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## *Characteristics of Credits*

IN THIS DISCUSSION of the characteristics of instalment equipment financing we shall limit ourselves almost wholly to obligations owed by the ultimate users of equipment in the form of conditional sales contracts supported by notes or of instalment notes secured by chattel mortgages. It will not be possible, owing to the very fragmentary character of available information, to discuss fully the third type of instalment equipment financing, namely, loans to sellers of equipment secured by the assigned instalment obligations of buyers. Treating the instalment sales contracts and instalment loans separately, we shall discuss the size, down payment and maturity characteristics of the credits and the usual features of their repayment schedules.

A number of conditions combine to shape the features of equipment financing contracts. Important among these are the characteristics of the equipment being acquired; in most cases this means the characteristics of a single piece of equipment. Thus, the original amount of the contract depends in large part on the purchase price of the equipment, its maturity depends chiefly on the equipment's anticipated service life and the down payment is set with reference, among other things, to the expected repossession value of the equipment. There are other conditions, of course, that are important in determining the characteristics of equipment financing contracts, namely, the credit standing of the obligor, the type of recourse arrangement, if any, that the financing agency establishes with the manufacturer or distributor and, lastly, the competitive conditions under which contracts are acquired. Each of these conditions will be taken account of in the following discussion but, since they act jointly to determine the characteristics of equipment credits, it is generally impossible to indicate more than qualitatively the specific effect of any one.

### *Face Amount of Contracts*

Income-producing equipment is far from a standardized product but items of equipment can be grouped into broad classes to discuss the characteristics of the instalment credits that arise out of their

*Table 8*—CONTRACT AMOUNTS IN EQUIPMENT FINANCING, BY TYPE OF EQUIPMENT[a]

| *Type of Equipment* | *Number of Companies Reporting* | *Range of Face Amount of Contracts* | |
|---|---|---|---|
| Dental, medical and surgical equipment | 6 | $100–4,000 | |
| Beauty parlor and barber equipment | 19 | $40–6,000 | (A few contracts at $10,000) |
| Store, restaurant, hotel and bar equipment (inc. food machinery) | 26 | $50–6,700 | (A few contracts from $10,000 to $12,000) |
| Typewriters, cash registers, calculators and accounting machines | 4 | $30–10,000 | |
| Textile machinery | 5 | $200–75,000 | |
| Heating and plumbing | 4 | $50–15,000 | |
| Bottling equipment | 2 | $50–20,000 | |
| Printing machinery | 4 | $500–150,000 | |
| Commercial laundry, dry cleaning and pressing machinery | 10 | $100–156,000 | |
| Power shovels, cranes, draglines, scrapers, crushers and rollers | 6 | $1,000–50,000 | (A few contracts as high as $500,000) |
| Tractors and construction, road building and farm machinery | 16 | $250–85,000 | (One contract at $140,000) |
| Garage and service station equipment | 4 | $75–3,000 | |
| Diesel engines | 7 | $800–100,000 | |
| Compressors, mining and oil field equipment | 4 | $1,000–25,000 | |
| Paving equipment | 2 | $2,000–30,000 | |
| Commercial refrigeration and air conditioning | 20 | $225–20,000 | |
| Soda fountains, ice cream cabinets, freezers, carbonators and soda coolers | 3 | $160–5,000 | |
| Dairy equipment | 2 | $175–2,300 | |
| Baking equipment | 3 | $200–5,600 | |
| Diners | 3 | $1,700–19,000 | |
| Trucks, trailers and barges | 9 | $1,000–60,000 | |
| Bowling and billiard equipment | 2 | $130–15,000 | |
| Commercial musical instruments | 2 | $1,200–10,000 | |
| Machine tools | 3 | $500–4,000 | |

[a] Based on questionnaire returns from 166 manufacturers and financing agencies received around mid-1941.

sale.[1] This has been done in Table 8, which presents 24 classes of commercial and industrial equipment and gives the range of original contract amounts for each class. The largest contracts reported were for $500,000, representing obligations growing out of the purchase of what must have been several units of heavy excavation equipment; the smallest were for $30, representing typewriter sales. Contracts of largest amount seem to arise out of the purchase of manufacturing and construction machinery and equipment (for example, textile, printing, and commercial laundry machinery, Diesel engines, power shovels, trailers and barges). In general, contracts of small minimum amount arise out of equipment sales to service industry concerns, where maximum instalment credits rarely exceed $4,000 or $5,000.

The fact that the range of contract amounts is wide in almost every one of the 24 product classes given in Table 8 is due to the broad nature of the classes of equipment used. For example, consider even a specific type of equipment such as theater or church seating. It is quite possible that such contracts might vary in amount over a wide range; the contract might amount to only a few hundred dollars while the installation of seating in a large theater might involve an obligation of $20,000. Likewise, in the installation of an automatic sprinkler system the contract amount might be anywhere between $1,000 and $75,000. Particularly striking is the wide range of contract amounts for purchases of Diesel engines, commercial laundry equipment, printing machinery, and office equipment.

Despite this wide disparity in contract amounts, in any particular line of financing there tends to be a concentration at one contract size. Manufacturers, distributors and the financing agencies cooperating in the present study were asked to state the amount at which most of their contracts were originated or acquired. In almost every case it was possible to give such a figure, although it was, of course, a rough approximation. Out of a total of 169 replies, 141 stated that the bulk of their contracts were originated

[1] Information on the characteristics of individual credits was assembled by means of a questionnaire sent around mid-1941 to 365 manufacturers of machinery and equipment and from reports submitted to the National Bureau by 50 instalment financing agencies. In each case the seller or financing agency was asked to state the type of equipment financed, the size of credits involved and the typical terms carried by contracts.

or purchased at $5,000, or at a smaller figure. Of these 141 financing arrangements, 47 reported a concentration of contracts at amounts between $100 and $500, 39 between $500 and $1,000, and 55 between $1,000 and $5,000. None of the companies reported a figure of less than $100 each; for 12 concerns the bulk of contracts were for amounts between $5,000 and $10,000 and, for 16 concerns, for amounts in excess of $10,000. Owing to the heterogeneous nature of the equipment financed, no detailed analysis has been made of the relation between type of equipment and the most frequent contract amount. It is broadly true, however, that contracts of smaller amounts, that is, where the bulk of contracts are $1,000 or less, originate primarily in sales of equipment to the service industries; while contracts of larger amounts, where the bulk are over $5,000, generally arise out of sales of heavy machine installations to manufacturing concerns.

### *Down Payment Provisions*

Minimum down payments in equipment financing are governed by two main considerations, the creditworthiness of the individual or concern making the purchase and the nature of the equipment. Other things being equal, the required down payment reflects principally the financing agency's judgment of the credit strength of the purchaser, but in all classes of equipment it is necessary to take account also of the repossession value of the equipment and any provisions there may be for recourse by the financing agency on the vendor in the event of default by the purchaser. There is no rule, of course, for determining the appropriate minimum down payment. But the following has been suggested as a rough guide: at least *twice* the amount that must be deducted from the original value of the equipment in order to find its resale value immediately after installation. In a particular case the amount of this deduction might equal the sum of freight and insurance charges and depreciation of equipment immediately upon installation. This measure for determining minimum down payment is defended on the ground that considerable expense must generally be incurred in order to repossess, recondition and resell equipment in the event of debtor default.[2] Clearly, the most difficult factor to assess is that of

[2] H. B. Lewis, *Installment Selling of Industrial Equipment* (American Management Association, Industrial Marketing Series, I. M. 17) p. 6.

obsolescence, which varies considerably on different types of equipment and is always largely an unknown quantity. Installation costs, if included in the original contract, and the dealer's mark-up will also affect the amount of the minimum down payment.

Information assembled from manufacturers, distributors and financing agencies shows that, while there is considerable variation in the percentage down payment required on different types of equipment, it tends to vary between 20 and 33⅓ percent of the time price of the equipment sold. It should be mentioned at this point that the actual down payment is frequently considerably in excess of the minimum required down payment.

Taking the broad classifications of equipment and fixtures sold to such concerns as stores, hotels, bars, barber and beauty shops, garages, service stations and amusement places, the most frequently reported minimum down payment was 20 percent, although in some instances contracts were accepted with a minimum down payment of as little as 10 percent. Higher down payments were reported in a few instances for equipment sold to beauty and barber shops. The down payment required on the installation of bowling and billiard equipment was as high as 33⅓ percent, reflecting both the relatively low credit standing of many concerns operating in these fields, and the repossession costs on equipment of this type.

Installations of commercial refrigeration and air conditioning were reported from all sources as most frequently requiring a minimum down payment of 20 percent. In a few instances the minimum down payment was reported as 10 percent and in some cases as high as 33⅓ or 50 percent. There is some evidence that the highest minimum requirements were attached to sales of beverage cooling equipment to relatively small concerns.

In general, the minimum down payment required on installations of industrial and farm equipment is somewhat lower than in the trade and service industries. A fairly large proportion of the minimum down payments reported on factory and farm machinery was 10 percent. In some cases contracts were reported as originating with either no down payment at all, or with a provision calling for only 5 percent (for example, in sales of office machinery such as cash registers, calculating and accounting machines). It is interesting to note that even the heaviest machinery, and that involving the highest cash selling price, was frequently reported as being sold on an instalment basis with a 10 percent down payment. This applies to sales of power shovels, heavy road machinery, conveying machinery, and Diesel engines. It seems probable that this situation is explained by the fact that in the case of office equipment the machinery is readily repossessible and has a wide and easily accessible resale market, while installations of heavy machinery are made mainly for concerns having a high credit rating and thus warranting relatively liberal credit terms. However, some installations of heavy printing machinery were reported with minimum down payments of 50 percent.

Only a few of the reported contracts could be classified under the general heading of transportation equipment; these were trailers, trucks and barges, and in all cases bore minimum down payment provisions of either 20 or 25 percent.

### *Term of Contract*

In establishing the maximum period over which the purchaser of equipment is permitted to make payment, consideration is given to the following main factors: (1) the expected service life of the equipment or machinery being installed and its expected rate of depreciation; (2) the savings in cost anticipated from the installation of new machinery or equipment, or the increased profitability of the concern if the installation represents an expansion of facilities; and (3) the financial ability of the buyer to make repayments out of available incoming cash. Obviously there are no general rules to be followed in determining the maximum term of contract, but as a point of departure credit officers frequently take one-quarter of the estimated productive life of the equipment. Alternatively, the term of the contract may be set by determining the period of time necessary to pay out the full amount of the contract where instalment payments are assumed to equal one-third of the annual savings or increase in earnings expected to result from the uses of the equipment.

It should be emphasized again that equipment financing, particularly where it involves the acquisition of expensive units of special purpose machinery, is not a standardized procedure. Contract length must be set in the light of the special circumstances of each particular case. Evidence assembled on the financing of equipment and fixtures sold to hotels, stores, bars, restaurants and such other service establishments as garages, service stations, and amusement places indicates that contracts are most frequently written on this type of business with a maximum term of either 24 or 36 months. Some contracts were reported carrying shorter maximum repayment periods, but these were distinctly in the minority, and in no case did they cover a period of less than 12 months. Contracts for commercial refrigeration and air conditioning installations also carried maximum terms of from 24 to 36 months. In one instance, namely, the installation of oil burning furnaces, contracts were extended for periods as long as five years.

The more liberal down payment terms on equipment sold to manufacturing companies, as contrasted with equipment sold to concerns in service and trade industries, are paralleled in the case of maximum contract periods. Machinery and equipment sold on an instalment basis to manufacturing companies is paid for, in general, over periods of 24 to 36 months but there were a substantial number of cases reported by manufacturers, distributors and financing agencies of such equipment being sold on 4 or 5 year terms. One company stated that it had sold printing machinery on contracts permitting instalment payments over a period of six years. Other cases of manufacturing equipment sold on relatively long terms, that is for periods of four or five years, included automatic sprinkler and commercial laundry equipment, Diesel engines, and bottling equipment. Finally, transportation equipment such as trailers, trucks and barges is sold with shorter maximum contract periods, namely, 12, 18, or 24 months.

### *Repayment Provisions*

In the majority of cases, contracts arising out of the instalment sale of income-producing equipment are payable in equal monthly instalments. There are, however, certain exceptions. Instalment sales to farmers of equipment such as tractors, harvesting machinery, pumping and spraying equipment are generally payable in one or two instalments which fall due at the end of crop harvesting seasons. For example, one company selling agricultural machinery reports that it requires one-quarter payment down, one-quarter payment on delivery, one-quarter payment in the first fall after delivery, and one-quarter in the second fall after delivery. The principal exception to this characteristic of farm machinery paper is found in sales of equipment to dairy farmers, in which case payments are made on the usual equal monthly payment basis.

Other exceptions to the equal monthly payment plan occur on sales of equipment to taverns, summer hotels, and ice cream producing plants. These contracts frequently call for higher payments in the summer months than in the winter months, possibly no payments at all during winter months. An adaptation of the repayment schedule to the seasonal character of the business utilizing the equipment is found also in the financing of bowling alley equipment. These contracts may cover not only the bowling alley itself, but also the miscellaneous equipment utilized in connection with the alley, such as bars, soda fountains, etc. On contracts of this kind it is usual for the obligor to be relieved of payment during the summer months of June, July and August. Thus a contract calling for amortization over a period of 36 months will require only 27 payments.

The character of the repayment schedule is affected also by the credit standing of the obligor and by the obligor's cash collection schedule. On sales of equipment to contractors the contract may call for monthly payments of equal amount, while if this same equipment is purchased by a public body the contract may permit either quarterly or annual payments. Another example of the adaptation of repayment provisions to the credit standing of the obligor is found in the plan of converting monthly into weekly payments if the repayment record of the obligor shows signs of deteriorating. Of course, all conditional sales contracts provide for an acceleration of the total amount of the debt at the discretion of the financing agency, if the debtor defaults on any one of the conditions of the contract.

Repayment schedules are sometimes established by reference to the savings that are anticipated from the use of the equipment or to the anticipated increase in earnings where the equipment constitutes an expansion of facilities. In such cases a year's payment may equal one-third of the total amount of the annual savings. This may be paid on an equal monthly basis, although in some instances, for example in installations of sprinkler systems and power piping projects, payments are made on a quarterly or annual basis. While it is possible to use the savings argument as a sales promotion device in connection with almost any type of commercial and industrial equipment, it is only in rare instances that it is possible to make definitive calculations of the amount saved. The most obvious examples are those involving savings in insurance premiums; another is power plant installations, where it is possible to estimate the savings per unit of product manufactured by comparing the cost of purchased power with the cost of power generated in the plant.

Discussions with financing agencies reveal that even though it is possible to demonstrate that savings of fairly certain amount will be effected through the installation of machinery, it is customary to require a minimum monthly or other periodic payment on the contract, with the proviso that an additional amount will be paid if the savings are actually in excess of the stipulated minimum. In some instances (doubtless rare) equipment is sold for $1, although it has a market value of as much as $60 or $70 thousand, on the condition that the vendor will receive the savings effected through the installation of the equipment over a certain period of time. Such an arrangement clearly calls for a very definite calculation of anticipated savings.

Another type of repayment plan is used in financing vending machines and coin-operated equipment. In the case of vending machines the finance company arranges to take either a minimum monthly payment or a certain proportion of the total monthly receipts, whichever is larger. This equipment generally accumulates receipts at a rate sufficiently rapid to amortize the contract in a period of from one year to 15 months. Coin-operated equipment is that which is serviceable only upon the deposit, in a coin-receiving attachment, of a sum of money which permits the equipment to operate over a certain time period. On equipment of this type the financing plan generally calls for either a minimum monthly payment or a fixed proportion of the total receipts, whichever is larger.

### *Instalment Equipment Credit Extended by Commercial Banks*

One type of equipment credit extended by commercial banks is the direct loan made to the purchaser of equipment for the specific purpose of such acquisition, the loan being repayable in regular prescheduled instalments and secured by a lien on the equipment.

This may be referred to as direct financing and is comparable to direct consumer financing where instalment loans are made to consumers to enable them to purchase, say, an automobile. Data will be presented below on the size characteristics of these loans. The other type of equipment financing is the indirect sort, occurring where a bank discounts instalment paper for the seller of equipment. This, in turn, is comparable to consumer instalment financing where the paper held by the bank is acquired through dealers or other retail outlets. Since the indirect type of financing involves the discount of notes supported by conditional sales contracts, the features of which have been described above, the characteristics of such credits need not be discussed here. Information is given below, however, on the amounts of the loan balances created to the account of manufacturers and distributors of machinery and equipment when banks discount their instalment sales contracts.

Information on direct equipment financing by commercial banks was acquired through a questionnaire survey made during the summer of 1941. Reporting banks were distributed widely as to their deposit size, and according to the size of the city and region in which located. The banks were asked to indicate whether they made direct loans for the purpose of acquiring equipment, securing these loans by liens on the equipment acquired, and if so, what amount and number of such loans they had on their books. Loans of this kind were reported by 62 banks.

The results of the study are tabulated in Table 9 and show that the loan balances averaged about $35,000 per customer. They were substantially higher in the larger reporting banks than in the smaller banks, and banks in larger cities made larger loans than banks in smaller centers of population. Finally, the largest loan balances were reported by banks located in industrial regions. It should be noted that the average loan balance shown is misleading as a representation of the lending of all banks covered; very small loan balances (substantially below the average for all banks) were reported by banks with deposits of $1 million or less, by banks located in cities of less than 500,000 population and by banks in less industrialized regions. (See Chart 3.)

No statistical information is available on down payment or length of contract provisions on these loans, although it is generally

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## AVERAGE AMOUNT OF COMMERCIAL BANK EQUIPMENT LOAN BALANCES OF BUYERS AND OF MANUFACTURERS AND DISTRIBUTORS, BY CLASS OF BANK[@]

AVERAGE BALANCE OF EQUIPMENT USER

AVERAGE BALANCE OF MANUFACTURER OR DISTRIBUTOR

DEPOSIT SIZE OF BANK
(IN THOUSANDS)

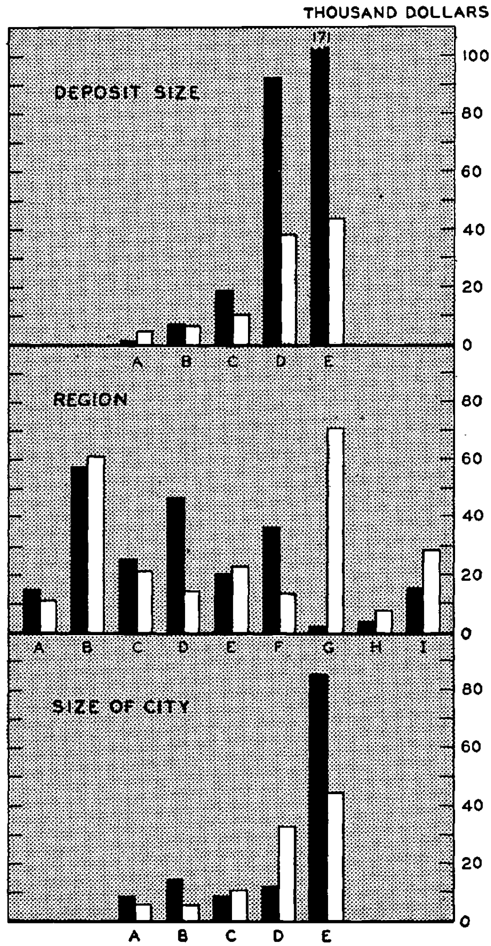
A = $1000 OR LESS
B = 1000 - 5000
C = 5000 - 10,000
D = 10,000 - 50,000
E = OVER 50,000

REGION

A = NEW ENGLAND
B = MIDDLE ATLANTIC
C = EAST NORTH CENTRAL
D = WEST NORTH CENTRAL
E = SOUTH ATLANTIC
F = EAST SOUTH CENTRAL
G = WEST SOUTH CENTRAL
H = MOUNTAIN
I = PACIFIC

SIZE OF CITY

A = UNDER 10,000
B = 10,000 - 50,000
C = 50,000 - 100,000
D = 100,000 - 500,000
E = 500,000 AND OVER




@ BASED ON A SAMPLE STUDY. FOR DATA SEE TABLES 9 AND 10.

*Table 9*—AVERAGE AMOUNT OF DIRECT EQUIPMENT LOANS MADE BY COMMERCIAL BANKS, BY DEPOSIT SIZE OF BANK, SIZE OF POPULATION CENTER AND REGION IN WHICH BANK IS LOCATED[a]

| | | *Reported Loan Balances* | | |
|---|---|---|---|---|
| | *Number of Banks* | Number | Amount[b] | Average Amount |
| *Deposit Size of Bank*[c] | | | | |
| $1,000 or less | 9 | 27 | $46,361 | $1,717 |
| 1,000–5,000 | 14 | 62 | 475,545 | 7,670 |
| 5,000–10,000 | 5 | 23 | 444,803 | 19,339 |
| 10,000–50,000 | 17 | 29 | 2,701,547 | 93,157 |
| Over 50,000 | 17 | 62 | 10,617,564 | 171,251 |
| *Size of Center of Population*[d] | | | | |
| Under 10,000 | 13 | 64 | 550,324 | 8,599 |
| 10,000–50,000 | 3 | 16 | 232,500 | 14,531 |
| 50,000–100,000 | 8 | 27 | 231,819 | 8,586 |
| 100,000–500,000 | 21 | 164 | 1,969,079 | 12,007 |
| 500,000 and over | 17 | 132 | 11,302,098 | 85,622 |
| *Region* | | | | |
| New England | 3 | 8 | 120,200 | 15,025 |
| Middle Atlantic | 14 | 102 | 5,908,376 | 57,925 |
| East North Central | 15 | 145 | 3,741,070 | 25,800 |
| West North Central | 12 | 61 | 2,876,296 | 47,152 |
| South Atlantic | 6 | 23 | 464,205 | 20,183 |
| East South Central | 2 | 15 | 549,000 | 36,600 |
| West South Central | 2 | 4 | 8,910 | 2,228 |
| Mountain | 2 | 7 | 22,000 | 3,667 |
| Pacific | 6 | 38 | 595,763 | 15,768 |
| ALL REPORTING BANKS | 62 | 403 | $14,285,820 | $35,449 |

[a] Based on a questionnaire survey. See Appendix A for coverage of survey and questionnaire used.
[b] Outstandings as of approximately August 31, 1941.
[c] Total deposits in thousands of dollars. Each size class is exclusive of the lower limit and inclusive of the upper.
[d] Each size class is inclusive of the lower limit and exclusive of the upper.

understood that these are similar to the down payment and length of contract provisions carried by conditional sales contracts as discussed above.

Information on the amount of the loan balances held by banks in connection with their activities in discounting instalment paper for manufacturers or distributors, that is, in indirect equipment financing, was also assembled through this questionnaire. Table 10

*Table 10*—Average Amount of Commercial Bank Equipment Loan Balances of Manufacturers and Distributors, by Deposit Size of Bank, Size of Population Center and Region in Which Bank Is Located[a]

| | *Number of Banks* | Reported Loan Balances: Number | Reported Loan Balances: Amount[b] | Reported Loan Balances: Average Amount |
|---|---|---|---|---|
| *Deposit Size of Bank*[c] | | | | |
| $1,000 or less | 10 | 50 | $244,023 | $4,880 |
| 1,000–5,000 | 17 | 64 | 460,724 | 7,199 |
| 5,000–10,000 | 5 | 29 | 310,250 | 10,698 |
| 10,000–50,000 | 16 | 47 | 1,829,929 | 38,935 |
| Over 50,000 | 13 | 186 | 8,258,742 | 44,402 |
| *Size of Center of Population*[d] | | | | |
| Under 10,000 | 14 | 63 | 368,884 | 5,855 |
| 10,000–50,000 | 8 | 38 | 194,000 | 5,105 |
| 50,000–100,000 | 7 | 22 | 223,263 | 10,148 |
| 100,000–500,000 | 22 | 88 | 2,933,097 | 33,331 |
| 500,000 and over | 10 | 165 | 7,384,424 | 44,754 |
| *Region* | | | | |
| New England | 2 | 3 | 35,000 | 11,667 |
| Middle Atlantic | 18 | 71 | 4,362,891 | 61,449 |
| East North Central | 10 | 136 | 2,860,915 | 21,036 |
| West North Central | 10 | 38 | 550,873 | 14,497 |
| South Atlantic | 6 | 23 | 534,697 | 23,248 |
| East South Central | 3 | 14 | 192,000 | 13,714 |
| West South Central | 3 | 4 | 284,160 | 71,040 |
| Mountain | 4 | 12 | 86,667 | 7,222 |
| Pacific | 5 | 75 | 2,196,465 | 29,286 |
| All reporting banks | 61 | 376 | $11,103,668 | $29,531 |

[a] Based on a questionnaire survey. See Appendix A for coverage of survey and questionnaire used.
[b] Outstandings as of approximately August 31, 1941.
[c] Total deposits in thousands of dollars. Each size class is exclusive of the lower limit and inclusive of the upper.
[d] Each size class is inclusive of the lower limit and exclusive of the upper.

shows that, in general, the sizes of loan balances created for manufacturers and distributors are substantially the same as the sizes of balances growing out of direct loans made to purchasers of equipment. Loan balances are highest in the largest banks, in those located in larger cities, and in industrialized regions, while small banks, banks located in small centers of population and in less industrialized regions report relatively small loan balances.

There is no direct information on the average amounts of contracts held by commercial finance companies for individual manufacturers and distributors in connection with their equipment financing, but it is generally understood that these balances are far in excess of the $30,000 average reported by the commercial banks (Table 10). This might be expected in view of the fact that the commercial finance company can act as a national financing agency whereas the commercial bank operates under laws which permit no more, in any case, than state-wide branch banking. This gives the commercial finance company an advantage in financing sales of manufacturers having a national market. Of the manufacturers reporting that their contracts were discounted with an independent sales finance company, several indicated that their total instalment sales were as much as $500,000 annually and there were a fair number of cases of manufacturers discounting over $100,000 worth of sales annually with a single commercial finance company.

### *Additional Services Offered by Financing Agencies*

In addition to supplying funds to manufacturers and distributors through discounting instalment contracts, the financing agencies engaged in equipment financing, and particularly the commercial finance companies, offer accessory or supplementary services. Of these the most important are credit appraisal and credit collection. Even if the manufacturer or dealer originating the instalment contracts has a credit department, and even if the contracts are purchased by the finance company under a full or limited recourse arrangement, the commercial finance company always maintains a specialized credit department the function of which is to examine and accept, or reject, the instalment contracts offered by the vendor. Obviously, this is an essential service where the vendor does not operate a credit department, but even where such a department is operated the judgment of the finance company serves as a constant check on the manufacturer's or dealer's credit department. Under a recourse arrangement, the careful selection of credits by the financing agency reduces the credit losses that the seller may be required to assume.

In almost all cases the commercial finance company or the commercial bank financing instalment sales makes collections directly from purchasers. One of the most important problems raised in this connection is the possibility that the collection methods used may alienate the client of the manufacturer or distributor. Financing agencies, therefore, make considerable point of the tact with which they conduct this phase of their operations. They also point out in their sales literature that collections by them rather than by the vendor will often permit a firmer collection policy. In order that they may be fully advised and given an opportunity to forestall such collection difficulties, the sellers are often supplied with records of delinquency on contracts originated by them and copies of the more important "dunning" letters sent to their customers.

Another supplementary service in equipment financing is that frequently referred to as legal documentation. Where a financing agency does a considerable amount of equipment financing it is in a position to give advice regarding the most effective formulation of title retention contracts, mortgages, notes and leases, whichever may be the type of instrument most appropriate to the financing operations at hand. The diversity of state laws and the variation in local filing requirements place a considerable premium upon such specialized legal advice.

Because of the diversity of types of equipment financed under these arrangements, it is often necessary for the financing agency to formulate special "plans" in connection with the sales of a particular manufacturer or distributor. Its experience in the financing of income-producing equipment often enables the financing agency to formulate these plans more easily than could the manufacturer or dealer. Furthermore, the plans may be formulated on a "group" basis, enabling the purchaser to acquire several equipment items at the same time, even though the individual items are manufactured by different companies. Plans of this kind have been used in the financing of beauty parlor, service station, medical and dental equipment.

Problems having to do with the engineering aspects of equipment and machinery installations are generally taken care of by the manufacturer or distributor, but in some instances commercial finance companies maintain specialized engineering staffs to give advice to their clients. Cases of this kind are known to exist in the financing of automatic fire extinguisher equipment, where the financing agency makes engineering surveys and estimates the savings to be made on insurance premiums through the installation of the sprinkler systems.

In many respects these supplementary services are similar to those offered to dealers and other retail distributors in connection with instalment sales to consumers. But one supplementary service frequently associated with the financing of consumer goods, namely, inventory loans to dealers on the so-called "floor plan," is not generally associated with the financing of income-producing equipment.