# The Mobile Story of Consumer Instalment Lending

"Let us all be happy and live within our means, even if we have to borrow the money to do it," was Artemus Ward's philosophy, and it might just as well be ours today. Buying a home, for example, almost always requires the purchaser to go into debt. In recent years, more and more consumers have borrowed to purchase automobiles and household appliances, make house repairs, take vacations, and for many other personal expenses. Consequently, the volume of consumer instalment indebtedness has expanded sharply.

Perhaps more significant, however, is that over the last 20 years American consumers have increased their indebtedness at a faster rate than their disposable income. Does this mean that more and more submarginal borrowers have been coaxed into the market by a lowering of lending standards? Has the quality of the nation's outstanding consumer loans deteriorated? Alternatively, could this rising volume of personal debt merely indicate that today's borrowers are more creditworthy?

Aggregate information such as the volume and level of personal debt and the ratio of consumer debt to disposable income does not reveal basic changes in attitudes and trends in consumer borrowing. Hence, the first step in answering questions concerning the quality of credit is to find out more about individual borrowers. For example, what age groups are most likely to use instalment credit, and for what purposes? Do persons with above-average incomes also borrow for instalment purchases? And what about the distribution of borrowers by occupation?

In order to answer such questions and to throw additional light on the characteristics of individual borrowers, we have made a special study of instalment customers at Mobile, Alabama, banks. In connection with a longer-run project[1] specific information related to individual borrower characteristics has been collected from these banks.

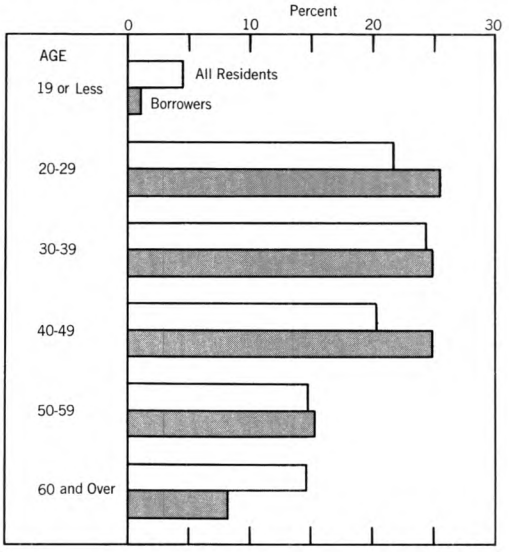
## Mobile Borrowers

Almost everyone that lives in Mobile and is old enough to work is a prospective candidate for a bank loan. Not everyone wants a loan nor does everyone who applies for a loan get it. Even if the bank has an ample availability of funds, the loan is granted on the basis of its probability of repayment. We can get some idea of the importance assigned to such characteristics as age, income, occupation, etc., by looking at the collective consumer lending experience of Mobile banks since mid-1965. If a bank's instalment loan customers can be identified from the distribution of certain characteristics of the population, then significant shifts over time in the profile of an area's economy would have important consequences for the demand for consumer credit. A comparison of Mobile borrowers and residents should reveal what segments of the population banks serve.

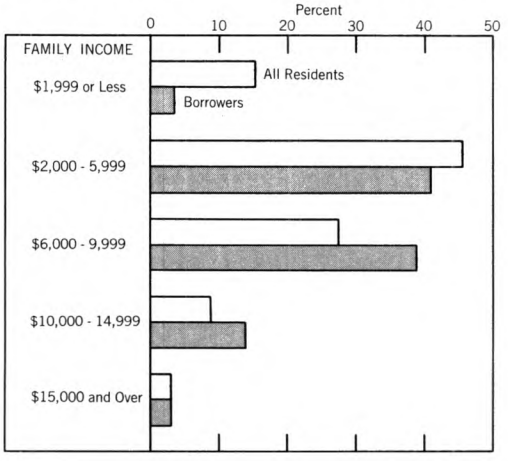
Our study of the characteristics of bank borrowers and Mobile residents revealed that about

[1] **Inquiry into Consumer Instalment Lending,** *a supplementary study containing tables and articles, is available upon request to the Research Department of this bank.*

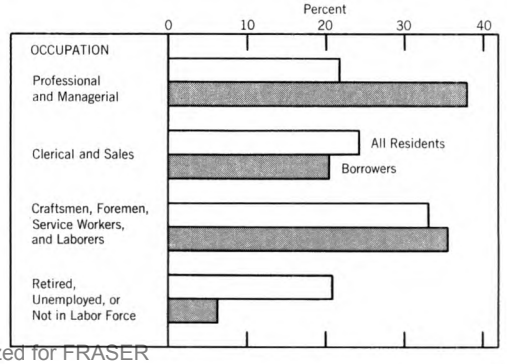
The ages of customers receiving consumer loans at Mobile banks closely parallel those of all residents in the area,




. . . but while banks serve customers in all income brackets, they definitely favor borrowers with higher incomes,




. . . which probably explains the heavier concentration of borrowers in the professional-managerial group.




half of the age 18 or over population is under 40, with nearly one-fourth of the total concentrated in the 30-39 age bracket. At the banks nearly one-fourth of the borrowers are also from 30-39 and slightly over half of the customers are less than 40. In general, these banks seemed to prefer lending to borrowers in the productive work years from 20 to 60. Loans to persons under 20 and over 60 are proportionally less than the number of residents in these age groupings.

In 1960, nine out of ten families in Mobile had annual household incomes of $10,000 or less. Similarly, over 85 percent of the borrowers at Mobile banks also had household incomes of less than $10,000 annually. But while close to one-half of all families had incomes between $2,000 and $6,000, only about two-fifths of the borrowers were in this range. Conversely, nearly 38 percent of the borrowers and 24 percent of the residents had incomes ranging between $6,000 to $10,000 annually. About 15 percent of Mobile's families had incomes of $2,000 or less, but borrowers reporting incomes this low held only 3.5 percent of the total number of consumer loans at banks.[2] Family income is one of the important gauges banks use in evaluating loans, and the chances of receiving a loan, other things constant, improves with the borrower's income. And, of course, income depends largely upon one's occupation.

Approximately one-third of Mobile's workers are craftsmen, foremen, service workers, and laborers. Next in importance in terms of numbers employed are clerical and sales people, followed closely by the professional and managerial group. Close to one-fifth of the population is retired, not in the labor force, or unemployed. Mobile banks granted most loans to the professional-managerial group who received nearly twice as many loans as would be expected if the banks allocated their loans on the basis of area job distribution alone. Others actively employed received about their proportionate share of loans, while those not commonly considered in the labor market received only a small share.

## Characteristics Vary With Loan Type

Some differences in borrower and loan characteristics were noted between those borrowing to

[2]These comparisons may be distorted somewhat since the data on Mobile's income distribution are based on 1960 information, while the loan figures are for 1965-66. Any changes that have occurred over this period, however, would probably have resulted in a shift toward a heavier concentration in the upper income groups, which would not materially affect the results presented.

purchase automobiles and those obtaining funds for other purposes. Individuals negotiating loans to purchase automobiles tended to be younger, with about one-third in the 20-29 age bracket. Over 55 percent of all auto loans were granted to those under 40.

The largest proportion of auto loans were made to borrowers who had lived in the community and worked at the same firm less than five years. Because the population has become increasingly mobile in general, perhaps age and future job prospects or previous recommendations are used more often in judging loan applicants than years of residence or employment.

Mobile residents that financed auto purchases recorded average loans of $1,750, with monthly payments of nearly $70 extending over a two-year period. The amount of auto loans was fairly evenly distributed among all size categories, about 50 percent below $1,500 and 50 percent above that amount. Nearly three-fourths of all borrowers had monthly payments ranging between $30 and $89. Only one-fifth of the loans were for less than one year; the remaining loans were divided equally between 13-24 and 25-36 months each. Only a fraction of one percent of the loans exceeded 36 months.

Mobile banks appear to be following the characteristic trend of most banks to make more new car loans than used ones. Borrowers, however, have held their monthly payments below $90 by extending the repayment period.

Consumer loans for other purposes averaged over $1,000 less per loan than auto loans. Three-fifths of these loans were less than $500, and 80 percent were for $1,000 or less. Similarly, three out of five loans were to be repaid in 12 months or less. Monthly payments for about one-half of the "nonauto" loans averaged less than $30.

The average "nonauto" borrower was slightly older, had worked for his present employer longer, but had fairly low household income. This group was comprised of relatively fewer young persons and more borrowers 60 years old and over. They seemed to be longer-term residents and employees. One-half had annual household incomes of less than $6,000.

Hence, the "nonauto" borrower, although in a lower income bracket than the auto borrower, appears to be more mature and perhaps a better credit risk, as measured by job tenure and years residing in the area. Furthermore, his characteristics seem to match more closely those of all Mobile residents.

### Banks Meet Needs

Based on the tentative conclusions of the Mobile study, banks' instalment lending activity appears to be serving most segments of the population. However, it is doubtful if an economic profile of the area itself could be used to accurately describe the structure of a bank's instalment loan market. While the characteristics of Mobile's population and banks' instalment loan borrowers are similar, certain income, occupation, age groups, and variation among borrowers limit the scope of comparison.

Individuals who borrow from banks may not be typical of instalment borrowers at all lending institutions. Nevertheless, banks are the most important instalment lenders, accounting for more than two-fifths of the nation's outstanding consumer credit. Consequently, the characteristics of those consumers who use bank instalment credit provide a clue to lending in an important part of the market.

ROBERT E. SWEENEY AND JOE W. MCLEARY

## Bank Announcements

The **Mercantile Bank and Trust Company,** Gretna, Louisiana, a newly organized nonmember bank, opened on March 18 and began to remit at par for checks drawn on it when received from the Federal Reserve Bank. Officers are Francis J. Henry, president and chairman of the board; John A. Churella, vice president; and Harold C. Boutte, vice president and cashier. Capital is $450,000; surplus and other capital funds, $300,000.

On March 24, the **First National Bank of Brooksville,** Brooksville, Florida, a new member bank, opened and began to remit at par. W. E. Patterson is president; Ellwood Johnson, vice president; and Harold R. Hjort, cashier. Capital is $200,000; surplus and other capital funds, $200,000.

Another new member bank, the **Capital City Second National Bank of Tallahassee,** Tallahassee, Florida, opened on March 27 and began to remit at par. Officers are Godfrey Smith, chairman and president; John Y. Humphress, executive vice president; and Rodney L. Scarboro, cashier. Capital is $280,000; surplus and other capital funds, $224,000.