3

Market for Medium-Term Business Credit

FOUR TYPES OF FINANCIAL institutions extend medium-term credit directly to American business enterprises on a large scale. Among private financing agencies the commercial banks and life insurance companies advance such credits. Within the field of public institutions, the Federal Reserve banks and the Reconstruction Finance Corporation are active.[1] What has been the magnitude of term loan operations of each of these types of agencies during recent years? What has been the number and size of loans they have made? What are the characteristics of business enterprises borrowing from them, including size and industry?

Annual Volume of Term Loan and Private Placement Credit Extended, 1934-40

A measure of the annual volume of term loans actually disbursed to business concerns during each year of the period 1934-40 by the four principal agencies supplying medium-term credit is contained in Table 1. The figures are estimates of money annually disbursed by commercial banks, insurance companies, Federal Reserve banks and the Reconstruction Finance Corporation, rather than amount of credit "lines" granted or loans approved, which are less significant measures of the comparative importance of the four agencies.

[1] A number of savings banks have made term loans to business concerns. At least one large investment company with public distribution of its shares has made term loans, and a few of the larger instalment financing concerns have also entered the field. Among government agencies, the United States Maritime Commission, the Export-Import Bank of Washington, and the Commodity Credit Corporation have advanced special types of short- and medium-term credit to businesses. But the operations of these agencies have either been highly specialized or of such minor magnitude that they are not considered herein.

Table 1—Medium-Term Business Credit of Term Lending Institutions: Annual Disbursements and Year-End Outstandings, 1934–40 (*in millions*)

Year Ending December 31	*Federal Reserve Banks*[a]	*RFC*[b]	*Life Insurance Companies*[c]	*Commercial Banks*[d]	*Total*
1934					
Disbursements	$14.9	$6.7	[e]	[e]	
Outstandings	14.9	6.6	[e]	[e]	
1935					
Disbursements	27.3	35.7	$54	[e]	
Outstandings	41.3	40.0	[e]	[e]	
1936					
Disbursements	6.2	32.3	80	[e]	
Outstandings	32.7	63.6	[e]	[e]	
1937					
Disbursements	3.6	23.3	155	[e]	
Outstandings	27.4	74.8	152	$827	$1,081.2
1938					
Disbursements	6.0	52.5	167	217	442.5
Outstandings	30.0	107.7	319	1,083	1,539.7
1939					
Disbursements	3.9	54.1	203	827	1,080.0
Outstandings	24.7	130.6	520	1,596	2,271.3
1940					
Disbursements	2.3	28.2	379	1.352	1,761.5
Outstandings	15.5	121.3	900	2,162	3,198.8
Total Disbursements	$64.2	$232.8	$1,038[f]	$2,396[g]	$3,284.0

[a] *Annual disbursements* are based on a special tabulation furnished by the Board of Governors of the Federal Reserve System. Figure for 1934 covers a six-month period ending January 2, 1935. *Outstandings* include participations purchased, but not commitments. See *Federal Reserve Bulletin* (June 1941) p. 547.

[b] *Outstandings* include participations purchased, but not commitments. For 1940, national defense loans are excluded. Data are compiled from Reconstruction Finance Corporation, *Quarterly Reports*.

[c] Estimated from data compiled by the Securities and Exchange Commission, and tabulations of the National Bureau of Economic Research. See Appendix B.

[d] Estimated from data collected by the National Bureau of Economic Research. See Appendix A.

[e] Not estimated because of inadequacies of data.

[f] Excludes 1934.

[g] Excludes 1934–37.

Two striking facts are indicated with respect to annual disbursements. First, an extremely rapid rate of growth occurred in the total annual volume of medium-term business credit granted during recent years. Second, a position of overwhelming importance in the medium-term credit market is occupied by private financial institutions. Although incomplete data preclude reliable estimates of annual loan volumes of the private agencies during the earlier years of the period, in the three years 1938-40 the rate of growth of their credit disbursements was not far from 100 percent per annum. During these three years alone, term loans made by commercial banks were about $2.4 billion, and the medium-term credit extended by insurance companies through private purchase of securities from issuers and mortgage loans made to business enterprises was $749 million. In comparison, the business loans disbursed by the Federal Reserve banks and the RFC were almost trifling in magnitude, the loan volume of the public agencies combined amounting to only about 5 percent of that of the private institutions during 1938-40.

There is some evidence that insurance companies entered the medium-term business loan market through private acquisitions of securities from issuers some years before commercial banks inaugurated term lending around 1933. However, by 1938 medium-term bank credit had definitely surpassed insurance company credit in annual volume. The Federal Reserve banks and the RFC promptly exercised the business lending powers granted them in June 1934. The Reserve banks disbursed a maximum amount of credit in 1935, while the RFC maximum was reached in 1939. It is significant that Federal Reserve banks disbursed a larger amount of business loans during the initial year, 1934, than did the RFC. The explanation is doubtless that at the inception of the direct business loan program Reserve banks were already equipped with trained personnel and channels of acquisition of term loans, factors the RFC required time to develop. Although the loan volume of the Corporation has greatly surpassed that of the Reserve banks in every year after 1934, the loan programs of the public agencies have not displayed the dynamic features of those of the private institutions.

Annual volumes of loans disbursed do not, of course, adequately express the importance of the roles played by the Reserve banks and the RFC in the medium-term business credit market. These agencies—limited by statute to loans made to companies unable to obtain credit from normal banking sources —have also made commitments to take up term loans made by commercial banks, thus making it possible for many bank loans to be created or increased in amount. More important, they have stimulated term lending by private agencies by devising "bankable" credit arrangements which, in many instances, have enabled borrowers to secure loans from commercial banks.

Term Loan Credit Outstanding at Year-Ends, 1934-40

The dominant position of commercial banks in the medium-term business credit market is evidenced in even more striking manner by a comparison of the year-end term credit outstandings of each of the four groups of lending institutions. At the end of 1940, commercial banks accounted for an estimated $2,162 million, or about two-thirds, of a total of $3,199 million of medium-term business credit outstanding. The Reserve banks and the RFC had only about 4 percent as much due from business concerns as had commercial banks and insurance companies. Although commercial bank term loans outstanding have shown remarkable growth, Table 1 indicates that the year-to-year rate of growth in medium-term private placements outstanding has outstripped that of the other agencies. It should be observed that some commercial banks located in leading financial centers have also participated in the direct purchase of securities from issuing corporations, so that the role of the commercial bank in the medium-term business credit market is even more important than is indicated by the figures in this table.[2]

Number of Institutions Extending Medium-Term Credit

In addition to the RFC and the 12 Federal Reserve banks, medium-term business credit was available at the end of 1940 from at least 26 legal reserve life insurance companies and, according to a rough estimate, from a maximum of 2,900 commercial banks. The large life insurance companies not only purchase securities privately from issuing concerns, but, in

[2] See House Committee on Interstate and Foreign Commerce, 77th Congress, 1st Session, *Hearings on H.R. 4344, H.R. 5065 and H.R. 5832* (Washington, 1941) Part II, pp. 370, 459.

addition, at least three insurance companies are actively engaged in making mortgage loans to business concerns secured by their real estate or equipment. No doubt some of the mortgage loans of insurance companies that are secured by residences, apartment buildings or other "general purpose" property are, in fact, used for business financing. The magnitude of this source of business credit cannot be determined from the records of insurance companies, which generally look solely to the value of the property to liquidate the loan. The figures of Table 1 very likely understate the magnitude of life insurance company participation in the medium-term business credit market.

The rough estimate of 2,900 commercial banks engaged in term lending is made by assuming that 82 percent of all large banks (having deposits of $10 million or more) make term loans, that 40 percent of medium-sized banks (with deposits of $1 million to $10 million) engage in term lending, and that no small bank (deposits of less than $1 million) does so.[3] Considerable confidence may be placed in the assumption regarding the frequency with which large banks engage in term lending. Information obtained from the approximately 400 weekly reporting member banks indicates that 84 percent held some term loans in April 1939,[4] and 82 percent of a sample of 99 large banks responding to a questionnaire circulated by the National Bureau of Economic Research at the middle of 1941 held a significant volume of term loans.[5] It is also fairly clear that term lending by banks with deposits of less than $1 million must be rare, since the legal loan limit on national banks of this size is about $10,000—an amount normally too small to warrant the relatively large costs of making and servicing term loans. With regard to medium-sized banks, a survey made by the Superintendent of Banks of New York

[3] Some 13,500 insured commercial banks were examined during 1940, of which 546 had deposits of $10 million or more, 4,168 had deposits of $1 million to $10 million, and the remainder had deposits of less than $1 million. See Federal Deposit Insurance Corporation, *Annual Report, 1940,* pp. 162-63.

[4] *Federal Reserve Bulletin* (July 1939) p. 560.

[5] See Appendix A.

at the end of 1939 indicated that 43 percent of all state banks outside New York City (most of which are medium-sized institutions) had extended term credits.[6] If, as seems probable, this survey included instalment contracts purchased, there is some overstatement of the percentage of these banks making term loans as defined in the present study. All evidence indicates that the frequency with which banks make term loans increases rapidly with size of bank.

Number of Borrowers

The number of business enterprises that have obtained medium-term credit from Reserve banks and the RFC is nearly three times as large as the number that have secured such loans from commercial banks and insurance companies. Obviously the public agencies have dealt with much smaller concerns. To the end of 1940 the RFC had authorized loans to 7,917 business enterprises aggregating $446.6 million, and had disbursed $239.5 million. The average loan authorization was therefore $56,410 and the average loan disbursement was $30,255.[7] Up to the same date the Reserve banks had approved 2,908 applications for loans aggregating $212.5 million, or an average amount approved of $73,078. Nearly 11,000 businesses have received medium-term credit from the public agencies. It is unlikely that, up to the end of 1940, more than 3,800 concerns had borrowed from commercial banks on a term basis,[8] or that more than 270 businesses had privately placed their medium-term securities with insurance companies.[9]

It is worthy of note that commercial banks and life insur-

[6] *Annual Report of the Superintendent of Banks* for the year ending December 31, 1939 (Albany, New York, 1940) pp. 6-7.

[7] Disbursements were not made to all concerns to which loans were authorized. As the number of enterprises actually receiving loans is not available, average disbursement has been calculated by dividing total disbursements by the number of concerns for which loans were authorized.

[8] Derived by dividing estimated total loan volume of $2.4 billion for 1938-40 (see Table 1) by $644,000, the average original amount of term loans held by a sample of 99 commercial banks at mid-1941. See Appendix A.

[9] Derived by dividing estimated total loan volume of $1,038 million for 1935-40 (see Table 1) by $3.8 million, the average amount of all issues privately purchased by a sample of five life insurance companies, and held at the end of 1940. See Appendix B.

ance companies have far from exhausted their potential medium-term loan market. While it seems unlikely that private agencies can profitably make term loans to the smallest corporations, there are more than 130,000 business corporations with total assets exceeding $100,000. Apparently, up to the end of 1940, only about 10 percent of these had obtained medium-term loans from any institution.[10]

Size of Borrowers

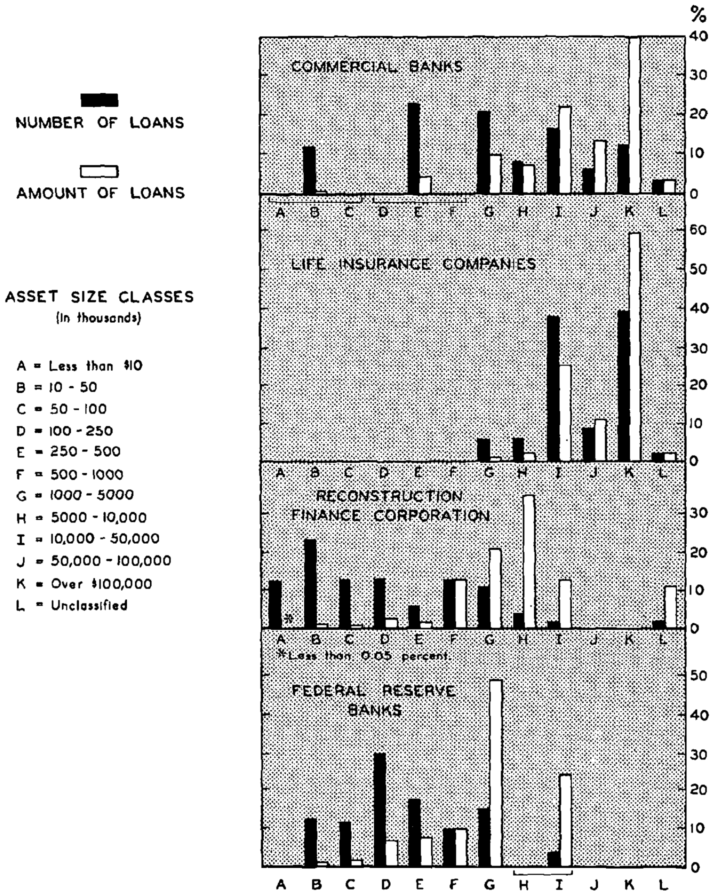
Commercial bank and insurance company medium-term loans have been made to business enterprises that are, in general, vastly larger in terms of total assets than those receiving credit from Reserve banks or the RFC. Sixty-two percent of the number of term loans made by commercial banks and 98 percent of the medium-term loans of insurance companies went to borrowers with assets of $1 million and over, while only 19 percent of the Reserve bank and 17 percent of the RFC loans were made to concerns of this size. In terms of aggregate amounts of credit extended, the comparison is equally striking. Borrowers with total assets of $1 million or more received nearly 93 percent of commercial bank term loans and 98 percent of insurance company credit, but accounted for only 73 per cent of the amount of industrial loans approved by the Reserve banks and 69 percent of those of the RFC. Commercial bank term credit hardly touched businesses with total assets of less than $100,000. More than half of commercial bank credit and 70 percent of life insurance company credit was advanced to large concerns with total assets of over $50 million. Only a negligible fraction of the money advanced by the public agencies went to these very large concerns. (See Chart I.)

Definitely, medium-term credit extended by private agencies has not been a vehicle for financing "small" business enter-

[10] *Statistics of Income for 1937* (p. 26) reported that 127,943 corporations with assets of $100,000 and over submitted balance sheets. To this should be added those corporations of this size class that filed corporation income tax returns but did not submit balance sheets, as well as business concerns that did not file returns at all.

1

PERCENTAGE DISTRIBUTION OF THE NUMBER AND AMOUNT OF MEDIUM-TERM LOANS MADE BY TERM LENDING INSTITUTIONS, BY TOTAL ASSETS OF BORROWER[a]



[a] For data, see Appendix Table C-1

prises. Even the public agencies have advanced little credit to concerns with total assets of less than $100,000. Private agencies have financed large concerns—those with assets of over $10 million—through medium-term credit extensions, while the public agencies have loaned money to businesses of intermediate size. It is broadly accurate to say that the public and the private lending agencies have not competed in the same sections of the medium-term business credit market.

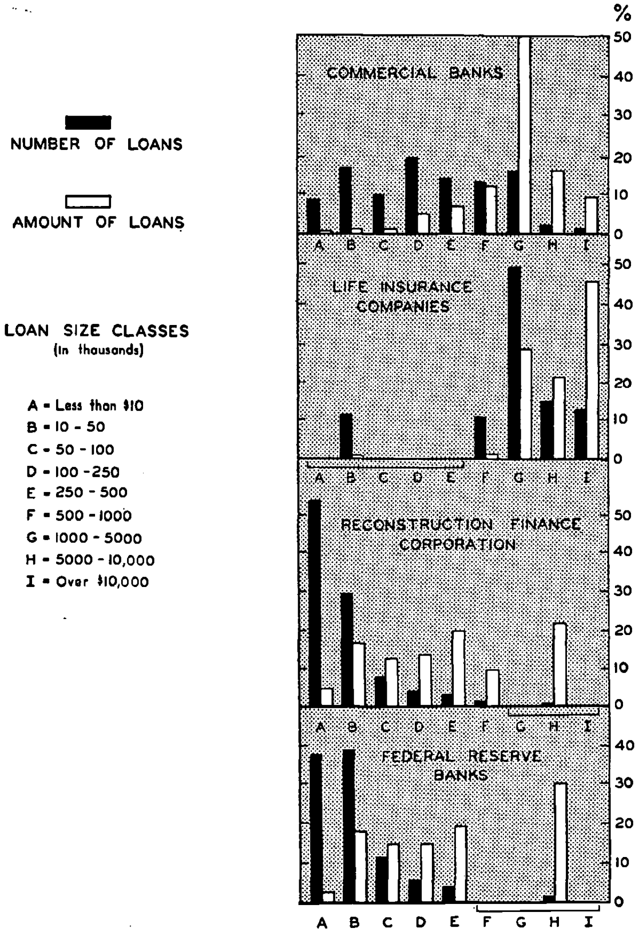
Size of Loans

Distributions of loans by size of borrower and by size of loan are closely correlated, reflecting the obvious fact that small loans tend to be made to small concerns and large loans to larger enterprises. But in many respects the character of the credit market served by a financing institution is more accurately described by the size of its loans than by the total assets of its borrowers. The balance-sheet value of total assets is often a misleading indicator of the real current "size" of a business, because it may reflect the amount of historical investment rather than the present market value of all assets.

Chart II shows the percentage distribution of the total number and amount of medium-term loans made by the different lending agencies, according to size of loan. The largest *number* of loans made by banks fell within the $100,000-250,000 group, while the largest number of loans made by insurance companies fell in the $1-5 million category. In contrast, the modal loan of Reserve banks was in the $10,000-50,000 group, and the modal loan of the RFC was less than $10,000. The largest *amount* of credit in any loan-size class extended by commercial banks was represented by loans of $1-5 million; for insurance companies the comparable class was over $10 million, for Reserve banks and the RFC $250,000-500,000. While practically no commercial bank or insurance company medium-term credit took the form of loans of less than $50,000, about 21 percent of Reserve bank and RFC loans were in this class. At the other extreme, only 12 percent of the medium-term issues held by insurance companies were less

2

PERCENTAGE DISTRIBUTION OF THE NUMBER AND AMOUNT OF MEDIUM-TERM LOANS MADE BY TERM LENDING INSTITUTIONS, BY SIZE OF LOAN[a]



[a] For data, see Appendix Table C-3

than $500,000 and these collectively accounted for less than 1 percent of all insurance company credit.[11]

When it is recalled that between one-half and two-thirds of the amount of commercial bank, insurance company and Federal Reserve bank loans are divided among several institutions, and that the tabulations show the amounts held by *single* agencies, it is clear that the true size of the loans in which these agencies participated is understated in comparison with loans of the RFC, which were less frequently split. The data on size of loan tend to confirm the view that, to a substantial degree, the public and private lending agencies served business enterprises of quite different sizes. In ascending order of size of loans stand the RFC, Federal Reserve banks, commercial banks and life insurance companies, with a rather marked gap between the Reserve banks and commercial banks.

Industries of Borrowers

Manufacturing concerns have comprised the most important industrial category of borrowers from all term lending institutions. The public utility industry (including transportation and communication) constitutes the second largest category of borrowers. This industry has been a notably heavy borrower in past years, and a major part of the funds secured were used for the refunding of outstanding debt.

Chart III shows that there have been significant differences in the industries served by the different types of agencies. Mining and extraction (including oil production) and finance are the next two industries in order of importance as bank term borrowers; finance was also a very important source of securities purchased privately by life insurance companies. Mining and extraction, finance and public utilities accounted

[11] It should be noted that the insurance company and commercial bank loans analyzed were those held on December 31, 1940 and June 30, 1941 respectively, whereas the Reserve bank and RFC samples were of loans approved at various dates. The latter samples were relatively small but are believed to be representative in view of the agreement of the percentages with partial figures on size of loans cited by Jesse H. Jones in Reconstruction Finance Corporation, *Seven-Year Report* (1939) p. 19.

3

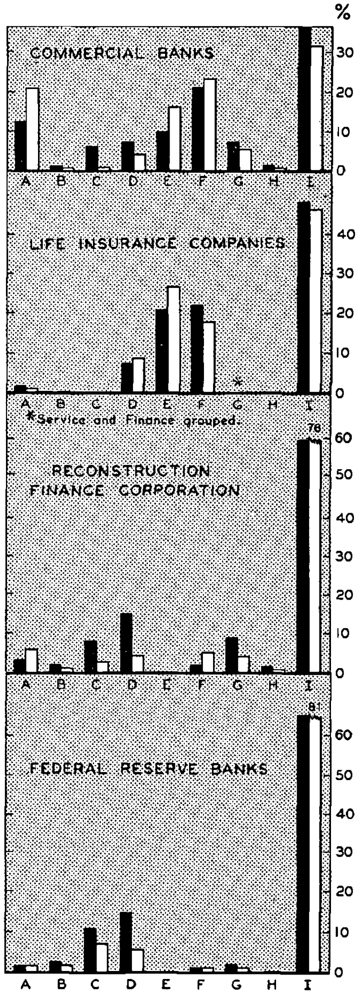
PERCENTAGE DISTRIBUTION OF THE NUMBER AND AMOUNT OF MEDIUM-TERM LOANS MADE BY TERM LENDING INSTITUTIONS, BY INDUSTRY OF BORROWER ⊙

NUMBER OF LOANS

AMOUNT OF LOANS

INDUSTRIAL CLASSES

A = Mining and extraction
B = Construction
C = Wholesale trade
D = Retail trade
E = Finance
F = Public utilities and transportation
G = Service
H = Agriculture, forestry and fishing
I = Manufacturing



⊙ For data, see Appendix Table C-2

for nearly 43 percent of the number of bank term loans and 44 percent of insurance company loans. These industries were relatively unimportant borrowers from the Reserve banks or the RFC. On the other hand, wholesale and retail concerns obtained about a quarter of the number of loans of the public agencies; retailing was also a comparatively important category of borrowers from the private institutions. Both retailers and wholesalers were especially important debtors of the Reserve banks, probably because the latter institutions have been restricted to the making of loans for working capital purposes and trading concerns have relatively greater need for this type of financing. Excepting manufacturing concerns, retailing concerns provided the largest number of borrowers from the RFC of all the industrial categories, although this agency was not restricted to the making of working capital loans but could lend for plant improvement, expansion or refunding of outstanding debt.

Although manufacturing concerns collectively accounted for the largest fraction of the number of loans made by any type of agency, the number of loans made to them was relatively a much smaller component of the term loan portfolios of commercial banks than of other term lending institutions. Within the major industrial division of manufacturing, concerns making food products, lumber and timber products, and textile mill products were, in order, relatively more numerous borrowers from Reserve banks and the RFC than were businesses engaged in other pursuits. Manufacturers borrowing from commercial banks were more diversified, but food and food products, iron and steel, and machinery concerns were comparatively numerous users of term credit.

The industrial division of the *amount* of medium-term credit extended was generally similar to that of the *number* of loans made. Nearly 60 percent of all bank medium-term credit has gone to mining and extraction (including oil production), public utility, and financing concerns, and only about 31 percent to manufacturing concerns of all kinds. Manufacturing enterprises received a somewhat larger fraction of insurance company than of bank term credit. In contrast, nearly 78 percent of the amount of RFC loans were disbursed to manufacturing concerns, among which manufacturers of textile products, lumber and timber products, and transportation equipment were most important. Manufacturing accounts for 81 percent of Reserve bank loans, with transportation equipment, iron and steel products, lumber and timber products the chief borrowing concerns.

It therefore appears that the industrial as well as size characteristics of businesses obtaining medium-term credit from commercial banks differ to a substantial degree from those of Reserve bank and RFC borrowers. The latter agencies have specialized in the manufacturing and trading concerns; the former in extractive, public utility and financing enterprises. It should be pointed out, however, that the volume of term loan credit extended to manufacturing enterprises by private agencies is greater in amount than that provided by public agencies and that this is supplemented by short-term loans of different types.

Division of Risks Among Term Lending Institutions

A very significant feature of the market for medium-term business credit is the large extent to which the risks of nonrepayment of individual loans are divided among lenders. The principle of reducing the probability of large losses through diversification of risks has, of course, been long recognized and widely applied in financial activity. It finds expression in the National Bank Act, which limits loans to individual borrowers to 10 percent of the capital and surplus of a bank. In making short-term business loans, commercial banks have often divided the total credits required by their customers among correspondent banks. In the field of long-term business credit, the investment banking mechanism has made it possible for concerns requiring large sums of money to assemble this through the sale of securities to many creditors. Each creditor was able to reduce the chance that he would suffer large losses by purchasing comparatively small amounts of securities from each of many obligors.

Medium-term loans to business concerns are probably split much more frequently than short-term credits. They are typically of larger amount, and apart from this they carry more uncertainty as a result of their longer maturities. Moreover, term loans lack the risk-limiting features of divisibility into small units and broad marketability of publicly issued securities. On a broader scale than has been customary with short-term loans, medium-term loans have therefore been made with the cooperation of several lenders. A borrowing concern may procure its total credit requirements by negotiating a number of separate loans with each of several institutions. An originating institution may sell participations to other agencies in a single loan made by it. Finally, an originating institution may accept commitments from other agencies to take over part of its loan upon request.

The industrial loan powers conferred upon the Federal Reserve banks and the RFC during June 1934 provided for the sharing of medium-term credit risks with other institutions. From the beginning, Reserve banks were empowered to purchase participations of up to 80 percent of the amounts of loans made by commercial banks, or to make commitments to take over a maximum of 80 percent of such loans.[12] The RFC was also granted authority to make loans in cooperation with other lending institutions, by the purchase of participations or the giving of agreements to purchase participations, subject only to such conditions as it chose to prescribe.[13]

Both agencies have sold participations to banks in loans originated by them and have taken guarantees from banks with respect to parts of such loans. Since each of the public institutions is supposed not to extend credit to businesses able to obtain private financing, a determined effort has been made to secure the cooperation of private lenders in cases where

[12] Section 13b of the Federal Reserve Act, Act of June 19, 1934 (48 Stat. 1105, ch. 653).

[13] Section 5d of the Reconstruction Finance Corporation Act, Act of June 19, 1934.

the latter agencies are unwilling to advance funds alone. While the splitting of loans between banks or insurance companies has represented an endeavor to spread risks, these efforts of the public agencies have been motivated by the desire to comply with the statutes governing their industrial lending activities.

When the RFC has committed itself to purchase participations in loans made by banks it has charged an amount for such "take-out" agreements varying with the proportion of the total loan on which the bank bears the risk. Prior to April 1, 1939, the RFC charged the bank 2 percent per annum interest on the bank's portion of a loan in which the bank's participation was from 10 to 25 percent of the loan, 1½ percent when the bank's participation ranged from 25 to 50 percent of the loan, and 1 percent in cases where the bank held 50 percent or more of the loan. On April 1, 1939, these charges were reduced to 1 percent, ¾ percent and ½ percent respectively.[14] Consequently, a bank might shift to the RFC the risk of loss on as much as 90 percent of a term loan bearing 4 percent interest by paying to the RFC one-quarter of the interest income and netting 3 percent. The failure of private lending agencies to avail themselves on a wide scale of this apparently inexpensive form of credit insurance is not easily explained. It may be that commercial banks have believed that the risks of loss on the fractions of RFC insured loans they would hold are too great to be offset by the income, that costs of servicing such loans are too large, or that the presence of "substandard" loans in the bank's portfolio might cause a deterioration of credit standards.

Nearly 40 percent of the number and 68 percent of the original amount of term loans held by commercial banks at the middle of 1941 represented credits extended in cooperation with other lending agencies. About 55 percent of the amount of medium-term securities purchased privately by insurance companies from issuers and held at the end of 1940

[14] See Reconstruction Finance Corporation, *Circular No. 15,* revised (Washington, 1940).

represented issues in which two or more companies participated. It is significant that a far smaller fraction of the outstanding term credit of the RFC has been granted in cooperation with other lending agencies than is true of the Reserve banks. The data presented in Table 2 indicate that 84 percent of RFC business credit outstanding at the end of 1940 was granted without cooperation, whereas only 44 percent of Reserve bank credit outstanding was in this classification. This may indicate that the quality of the Reserve bank credits was such as to make participation more attractive to banks—a conclusion suggested by the larger size of Reserve bank loans and the greater size of their borrowing concerns, noted

Table 2—PERCENTAGE OF TERM CREDIT OF TERM LENDING INSTITUTIONS OUSTANDING AT DECEMBER 31, 1940, EXTENDED WITH AND WITHOUT COOPERATION OF OTHER LENDERS

	Percentage of Credit Outstanding			
	Federal Reserve Banks[a]	RFC[b]	Commercial Banks[c]	Life Insurance Companies[d]
With cooperation	55.9	15.8	67.5	54.8
Without cooperation	44.1	84.2	32.5	45.2
TOTAL	100.0	100.0	100.0	100.0

[a] Total outstandings defined as "advances outstanding" of $9,152,000 plus "participations outstanding" of $6,386,000 plus "commitments outstanding" of $5,226,000 in loans of other agencies. Credit "with cooperation" is the sum of the last two items, and "without cooperation" represents the first item. See *Federal Reserve Bulletin* (August 1941) p. 757.

[b] Total outstandings defined as "loans to business enterprises outstanding" of $111,876,000, plus "purchases of participations" outstanding of $6,263,000 plus "commitments to purchase participations" from financial institutions outstanding of $2,500,000 plus "agreements to purchase participations" from financial institutions of $12,283,000. Credit "with cooperation" defined as sum of the last three items, and "without cooperation" represents the first item. See Reconstruction Finance Corporation, *Quarterly Report*, Fourth Quarter, 1940, pp. 9, 13.

[c] Total outstandings represents the original amount of all term loans held by a National Bureau sample of 99 banks on or around June 30, 1941. Credit "with cooperation" represents original amounts of loans split with other institutions, and "without cooperation" represents loans not split.

[d] Total outstandings represents original amounts of securities purchased privately from issuers by a National Bureau sample of five large insurance companies, and held at December 31, 1940. Credit "with cooperation" represents issues with respect to which other agencies participated, and "without cooperation" represents credits advanced by one institution.

previously. It may also reflect the closer organic relationship of the Reserve banks to commercial banks.

The magnitude of risk division among commercial banks with respect to term loans is surprising. When splitting has occurred, it has been to an overwhelming degree with other banks, or with other banks and insurance companies. Of the term loans that were split, division with one other bank was most frequent, and loans split with four or less other banks comprised 72 percent of the number and 64 percent of the original amount of all split loans. But many loans have been split with an intricate network of other institutions, one loan being divided among 58 banks. Analysis of this risk-limiting practice does not reveal any correlation with the industry of the borrower or the term of the loan. Apparently, banks are as likely to split loans of one as of another industry and loans of long term as of shorter term. As would be expected, the tendency is to split loans of large size, the average amount of a split term loan being over $1 million while that of a non-split loan was about $400,000.

The prime motive behind splitting is clearly to distribute risks, and, in many cases, to comply with national and state banking laws. Viewed in broader perspective, cooperation among commercial banks in extending medium-term business credit is a technique parallel in its economic function to that of the underwriting syndicate in investment banking. It reduces the probability of disastrous losses to an individual lender, while making possible financial transactions of greater magnitude than a single lending institution could undertake. Its extension among small banks could form one method of introducing medium-term credit into local enterprises located in those small communities in which term credit is not presently available.