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Survey of Field Warehouse Receipt Financing

BASIC DATA WERE COLLECTED about mid-1941 regarding the role played by commercial banks in field warehouse receipt financing through the medium of a schedule submitted to a sample of banks. Specifically, it was sought to measure the frequency with which banks of different sizes, in different geographical regions and in centers of population of differing importance engaged in field warehouse receipt financing; the importance of field warehouse receipt loans in their portfolios; and the number of business concerns to whom they extended credit by this method. Because of the limitations imposed by available time and resources, a random sample of commercial banks in the United States was selected by the following method:

1. Through the courtesy of the Federal Deposit Insurance Corporation a list was made available of the names and addresses of all of the 13,500 operating insured commercial banks in the United States. This list was arranged alphabetically by states; size of center of population in which each bank was located was indicated in code.

2. From the "population" of banks provided by the Federal Deposit Insurance Corporation mailing list, there was selected the following sample:

- (a) Every 36th bank located in a center of population of less than 10,000. (A total of 10,991 banks were in this class.)
- (b) Every 9th bank located in a center of population of 10,000 and up to 50,000. (A total of 1,520 banks were in this class.)
- (c) Every 3rd bank located in a center of population of more than 50,000. (A total of 981 banks were in this class.)

The hypothesis underlying this sampling procedure was that the relative frequency with which commercial banks engaged in field warehouse receipt financing steadily increased with the size of the city in which the bank was located, and that sampling errors would be reduced by making the sample consist of a larger fraction of the large-center than of the small-center institutions. This hypothesis, confirmed by the results of the survey, was based on independent evidence that the market for field warehouse receipt financing was greater for banks in large than in small cities, and that

the specialized knowledge necessary to apply this technique of financing was more likely to be present in banks located in larger centers.

3. A serially numbered schedule was sent to each of the 800 banks selected, requesting answers to the following three questions:

(a) Do you at the present time make loans to business concerns secured by warehouse receipts issued by field warehousing companies? "Yes" or "No"_____

(b) If your answer to question (a) is "Yes," state the number of business concerns that you are now financing in this way_____.

(c) If your answer to question (a) is "Yes," state the approximate total amount of your outstanding advances against field warehouse receipts. \$_____ as of _____ (a recent date)

4. Some 385 banks, or nearly 50 percent of these circularized, returned complete and usable schedules. This group was regarded as a satisfactory sample, although it was smaller than was desired. As the schedules were returned, deposit class, loan-and-discount class, city-size class and region class were noted on each schedule, since the schedule number enabled the name and address of the bank to be identified. Data contained in the schedules were then hand tabulated, and summarized in the tables presented in Chapter 4.

A question may be raised as to the validity of using only those schedules that were completed and returned as representative of the field warehouse receipt financing experience of all commercial banks. It might be argued that those banks engaging in this phase of commercial banking would tend to complete and return schedules, while those that did not engage in such financing would fail to return them. This argument is believed not to be valid. In the first place, a large majority of the returns emanated from banks that did *not* engage in field warehouse receipt financing. More important, experience in sampling commercial banks in other connections clearly indicates that the fact of engaging or not engaging in particular types of operations does not significantly influence responses to questionnaires. Commercial bankers are called upon to make many reports to public agencies on a variety of subjects. Bankers understand the necessity for accuracy in reporting. It is believed that the results of the survey can be accepted as typical of the experience of American commercial banks with field warehouse receipt loans at the middle of 1941.

Of the 385 banks that responded with a usable schedule, 291 or 76 percent reported that they had no loans against field warehouse receipts, and 94 banks or 24 percent did have such loans. The banks doing the business were extending credit to 522 business concerns, or between five and six concerns per bank on the average. Collectively, these banks had \$20.9 million of such loans outstanding, with an average loan balance per customer of \$39,809. They accounted for between 7 and 8 percent of the total number and amount of field warehousing loans estimated, by independent means, to be held by American commercial banks. While the

385 banks in the sample comprised only 2.9 percent of the 13,500 insured commercial banks in the United States, they held \$1.6 billion or nearly 10 percent of the \$17 billion of "total loans and discounts" held by all American insured commercial banks. Consequently, the sample is believed to be fairly representative of commercial banks as a whole.

Index

- ACCOUNTS RECEIVABLE FINANCING—9, 45, 59, 61-62.
- AGREEMENT OF BAILMENT—24-25.
- BANKS, WILLIAM H., WAREHOUSES, INC.—13.
- BORROWERS—Characteristics of, 58-60; Credit Standards Pertaining to, 70-72. *See* DEPOSITOR.
- CHATTEL MORTGAGE—11-12.
- COMMERCIAL FINANCE COMPANIES—40.
- COMMODITY LENDING—Organization for, 63-65. *See* INVENTORY FINANCING and FIELD WAREHOUSE RECEIPT LENDING.
- COMMODITY WAREHOUSED—Credit Appraisal of, 72-77; Determining Value of, 76-77.
- COSTS OF CREDIT—Warehouseman's Charges and, 78-80; Interest Rates and, 80-82.
- CREDIT STANDARDS—60, 67-77.
- CUSTODIAN—21-22; Qualifications of, 26-30.
- DEPOSITOR—Definition, 10n. *See* BORROWERS.
- DOUGLAS-GUARDIAN WAREHOUSE CORPORATION—13.
- FACTOR'S LIEN LAW—40.
- FACTORING—40.
- FEDERAL RESERVE ACT—63.
- FEDERAL RESERVE BANKS—9.
- FEDERAL RESERVE SYSTEM, BOARD OF GOVERNORS OF—23, 63.
- FIELD WAREHOUSE COMPANIES—Promotional Activities of, 65-67; As Element in Credit Appraisal, 67-70. *See* FIELD WAREHOUSEMAN.
- FIELD WAREHOUSE RECEIPT LENDING—Bank Examination Policy and, 17; Geographical Differences in, 47-49; By Banks of Different Size, 49-54; Credit Standards in, 60, 66-67. *See* COMMODITY LENDING, FIELD WAREHOUSE RECEIPT LOANS, FIELD WAREHOUSE RECEIPTS and INVENTORY FINANCING.
- FIELD WAREHOUSE RECEIPT LOANS—As Adaptations to Changes in the Market for Business Credit, 9, 17; Use by Businesses of Limited Financial Strength, 9, 58; Use by Concerns with Seasonal Operations, 9, 59; Size of, 32, 38-40, 54-58; Amount of, 32-33; Relative Importance of, 43-47; Average Bank Holdings of, 54-58; Minimum Limitations on, 79-80; Term of, 81; Losses on, 82. *See* FIELD WAREHOUSE RECEIPT LENDING.
- FIELD WAREHOUSE RECEIPTS—Issuance of, 21; Forms of, 22-25; On Fungible Goods, 23-24; Lenders on, 40-41; Frequency of Bank Lending on, 42-43; As Collateral Security, 61-63; And Credit Appraisal, 77. *See* FIELD WAREHOUSE RECEIPT LENDING.
- FIELD WAREHOUSEMAN—As Bailee, 19-20; Legal Position of, 19-20; License to Operate as, 20; Bond of, 25-26. *See* FIELD WAREHOUSE COMPANIES.
- FIELD WAREHOUSES—Definition of, 10; Purposes of, 10; Cost of, 12; Methods of Establishing, 20-25; Types of, 20-21; Number of, 31-32; Geographical Distribution of, 33-35; Commodities Deposited in, 35-37; Businesses Using Facilities of, 37-38; Value of Goods Deposited in, 38-40; Physical Conditions of as Element in Credit Appraisal, 69-70.
- FIELD WAREHOUSING—Economic Function of, 10-12; Development of, 12-15; Factors Affecting Growth, 15-18; Duration of Arrangement, 29-30; Use by Trade Suppliers, 40, 66; Ancillary Services of, 59.

- FINANCIAL STATEMENTS—Analysis of in
Commodity Lending, 74-75.
- FREDERICK, JOHN H.—15n.
- FREDERICK, KARL T.—11n.
- HASLETT WAREHOUSE COMPANY—13-14.
“HEDGING”—73-74.
- INSTALMENT EQUIPMENT FINANCING—9,
45, 59, 62.
- INVENTORY FINANCING—Working Capital
and, 15, 59; Corporate Taxation and,
15; War Production and, 16; Cash
Discounts and, 16; Labor Costs and,
16. *See* COMMODITY LENDING and FIELD
WAREHOUSE RECEIPT LENDING.
- JACOBY, N. H.—33n, 39n, 42n, 45n, 61n.
- KANE, ANTHONY—11n.
- LAWRENCE WAREHOUSE COMPANY—14.
- LEASE AGREEMENT—20.
- MERWIN, CHARLES L.—15n.
- NATIONAL BANK ACT—17-18, 63.
- NEW YORK TERMINAL WAREHOUSE COM-
PANY—14.
- PERCENTAGE ADVANCE—72-73, 75-76,
77-78.
- PUBLIC WAREHOUSES—Definition of, 10.
- RECONSTRUCTION FINANCE CORPORATION
—9.
- ST. PAUL TERMINAL WAREHOUSE COM-
PANY—14.
- SAULNIER, R. J.—33n, 39n, 42n, 45n, 61n.
- TERM LENDING—9, 45, 61.
- TERMINAL WAREHOUSE COMPANY OF BAL-
TIMORE—14-15.
- TERMINAL WAREHOUSES—Definition of,
10.
- TRUST RECEIPT—11-12.
- UNIFORM WAREHOUSE RECEIPTS ACT—17,
19, 22-23, 29.
- UNITED STATES WAREHOUSE ACT—27-29.
- VAN VLISSINGEN, ARTHUR, JR.—15n, 31.
- “WORKOUT” LOANS—58.
- YOHE, H. S.—28n.