MICROFINANCE AND HOME OWNERSHIP IN BRITAIN BEFORE THE FIRST WORLD WAR: THE CASE OF THE COOPERATIVE PERMANENT BUILDING SOCIETY [1]

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Abstract

Formed in the mid-nineteenth century, the building societies grew rapidly from their humble beginnings as localised 'self-help' institutions to become the dominant player in the house mortgage market by the inter-war period. Throughout their early history, the movement presented itself as a champion of home ownership and thrift among the working classes, but historians of housing however have generally disputed the role that building societies played, or could have played, in extending home ownership before the First World War. The case study presented in this paper shows that it was possible for a building society to lend to working-class borrowers, and that home ownership was therefore not beyond the grasp of such people. While it was undoubtedly an exception within the movement, the case study showed a genuine commitment to working-class owner-occupation, providing the majority of its loans to both skilled and unskilled workers on easy repayment terms. How it was able to overcome the adverse selection and moral hazard risks involved in lending to such groups of people is the focus of this paper.

[1] Special thanks are given to Glenys Britton and the staff of the Nationwide Building Society archives for their co-operation and help during the course of this research. The author is also grateful for the support and guidance of Professor Jane Humphries, Professor Avner Offer and Kwan-Leung Li, as well as for the helpful comments made by participants of the graduate workshop in economic history at Nuffield College, Oxford. Finally, this research was greatly aided by the generous financial and academic support provided by Nuffield College. Any errors and omissions are the author's own.

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Introduction: The Building Society Promise

> These societies have taught a healthy frugality [its members] never else would have known; and enabled many an industrious son to take to his home his poor old father – who expected and dreaded to die in the workhouse – and set him down to smoke his pipe in the sunshine in the garden of which the land and the house belonged to his child.
>
> George Jacob Holyoake (1879)[2]

The recent proliferation of microfinance institutions in the Third World has regenerated interest in the history of microfinance. Much of this interest has focused on European credit cooperatives (Guinnane, 1994, 1997, 2001; Galassi, 2004), Irish loan funds (Hollis and Sweetman, 1997), friendly societies (Gosden, 1961; Schiff, 2006) and other co-operative and philanthropic institutions formed throughout the Western world to address the pressing social needs of their day. Yet despite this renewed interest in the co-operative business forms of old, far less attention has been given to what were the most significant financial mutuals in Great Britain during the nineteenth and twentieth centuries, and the model for subsequent microfinance initiatives around the world: the building societies.

The importance of the building societies to British economic history stems from both their economic and social significance as a movement. The building societies were part of a larger phenomenon of institutional self-help during the nineteenth century, which at its zenith included friendly societies, burial clubs, savings banks and other forms of associational self-help. The building societies themselves originated from earlier forms of building clubs in the late eighteenth century, but were supported, at least in their infancy, by older mutual associations such as friendly societies, from which they drew much of their early membership and capital. [3]

The phenomenal growth of the building society movement from relative obscurity to the dominant player in the mortgage market by the 1930s underscores their immense success in attracting funds and investing in house property. Figure 1 shows the rising share of the UK institutional mortgage market captured by building societies between 1880 and 1939. Much of this rise occurred in the late 1920s, when an influx of investment capital into the building societies produced an explosion in mortgage lending that saw the building societies become the main mortgage lender in Britain. Their popularity can be seen in their superior growth rates to other rival institutions, with growth in total assets between 1880 and 1939 (increasing 14.2 times) outpacing that of insurance companies (12.1 times), joint-stock banks (9.2 times) and trustee savings banks (5.6 times).[4]

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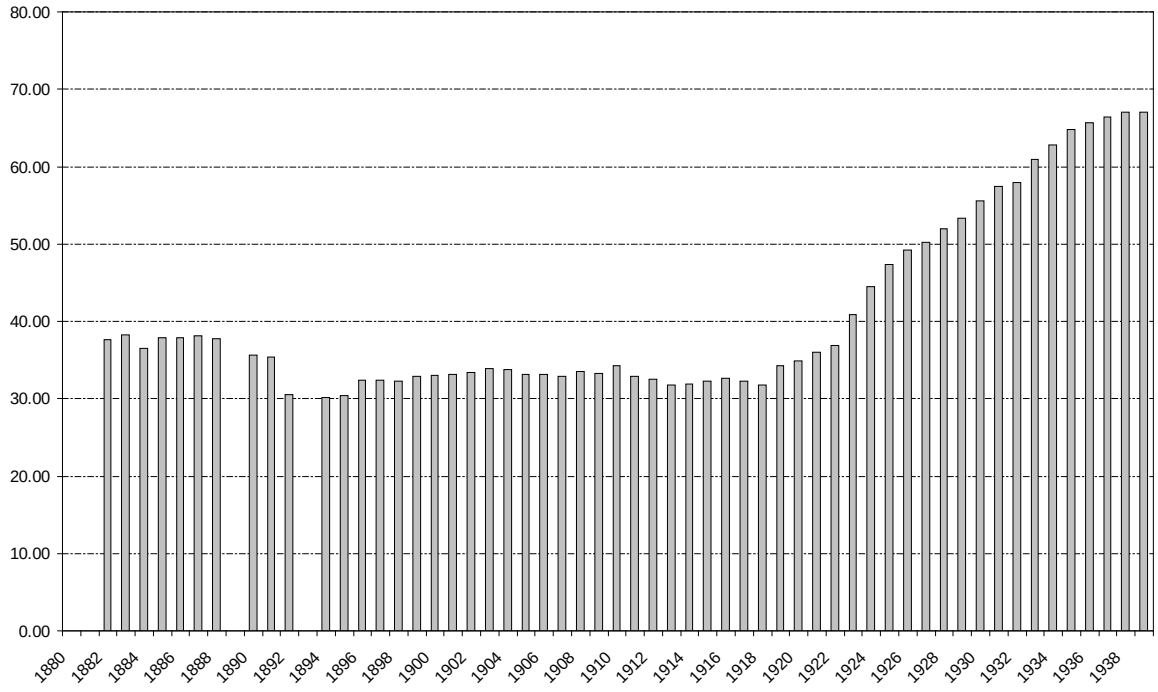
[2] Quoted by Samuel Smiles in the *Building Societies Gazette* in BSG, (1879), p. 55.

[3] Gosden, p. 155. For example, the Leeds Permanent Building Society derived much of its capital in the first year from thirteen friendly societies in the local area.

[4] Sheppard, *The growth and role of UK financial institutions 1880–1962*, pp. 118–119, 146–147, 150–151, 154–55.

Figure 1: Building Society Share of Total UK Institutional Mortgage Lending[5]



Much of the movement's success was based on an ingenious strategy of self-promotion which emphasised not only the economic value of building societies, but their great social significance. In an early article in the *Building Societies Gazette*, Samuel Smiles, an ardent promoter of self-help in Victorian Britain, lauded the building societies as a fine example of self-help in action:

> building societies are, on the whole, among the most excellent methods of illustrating the advantages of thrift. They induce men to save money for the purpose of buying their own homes; in which, so long as they live, they possess the best of all securities… These are chiefly supported by the minor middle-class men, but also to a considerable extent by the skilled and thrifty working-class men.[6]

Such claims were espoused by many building society evangelists, who promoted the building society as a powerful tool for social reform. Harold Bellman, one of the leading figures of the movement during the first half of the twentieth century, similarly described the building societies as:

> essentially a story of self-help, with ordinary undistinguished people opening the channels of self-help to many more people of precisely the same kind.[7]

The written histories of individual building societies, commissioned by the societies themselves to mark their anniversaries, invariably identify their foundation with

[5] Sources: Registry of Friendly Societies (RFS), 'Report of the Chief Registrar of Friendly Societies', Various Issues: 1880–1939; Sheppard, Table (A) 3.4, p. 184

[6] Samuel Smiles, in BSG, 'Mr Smiles on Building Societies', (1879), p. 51.

[7] Bellman, *Bricks and Mortals*, p. 56.

the most noblest of aims. To one director of a building society in Yorkshire, the building societies represented 'the best kind of socialism that [he knew]', institutions well placed to secure for the lower classes a better share of wealth by helping them to become property owners. An excerpt from the 1869 Rule Book of the Bingley Building Society exemplifies this faith in the salutary nature of their work:

> We believe it to be in reserve for society that workers will at length share more equally than they do at present with capitalists and proprietors of the soil in the comforts and even elegancies of life.[8]

The permanent building societies however not only provided an accessible means of borrowing for house purchase, but also provided an attractive means for people with modest incomes to build wealth through regular saving. The building societies themselves saw the provision of an outlet for small savings as an important part of their mission. For example, the Leek and Moorlands Building Society (now the Britannia Building Society) stated in its original prospectus that one of its objectives was:

> to enable those members who do not wish to purchase, or build, or borrow, to obtain a much higher rate of interest for their money than is paid by an ordinary Savings Bank, on security equally good and available.[9]

Articles published in the *Building Societies Gazette* (BSG), the sole trade publication of the movement, reveal that its adherents were not ambivalent to issues affecting the working classes. The BSG was a monthly publication that featured articles covering a wide range of affairs, including the housing problem, working-class thrift, home ownership and the great service rendered to the nation as a whole in stimulating domestic capital formation through its system of 'directed saving'. So strong was the association made in some of these articles between building societies and working-class interests that one zealous contributor even claimed that building societies had spared England from the violent class struggles affecting Europe. It therefore followed that:

> the introduction of the Building Society principle among the artisans of France would, in the course of twenty years, effect such a social revolution as would put an end to the political cataclysms by which that unhappy country has so long been distracted.[10]

Modern historians have cast doubt on this portrayal of the building societies as a working-class movement, and have branded them instead as largely middle-class in their constituency. Enid Gauldie in her book, *Cruel Habitations*, stated that the formal and professional business structure of the permanent building societies alienated working-class people from joining them, and threw the building societies increasingly under the control of middle-class investors.[11] Mark Swenarton and Sandra Taylor concluded that, even during the so-called boom in working-class owner-occupation in

[8] Quoted in Pooley and Harmer, *Property Ownership in Britain*, p. 114.

[9] Redden, *A History of the Britannia Building Society*, p. 10.

[10] BSG, 'A political view of building societies', (1871), p. 41.

[11] Gauldie, *Cruel Habitations*, pp. 206–7.

the interwar period, home ownership was largely unattainable by people on working-class incomes, who were at any rate excluded from housing finance because of the 'exclusive status requirements' of the building societies.[12] In short, building societies served a wealthier niche of borrowers than their promoters had claimed.

Identifying the class characteristics of those assisted by building societies to become property owners has implications for several debates. One of these is the extent to which private collective action can resolve the effects of market failure. The 'housing problem' was one of the most serious and debated issues affecting Britain before the First World War, characterised by the failure of the private housing market to provide an adequate supply of decent housing for people on working-class incomes. According to housing historians, its coverage was widespread, not only affecting the casually employed or the poor, but also:

> 'thousands of skilled artisans[who] despite regular employment, sober habits and adherence to the precepts of Smilesian self-help, were forced by the housing shortage to live, more often than not, in just one room in wretchedly unsanitary surroundings'.[13]

This widespread experience of the housing problem was confirmed by a series of government inquiries that investigated the squalid housing conditions under which the bulk of the working classes lived.[14] Eventually, it was acknowledged that the profit motive on its own could not supply for all people a standard of accommodation which the public conscience had come to regard as acceptable,[15] but any thought of state intervention in the housing market before the First World War was still too antithetical to the prevailing social attitudes of the time. Indeed, housing historians such as J. N. Tarn, Sidney Wohl and Gareth Stedman Jones have attributed the delay in large-scale council housing to both the unshakeable faith of Victorian Britons in the infallibility of the free-market system, and to the corresponding confidence placed in Smilesian self-help as an effective means to alleviate poverty.[16] For their part, the building societies did little to temper such beliefs, fiercely resisting attempts by the government to intervene in the housing market. Through its influential representative body, the *Building Societies Association*, the movement opposed numerous government bills aimed at allowing local authorities to address the housing shortage by providing cheap loans to individuals to purchase or build houses for owner-occupation. One such bill, which roused the movement to action, was the Small Houses (Acquisition of Ownership) Bill of 1899, which the societies saw as a direct threat to their business and as introducing an unnecessary burden on ratepayers.[17] A BSG article in 1899 was typical of the many condemnations directed at the bill, arguing that since 'working men will get terms from the leading building societies which, taking all the conditions, are less onerous…, a local authority would be unwise to adopt the Act'. It concluded that:

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[12] Swenarton and Taylor, 'The Scale and Nature of the Growth of Owner-Occupation in Britain between the Wars', p. 391.
[13] Wohl, 'Housing of the Working Classes in London, 1815–1914' in Chapman (ed.), *The History of Working-Class Housing*, p. 22.
[14] Burnett, *The Social History of Housing*, p. 172.
[15] Burnett, p. 173.
[16] e.g. Wohl, p. 37.
[17] Cleary, *The Building Society Movement*, p. 165.

> Anyone in a position to think of acquiring his own house will probably prefer the principal building societies, whose terms … are as a whole less onerous, and especially press less hardly in cases of removal. This district [Halifax] is well served by such societies, and it would be unfair to them, who bear their own losses, that the losses incurred by the local authorities, practically rivals in the trade, should be charged to the rates.[18]

Few studies have addressed the social dimension of the movement empirically.[19] One exception, a case study analysis by geographers Colin Pooley and Michael Harmer, examined the private archives of the Bradford and Bingley Building Society to investigate the profile of borrowers from the mid-nineteenth century to the 1960s, and the changes in the structure of mortgage lending taking place during this period. Interestingly, they found that in the first decades of the two societies:

> mortgage finance was going predominantly to those in working class or industrially based occupations and small businessmen and shopkeepers… however, within these groups, mortgage finance went primarily to those with the highest and most regular incomes.[20]

Other empirical studies have focused mainly on more recent behaviour, and while they reveal much about the later practices of building societies, they reveal little about the development of this policy over time.[21] Much less is known about the role played by building societies in the housing market before the First World War, a time when the rate of owner-occupation in Britain is commonly held to have been no more than ten per cent of the housing stock.[22] Housing historians give numerous reasons for this low rate of owner occupation, the main one being that house purchase was simply unaffordable for those on working-class incomes. Indeed, the historiography of housing normally attributes the inter-war boom in owner occupation to a combination of rising and stabilising wages, falling building costs, falling interest rates and rising aspirations.[23] Before the war however, working-class owner occupation was confined to only a few areas across Britain, where a large part of the local population were employed in skilled trades and earning stable incomes.[24] Yet in spite of these facts, the building society phenomenon was a ubiquitous one throughout Great Britain, and enjoyed steady growth throughout the nineteenth and twentieth centuries. The question of whether the building societies catered for working-class borrowers or not therefore has potential implications for our understanding of the barriers to home ownership in Britain, and more importantly, for the capacity of private collective action to overcome these barriers in order to improve the distribution of housing among the population.

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[18] BSG, 'Working Men's Houses and Building Societies', (1899), p. 173.

[19] e.g. Hird, 'Building Societies: Stakeholding Practice and Under Threat', p. 41.

[20] Pooley and Harmer, p. 125.

[21] e.g. Boddy, 'The social structure of mortgage finance'; Williams, 'Building Societies and the Inner City.'

[22] Merrett, *Owner-Occupation in Britain*, p. 1.

[23] e.g. Pooley and Harmer, pp. 40–42.

[24] Pooley and Harmer, p. 29.

Method and Sources

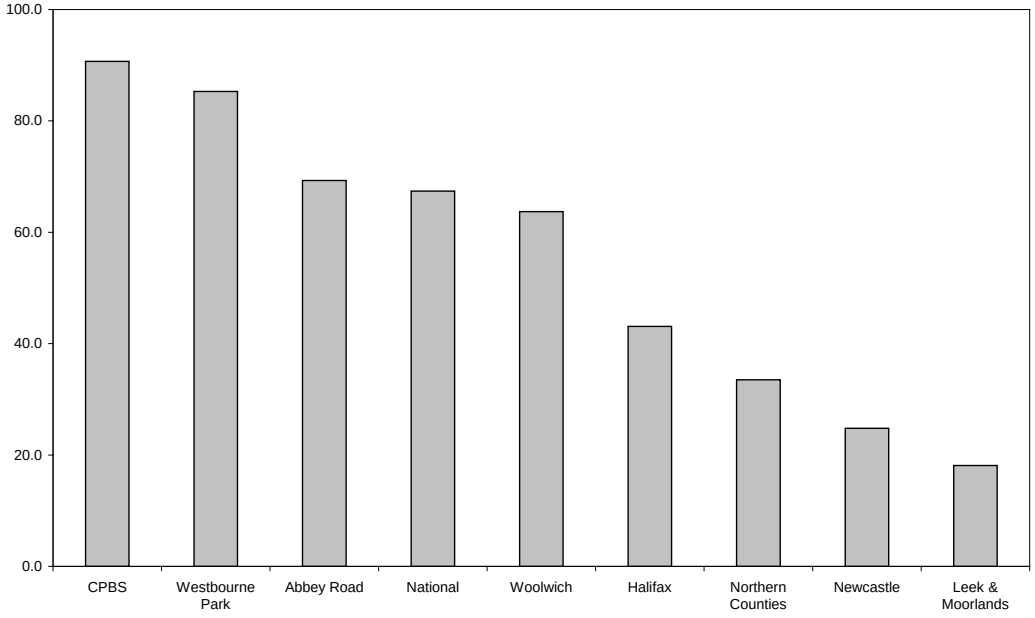
An initial glance at the percentage of small loans made by some of the largest building societies in 1913 shows that there was considerable heterogeneity in the movement before the First World War (see Figure 2). At the bottom of the figure are societies like the Leek and Moorlands (now Britannia Building Society) and Northern Counties (now Northern Rock PLC) building societies, where the bulk of loans were in excess of£1000 in value (65 per cent and 44 per cent of all loans respectively in 1913).[25] These societies clearly catered for a wealthier group of borrowers. At the top of the chart however are societies with over 90 per cent of loans being classified as small (less than £500 in value), the highest of these being the Co-operative Permanent Building Society (now Nationwide Building Society). The wide dispersion of societies across this spectrum shows from the outset that no generalisations can be made about the sorts of people who took out loans with these societies - different building societies were clearly catering for different classes of people. The question of interest then is who were at the lower end of the movement's clientele, and why were some building societies more accessible to them than others. This is treated in an empirical manner in this paper by analysing the lending records of a building society that might be expected *a priori* to have had the most modest clientele in the movement, such as one with a high proportion of small loans in its portfolio. The case study chosen for this purpose therefore was the Co-operative Permanent Building Society (CPBS). Another society was also included in this study, the London Grosvenor Building Society (LGBS), mainly for comparative purposes but also to test the hypothesis of whether small building societies were more inclined to cater for a more modest clientele as suggested by Williams.[26] Over 92% of its loans in 1913 were classified as "small" according to its annual report for that year, which might seem to confirm Williams' hypothesis. The actual empirical results however are discussed in a subsequent section.

Ample records exist for this society to study the class profiles of its members. A database of borrowers and the loans they were granted was constructed from mortgage registers and minute books held at the society's private archive. These sources contain the names and addresses of the borrowers, as well as detailed information about the properties and the mortgages used to purchase them, such as the location of the properties mortgaged, their market value and their annual rental value[27], the size dimensions of the dwellings, and the size and terms of the loans used to purchase them, including the mortgage repayment schedules and additional collateral required by the directors as further security for the loans. Due to the rapid growth of the society's membership between its establishment and the start of the First World War, the

[25] RFS, 'Report of the Chief Registrar of Friendly Societies,' Various Issues: 1912-1925.
[26] Williams, 'The role of institutions in the inner-London housing market'.
[27] A figure for the annual rental value of the property (i.e. the annual amount of rent paid by the property's tenant) was provided in the mortgage registers. While the records of the society do not state explicitly how this figure was obtained, it is most likely that the figure would have been provided by the borrower on his application form for a loan. As one of the primary aims of the society was to enable working-class tenants to purchase the dwellings they inhabited, the annual rental figure reported is highly likely to have been the amount of rent paid each year by the borrower to his/her landlord for the use of the property.

sample was restricted to borrowers being advanced a loan between 1884 and 1901 and in each of the years 1905, 1910 and 1913.

Figure 2: Percentage of loans less than £500 by selected building societies[28]



The data collected from the minute books were then linked to various other sources to obtain further information about the individual borrowers, the structure of their households and the neighbourhoods in which they lived. The British census was the key source used for this purpose, as the enumerators' books contain a rich amount of information about the households on any given street such as the names and occupations of occupants, their employment statuses (i.e. employer or worker), ages, genders and birthplaces. The enumerators' books also reveal whether a household had boarders and/or servants, and whether the address was sublet to other families or inhabitants.

In the case of the CPBS, 1,798 loans made out to 1,717 different borrowers were included in the database. 662 of the 888 people granted loans between 1884 and 1905 (74 per cent) were successfully linked to the census, but as census returns are only available up until 1901, the linkage of borrowers in 1910 and 1913 was more problematic. For these years, only the occupations and ages of borrowers were recorded where a match was made with the 1901 census. In comparison, the match rate of the LGBS borrowers was much lower, as fewer identifiers were recorded in the minute books to facilitate matching. Of the 293 borrowers in this society between 1879 and 1913, only 81 were matched (28 per cent).

[28] Source: RFS, 'Report of the Chief Registrar of Friendly Societies', Various Issues: 1913.

The shortcomings of the census linkage were partly made up by reference to Charles Booth's survey of London life and labour in 1889–1891 in order to obtain the social characteristics of the neighbourhoods where properties were mortgaged. In his famous survey, Booth produced a detailed poverty map of several parts of London which classified streets according to the class characteristics of its inhabitants. Seven grades were used in his classification scheme: (1) Lowest ('occasional labourers, loafers and semi-criminals'); (2) Very Poor ('casual labour, hand-to-mouth existence, chronic want'); (3) Poor ('those whose earnings are small, because of irregularity of employment, and those whose work, though regular, is ill-paid'); (4) Mixed; (5) Fairly Comfortable ('regularly employed and fairly-paid working class of all grades'); (5) Middle Class; and (6) Upper Middle Class.[29] These grades were used to build a profile of the areas where properties, located within the survey boundaries of Booth's survey, were mortgaged. The proportion of properties falling within Booth's survey area was much higher for the London Grosvenor Building Society than for the Co-operative Permanent Society. Figure 10 shows that the properties mortgaged to the LGBS were much more concentrated in London than those mortgaged to the CPBS, the latter being spread far and wide across England and Wales. In all, only 4 per cent of properties mortgaged to the CPBS fell within the boundaries of the poverty map, compared to 62 per cent of the properties mortgaged to the LGBS.

To chart the spatial distribution of the properties mortgaged, the GIS package *MapInfo* was used. One of the key advantages of using this package was in generating the distances of each property from the offices of the building societies. These measures were used not only to show the proximity of the mortgaged properties to the two societies, but also as a proxy for the 'quality of information' about each property in subsequent econometric modelling. The maps are shown in Appendix A and throughout the main body of the paper.

[29] Booth, *Labour and Life of the People of London*, vol. II, part 2, p. 20.

Case Study: 'Co-operative, Equitable, Economical and Profitable' – The Co-operative Permanent Building Society (1884–1913)

Background

Like many of the building societies during the period, the Co-operative Permanent Building Society styled itself as a great friend of the working classes. In the jubilee history of the society in 1934, the founders of the movement were described effusively as:

> **ardent social reformers**, and **far sighted** men and women, [who] were determined that as many **working men and women** as possible should own their own homes.[30]

Founded in 1884, the Co-operative Permanent Building Society was an offshoot of the Co-operative Movement, established at a meeting of the Guild of Co-operators in London

> to provide a further aid to co-operation and the public generally in the practice of thrift, the more comfortable housing of working people, and the accumulation and profitable investment of capital.[31]

From its birth, the society relied on its close association with the co-operative movement to supply it with its staff, members and business. The co-operative movement itself was a popular organisation of men and women committed to securing economic justice for the working classes through the establishment of consumer co-operatives. The movement was inspired by the initial success of the Rochdale Society of Equitable Pioneers, a group of 28 weavers who combined in 1846 to set up their own co-operative grocery store to procure basic goods on fairer terms than could be obtained from commercial operators. By the 1880s, co-operative societies were flourishing in many parts of the country, with some 2,000 spread throughout England and Wales.[32] While belonging to the co-operative family, the stores were independently owned and operated by their customers, and open to people from 'all walks of life'.

It was from the ranks of the co-operative movement that the founders and leaders of the CPBS were drawn. Its first president, Thomas Webb, was a well-known figure in the movement, described as a 'veritable Prince of Israel', who founded the 'Battersea and Wandsworth Co-operative Society' with the help of fellow workers from a local candle factory.[33] Its first secretary, Charles Cooper, who had originally proposed the idea of setting up the society to the Guild of Co-operators, was likewise a well-known proponent of co-operation in the south of England, being at one stage the

[30] Mansbridge, *Brick upon brick*, p. 34.

[31] Cassell, *Inside Nationwide*, p. 16.

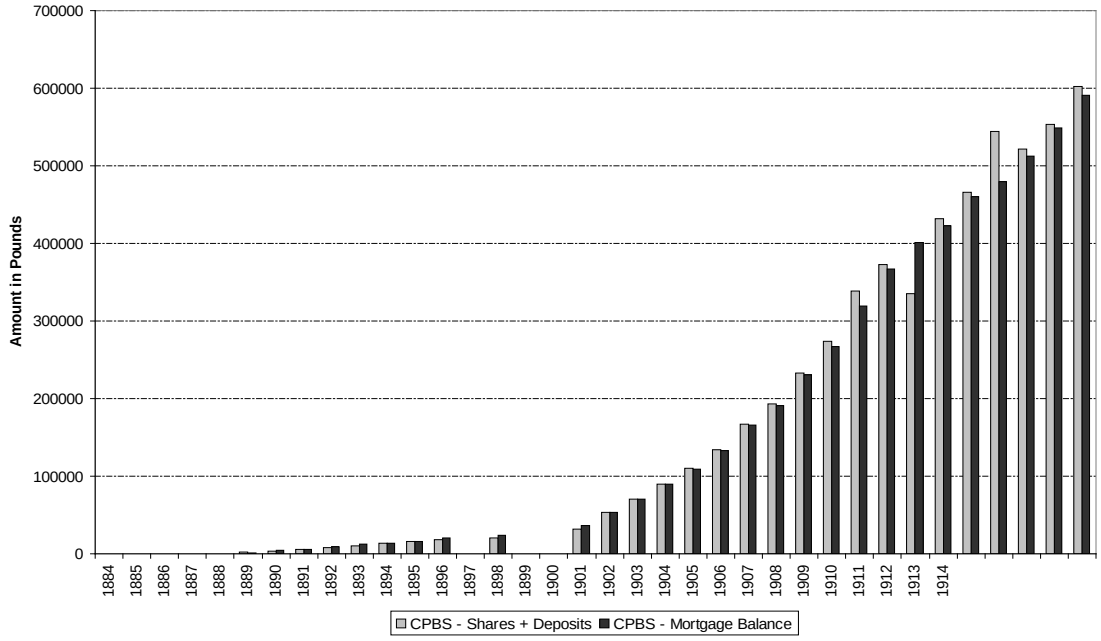
[32] Cassell, p. 19.

[33] Mansbridge, p. 45.

President of the Cooperative Printing Society and a director of the CPBS after he retired as its secretary. Indeed most of the directors and officers of the society held leadership positions in other co-operative associations or enterprises, and maintained a life-long devotion to the co-operative cause.[34]

Though starting relatively late in the life of the movement, the CPBS enjoyed rapid growth between 1884 to 1914 to become the 13th largest building society among 1,506 societies in Britain. What is remarkable about the growth of the society is that much of it occurred during the infamous Edwardian property slump, when many of the more established building societies either stagnated or regressed in size. As will be seen, the divergent growth of the CPBS in the 1900s was the result of its progressive policy of targeting aspiring owner occupiers, rather than the usual constituency of property investors whose economic and legal position as landlords had been steadily declining since the late 1890s.[35] Between 1901 and 1914, the total assets of the society grew nearly four-and-a-half-fold (around 11 per cent per annum) compared to the average growth rate in total assets of 2.5 per cent per annum for the movement as a whole.[36] The rapid growth of investment capital and mortgage assets can be seen in Figure 3.

Figure 3: Levels of Investment Capital and Loans on Mortgage 1884–1914[37]



In the words of Albert Mansbridge, a long-time director of the society and author of its jubilee history book, one of the chief factors behind the success of the society

[34] This can be seen on the front pages of the Annual Reports of the CPBS for much of its early history, which list the names of officers of the society, and offices held by them in other co-operative associations.
[35] Daunton, *House and home in the Victorian City*, pp.122-127.
[36] Source: RFS, 'Report of the Chief Registrar of Building Societies,' Part D (1914), p. 116
[37] Source: CPBS, Annual Reports, Various Issues: 1884–1914.

was its extensive agency system.[38] The agents were the backbone of the organisation, performing the dual role of finding investors to invest in the society and of finding and recommending suitable individuals to become borrowers. According to Mansbridge, the agents raised around half of the capital invested in the society, and introduced over 70 per cent of the applications for mortgages.[39] The key feature of this agency network was its geographic spread throughout England and Wales: in 1887, there were 24 agents in nine different counties; by 1905, their number grew to 170 agents in 49 counties.[40] This enabled the society to obtain funds and to diversify its mortgage portfolio across a wide area, reducing in the process its exposure to region-specific risk. The directors invested much of their time and effort in finding and recruiting suitable agents in carefully selected towns, travelling long distances in order to tap into potentially lucrative local markets. It was an effective growth strategy. The society was managed centrally from its headquarters in London, where funds were received from the agents and where the Board of Directors made decisions about the administration of the society, and more importantly, about the allocation of loan funds.

From its inception, the society made clear from its words and actions that its lending philosophy was to favour loans that facilitated working-class owner occupation. Its slogan of 'progress without speculation' was a sign that it would not entertain loan applications for speculative investment, and indeed many loan applications were rejected on suspicion of being 'for speculative purposes'.[41] Consequently, many of the loans were small (almost half of them between £200 to £300), and made to borrowers for the purchase of a single-house property. Table 1 shows the size distribution of loans made by the society between 1884 and 1913.

Table 1: Distribution of Loan Sizes, 1884–1913

Loan Amount	1884–1901		1905		1910		1913	
	Percent	Cumulative	Percent	Cumulative	Percent	Cumulative	Percent	Cumulative
Less than £100	3.1	3.1	3.9	3.9	4.8	4.8	2.6	2.6
Between £100 and £200	28.1	31.2	12.8	16.7	20.4	25.2	17.1	19.7
Between £200 and £300	35.5	66.7	41.9	58.6	49.8	75.0	48.3	68.0
Between £300 and £400	18.9	85.6	25.1	83.7	14.2	89.2	18.5	86.5

[38] Mansbridge, p. 111–2.
[39] Mansbridge, p. 112.
[40] The progressive expansion of the agency network over time can be seen in maps provided in Appendix A.
[41] The directors before the First World War rejected approximately 1 in 6 loan applications. Many of these were on suspicion of being speculative, while others were rejected 'with great regret' due to the scarcity of funds available to lend.

Between £400 and £500	8.2	93.8	10.8	94.5	6.5	95.7	7.8	94.3
Greater than £500	6.2	100.0	5.5	100.0	4.3	100.00	5.7	100.0

The concentration on small loans for working-class property was a deliberate strategy of the directors. In virtually every annual report issued by the society between 1884 and 1913, the directors pointed to the large proportion of small loans as proof of their commitment to working-class home ownership. An excerpt from the directors' report in 1901 shows that:

> a clear and definite policy is observed from making selections from proposals received. It is the desire of the Directors to promote the realisation of the independence and security afforded to the industrial classes by the ownership of these dwelling houses and they accordingly give preference to proposals which ensure this… this policy accounts for the small number of large mortgages, one of the most valuable features of this Society's business.[42]

Property Characteristics

The 'dwelling houses' purchased with these loans were working-class in nature. Figure 4 shows the trends in loan sizes, house values and mortgage activity between 1884 and 1913. As can be seen, the average price of the houses mortgaged to the CPBS fluctuated between £200 to £400, with a median price of £352 for the whole period. House prices were not available for those properties mortgaged in 1910 and 1913, but judging by their comparable average loan sizes during these years to previous years, they are unlikely to be far different.

Fortunately, the types of dwellings they purchased can be gleaned from the mortgage registers of the society, which recorded both the number of rooms and the size dimensions of each property mortgaged. True to their word, the directors favoured loans for small freehold property than for others. In fact, 82 per cent of the loans were made on mortgages of a single house, with 53 per cent of these houses having exactly six rooms and 85 per cent no more than 7 rooms. Over three-quarters of the houses had frontages of 20 ft or less (the median frontage being 18 ft), and over three quarters were on freehold land of a median length of 102 ft.

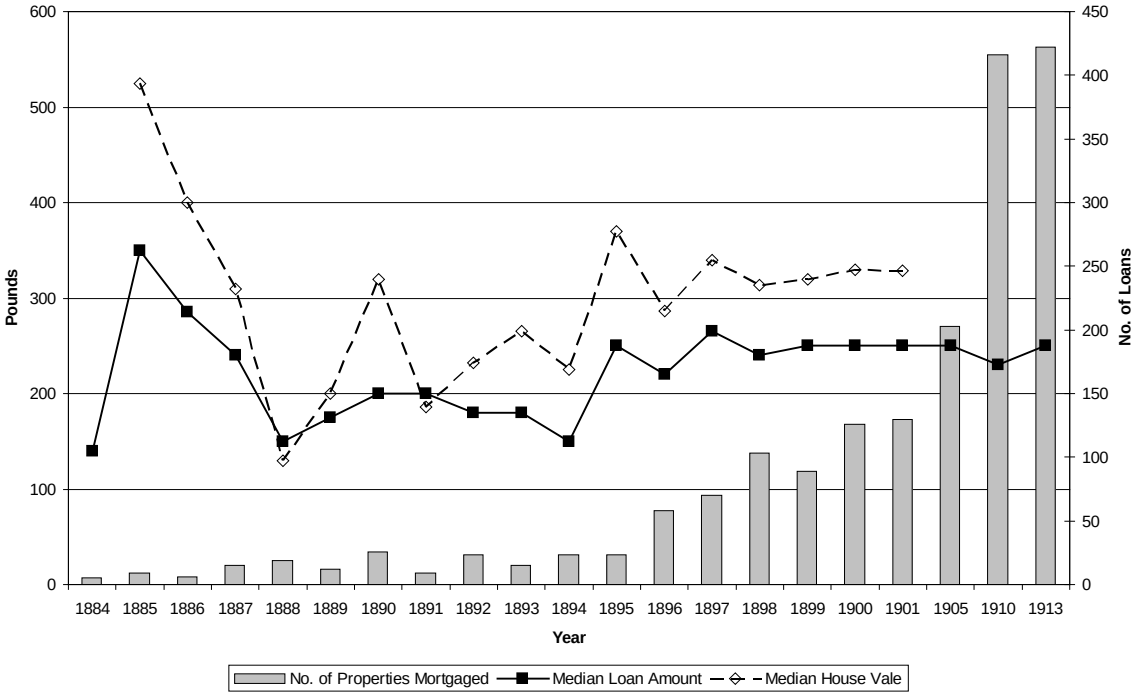
Compared to the overall housing stock in England and Wales, these were not exceptional homes. An official enquiry into Working-Class Rents, Housing and Retail prices in 1908 estimated that 60 per cent of the people in the principal towns of England and Wales were living in houses with five or more rooms, with some towns like Derby and Leicester having higher proportions of 85 per cent and 87 per cent respectively.[43] The frontages of the houses mortgaged to the CPBS were also no larger than the frontages of regular working-class dwellings. In his book on the social history of

[42] CPBS Directors Report (1901), p. 2.

[43] Burnett, pp. 152–3.

housing, John Burnett reproduced the floor plans of several types of working-class

Figure 4: Median Loan Size, Median House Price and Lending Activity, 1884–1913

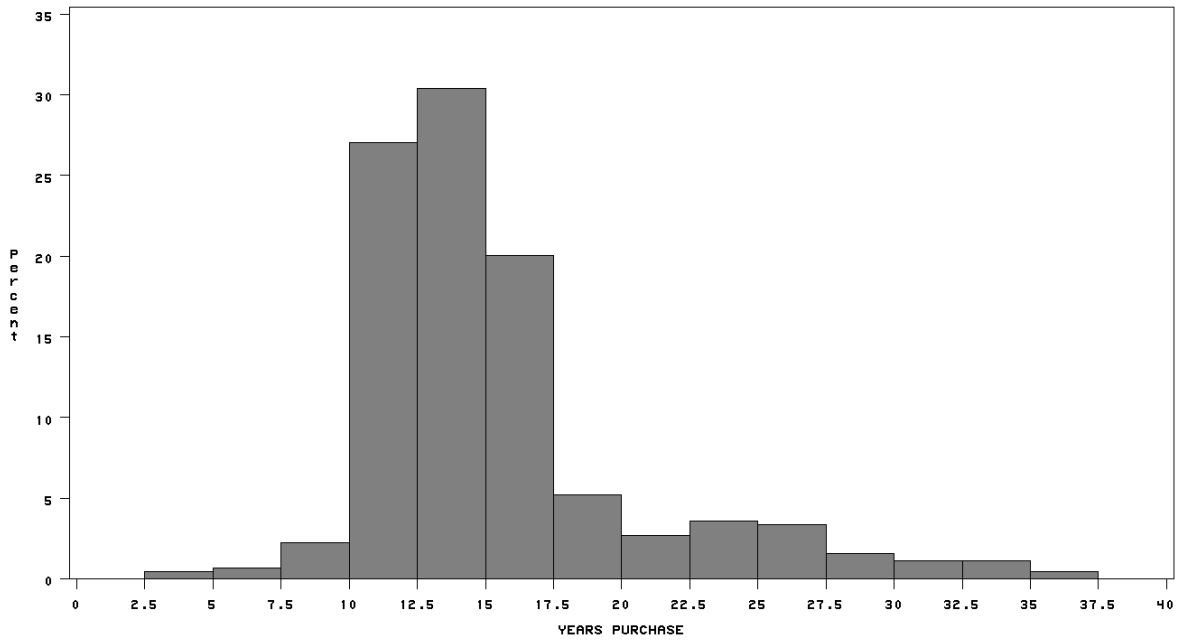


houses that were common before the First World War. Mid-century back-to-backs in Leeds and Oldham, for example, had frontages of 15 ft and 17 ft respectively, while the typical four-roomed terrace house had frontages of around 16 ft.[44] The houses mortgaged to the CPBS were not therefore considerably larger than the standard working-class house.

This assertion is further supported by comparing the scale of rents charged on these properties, and their corresponding years purchase (the ratio of capital value to annual rent), to those of average properties. Edward Tarbuck, a contemporary architect and surveyor in the late nineteenth century, wrote in his *Handbook of House Property* (first published in 1875) that 'inferior or low rented' freehold houses were usually between 11 and 14 years purchase, while 'substantial' freehold houses were between 16 and 25 years purchase.[45] Figure 5 shows a histogram of the years purchase of the freehold properties in our sample, where the bulk can be seen to be between 10 and 17.5 years purchase. Exactly half of the houses were in Tarbuck's 'inferior freehold' range (i.e. less than 14 years purchase), compared to only a quarter in the 'substantial freehold house' range.

[44] Burnett, p. 158.
[45] Tarbuck, *Handbook of House Property*, p. 124.

Figure 5: Distribution of Years Purchase, 1884–1905



The rents charged on the properties tell the same story. Table 2 shows the average rents being paid for the mortgaged houses in several of the more popular counties in the sample. Across England, average rents varied markedly, with the highest rents being paid in London (11*s.* 11*d.* per week (p.w.) between 1884 and 1900, and 13*s.* 9*d.* p.w. in 1905), and the lowest rents in counties like Suffolk (6*s.* 0*d.* p.w. between 1884 and 1900, and 4*s.* 9*d.* in 1901) and Portsmouth (6*s.* 3*d.* p.w. in 1884–1900 and 7*s.* 7*d.* p.w. in 1905).

Table 2: Average rents per week for mortgaged[46]

County	**Pre–1901**	**1901**	**1905**
Greater London	11*s.* 11*d.*	11*s.* 6*d.*	13*s.* 9*d.*
Cambridgeshire	6*s.* 11*d.*	7*s.* 6*d.*	N/A
Hampshire	6*s.* 3*d.*	8*s.* 9*d.*	7*s.* 7*d.*
Buckinghamshire	7*s.* 9*d.*	6*s.* 8*d.*	7*s.* 3*d.*
Suffolk	6*s.* 0*d.*	4*s.* 9*d.*	N/A
Surrey	7*s.* 9*d.*	9*s.* 5*d.*	10*s.* 0*d.*

[46] Rents were not available in the records for 1910 and 1913, but according to Board of Trade inquiries into working-class rents in 1903, 1905 and 1912, house rents remained the same, or declined marginally, between 1905 and 1912. Thus, the 1910 and 1913 rent levels should not be significantly different from the 1905 level (Offer, *Property and Politics*, p. 268).

Comparing these rents to existing sources is difficult given the well-known variation in rents within and between cities, and the multiplicity of sources covering different towns, time periods and types of dwellings. Based on the sources consulted, the rents on these properties were commensurate with rents normally being paid by working-class households. The Royal Commission on the Housing of the Working Classes in 1885 discovered that over 85 per cent of the working classes paid at least 20 per cent of their income in rent, and almost 50 per cent paid between 25 per cent and 50 per cent. Anthony Wohl concluded from these figures that working-class tenants were therefore paying anywhere between 5*s*. and 10*s*. a week for their accommodation, with other evidence suggesting that far more were paying the latter rather than the former.[47] This was especially the case in London where rents were the highest.[48] Susannah Morris pulled a plethora of sources together to calculate the average rents per room for dwellings on the private rental market, dwellings erected by the London County Corporation (LCC) and dwellings built by various model dwelling companies for the years between 1881 and 1905.[49] She found that the average rents per room on the private market in London varied between 2*s*. 9*d*. p.w. and 3*s*. 6*d*. p.w. in 1901, and between 2*s*. 5*d*. (in all boroughs) and 2*s*. 10*d*. (in central boroughs) in 1905, meaning that the rents on 4-roomed dwellings (the typical number of rooms in working-class housing in London) were roughly between 11*s*. and 14*s*. in 1901 and between 9*s*. 8*d*. and 11*s*. 4*d*. in 1905. In houses erected by the LCC, usually for working-class tenants, the average rents were approximately 3*s*. per room in 1901 and 2*s*. 10*d*. in 1905. Rents were naturally lower for houses erected by the model dwelling companies – the lowest rents being charged per room, say by the Peabody Trust, being 2*s*. 3*d*. p.w. The rents on the properties mortgaged to the society were not therefore all too different those being paid by working-class tenants in private, LCC or even model dwelling company housing in London.

For some of the properties that were situated in London, Booth's poverty map provides an added perspective on the socioeconomic character of the neighbourhoods in which properties were mortgaged. Consistent with the previous evidence, the map shows that the large majority of the houses were located in working-class neighbourhoods. To be exact, 46 per cent of the properties were on 'Mixed' streets, and 46 per cent on 'Fairly Comfortable' streets (i.e. on streets with poor people earning low and unstable incomes, as well as people on fairly-paid and stable working-class incomes). Only 11 per cent were on 'Middle-Class' streets and an even lower 1 per cent were on 'Upper Middle-Class' streets. These percentages must be qualified by the fact that only 4 per cent of the mortgaged properties in London fell within the boundaries of Booth's poverty map, and so they may not be representative of the whole sample. This low percentage of properties does however reflect the fact that many of the properties were situated in the newly formed suburbs on the outskirts of London, not in the mainly inner-city areas covered by Booth's poverty map. Indeed, the late nineteenth century saw the migration of many working-class people to the suburbs due to the increasing affordability of train services connecting the city to the suburbs.[50] The CPBS

[47] Wohl, p. 37.
[48] Offer, p. 255.
[49] Morris, 'Private profit and public interest', p.268.
[50] Wohl, op cit, p. 33.

was well known for its support of the Garden City movement, a revolutionary housing initiative aimed at raising the housing standards of working-class people by building well-designed and well-spaced out houses on the outskirts of London.[51] Indeed, the CPBS helped many of its borrowers to purchase into the newly built Garden Cities from 1905 onwards.

Borrower Characteristics

To whom then did the Co-operative Permanent Building Society advance loans for the purchase of house property? The linkage of borrowers to the census reveals that the overwhelming proportion was drawn from the working classes. At the bottom end of the social spectrum were people employed as 'general labourers', 'coal hewers (below ground)', 'dairymen', 'wharf dock labourers', 'blacksmiths' and 'gardeners', while at the upper end were 'clerks', 'commercial travellers', and 'teachers'. Almost entirely absent from the membership were people in elite occupations, with only a single clergyman, barrister and solicitor from the higher professions.

To better capture the overall distribution of borrowers, Cambridge Social Interaction and Stratification (CAMSIS) scores were assigned to each borrower on the basis of their occupations. CAMSIS is a social prestige measure of occupations which rates the social prestige of a particular occupation on a scale of 1 to 99. At the bottom of the CAMSIS scale are occupations with low social prestige (such as labourers, factory workers and farm hands etc.) while at the upper end are those corresponding to elite professions or positions (such as clergymen, doctors, lawyers and government officials). Scores in the middle of the range correspond to skilled labourers and small business owners, such as tailors, joiners, inn-keepers and small farmers.[52] The scores provide a neat and simple way of presenting the social standing of the borrowers in the sample, and have the added virtues of being constructed for particular time periods so that they are relevant to those periods. There are also separate scores for male and female occupations to reflect the differences in prestige they hold for each gender. A table of the CAMSIS scores corresponding to the different occupations for males and females between 1867 and 1913 is reproduced in Appendix B.

It should be stated from the outset that a conservative policy was adopted with regard to assigning CAMSIS values to occupations which did not fit neatly within the categories used in CAMSIS. The policy was to err on the side of giving higher CAMSIS scores to such occupations than what their actual status might merit, in order to avoid any downward bias in the final results. For example, borrowers who were recorded as assistant or apprentice tradesmen were assigned the normal CAMSIS ratings for their trades, even though, strictly speaking, such ratings reflect the social prestige of their fully-qualified peers.

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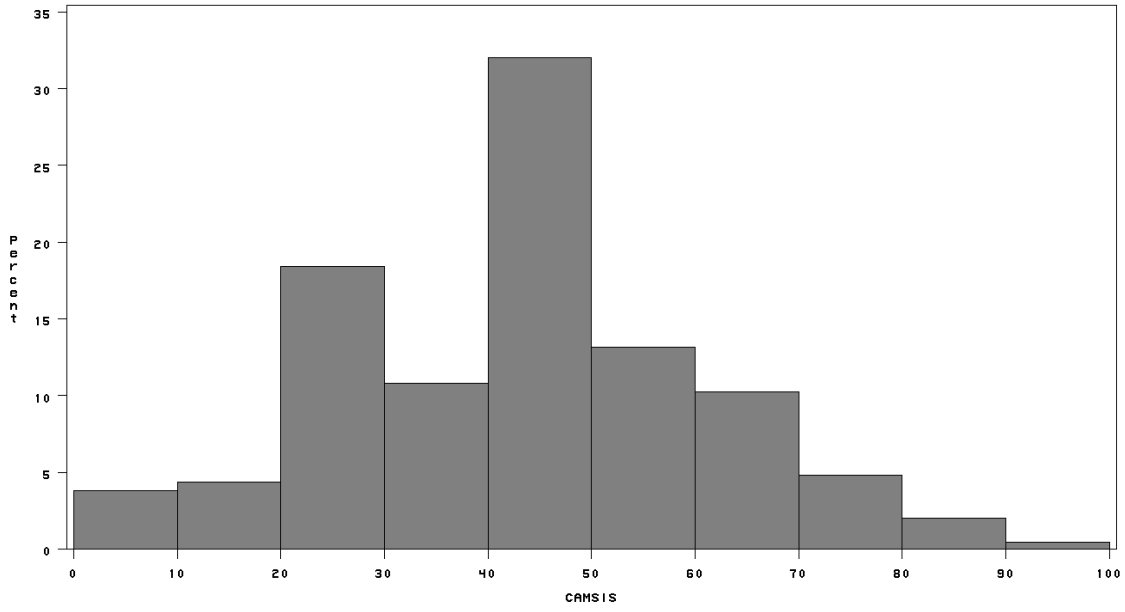
[51] Cassell, p. 33; Hebbert, 'The British Garden City: Metamorphosis' in Ward (ed.), *The Garden City: Past, Present and Future*, pp. 172–173.

[52] For more information about CAMSIS, see the CAMSIS website: http://www.camsis.stir.ac.uk/. For a discussion of the relative merits of CAMSIS versus other stratification schemas, see Bergman and Joye.

Figure 6 presents a histogram of the CAMSIS scores for borrowers between 1884 and 1913. What is most striking about the graph is the large representation of people in both skilled and unskilled working-class occupations (for whom home ownership is usually thought to be beyond reach), and the low representation of people in those classes commonly believed to be the only ones capable of affording home ownership. To wit, a third of the borrowers had CAMSIS values of 31 or less, where the highest ranked of these occupations were bricklayers, compared to only 9 per cent of borrowers with scores greater than those of clerks (i.e. CAMSIS scores greater than 66). Clerks themselves made up 7 per cent of all borrowers, leaving 83 per cent of borrowers with lower CAMSIS scores than that of clerks. The mean of the distribution, which shifted little over time, was 43, the score for wood craftsmen and tinplate workers.

As expected, there were some slight geographical differences. Counties such as London, Suffolk and Buckinghamshire had the highest average CAMSIS scores of 45.5, 45.8 and 50, while others like Kent, Hertfordshire (where the first Garden City suburbs were built) and Surrey had the lowest averages of 35.5, 38.5 and 39.0 respectively. In fact, the differences in the means of these latter counties versus the mean for London were statistically significant at the 5 per cent level.[53] That said, the distribu-

Figure 6: Distribution of CAMSIS scores for borrowers



tion of CAMSIS scores even in the relatively high-CAMSIS areas was still skewed in favour of working-class, rather than middle-class, groups.

The high representation of working-class borrowers in our sample begs the question of how such households were able to afford loans for home ownership given the low level of working-class incomes during this period, and how the CPBS was able to

[53] An ordinal logistic regression model of the borrowers' CAMSIS scores shows that they were significantly different in these areas than those in Greater London (see Model 1 in Appendix C).

provide these loans to them when many other societies considered them unworthy of credit. Further analysis into these questions reveals that three factors were particularly important, namely:

1. the household structure of the borrowers, which enabled them to use secondary incomes to supplement the income of the principal breadwinner;
2. the design of the loan contracts, especially in providing loans over long repayment periods at reasonable rates of interest, thus minimising the level of monthly repayments required; and most importantly;
3. the unique agency network of the CPBS, which enabled it to effectively screen, monitor and incentivise its borrowers, and minimise moral hazard risk.

The Household Characteristics of Borrowers

The census returns of the borrowers show that the majority of them were not reliant on the income of a single breadwinner to repay their loans. Over half of the borrowers (59 per cent) used either one or a combination of secondary incomes derived from (1) working family members, (2) from subletting the mortgaged property and/or (3) from accepting rent-paying boarders in the house. In fact, almost a third (32 per cent) of the borrowing households had two or more extra streams of income to supplement the income of the principal wage earner.

The most common source of secondary income was from working family members (74 per cent of those with secondary incomes), with working children being the main earners among this group (48 per cent of all households with secondary incomes or 28 per cent of all borrowers). Indeed, the participation of working children in household wealth accumulation in pre-war Britain has been well documented in the social history literature.[54] In our case, the majority of the working children (65 per cent) were between 12 to 20 years of age, and a further 30 per cent were between 20 to 30 years of age. Like their parents, working children were employed in predominantly working-class occupations, usually as assistants or apprentices in manual trades. Working spouses and working relatives on the other hand were much less common (17 and 20 per cent of households with secondary incomes), and were mostly relied on to generate extra income in those households where there were no children of working age.

Subletting the property and/or accepting boarders were two further ways that households could, and did, generate extra income through rents. 12 per cent of all borrowers accepted boarders in their houses, where the boarders themselves were typically men aged between 20 to 30 years of age and employed in occupations as diverse as those of the borrowers themselves. None of the houses accepted more than two boarders, suggesting that the amount of rent that could be raised from having boarders was limited. For borrowers with bigger properties, subdividing was a better way of

[54] For example, Thompson wrote that 'it was assumed that school-leavers [i.e. children older than 10 or 11] would normally go out to work' (see Thompson, *The Rise of Respectable Society*, p. 82).

raising more income through letting rooms to one or two other families. A slightly higher proportion of the borrowers (17 per cent) chose to sublet their properties in this way. The subtenants usually had between two to four members, meaning that subletting would have yielded more rent for the homeowner than taking boarders. This was not an uncommon practice in London. Mrs. Pember Reeves in her 1913 book *Round About a Pound a Week* described how a family renting a six-roomed house at 14*s*.-15*s*. per week would let two rooms at 6*s*.-7*s*., thereby keeping their own rent down to around 7*s*. or 8*s*. per week whilst still retaining control of the whole house.[55]

The results from an ordinal logistic regression model of the number of extra incomes in the household[56] show that the likelihood of a borrower having one or more extra streams of income to his/her own was significantly related with the age of the borrower, his/her gender and family size. It was reported earlier that working children were the main source of secondary income for a household, and so it is not surprising that older borrowers with larger families were more likely to be relying on extra incomes. This is an important result for future studies of working-class financial behaviour, as it shows that it is problematic to rule out the capacity of working-class households to repay a mortgage on the implicit assumption that such households are only earning a single income.

The Design of Loan Contracts

From its earliest days, the advertising material produced by the society emphasised its provision of low-cost loans on 'exceptionally easy repayment terms', with 'exemptions during distress' and 'perfect equality of borrowers with investors'.[57] The society did much to ease the initial financial burden of purchasing a house. For example, conveyance fees were waived for properties where the amount loaned was less than£100, and in other cases loans were granted to pay the upfront costs involved in purchasing a house, thereby allowing the borrower to spread these costs over the whole loan term.[58] Until 1894, the society even incurred all of the survey fees on behalf of the loan applicant if the application was eventually declined. These measures were intended to encourage their more modest members to consider a home loan without worrying about incurring expensive search costs in vain.

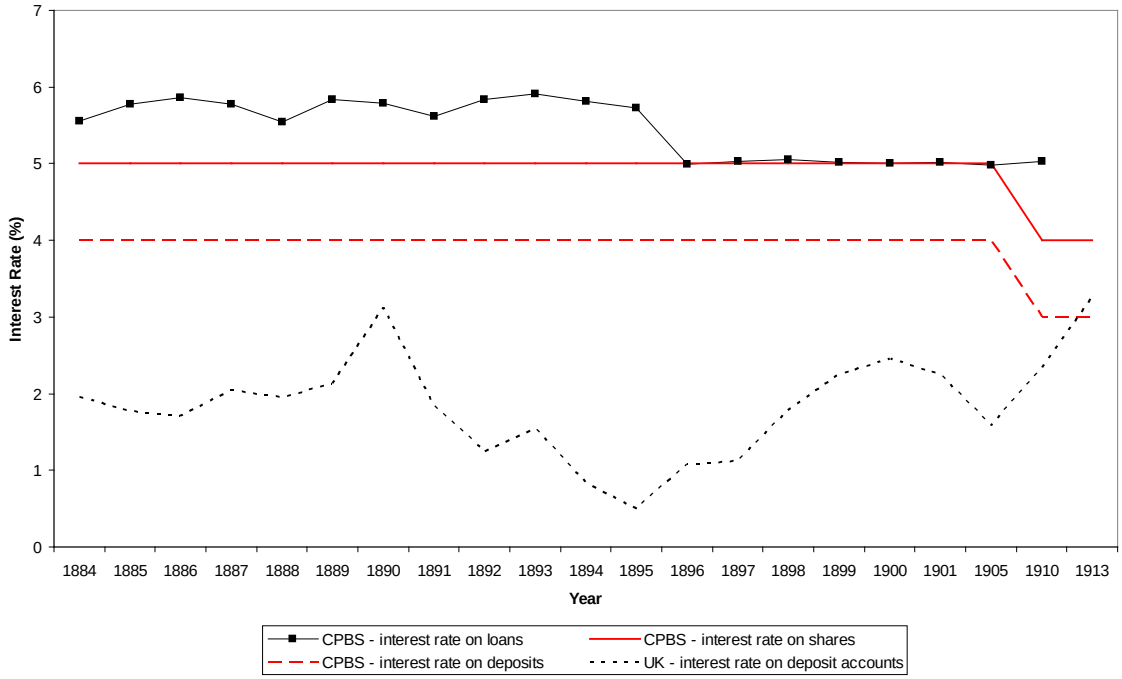
The design of the loan contracts was especially important in making loans affordable to working-class households. Two features of the contract were important in this regard – the reasonable interest rates charged on the principal and the long repayment period allowed on the loan.

The interest rates charged by the society were commensurate with the interest rates charged by other mortgage providers during the period (see Figure 7). According to David A. Reeder, solicitors, who were the dominant providers of mortgage credit in the pre-war period, made loans before the war at 5 to 5.5 per cent interest to borrow-

[55] Reeves in Burnett, p. 147.
[56] See Model 2 in Appendix C.
[57] CPBS, Annual Report 1896, p. 11.
[58] CPBS, Rule Book 1906, p. 11.

ers.[59] In comparison, the interest rates charged by the CPBS fluctuated between 5 and 6 per cent, which was only slightly above the rate it paid to shareholders (5 per cent until 1907 when it dropped to 4 per cent on all newly issued shares).[60] The small interest rate margin reflects both the operational efficiency of the organisation, as well as the low risk of its loans (a feature to which we will return shortly). Yet, the returns to both shareholders and depositors were significantly higher than the average interest rates paid to depositors by UK banks, the latter being less than 3 per cent for every year between 1884 and 1913.[61] In sum, the CPBS simultaneously honoured its promise of providing a remunerative outlet for small savings, while providing loans at reasonable interest rates.

Figure 7: Interest rates paid to investors and charged to borrowers vs. interest on deposit accounts for UK[62]



More importantly, the long loan terms over which repayments were spread reduced the monthly outlay required on the loans. While there are no statistics relating to the duration of mortgages before the First World War, the Co-operative Permanent was unusual among building societies in terms of the high proportion of loans it offered on long loan terms. Table 3 shows that over half of the mortgages made were for repayment periods of 20 years or more, with a quarter being for 25 years.

[59] Cited in Offer, p. 144.
[60] Mansbridge, p. 64.
[61] Capie and Webber, *A Monetary History of the UK between 1870 and 1982*, p. 494.
[62] Sources: CPBS, Mortgage Registers; Mansbridge, p. 64; Capie & Webber, p. 494.

Table 3: Distribution of Loan Terms

Loan Duration	1884–1901		1905		1910		1913	
	Per-cent	Cumu-lative	Per-cent	Cumu-lative	Per-cent	Cumula-tive	Per-cent	Cumu-lative
10 years or less	21.3	21.3	14.9	14.9	11.9	11.9	13.2	13.2
11–14 years	7.9	29.2	3.0	17.9	3.1	15.0	7.7	20.9
15–19 years	19.2	48.4	15.9	33.8	18.7	33.7	29.9	50.8
20 years	25.0	73.4	21.4	55.2	37.4	71.1	35.8	86.6
25 years	26.6	100.0	44.8	100.0	28.9	100.0	13.4	100.0

The effect on the affordability of a loan by allowing it to be repaid over a long term can be illustrated with the following example. Suppose a loan of £240 were made in 1901 to a bricklayer at 5.5 per cent interest, compounded annually.[63] The monthly repayments on a loan amortised over a 15-year term would have been 9*s.* 1*d.*, over a 20-year term 7*s.* 8*d.* and over a 25-year term 6*s.* 10*d.* These differences are not trivial considering the budget of a bricklayer in 1901. According to Board of Trade figures, the hourly wage rate of bricklayers varied between 7½*d.* in Ipswich and 10½*d.* in London.[64] If we presume that bricklayers worked on average 50 hours per week[65], then the average weekly wage earned by a bricklayer therefore ranged between 31*s.* 3*d.* and 43*s.* 9*d.* per week. The difference in the monthly repayments on a loan over 15 years versus a loan over 25 years (i.e. 2*s.* 3*d.*) was therefore at least 5 per cent of the bricklayer's weekly wage (7.2 per cent in Ipswich, and 5.1 per cent in London). In other words, the repayments on £240 over a 15-year term absorbed 20 per cent of the London bricklayer's wages and 29 per cent of the Ipswich bricklayer's wages, while over a 25-year term it absorbed 15.6 per cent of the London bricklayer's wages and 21.9 per cent of the Ipswich bricklayer's wages. Considering that building societies lent on income multiples of at most 25 per cent during this period, the loan terms are shown to make a significant difference to the affordability of a home loan. Table 4 shows the monthly repayment schedules for loans of between £100 to £500, for repayment periods of 15 years, 20 years and 25 years. The absolute reductions in the monthly repayments are correlated with the size of the loan, but are sizeable in any case.

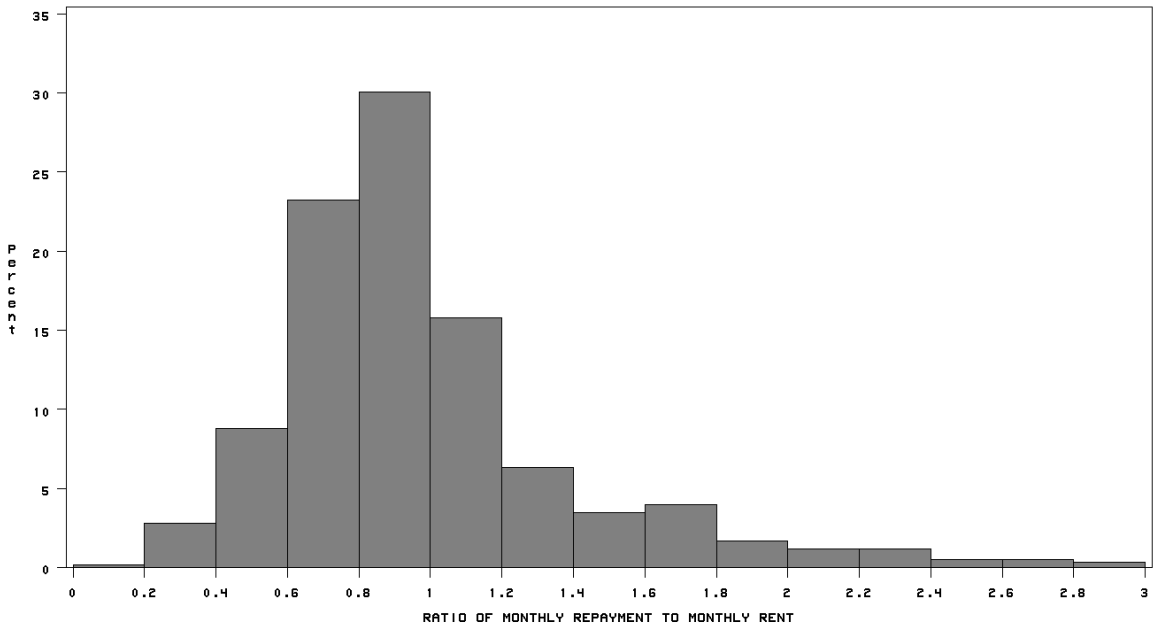
[63] The mean loan made to a bricklayer in the CPBS was £240.
[64] Board of Trade, 'Rate of Wages and Hours Worked in Several Industries in Great Britain between 1893 to 1914,' in Great Britain Historical Database – Labour statistics section.
[65] See Bienefeld, *Working Hours in British Industry*, p. 150.

Table 4: Monthly loan repayments assuming different

Loan Amount: (assuming interest at 5.5% p.a.)	**£100**	**£200**	**£300**	**£400**	**£500**
Loan Duration					
15 years	3*s*. 10*d*.	7*s*. 7*d*.	11*s*. 5*d*.	15*s*. 3*d*.	19*s*. 5*d*.
20 years	3*s*. 2*d*.	6*s*. 5*d*.	9*s*. 7*d*.	12*s*. 10*d*.	16*s*. 1*d*.
25 years	2*s*. 10*d*.	5*s*. 8*d*.	8*s*. 6*d*.	11*s*. 5*d*.	14*s*. 3*d*.

The combined effect of providing small loans, at reasonable interest rates and spread out over long loan terms was not only to reduce the monthly repayments to the levels that were affordable to people on working-class incomes, but more significantly, it brought the monthly mortgage repayments in line with monthly rents. In fact, the majority of loans involved monthly repayments that were lower than the monthly rents being paid for the properties. Figure 8 shows that the ratio of monthly repayments to monthly rents was less than one in almost two-thirds of the loans. Admittedly, while this comparison does not take into account the extra costs involved in home ownership (such as maintenance costs, rates, fire insurance etc.), the lower cost of the mortgage repayments versus rents gave prospective borrowers a strong incentive to take out mortgages to own the homes they would otherwise rent at a higher charge.

Figure 8: Histogram of Monthly Repayments to Monthly Rents



Agencies as 'Information Machines'

As stated earlier, the agents were the backbone of the organisation, responsible for attracting investment capital into the society and for finding suitable borrowers for

house purchase. What was not stated earlier was why the agents were so well-placed to perform this role effectively, and why they were pivotal to the distinctive outreach of this society to working-class borrowers.

In the informational economics literature, lenders are known to face two agency problems arising from asymmetric information about borrowers – namely adverse selection and moral hazard. Adverse selection refers to the problem of lending money to an unsuitable borrower who will likely default on the loan, due to some important 'hidden characteristic' of the borrower that affects his likelihood of repaying the loan. An example of this may be a weakness for alcohol, gambling or excessive consumption which would reduce the borrower's earning and savings capacities, and thus his ability to repay a loan. Moral hazard refers to the problem of the borrower defecting on his agreement to repay the loan after it has been granted, due to the borrower engaging in some 'hidden action' which likewise impairs his ability to repay. An example might be racking up other debts in addition to the mortgage, which leads to overexposure to debt and eventually default. These problems of adverse selection and moral hazard exist because of information asymmetries between the lender and the borrower – the borrower naturally knows more about his private qualities and actions than the lender, meaning that the lender can make misjudgements about the borrower's actual creditworthiness.[66] To minimise these agency risks, the lender must gather more information about the borrower to avoid adverse selection, and then monitor and incentivise the borrower appropriately to ensure repayment. All of these actions are costly, and so the lender balances these costs with the agency risks involved, according to his risk preferences and desired returns.

In the case of building society lending, these risks are mitigated by the fact that a society only makes secured loans. All advances are secured against an underlying asset, and as a matter of prudential policy, the building society seldom advances the full capital value of a house. By varying the loan-to-value ratio on any loan, the lender can vary his exposure to risk, and also control the riskiness of the potential pool of borrowers by adjusting the required down-payment on the home. Still, the costs to the society of a borrower defaulting on a loan (i.e. foregone interest on the principal lent, the costs and inconveniences involved in repossession and the potential capital losses on the resale value of a repossessed property) are still material enough for the building society to want to avoid them. Naturally, the building society prefers to lend to 'safe' borrowers who will duly repay their loans.

The agents used by the CPBS gave it a significant advantage in overcoming the information asymmetries that give rise to adverse selection and moral hazard risks in lending. Agents were widely used by the larger building societies to attract investors and to find suitable borrowers for house purchase outside their native towns, though what was distinctive about the agency network used by the CPBS was who it had as its agents. In other building societies, agents were often professionals associated in some way with the local property market (such as solicitors, real estate agents, surveyors etc.) and who therefore had obvious financial incentives to promote the business of their societies. In contrast, the directors of the CPBS appointed the managers

[66] Armendariz de Aghion and Morduch, *Economics of Microfinance*, pp. 35–46.

of local co-operative stores to act as the society's agents, an arrangement regarded by the society's biographers to have been the chief factor behind its success.

The managers of local co-operative retail stores were ideally placed to act as agents for the society. As mentioned earlier, the stores were established by working men and middle-class sympathisers to procure basic goods at fair prices, and thus provided a large working-class pool of potential customers. But more than just being a retail outlet, the co-operative store was also an 'information machine' about its members. As George Jacob Holyoake wrote in his 1879 classic *The History of Co-operation in England* about the 'social life in the store':

> as the majority of all co-operators are themselves or their families in daily intercourse with the store, [the store] is **the place where useful information can be diffused** [emphasis added], and the greatest number of impressions, good or evil, permanently given.[67]

The store managers therefore had a wealth of information about their customers from their daily and personal interactions with them. They would have known their occupations, their family sizes, how many people in their families were earning incomes, their spending and savings habits, and their character in terms of their trustworthiness of repaying the loan. Being local, the managers also had other sources of information to supplement their direct observations, such as gossip from members living in close proximity to each other, and reports from business acquaintances about local employment prospects. In other words, the agents had a sufficient set of information to judge their customers' suitability for a building society loan, and were thus well-placed to 'cherry-pick' the best of them.

There were incentives for the agents to choose potential borrowers wisely. Much of the capital invested in the building society came from the stores themselves, so any losses incurred from the default of their customers could potentially eat into the returns received from the society. The agents also received (albeit modest) commissions on the mortgage business (as well as on the investment capital) that they generated, but their ongoing appointment as agents depended on their performance in attracting funds and recommending sound borrowers. While none of the agents were dismissed for introducing bad business, the possibility of dismissal still loomed large as the position of an agent was by no means permanent or secure. In the competitive world of the co-operative community, the good reputation of a local store was motivation enough to ensure that only its most trustworthy members be recommended for loans. For the secretaries of the local stores who were making the recommendations, there were also personal payoffs for good performance, such as improved career opportunities with the society in its London head office, or even the honour of being recognised for their performance in circulars or at society events. For example, one of the longest-serving stalwarts of the society, Arthur Webb, was appointed as Secretary in 1892 after leading the society's most successful agency in the 1880s. In 1887, his agency was responsible for generating half of the total income received by the society that year.

[67] Holyoake, *History of Co-operation in England*, p. 119.

For their part, the directors chose agents carefully, investing a large amount of resources and effort to identify potential agents and to gather information about their financial standing. The minute books of the CPBS record the systematic approach taken by the directors in building up the agency network. At every monthly meeting of the directors, delegations were formed to attend upcoming regional co-operative conferences or to attend the quarterly meetings of potentially lucrative co-operative societies. Arthur Webb recalled the many weeks spent as Secretary travelling around the country in the early years, especially to the North where co-operative fervour was strongest:

> I tramped many weary miles and met with many rebuffs, but I was a persistent type and made good friends.[68]

Webb believed that agents could provide the 'natural mechanism for building up the society's coverage' and he concentrated much of his attention on the railway community, which he saw as 'characteristically thrifty and very extensive'.[69] Successful local societies were identified from co-operative publications to which the CPBS subscribed (e.g. the *Co-operative News*), and from its affiliations with federal bodies such as the *Co-operative Union*, the *Labour Association* and the *Guild of Co-operators*.[70] These sources and affiliations gave the directors privileged access to detailed information about the financial position of prospective agents, such as those to be found in the audited quarterly reports that co-operative stores were required to produce for their members at their regular general meetings. [71] The directors used this information to pro-actively pursue the most successful societies in the movement, and to vet the applications of other societies wishing to become agents. The society was highly selective in choosing its agents: the topic of agencies was a regular agenda item at the monthly directors' meetings, and many applications were rejected after probing the financial wherewithal of applicants.

This careful approach by the directors was an important way of ensuring a reliable stream of quality borrowers. From a moral hazard perspective, the agency network gave the CPBS another distinct advantage in securing the commitment of its borrowers. In a regular building society, the interaction between the borrower and the society arose simply because of the loan. When the mortgage was redeemed, the interaction ceased. It was a purely impersonal transaction. The nature of the interaction in the CPBS' case was different however because the borrower dealt with their local co-operative society, in whom they had a financial stake and with whom they had a prior and separate relationship to that with the building society. This in effect changed the nature of the interaction between the borrower and the society. As a consequence, the link between the building society and the borrower was strengthened by the pre-existing bonds between the borrower and the agent. The repeated interaction between them fostered the commitment of the borrower to repay his loan, because the costs of defecting or defaulting on the loan were not isolated to having his property repos-

[68] Cassell, p. 25.

[69] Cassell, p. 25. In fact, there was a sizeable contingent of railway workers among the borrowers of the society. 8 per cent of the borrowers were employed in the railways in some capacity.

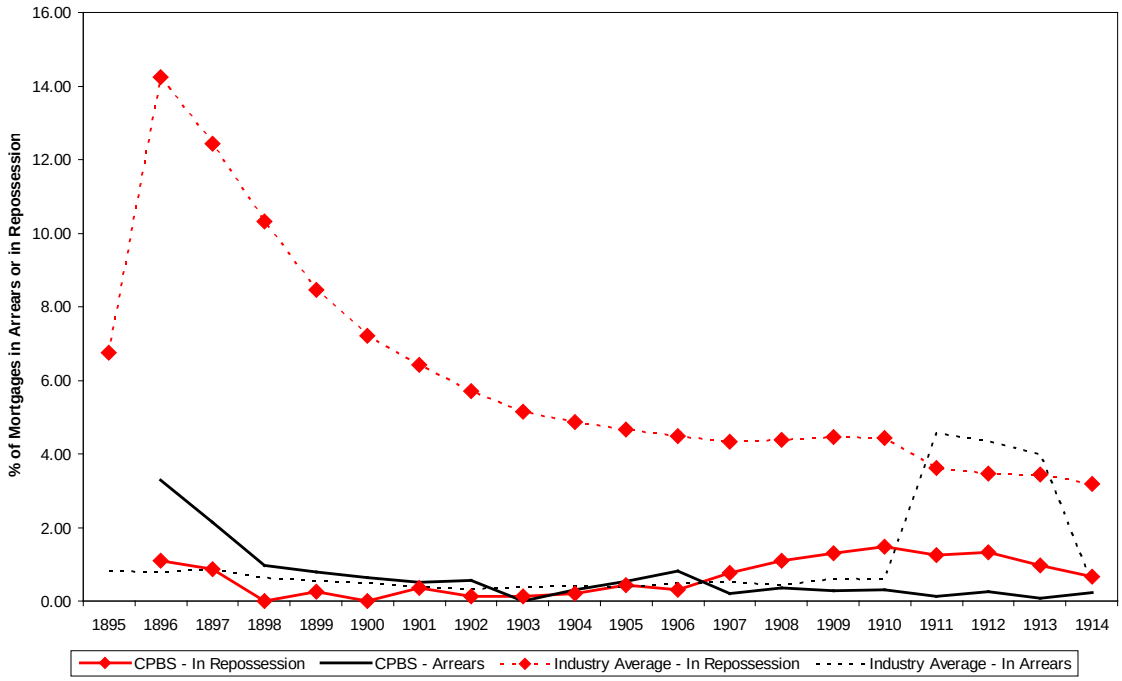
[70] CPBS Minute Book: e.g. 26 February, 1887.

[71] Holyoake, p. 106.

sessed or earning the opprobrium of a distant band of middle-class men sitting in the board-room of a far-away building society. To default on the loan had more personal consequences, as it meant potentially losing the respect of the agent and jeopardising their good standing with the store and its members, both of which were important to the well-being of the individual.

These mechanisms of controlling adverse selection and moral hazard risk were highly effective in minimising the incidence of arrears and repossessions in the society.[72] Figure 9 shows the rates of arrears and repossessions for the CPBS versus those for the movement as a whole. While arrears in the CPBS were not all too different from the industry average (both of which were low at less than one per cent of all mortgages), the rate of repossessions by the CPBS was substantially lower than the average. This shows not only that the arrears problems in the CPBS were less serious than in other building societies, but also that the CPBS had a stronger commitment to nurse its borrowers through their difficulties.

Figure 9: Arrears and Repossessions in the CPBS vs. the Industry



The directors clearly had confidence in the creditworthiness of their borrowers, as can be seen in two key indicators of their sensitivity to risk – the loan-to-value ratio (LVR) and the additional security required on loans. It was an unwritten rule in the movement that loans made by a building society should not exceed 75 per cent of the

[72] A logistic regression of arrears shows that the incidence of arrears was not largely affected by social status, as measured by CAMSIS or the employment status of the borrower. Borrowers who did have more incomes in the households were almost three times more likely to fall in arrears, possibly because of the possibility of family members leaving the household to form their own household. The term of the loan had a significant impact, with the marginal impact of increasing the loan term by 10 years being such as to halve the odds of a borrower falling into arrears. For model results see Model 4 in Appendix C.

purchase price of the mortgaged property. This prudential standard was applied to ensure that borrowers had sufficient personal stakes in the houses being purchased to discourage default. The disadvantage of this approach, however, was that it restricted the pool of applicants who had sufficiently large personal savings to pay the required down-payments on a home. While many borrowers might have been able to afford the repayment of a principal and interest on a home loan, few had the capital to make large down-payments. The CPBS realised that applying this rule would be a major impediment to home ownership for the sort of people it wished to help. Consequently, 64 per cent of its loans had LVRs in excess of 75 per cent, with a quarter being in excess of 85 per cent and almost 10 per cent in excess of 90 per cent. The effect was to lower the down-payments required of the borrower, the average being £55 for loans with LVRs greater than 75 per cent.

The quality of the information that the directors had about the borrowers is further reflected in the fact that additional security was not normally required for high-LVR loans. In fact, very few loans required any additional security at all (only 8 per cent of all loans), and when they were required usually took the form of a guarantee from a third party rather than the deposit of hard assets such as cash, shares, property or life insurance policies. Those few loans that were secured by additional collateral did admittedly have higher LVRs on average than those loans which were not, but the main point is that additional collateral was not required to obtain a high LVR loan.[73] Moreover, for those loans with LVRs between 95 and 100 per cent, only 5 out of the 61 were secured with additional collateral. This willingness to lend at such high LVRs without additional security reflects the confidence of the directors in the borrowers' ability and commitment to repay their loans.

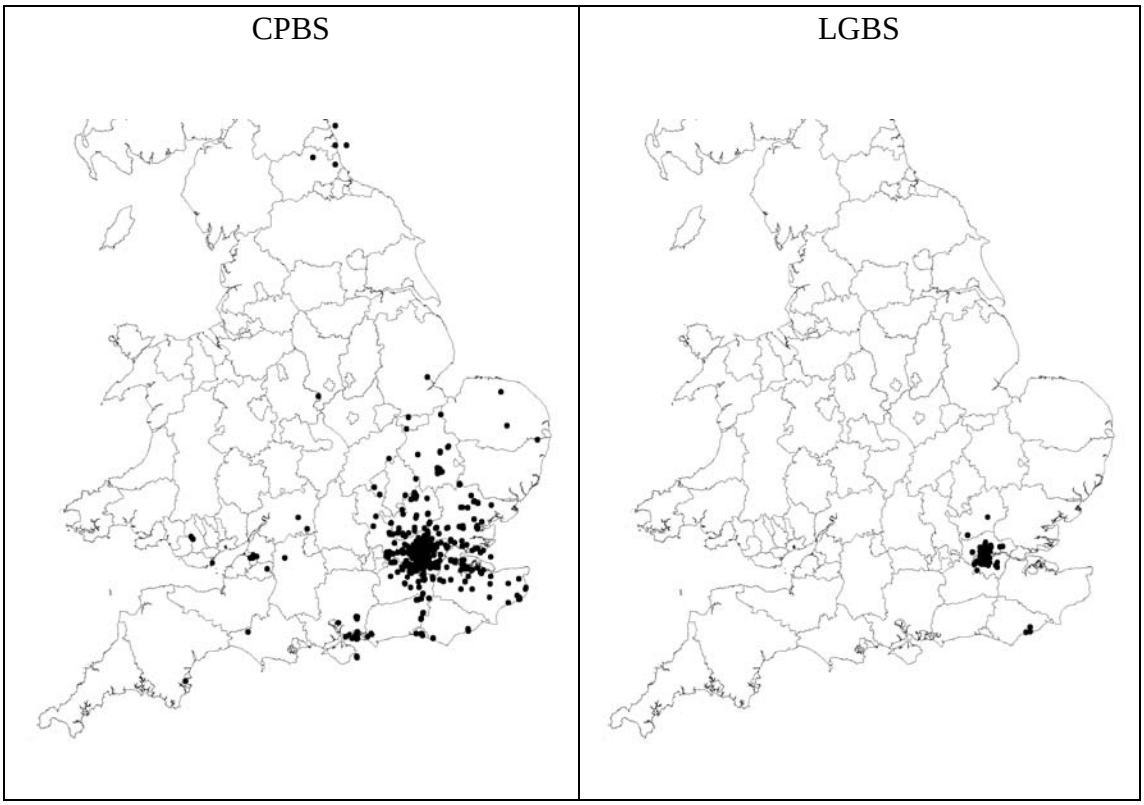
The low arrears and repossession rates for the society show that this confidence was not misplaced. The agents had good information about their borrowers for the reasons discussed earlier, but the extensive coverage of the agency network (as can be seen in Appendix A) meant that they were also in close proximity to their borrowers. Remarkably, 83 per cent of properties mortgaged to the CPBS were within 5 kilometres of the nearest agency, with only a small percentage being more than 10 kilometres away (7.8 per cent). The close proximity of the agents to the properties being mortgaged meant that not only were the agents more likely to know the borrowers and the local housing market well, but it enabled them to monitor the properties so as to prevent any unsolicited alterations that might depreciate their value. In short, the decentralised structure of the CPBS gave it both its superior arrears and repossessions records, and the engine for its rapid growth before the First World War, constituting a highly successful business model for extending home ownership prudently yet progressively during this period.

[73] An ordinal logistic regression model of the LVR showed that loans with additional security were not statistically more likely to have high LVRs than those without (see Model 3 in Appendix C). The likelihood of a high LVR was not affected by CAMSIS, the loan amount or the level of loan repayments, but was significantly higher for owner-occupiers who borrowed loans over longer loan terms.

Table 5: Distance of mortgaged properties from HQ

	% of CPBS loans in proximity to Head Office in London		**% of CPBS loans in proximity to nearest agency**		**% of LGBS loans in proximity to Head Office in London**	
	Percent	Cumula-tive	***Percent***	***Cumu-lative***	Percent	Cumu-lative
Less than 1km	0.0	0.0	***34.5***	***34.5***	11.7	11.7
Within 2–5 km	2.2	2.2	***49.0***	***83.5***	44.8	56.5
Within 5–10 km	16.5	18.7	***8.7***	***92.2***	26.7	83.2
Within 10–15 km	18.9	37.6	***2.7***	***94.9***	8.6	91.8
Greater than 15 km	62.4	100.0	***5.1***	***100***	8.2	100.0

Figure 10: Location of Advances – CPBS vs. LGBS 1879–1913

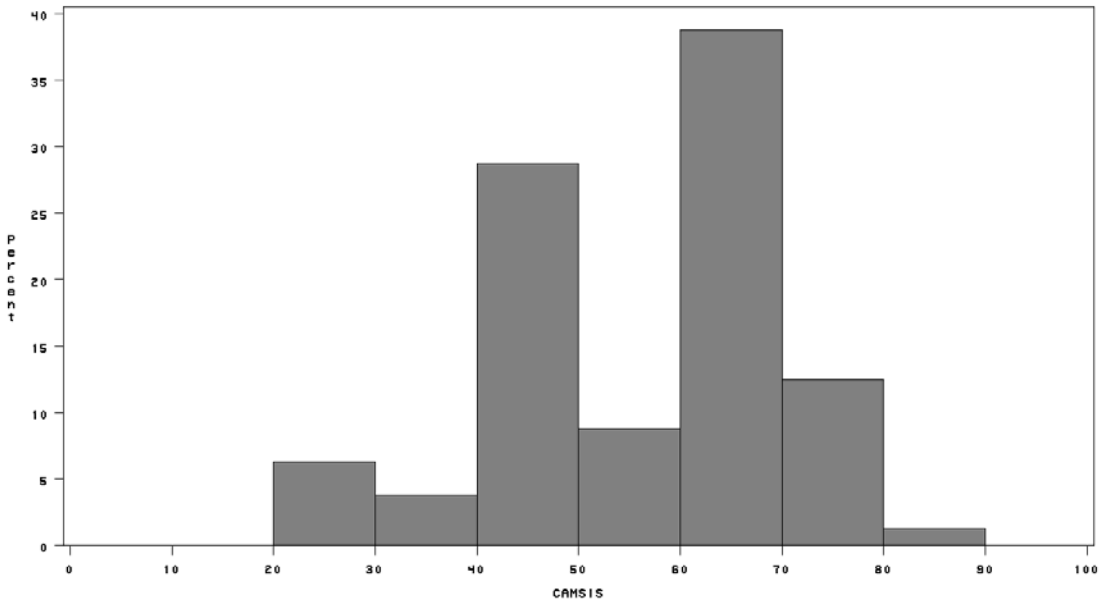


Comparison with another building society

The London Grosvenor Building Society was not so fortunate. Formed in 1879 at the offices of its solicitors in Grosvenor Hall, the LGBS was a relatively small society by London standards: the 1939 edition of the Building Societies Yearbook lists the society as having 587 shareholders, 23 depositors and 242 mortgages on account at year end.[74] No written histories exist for the London Grosvenor Building Society, but what is clear about its set-up from the minute books is that it did not have an equivalent agency network to that formed by the CPBS. The LGBS therefore had to deal with the agency risks it faced in a different way.

The first way was to lend to wealthier customers. Figure 11 shows the distribution of CAMSIS scores for those borrowers that were matched to the census. The borrowers were clearly more elite than the CPBS borrowers, the majority belonging to the middle-class occupational groups. Clerks and builders were the most numerous, comprising 18 per cent and 14 per cent respectively of the borrowers, while only 10 per cent of the LGBS borrowers had the CAMSIS scores of unskilled workers (versus a third in the CPBS). Moreover, a higher percentage of the LGBS's borrowers were listed on the census as 'employers' or on 'own account' (41 per cent), compared to 10 per cent of borrowers in the CPBS.

Figure 11: Distribution of CAMSIS scores for LGBS borrowers



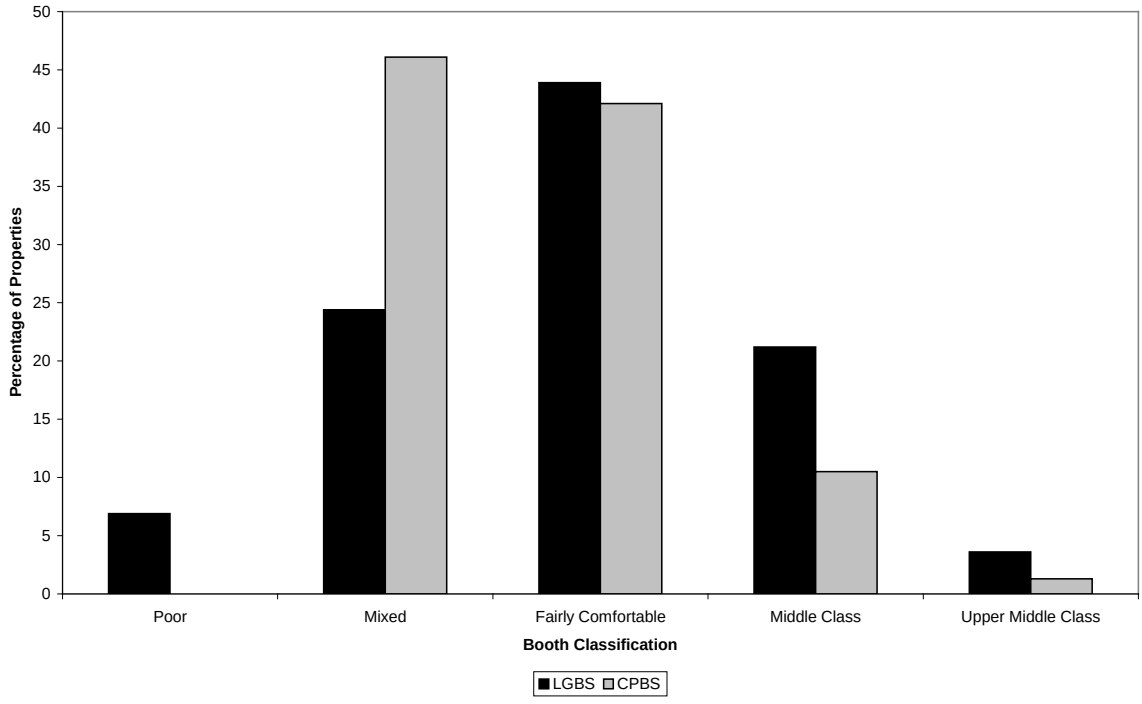
The higher social profile of these borrowers meant that they could afford bigger loans to purchase more properties, on less generous loan terms. The loan sizes were considerably larger in the LGBS case, the average of £477 being more than £200

[74] Building Societies Yearbook (1939), p. 230. This is in contrast to the Abbey Road Building Society which was recorded as having 248,592 shareholders, 24,572 depositors and 85,849 mortgages on account in the same year.

greater than the average loan size in the CPBS, with almost a quarter of the loans being in excess of £500. Furthermore, a higher proportion of the loans were made to borrowers receiving multiple loans and/or loans on the mortgage of multiple rather than single-house properties. In total, 54 per cent of loans went to such borrowers (compared to 9 per cent in the CPBS), indicating that far fewer borrowers in the LGBS were purchasing properties for owner-occupation.

Yet despite the borrowers' wealth, the properties they mortgaged were not concentrated in affluent areas, a key indication that the houses were not being purchased for owner-occupation. According to Booth's poverty map, the bulk of the properties were situated in 'Mixed' and 'Fairly Comfortable' areas (88 per cent), and not a negligible number were located in 'Poor' areas (7 per cent). Figure 12 compares the distribution of properties in the LGBS versus the CPBS. It must be remembered when interpreting the graph that only a small number of properties mortgaged to the CPBS fell within the boundaries of Booth's poverty map. That said, it shows that for both societies, the properties were predominantly in working-class areas.

Figure 12: Distribution of properties according to Booth classification – LGBS vs. CPBS

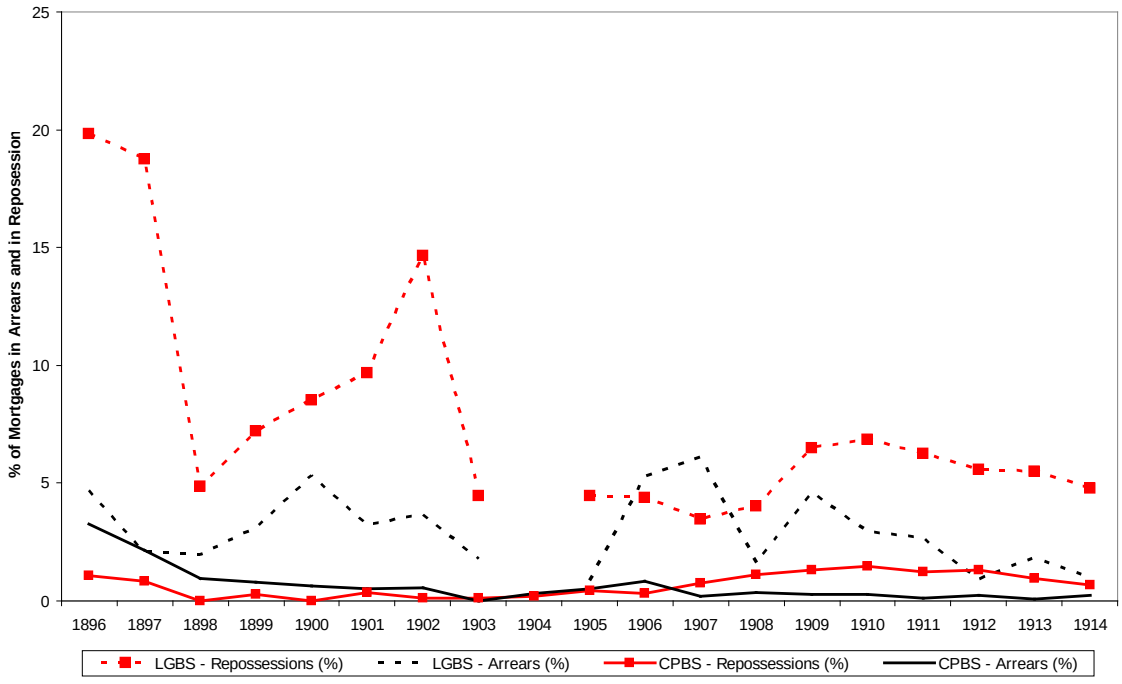


The loan contracts reflect both the wealthier profile of the borrowers and the directors' higher sensitivity to risk due to the speculative intentions of their borrowers. Loan terms were substantially shorter in the LGBS, with the society seldom ever making loans beyond 15 years in duration. The average loan term was only 11 years long, with a third of loans being repaid over 12 years and only 20 per cent over 15 years. The speculative nature of some of these loans also warranted that additional security be more frequently offered (17 per cent of loans were secured against additional collateral). It is noteworthy that these securities rarely took the form of a co-guarantee

from another (as was acceptable in the CPBS) but rather hard assets such as cash, shares, property or insurance policies. That borrowers possessed enough of these assets to offer as security is yet further indication of their superior status.

Despite these precautions, the LGBS had an inferior arrears and repossessions record to the CPBS. Figure 13 shows that both arrears and repossessions were higher in the LGBS than in the CPBS. The striking difference in the performance of these societies illustrates the benefit of strong information networks in the management of loans.

Figure 13: Arrears and Repossessions in the LGBS vs. CPBS



Conclusion

A past evangelist of the building society movement wrote that housing yields in importance only to water, food and fire as an essential of life.[75] Housing is a precious commodity in the capitalist economy, constituting more than just a 'collection of inert bricks and mortar' but something whose quality and distribution affects the social and political life of nations. To its advocates, the building societies were great tools for social reform, instilling the virtues of thrift among the labouring classes while bringing home ownership within the reach of an increasing number of people. Yet modern historians have questioned the ability of building societies to extend home ownership among the masses, especially at a time when the economics of home ownership is widely believed to have been inhibitive of working-class owner-occupation. A close examination of the historical record however reveals that while there was great heterogeneity within the movement, there were building societies that combined a strong rhetorical commitment to this ideal with genuine action. Thus, there is good reason to believe that not all building societies were exclusive to the middle classes.

How far down the social ladder could a building society reach to lift people to the status of home owners? This paper has attempted to answer this question by studying the borrower clientele of a building society that concentrated on making small loans, that of the Co-operative Permanent Building Society. The significance of this paper lies in the finding that it was possible for a building society to lend to working-class people in pre-war Britain, in spite of the difficulties and the risks involved in doing so during this time. Then as now, working-class borrowers overcame the financial handicap of low and variable incomes by generating secondary incomes from working spouses or children, or by sharing their houses with rent-paying boarders or subtenants. Yet despite this ability to increase their capacity to repay loans, what these households also needed was a financial institution that would lend to them, a society with sufficient information to acknowledge their credit worthiness and to provide them with loans on easy and reasonable repayment terms. In the Co-operative Permanent they found such an institution, an 'institutional innovation' that used an extensive network of co-operative retail stores to successfully overcome the information asymmetries and agency problems inherent in lending to people from lower-income groups. By careful selection and monitoring of their borrowers, the 'ardent social reformers' running the CPBS realised their vision of helping as many working men and women as possible to own their own homes, a truly remarkable achievement for a time when the dream of home ownership was largely considered to be beyond the grasp of working-class people.

[75] Hodgson, *Building societies*, p. 5.

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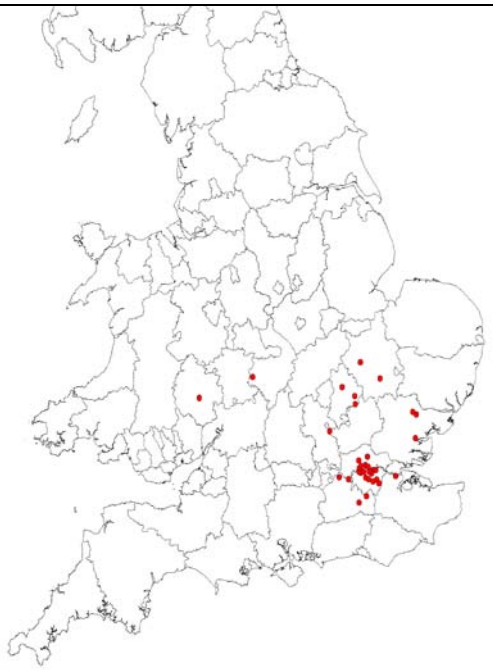
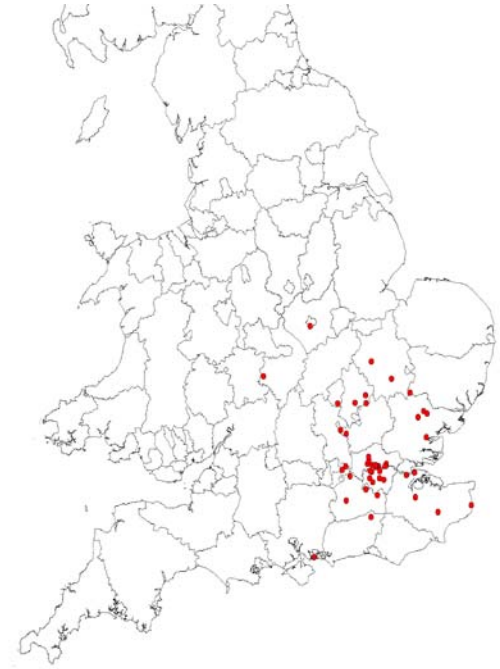
APPENDIX A: MAPS

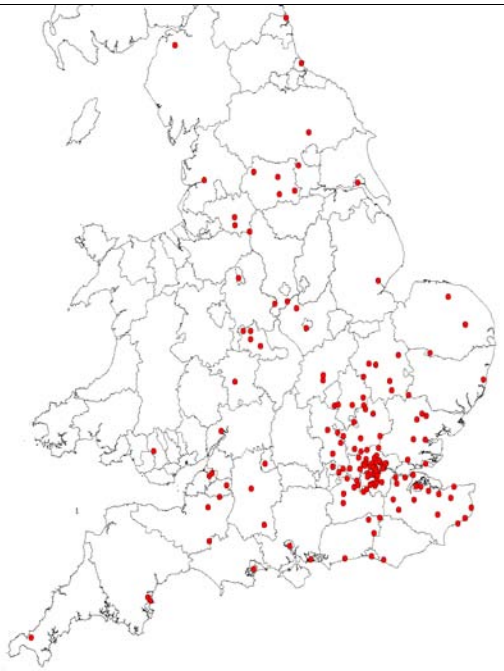


1886



1896

1900



1904

APPENDIX B: CAMSIS TABLES

MALE OCCUPATION	CAMSIS
CLERGY	99
LAWYERS	96
DOCTORS	94
OFFICERS	93
INDEPENDENTS	87
LARGE FARMERS	86
TRADE ELITE	84
MANUFACTURERS	82
MANAGERS/ADMINISTRATORS	80
MEDIUM-LARGE FARMERS	79
TEACHERS	79
GOVERNMENT	78
PROFESSIONALS	77
CASH CLERKS	76
DEALERS	76
FARMERS	73
REPRESENTATIVES	71
SHIPS OFFICERS	71
BUILDERS	68
EMPLOYERS	67
CLERKS	66
NON-FOOD SHOPKEEPERS	66
SMALL EMPLOYERS	64
CLOCKMAKERS	60
FOOD SHOPKEEPERS	58
BUTCHERS	58
CABINET MAKERS	58
ENGINEERS	54
MANAGERS (PRODUCTION)	54
BAKERS	54
TRANSPORT OWNERS	53
BREWERS	51
SMALL–MEDIUM FARMERS	50
WAREHOUSEMEN	50
SMALL FARMERS	50
INNKEEPERS	50
COOPERS	50
PRINTERS	49
OTHER CRAFTSMEN	49
JOINERS	48
HAT/GLOVE MAKERS	48
TAILORS	48
SOLDIERS/SAILORS	48

FEMALE OCCUPATION	CAMSIS
PROFESSIONALS	99
FARMERS	98
FARMERS WIVES	92
INDEPENDENTS	86
GOVERNESSES	85
MUSIC TEACHERS	83
CLERKS	82
TEACHERS	81
MILLINERS	75
SHOPS	71
OTHER CRAFTS	68
NURSES	67
BARMAIDS	67
WAITRESSES	65
INNKEEPERS	65
NON-FOOD SHOPKEEPERS	62
DEALERS	62
FOOD SHOPKEEPERS	58
BOOK BINDERS	56
TAILORESSES	54
CHILDRENS NURSES	52
HOUSEKEEPERS	51
MILLERS/FOOD WORKERS	51
DRESSMAKERS	51
SEAMSTRESSES	51
LADIES MAIDS	48
GARMENT TRADES	43
FACTORY HANDS (NOT TEXTILE)	40
HOUSEMAIDS	39
COOKS	36
SPINNERS	36
MAIDS	33
WEAVERS	32
TEXTILE FINISHERS	30
COMBERS	29
WINDERS/PIERCERS	28
KNITTERS ETC.	28
TEXTILE WORKERS	27
FARM WORKERS	27
SERVANTS	26
PARLOURMAIDS	25
SHOE/LEATHER WORKERS	24
LAUNDRYWOMEN	21

PAINTERS	47
MILLERS	46
FARM BAILIFFS	46
PERSONAL SERVICE WORKERS	46
PLUMBERS	45
CARPENTERS	44
SHIPWRIGHTS	44
WOOD CRAFTSMEN	43
TINPLATE WORKERS	43
COACHMEN	42
SECURITY WORKERS	42
TEXTILE FINISHERS	41
LEATHER WORKERS	40
MECHANICS	39
CUTLERS	38
SEAMEN	38
KNITTERS	38
SPINNERS/ROPE MAKERS	35
FISHERMEN	34
WATERMEN	34
BUILDING TRADES WORKERS	33
COMBERS	33
CURRIERS/TANNERS	32
GARDENERS	32
MASONS	31
RAILWAY WORKERS	30
ENGINE DRIVERS	30
SHOEMAKERS	29
PAPER/CHEMICALS WORKERS	29
BRICKLAYERS	27
SAWYERS	27
MISCELLANEOUS NON-SKILLED WORKERS	27
WEAVERS	25
SMITHS	25
CARTERS	24
COLLIERS	23
ANIMAL WORKERS	22
COAL MINERS	22
MOULDERS	21
NAILERS	18
FARMERS SONS	16
METAL WORKERS	14
FACTORY HANDS	12
FARM/FOREST WORKERS	11
OTHER TRANSPORT WORKERS	11
MINERS/QUARRIERS	11
CERAMICS/GLASS WORKERS	6
LABOURERS	1

METAL TRADES	21
FARM SERVANTS	21
MISCELLANEOUS UNSKILLED	19
LABOURERS	14
LACE WORKERS	8
AGRICULTURAL LABOURERS	5
STRAW PLAITERS	1

APPENDIX C: MODEL RESULTS

*Parameter estimates are reported as Odds Ratios.

	Model 1	Model 2	Model 3	Model 4
Model Type	Ordinal Logistic Regression	Ordinal Logistic Regression	Ordinal Logistic Regression	Binary Logistic Regression
Dependent Variable	CAMSIS[76]	No. of Extra Incomes[77]	LVR[78]	Arrears[79]
Independent Variables				
Borrower Type (Owner-occupier vs. Investor)	1.10	0.77	3.16 ***	2.50 **
Actual Age (10 years difference)	1.01	1.82 ***	0.88	0.65 *
Gender (Female vs. Male)	4.45 ***	4.05 ***	0.60	1.78
CAMSIS		0.99	1.003	0.99
Employment Status – Employer vs. Worker – Own Account vs. Worker	9.79 ** 2.22 **	0.61 1.08	0.49 0.96	0.78 1.28
Number of Family Members (Marginal effect of 5 Additional Members)	0.69 *	4.03 ***	1.06	1.13
Whether extra incomes in the family (Yes vs. No.)	1.23		0.87	2.96 ***
Average Size of Loan (marginal effect of £100 increase in average loan size)	1.16	1.20	1.09	1.80
Number of Loans	1.00	0.97	1.22	
Average LVR (marginal effect of 20 percentage point increase)	1.04	0.93		1.38 **
Loan Duration (marginal effect of 5-year increase in loan duration)	0.97	0.85	1.58 ***	0.54 **
Average monthly repayments	1.00	1.00	1.00	0.99
Additional Security Dummy (additional security required on the loan (1) vs. no additional security required (0)) – (see parameter estimate above)	1.33	4.05 **	1.96	
Additional Loan Dummy (no additional loans made on mortgage (0) vs. Additional loan made on mortgage (1)) (see parameter estimate above)	2.65 ***	1.13	0.67	

[76] Values of dependent variable: 0 if CAMSIS < 31, 1 if CAMSIS between 31 and 50, 2 if CAMSIS between 50 and 60, 3 if CAMSIS greater than 60.

[77] Values of dependent variable: 0 if no extra incomes, 1 if at least 1 extra income, 2 if at least 2 extra incomes, 3 if at least 3 extra incomes.

[78] Values of dependent variable: 0 if LVR < 75, 1 if LVR between 75% and 85%, 2 if LVR between 85% and 90%, 3 if LVR greater than 90%.

[79] Values of dependent variable: 0 if loan has never been in arrears, 1 if loan has been in arrears.

County				
• Cambridgeshire vs. Greater London	0.93	1.47	0.89	
• Essex vs. Greater London	0.30 **		0.70	
• Hertfordshire vs. Greater London	0.56	0.89 *	1.03	
• Kent vs. Greater London	0.44 **	0.39	1.56	
• Medway vs. Greater London	0.42 **	0.99	7.69 ***	
• Other vs. Greater London	0.89	0.43 *	0.77	
• Portsmouth vs. Greater London	1.11	0.58	0.66	
• Slough vs. Greater London	2.43 **	0.91	0.69	
• Suffolk vs. Greater London	1.82	0.58	5.86 ***	
• Surrey vs. Greater London	0.63	1.55	0.44 **	
		1.80		
Average Distance of Property from nearest Agency (marginal effect of 5km increase)	0.97	1.24 **	1.00	1.00
Whether neighbours had multi-family occupants – Yes vs. No	0.82	1.03	1.39*	0.95
Whether any neighbours had boarders	0.99	1.37 *	1.10	0.86
Whether any neighbours sublet their properties	0.95	1.82 **	1.53	1.16
Whether any neighbours had servants	3.08 ***	1.33	0.87	1.63
<u>Model Diagnostics</u>				
Number of Observations	547	547	502	577
R-square	0.2460	0.2350	0.2159	0.0372
Global LR test	<0.0001	<0.0001	<0.0001	0.2396
Proportional-Odds Assumption	0.0175	<0.0001	<0.0001	
c-statistic	0.72	0.72	0.71	0.75

*significant at the 10% level, ** significant at the 5% level, *** significant at the 1% level

Note: intercepts were estimated but omitted from the above table for simplicity.