APPENDIX A

Description of Samples and Adjustments in Data

THE information used in the study was based on a variety of published and unpublished materials. Published financial statements for the sample companies were supplemented by data obtained from cooperating companies. Two types of adjustments had to be made in the information obtained from the sample companies. First, statement data had to be adjusted to conform to the conceptual framework used in the study. Second, estimates of selected items had to be made when the accounting records of the company could not provide the necessary detail.

All income and expense data for the sample companies were classified into three groups: (1) those associated with consumer credit activities, (2) those associated with all other earning activities, and (3) those associated with obtaining funds, either equity or nonequity. Cost accounting data were used to establish the proper classification except in a few cases where estimates had to be made.

The cost of funds, both equity and nonequity, and provision for income taxes were further allocated to consumer credit and other activities by the following rules: (1) The costs of nonequity funds were distributed according to the proportion of average earning assets used in these activities. (2) Income taxes and cost of equity funds were distributed according to the proportion of net operating income obtained from these activities. The details of the adjustments in individual company data are presented in the following discussion by type of institution.

The samples used in the study were necessarily small because only relatively few companies could supply the detail needed and because of the elaborate processing of the data that was required. The results of the study do not necessarily represent all companies operating in the industries covered but are intended merely to present data on costs in a standard accounting framework that will suggest differences in costs and operating problems by type of institution.

Consumer Finance Companies

The following consumer finance companies supplied the information used in the study:

American Investment Company of Illinois
Beneficial Finance Company
Family Finance Corporation
Household Finance Corporation

Interstate Finance Corporation
Liberty Loan Corporation
Merchants Acceptance Corporation
Seaboard Finance Company
State Loan & Finance Corporation

These nine companies held $2.3 billion in consumer receivables at the end of 1959 and accounted for 70 per cent of the loans held by all consumer finance companies. All of these companies are among the largest in operation. Together they had 4,356 branch offices and had a loan volume of over $3 billion in 1959. All but two of them had more than $100 million in receivables and all but one had more than 100 branch offices. A comparison of some of the principal characteristics of these companies with estimates for all consumer finance companies based on a survey conducted in 1955 is shown in Table A-1.

Although all of the companies in this group engaged primarily in making loans under the state small-loan law, a few of them held substantial amounts of purchased instalment contracts either secured by automobiles or other durable goods. Their other activities, limited primarily to insurance and wholesale financing of dealer inventories, represented a relatively small part of the total activities, when measured by either income received or funds invested.

Since the information available from the accounting records of these companies differed in form of presentation and in composition, some rearrangement in the data was necessary to obtain uniformity. Estimates were also necessary in some cases to fill gaps in accounting information. The following list describes the principal adjustments that were made in the data for some of these companies to adapt the information for use in the study. The procedures used in making these adjustments and estimating missing data necessarily varied from company to company depending upon circumstances.

1. Reserves for bad-debt losses were added to the outstanding amount of receivables in cases where they had been subtracted in the financial statements of the reporting companies. Total assets were increased accordingly and the amount of reserves was included in the equity of the company.

2. Unearned discount was included in gross receivables, but was deducted to obtain net figures and total assets.

3. The current portion of debentures and other long-term debt was removed from figures for short-term debt and was included with long-term debt.

TABLE A-1

COMPARISON OF CONSUMER FINANCE COMPANY SAMPLE WITH ESTIMATES FOR ALL COMPANIES, 1955

Item	All Consumer Finance Companies[a]		Nine Sample Companies[b]		Sample as Percentage of Total	Differences in Percentage Distribution (col.4 minus col. 2)
	Million Dollars (1)	Per Cent (2)	Million Dollars (3)	Per Cent (4)	(5)	(6)
Number of companies:						
Total[c]	3,180		9		0.3	--
By size of consumer receivables outstanding (thousand dollars):						
25,000 and over	10		7		70.0	--
5,000 to 25,999	48		2		4.2	--
Under 5,000	3,120		0		0	--
Principal sources and uses of funds:						
Consumer receivables, total	2,398	82.9	1,320	91.1	55.0	8.2
Personal loans	1,977	68.4	1,189	82.1	60.1	13.7
Other consumer receivables	421	14.5	131	9.0	31.1	-5.5
Other earning assets	310	10.7	8	.5	2.6	-10.2
<u>less</u>						
Reserves for unearned income[d]	(148)	(5.1)	(35)	(2.4)	23.6	(-2.7)
Other assets	331	11.5	156	10.8	47.1	-.7
Total uses	2,891	100.0	1,449	100.0	50.1	--
Nonequity funds	2,035	70.4	1,026	70.8	50.4	.4
Equity funds[e]	856	29.6	423	29.2	49.4	-.4

[a] Data as of June 30, 1955, based on survey of finance companies conducted by Board of Governors of Federal Reserve System, <u>Federal Reserve Bulletin</u>, April 1957, pp. 392-408.

[b] Sources and uses of funds figures are averages for the beginning and end of 1955.

[c] Number of companies for total and smallest size group rounded to nearest ten.

[d] Survey data include reserves for losses.

[e] Sample data include reserves for losses.

4. Estimates of the administrative costs of obtaining funds were made for each company on the basis of cost studies available for one company. The amount of these costs was deducted from operating cost and included with the cost of nonequity funds.

5. Where free life insurance was extended to borrowers, the cost of this insurance was deducted from gross income and from expenses.

6. Estimates of the cost of insurance operations were made for companies that did not have separate insurance subsidiaries and could not provide separate cost figures. These costs were included in the nonconsumer credit operating costs.

7. Estimates of the cost of wholesale financing were made on the basis of cost data from sales finance companies. These costs were included as nonconsumer credit operating expenses.

Sales Finance Companies

The following sales finance companies supplied the information used in the study:

American Discount Company
Associate Investment Company
C.I.T. Financial Corporation
General Acceptance Corporation
General Finance Corporation
General Motors Acceptance Corporation
Interstate Securities Company
Pacific Finance Corporation
Securities Acceptance Corporation
Southwestern Investment Company

All of these companies are among the largest companies engaged in automobile financing. Together they held $5.8 billion in automobile paper at the end of 1959, or 83 per cent of the automobile paper held by all sales finance companies. All of the sample companies had $35 million or more in automobile paper at the end of 1959 and all of them operated in many states.

A comparison of the sample with estimates for all sales finance companies for 1955 is shown in Table A-2. Although the sample companies represented only .4 per cent of the total number of companies, they held 76 per cent of the automobile paper and 45 per cent of the personal loans of all sales finance companies. Since the sample was selected on

TABLE A-2

COMPARISON OF SALES FINANCE COMPANY SAMPLE WITH ESTIMATES FOR ALL COMPANIES, 1955

Item	All Sales Finance Companies[a] Million Dollars (1)	All Sales Finance Companies[a] Per Cent (2)	Ten Sample Companies[b] Million Dollars (3)	Ten Sample Companies[b] Per Cent (4)	Sample as Percentage of Total (5)	Differences in Percentage Distribution (col. 4 minus col. 2) (6)
Number of companies:						
Total[c]	2,620		10		0.4	—
By size of consumer receivables outstanding (thousand dollars):						
25,000 and over	20		10		50.0	—
5,000 to 24,999	61		0		0	—
Under 5,000	2,540		0		0	—
Principal sources and uses of funds:						
Consumer receivables, total	7,317	72.6	4,926	75.9	67.3	3.3
Automobile paper	5,976	59.3	4,563	70.4	76.4	11.1
Other consumer goods paper	920	9.1	173	2.6	18.8	-6.5
Personal loans	421	4.2	190	2.9	45.1	-1.3
Other earning assets	2,684	26.6	1,485	22.9	55.3	-3.7
less						
Reserves for unearned income[d]	(795)	(7.9)	(350)	(5.4)	44.0	(2.5)
Other assets	871	8.7	425	6.6	53.5	-2.1
Total uses	10,077	100.0	6,486	100.0	64.4	—
Nonequity funds	8,579	85.1	5,773	89.0	67.3	3.9
Equity funds[e]	1,498	14.9	713	11.0	47.6	-3.9

[a] Data as of June 30, 1955, based on survey of finance companies conducted by Board of Governors of Federal Reserve System, Federal Reserve Bulletin, April 1957, pp. 392-408.

[b] Sources and uses of funds figures are averages for beginning and end of 1955.

[c] Number of companies for total and smallest size group rounded to nearest ten.

[d] Survey data also include reserves for losses. [e] Sample data include reserves for losses.

the basis of automobile financing, they held a somewhat smaller share of total appliance and other consumer goods paper.

The companies in this sample showed a wider variety of other earning assets than the consumer finance companies. All of the companies in this sample did some wholesale financing of dealer inventories and most of them had insurance subsidiaries. In addition, many of them made capital loans to automobile dealers or other retailers and a few of them engaged in a sizable amount of equipment financing or other forms of business financing. When the nonconsumer credit operations were handled by separate subsidiaries, income and expense figures could be easily separated from consumer credit operations. In other cases, estimates had to be prepared of the costs of the nonconsumer credit activities. These were based on information available from companies that had cost information on the various types of activities. Where truck or commercial vehicle financing could not be segregated from automobile financing, no attempt was made to prepare separate cost estimates or to eliminate truck or commercial vehicle receivables from the receivables included in the consumer total. It was felt that the errors involved in such estimates might result in a larger distortion of the financial ratios than the inclusion of data for these activities in the consumer credit totals.

The other adjustments made in data supplied by sales finance companies were similar to those described for consumer finance companies in the preceding section.

Commercial Banks

The following commercial banks submitted information for use in the study:

Bankers Trust Company, New York, N.Y.
Bank of America NT & SA, San Francisco, Calif.
City National Bank & Trust Co., Kansas City, Mo.
First National Bank of Boston, Mass.
First National City Bank, New York, N.Y.
First Pennsylvania Banking & Trust Co., Phila., Pa.
Marine Trust Company of Western New York, Buffalo, N.Y.
National Shawmut Bank, Boston, Mass.
Pittsburgh National Bank, Pittsburgh, Pa.
Provident Tradesmen's Bank & Trust, Phila., Pa.
Security First National Bank, Los Angeles, Calif.

United California Bank, Los Angeles, Calif.
Valley National Bank, Phoenix, Arizona
Wells Fargo Bank American Trust Company, San Francisco, Calif.

Since commercial bank activities are widely diversified, only a few banks with extensive cost accounting systems were able to provide estimates of the cost of their consumer credit operations. Even the information that can be obtained differs greatly in concept and coverage. Some estimates are based on the costs of the consumer credit department plus a share of the bank's overhead costs (indirect costs). Only a few banks make estimates of the cost of branch personnel in accepting consumer loan applications and in receiving payments.

All of the information from the cooperating banks could not be used in the tabulations required for the study because of differences in accounting concepts and practices. The main financial ratios used were based on data from nine of the cooperating banks that were able to provide the required detail and that had reasonably comparable accounting systems. A somewhat different grouping of banks was used in supplementary tabulations to develop as much information as possible on the nature of costs by type of consumer credit.

Table A-3 compares the nine sample banks with data for all commercial banks at the end of 1959. The nine sample banks held 7 per cent of the consumer loans of all commercial banks, although they represented only six one-hundredths of the total number of banks.

Although all the banks in the sample had sizable instalment loan operations, their operations accounted for a relatively small fraction of

TABLE A-3

COMPARISON OF COMMERCIAL BANK SAMPLE WITH DATA FOR ALL COMMERCIAL BANKS, END OF 1959
(million dollars)

Item	All Commercial Banks	Nine-Bank Sample	Sample as Percentage of Total
Number of banks	13,991	9	.06
Total loans and investments	227,831	15,295	6.71
Consumer credit	15,227	1,041	6.84
Total deposits	254,885	17,738	7.00

their total loans and investments. Consumer credit of the sample average only 8 per cent of total earning assets and ranged from 2 per cent at one bank to 18 per cent at another.

All but one of the banks included in the nine-bank sample had extensive branch operations. Most of them were engaged in all major types of consumer lending, although the importance of various types of credit varied from bank to bank. Automobile paper, both direct and indirect, was the most important type of consumer receivable at three of the sample banks, personal loans were most important at four banks, and other consumer goods paper accounted for the largest percentage of consumer credit at one bank.

The information prepared for the study differs in a number of ways from the banking statements prepared for supervisory agencies and published in annual reports. Numerous adjustments and estimates were made in data obtained from cooperating banks to develop information needed in the study. The procedures used for making adjustments in individual bank data differed from bank to bank. The principal adjustments necessary in reported data were as follows:

1. Unearned income was deducted from the outstanding amount of loans and from "other liabilities." The amount of unearned income is shown separately but total assets are net of this amount.

2. The asset item "customer's liability on acceptances outstanding" was subtracted from the liability item "acceptances executed by or for account of this bank and outstanding." Only the net balance of these accounts was included in total assets.

3. Valuation reserves on loans were added to the outstanding amount of loans and total assets. The amount of these reserves was included in equity funds.

4. Estimates of the operating cost of consumer credit had to be adjusted or modified in a number of cases to make estimates from different banks conceptually comparable.

5. When estimates of cost of handling deposits were based on a single survey, projections of these costs had to be made for other years covered by the study.

6. Total deposits were reduced by the amount of dealer reserves. Dealer reserve accounts are shown separately.

Federal Credit Unions

Information used for federal credit unions was based on tabulations published annually by the Bureau of Federal Credit Unions. The figures

TABLE A-4

ADJUSTMENTS IN PUBLISHED DATA FOR FEDERAL CREDIT UNIONS, 1959
(thousand dollars)

Item	Published Data[a]	Adjustments[a]	Data Used in Study
Gross income	171,847		158,015
Interest on loans	152,909		139,077
minus			
Borrower protection insurance		-8,577	
Interest refunds		-5,255[b]	
Other income	18,938		18,938
Expenses	69,610		50,304
minus			
Borrower protection insurance		-8,577	
Life savings insurance		-5,784	
Estimate of cost of handling share accounts		-8,976[c]	
Interest on borrowed money		-1,799	
plus			
Losses on loans		+5,830[d]	
Net income	102,237		
Net operating income	--		107,709
Cost of nonequity funds			1,799
Cost of equity funds (net income)			105,910
Benefits, life savings insurance			5,784
Benefits, handling of share accounts			8,976[c]
Return on equity funds			91,150

[a] As published in _1959 Report of Operations, Federal Credit Unions_, U.S. Department of Health, Education, and Welfare, pp. 24-25.

[b] _Ibid._, p. 28.

[c] Based on costs of handling time deposits at commercial banks with allowances for differentials in costs at commercial banks and credit unions.

[d] Obtained by subtracting "losses charged off from date of organization through December 31, 1958" (Table 24, _1958 Report of Operations_) from same item in _1959 Report of Operations_ (Table 24, p. 30).

used in the study were aggregates for all federal credit unions. In 1959 the data covered 9,447 credit unions with consumer loans of $1,666 million.

Details on many aspects of credit union operations are published in the annual reports of the Bureau of Federal Credit Unions and are not reproduced in this study. These institutions ranged from newly formed organizations with only a few thousand dollars in assets to multimillion-dollar organizations.

The absolute dollar range in these organizations is much smaller than that for finance companies or banks because of the existence of billion-dollar banks and finance companies. As a result, finance ratios based on averages of aggregate figures are more representative of the average credit union than aggregate ratios for finance companies would be.

Several adjustments were made in the published income and expense data to bring them into the conceptual framework used in the study. Table A-4 shows a reconciliation of the published figures with the figures used in computing the ratios for the study and indicates the nature and extent of the adjustment of the original data. Since losses on loans are not published separately in the federal credit union report, these figures had to be derived from cumulative figures on losses published each year. The figure used in the study was obtained by subtracting the figures for the preceding year from the total for the year in question.