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Volume Author/Editor: Raymond J. Saulnier and Neil H. Jacoby

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Chapter Author: Raymond J. Saulnier, Neil H. Jacoby

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Institutional Facilities

CONSIDERABLE INFORMATION is available on the growth and present status of factors and commercial finance companies but data on the receivables financing activities of commercial banks have until recently been almost wholly lacking. A questionnaire survey, conducted in mid-1941 by the National Bureau of Economic Research, provides information on the frequency with which banks of different sizes and locations are engaged in receivables financing and the extent of their interest in this field. The Reconstruction Finance Corporation and the Federal Reserve banks have extended credit on the security of assigned accounts receivable,[1] as have some industrial banking companies, but these agencies are of minor quantitative importance in receivables financing and our discussion is therefore limited to factors, commercial finance companies and commercial banks

Factors

There are several reasons for the concentration of the factoring business in New York City; of primary importance is the fact that the business obtained an early start in New York. The antecedents of many factors were representatives of foreign mills who located in New York because of its position in import trade and its prominence as a textile distributing center and sales market. As the functions of some of these houses became more nearly financial in character they retained, with advantage, their close proximity to the selling agencies. Concurrently, there developed in New York City a group of credit-

[1] See National Bureau of Economic Research (Financial Research Program), *Term Lending to Business,* by Neil H. Jacoby and Raymond J. Saulnier (1942) pp. 61 and 63.

rating and other service agencies that made the functioning of the factoring company in that city more economical.

A relatively small number of companies conduct the bulk of the factoring business; information is not available on all of these but a good deal is known of the history of the principal ones. One of the largest was founded in 1808, another in 1854. Some of the present large factoring companies represent consolidations of a number of companies. One consists in part of concerns established in 1828, 1838 and 1893, while another company has consolidated two concerns, one formed in 1857, the other in 1898.

The consolidation movement in factoring began in the latter part of the 1920's and continued through the first half of the thirties. The movement started in 1928 with the acquisition of Peierls, Buhler & Co., Inc. by Commercial Investment Trust Corporation. In 1929 Commercial Investment Trust Corporation acquired another factoring company, Frederick Vietor and Achelis, Inc. and the factoring subsidiaries were merged in that year to form Commercial Factors Corporation. Two more concerns, Schefer, Schramm and Vogel, and Bachman, Emmerich and Company, were absorbed by Commercial Factors Corporation in 1930 and 1936, respectively. Commercial Investment Trust Corporation has two more separately operating factoring subsidiaries, William Iselin and Company, Inc. and Meinhard Greeff and Company, Inc. Of these William Iselin and Company, Inc. was acquired in 1931 as the factoring business of William Iselin and Company; Meinhard Greeff and Company, Inc., was formed in the same year as a consolidation of Morton H. Meinhard and Company, Inc. and Greeff and Company, Inc.

The acquisitions of factoring subsidiaries by Commercial Credit Company involved no consolidations. This company acquired Edmund Wright Ginsberg Corporation and Textile Banking Company, Inc. in 1933, these companies continuing to operate separately as subsidiaries. No further changes have taken place among the larger factoring companies, and, with the exception of John P. MacGuire and

Company, Inc. which was formed in 1934, no new companies have come to assume major importance in recent years. The consolidation movement was over by 1936.

Factoring companies tend to be large as compared to many of the commercial finance companies engaged in non-notification financing. However, in discussing the relative size of factors it should be recognized that some of the largest factors are subsidiaries of Commercial Credit Company which in turn does a non-notification financing business. It should also be pointed out that it is difficult to make a choice between total assets and annual volume as a measure of size. The turnover of receivables is so rapid that total assets is not a very satisfactory measure. On the other hand, if a company has a relatively large proportion of its assets in advances to manufacturers, this will tend to reduce its relative size standing when annual volume of receivables purchased is the measure used. It will be necessary therefore to use both measures where the information is available.

The largest firms in the factoring field are Commercial Factors Corporation and William Iselin and Co., Inc., both subsidiaries of Commercial Investment Trust Corporation. Each of these companies had a 1941 volume of about $140 million; their total assets as of the end of 1941 were $30 and $25 million respectively. James Talcott, Inc. did approximately $110 million of factoring in 1941 on assets of $17.5 million and Textile Banking Company had a 1941 volume of about $70 million on assets of $12 million. It is estimated that in addition to these there are at least five companies with annual volumes of between $25 and $50 million although this is based on rather incomplete information and, in part, on assumptions concerning changes in volume between 1932 and 1941.[2]

Other factoring companies have an annual volume of less than $25 million, most of them about $10 million, but at this

[2] This does not account for John P. MacGuire and Company, Inc., for which information is not available. This company is one of the largest factors and is thought to have a volume of approximately $100 million annually.

size level it becomes increasingly difficult to distinguish between the old-line factoring company and agencies of different types. In this group there are concerns that function in part as factors but also as non-notification financing companies, that is, as commercial finance companies in the terminology of this study. Others combine financing with selling functions and it is impossible to say whether they are best described by the one function or the other.

The general financial characteristics of factors are shown in Table 3 which gives data for a changing number of companies for the period 1925-41. Because of the changing identity of companies in the composite it is not possible to use this table as an unquestionable indication of changes in financial structure, although certain general movements may be detected. First, it is noticeable that there has been very little change over recent years in the proportion of cash held to total assets, this remaining at about 10 to 12 percent. Second, the data show that factoring assets are predominantly in open accounts receivable at the present time and that there has been a tendency for these to increase relative to merchandise advances to clients. Factoring companies rent their quarters; thus cash, receivables and advances comprise the bulk of all assets. Among "other assets" are included investments in mills but these are not as important at present as was formerly the case. However, no information is to be had on the earlier relationships between factor and mill because the investments were held, for the most part, by companies organized as partnerships, and financial statements were not published.

From 1925 to 1940 the net worth of the factoring companies covered in Table 3 varied between 32 and 59 percent of total liabilities and fell to about 25 percent in 1941. The high figure for 1932 is somewhat abnormal and reflects the sharp decline in notes payable to banks which occurred at that time. It is clear that factoring companies have a substantial capital cushion in their business. Indeed, the capital account of the factoring companies is larger than that of sales

Table 3—PRINCIPAL ASSET AND LIABILITY ITEMS OF FACTORING COMPANIES, 1925-41, IN PERCENT OF TOTAL ASSETS [a]

End of Year	Number of Companies	Total Assets (000)	Asset Items			Liability Items			
			Cash	Accounts Receivable Purchased [b]	Merchandise Advances	Net Worth	Notes Payable	Due to Manufacturers and Others	Reserves for Losses
1941	5	$97,109	9.8%	80.0%	5.5%	24.6%	44.5%	25.8%	1.2%
1940	5	71,990	11.6	74.0	12.6	32.5	39.4	23.6	1.5
1939	6	73,710	11.1	76.2	11.0	37.7	32.9	24.9	1.5
1938	6	68,012	12.3	75.1	10.4	43.3	25.1	27.5	1.9
1937	6	78,536	12.4	70.6	15.9	38.3	38.9	18.3	1.6
1936	5	67,691	9.6	81.1	7.9	35.3	29.0	30.6	1.5
1935	4	48,481	10.0	74.0	14.6	35.5	29.4	29.6	1.3
1934	5	46,139	15.4	70.3	13.4	43.9	22.1	28.6	1.4
1933	4	38,182	12.2	68.1	19.1	42.9	29.1	23.2	1.4
1932	4	24,000	19.8	59.9	17.8	59.2	8.4	27.3	1.3
1931	4	36,589	14.1	61.3	19.4	49.4	26.6	18.8	1.5
1930	4	48,913	12.1	62.3	21.7	37.7	33.7	20.2	1.2
1929	3	45,569	11.5	54.1	31.1	32.2	44.8	8.9	1.3
1928	3	49,700	11.7	51.6	31.1	33.8	40.0	11.4	.7
1927	2	16,376	12.2	54.1	23.8	41.2	46.7	8.9	.3
1926	2	16,219	11.6	52.0	26.4	40.9	45.0	11.0	.3
1925	2	15,695	12.1	55.6	22.5	40.8	49.1	7.4	.3

[a] Based on data made available by the National Credit Office, Inc., and on reports to the Securities and Exchange Commission. Distributions do not add to 100 percent because of exclusion of "other assets" and "other liabilities."

[b] Net of reserves for discount but not of amounts due clients.

finance companies and much larger than that of commercial banking institutions.[3]

Table 3 shows that factors are important users of bank credit. Most of the factors borrow on the basis of unsecured notes, having lines of credit established with several banks and being generally regarded as of excellent credit standing. The larger factors also have ready access to short-term funds through sales of open market paper. Bank lines are rarely used up to their full extent, the factors allowing themselves considerable margins for seasonal peaks and for unforeseen contingencies. It is not at all easy to estimate the extent of the dependence of factoring as a whole on the banking system because the only data available on the ratio of notes payable to total assets of factoring companies are for year ends and do not reveal other, perhaps more active, periods. However, on the basis of year-end data it may be estimated that a factoring volume of $800 million a year would require an investment of about $150 million in total assets and that this, in turn, would involve a year-end indebtedness to banks of about $60 million. The factoring company has depended mainly on short-term funds so that borrowing may be expanded and contracted with seasonal and cyclical needs and, so far as can be ascertained, has not to date had recourse to bond financing.

It can be seen in Table 3 that merchandise advances have as a rule been amply covered by the factor's capital account. This is certainly true of the years since 1930 although in 1928 and 1929 these advances were nearly equal to the aggregate net worth of the companies covered. Another test that is often put to the balance sheet of a factoring company is the relation of short-term receivables to current debt. At the present time, short-term assets are more than twice as large as the factor's bank indebtedness at year end.[4]

[3] See National Bureau of Economic Research (Financial Research Program), *Sales Finance Companies and Their Credit Practices,* by Wilbur C. Plummer and Ralph A. Young (1940) p. 63.

[4] The item notes payable to banks includes outstanding open market paper but the data do not permit separation.

The acquisition of factors by the large sales finance companies seems to have produced no consistent relation between parent and subsidiary as regards borrowings. Although borrowings from parent companies depend on internal relationships and policies and do not necessarily reflect the subsidiary company's needs for funds, it seems reasonable to assume that the parent companies are more important sources of funds during the active factoring seasons than is evidenced in year-end statements.

Every factoring company's balance sheet carries an item comparable to the item "due to manufacturers and others" contained in Table 3. This mainly represents amounts that have not been withdrawn by clients from the credits established when receivables were cashed and includes other credit balances, of lesser amount, that may be outstanding. Formerly it was a general practice to pay interest on these balances at 6 percent per annum but of late some few cases have called for no interest, a 2 percent per annum rate or some other rate below 6 percent, depending on the special circumstances. For a small company with limited borrowing capacity these balances might be an important source of funds; actually they are important for all companies in that they provide a margin for the absorption of deductions in the value of cashed receivables arising out of merchandise returns and other offsets for which the factor is not responsible. It is clear that this item has tended to grow in relation to total assets since 1929 and that merchandise advances, which involve more risk than other financing activities of the factor, have tended to decline in relative importance as an asset. Finally, it should be noted that the loss reserves established by factoring companies have always been under 2 percent of total assets and that there has been a tendency for these reserves to increase.

The essential similarity in the balance sheet structures of factoring companies, when compared individually, is shown by Table 4. The principal points of difference revealed in this table relate to merchandise advances; one company had a much smaller proportion of its total assets invested in these

Table 4—PRINCIPAL ASSET AND LIABILITY ITEMS OF FIVE FACTORING COMPANIES, DECEMBER 31, 1941, IN PERCENT OF TOTAL ASSETS [a]

	Asset Items			Liability Items			
Company	Cash	Accounts Receivable Purchased [b]	Merchandise Advances	Net Worth	Notes Payable	Due to Manufacturers and Others	Reserves for Losses
A	7.2%	78.6%	5.8%	24.7%	48.6%	21.9%	1.1%
B	9.4	78.5	5.4	21.8	38.6	33.2	1.2
C	16.0	61.7	1.4	28.7	38.2	29.8	1.4
D	7.9	81.0	8.5	23.5	48.3	22.9	1.4
E	11.0	81.2	8.1	25.2	52.1	16.1	1.2
ALL COMPANIES	9.8%	80.0%	5.5%	24.6%	44.5%	25.8%	1.2%
Amount (000)	$9,562	$77,685	$5,355	$23,852	$43,165	$25,096	$1,210

[a] Based on data made available by the National Credit Office, Inc., and on reports to the Securities and Exchange Commission. Distributions do not add to 100 percent because of exclusion of "other assets" and "other liabilities." All assets of the five companies total $97 million, approximately 50 percent of all assets in use in the old-line factoring industry at the end of 1941.

[b] Net of reserves for discount but not of amounts due clients.

advances at the end of 1941 than did the other four companies. It should be indicated that the companies included in Table 4 are large factors and are the same companies whose balance sheets were combined for the 1941 data given in Table 3.

Commercial Finance Companies

The first company organized to take assignments of open accounts receivable on the non-notification plan was the Mercantile Credit Company organized in Chicago in 1905.[5] Only a few of the larger finance companies were active in this field before 1920. Commercial Credit Company, the largest of the non-notification companies, was established in Baltimore in 1912, four years after the organization of the Manufacturers Finance Corporation. The latter company is described as the first company to do a non-notification receivables financing business in the east.[6] The Finance Company of America at Baltimore, Inc. was established in 1921 to take over the assets of Capital Service Corporation, which had been organized as a commercial finance company in 1917. Although it did not begin open accounts financing until 1925, Walter E. Heller and Co. was organized in 1920, succeeding Heller, Marks and Company, Inc., established in 1919. Two other companies, Bankers Commercial Corporation and Seaboard Commercial Corporation, both of New York, were established before 1920, the former in 1904 as Fidelity Contract Corporation and the latter in 1916 as Finance Service Company, Inc., but neither began accounts receivable financing until much later. Seaboard Commercial Corporation's interest dates from 1937 and that of Bankers Commercial Corporation from about 1939. Manufacturers Trading Corporation, which was organized in 1929, and American Business Credit Corporation, organized in 1937, have been from their outset interested mainly in open

[5] For a brief discussion of this early history see *The Economics of Instalment Selling,* by E. R. A. Seligman (New York, 1927) Vol. II, pp. 35-37.

[6] See *Annual Report to the Stockholders,* Commercial Credit Company, December 31, 1940. Manufacturers Finance Corporation was acquired by the Commercial Credit Company in 1938. At that time its annual volume was around $35 million.

accounts receivable financing; in certain other companies receivables financing has displaced, or been added to, automobile sales financing or income-producing equipment financing.

In other cases, however, open accounts financing on a non-notification basis has been displaced by other activities. This has been the case with Commercial Investment Trust Corporation, which was established in 1908 as Commercial Credit Investment Trust mainly to do an open accounts receivable financing business but ceased doing this early in the 1920's and diverted its resources to the financing of instalment sales of automobiles and income-producing equipment. As pointed out in the preceding section, C. I. T. Corporation acquired factoring subsidaries in the period 1929-31, but these companies engage exclusively in the non-recourse purchasing of receivables, mainly of textile concerns, on a notification basis. Furthermore, there is evidence that some other companies are, as a matter of management policy, reducing the portion of their resources devoted to non-notification receivables financing, but these appear to be local or small regional sales finance companies.

Most of the smaller commercial finance companies are located in New York and Chicago, although some are to be found in other commercial centers. For the most part they were established in the last ten or fifteen years, but a few have been in business for as long as twenty years. Because of the risks attendant upon this type of financing, and particularly in view of the fact that the smaller companies tend to take the heavier risks, the mortality rate for these companies must be relatively high, but on this point there are no reliable data.

Although open accounts receivable financing is carried on by one company that has a large local branch organization with national coverage, the Commercial Credit Company, and by several regional companies, it is generally characteristic of these concerns that credit extensions and direct controls are exercised from a central office. Local branches are not used, as they are in automobile time-sales financing, for direct

and continuing contacts with clients. Key branches are used, however, for the origination of accounts and as regional field headquarters for auditing and credit investigations. These branches are important mainly for the fact that they increase volume and thus make it possible to utilize more efficiently the kind of central organization necessary for the curtailing of risks. Thus any unit, whether finance company or commercial bank, is at a disadvantage if it cannot originate in its immediate trading area a volume of business sufficient to carry the costs of a properly staffed receivables department. With few exceptions commercial banks operate as unit agencies in receivables financing and in the majority of cases they do not, as a matter of policy, go outside their natural trading area to acquire receivables clients.

In contrast to factoring companies, the large commercial finance companies conduct highly diversified financing activities. This will be illustrated below by an examination of the asset structures of the major companies. There is, however, a group of small local commercial finance companies specializing in the purchase, on a non-notification basis, of open accounts receivable although these companies may make loans on commodities, contracts, machinery and equipment. Finally, there are a number of intermediate-sized concerns that, like the larger commercial finance companies, engage in open accounts financing along with substantial interests in other lines, the most important of which are the financing of time sales of automobiles and other consumer durable goods and the financing of instalment purchases, by industrial users, of income-producing machinery.

The largest commercial finance companies may also engage in factoring, directly on a small scale, or indirectly on a larger scale, through subsidiary companies. It would be incorrect to assume that the nature of the diversification evidenced by commercial finance companies is in any way consistently related to size. It is important to recognize, however, that the services offered by these companies are very wide and that this

feature is considered by the companies as important to their own stability as well as to their power to attract clients.

The evidence of this diversification of activities is shown clearly in Table 5, based on balance sheets for six of the largest commercial finance companies engaged in non-notification financing and representing about one-half billion dollars in total assets. Of the combined assets of all companies, 75 percent were in receivables other than open accounts, although an examination of the individual companies will show that open accounts are much more important for some concerns than for others. The items represented in the "other receivables" classification are so numerous, and financial statement reporting is so varied in character, that no attempt is made here to break this item down. It can be stated, however, that the principal items are wholesale and retail automobile paper and wholesale and retail paper arising out of income-producing equipment financing. Table 5 also shows that, as in the case of factoring companies, cash and receivables constitute more than 95 percent of all assets of the commercial finance companies; in general, cash equals about 10 percent of total assets. This proportion of assets held in cash is somewhat higher than that characteristic of sales finance companies dealing predominantly in consumer credit and is just under that characteristic of factoring companies.

Commercial finance companies obtain their funds mainly from invested capital and bank borrowings. Table 5 also shows that these companies, as a whole, have a net worth of almost 16 percent of their total assets and that their notes payable at the end of 1941 were nearly four times the amount of their net worth. Most companies, however, had a notes payable to net worth ratio of about 2 to 1.

As was the case with many consumer finance companies in earlier years, the commercial finance companies formerly obtained funds through the issuance of collateral trust notes secured mainly by receivables acquired in their business operations. This practice has virtually disappeared, however, and has been replaced, for the larger companies that do the bulk

Table 5—PRINCIPAL ASSET AND LIABILITY ITEMS OF SIX COMMERCIAL FINANCE COMPANIES, DECEMBER 31, 1941, IN PERCENT OF TOTAL ASSETS [a]

Company	*Asset Items*			*Liability Items*			
	Cash	Open Accounts Receivable	Notes and Other Receivables	Net Worth	Notes Payable	Funded Debt	Reserves for Losses, Other Reserves and Clients' Equities
A	12.9%	33.8%	52.8%	21.9%	55.1%	..	20.9%
B	10.5	7.5	79.4	17.6	50.3	13.5%	12.5
C	11.1	8.2	78.7	14.8	61.3	10.3	8.9
D	11.9	68.4	19.2	21.0	46.8	4.7	25.2
E	10.2	42.4	47.1	16.1	42.9	14.3	23.3
F	9.5	38.3	49.0	21.3	43.7	18.2	14.7
ALL COMPANIES	11.1%	12.4%	74.4%	15.6%	59.0%	10.3%	10.7%
Amount (000)	$61,473	$68,861	$412,255	$86,380	$326,654	$56,780	$59,431

[a] Based on reports to stockholders and 10K reports to the Securities and Exchange Commission. Distributions do not add to 100 percent because of the exclusion of "other assets" and "other liabilities." All assets combined amounted to $554 million. Data for companies A and C are for June 30, 1941.

of the financing, by unsecured borrowings from commercial banks and other institutional investors. In short, their access to the general money market has improved with time, reflecting an improvement in their operating results. At present the major companies have very considerable borrowing power at most favorable rates.

It is more difficult to generalize concerning the practices of these companies in the maintenance of loss reserves and margins withheld from clients pending actual liquidation of purchased open accounts receivable. This is due principally to the fact that reserve practice varies with the type of receivable held, and the different companies hold varying proportions of the different types of receivables. It seems, on the basis of the incomplete evidence available, that the companies with the heaviest commitments in open accounts receivable tend to hold a larger proportion of their gross assets in reserve for losses and clients' equities than do the companies that are dependent on automobile or income-producing equipment financing for the bulk of their business.

While Table 5 provides examples of the financial structures characteristic of the larger commercial finance companies, and thus of those that conduct the major portion of the business, it does not represent the smaller and more numerous companies. About these very little is known since they are most frequently operated as partnerships or closely-held corporations and public information on their financial structure is therefore unavailable. In general, however, it can be said that they tend to specialize in purchasing open accounts receivable; some companies also make loans on equipment and inventory and others do some consumer financing, but these activities are definitely of secondary importance. The balance sheets of these smaller companies would doubtless show a higher concentration of assets in open accounts receivable than is displayed by companies included in Table 5.

Because of the size and organizational character of these relatively small companies, their borrowing capacities are doubtless more limited, by and large, than are those of the

companies shown in Table 5. One experienced operator in this field pointed out that the smaller companies use little borrowed money and that the ratio of debt to net worth would increase with the size of net worth. Thus a company with $200,000 net worth might achieve a debt to net worth ratio of ½ to 1, one with $400,000 a ratio of 1 to 1, one with $750,000 a ratio of 1¼ to 1, and the larger companies in this class might achieve ratios of 2 or 2½ to 1.

Commercial Banks

It has been noted that the interest of commercial banks in receivables financing has developed greatly in the recent past. An increasing number of banks have established special departments[7]; a much larger number, while not departmentalized for this purpose, have aggressively sought non-notification accounts receivable loans. Interviews with commercial banks in nearly all the leading centers east of the Mississippi and with bank supervisory officials indicate that this growth began around 1933 and has been particularly strong since 1935. In general, it corresponds to the growth in recent years of excess reserves and represents an effort on the part of commercial banks to extend credit into fields that, although new to them, appear profitable as contrasted with alternative uses of funds. This development has been parallel to, but somewhat later in appearance than, the growth of bank consumer instalment financing.[8]

As in the case of consumer financing, it can be said of accounts receivable financing that banks have always done a certain amount of it and perhaps nearly all banks do some at the present time. But it is important to distinguish regular participation in accounts receivable financing, undertaken on its own merits when originating loans, from the taking of subsequent assignments of receivables to support loans pre-

[7] These are variously named, for example, Commercial Service Department and Trade Finance Division.

[8] See National Bureau of Economic Research (Financial Research Program), *Commercial Banks and Consumer Instalment Credit,* by John M. Chapman and Associates (1940).

viously made on some other basis. Nearly every bank has made this latter "work-out" type of loan at some time and, furthermore, every bank looks to open accounts receivable when making loans secured by other assets or when extending unsecured credit on the basis of a borrower's standing and financial statement. However, in discussing the participation of commercial banks in accounts receivable financing an effort has been made to include only those banks *regularly* engaged in making this type of loan on its own merits. Also, many banks have taken assignments of groups of time-payment accounts receivable originated by retail outlets and, more recently, have extended credit on the basis of assigned claims against the United States government in financing war contracts. Both these types of credit are excluded in the present study, since our focus of interest is on open accounts owed by business enterprises. In order to determine the extent of their participation in the field a questionnaire survey was made in July 1941 on accounts receivable financing.[9] This survey supplied the basis for the estimate of $135 million of outstanding accounts receivable loans in insured commercial banks at the end of 1941.

Further analysis of the questionnaire returns provides verification of the general observation that accounts receivable financing is most characteristic of banks in the larger centers of population and of the larger banks. Of the 327 responding banks, 89—approximately 1 out of 4—were regularly engaged in open accounts receivable financing. However, while 1 out of every 2 banks in cities of 500,000 and over reported receivables financing, this was the case with only 1 out of every 10 banks located in cities of less than 10,000. The survey revealed a regular increase in the ratios from banks in the smallest to those in the largest centers of population.

Questionnaire results also show that within this sample the larger banks were more frequently active in this field than the smaller banks; 1 out of every 16 banks with total deposits of $1 million or less reported regular activity in

[9] See Appendix B for a description of the survey and the questionnaire used.

receivables financing while every second bank with total deposits of over $10 million was so engaged. Finally, the survey showed that about 1 in every 4 banks with total deposits of between $1 million and $10 million was engaged in receivables financing. Further evidence that participation in accounts receivable financing is closely related to the economic character of the bank's trading region was provided by questionnaire returns showing that, among the banks covered in this sample, the frequency of commercial bank participation was highest in regions that are predominantly industrial in character. Thus, the Middle Atlantic, East North Central, East South Central and New England regions showed a frequency of 1 out of every 3 banks while, at the other extreme, the West North Central, South Atlantic and Mountain states showed frequencies of about 1 out of every 8 banks.[10]

The minor relative importance of loans made on the assignment of open accounts receivable is shown in Table 6; for all banks combined receivables loans amounted to only .9 percent of combined total loans and discounts. The number of banks covered in this survey is so small that very definite conclusions cannot be drawn as to the relation of size of bank to the ratio of receivables loans to total loans. The data indicate that for the very largest banks—those with deposits of over $50 million—these loans represented only .4 percent of total loans and discounts or approximately half their average index of relative importance. Furthermore there is very little difference in the indexes of relative importance for banks with deposits of $50 million or less, these ratios varying between 4.3 and 3.0 percent.

Comparisons of the distribution of accounts receivable loans, by class of bank, with the distribution characteristic of consumer instalment loans may be made from Table 6 and Table C–2.[11] It has been stated that the relative importance of receivables loans is greater for the relatively small than for

[10] For distributions of these data by size of center of population, deposit size of bank and region see Appendix Table C-1.

[11] Compare John M. Chapman and Associates, *op. cit.*, p. 36.

Table 6—AMOUNT OF ACCOUNTS RECEIVABLE LOANS AND TOTAL LOANS OF COMMERCIAL BANKS, AND ACCOUNTS RECEIVABLE LOANS IN PERCENT OF TOTAL LOANS, AS OF MID-1940, BY DEPOSIT SIZE OF REPORTING BANK [a]

Deposit Size of Bank [b]	*Number of Reporting Banks*	*Accounts Receivable Loan Balances Reported*		*Total Loans and Discounts of Reporting Banks*	ACCOUNTS RECEIVABLE BALANCES		
					Total		*In % of Total Loans and Discounts*
		Retail	Non-Retail		Amount	Percent	
$5,000 or less	30	$135,014	$857,200	$29,520,000	$992,214	6.0%	3.4%
5,000–10,000	13	113,569	889,874	33,295,000	1,003,443	6.1	3.0
10,000–50,000	26	409,327	7,619,997	188,682,000	8,029,324	48.7	4.3
Over 50,000	19	309,512	6,122,949	1,596,609,000	6,432,461	39.0	.4
TOTAL	88	$967,422	$15,490,020	$1,848,106,000	$16,457,442	100.0%	.9%

[a] Based on a questionnaire survey.
[b] Total deposits in thousands of dollars. Each size class is exclusive of the lower limit and inclusive of the upper.

the relatively large banks; Table C–2 shows that it is also greater for the banks in smaller centers of population than in the larger cities. It is important to note, however, that accounts receivable loans are not of great relative importance in any group of banks, whether the classification is by size of bank, size of city or region. This conclusion is in marked contrast to findings regarding personal loans. A 1939 study by the National Bureau of Economic Research showed that the ratio of personal loans to total loans and discounts varied from 42 percent for banks with total loans and investments of less than $150 thousand to 1 percent for banks of $50 million and over in total loans and investments.

While it is true that accounts receivable loans are relatively unimportant when compared to total loans and discounts and contrasted with similar measures of the importance of personal loans, it is necessary to note that receivables loans have a much more rapid turnover. It would take at least seven times as many personal loans of average maturity as accounts receivable loans to produce a given volume of business. This point must be borne in mind in considering the profitability of loans secured by assignments of receivables. The rapid turnover raises considerably the costs of operation per dollar of balances held but where charges are based on the volume of receivables purchased a rapid turnover also increases income.