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Industrial Banking Companies and Their Credit Practices

BY RAYMOND J. SAULNIER

Financial Research Program

Studies in Consumer Instalment Financing 4

NATIONAL BUREAU OF ECONOMIC RESEARCH

Industrial Banking Companies and Their Credit Practices

This book presents a factual study of industrial banking companies as agencies of consumer instalment credit. It provides information on:

the quantitative importance of industrial banking company credit;

the company—its organization, sources and uses of funds, operating methods and collection experience, income, expenses, profits;

legal status—minimum capital requirements, lending privileges and restrictions, maximum legal charges, deposits, sale of investment certificates, reserves, dividend payments, uniform legislation;

lending and non-lending services and customer charges;

borrower and loan characteristics as factors in credit risk;

cooperative relations among industrial banking companies, and competition with other agencies of consumer instalment credit.

The purpose of this survey has been to give a complete and accurate picture of this important institution of consumer instalment financing by presenting facts rather than opinion.

$2.00

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Studies in Consumer Instalment Financing:
Number Four

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Preface

THIS study of Morris Plan and other industrial banking companies as agencies of consumer instalment credit is the fourth of a series dealing with the important institutions that participate in the instalment financing of consumers. Other studies included in the series cover personal finance companies, sales finance companies, the personal loan departments of commercial banks, and government agencies of consumer instalment credit (the Federal Housing Administration and the Electric Home and Farm Authority). All of these studies were undertaken in conjunction with the investigation of consumer instalment finance, inaugurated in 1938 by the National Bureau of Economic Research as the initial phase of a broad program of financial research under grants from the Association of Reserve City Bankers and the Rockefeller Foundation.

The industrial banking company cannot be described or analyzed easily. Although it engages in a number of consumer financing activities, some of its operations are not immediately associated with consumer credit. This type of financing agency may be classified, however, in terms of certain distinguishing operating features, and thus an industrial banking company may be defined as an institution which specializes in consumer instalment financing and obtains part of its working funds from customer deposits, the sale of investment certificates of small denominations, or both. A firm of this type organizes the savings of one group of customers as a supply fund out of which it extends loans to another group of customers. The two customer groups served are drawn largely from the wage-earning and salaried classes, so that the industrial banking company functions as an intermediary between the savings and credit needs of these classes.

In the preparation of the present study, we have gathered data from many sources. From this information Dr. Saulnier has created an institutional picture that is detailed in content yet characterized by the perspective of an outside observer. Dr. Saulnier also collaborated in preparing our studies on consumer financing activities and credit practices of personal finance companies and commercial banks, and thus obtained an insight into the mechanism of consumer instalment financing which has been of great value to this study.

We welcome the opportunity to acknowledge our indebtedness to many firms and their officers for providing materials for our use and for imparting to us an accurate understanding of the techniques and problems of the business. We are also indebted for special information to The Morris Plan Corporation of America, the Morris Plan Bankers Association, and the American Industrial Bankers Association. We were supplied with samples of loan applications by two large Morris Plan banks and by eight industrial banking companies that are members of the American Industrial Bankers Association. The Federal Deposit Insurance Corporation generously aided us by furnishing comprehensive tabulations covering the earnings, expenses, assets and liabilities of the 71 industrial banking companies whose deposits are insured by the Corporation. The banking departments of the several states cooperated in answering numerous letters of inquiry regarding the status of industrial banking under their jurisdiction and also furnished information regarding legislation affecting the operations of industrial banking companies. Although the help of all of the above was invaluable in the preparation of this study, the organizations are, of course, in no sense responsible for the findings presented herein.

Dr. Saulnier has been assisted in the preparation of this volume by various members of the financial research staff.

Ralph Wood, formerly of the staff, made the initial exploration of available materials.

Pauline Arkus assisted in the preparation of statistical tabulations and aided in writing many sections of the text.

David Durand made the analysis of risk factors affecting industrial lending contained in Chapter 6.

The editing of the first draft of this study was done by Bettina Sinclair, the final editing for publication by Elizabeth Todd, and Dorothy Wescott guided the material through the press. The manuscript has benefited greatly by their careful work.

RALPH A. YOUNG
Director, Financial Research Program

September 1940

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MANY individuals and a number of private and public agencies have cooperated generously in the preparation of this volume. J. P. Christianson, Treasurer of The Morris Plan Corporation of America, advised me on many occasions and made available certain data which form an important part of the study's statistical basis. Richard Stout and his associates in the Morris Plan Bankers Association consulted with me on certain aspects of Morris Plan lending operations. I am especially grateful to T. C. Boushall of the Morris Plan Bank of Virginia and to C. T. Miller of the Morris Plan Bank of New York for having provided important statistical materials.

Throughout the entire study, the American Industrial Bankers Association has rendered invaluable assistance. Myron R. Bone, Executive Secretary of the Association, has generously advised me on many aspects of the activities of industrial banking companies, and with W. E. Yeager, Chairman of the Statistical Committee of the Association, has given me access to a large body of data on industrial banking company operations. Also, I have benefited greatly from the cooperation and wise counsel of many individual members of the Association.

I am also personally indebted to Donald S. Thompson of the Federal Deposit Insurance Corporation for advising me regarding the use of special tabulations covering insured industrial banking companies. Rolf Nugent of the Russell Sage Foundation and Margaret Grobben of the Consumer Credit Institute of America have been very helpful at many stages of the work.

I am deeply indebted to Ralph A. Young, Director of the Financial Research Program of the National Bureau of Economic Research, under whose general supervision this volume was prepared. The initial exploratory work of the study done under Dr. Young's direction by Ralph A. Wood, formerly of the staff of the Financial Research Program, provided me with a well organized body of data indispensable to subsequent stages of the work.

Grateful acknowledgment is made to the members of the staff of the National Bureau of Economic Research who assisted me in my work, particularly to Pauline Arkus who aided in the statistical tabulations and in planning and writing the text, and to David Durand who made the analysis of credit risk presented in Chapter 6. To Bettina Sinclair who did all the editorial work on the first draft of this manuscript, to Elizabeth Todd who edited the final version for publication, and to Dorothy Wescott who guided the manuscript through the press, I owe special thanks.

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