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RAYMOND J. SAULNIER and NEIL H. JACOBY

FINANCING EQUIPMENT
FOR COMMERCIAL AND
INDUSTRIAL ENTERPRISE

Financial Research Program

Studies in Business Financing

NATIONAL BUREAU OF ECONOMIC RESEARCH

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Preface

THE BUSINESS FINANCING PROJECT, of which this study is a part, is the second major investigation to be initiated under the National Bureau's Financial Research Program, with the support of grants from the Association of Reserve City Bankers and the Rockefeller Foundation. Work on the project began early in 1940, with three major objectives: first, to trace from business accounting records the structural and cyclical changes that have occurred in the financial organization of business enterprise since the turn of the present century; second, to determine the cross-sectional pattern for recent years of business credit demands; and third, to describe the adaptations that financing institutions providing short- and medium-term credit have made over the past decade in response to changing demands for their services.

Research activities have been carried on under two main divisions: one, entitled "Changes in the Financial Structure of Business Enterprise, 1900-1940," is concerned primarily with the first objective; the other, "Contemporary Relations between Business Enterprise and Financial Institutions," is devoted specifically to the second and third objectives. Under each division a number of technical studies have been developed from special primary materials, the findings of which are to be the basis of broader interpretive studies. Under the second division of the project, two of the technical studies, *Term Lending to Business*, and *Accounts Receivable Financing*, have already been published. The present volume, *Financing Equipment for Commercial and Industrial Enterprise*, will be followed by a study covering business loans made on the security of field warehouse receipts.

Each of the four investigations of special lending techniques has a common pattern of treatment: (a) development of the financing technique; (b) size and organization of the market; (c) charac-

teristics of the credit services; (d) methods of credit extensions; and (e) income, costs and profitability. Their preparation has required extensive interviews with officers of specialized financing agencies and commercial banks in the main lending centers east of the Mississippi; their statistical basis has been provided by special tabulations and questionnaire replies prepared by financial institutions representative of all regions of the country. We wish to acknowledge our obligation to these officers for their generous help, as well as to the financial agencies that cooperated in supplying special statistical information. The present study has gained much, also, from the cooperation of some 150 manufacturers of commercial and industrial equipment who responded to a detailed questionnaire concerning their instalment selling activities.

The changing demands of business for short- and medium-term credit have produced two major types of adaptations on the supply side of the business financing market. The first of these is the marked change that has come about in the lending policies and techniques of commercial banks; the second is the growth of non-bank lending agencies specially organized to meet these newer credit needs. The rapidity with which these adaptations have been made is perhaps responsible for the fact that little is known of their character and extent; whatever the reason, it seems clear that there is inadequate understanding of recent changes in the functioning of commercial banks as business financing agencies, and still less understanding of the part played by non-bank agencies in the business credit market.

The financing of instalment purchases of income-producing equipment is one of the most interesting of these developments in lending practices, both because it represents a new activity for commercial banks and because it is an area in which non-bank agencies have played a major role. The purpose of this study is to trace the development of the financing technique, to discuss its practice by both banks and commercial finance companies, to show the characteristics of the business enterprises using this method of financing, and to describe its procedures and operating results.

RALPH A. YOUNG

Director, Financial Research Program

December, 1943

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The officers of a large number of banks and commercial finance companies contributed to the investigation in two important ways; first, by providing special statistical tabulations and answering questionnaires concerning their equipment financing activities and, second, by giving the authors, through lengthy interviews, the benefit of their intimate knowledge of the problems and techniques of this special financing procedure. Without their cooperation it would have been impossible satisfactorily to complete the investigation. The authors wish to take this opportunity to express their sincere appreciation.

We wish also to express our thanks to the staffs of the National Credit Office, Inc., and Dun & Bradstreet, Inc., for assistance in assembling information at various points in the study. Members

of the examining division of the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York and the Federal Deposit Insurance Corporation have discussed certain aspects of equipment financing with the authors and we are very grateful to them for their generous assistance.

Editorial responsibility for the manuscript has been carried with great skill by Lorine Pruette, assisted by Renée S. Courtney. The authors wish to express to both their very sincere appreciation for the many contributions they have made to the organization of the study and the readability of the text.

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