Pollack Foundation,
Newton, Mass.,
February 14, 1935.

Hon. Marriner C. Eccles,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Eccles:

When I had lunch with you in Washington I spoke to you about the Bill introduced by Senator King for the regulation of small loans in the District.

At your suggestion I wrote my objections to the Bill and sent a copy to Fritz Champ and a copy to Governor Dern. I asked Fritz to take it up with Senator King.

I enclose a copy of my statement.

With much appreciation of the opportunity you gave me for the talk in Washington, I am

Faithfully,

WTF:R

William T. Foster

Statement concerning proposed Small Loan Law for the District of Columbia

The Small Loan Law for the District of Columbia, introduced in this session by Senator King (S.1162 and H.R.3463), would not achieve its avowed purpose but on the contrary would deprive the most necessitous borrowers in the District of full services under protection of the law. Moreover the passage of this law would tend to discredit throughout the country the achievements of two generations of social workers who have opposed the unlicensed operators and brought about the adoption in twenty-six states of the Uniform Small Loan Law, as sponsored by the Russell Sage Foundation.

Every year powerful organizations of unlicensed members work under cover in every state, either for the repeal of the Small Loan Law or for changes in the law which would prevent reputable companies from doing business. The passage, in the nation's capital, of a bill that seems to discredit the present Small Loan Law in twenty-six states would be used by illegal lenders in every state as an argument for undoing the notable achievements of the past twenty years.

The sponsors of this bill ignore the previous studies and recommendations of the District Commissioners and the Sub-Committee. The bill introduced by Senator Capper (S.5629), in the Third Session of the 71st. Congress, was favored by the Committee, although no vote was taken by the Senate. The bill introduced by Congressman Bowman, (H.R.9592), in the First Session of the 72nd. Congress, was recommended by the District Commissioners and by the Committee, but did not come to a final vote. These two bills were introduced again in 1934 and referred to the Committee on District Affairs, but the Committee took no action. These two bills, unlike the one now before Congress (S.1162), are based on the principles which have been thoroughly tested during twenty-three years of experience with small loan legislation now covering twenty-six states. These principles have not yet come to a vote in either branch of Congress, though they have been endorsed repeatedly by the District Commissioners and by the Committee on District Affairs.

Experience under the small loan laws proves that, even in the most favorable localities, a maximum rate lower than 3% per month on the first $100.00 and 2% on the next $200.00 (or a rate of 2$\frac{1}{2}$% on all loans up to $300.00) does not achieve the purpose of providing necessitous borrowers with loans by licensed lenders. Indeed, even these rates do not guarantee full service to borrowers, because these rates do not cover the costs of making very small loans. In every state where the maximum rate has been fixed by law as low as the rates in the proposed law, (S.1162), the law has driven licensed lenders out of business, and this has prevented necessitous borrowers from obtaining the regulated services which the law was designed to provide. The rates specified in the proposed law are lower than the rate in the bill which became a law in New York State, while President Roosevelt was Governor of that state.

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The proposed law, moreover, legalizes special fees and discounting in advance. Experience in many states proves that provisions for special fees and for discounting in advance because of special expenses of operation in connection with certain loans, to a large extent prevent the law from accomplishing its purpose. In the files of the Russell Sage Foundation is a long list of evasions of the law in cases where, in the past, the law has allowed special fees; and no way has yet been found of preventing these evasions. There is the same objection to the provisions in the proposed law for higher rates for loans which are regarded as unusually hazardous. In actual practice all these provisions open the way to evasions and injure many more borrowers than they help.

Moreover, the proposed law actually permits much higher rates than the Uniform Small Loan Law. The maximum rate per month, which is permitted in any of the twenty-six states which now have the Uniform Small Loan Law, is 3½%, whereas the proposed bill permits a rate per month on certain small loans, where fees are collected in advance, of over 40%. The Uniform Small Loan Law, under fire for many years in many states, has been tested in various courts. It provides no loop-holes. Lenders who wish to evade that law have been unable to find a way to do it, in any state which has made a reasonable attempt to enforce the law. The proposed bill on the other hand, which varies widely in its phrasing from the Uniform Small Loan Law, is highly experimental. It has many features which probably are dangerous. It is impossible to tell in advance, however, what difficulties of administration would arise.

Since the original draft of the Uniform Small Loan Law was made in 1916, the law has been modified repeatedly by the Russell Sage Foundation in order to prevent evasions and abuses and to make its language clear. The long experience with this law and the numerous interpretations by the courts give it a guarantee of fitness for its purpose which no boldly experimental law can possibly have.

The proposed law should not be passed.

William T. Foster

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NEWTON, MASSACHUSETTS

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