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Recent Legislation

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RECENT LEGISLATION

SMALL LOAN ACTS

In the last ten years of teeming prosperity anomalous as it may seem there has been an institution that has stretched its tentacles into the hearts of every community, the loan shark. The pawn shop is *passé*, this not a decade of hardship but of chattel mortgages. The drama used to picture the villain with mortgage in his left hand and a snake whip in his right driving out the debtor. Those were days of hardship but in this age of prosperity the loan shark quietly fleeces his clientele, no hard feelings, just business. The loan shark does not flourish big adds stating he is loaning at 36% a year, instead he advertises that he finances for the moderate sum of 3% a month. Investigation will show that loan companies have loaned money at the rate of 250% per annum, on every conceivable security or contingency that perhaps might become valuable in the future.

Futile attempts to legislate the evils of loan sharks were experienced until the year of 1910 when the Russel Sage Foundation began an investigation of the problem and the Uniform Small Loan Act emanated from this investigation in 1916. This act has been adopted by eighteen different states with modifications. In spite of the praises that might be directed at the Uniform Small Loan Act it is admittedly far from being satisfactory although it is the best legislation on the subject to this date.

The small loan problem has been dealt with by various methods. A futile attempt was made to regulate the shark by making an illegal rate of interest void and criminal but this was easily circumvented by subterfuge and indifference of the borrower. The next method attempted was the remedial loan societies which were financed by philanthropic men at a charge below the statutory rate and after a complete and efficient trial this method was a failure. The next method attempted was the most successful and is the form of legislation that has been advocated by the Sage Foundation, that of making the interest rate so that there can be a commercial profit.

The Small Loan Act limited the rate of interest to $3\frac{1}{2}\%$ per month on unpaid balances which the framers of the Act thought was a legal rate and was not above a commercial profit that should result from a small loan business. The rate of 42% a year is a tremendous profit in spite of the fact that small loan companies accept great risks and have a large overhead in proportion to their loans. It is obvious that the small loan company must charge more than the ordinary statutory rate because of the nature of the business itself, but it is also obvious that 42% per annum on loans is more than ordinary commercial profit.

Under the Act the loan company is licensed and the license will be revoked for any failure to observe the law. Anyone may obtain a license after giving proper bond and the books of the company are open for inspection by examiners giving the state an opportunity to check any violations. The act protects the wages to a great extent and greatly eliminates the evils that were prevalent before its adoption.

Regardless of what the Sage Foundation found to be a legal rate to insure commercial profit it has been proven by the successful operation of a new loan system that one who loans money at 42% a year is a loan shark. The fact that the Uniform Small Loan Act states that such interest is a legal commercial profit does not take the lenders out of the category of sharks. This is conclusively proven by the fact that new companies have sprung up loaning money from \$50 to \$500 not secured by any mortgage but loaned solely on the character of the borrower and his sureties. The rate charged by these new companies is from 7% to 9% and is worked on the budget plan, payments being made on the principal and interest monthly.

Recently New York banks announced that a new department would be opened to take care of small loans exclusively. The rate of interest in one of them was placed at seven percent and if the department is successful then the Small Loan Act will sink into oblivion because such a rate is no higher than the legal statutory rate and the Small Loan Act will be inapplicable. However there are many people that have no hesitancy to borrow money at exhorbinant rates, so the loan shark will still be with us and the Uniform Small Loan Act must be improved to properly regulate him.

T. V. H.