near for the hard-pressed wage earners in the loan shark centers of Washington and Alabama. Today, however, in these states and in the other black states on our map, most of the consumer borrowers continue to pay a rate several times as high as they pay in the twenty-six states that now effectively control the business.

The forces of law and order, unable to gain ground in these states, have nevertheless moved forward in others; and rarely do the outlaws recapture any territory that they have lost. The chief stronghold which they lost in 1939 is Minnesota. The new law should enable that state to clean up one of the worst situations in the entire country. Enforcement will be aided by a recent decision of the Minnesota Supreme Court which declares that any high-rater who persists in cheating needy borrowers is a public nuisance. Much credit for all this is due the American Federation of Labor.

Gains have been made also in Utah, Missouri, and California. In Utah, the new law prevents the loan shark from continuing to make high-rate loans under the pretext of doing a pawnshop business, and gives the Bank Commissioner the right to determine whether unlicensed lenders are obeying the laws. In Missouri, after a three years' fight led by the bar

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associations, legal rates were lifted to workable levels and the 240 per cent salary buying was outlawed. The loan sharks, to be sure, promptly found a way of evading this law by taking advantage of a forgotten amendment, passed by the Legislature in 1933, which permits extra charges; but this gives the high-raters only a short lease of life. In California, the voters on referendum accepted the measure which was designed to prevent the lenders from continuing to use the property brokers' dodge as a means of exacting excessive rates. For many years it has been said that the voters, if they ever had a chance, would denounce a maximum rate as high as 2½ per cent a month; yet that is the rate which the voters of California approved by a vote of about 18 million to 7 million. Only a few of the chief industrial states remain lucrative havens for the outlaws.

For further information on small loans and the pitfalls of instalment buying see *Credit for Consumers*, by LeBaron R. Foster. Public Affairs Pamphlet No. 5. For a copy, send 10c to the Public Affairs Committee, 30 Rockefeller Plaza, New York City.

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If you must borrow, beware of:

The lender who asks you to sign papers before the figures are filled in.

The lender who requires payment of the full principal and interest within a week or two.

The lender who requires you to buy expensive insurance as a condition of obtaining the loan.

The go-between or "broker" who for a fee offers to "arrange for" your loan.

The lender who requires you to pay, in addition to the legal rate, fees not authorized by law.

The lender—the so-called "salary-buyer"—who says he does not make a loan but purchases your wages.

The street corner or public-park lender who has no office, and the cigar-store clerk or other merchant who carries on lending as a side line.

The lender who, in a state which regulates the business, does not display a state license.

The lender who gives you, as part of your loan, purchase coupons which require you to buy something.

The lender who dates your note prior to the time when you get the money.

The lender who requires you to sign more than one note for one loan.

The lender who requires excessive security, such as a lien on your car, or a mortgage on your house, which is worth far more than the loan.

The lender who refuses to give you a copy of the papers you sign or receipts for payments.

The lender who, when you pay the debt in full, fails to return to you all the papers you have signed.

The lender who avoids regulation by requiring you to sign a receipt for more than $300 and lending you considerably less.

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First Printing, January, 1940

Printed in the United States of America

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