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Preface

EARLY IN 1940 the National Bureau of Economic Research, under its Financial Research Program, inaugurated a series of technical studies of the financing of American business. Research activities were supported by grants from the Association of Reserve City Bankers and the Rockefeller Foundation. *Term Lending to Business* is the first publication of the Business Financing Project.

The objectives of this project have been threefold: 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.

Work on these objectives was organized into two divisions, one entitled "Changes in the Financing of American Business Enterprise, 1900-1940," concerned primarily with the first objective; the other division, "Contemporary Relations Between Business Enterprise and Financial Institutions," devoted specifically to the second and third objectives.

The collection and analysis of many primary materials has been required for each of the project's divisions, and has made necessary the preparation of a number of special technical studies. Two volumes are now being prepared, on the basis of findings in the technical studies, to provide a broad analysis of the results of the investigation. This volume is one of five technical studies developed under the second division of the work. Others to be published later will deal with the market pattern of business credit, accounts receivable financing, field warehousing, and instalment financing of commercial and industrial equipment.

Despite the number of institutions now supplying funds to business concerns, and the variety of methods which they employ, a good deal of the literature on banking, including most of the textbooks used in American universities, fails to give an accurate and realistic treatment of the structure and functioning of the supply side of the market for short- and medium-term business credits. In part, this is due to the rapidity with which the market structure has changed. Consequently, the five technical studies mentioned above may be viewed collectively as contributing to our knowledge of major adaptations that the banking system has in recent years made to the changed demands of business for credit.

One of the more important and well-recognized of the adaptations made during the past decade is the term loan. The purpose of this study is to trace the development of this type of business credit, to describe the characteristics of the market wherein term loans are made, to state and appraise the methods whereby lenders seek to limit their risks, and to analyze factors affecting the position of such credits in the American economy. In addition to published financial information, data were secured by Dr. Jacoby and Dr. Saulnier through personal interviews with a large number of loan officers of lending agencies in leading financial centers of the United States and officials of bank supervisory agencies, and through the circulation of a detailed statistical questionnaire dealing with the characteristics of medium-term credit among banks whose officers have memberships in the Association of Reserve City Bankers and among a group of large life insurance companies.

The cooperation that the collaborators have received from officers of commercial banks, insurance companies, Dun and Bradstreet, Inc., the Board of Governors of the Federal Reserve System, the Federal Reserve Banks of New York, Philadelphia and Chicago, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Reconstruction Finance Corporation has been cordial and helpful. We are deeply indebted to the officials and to the agencies represented for the information and materials that they so generously provided. Without such assistance, this study would have been much less comprehensive and adequate.

One of the authors of this study, Dr. Neil H. Jacoby served as a member of the research staff of the National Bureau of Economic Research on leave of absence generously granted by the University of Chicago. The National Bureau takes this opportunity to express its appreciation to the University of Chicago.

RALPH A. YOUNG
Director, Financial Research Program

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