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REMEDIAL LOAN ASSOCIATIONS: A HISTORICAL
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REMEDIAL LOAN ASSOCIATIONS:
A HISTORICAL CONTRIBUTION TO CURRENT MICROFINANCE PRACTICE

By

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ABSTRACT

REMEDIAL LOAN ASSOCIATIONS:
A HISTORICAL CONTRIBUTION TO CURRENT MICROFINANCE PRACTICE

By

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Microfinance has evolved as an important strategy for promoting community development and poverty alleviation goals through provision of financial services to low-income individuals, households and enterprises. The antecedents of modern microfinance can be traced back to the development of a wide range of institutions and movements that shared the aim of expanding financial services to poor clients. This study examines the remedial loan association (RLA), a type of charitable lending institution active in the United States from the 1890s through the early part of the 1900s.

The purpose of this study is to describe the structure, performance and outcomes of RLAs in order to inform current microfinance practice. This purpose underlines the study's central question: What lessons does the experience of the Remedial Loan Associations offer the current practice of microfinance? The financial systems approach to microfinance development and processes of commercialization provide the analytic framework.

The study addresses these questions through an embedded case research design that identifies RLAs, located within the broader remedial loan movement as circumscribed by the membership and activities of the National Federation of Remedial Loan Associations, as the unit of analysis.

ACKNOWLEDGEMENTS

This research would still be but a dream except for the support, patience and considered thought provided by Inger Giuffrida. Her unfailing belief that there was a story here to be told and that I was the one for the task was my constant companion. I owe the realization of this dream, and of all my dreams, to her.

My appreciation is due Dr. Rene Rosenbaum for the guidance he has provided as my academic advisor throughout the research process. His interest and insight has contributed greatly to this work and to the process of learning that it represents. Mr. John Melcher and Dr. John Schweitzer have as well offered much support in the development of this work.

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Background

Overview of the Modern Microfinance Industry

Microfinance, 'the large-scale provision of small loans and deposit services to low-income people by secure, conveniently located, competing commercial financial institutions'[1] has evolved as an important strategy for promoting poverty alleviation and economic development goals. Microfinance has grown dramatically over the past twenty years in numbers of microfinance institutions (MFIs) and their outreach, the range and sophistication of products and services offered to clients, and support from donors and governments.

While there is a consistency of ends within the microfinance movement, expressed by Rhyne[2] as 'a basic goal: to provide credit and savings services to thousands or millions of poor people in a sustainable way', two camps have developed as to the means.[3] The first, or the 'poverty-lending approach', places emphasis on reducing poverty through the provision of financial services to very poor people as a means for personal empowerment. In addition to emphasizing the need for support activities beyond financial services such as education, health and related services, this approach often characterizes credit as not just a

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[1] Robinson, 2001, xxx
[2] Rhyne, 1998, p. 6
[3] Morduch, 2000; Schreiner, 1999

business tool but as a human right.[4] MFIs within the poverty-lending approach place greater emphasis on social development and poverty-alleviation objectives than commercial operations and ends, resulting in continued use of government and donor subsidies.

The 'financial systems approach'[5] to microfinance is the second camp within the microfinance industry, and the one that has arguably gained ascendancy within the field. The financial systems approach 'views the aim of the microfinance movement as developing the ability and willingness of the financial system to serve the poor on a fully commercial basis'.[6] Ledgerwood identifies the following beliefs as characterizing this approach:

- 'Subsidized credit undermines development.
- Poor people can pay interest rates high enough to cover transaction costs and the consequences of the imperfect information markets in which they operate.
- The goal of sustainability (cost recovery and eventually profit) is the key not only to institutional permanence in lending, but also to making the lending institution more focused and efficient.
- Because loan sizes to poor people are small, MFIs must achieve sufficient scale if they are to become sustainable.
- Measurable enterprise growth as well as impacts on poverty cannot be demonstrated easily or accurately; outreach and repayment rates can be proxies for impact.'[7]

This trend toward the commercialization of microfinance, the process by which MFIs move from a reliance on donor subsidies to market-based operations within the formal regulated financial system, has 'left no one untouched' within the field

[4] Microcredit Summit Charter quoted in Robinson, 2001, p. 25
[5] Otero and Rhyne, 1994; Robinson, 2001
[6] Rhyne, 2001, p. 3
[7] Ledgerwood,1999, p. 2 and 3

of microfinance.[8] The financial systems approach places emphasis on creating viable microfinance institutions capable of tapping into domestic and international capital markets and for-profit investors to fund large-scale outreach to poor clients on a sustainable basis. Such a linkage with the commercial capital markets is viewed by many as necessary to ensure sufficient outreach of appropriate financial services to all poor people. Concern is expressed by some, however, that the logic of commercialization, basically the logic of profit-maximization within the market, will decrease an MFI's ability to maintain focus on and commitment to serving very poor clients.

Christen, in an overview of commercialization and its implications for microfinance, identifies the success of industry leaders, or 'pioneers', as being a primary driver of the process.[9] Their success in creating a profitable market for microfinance provides incentives for new entrants to the field. The increasing number of new institutions, either non-governmental organizations that have 'transformed' themselves into regulated banks or non-bank financial institutions, commercial banks that have moved 'down-market', or organizations specifically created for this new market space, has fueled the growth of competition in microfinance markets for both clients and capital.[10] Competition within microfinance markets has contributed to positive changes such as improved quality of products and services and their diversification, a broadened definition and improved understanding of market segments, and a decrease in costs to

[8] Christen, Robert Peck, 2002, p. 4
[9] Christen, 2002, p. 4
[10] Tucker, 2001, p. 110

clients, though over-indebtedness of clients and increasing risk within MFI portfolios has been noted.[11] MFIs have been forced by competitive pressures to focus more on external forces such as competitors and clients as they struggle for market share, rather than internal management and operational issues that supported previous expectations of growth.[12] The increasing number and variety of microfinance institutions and the growing complexity and importance of microfinance markets fostered by the commercialization process has contributed as well to a growing emphasis on developing appropriate legislative and regulatory frameworks.[13]

While Christen finds that the competition fostered by commercialization can contribute to improved operations, product offerings, and possibly breadth of outreach, he notes that it does not ensure that microfinance institutions will strive to move 'down market' to serve poorer clients.[14] Though industry pioneers play a key role in initiating the process of commercialization within their broad markets, Christen suggests that successive change comes from new and innovative entrants to the field, and that the microfinance community has a role in shaping new innovations to ensure that microfinance continually reaches out to more and poorer client markets.[15]

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[11] Christen, 2002, p. 3
[12] Rhyne, 2002, p.201
[13] Christen, 2002, p. 7
[14] Christen, 2002, p. 19
[15] Christen, 2002, p. 19

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[16] Menning,
[17] Woolcock,

Historical Microfinance Institutions and Their Lessons

While these two approaches, and the MFIs associated with them, have come to define microfinance over the past twenty years, microfinance itself enjoys a much longer history. The antecedents of modem microfinance can be traced back to the development of a wide range of institutions and movements that shared the aim of expanding financial services to poor clients. Credit cooperatives and people's banks of 19th century Europe offer examples of pioneering commercial microfinance institutions for their time. A strong tradition within the poverty-lending approach can be found within the development of Hebrew free loan societies, and the *monti di pietas* or charitable pawnshops originally sponsored by the Catholic Church beginning in the fifteenth century.[16] While these institutions have had varying impact on the development of financial institutions and markets, they underline the importance of financial services as a means to address poverty alleviation goals as well as offer examples and lessons that can be useful in developing current practice.

Historical microfinance institutions such as these have been used to explore a number of issues relevant to current microfinance theory and practice. Michael Woolcock[17] examined the failure of The People's Banks in late 19th century Ireland to identify factors that support successful program replication across different social and cultural contexts. German credit cooperatives from the same

[16] Menning, 1993
[17] Woolcock, 1999

time period were studied by Timothy Guinnane[18] to test a hypothesis concerning the roles of information and incentives in credit markets and financial institutions often advanced by microfinance advocates. Roger Levasseur and Yvan Rousseau[19] performed a review of the historical trends in the Desjardins credit cooperative movement of Canada to contextualize and inform analysis of current changes in the form and structure of credit cooperatives. Finally, Aidan Hollis and Arthur Sweetman[20] compared six 19th century European microfinance institutions to identify characteristics of institutional design conducive to sustainability. Of their work, Hollis and Sweetman stated that 'it would be inappropriate to ignore the valuable knowledge about sustainability that historical microfinance organizations can teach us.' The findings of the other studies demonstrate this to be valid as well for a broad range of issues related to microfinance.

Remedial Loan Associations and Their Current Relevance

One form of historical microfinance institution, however, that has received relatively little attention is the remedial loan association (RLA), a form of charitable lending institution active in the United States from the 1890s through the early part of the 1900s. Born out of the severe depression of the 1890s and the transition from industrial to corporate capitalism, RLAs attempted to provide poor people with increased access to credit through sustainable business practices. An explicit goal held by many was to directly combat the growth of

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[18] Timothy Guinnane, 2001
[19] Levasseur and Rousseau, 2001
[20] Hollis and Sweetman, 1998

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[21] Calder, 199

[22] Calder, 199

illegal moneylenders by providing a competitive alternative that met the needs of both clients and investors. While formed and operated along commercial lines, they remained philanthropic in intent practicing 'philanthropy at 6%', a motto referring to an expected, though limited, return on capital investments.[21]

The RLA movement saw the formation of forty-four institutions by 1918, the last year in which one was established. The RLAs primarily served urban markets in large industrial cities of the United States, though two RLAs were located in Canada. RLAs specialized in small consumer loans and attempted to provide them in a commercially viable manner. The National Federation of Remedial Loan Associations (NFRLA), the trade association for remedial loan associations formed in 1909, played an active role in developing the operations of its members as well as advancing important consumer finance legislation that laid the foundation for today's consumer credit industry.

The rise of RLAs and their role in addressing the 'small loan problem', as contemporary illegal moneylending activity was termed, was briefly described by Calder within the context of his broader cultural history of consumer credit in the United States. While he concludes that they had limited overall impact on suppressing illegal moneylending activity, RLAs were described as 'seedbeds for ideas that would later grow into successful alternatives to loansharking'.[22]

[21] Calder, 1999, p. 120
[22] Calder, 1999, p. 121

Caskey[23] also discusses the beginning of RLAs as part of the historical context for modern pawnbroking activities. As in Calder's description, Caskey places emphasis on the founding and operations of the Provident Loan Society in New York City, a leading institution within the remedial loan movement and the only one still in existence.[24] The Provident Loan Society is also used by Von Pischke to illustrate innovations in collateral valuation and the development of capitalization strategies that balanced both commercial and philanthropic concerns.[25] Information on other RLAs is limited to brief sketches as is discussion of the NFRLA and its activities.

These accounts provide useful but limited glimpses into the development, operations and impacts of RLAs. While the studies primarily present an intriguing gloss of the industry or a particular focus on aspects of one leading institution, an in-depth study of the broad range of individual RLAs as well as the formation and activities of the NFRLA, is needed to harvest the lessons of these 'seedbeds of ideas' for contemporary microfinance practice. Such a study is timely because of a number of current theoretical, policy and practical concerns within the present day microfinance industry. The remedial loan movement promises insight into the current debates of poverty-lending versus the financial systems approach, a tension encapsulated in the 'philanthropy at 6%' motto. The remedial loan movement may also speak to the efficacy of both competitive and legislative approaches to resolving the 'small loan problem', and inform an

[23] Caskey, 1994
[24] Caskey, 1994, p. 23-26
[25] Von Pischke, 1991, p. 21-23, 37-39

understanding of the commercialization process. Finally, the procedures and activities of RLAs may provide examples of new tools for current microfinance practitioners to adopt and emulate.

Purpose Statement

The purpose of this study is to describe the structure, performance and outcomes of RLAs in order to inform current microfinance practice. This purpose underlines the study's central question: *What lessons does the experience of the Remedial Loan Associations offer the current practice of microfinance?* Additional questions addressed in order to gain a fuller understanding of RLAs include:

- How did RLAs conceptualize the problems they were addressing?
- What actions did RLAs take to address these problems?
- How were RLAs organized, structured and funded to implement these actions?
- What effects did RLAs have on their identified problems?

Answers to these questions will provide a better understanding of institutional design options, potential activities and possible outcomes to inform current microfinance practice. A better understanding of the movement's history and evolution could shed light on the possibilities of present finance-led strategies as a social intervention for both poverty alleviation and community development.

Research Design

A qualitative, ethnographic approach is taken to develop and understand the "cultural categories that organize informants' perceptions of their circumstances."[26] This approach is suited for addressing the primary research question because of the focus on understanding the experiences of the RLAs and drawing out lessons that are relevant to current practice. Qualitative inquiry's focus on describing processes and their enactment within social and cultural contexts[27] is relevant to the study's supporting questions concerning the ways in which the RLAs were conceived, organized, and operated to meet socially and culturally defined goals.

The study addresses these questions through an embedded case research design that identifies RLAs, located within the broader remedial loan movement as circumscribed by the membership and activities of the National Federation of Remedial Loan Associations, as the unit of analysis. Focus is placed on identifying, describing and comparing aspects of RLAs to form an understanding

[26] Curtis and McClellan, 1995, p. 130
[27] Janesick, 1998, p. 42

of the movement as a whole, especially within the context of commercialization processes.

Conceptual Framework

A literature-based conceptual framework was developed to guide the data collection and analysis activities of the research process. This framework provided a starting point for the inductive, iterative process of data collection and analysis consistent with the qualitative research design. The financial systems approach and related process of commercialization as outlined above provides the basis for the frame used to inspect data on RLAs. Given the focus of the financial systems approach on the commercial operations and goals of RLAs, the following set of functional categories germane to the study of commercial financial institutions, with examples of defining questions, was used in organizing and categorizing data:

1. Mission – What are RLAs trying to accomplish? How do the RLAs define the problems to be addressed? What are the causes of the problem being addressed? How is the RLA's market defined?
2. Governance – How is the RLA legally structured? How are roles, responsibilities and tasks distributed? How are resources allocated?
3. Capitalization – How is the RLA's operations funded? How is capital structured? How does the capital structure support the mission?
4. Performance – How is financial performance measured? What other performance measures are used? What is the RLA's financial condition?
5. Products – What products are offered? How do they meet identified client needs? How are they adapted over time? How do they relate to the RLA's mission and performance measures?
6. Outcomes – What is the breadth and depth of outreach? Does the client base reflect and support the mission? How are outcomes measured?

Sample selection

The scope of the study is focused on RLAs that were members of the industry's national trade association, the National Federation of Remedial Loan Associations. This selection should not significantly affect the study's conclusions, however, because of the broad membership that the NFRLA maintained from among the RLAs.[28]

Data sources and collection methods

Both primary and secondary data sources are used as a basis for this study. Primary data sources consist of archival records related to the operations of RLAs and the NFRLA, staff correspondence, and minutes of meetings and reports from RLAs and the NFRLA. Secondary sources include speeches, contemporary articles in trade and popular press, and academic research reports. Archives of the National Federation of Remedial Loan Associations and the Russell Sage Foundation's Division of Remedial Loans provide a wealth of both primary and secondary data sources. Limitations on the availability of records of some RLAs or on specific aspects of RLA activities raise the possibility that available records may, however, provide an incomplete view of operations. This limitation will be assessed and addressed through the data analysis process. A list of the data sources used in the analysis is presented in Appendix A.

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[28] Robinson and Nugent, 1935, p.147

Data analysis

Qualitative research designs are characterized in part by the simultaneous, iterative nature of data collection and data analysis processes.[29] These activities represent the researcher's reflective engagement with the data.[30] The objective of this reflection is described by Bernard[31] as the search for patterns within data and 'for ideas that help explain the existence of those patterns.' The data analysis process developed patterns of meanings and appropriate categories and taxonomies related to the research questions with a focus on individual RLAs as well as across the remedial loan movement.

A range of data analysis techniques was used to analyze the research data. Data was coded and indexed as it was collected to aid in the constant organizing and reorganizing process inherent in qualitative analysis. The primary research question focused on identifying relevant lessons from the remedial loan movement for current microfinance practice requiring the development of categories, or typologies, of lessons to be derived from the research data. A process of successive approximation and analytic comparison[32] was used to construct such a typology. Neumann describes this process as starting with general ideas and questions about a phenomenon that are then refined in a cyclical fashion through continued data gathering and analysis until a grounded

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[29] Janesick, 1998, p. 42
[30] Stake, 1998, p. 99
[31] Bernard, 1994, p. 360
[32] Neumann, 1997

set of categories is constructed. The production of matrices and tables to present and organize the data was also used to inform the analysis process.[33]

A complementary analysis method was used to focus on defining 'native' or 'folk' taxonomies related to the organization and operation of the RLAs. Bernard defines a native taxonomy as a 'description of how people divide up domains of culture, and how those domains are connected.'[34] Such taxonomies were used to order and guide daily experiences and to assist in providing an 'insider's view' of the phenomenon under study. The development of such taxonomies assisted in developing and conveying a grounded understanding of RLAs, and assisted in drawing comparisons with current microfinance terminology and issues.

The qualitative nature of the research design allows for multiple interpretations of the data and resulting analysis. While this limits the types of statements and findings that can be made, each alternative interpretation underscores the complex nature of financial institutions and services, and offers potentially useful insights into their operations.

[33] Bernard, 1994, p. 365
[34] Bernard, 1994, p. 386

Study Outline

This first chapter of the study presents an overview of the problem being addressed. The following chapter describes the historical, social and economic context of the RLAs with a focus on the processes and forces that shaped the remedial loan movement. Chapter Three presents a description of the remedial loan movement illustrated with examples drawn from specific RLAs. Themes, experiences and lessons from the remedial loan movement are then discussed within the context of their relevance to current microfinance practice in Chapter Four. The last chapter presents a final summary and conclusion with recommendations for further research.

2. HISTORICAL, SOCIAL AND ECONOMIC CONTEXT OF THE REMEDIAL LOAN MOVEMENT

The remedial loan movement first took root in the United States in the mid-1890s and blossomed in the opening decades of the twentieth century. While the difficult economic times caused by the Depression of 1893 – 1897 provided the initial spur to action, recognition of deeper social forces at play and contemporary innovations in addressing conditions of poverty shaped the development of remedial loan associations. The widespread unemployment and deepening poverty that resulted from the Depression was met by an unprecedented level of both public and private relief efforts across the country, notable, however, more for their 'novelty and variety' than for their efficacy.[35]

In part as reaction and critique to these charitable responses and as an extension of the application of the scientific method to social concerns, the philosophy and practice of 'Scientific Philanthropy' was developed as an approach to addressing poverty and as a 'revolt against spendthrift almsgiving.'[36] Chronic dependence among the recipients of charity was seen as a 'pernicious disease' to be avoided, and charity should therefore only be given when absolutely necessary. The need to verify requests for assistance, determine their causes and circumstances, and develop appropriate responses resulted in an emphasis on thorough investigations of individual requests for charity.

[35] Rezneck, p. 329
[36] Bremmer, 1992, p. 124

Charity Organization Societies (COSs), or Associated Charities, were key institutions in developing and advancing the philosophy and practice of 'scientific philanthropy.' Originating in London in 1869, COSs were initially founded to rationalize and improve the provision of charity by fostering better administration of private charitable activities, coordinate work of existing philanthropic agencies, and act as clearinghouses and referral centers for member organizations.[37] Over time COSs began to fund and implement their own services. Frank Tucker, formerly the General Agent for the New York Association to Improve the Conditions of the Poor and later a key influence in the development of the remedial loan movement as manager of the Provident Loan Society of New York, stated that: 'The work of any organization dealing with dependent families is two-fold: the elimination of causes of dependence by creating public sentiment, opposing bad legislation and urging good, by investigations to oppose evil, and agitating for and developing municipal activities, and the actual care and treatment of dependent families with a view to reestablishing their self-dependence or providing adequate relief to supplement their subnormal earning capacity when their condition should be made as nearly normal as possible in their own homes.'[38]

In these efforts, COSs pioneered the use of 'friendly visitors', positions originally filled by volunteers but then increasingly by paid employees in the 1880s and 1890s. Friendly visitors played the roles of detectives that ascertained the

[37] Bremmer, 1992
[38] Tucker, Frank, 1901

circumstances and needs of the poor, and moral role-models that provided advice and example in efforts to assist the poor in gaining self-sufficiency. As part of their duties, friendly visitors gathered reams of data on the lives of their charges, such as housing costs and conditions, daily expenses, health and sanitation conditions, and employment and wages. Such activities gave rise to both the development of 'case work' as a form of social work and 'case studies' as a form of scientific research.

The data and experience generated through these numerous and intimate encounters with poor people affected the contemporary understanding of the causes and nature of poverty. 'Industrial' causes of poverty, such as dependence on wage labor, limited bargaining power, stress on social relations, and effects of recessions and business cycles, came to be seen as more important than personal or moral causes.[39] Poverty came to be viewed not just as a cause of social problems, but also as their result.[40] The concept of poverty was further expanded around the turn of the century to consist of more than just a state of dependency, but it also embraced the notion of insufficiency and insecurity, and the focus on both current and future need. COSs' philosophy and actions were based on three fundamental outcomes of this conception of poverty: it was an abnormal condition, it was unnecessary and 'curable', and its treatment

[39] Bremmer, 1992, p. 56
[40] Bremmer, 1992, p. 124

required more fundamental changes in social and economic relations than an increase in generosity on the part of the rich could provide.[41]

These tenets provided a foundation for scientific philanthropy, and the increase in sociological studies of poverty conditions provided tools for its expression and development. The potential of this approach was underscored by the reception of a landmark study on the housing conditions of the poor in New York City at the turn of the 20th century. The Tenement House Problem, authored by Robert DeForrest, provided a detailed examination of New York's tenements based on extensive data collection. The report prompted Theodore Roosevelt to establish the New York Tenement Housing Commission as well as implement all of the study's recommendations. Beyond its immediate effects on policy reform in the housing arena, the report 'demonstrated that social evils long denounced in general terms could be analyzed factually, specific remedies for their correction could be prescribed, and those remedies would be applied if convincing evidence of their need and appropriateness was presented to the public.'[42] Many concerned with social change at the time learned from the report the effective role that research could play in prompting social reform.

[41] Bremmer, 1992, p. 55
[42] Bremmer, 1992, p. 150

Overview of the 'Small Loan' Problem

From the 1890s and into the first years of the twentieth century, the dramatic and visible increase of 'loan sharks' and pawnbrokers came to the forefront as a widespread social issue. Every city with more than thirty thousand in population was estimated to have a usurious money lender for every five to ten thousand inhabitants with one in five voters making use of a moneylender every year.[43] In Boston alone, one company with 5 offices made 45,000 loans in 1910 at an average interest charge of 228% per annum. In New York City over 200 companies and individuals were found to be offering chattel loans with interest rates as high as 300% per annum.[44] Another 200 pawnbrokers operated in the City, representing more than $15 million in capital, and performing an estimated 10,000 transactions per day.[45] The total interest collected annually each year in New York City was estimated to be twice as much as needed to support the Charity Organization Society, Association for Improving the Condition of the Poor, United Hebrew Charities, and the Bellevue and Allied Hospitals.[46]

The issue of moneylenders was not a new social phenomenon at the turn of the century. Lending and borrowing money had been a problematic enterprise bearing the weight of a long history of social, moral and religious connotations and constraints. Both the lender and borrower had been reprimanded for

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[43] Ham, 1911, p. 1
[44] Ham, 1911
[45] Tucker, 1909, p. 23-24
[46] Ham. 1911, p. 2

engaging in the act of lending or borrowing – 'Neither lender nor borrower be.' Contemporary views of moneylenders reasserted traditional descriptions of their objectives as being to 'exact and extract from their luckless customers all that their nefarious traffic will bear'[47] while 'the whole purpose of the system (loan sharks) is to obtain what is practically a lien upon the earning capacity of that borrower.'[48]

The perspective on the borrower, however, began to change in light of the evolving conception of poverty, and the detailed understanding of the financial needs of the poor gained through case work interactions. Social reformers began to view resorting to a moneylender not necessarily as a moral failing, but as the only recourse available to meeting a real financial need. Borrowing began to be recognized as a legitimate need faced by all from time to time, and it was an indictment of the financial system, and not the borrower, that only usurious credit sources were available to the 'common man' with no commercial rating or acceptable collateral.[49] Often the only potential collateral available to a poor borrower was personal belongings, household goods, salary, and a reputation for honesty and keeping promises, none of which were acceptable in securing a bank loan.

Campaigns against moneylenders, consisting primarily of editorials and exposés published in newspapers and aggressive legal action, were widespread during

[47] Finley, 1909, p. v
[48] Tucker, 1909, p. 25
[49] Ham, 1916

the early years of the twentieth century. While these efforts raised awareness of the 'small loan' problem, the campaigns only addressed the symptoms and not the underlying social institutions that made consumer credit necessary.[50] As one New York City official stated, 'Periodic campaigns with spectacular criminal prosecutions proved as futile as pulling weeds out of a neglected potato patch. In the whole history of campaigns against loan sharks, the only permanent good has come from the development of new institutions to make cheaper money available to the ordinary worker.'[51] Within this context, RLAs became an important complementary tool to enforcement and legislative actions by showing through sustained competition that better services could be provided to small borrowers.

The demand for affordable small loans by the poor and working classes, a need defined and legitimized by the loan shark campaigns and the new philosophies of scientific philanthropy, was met by the development of several new institutional innovations in financial services delivery. The first decade of the 20th century saw the development of such new organizations as remedial loan associations; their for-profit cousin, the small loan or personal finance company; credit unions[52] that operated on a cooperative basis; and the Morris Plan or Industrial Bank[53] that extended the traditional bank form through innovation in capitalization and collateral options. Each of these types of organizations provided new solutions to

[50] Neifeld, M. R., 1936, p. 2
[51] Consumers' Guide, 1939, p. 8
[52] Moody and Fite, 1971
[53] Phillips and Mushinski, 2001, and Robinson, 1931

addressing the small loan problem, and taken as a whole contributed to the overall development of financial services for poor clients. The following chart presents a general overview of characteristics of each of these types of institutions. While a detailed discussion of these organizations is outside the scope of this paper, their development and activities were intertwined in many important ways with the development of RLAs. They also take on a particular significance within the context of the commercialization of financial services to small borrowers in that they built upon, and in the end superseded, the pioneering efforts of RLAs.

	Remedial Loan Associations	Personal Finance Company	Credit Union	Morris Plan Bank
Ownership	Stock corporation, semi-philanthropic	Sole proprietorship or stock corporation, for profit	Cooperative, not for profit	Stock corporation, for profit
Start	1890s	1910s, with passage of state laws	1909, with passage of state laws	1910
Organizers	Russell Sage Foundation and the National Federation of Remedial Loan Associations	American Association of Small Loan Brokers	Edward Filene, Russell Sage Foundation to a lesser extent	Arthur Morris, Industrial Finance Corporation
Capital	Investors	Investors	Depositors	Investors, Depositors
Products	Pawn and chattel loans	Chattel loans	Unsecured loans and savings	Unsecured loans and savings
Strategy	Expand services through limiting both cost to borrowers and dividends to investors	Increase transparency and good-will of business to attract additional capital	Promote cooperative financial services among a closed group of members	Extend banking services by securing installment loans with investment certificates

Table 1 Characteristics of Small Loan Agencies

3. OVERVIEW OF REMEDIAL LOAN ASSOCIATIONS

Remedial loan associations (RLAs) were first and foremost business organizations engaged in lending money.[54] Their efforts were aimed at providing these loans, however, in a way that supported the independence, dignity and self-sufficiency of the borrower. Frank Tucker described RLAs as 'business organizations with a social purpose, the social purpose being to meet an existing need at the lowest possible cost, with justice to the one who is victim of the need, and to the one who is trying to meet it.'[55]

RLAs worked to provide credit in ways that both relieved immediate distress as well as worked toward the prevention of future need.[56] This was done in large part through an emphasis on discouraging unnecessary borrowings, making the borrowing process as easy and inexpensive as possible, and encouraging clients to repay the loans in small, regular installments. The regularity of small installments was seen to make "possible perhaps the most important part of the work, the creation of habits of thrift that often result in savings accounts after the loan is paid off."[57]

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[54] Ham, 1911, p. 8
[55] National Federation of Remedial Loan Funds, 1915, p. 86
[56] Ham, 1911, p. 8
[57] Ham, 1911, p. 8

RLAs were of two primary types based upon the type of loans they made.[58] The first type of RLA made loans upon the security of chattel mortgages. The second type secured loans based on personal property pledged or pawned with them. Few RLAs offered both types of loans during the early years of the movement, but this became increasingly common over the years. The type of transaction had implications on operations as well as on the expected impact on the client.

In addition to providing loans, the typical RLA was also engaged in a number of other non-financial services to aid their clients, as well as promote broader changes in financial services, such as:

1. "Seek to secure and enforce adequate legislation (to regulate the provision of small loans)
2. Give publicity to loaning conditions in city
3. Secure equitable settlements for victims of usurers
4. Discourage ill-advised borrowing
5. Give helpful advice
6. Encourage thrift and saving
7. Secure employment for out of work borrowers."[59]

The RLAs were organized as semi-philanthropic institutions by prominent leaders within their respective cities for the primary purpose of improving the local lending conditions.[60] The dividends offered on investments in these institutions were often explicitly limited both to maintain a low cost of funds as well as to underscore their philanthropic intent. In some instances restrictions on the dividend rate, as well as other parameters such as interest charges and board composition, were established by law. RLAs exemplified the contemporary

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[58] Finley, W. N., p.vi
[59] Ham, 1911, p. 6-7
[60] Ham, 1911, p. 6

principle of 'Philanthropy at 6%' in which philanthropic endeavors should strive for market-based approaches that provided a limited return to donors.[61]

Through their efforts, RLAs aimed to address the small loan problem and the loansharks of the day by providing competitive alternatives to borrowers. Such competition, based upon 'higher standards of business morality'[62] was expected to show that the business of lending small loans to poor borrowers could be carried out with less expense, better facilities and manageable risk. The ultimate goal of the increased competition was to change the practices of the usurers, and expand the availability of credit to poor borrowers.[63]

History of Remedial Loan Associations

The Early Years: 1859 - 1909

The first institution in the United States formed along the principles of a RLA was the Pawner's Bank of Boston, founded in April of 1859[64]. The Massachusetts Legislature formed a committee in 1858 to examine means for combating the rise of usurers that was being encountered in the state. The committee investigated several European models of municipal pawnshops and recommended that a company be chartered along the lines of the French Government pawnshops, or

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[61] Glenn, Brandt and Andrews, 1947, p. 136
[62] Ham, 1916
[63] Ham, 1910
[64] Reid, 1923, p. 16

montes pietatis. A special charter was granted to establish a publicly owned stock corporation with the purpose of providing pawn loans to the poor of Boston. The corporation was placed under the direct supervision of the State Bank Commissioner to ensure that it operated in a sound manner. Also, to ensure that it would stay true to its mission of serving the poor, the charter required that the Board of Directors have one seat filled by the Governor and one by the Mayor of Boston.

The Pawner's Bank, renamed as the Collateral Loan Company of Boston, was not followed by another RLA until 1888 when the Workingmen's Loan Association was established, again in Boston. The severe depression experienced in the 1890s, however, brought on a wave of interest in RLAs, and saw the creation of seven new associations in Cleveland, Baltimore, New York, Worcester, Providence and Chicago. It was during this period that the Provident Loan Society of New York City, the RLA destined to become the largest and longest lived, was formed.

The initial idea for the Provident Loan Society was first proposed by the attorney Alfred Bishop Mason in an article for the 'Charities Review' in 1892 in which he recommended the establishment of a low-rate pawnshop along the lines of the French *montes pietatis* to 'lend money at low rates on good security to approved borrowers among the poor; and so divorce the three golden balls from the three

Furies.'[65] The Executive Committee of the New York Charity Organization Society requested Mr. Mason to draft a bill for submission to the state legislature for such a project. The project received additional support from James Speyer, an influential young banker, and his circle of friends upon his returning from a European tour during which he saw first-hand the work of municipal pawnshops in both France and Italy.

The Provident Loan Society of New York City was established under newly formed legislation in May of 1894.[66] While the Society was exempted from paying the usual pawnbroker's license fee and posting a bond, the legislation placed a restriction on the amount of dividends that investors could be paid. The Society's initial capital of $100,000 was loaned out in four months in the face of demand that was far greater than originally estimated. One reason for such a demand was the low interest rate on loans, set at 12% per annum, as compared to the legal maximum interest rate of 36%. Within the first four months of operations, the Society faced the need to raise more capital, a problem that continually plagued the RLA movement.

The RLAs' fight against the 'loan shark evil' was joined in the early years of the 20th century by the Russell Sage Foundation. In 1906, Russell Sage left his estate of $65 million to his wife, Margaret Sage. She quickly established the Russell Sage Foundation as an institution to aid the poor, in large part to redeem

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[65] Giles, 1951, p. 78. The three golden balls refer to the traditional symbol of the pawnbroker's trade.
[66] Giles, 1951, p. 80

the memory of her husband who was considered to have contributed to the plight of the poor through his robber-baron activities in the railroad business.[67] During the first two years of the Foundation, Mrs. Sage received over 60,000 personal appeals for assistance many of which where from victims of moneylenders. W. Frank Persons, personal advisor to Mrs. Sage and president of the New York Charity Organization Society, brought these to the attention of Mrs. Sage's legal advisor, Robert DeForest and noted 'the apparent great demand for an organized business, which would take care of this obvious need in the community, under regulated and decent auspices.'[68] As a principal organizer and first President of the Provident Loan Society of New York, Mr. DeForest had a detailed understanding of RLAs and the problems they were addressing, which he applied to shaping the Foundation's focus on the small loan problem.[69] Also, as a past President of the New York Charity Organization Society and author of the groundbreaking report 'The Tenement House Problem', he had a firm belief in the rational, scientific approach to addressing social concerns.[70]

The Russell Sage Foundation supported Arthur H. Ham and Clarence W. Wassam, two fellows of the New York School of Philanthropy's Bureau of Research, to author two studies of lending conditions as an initial effort to understand the small loan problem and to inform the development of appropriate responses. Based on these findings and in response to the apparent need of

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[67] Giles, 1951, p. 84
[68] W. Frank Persons quoted in Glenn, Brandt and Andrews, 1947, p. 66
[69] Glenn, Brandt and Andrews, p. 66
[70] Bremmer, 1992, p.125

small borrowers, the Foundation hired Ham in August of 1909 to initiate a national campaign focused on the small loan business.

Ham had three tasks before him when he started work at the Foundation: perform a study of RLAs across the country, provide advice to established RLAs, and give support to those interested in establishing new RLAs.[71] Ham began his work under the supervision of Frank Tucker, the manager of the Provident Loan Society. During this first year, Ham began to develop work on the three fronts that would continue to frame the Foundation's involvement with RLAs: research and education, practice and legislation. In addition to maintaining correspondence with organizations interested in organizing RLAs in more than 125 cities, Ham was directly involved in establishing several RLAs during the first year. Interest in RLA organizing efforts came from a broad range of organizations including boards of trade, chambers of commerce and charity organization societies.[72] Ham also began to initiate some legislative reforms while pressing for the enforcement of existing laws on chattel loan companies that were operating illegally in New York.[73] The Foundation formalized this work in October of 1910 as the Division of Remedial Loans.

Consolidation and Growth: 1909 - 1916

The increasing number of RLAs and interest in their formation prompted Frank Tucker and W.N. Finley, manager of the Chattel Loan Association of Baltimore,

[71] Glenn, Brandt and Andrews, p. 136
[72] Ham, 1910
[73] Glenn, Brandt and Andrews, p. 138

to organize the first meeting of RLA representatives.[74] Held in Buffalo, NY, in conjunction with the annual convention of the National Conference of Charities and Correction, representatives of fourteen RLAs operating in thirteen cities came together on June 10, 1909 to form the National Federation of Remedial Loan Associations (NFRLA). These RLAs were locally owned and controlled institutions that together served a market area of 11 million people in thirteen cities. Collectively, the RLAs reported a capital base of $8 million and lending activity of $12.6 million through 461,000 loans in the previous year. When the relative value of these figures is expressed as a share of the 2001 U.S. gross domestic product, the combined capital of the NFRLA members would be valued at $2.3 billion, with loans closed during the year equaling $4.3 billion.[75]

The NFRLA's primary goals were to establish and support RLAs around the country and to advocate for legislation supportive of their operations.[76] These goals reflected the two approaches that RLAs pursued in their efforts at confronting usurious lending practices: direct competition and legislative reform. The NFRLA relied heavily on the resources and expertise of the Russell Sage Foundation, primarily through the close coordination with Ham, in its efforts. The Division of Remedial Loans at Russell Sage Foundation took on many activities to support the remedial loan movement:

1. Published and distributed publications of the NFRLA
2. Prepared annual statistics on NFRLA members
3. Planned NFRLA programs

[74] Glenn, Brandt and Andrews, p. 66
[75] Based on calculations using Williamson, Samuel H. 2002
[76] Finley, 1909, p. v

4. Developed model accounting system and office procedures for RLAs
5. Framed model forms of financial reports, by-laws, and prospectuses
6. Assisted in training new managers as needed[77]

An initial task before the NFRLA was to establish the characteristics of a RLA as a basis for determining membership eligibility. Tucker proposed at the founding conference that the test of a RLA's philanthropic spirit is found in two items: 'the price at which service is performed and the financial return to those contributing the capital.'[78] Limiting both interest rates to the borrower and dividend rates to the investors was seen as equal components of an RLA. The focus on constraining dividend rates was challenged, however, especially as capital became more difficult to attract at 'philanthropic' rates. F.E. Stroup, manager of the Chattel Loan Company of Grand Rapids, Michigan, advanced the case at the NFRLA Convention in 1915 that 'real social service performed by the company is the rate it charges the borrower, and its attitude toward him that should determine membership in the Federation – not dividend rates. Such a shift should make it easier to attract commercial credit'.[79]

Ham noted later that 'the members of the NFRLA decided that they desired to have associated with them only those institutions which have been formed for gain only so far as cost of operation and limited return to investors is concerned, even though some private for-profit loan companies are reputable, loaning at interest rates below money-lenders and doing good work.'.[80] These debates

[77] Glenn, Brandt and Andrews, 1947, p. 138
[78] National Federation of Remedial Loan Associations, 1909, p. 13
[79] National Federation of Remedial Loan Associations, 1915
[80] Ham, 1914c

increased in importance as alternative institutions were developed in response to the small loan problem such as credit unions, Morris Plan banks and personal finance companies and as capital became more difficult to attract on a philanthropic basis. These debates shaped in important ways the ability of RLAs and the NFRLA to remain relevant and adaptable to the changes in the financial services landscape.

The NFRLA played an important role in establishing model legislation governing consumer lending activities. Legislation of the time primarily focused on restricting usurious lending through imposing very low legal interest rates on loans and applying penalties to both the lender and borrower if these interest rates were exceeded. The NFRLA, led by Ham, argued that the limited interest rates were not sufficient to cover the costs incurred in providing small loans, and that the criminalization of the borrowing activity placed it under a 'shroud of secrecy', which allowed abuses to continue. Appropriate legislation, however, would lay the foundation for an open market-based response to the legitimate need of poor borrowers for access to small loans. Such an approach was advocated for on the basis of three principles:

1. Recognize public necessity of the business by allowing rates of interest sufficiently high to allow reasonable profit.
2. Compel lenders to submit to license, supervision and authority in return for the privilege of charging interest rates greater than banks, and to clearly disclose loan terms to borrowers.
3. Provide adequate penalties for violators and incentives to officials to enforce regulations.

By 1913, the Division of Remedial Loans and NFRLA's committee on legislation agreed on eight fundamental provisions for a model legislation based on these principles that was then advocated for at the state level. The provisions included: '1) licensing of all lenders charging more than the legal rate of interest for banks; 2) bonding to insure observance of the law; 3) adequate interest rate (2% or 3% per month, reckoned on unpaid balances), but no fees, or, if fees were allowed, safeguards against repetition; 4) enforcement and supervision by a public officer; 5) penalties for violation; 6) notice to employer and consent of wife in case of assignment of wages; 7) adequate records, inspected by supervisory officer; 8) memorandum of transaction and copy of pertinent sections of law to be given each borrower'.[81]

An important aspect of the legislation was ensuring that an adequate interest rate was allowed so that lenders would both be attracted to the market as well as realize an adequate return. The experience of NFRLA members and statistics on their activities were used to inform the development of legislation, especially in terms of setting realistic interest rates. RLAs acted as practical experiments in determining the range of costs, returns and operating practices in an industry that had previously been shrouded in secrecy and moral stigma and 'by this demonstration it has sought to effect the passage of constructive legislation and to attract reputable capital into the business'.[82]

[81] Glenn, Brandt and Andrews, 1947, p. 143
[82] Ham, 1916, p. 8

In 1914, New Jersey was the first state to enact a bill based on the NFRLA's model. Based on this experience, Ham began to place greater emphasis on introducing and promoting similar legislation across the country. While much opposition was encountered, both from moneylenders that did not want additional restrictions and the general public, which did not appreciate the necessity for allowing higher interest rates on small loans, legislation was actively pursued across the country. This resulted in the passage of legislation satisfactory to the NFRLA in six states by the close of 1916.[83]

By the time the last RLA was established in 1918, forty-two RLAs had been formed throughout the United States and an additional two in Canada. The bulk of the organizing work was directly related to the energy of Arthur Ham and the support provided to the NFRLA by the Russell Sage Foundation. An overview of the NFRLA's membership and the capital under their control on an annual basis between 1909 and 1918 is shown in Figure 1. A list of all RLAs is provided in Appendix B.

[83] Robinson and Nugent, 1935, p. 118

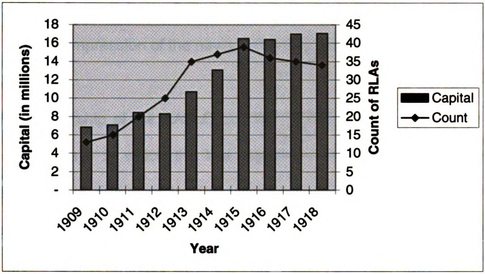

Figure 1 Growth of RLAs: Count and Capital of RLAs

Competition and Decline: 1916 onwards

The success of the NFRLA in pressing for appropriate legislation produced several of its intended consequences: increased transparency in the operations of small loan agencies, attraction of new capital to the industry because of its improved image, and expansion of credit to a greater number of poor borrowers on better terms. With the passage of the state laws, several associations of licensed moneylenders were established for both mutual protection and advocacy purposes as well as to raise the standards of business practices among their members. In April of 1916, five state associations representing 135 member companies came together in Philadelphia to form the American Association of Small Loan Brokers (AASLB) with the aim to 'standardize, dignify and police the small loan business.'[84] Arthur Ham represented both the NFRLA

[84] Glenn, Brandt and Andrews, 1947, p. 145

and the Russell Sage Foundation at the organizing meeting and left with a favorable impression of the newly formed association.

The leadership of the AASLB and the NFRLA met in early October of 1916 to identify ways in which the two organizations could work together. The two associations proposed to draft and advocate for a uniform regulatory law to govern the small loan field. From this work, a draft Uniform Small Loan Law was agreed to that reflected all of the views of the NFRLA, except for a compromise on the maximum allowable interest rate, which resulted in a rate higher than they originally wanted.[85] This legislation was actively promoted by the two associations during the following years through a joint program at both the state and federal levels.

At the time of the formation of the AASLB, the NFRLA was found 'declining in consequence to the spread of regulatory laws and the multiplication of commercial companies conducted on fair principles.'[86] While RLAs had been prime movers in championing both legislation and competition in the field of consumer lending, its success in these endeavors translated into lessened ability to operate in the changing environment.[87] Soon after the formation of the AASLB, the NFRLA allowed its members to maintain joint membership with it. AASLB's member companies, however, were most often restricted from membership in the NFRLA due to its continued insistence on limited dividends as

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[85] Robinson and Nugent, 1935, p. 116
[86] Glenn, Brandt and Andrews, 1947, p. 145
[87] Glenn, Brandt and Andrews, 1947, p. 145

a characteristic of a RLA.[88] This litmus test for membership restricted the NFRLA's growth and contributed to the decline of the movement.

The establishment of a regulated commercial small loan business, an original goal of the NFRLA, was one of the most powerful forces in the decline of RLAs. As Robinson and Nugent succinctly state:

> 'A reform organization always loses its force as the reform for which it strives is effected. When the remedial loan society was the borrower's only alternative to the old high-rate lender charging unconscionable rates, there was a strong incentive to the socially minded to organize and maintain a remedial societies even at the cost of considerable time and effort and the forbearance of part of the income which a similar investment might return elsewhere. When the choice to the borrower was between a remedial loan society and a licensed commercial lender the incentive was much weakened. Since both types of lender charged much higher interest rates than banks and both insisted that the loan be repaid with interest, the borrower was inclined to make little distinction between them. And this lack of perception of the distinctions spread to the community at large. Directors of a number of remedial loan societies consented to the sale of their companies to commercial interests believing that with the advent of regulation of lending there was no longer any reason for the continuance of a semi-philanthropic company.'[89]

Several characteristics of RLAs themselves were identified by Ham as early as 1916 as providing a basis for their eventual decline.[90] Ham stated that "In spite of meritorious work done by RLAs, it must be said that their field is limited to making loans upon tangible security. They are essentially palliatives." Furthermore, Ham found the impersonal relationships that aided in performing large numbers of chattel and pawn loan transactions made it difficult to

[88] Ham, 1917, p. 7
[89] Robinson and Nugent, 1935, p. 148
[90] Ham, 1916

consistently encourage thrift. In addition to licensed small loan businesses, the increase in new institutions such as credit unions and industrial banks that addressed the savings as well as credit needs of the poor 'took the starch out of the remedial society movement'.[91] The growth of these agencies in terms of aggregate dollar value of loan volume is compared to that of RLAs between 1910 and 1929 in Figure 2.

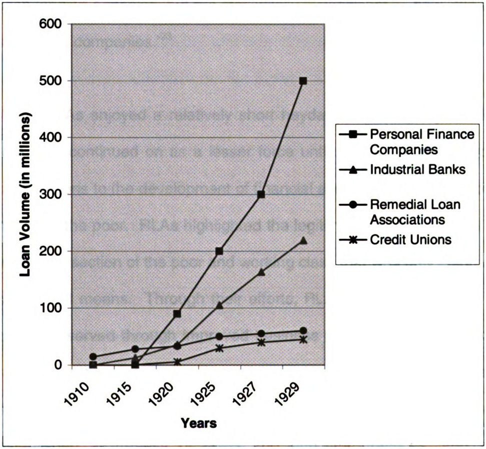

Figure 2 Growth of Small Loan Agencies

[91] Consumers' Guide, 1939, p. 9

The last year of data on RLA activities was reported by the Consumers' Guide in 1939.[92] The NFRLA had only 22 members remaining in 21 cities. While these RLAs reported having made over one million loans valued at $55 million, the Provident Loan Society of New York accounted for over two-thirds of this activity. Neifeld came to the conclusion in his 1941 review of the consumer credit industry that 'remedial loan associations, are historically significant in the development of cash lending agencies, but are statistically insignificant ... now little different from small loan companies.'[93]

While RLAs enjoyed a relatively short heyday from the early 1900s until 1917, and then continued on as a lesser force until the 1930s, they made significant contributions to the development of financial services that were responsive to the needs of the poor. RLAs highlighted the legitimate needs for small loans among a broader section of the poor and working class that was only being met by illegal and unjust means. Through their efforts, RLAs demonstrated that these needs could be served through improved business practices that provided both better services to the clients as well as adequate returns to investors. In so doing they served as a 'yardstick'[94] for a new form of business – the small loan company, established awareness of costs and effective practices, and aided in the formulation of appropriate legislation.

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[92] Consumers' Guide, 1939

[93] Neifeld, 1941

[94] Consumers' Guide, 1939, p. 9

Descriptions of RLA Structure, Characteristics, and Activities

Governance and Legal Structure

Remedial loan associations were primarily established as privately held stock corporations organized by leading citizens of the community. The earlier RLAs, such as The Worcester Collateral Loan Association, the Workingmen's Loan Association of Providence, and the Provident Loan Society of New York were often formed under special charters granted by the State. These charters allowed the associations to charge higher interest rates than normal bank loans in exchange for either restrictions on the dividends that could be paid to shareholders or for seats on the board of directors.[95] To further underline their philanthropic nature, RLAs also often restricted the rights of shareholders to interest in the assets of the organization in case of dissolution, and did not allow compensation to be provided to the trustees.

Over time, the legal structure of RLAs became similar to the growing number of personal finance companies. The issuance of special state charters declined over the years, especially as the Uniform Small Loan Law gained increased acceptance. The primary difference between RLAs and the new personal finance companies remained the RLAs' continued commitment to maintaining a limit on the dividends that they offered to shareholders.

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[95] Gallert, Hilborn and May, p. 13

Markets and Needs

At the movement's height, RLAs were operating in twenty-two states and thirty-five cities, primarily in the industrial centers of the Northeast and Midwest. Remedial loan associations most often served low wage industrial workers, though there were some experiments with serving agricultural workers. While information on the demographics of borrowers is limited, a common profile was a low-skilled industrial worker, most probably a male and of recent immigrant heritage, that was just barely getting by on a wage of roughly $50 per month.[96] As one RLA observer described, the 'remedial loan field extends to all families who by force of circumstance, by improvidence, by bad management, or by whatever cause have fallen below the somewhat vague line of normal standards of living.'[97] This profile changed slightly during the inter-war years as more office workers faced pressures of stagnating incomes and rising expenses. The distribution by occupation of the Provident Loan Society of Detroit's borrowers in 1909 is presented in Figure 3 to provide a representation of typical RLA clientele.

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[96] Ham, 1912

[97] Ham, 1911, p. 5

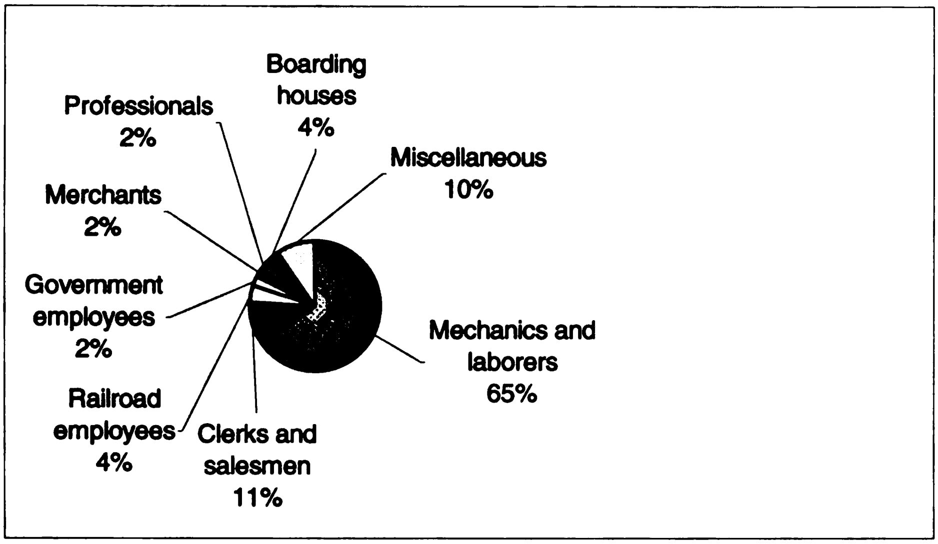

Figure 3 Occupation of Borrowers: Provident Loan Society Detroit, 1909

RLAs tried to meet a variety of needs experienced by their clients. The primary need of borrowers was for a short term loan to meet immediate cash flow needs. As described by one RLA manager, 'In our opinion, the most needy borrowers, those who compose a majority of the victims of the loan shark, desire very small loans. Any loan agency that primarily aims to relieve the poor must provide for these very small loans in order to compete effectively with loan sharks and to confer the greatest social benefit.' These needs were often caused by unstable employment, unexpected emergencies, and by the fairly common problem of employers withholding wages. RLAs also provided both start-up funds and working capital for small businesses such as street peddlers and tailors.[98] Another need many clients had was to address accumulated debts with

[98] Ham, 1911, p. 5-6

moneylenders either through refinancing them with a loan from the RLA or through legal action with the RLA's assistance.

The business nature of the RLAs with their focus on both remaining financially viable and providing a return to their investors limited their ability to serve clients that did not have some form of security such as household furniture. In some instances, a family's income would be taken into account when assessing credit worthiness for a loan, but in general tangible security was required to secure either a chattel loan or a pawn loan. Some RLAs developed relationships with local aid societies to refer cases to each other. In some instances, such as in the relationship between the Welfare Loan Agency and the Jewish Charities of of Kansas City, the aid society would guarantee loans to referred clients that did not meet the normal lending criteria. These guarantees were provided without the knowledge of the borrower so that it was perceived as a business transaction rather than a charitable gesture.[99]

Products

RLAs primarily focused on offering small, short-term loans secured by either a chattel mortgage against household items or by a pledged item. Small loans were seen to not only be the most appropriate to meet the needs of poor borrowers, but they were also thought to provide the best competition to loan sharks. The average loan size of the nearly 850,000 loans reported by the 39 RLAs active in 1915 was $33.14, with pawn loans averaging $29, and chattel

[99] Ham, 1911, p. 7-8

loans averaging $62.[100] The average loan size of $33.14 is equivalent to a loan of $580 in 2001 based on the consumer price index.[101] Figure 4 shows the average loan size of RLAs on an annual basis between 1909 and 1918.

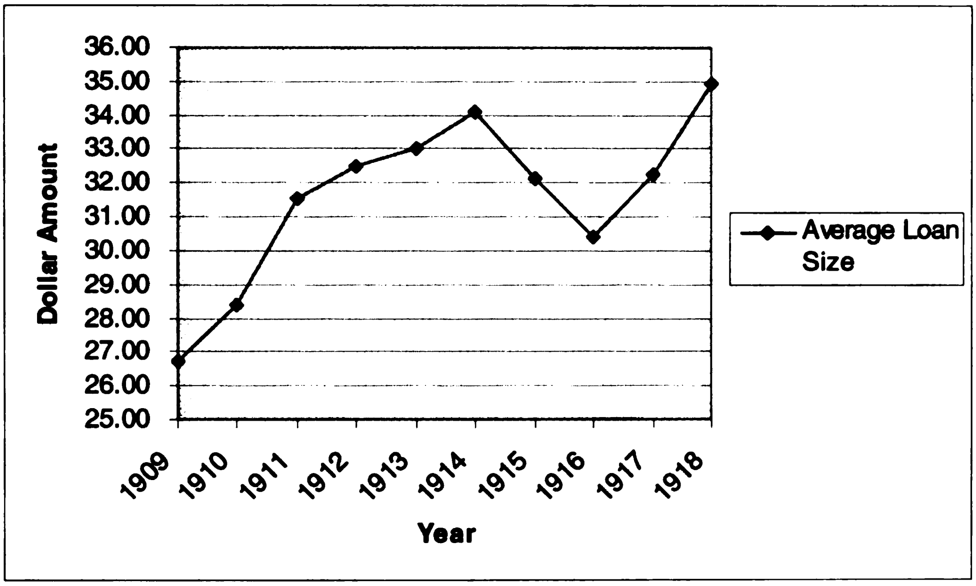

Figure 4 Average Loan Sizes, 1909 - 1918

[100] National Federation of Remedial Loan Associations, 1915
[101] Based on calculations using Williamson, 2002

The distribution of the Remedial Loan Society's loans by size is presented in Figure 5.

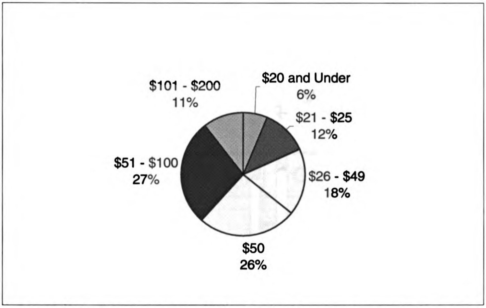

Figure 5 Distribution of Loans by Size of Loans, Remedial Loan Society of Buffalo, 1916

RLAs typically specialized in one of the two types of loans, either pawn or chattel, especially in the early years of the remedial loan movement. There was a trend however over the life of the movement for RLAs to offer both types of loans. The characteristics of each type of loan had implications both on the RLA's operations and required staff skills, as well as on the types of clients that could be served and the developmental impact on the borrower.[102] In a pawning transaction, the assessment of the collateral, its value and its ownership provided the basis of the transaction. Not only did a pawn loan have less risk than a chattel loan because the collateral was held by the lender, the collateral also

[102] National Federation of Remedial Loan Associations, 1909, p. 13

made it easier for the RLA to secure bank financing.[103] Figure 6 illustrates the product mix for RLAs in aggregate between 1909 to 1912, and 1915 to 1918.

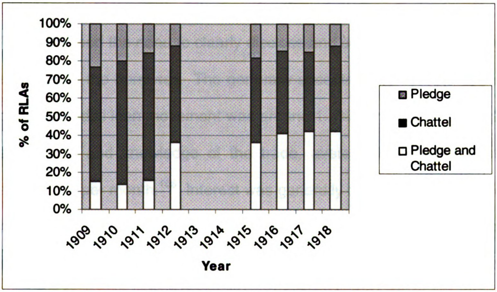

Figure 6 Product Mix of RLAs, 1909 - 1918

While the pawn loan was considered to be more appropriate for the financial needs of poorer clients, its nature was seen by many RLAs to restrict the interactions between borrower and lender that contributed to developmental impacts for the borrower. A chattel loan transaction was viewed as offering greater latitude in questioning the borrower about the need and motive for the loan, thereby providing a greater opportunity to offer advice and counsel to the borrower.[104] Attempts to question the cause or motive for engaging in a pawn loan was seen to inhibit the very people that RLAs wanted to serve from coming in. While the remedial attributes of chattel loans were derived from the ability to

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[103] Auger, 1914, p. 15

[104] National Federation of Remedial Loan Associations, p. 15

engage the borrower in a discussion of his needs, and potential solutions, the low costs and liberal terms of remedial pawn loans were seen to offer their primary benefits.[105]

RLAs stressed the need to clearly disclose and communicate all interest charges and fees to the borrower. The generally accepted interest rate at the beginning of the remedial loan movement was around 1.5% per month. Through increased experience and knowledge of the trade, average RLA interest rates rose to around 3% per month.[106] Interest was generally charged only on the outstanding balance of the loan and for the actual period of the loan with early repayments encouraged. Fees were also charged, often on a sliding scale based upon the size of the loan. Requiring some principal repayment on a consistent basis each month was believed to be important in both ensuring that the loan would be repaid as well as developing disciplines of thrift. However, these efforts had to be balanced against the client's preferences and options, for as one RLA manager noted, 'If we try to discipline them too much, they go to the loan sharks and pay them three times as much as they pay us.'[107]

[105] Auger, 1914, p. 15
[106] Glenn, Brandt and Andrews, p. 138
[107] Ferguson, 1914, p. 26

Details of the pledge and chattel loans offered by the Chattel Loan Company of Grand Rapids, Michigan in 1914 are presented in Table 2.[108]

Loan Type	Chattel	Pledge
Description	Money loaned on personal property or chattels left with the borrower.	Money loaned on personal items deposited with the company.
Amount Loaned	\$10 - \$300	\$1 - \$300
Collateral	Furniture, pianos, Fixtures, livestock, machinery, etc.. The borrower retains title and possession of the collateral.	Watches, diamonds, jewelry, etc. The borrower retains title, but not possession of the collateral.
Repayment	2 to 20 monthly payments scheduled to fit the income and convenience of the borrower.	Whole amount borrowed can be kept for as long as desired by making quarterly interest payments. Payments accepted at any time, with interest calculated on the monthly balance.
Interest	2% per month for loans up to \$100, and 1.5% per month for loans over \$100. A discount of 1/10th of all interest paid is made if payments are made s agreed.	
Fees	None	A minimum charge of \$.10 to \$1 is made on loans up to \$50. No fees on loans over \$50.

Table 2 Loan Characteristics, Chattel Loan Company of Grand Rapids, 1914

RLAs also developed innovative products in response to market needs as a complement to the standard pawn and chattel loans which accounted for the bulk of their activities. The People's Bank and Storage Company of Louisville, Kentucky, for example, offered rental storage space for household items as a service. Items in storage could then be used to secure a chattel loan. This provided the customer with increased flexibility compared to a pawn loan as well as needed storage facilities. The RLA was able to increase the security of its loan collateral as well as generate an additional revenue stream.

[108] Chattel Loan Company of Grand Rapids, 1914

A separate 'Charity Account' with which the manager could make creditable discretionary loans that would not meet normal underwriting standards was also maintained by many RLAs. These funds were most often raised through the individual contributions of board members.[109] The Provident Loan Fund of Detroit, for example, established such an account in 1908, the second year of its operations, through the personal contributions of its directors. This fund, initially totaling $115.00, was to be 'used when there was no reasonable expectation of its being returned.'[110] In 1911, the Provident Loan Fund reported making 43 loans totaling $625 from its charity account which otherwise could not have been made under the normal loan criteria. While these loans accounted for but 1% of the 4,594 loans made that year, they underscored the Provident Loan Fund's approach to lending as a developmental activity – 'but by making small loans from this fund, we were able to save many people from appealing to the city for aid. Instead of encouraging a dependent we have rather stimulated an independent spirit, for these borrowers do not know that they are securing money in any other way than are those who borrow from the regular fund.'[111]

Capitalization

RLAs were primarily capitalized through the issuance of shares to investors. Dividends offered a fixed rate of return, which was often explicitly stated in the organization's charter. This capitalization strategy, in which the investor bore the

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[109] National Federation of Remedial Loan Associations, 1909, p. 39
[110] Provident Loan Society of Detroit, 1908
[111] Provident Loan Society of Detroit, 1911

risk of principal loss while accepting limits on returns in the event of the organization's success, was the basis for RLAs to be referred to as 'semi-philanthropic' loan companies.[112] In the early years of the movement, this capitalization strategy proved successful in raising sufficient funds. Investors were primarily motivated by a philanthropic impulse, with the fixed return providing both a minor financial incentive as well as a signal that RLAs offered a different approach to charitable activities.[113]

While the fixed and limited nature of returns on investments was viewed as a defining feature of RLAs, it remained a source of controversy among the membership of the NFRLA due to the limitations it placed on their ability to raise capital. The rapid growth of RLAs, especially during the 1910s, required RLAs to continually raise new capital to meet loan demand.[114] In response, some RLAs raised the dividend limits they provided on investments though maintained it at a level that was still below open market rates. The New York Legislature also recognized these pressures, and responded by raising the permissible dividend rates over time from 6% to 15%.[115] RLAs had to attract all of their capital through investments or loans because of limitations on their ability to accept deposits.

Broader market forces continued to put pressures on semi-philanthropic capital sources. Following the close of World War I, 6% dividends became increasingly

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[112] Robinson and Nugent,1935, p.82
[113] Auger, 1923, p. 7
[114] Auger, 1923, p. 7
[115] Gallert, Hilborn and May, p. 13

less attractive to investors. RLAs initially responded by resorting to bank loans to fund lending operations, and then to additional stock offerings. Reliance on semi-philanthropic stock offerings to leverage commercial loans was seen as primarily a stop-gap effort by the industry, however. By the early 1920s, some RLAs were advocating direct competition with other large corporations for capital, and conceding to "yield the semi-philanthropic feature of the business to the cold fact that money talks, for that is what investors are interested in these days."[116] The total capital controlled by RLAs is presented in Figure 7, with Figure 8 showing the average capital size of RLAs.

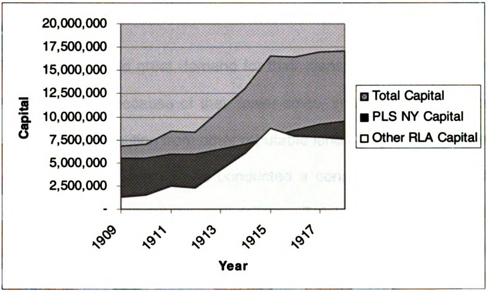

Figure 7 RLA Capital, 1909 – 1918

[116] Auger, 1923, p. 8

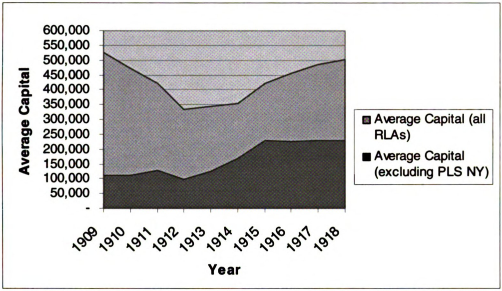

Figure 8 Average RLA Capital Size, 1909 – 1918

Activity

RLAs experienced great demand for their loans, especially in the early years of the movement, because of their lower costs, improved business practices, and the limited competition from other reputable lending agencies. While the average loan sizes were small, RLAs conducted a considerable volume of business in terms of both transactions and dollars. Total disbursements and repayments increased steadily from $25 million in 1909 to $60 million in 1918, with the average activity of RLA increasing as well from 1913 on.

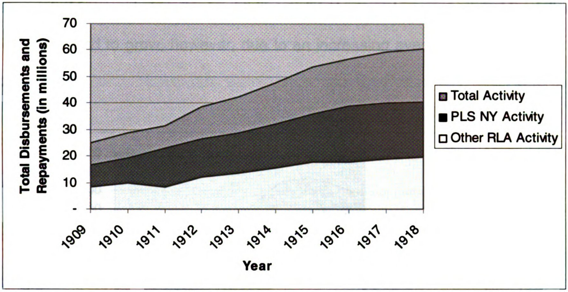

Figure 9 RLA Disbursements and Repayments, 1909 – 1918

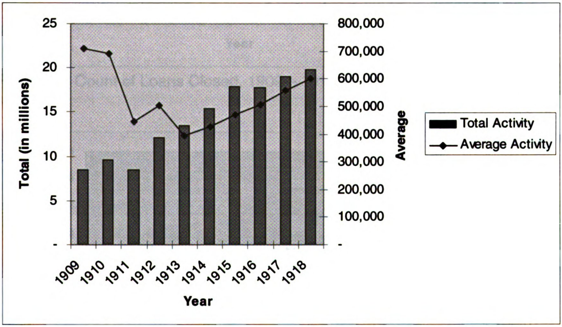

Figure 10 Average RLA Disbursements and Repayments, 1909 – 1918 (excluding Provident Loan Society of New York)

The number of loans closed per year peaked in 1916 with 868,607 loans made by the thirty-six operating RLAs. The Provident Loan Society of New York accounted for nearly two-thirds of this activity. Loan volume measured by dollars lent continued to grow, however, due to an increasing average size of the loans being made.

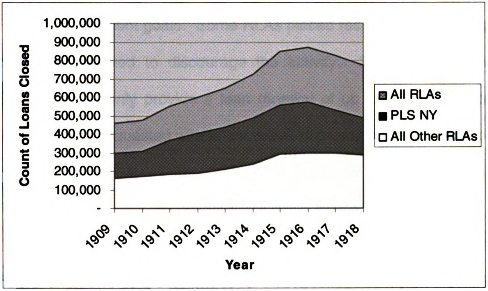

Figure 11 Count of Loans Closed, 1909 – 1918

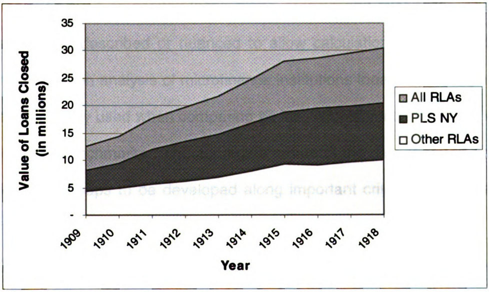

Figure 12 Dollar Volume of Loans Closed, 1909 – 1918

Loan renewals were an important source of business for RLAs. For example, 70% of the Workingman's Collateral Company business during 1913 came from loan renewals.[117] Renewals were not encouraged on the whole, however, because they were seen to promote 'chronic' borrowing and work against the RLAs' development goals. Some RLAs placed restrictions on how quickly a loan could be renewed to discourage the activity. The Newark Revolving Loan Society would only provide a loan renewal of up to 75% of the original loan's value if it was requested with in one week of paying off the original loan.[118]

Performance

Data on the financial operations of RLAs allows for only limited analysis of their operations. The data set from 1909 – 1918 relies heavily on the NFRLA's annual report of the membership which provides aggregate data for a number of variables such as capital, loans made, income and expenses. The data is not sufficiently described or nuanced to allow calculation of many of the common ratios used in analysis of microfinance institutions today.[119] Ratios are also most appropriately used when comparing an institution's trends over time or to a set of industry benchmarks. The aggregate nature of the data reported does not allow for peer groups to be developed along important criteria such as asset size or type of lending performed. The following indicators are provided to show the general shape of standard analysis ratios. Additional analysis is provided in

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[117] Ferguson, 1914, p. 26
[118] Ferguson, 1914, p. 28
[119] See Ledgerwood, 1999 for examples of widely used analysis formats.

Appendix C which presents a comparison of financial statements from three RLAs in 1916.

RLAs maintain a relatively stable cost per dollar lent during the period, starting at $2.06 per one hundred dollars and increasing to $2.99 by the end of 1998, representing a 45% increase for the period. The cost per loan, however, saw a 110% increase over the same period, rising from a cost of $.56 per loan to $1.18. The reduction in number of loans closed, especially from 1915 to 1918, coincides with the increased cost of loans made, suggesting relatively high fixed costs. These efficiency indicators are presented in Figure 13.

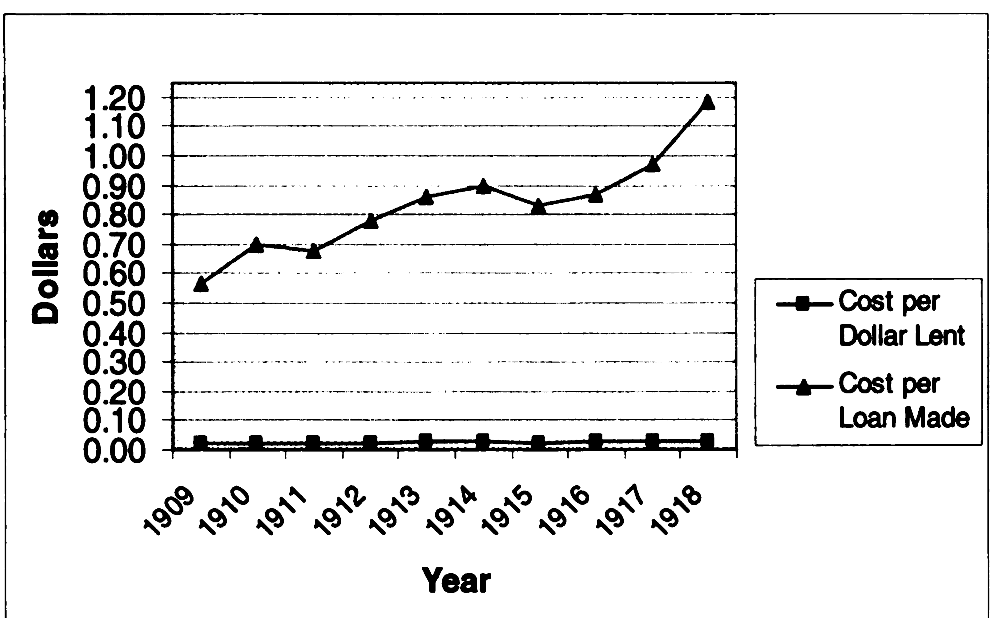

Figure 13 Efficiency Indicators, 1909 – 1918

The increasing cost per loan, coupled with a lower loan balance outstanding, had a negative impact on the return on assets achieved by RLAs. The return on assets provides a measure of the net income that a RLA produces from its overall assets. The return on assets as presented in Figure 14 shows that the return was on a fairly continual downward trend throughout the period. While more detailed data is needed of the RLAs' equity base and cost of capital to fully analyze the implications of the financial trends, the RLAs were showing signs of becoming both less efficient and less profitable by 1918.

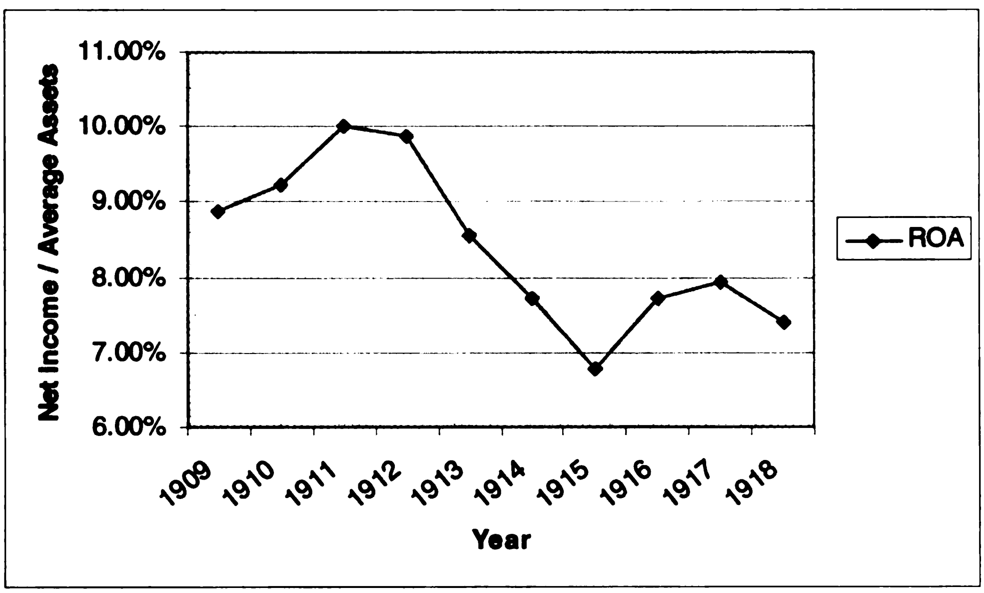

Figure 14 Return on Assets, 1909 – 1918

Portfolio quality, often measured by examining delinquency, arrears and portfolio at risk ratios, is another important aspect of the health of a financial institution. Again, data on these measures were very limited. Total losses in 1917 for all

RLAs were reported to be 1/10th of 1% of the total amount loaned.[120] Similar loss rates were reported in other years and by individual RLAs. The unevenness in which such statistics are calculated and reported, however, make the estimates seem optimistic. A paper on collections and foreclosures presented at the 1914 Annual Conference suggests that the topic was of interest to the RLAs.[121]

Impact

Impact of development activities is always difficult to establish precisely. This holds especially true when financial services are used as a tool for social and economic development. Several ratios have been developed as indicators of client outreach, a proxy often used for impact. The loans outstanding to total assets shows how much of the organizations assets are being used in its lending activities. While data is only available from 1913 to 1918, over 85% of the capital controlled by RLAs was lent out during this period, as presented in Figure 15.

[120] Ham, 1918, p. 4
[121] Glidden, 1914, p. 33

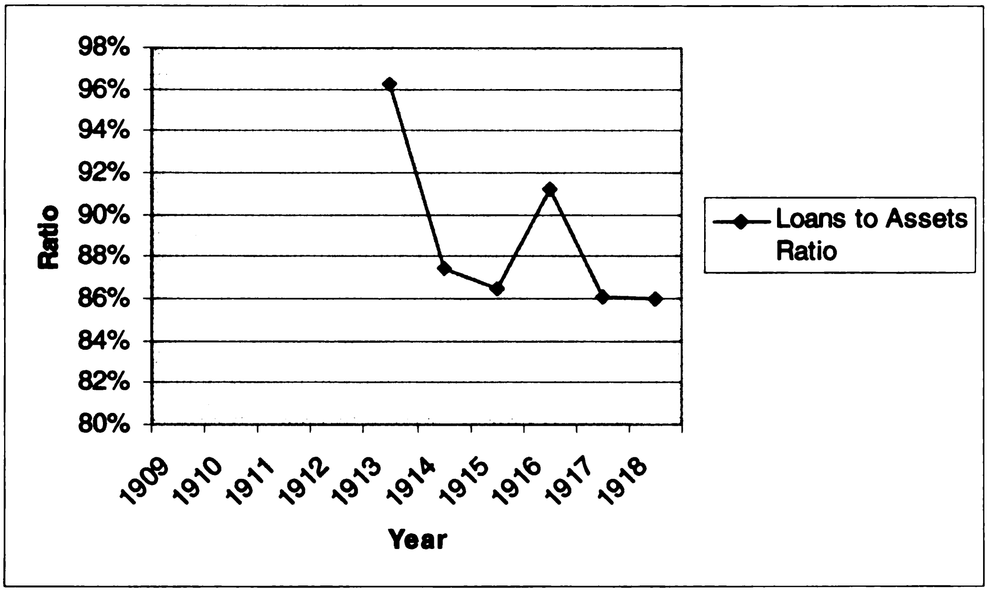

Figure 15 Loans to Assets Ratio, 1909 – 1918

Average loan size is another indicator of outreach to poor borrowers, based on the assumption that smaller average loan sizes imply poorer borrowers are being served. Average loan sizes remained at two-thirds to one-half the average monthly wage of lower-skilled employees. The average loan size decreased as a percentage of the per capita gross domestic product during the period 1909 to 1918, suggesting a deepening of outreach among poor borrowers during this period.

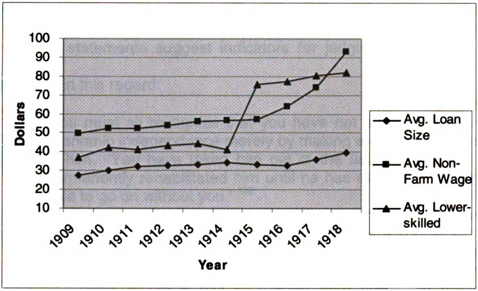

Figure 16 Monthly Wage Rates and Average Loan Size, 1909 – 1918

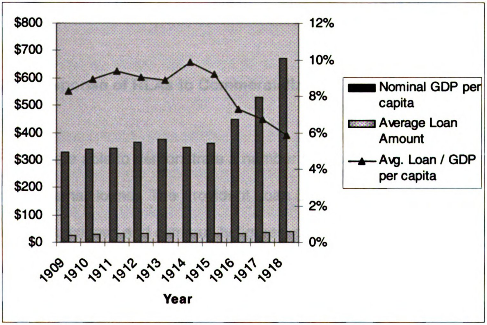

Figure 17 Depth of Outreach Indicators

Depth of outreach, however, was not the only goal of RLAs. Central to their mission was the goal of assisting borrowers to become self-sufficient and independent of the need to resort to small loans on a regular basis. The following statements suggest indicators for judging the success of an RLA's activities in this regard:

- 'You must all recognize that you have not aided a borrower to gain his economic independence merely by making a number of consecutive loans to him. You have taken him out of the usurer's grip but you have not permanently rehabilitated him until he has reached the point where he is able to go on without you.' [122]
- 'The success of the society is not fully shown by the number and amount of loans it makes at reasonable rates. The RLA should seek to teach the lesson of thrift and providence, to discourage borrowers except for productive purposes or under pressure of necessity. The number of applicants whom it has dissuaded from borrowing therefore and the number of who, having received loans, are enabled thereby to become independent of its help must all be considered by a society in estimating the results of its work.'[123]

The Response of RLAs to Commercialization

RLAs were able to demonstrate a number of initial successes in their early efforts to offer small loans. The Provident Loan Society of New York, well supported by leading business and community figures, provided a clear and unique example of the activities and possibilities of the remedial loan movement. Working within the New York market, which was characterized by a dense population of potential clients with limited options for service, the Provident Loan Society was able to experience rapid growth and visibility. Its success in providing an alternative market-based response to the issue of poverty alleviation, coupled with the promise of a sustainable business model offering a modest but limited return,

[122] Ham, 1914b, p. 7
[123] Ham, 1914b, p. 7

caught the imagination of many social reformers, particularly within the broader movement of the Charity Organization Societies.

The replication of the RLA model was initially promoted by the Russell Sage Foundation, the primary donor of the movement, as an experiment to gain a practical, first-hand understanding of the structure and dynamics of the small loan business. The goals of these efforts were initially to demonstrate that the business of moneylenders could be done on a more efficient and ethical basis, establish the legitimacy of offering small loans as a poverty alleviation strategy, and attract 'legitimate' investors into the small loan field. Such legitimacy was pursued through initiatives to increase transparency within RLA activities and establish a supportive legal environment.

The success RLAs experienced in their early years in terms of new institutions founded, expanding loan volume, and creation of a positive image, attracted competition from several new quarters. RLAs became increasingly conscious of the growth of credit unions and industrial banks that were starting to offer different products and services to their client base, such as savings. The competitive pressure was further increased through the growth of licensed small loan companies that were the result of the successful passage of legislation that RLAs had long championed. The new entrants into the field, offering an increased range of products and services for clients as well as capital and ownership structures for investors and other stakeholders, placed pressure on RLAs to compete for both clients and capital.

RLAs had difficulty in responding to the changing competitive environment. Their defining characteristic of limited returns on shareholder capital lost its relevance in an increasingly competitive, regulated and demand-driven market. The NFRLA continued to uphold the principle of limited returns, however, even in the face of increasing criticism from a portion of its membership. RLAs as well had difficulties in adjusting their products to better fit the needs of clients. While the number of RLAs that offered both chattel and pawn loans increased over the years, there was little innovation in product design. RLAs remained supportive of the credit union movement and shared a common emphasis on the promotion of thrift, though there is no evidence of experimentation or innovation with savings products or services.

The RLA movement continued to lose relevance in the small loan field relative to the new institutions. The Russell Sage Foundation began to develop supportive relationships with the credit union movement and the associations of small lenders as they began to take the lead in pushing forward the development of the small loan field. The conservative and ideological stance of RLAs could not match the dynamism of the new institutions in terms of expanding products and services, experimentation with new governance and ownership models or promoting supportive infrastructure for the industry. RLAs slowly disappeared from the small loan field during the middle part of the 20th century by attrition, transformation into for-profit personal finance companies, or through mergers with other financial institutions.

4. DISCUSSION OF KEY FINDINGS

The history of the RLA movement offers a rich source of lessons and experiences relevant to the microfinance industry today. The financial services industry faced by the RLAs at the turn of the 20^{th} century bears many resemblances to the environments in which microfinance institutions currently operate in many parts of the world. Demand for financial services by large numbers of poor clients unserved by formal financial institutions, weak regulatory frameworks that often discourage market-based innovation, and fragmented markets characterized by high information and transaction costs were challenges faced by RLAs, as they are by MFIs today. In many respects, the RLA movement's conceptualization of the small loan problem, the organizational responses by leaders of the movement and the outcomes of many of the choices they made seem much more modern than passage of nearly one hundred years would suggest.

The RLA movement provides a useful case for examining the processes of commercialization facing the microfinance industry and their potential consequences. This chapter presents several key findings related to the commercialization process as experienced by the RLA movement relevant to the today's microfinance industry.

Microfinance institutions need to be animated by a vision of their role in development rather than defined by restrictive strategies, operations and products.

RLAs sought to promote self-sufficiency and independence among poor clients through the provision of financial services that were equitable and just to all parties. RLAs set their aim at not only providing these services themselves, but also at establishing a transparent, regulated market that would attract new institutions and capital to meet the demand for financial services. RLAs were focused on demonstrating that an old business could be done in a different way. The characteristics which RLAs first used to define this difference were the establishment of limitations on both interest charges to borrowers and dividends to investors.

The limitation on dividends and interest spoke to the RLAs' founding principle of offering services that were equitable and just to both parties in a transaction, and as such was an expression of the movement's vision. On a practical level, this also provided an objective sign of a common purpose within the young movement. As the RLA movement became successful in establishing a new small loan market with different types of new finance institutions, however, the focus on interest and dividends became more rigid and dogmatic. From an expression of vision, the issue of interest and dividends became a statement of strategy and operations that acted to stifle innovation in the face of changing markets.

RLAs were successful in achieving the reforms they sought in the small loan field, and established it as a legitimate, regulated market. This success triggered a process of commercialization that saw the formation of new institutions, increased competition for both capital and clients, and a blurring of the RLAs distinctiveness in the marketplace. RLAs responded in large part by trying to do more of what they had been doing, competing for capital on a semi-philanthropic basis and competing for clients based on price and service. These strategies, which had previously provided RLAs with a competitive advantage, no longer worked in the changed market. By maintaining these standards, RLAs also cut themselves off from association with the new leading institutions, primarily consisting of for-profit small loan companies, and further removed themselves from the sources of innovation within the market.

Commercialization brings about changes in markets. A vision of the role of finance in shaping and achieving development goals needs to provide a proactive guide to interpret these changes and their consequences. Industry definitions and standards should remain flexible and be treated with critical skepticism in the face of changing markets. MFIs need to remain engaged in the field that is created through the process of commercialization in order to identify appropriate strategies to meet the new realities of the market.

Microfinance institutions need an expanded range of engagement options and exit strategies reflective of their organizational mission in the midst of changing markets.

The RLA movement has not been widely studied, yet it played a significant role in laying the foundation for the current environment in which microfinance institutions operate in the United States. This may in part be due to the relatively small number of RLAs and their short-lived history, a history cut short by their failure to survive the struggle of commercialization that they were largely responsible for initiating. While failing to remain viable financial institutions, they played a significant role in establishing the conditions necessary for a dynamic microfinance market.

While commercialization of microfinance may tend to strengthen and improve the overall provision of microfinance products and services, some individual microfinance institutions, or as in the case of RLAs, whole sectors of MFIs, may not survive the competitive pressures and market changes. And, almost assuredly, few if any will remain unchanged. The reasons that the MFIs cease operating, however, may be more varied than the initial answer that they were unable to adapt to the market changes and remain self-sufficient or sustainable. St. Bartholomew's RLA, for example, stated that it was dissolving because the market had changed such that its original mission was no longer being served through its lending activities. While this was an admittedly rare instance, it suggests the possibility that a sustainable organization may decide to pursue other activities if market changes affect its ability to pursue its founding mission.

The history of RLAs also suggests that the economist's old adage that 'in the long run we are all dead' may aptly apply to microfinance institutions as well. The Portland Remedial Loan Association of Portland, Oregon was established in 1914 with approximately $50,000 in capital raised through the sale of stock.[124] Over the next thirty years, the RLA enjoyed consistent growth reaching a maximum loan volume of 7,812 loans made in 1935 with an average loan size $38.24. Analysis of the previous year's portfolio showed that 43% of the loans handled were for $5.00 or less. The RLA paid dividends of 6% on its capital stock up until 1936 when it was restructured as a non-profit charitable corporation. After forty years of operation, resulting in 200,580 loans valued at over $8,630,000, the board voted to liquidate the RLA in 1955 due to increased competition from both commercial banks and credit unions. Upon its closure, the RLA transferred over $300,000 in assets to four Portland hospitals as trust funds to provide medical services to those in need. Though the RLA closed, it did so in a manner that allowed its overall mission to continue.

The restructured markets resulting from commercialization can change a microfinance institution's incentives to participate. Microfinance institutions that are grounded in an activist mission may find it of less interest to continue operations once the reforms it has championed are put in place. Even with a flexible vision that identifies new sets of needed reforms, a microfinance institution may decide that it should not undertake the organizational changes

[124] Following information drawn from McNaughton.

needed to remain competitive in the new market environment. Microfinance institutions that are not able to remain competitive and do not believe that it is in their mission's interest to make the necessary changes to adapt to the market should be supported in making the decision to exit the industry. This is not an easy decision because it is too easily cast as failure. However, the RLA experience shows that even microfinance institutions that make important contributions over time will reach the end of their viability. Expanded options for continued, constructive engagement in microfinance development, however, are needed to ensure that the market-based dynamics of commercialization are tempered and informed by a broader view of development goals. Advocacy for legislative changes and regulatory enforcement, education on consumer rights and responsibilities and applied research in institutional design and new product development are examples of some activities through which a organizations can shape the commercialization process.

Microfinance institutions need products that meet client demand while supporting the institution's mission.

RLAs were established to meet specific financial needs of poor clients with the aim of increasing their independence and self-sufficiency. From the beginning, RLAs attempted to balance the needs and goals of clients and with their own set of interests. This balancing act required clarification of the institution's goals and objectives for different products in terms of how they support the fulfillment of its vision. For example, chattel loans offered clients the possibility of larger loan amounts than a pledge loan, but this was at the expense of increased questioning concerning the borrower's need for the loan and its intended use. From the RLA's perspective, a chattel loan provided greater opportunity to finance self-employment activities as well as engage the borrower in financial counseling. The collateral requirement, however, limited the ability of the RLA to reach poorer clients. The impersonal relationships required to provide the high volume of small transactions that resulted from chattel and pawn loans were also found to make it difficult to encourage thrift among borrowers.

A driving force behind the RLA movement was the desire to put the moneylender out of business. RLAs offered a positive alternative to the moneylender which supported by direct action the legal and education campaigns against them. RLAs were organized similar to unlicensed moneylenders and offered similar products in part to show that these moneylenders could be beat at their own game. While RLAs were successful to a large extent in shaping the market for small loans, they remained focused on the idea of the loanshark as their primary competitor even in the face of new entrants to the field. RLAs stressed the goal of thrift among their clients, and demonstrated how their repayment schedules and lower interest charges promoted the savings habit compared to moneylenders. RLAs, however, did not develop savings products or services that directly provided the opportunity for clients to save. While this was not a major issue when moneylenders were the primary benchmark and source of competition, the subsequent development of credit unions brought savings and credit together as an institution and as a set of products.

Commercialization works to broaden the mainstream provision of financial services through improved products and delivery systems. While these products are designed to meet the expressed needs of new potential customers, microfinance institutions need to continually push to ensure that they are shaped in ways that contribute to the realization of the their long-term development vision. As new products and services come into the mainstream through commercialization, MFIs should expand to new frontiers of client needs and product design to shape the development impact of the market process.

Donors' goals and funding priorities can influence the establishment, growth and stability of a market-based microfinance industry.

The experience of the Russell Sage Foundation in the development of the small loan industry highlights the critical role that donors have in promoting market-based approaches. The Russell Sage Foundation identified moneylenders as a significant policy issue that was being addressed in an unconnected way by several successful RLAs. The Foundation operated strategically within a clear framework that integrated research and education, practice and experimentation, and legislative development. These efforts were focused on providing the infrastructure necessary for a market to function such as information, transparency, standards and regulatory frameworks.

The greatest growth in the RLA movement occurred during the time period that it was supported by the Foundation. The Foundation's interest in RLAs, however, was primarily focused on their role as experiments that informed the development of the small loan market. As the market developed, and new institutions entered the field, RLAs began to lose their unique relevance to the Foundation. The Foundation's interest in industry development as opposed to institution building drew them to the new innovators in the market such as the credit unions and the personal finance companies and away from support of RLAs. Robinson and Nugent noted that the formation of new RLAs began to cease after Arthur Ham focused on legislative work beginning in 1914, and 'a normal mortality gradually thinned the ranks of those already in existence.'[125]

Common understanding of the interests and goals of microfinance institutions and the donor community is essential to ensure that they are complementary. Donors and microfinance institutions have the opportunity to provide a balance to the often competing interests of institutional survival and market change in an effort to shape the commercialization process towards developmental goals.

[125] Robinson and Nugent, 1935, p. 147.

5. SUMMARY AND CONCLUSION

RLAs played an important role in the development of microfinance within the United States by legitimizing the need of poorer borrowers for small loans delivered in an equitable manner, providing an alternative model of financial services that demonstrated the commercial possibilities of the small loan market, and informing the development of legislation and regulation that established the infrastructure for a new industry to serve that market. These types of efforts remain central to the mission and activities of modern microfinance institutions. In addition to the particular activities of RLAs, the processes and constraints under which they were carried out also have a certain familiarity to the modern microfinance practitioner.

The financial systems approach has gained increased currency within the microfinance field resulting in a focus on attracting the formal regulated financial system into serving poor clients on a commercial basis. Such a commercialization of microfinance offers the possibility of improved operations, expanded product offerings, and greater breadth of coverage supported by the returns from market-based operations. While commercialization is a relatively new phenomenon within modern microfinance, the process has resulted in dramatic changes within the markets in which many MFIs operate. The entry of new types of financial institutions, shifts from supply-led to demand-led markets, competition on price and quality rather than access and availability have resulted in an environment that is more complex and challenging than advocates of the financial systems approach had previously imagined.[126]

The broad shapes of the current processes of commercialization within the microfinance industry can be identified at work as well within the history of the RLA movement. The responses of RLAs to these pressures, viewed long after the fact, provide an opportunity to better examine the strategies and potential outcomes facing current microfinance practice. An examination of modern microfinance's historical roots may contribute to a faster learning and innovation curve by reinforcing past lessons, provide an expanded range of potential options and tools for current practice, and foster a deeper understanding of the complex problems being tackled by microfinance institutions today.

[126] Rhyne, 2002.

APPENDICES

Appendix A: Description of Data Sources

Table 3 Description of Data Sources

Year	Source	Data
1909	NFRLA Annual Report	a, b
1910	NFRLA Annual Report	a, b
1911	NFRLA Annual Report	a, b
1912	NFRLA Annual Report	a, b
1913		d
1914	NFRLA Annual Report	a, b
1915	NFRLA Annual Report	a, b
1916	NFRLA Annual Report	a, b
1917	NFRLA Annual Report	a, b
1918	NFRLA Annual Report	a, b
1919	NFRLA Annual Report	a
1920	NFRLA Annual Report	a
1921	NFRLA Annual Report	a
1922	NFRLA Annual Report	a
1923	NFRLA Annual Report	a
1924	NFRLA Annual Report	a
1931	Glenn, Brandt and Andrews (1947)	c
1938	Consumers' Guide (1939)	c
1939	Consumers' Guide (1939)	c

Notes:

a. Aggregate data presented on all NFRLA members reported in NFRLA Annual Report
b. Data on each individual NFRLA member reported in NFRLA Annual Report
c. Limited aggregate data reported
d. Data for 1913 estimated by using the median of years 1912 and 1914.

Data points included in the NFRLA Annual Reports:

1. Name and location of RLA, Start date, and Population of city served
2. Capital, Surplus, Borrowed money, Net earnings, Expenses, Losses, and Dividend rate
3. Number of loans made, Average loan balance, and Amount loaned
4. Amount repaid by borrowers, Average amount of loans, Security accepted, Interest rate, and Fees

Appendix B: List of Remedial Loan Associations

Table 4 List of Remedial Loan Associations

	Name	City	State	Year Started
1	Collateral Loan Company	Boston	MA	1859
2	Workingmen's Loan Association	Boston	MA	1888
3	Economy Building and Loan Association	Cleveland	OH	1892
4	Provident Loan Society	New York	NY	1894
5	St. Bartholomew's Loan Association	New York	NY	1895
6	Worcester Collateral Loan Association	Worcester	MA	1896
7	Workingmen's Loan Association	Providence	RI	1898
8	Chattel Loan Association of Baltimore City	Baltimore	MD	1898
9	First State Pawner's Society	Chicago	IL	1899
10	Citizen's Mortgage Loan Company	Cincinnati	OH	1900
11	Society for Savings	Washington	DC	1905
12	Provident Loan Society	Milwaukee	WI	1905
13	Newark Provident Loan Association	Newark	NJ	1905
14	Workingman's Loan Association	Cleveland	OH	1906
15	Provident Loan Society	Detroit	MI	1906
16	Chattel Loan Company	Grand Rapids	MI	1910
17	Equitable Loan Association	Minneapolis	MN	1910
18	Provident Loan and Securities Company	St. Louis	MO	1910
19	People's Provident Association	Louisville	KY	1910
20	Remedial Provident Loan Association	Paterson	NJ	1910
21	Welfare Loan Agency	Kansas City	MO	1910
22	Provident Loan Society	Seattle	WA	1911
23	People's Loan Company	Portland	ME	1911
24	Chattel Loan Society	New York	NY	1912
25	Provident Loan Society	St. Paul	MN	1912
26	Utica Provident Loan Association	Utica	NY	1912
27	Provident Loan Association	Sioux City	IA	1912
28	Indianapolis Public Welfare Loan Association	Indianapolis	IN	1912
29	San Francisco Remedial Loan Association	San Francisco	CA	1912
30	Provident Loan Society	Rochester	NY	1912
31	Remedial Loan Society	Buffalo	NY	1913
32	Onondaga Provident Loan Association	Syracuse	NY	1913
33	Duluth Remedial Loan Association	Duluth	MN	1913
34	Equitable Collateral Loan Company	Youngstown	OH	1913
35	First State Industrial Wage Loan Society	Chicago	IL	1913
36	Portland Remedial Loan Association	Portland	OR	1914
37	Provident Loan Society	Dallas	TX	1914
38	Remedial Loan Company	Philadelphia	PA	1914
39	Toronto Municipal Loan Association	Toronto	Ontario	1914
40	Lynn Remedial Loan Society	Lynn	MA	1915
41	Provident Collateral Loan Company	Dayton	OH	1915
42	Provident Loan Society	Omaha	NE	1916
43	Colorado Springs Provident Loan Society	Colorado Springs	CO	1917
44	Remedial Provident Loan Society of BC, Ltd.	Vancouver	BC	1918

Appendix C: Financial Statements for Three RLAs, 1916

Table 5 Financial Statements for Three RLAs, 1916

Remedial Loan Association	Chattel Loan Company		Remedial Loan Society		Provident Loan Society	
City	Grand Rapids		Buffalo		Dallas	
Year Started	1910		1913		1914	
Type of Loans	Chattel		Chattel & Pledge		Pledge	
Total Loans Closed	2,559		1,104		18,028	
Total Dollars Lent	123,859.93		71,337.00		308,646.00	
Average Loan Balance	54,241.71		39,332.25		34,118.93	
BALANCE SHEET						
Assets	**$**	**%**	**$**	**%**	**$**	**%**
Loans	59,241.94	90.6%	38,293.95	85.2%	38,065.85	0.58
Cash in hand and in banks	4,753.52	7.3%	4,818.60	10.7%	3,029.88	0.05
Treasury stock		0.0%		0.0%	23,350.00	0.35
Accounts receivable	103.14	0.2%	1,168.53	2.6%		-
Acquired pledges	443.23	0.7%	110.11	0.2%	362.11	0.01
Furniture and Fixtures	700.00	1.1%	456.80	1.0%	1,147.25	0.02
Prepaid insurance & tax account	124.10	0.2%	114.34	0.3%	71.25	0.00
Total Assets	65,365.93	100.0%	44,962.33	100.0%	66,026.34	1.00
Liabilities	**$**	**%**	**$**	**%**	**$**	**%**
Bills payable	12,393.75	99.1%	11,000.00	100.0%	15,000.00	93.4%
Misc Liabilities	114.68	0.9%		0.0%	25.86	0.2%
Interest on Bills Payable		0.0%		0.0%	1,033.35	6.4%
Total Liabilities	12,508.43	100.0%	11,000.00	100.0%	16,059.21	100.0%
Equity	**$**	**%**	**$**	%	**$**	%
Capital Stock	48,280.00	0.91	30,000.00	88.3%	50,000.00	100.1%
Undivided profits	4,577.50	0.09	3,962.33	11.7%	(32.87)	-0.1%
Total Equity	52,857.50	100.0%	33,962.33	100.0%	49,967.13	100.0%
Liabilities & Equity	65,365.93		44,962.33		66,026.34	

Table 5 Financial Statements for Three RLAs, 1916 (continued)

Remedial Loan Association	Chattel Loan Company		Remedial Loan Society		Provident Loan Society	
INCOME STATEMENT						
Income	$	%	$	%	$	%
Interest	12,321.55	81.5%	9,286.55	85.3%	9,169.58	97.4%
Fees	2,802.56	18.5%	1,527.00	14.0%		0.0%
Recovery from bad loans	528.76	3.5%	5.21	0.0%	245.65	2.6%
Interest on bank balance		0.0%	62.10	0.6%		0.0%
Total Income	15,124.11	100.0%	10,880.86	100.0%	9,415.23	100.0%
Expenses	$	%	$	%	$	%
Rent		0.0%	800.04	8.7%	600.00	8.1%
Interest on Borowed money	468.17	5.4%	631.27	6.8%	1,068.95	14.5%
Salaries	5,053.96	58.1%	5,926.64	64.3%	4,370.00	59.2%
Net loss on bad accounts	144.80	1.7%	306.99	3.3%		0.0%
General expenses	3,037.99	34.9%	1,553.34	16.9%	1,340.26	18.2%
Total Expenses	8,704.92	100.0%	9,218.28	100.0%	7,379.21	100.0%
Net earnings for the year	6,419.19		1,662.58		2,036.02	
PERFORMANCE MEASURES						
Profitability Ratios						
Return on Assets	9.82%		3.70%		3.08%	
Return on Equity	12.14%		4.90%		4.07%	
Earnings on Capital Stock	13.30%		5.54%		4.07%	
Leverage						
Debt to Equity	18.96%		24.46%		22.72%	
Efficiency Indicators						
Operating Costs	16.05%		23.44%		21.63%	
Salaries/Avg Loan Balance	9.32%		15.07%		12.81%	
Cost per Dollar Lent	0.070		0.129		0.024	
Cost per Loan Made	3.40		8.35		0.41	
Outreach Indicators						
Loans/Assets	90.6%		85.2%		57.7%	
Average Loan Size	48.40		64.61		17.12	

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