

REPORT

OF THE

TRUSTEES OF THE LURGAN LOAN FUND

TO THE

COMMISSIONERS

OF THE

LOAN FUND BOARD OF IRELAND,

FEBRUARY 1848.

DUBLIN :

HODGES AND SMITH, GRAFTON-STREET.

MDCCCXLVIII.

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REPORT.

We, the Trustees of the Lurgan Loan Fund, beg to report to the Commissioners of the Loan Fund Board of Ireland, that after nearly ten years' experience in this district, and after the most careful inquiries, we have arrived at the conclusion that the charitable loan fund system is productive of more evil than good, and we have come to the determination of closing the Lurgan Loan Fund as soon as practicable.

We commenced our operations on the 6th of July, 1838, and have circulated in all £118,564 in 23,428 loans, being an average of £5 1s. 2d. each loan. We have received £2,061 16s. 10d. for discount on loans, for promissory notes, and for cards, which makes a charge on the average of rather more than 9 per cent. per annum to each borrower, independent of his expenses for bringing forward his securities and making his weekly repayments.

The total amount of fines received is £650 14s. 10d., and the number of loans on which fines were incurred amounts to 7,119, giving an average fine of 1s. 10d. per loan, which raises the interest on the defaulters to $18\frac{1}{2}$ per cent. per annum.

The number of summonses issued was 645, and

the number of levy warrants executed was 77. Our debentures, which at one time amounted to £3,754, we have paid off in full.

On the 1st of January last our accumulated nett profit was £354, of which we expect to receive £303 from the borrowers in the course of the next 20 weeks, and we believe that £51 will cover our bad debts from the commencement of the establishment, being less than 1s. for every £100 lent.

When we commenced operations, in July, 1838, we could not get money to borrow on debentures at less than 6 per cent. In July, 1839, we were able to reduce the rate to 5 per cent., and in October, 1845, to 4 per cent., and ultimately in September, 1846, to 3 per cent. This enabled us to reduce the discount to borrowers. We at first charged the borrowers 6d. per £1 discount, and 1d. per loan for the card. In July, 1839, we reduced the discount to 4d. in the £1, and in January, 1843, to 3d. in the £1.

In January, 1844, by your order, we charged 1d. per loan additional for the promissory note, which had been previously issued free of cost.

In July, 1844, we raised the discount to 4d. in the £1, at which rate it has since remained: we never made any charge for application papers.

In coming to the determination of closing this loan fund, we are desirous of recording the reasons which have induced us to adopt that measure.

The great object which we had in view, in establishing and carrying on the Loan Fund, was to lower the rate of interest on loans to the poor. We,

therefore, early reduced our rate of interest from 6d. to 4d., and afterwards to 3d. in the £1 (see our report on this subject, dated 30th January, 1843). Shortly after that report, the law was altered, and the maximum rate of interest allowed to be charged was lowered from 6d. to 4d. We had expected that the large sums lent by this Loan Fund at a low rate, would have, by competition, lowered the general rate of interest to the poor throughout the district; but we regret to find that this has not been the case. Finding, therefore, that our operations have failed in this primary object, we have been led to investigate the policy of charitable loan funds with special power of recovering debts, and that investigation has convinced us, that such institutions, whilst affording some facilities to borrowers, really contribute to raise the general rate of interest on loans to the poor.

In the first place, by leading off attention from the real causes of excessive interest being charged to the poor—namely, the remnant of the usury laws still retained, and the odium against money lenders.

Secondly, by increasing this odium, and so preventing respectable persons from entering into the trade.

And, lastly, by their special privilege of recovering debts summarily before magistrates, which Loan Fund managers enjoy.

In all the recent suspensions of the usury laws, contracts for sums under ten pounds (which include the dealings of the poor) have been exempted. We

cannot but consider that it is most impolitic to legislate on different principles for the poor and the rich;—for the money-lender and the loan funds.

During the past year, the Prime Minister and the Chancellor of the Exchequer directed the Bank of England to charge not less than 8 per cent. for advances on the best mercantile security. Yet, at the same time, poor farmers were prohibited from borrowing sums under £10 at a higher rate than 6 per cent.

When the market rate of interest rose so high, the effect of this restriction was, to prevent the farmers from getting money, or to injure instead of protecting them. Then, whilst private money-lenders are prevented from charging more than 6 per cent. on loans under £10, the loan-funds are enabled to charge $9\frac{1}{2}$ per cent. Such anomalies show strongly the necessity of an entire repeal of the usury laws, thereby affording to the poor the protection of free competition, which the suspension of these laws for contracts above £10 has for some years afforded to the rich.

Another effect of the remnant of these laws is, to deter persons of character and respectability from entering into the trade of lending money to the poor. This trade is, therefore, left in the hands of unprincipled men, who do not fear to violate the usury laws, and who lend money at an exorbitant charge, to indemnify themselves for the risk they run in such violation.

Another great cause of a high rate of interest in the loans to the poor is, the odium attached to the

trade of money-lending, when carried on in a small scale : formerly the same odium attached to all parties engaged in this trade, but now bankers are amongst the most respected classes in the community ; and we feel confident that if the remnant of the usury laws to which we have directed attention were abolished, bankers and other respectable parties would be induced to extend their transactions to loans under £10, and so the odium against money-lending would gradually subside.

The loan funds, by conducting their loans on charitable principles, contribute to the increase of odium against those who lend for profit ; and so, by diminishing the number of persons in the trade of money-lending, raise the rate of interest on the poor.

The third way in which loan funds injure the poor, arises from the special privilege of recovering debts summarily before magistrates which their managers enjoy. The injurious effect of this privilege is threefold.

First, it has the direct tendency of rendering loan fund managers less careful in their discrimination of borrowers ; and this in many instances leads to improvident parties obtaining loans, to their own serious injury, and that of their securities.

Secondly, it renders it more hazardous for any shopkeeper or money-lender to trust poor persons, as a loan fund decree can always be obtained sooner than a quarter sessions decree.

Lastly, it induces shopkeepers and small landholders to endeavour to secure the management of

loan funds, so as to grant loans to their customers and tenants, and then use the summary powers of the loan fund against them in case they fail to pay their instalments. We have heard of instances of the powers entrusted by parliament for charitable purposes being thus abused ; but we abstain from particularising those cases, as we only desire to point out the necessary tendency of the system, and not to bring charges against individuals.

In conclusion, we must express our conviction, that the interests of the poor, in borrowing money, will be best secured by the repeal of the remnant of the usury laws, and of the special privileges of recovering debts, now conferred on loan fund managers ; in other words, by emancipating the trade of money from restrictions and exclusive privileges. Such a change in the law would give to the poor that protection, which is afforded in all cases of free trade by that wonderful arrangement, designed by the all-wise providence of God, by which the interest of borrowers and purchasers, whether rich or poor, is secured by the free competition of lenders and sellers, although actuated by self-interest ;—that arrangement by which all these parties, actuated by self-interest alone, contribute, without knowing it, to the welfare of the classes with whom they deal, and to the best interests of the entire community.

Signed by order of the Trustees,

WILLIAM P. OULTON, CLK. }
 JOHN HANCOCK, J.P. } Hon. Secs.