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Uses of Funds

THE ability of the consumer instalment financing agencies to vary the supply of funds in accordance with their needs during 1929-41 enabled them to keep a high proportion of their funds actively employed in loans throughout years both of prosperity and depression.[1] Commercial banks, on the other hand, particularly those that experienced a large increase in deposits, found it increasingly difficult to maintain a large proportion of total assets in the form of loans.

In the aggregate, loans have never constituted as large a proportion of total assets for the commercial banking system as for the specialized lending agencies because banks operate under legal requirements to maintain specified reserves, generally in the form of cash or deposits with other banks. Moreover, at any one time a commercial bank's balance sheet reflects a certain amount of "float" —cash items in process of collection—which serves to inflate the figures of total assets and thus reduce the loan proportion. Nevertheless, throughout most of the period 1929-41, commercial banks' loans were notably lower in dollar amount, as well as in percentage of total assets, than they had been in the previous decade. Most banks therefore entered the consumer instalment financing business, but it still constituted only a small proportion of their lending activity by the end of the period.

Cash holdings of consumer instalment financing agencies, other than credit unions, constituted a small—almost negligible—proportion of assets. In commercial banks they were relatively large at the beginning of the period, and a sizable proportion of the

[1] In this discussion the term "loans" refers to credit receivables, regardless of whether they consist of direct loans or of discounted sales finance paper. The term will always refer to the net amount of outstanding receivables after the deduction of any reserves for bad debts or valuation allowances. Except where specifically stated, however, no deduction is made by offsetting hypothecated deposits against the loans. The amount of loans includes the finance charge or the discounted interest, except in regard to personal finance companies and credit unions; in regard to banks discounted interest may or may not be included.

subsequent increase in their total assets represented cash assets—vault cash, reserves with other banks including required reserves, and cash items in process of collection.

The low proportion of cash held by consumer instalment financing agencies can be attributed to two factors: first, they needed cash only for current and new business operations, in contrast to commercial banks, which were subject to substantial withdrawals of funds upon demand; and second, they had an extremely high turnover of funds, since every month a typical company was repaid from one-tenth to one-fifteenth of its outstanding loans. The regularity of this flow of repayments permitted the company to operate on a very small reserve of cash in excess of its actual till-money needs.

Among the specialized agencies the proportion of funds invested in securities fluctuated considerably during the period under review but in general remained relatively unimportant, whereas among commercial banks in the aggregate securities became a more important component of total assets than loans. This increase in securities consisted almost entirely of holdings of United States Government obligations which represent bank financing of the federal deficit incurred in promoting the recovery program and, since 1939, the defense and war programs.

Only a negligible proportion of the total assets of consumer instalment financing agencies and commercial banks was in a form other than loans, cash or securities. The proportion was, in general, highest for commercial banks, reflecting their tendency to acquire the buildings in which they do business. Besides real estate, whether used as a place of business or otherwise, these other assets included furniture and fixtures, repossessions of automobiles or other chattels, prepaid and unamortized expenses, and intangible items such as goodwill.

In their asset distribution there is little evidence that size of company made any material difference among the specialized agencies. The reverse was true among commercial banks.

PERSONAL FINANCE COMPANIES

Because the dollar volume of loans of personal finance companies showed little or no decline during the depression, these companies, possessing the least flexible sources of funds, were able to main-

TABLE 4

PERCENTAGE DISTRIBUTION OF TOTAL ASSETS OF SELECTED SAMPLES OF PERSONAL FINANCE COMPANIES, YEAR-END 1929–41, BY ASSET ITEMS[a]

Sample	*1929*	*1930*	*1931*	*1932*	*1933*	*1934*	*1935*	*1936*	*1937*	*1938*	*1939*	*1940*	*1941*
2 national[b]													
Loans	..	87.5%	85.7%	83.1%	85.8%	88.4%	88.3%	89.0%	87.9%	86.1%	87.8%	91.2%	90.8%
Cash	..	8.2	9.6	10.1	8.5	9.2	10.0	9.6	10.8	12.7	11.1	7.6	7.8
Securities	..	.6	.4	3.0	2.1	.0	.0	.0	.0	.0	.0	.1	.0
Other assets	..	3.7	4.3	3.8	3.6	2.4	1.7	1.4	1.3	1.2	1.1	1.1	1.4
2 to 5 regional[b]													
Loans	85.1%	85.4	91.0	87.0	84.5	84.4	83.9	84.3	84.6	83.7	85.3	85.1	84.1
Cash	7.8	9.3	4.7	8.3	10.7	11.9	11.8	11.5	11.5	12.5	11.5	11.8	11.7
Securities	.0	.0	.0	.0	.0	.0	1.8	1.6	1.9	1.7	1.3	1.2	1.1
Other assets	7.1	5.3	4.3	4.7	4.8	3.7	2.5	2.6	2.0	2.1	1.9	1.9	3.1
5 to 7 local[b]													
Loans	..	..	..	..	..	87.5	84.9	89.5	91.3	86.4	88.4	84.9	86.7
Cash	..	..	..	..	..	4.7	7.5	6.9	5.4	10.2	8.5	7.6	9.1
Securities	..	..	..	..	..	.0	.1	.1	.0	.2	.4	.3	.2
Other assets	..	..	..	..	..	7.8	7.5	3.5	3.3	3.2	2.7	7.2	4.0
179 local[c]													
Loans	89.2	..	..	..	82.1	..	..	84.0	..	..	..	..	..
Cash	3.7	..	..	..	5.8	..	..	5.5	..	..	..	..	..
Securities	2.3	..	..	..	8.4	..	..	5.3	..	..	..	..	..
Other assets	4.8	..	..	..	3.7	..	..	5.2	..	..	..	..	..

[a] The number of companies for each year will be found in Appendix Table B-1.
[b] Based on data from the National Credit Office, Inc. Some of these companies are included in the 179 local companies of the income tax sample.
[c] Based on tabulations prepared by the Income Tax Study.

tain high loan proportions of 80 to 90 percent of total assets throughout the period. After the depression their loan volume expanded rapidly; for companies included in the income tax sample, loans in 1936 were 40 percent higher in dollar amount than they had been in 1929.

For the two national companies, and for local companies included in the income tax sample, the proportion of total assets invested in securities trebled from 1929 to 1933. It is probable that some of these companies could have decreased their short-term borrowings —and thus avoided investing in securities—but preferred to continue the use of specific borrowed funds, once acquired, in view of the difficulty in securing access to satisfactory credit facilities.

A number of personal finance companies included in the income tax sample acquired, between 1929 and 1933, significant proportions of taxable securities which they continued to hold in 1936. Examination of their income tax returns reveals two interesting developments: growing companies had organized subsidiaries to engage in the same or similar types of business, and held their securities; or, companies that were faced with a decline in demand for loans had acquired a variety of common stocks, thus becoming, to a limited extent at least, investment trusts.[2]

Cash proportions were materially higher for national and regional personal finance companies than for local companies in most years for which data are available. Even so, cash was rarely more than 10 percent of total funds and other assets were negligible. Percentage distributions of total assets of the selected samples of personal finance companies, 1929-41, are shown in Table 4.[3]

[2] These tendencies made it necessary to exclude these companies from the analysis of income and expenses. See Appendix A.

[3] M. R. Neifeld's estimate of the asset distribution of all personal finance companies in the United States on December 31, 1936 reveals a sharply higher proportion of miscellaneous assets and a slightly lower loan proportion than that shown in the income tax or in the National Credit Office data (Neifeld, *Personal Finance Comes of Age,* New York 1939, p. 209). This discrepancy is due entirely to Neifeld's inclusion in total assets of going-concern value, represented by cost of development and cost of financing, amounting to 5.6 percent of total assets.

The Neifeld estimate was prepared from available data in reports of state supervisory officials and, like its source material, is subject to two limitations: first, the figures represent assets and liabilities reported for individual offices within each state, rather than assets and liabilities of corporate entities; and second, since the state regulatory agencies have as their objective the determination of rates of profitability and "fair" rates of charge, their emphasis is placed on asset values allowed in the preparation of a rate base rather than on book values. This accounts for the inclusion

SALES FINANCE COMPANIES

During the depression the decline in the volume of loans of sales finance companies was so drastic that despite their greater ability to contract the use of short-term borrowed funds their loan proportions fell off to a slightly greater extent than those of personal finance companies. For the companies included in the National Credit Office sample, the low point in loan percentage was reached in 1932. By 1936, however, both the dollar volume of loans and the percentage of loans to total assets had increased to a greater extent for sales finance than for personal finance companies. Table 5 gives percentage distributions of total assets of selected samples of sales finance companies, 1929-41.

One would expect repossessions to be most frequent in the business of sales finance companies, and to show the greatest increase in periods when collections were difficult. It is the more surprising, therefore, to find that the sales finance companies' proportion of miscellaneous assets was so low, and that the dollar amount decreased from 1929 to 1933.[4]

[4] For companies included in the income tax sample this decrease amounted to 10 percent. It is necessary to point out that the income tax figures represent data for identical companies which filed reports in all of the three years under consideration. Therefore the figures for miscellaneous assets, particularly those representing repossessions, are not entirely representative of the operations of all such institutions, since those companies which encountered serious difficulties in the early 1930's and failed, or which sold their assets to other companies and liquidated, or which reorganized and continued business under a different name, are not included in these data. Companies not represented may be presumed to have shown less favorable results, particularly with respect to the acquisition of repossessions, than those companies that continued operations throughout the period.

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of going-concern value, as a separate item, in the Neifeld estimate.

For comparable reasons there are also differences between the distribution of assets of the personal finance companies in the income tax sample and the hypothetical distribution of assets prepared by the Russell Sage Foundation. This distribution sets the amount of "necessary and useful" assets at 115 percent of loans, and assumes that for the proper conduct of the personal finance business total assets would be distributed as follows: 87.0 percent loans; 4.4 percent cash, including securities; 1.7 percent furniture and fixtures; 1.7 percent other tangible assets; and 5.2 percent cost of development. The chief difference between the two distributions results from the fact that the companies included in the income tax sample did not capitalize cost of development and other intangibles to the extent that the formula assumes. When adjustment is made for this factor, cash and securities combined, and loans, are in line with the hypothetical percentages in 1929, but not in 1933 and 1936, when the income tax sample showed an increase in cash and securities. The discrepancy in those years illustrates the inflexibility of the hypothetical distribution, which, by its very nature, could not make allowance for the inability of personal finance companies to adjust their sources of funds to the change in volume of business.

TABLE 5

PERCENTAGE DISTRIBUTION OF TOTAL ASSETS OF SELECTED SAMPLES OF SALES FINANCE COMPANIES, YEAR-END 1929–41, BY ASSET ITEMS[a]

Sample	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941
2 to 3 national[b]													
Loans	83.6%	84.1%	79.7%	75.2%	82.5%	83.1%	87.7%	89.2%	89.5%	86.9%	87.1%	89.1%	89.4%
Cash	13.2	12.1	14.6	18.8	13.2	13.7	11.3	9.6	9.5	11.6	11.4	9.3	9.1
Securities	1.7	1.9	1.4	3.2	2.7	2.3	.3	.6	.4	.8	.8	.9	.9
Other assets	1.5	1.9	4.3	2.8	1.6	.9	.7	.6	.6	.7	.7	.7	.6
2 to 4 regional[b]													
Loans	85.4	84.1	82.0	78.2	79.5	83.0	86.4	85.9	85.7	82.0	84.9	86.3	88.2
Cash	11.1	11.9	14.3	17.0	14.5	11.6	11.2	12.3	12.7	16.0	13.3	11.9	10.5
Securities	1.8	2.3	2.4	3.7	4.4	3.1	1.3	1.0	.8	1.2	1.2	1.1	.8
Other assets	1.7	1.7	1.3	1.1	1.6	2.3	1.1	.8	.8	.8	.6	.7	.5
9 to 32 local[b]													
Loans	80.7	79.3	84.9	81.6	82.5	83.3	85.8	84.5	84.9	80.8	84.2	85.2	84.9
Cash	9.6	11.7	11.2	12.7	12.3	12.8	10.8	12.0	11.8	15.0	12.3	11.7	11.7
Securities	5.1	3.5	.6	.6	.8	.6	.3	.4	.3	.7	.8	.6	1.2
Other assets	4.6	5.5	3.3	5.1	4.4	3.3	3.1	3.1	3.0	3.5	2.7	2.5	2.2
229 local[c]													
Loans	84.6	..	..	..	78.8	..	..	85.1	..	..	..	..	..
Cash	7.8	..	..	..	9.4	..	..	8.7	..	..	..	..	..
Securities	3.8	..	..	..	7.0	..	..	3.1	..	..	..	..	..
Other assets	3.8	..	..	..	4.8	..	..	3.1	..	..	..	..	..

[a] The number of companies for each year will be found in Appendix Table B-1.
[b] Based on data from the National Credit Office, Inc. Some of these companies are included in the 229 local companies of the income tax sample.
[c] Based on tabulations prepared by the Income Tax Study.

The low proportion of repossessions may be explained in several ways. On recourse paper, sales finance companies were able to transfer repossessions to the dealer, so that their own balance sheets and operating statements were not affected. Some companies, reluctant to show an increase in repossessions on their balance sheets, since it might adversely affect their borrowing power, charged the entire acquisition cost of the repossession to a reserve for losses, and showed recoveries when the asset was disposed of. Also, sales finance companies made strenuous efforts to dispose of repossessions, sometimes by sale at auctions, or by transfer to subsidiaries, which frequently disposed of the article in a community in which the parent company did not operate. The dollar decrease noted in total miscellaneous assets during 1929-33 probably resulted, in part, from a decrease in net fixed assets, brought about by an increase in the reserve for depreciation.

INDUSTRIAL BANKING COMPANIES

Although non-investment type industrial banking companies are, in general, similar to personal finance companies in their sources of funds and asset distributions, it is notable that their loan volume fell off considerably during the depression, and failed to regain its pre-depression level in 1936. Percentage distributions of total assets of selected samples of industrial banking companies are shown in Table 6.[5]

Loans of investment type industrial banks, whether calculated in percent of assets or in terms of 1929 outstandings, fell off almost as drastically as those of commercial banks during the depression and only regained their pre-depression level in 1936. The inability of industrial banks to maintain loan volume during the depression is due to the fact that depositors in industrial banks did not withdraw their funds to an extent comparable with the decline in demand for suitable loans. The initiative for varying the supply of funds did not rest with the institution, as in the case of the other specialized agencies. In part, also, industrial banks required a greater amount of liquidity than the other agencies because of the uncertain stability of deposits.

[5] The apparently lower loan proportion for insured industrial banks in 1936 than for those included in the income tax sample is due to deduction of hypothecated deposits from their loans.

TABLE 6

PERCENTAGE DISTRIBUTION OF TOTAL ASSETS OF SELECTED SAMPLES OF INDUSTRIAL BANKING COMPANIES, YEAR-END 1929–41, BY ASSET ITEMS[a]

Sample	*1929*	*1930*	*1931*	*1932*	*1933*	*1934*	*1935*	*1936*	*1937*	*1938*	*1939*	*1940*	*1941*
92 non-investment type[b]													
Loans	89.7%	..	..	..	82.5%	..	..	84.3%	..	..	..	..	..
Cash	2.3	..	..	..	4.3	..	..	3.3	..	..	..	..	..
Securities	4.3	..	..	..	7.3	..	..	6.7	..	..	..	..	..
Other assets	3.7	..	..	..	5.9	..	..	5.7	..	..	..	..	..
112 investment type[b]													
Loans	83.5	..	..	..	73.4	..	..	82.3	..	..	..	..	..
Cash	4.9	..	..	..	7.3	..	..	6.1	..	..	..	..	..
Securities	10.1	..	..	..	16.0	..	..	9.4	..	..	..	..	..
Other assets	1.5	..	..	..	3.3	..	..	2.2	..	..	..	..	..
6 largest insured[c]													
Loans	..	..	..	..	..	62.8%	77.8%	76.8	76.3%	73.4%	73.0%	75.9%	76.5%
Cash	..	..	..	..	..	8.6	6.6	7.6	9.2	12.2	13.1	14.0	14.4
Securities	..	..	..	..	..	25.1	12.8	12.2	11.8	12.2	11.8	8.4	7.7
Other assets	..	..	..	..	..	3.5	2.8	3.4	2.7	2.2	2.1	1.7	1.4
All other insured[c]													
Loans	..	..	..	..	..	74.0	75.1	77.4	79.3	75.8	74.7	76.3	74.4
Cash	..	..	..	..	..	8.8	9.7	10.9	9.8	13.7	15.6	16.0	18.3
Securities	..	..	..	..	..	12.3	11.3	8.0	7.9	7.8	7.2	5.4	5.1
Other assets	..	..	..	..	..	4.9	3.9	3.7	3.0	2.7	2.5	2.3	2.2

[a] The number of companies for each year will be found in Appendix Table B-1.
[b] Based on tabulations prepared by the Income Tax Study. Some of these investment type industrial banks are insured.
[c] Based on data from Federal Deposit Insurance Corporation. Asset distributions are based on averages of figures for beginning, middle and end of year, except in 1934 and 1935; deposits accumulated for the repayment of loans have been deducted from total assets and from loans; and banks that operated less than the full year or whose operations were materially affected by mergers during the year are not included.

The tendency of investment type industrial banking companies to engage increasingly in a general deposit banking business led to a progressive shift in their cash requirements from those characteristic of consumer instalment financing to those more typical of banks of deposit. In 1929, practically all of the companies included in the income tax sample reported cash holdings of less than 5 percent of total assets, but by 1936 one-third reported cash in excess of 10 percent and another third reported cash between 5 and 10 percent of total assets. In 1936 insured industrial banks had cash averaging about 9 percent of total assets; by 1941 cash had increased to about 16 percent.

Industrial banks showed an average investment in securities somewhat higher than that of the other specialized agencies but sharply under that of commercial banks. A steadily increasing number of investment type industrial banking companies included in the income tax sample held tax-exempt securities over the period 1929 to 1933, though the amounts did not constitute a large proportion of total assets. The figures for insured industrial banks show higher securities proportions than those for noninsured companies. These differences, highlighted in 1936 by separate tabulations of these companies in the income tax sample, can be attributed to the greater degree to which the insured institutions were taking on the characteristics of commercial banks. From 1938 to 1941, however, while the volume of their assets expanded, the securities proportions of insured industrial banks declined.[6]

It was in investment type industrial banks that miscellaneous assets constituted the smallest proportion of the total, although in

[6] In the asset distributions prepared from data of the American Industrial Bankers Association, showing investment and non-investment type companies separately, cited in National Bureau of Economic Research (Financial Research Program), *Industrial Banking Companies and Their Credit Practices*, by Raymond J. Saulnier (New York 1940) p. 69, securities proportions were somewhat higher, with loan proportions correspondingly lower, than in the income tax tabulations, or in the tabulations of insured bank data prepared by the FDIC. It may be assumed that the AIBA data were based on consolidated reports for each company, whereas in the income tax data the figures are not consolidated; in other words, holdings in subsidiaries appear as securities. This difference in procedure could readily account for the small discrepancies shown.

A tabulation of 64 insured and noninsured Morris Plan companies—most of which are of the investment type—prepared from *Polk's Bankers Encyclopedia* for December 31, 1938, cited in Saulnier, *op. cit.*, p. 68 shows an asset distribution similar to that shown for insured industrial banks, when not adjusted for hypothecated deposits.

dollar amount they increased sharply from 1929 to 1933 in the companies included in the income tax sample. This increase can probably be accounted for by the expansion in activities and, in some cases, by the acquisition of banking houses. The proportion dwindled in the insured institutions with the expansion in their assets after 1933.

FEDERAL CREDIT UNIONS

Federal credit unions, from 1934 to 1941, showed an ability to maintain almost as large a proportion of total assets in the form of loans as the other consumer credit agencies. This proportion, however, declined slightly but continuously during 1937-40, falling from 81.5 to 77.8 percent, and dropping further during 1941 to 65.6 percent.[7] The asset distribution of all reporting federal credit unions, 1934-41, is presented in Table 7.

TABLE 7

Percentage Distribution of Total Assets of Federal Credit Unions, 1934–41, by Asset Items[a]

Year	*Loans*	*Cash*	*Securities*	*Other Assets*
1934	66.2%	33.1%	[b]	.7%
1935	77.3	21.8	[b]	.9
1936	80.2	17.9	[b]	1.9
1937	81.5	16.1	[b]	2.4
1938	80.7	15.4	3.5%	.4
1939	79.5	14.0	6.2	.3
1940	77.8	13.5	8.2	.5
1941	65.6	17.8	15.8	.8

[a] Based on data from U. S. Farm Credit Administration, Division of Finance and Accounts; figures pertain to all reporting federal credit unions; the number for each year will be found in Appendix Table B-1.
[b] Amounts not available; included with other assets.

During the early years of their existence, federal credit unions appear to have retained their surplus funds largely in the form of cash, in anticipation of demands for loans from members. In time, however, a good many credit unions seem to have decided

[7] Francis E. Wilcox, in *A Statistical Study of Credit Unions in New York* (Chicago 1940) pp. 80, 82, shows that at the end of 1937 state-chartered credit unions over ten years old had a lower ratio of loans to total assets than credit unions less than ten years old (68.4 compared with 78.5 percent).

that their members' demand for loans would develop no more rapidly than the influx of share capital from other members. As a result, since stringent regulations govern credit unions' investment of funds other than in loans to members, there was an increase in investments in United States government securities, and even more in insured shares of savings and loan associations.

By the end of 1940 the total investments of federal credit unions amounted to 8 percent of their total assets; by 1941 it had risen to 16 percent, probably as a result of a concerted demand that credit unions invest all available funds in government securities and keep their loans at a minimum. In assessing the advantages of this procedure from the viewpoint of the war effort, it should not be overlooked that such a development might eventually jeopardize the whole credit union system and make it necessary for members to turn to other, more expensive sources of loans.

COMMERCIAL BANKS

The drastic contraction which occurred after 1930 in the relative loan volume of commercial banks is pictured in Chart VII, which shows percentage distributions of assets of all commercial banks from 1919 to June 1942. From 1900 to 1930 the loans of all national banks fluctuated between 52 and 58 percent of total assets. After 1930 the decline was precipitous, to a low of 26 percent in 1936; since then the figure has fluctuated narrowly between 24 and 29 percent, as total assets continued to expand.

The loan proportions of commercial banks in the aggregate, however, are necessarily weighted by those of the larger banks. In general, the smaller banks had a relatively higher proportion of assets in the form of loans. Over half of the 10,600 banks with average deposits of less than 2 million dollars held loans in excess of 40 percent of total assets in 1940, whereas only six of the 132 banks with average deposits of more than 50 million dollars held loan proportions as high.[8] It is this tendency toward a much smaller

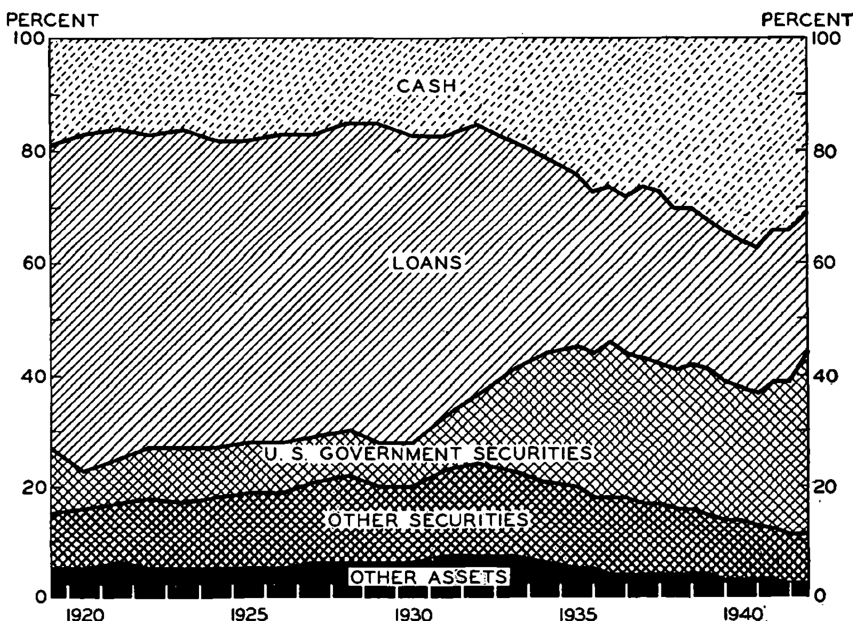
[8] See the *Annual Report* of the Federal Deposit Insurance Corporation for 1940, p. 201. In each year from 1936 to 1941 the percentage of insured commercial banks that had high loan proportions was larger than in the preceding year. Published figures on loan proportions for all insured commercial banks, 1938-41, and for insured commercial banks not members of the Federal Reserve System, 1936 and 1938, appear in the following *Annual Reports* of the FDIC: 1936, p. 189; 1938, p. 235; 1939, p. 187; 1940, p. 200; and 1941, pp. 168, 171. These published figures include banks designated in this study as insured industrial banks.

loan proportion among larger banks which results in a low figure for the country as a whole when the average is computed from dollar aggregates; the figure obtained is materially higher when the ratios of individual banks are averaged.[9]

Since size of banking center and size of bank are interrelated, it is not surprising that the percentage of banks in small towns having a high loan proportion was larger than that of banks in large

CHART VII

USES OF FUNDS OF COMMERCIAL BANKS, 1919-42[a]



[a] Represents percentage distribution of total assets of all commercial banks. Based on Annual Reports of the Comptroller of the Currency. For 1919-34 and 1942 figures are as of June 30; for 1935-41 they are as of June 30 and December 31.

cities. However, size of bank bore a closer relation to loan proportions than did size of banking center. There was little apparent relationship between size of banking center and the loan proportion among banks of approximately the same size; on the other hand, in centers of the same size, the loan proportion showed a

[9] Averages computed from ratios of individual banks were used throughout this analysis because of the bias in favor of the relatively few large banks obtained from averages based on dollar aggregates (less than 10 percent of the insured commercial banks hold more than 80 percent of the assets).

consistent downward tendency with increases in size of bank. This would indicate that it was the largest banks in specific centers, rather than all banks in those centers, which had the greatest difficulty in finding outlets enough for suitable loans, or which deliberately acquired securities. These were probably also the banks that showed the greatest growth in deposits, particularly in interbank deposits; and doubt respecting the stability of such deposits may have prompted them to retain an even larger proportion of assets in liquid form than was held by other banks in the same centers.

Broad geographic differences in commercial banks' loan proportions are indicated by the fact that banks in agricultural areas generally tended to hold a high proportion of total assets in the form of loans. States in the midwest and south, generally considered to be dominated by agricultural and extractive industries, showed higher average loan proportions than states dominated by manufacture and trade.[10]

With respect to cash proportions, conflicting tendencies were shown during the years 1936-40, among banks of different sizes located in centers of different size. In centers of less than 10,000 population the smaller banks held a higher proportion of cash assets, and in centers of more than 10,000 the opposite was true.

Among banks of a given size, however, those in the smallest and largest centers held a higher cash proportion than those in the intermediate size centers. In the smaller centers, banks tend to keep a larger proportion of till-money because they are at a greater distance from facilities for replenishing cash; also, if they are not members of the Federal Reserve System, they tend to keep a large proportion of balances with correspondents. In the largest centers, higher legal reserves make for retention of a higher proportion of cash assets.

CONSUMER INSTALMENT LOANS OF COMMERCIAL BANKS

We have seen (Table 1) that the share of commercial banks in total holdings of consumer instalment loans increased greatly after 1929, rising to over one-fourth at the end of 1941. Nevertheless, consumer instalment loans continued to represent only a small

[10] Since a state is not a homogeneous unit in its economic development, state averages are not an entirely satisfactory measure of such differences, but more accurate measures are not readily available.

proportion of total loans, and a much smaller proportion of total assets, of insured commercial banks. At the end of 1941 their holdings of such paper amounted to about 1.7 billion dollars, or 8 percent of their total loans and discounts.[11] The proportion varied as markedly among individual banks as did the figure for total loans in percent of total assets.

It is shown in Table 8 that while one-eighth of the insured commercial banks reported no consumer instalment paper in 1941, more

TABLE 8

NUMBER AND PERCENTAGE DISTRIBUTION OF INSURED COMMERCIAL AND INDUSTRIAL BANKS, MID-YEAR 1941, BY PERCENT OF CONSUMER INSTALMENT LOANS[a]

Consumer Instalment Loans in Percent of Total Loans[b]	*Commercial Banks*		*Industrial Banks*	
	Number	Percent	Number	Percent
No cons. inst. loans	1,665	12.6%	..	..
Under 2.5%	1,941	14.7	..	..
2.5–5	1,822	13.8	1	1.2%
5–10	2,989	22.6	..	..
10–15	1,758	13.3	..	..
15–20	1,147	8.7	..	..
20–30	1,155	8.7	..	..
30–40	412	3.1	1	1.2
40–50	191	1.4	4	5.0
50–60	76	.6	4	5.0
60–80	39	.3	15	18.8
80 or over	25	.2	55	68.8
ALL BANKS	13,220	100.0%	80	100.0%

[a] Based on data from Federal Deposit Insurance Corporation. Cash depositories and banks that submitted reports covering less than the full year's operations or whose operations were materially affected by mergers during the year are not included.
[b] Each level is inclusive of the lower limit and exclusive of the upper.

than one-eighth reported such paper in amounts of 20 percent or more of total loans. The proportion of total loans represented by consumer instalment paper was almost three times as large for

[11] While the proportion of consumer instalment loans to total loans showed a wide geographic range, varying from 3 percent in Rhode Island to more than 17 percent in Arizona and Oregon, no regular geographic pattern is evident. In general, the proportion is higher for the banks in the western and southern than for those in the eastern and northern states.

banks not members of the Federal Reserve System as for central reserve city member banks—12.2 percent as compared with 4.3 percent.[12]

In general, a commercial bank's strongest incentive in entering the field of consumer instalment financing has been the failure of business loans to increase with the volume of deposits. This might suggest that the larger banks in the larger centers, those that had experienced the greatest growth in deposits, would have had the strongest incentive to enter the consumer instalment field. However, although the growth in banks' consumer loans was greatest in the large centers, the large banks in those centers showed less of an increase than did the smaller banks.[13]

These tendencies with respect to holdings of consumer instalment loans by banks of different size in centers of different size are subject to wide variation, due probably to many factors, not all reducible to statistical analysis. It may be pointed out that interest rates on agricultural and commercial paper show a wide geographic variation, and in an area where high rates of return can ordinarily be obtained on such loans there is less inducement to seek consumer instalment paper than in an area where traditional business and agricultural loans bring very low rates of return.

Highly industrialized areas, on the other hand, provide a greater proportionate demand for retail instalment credit than agricultural areas, where fewer potential borrowers are in a position to make regular instalment repayments. A considerable proportion of the loans of small banks in rural areas had some of the characteristics of consumer instalment paper, but they cannot be regarded as such in any strict interpretation, because repayment was not provided for on a regular instalment basis.

On this latter point pertinent data are available for the years 1937-40, from a sample of 756 small banks, representing about 5

[12] See *Federal Reserve Bulletin* (May 1942) p. 440. Figures on the retail instalment outstandings of all insured commercial banks were first available as of December 31, 1939, when these banks submitted the figures on a supplementary schedule to the federal bank supervisory agencies; these figures are summarized, by states, in the *Federal Reserve Bulletin* (June 1940) p. 526. More comprehensive data on consumer instalment loans held by insured commercial banks have been available semi-annually since December 31, 1940; these figures are summarized, by states, in the *Federal Reserve Bulletins* and in Federal Deposit Insurance Corporation, *Assets and Liabilities of Operating Insured Banks.*

[13] See Appendix Table B-5.

percent of all insured commercial banks.[14] All of them earned materially higher rates of income on their loans than did other banks in the same state, and they attributed their higher-than-average income rates to the fact that a large fraction of their loans were small in amount. Of those banks that gave some indication of the dollar size of their loans all except a negligible proportion reported average loans of less than $500.

Some of these loans were reported by the banks as consumer instalment paper; but whether or not they were so reported, they appeared to be very similar in character to the usual cash loan extended by consumer instalment financing agencies, in respect of size of loan, security, and character of the charges imposed. But though to some extent they were made to farmers and local businessmen for business purposes, they did not provide for equal instalment repayments at regular intervals. A large proportion of the banks made loans to factory employees and other workers, providing for complete repayment within short periods of time, sometimes as short as 15 or 30 days.

WAR DEVELOPMENTS

How well the consumer instalment financing agencies will be able to adjust themselves to drastic changes during the war period remains to be seen. Cessation of the production of automobiles and many other types of durable consumer goods has already created severe problems for the sales finance companies. In the past this type of agency had the most flexible sources of funds, and curtailment of operations was followed rapidly by curtailment of outstanding obligations. The decrease in the volume of retail instalment business has now become so severe that sales finance companies have taken additional steps to adjust their operations.

[14] Correspondence undertaken in order to verify amounts reported as loan income, 1937-40, by individual insured commercial banks not members of the Federal Reserve System resulted in a body of usable information with respect to the character of loans and of charges. This sample consists of banks whose rate of income on loans, after verification, remained higher than the average for their respective states. Most of the banks included in the sample held total loans of less than $100,000, and were located in towns of less than 2,000 population, in the southern and western states. There were 26 of the banks, however, whose total loans amounted to $500,000 or more (6 whose loans exceeded $1,000,000), and 24 that were located in centers with a population of 50,000 or over. In this connection it is of interest that many country banks, responding to an inquiry from the National Bureau in connection with an earlier study, reported that all loans made by them were "personal" loans.

Some of the smaller companies have announced their intention of liquidating; others that had a substantial proportion of small loan business have shifted over completely to that type of activity. The larger companies, which had already developed other outlets for funds, have been spurred to expand into additional channels, such as the discounting of accounts receivable, making working capital loans to companies with war contracts or subcontracts, and even acquiring manufacturing or engineering subsidiaries engaged in the war effort, or insurance companies. One large regional company has sold its receivables to a national company, and another has been purchased by an affiliate of a large branch bank system, some of its automobile receivables and offices being acquired by the bank.

Figures for cash-lending agencies reveal that their loans also fell off during 1941, and more drastically during 1942, after Regulation W became effective. The decline was particularly acute among the industrial banking companies and credit unions. The decrease in loan volume among industrial banks has resulted in increased holdings of United States government securities in an effort to keep idle funds employed; and the same is true of credit unions.

On the other hand, a number of personal finance companies have succeeded in sufficiently curtailing the amount of funds, through the retirement of borrowings or of preferred capital, to avoid the retention of large supplies of vital funds. A number of personal finance companies have also been absorbed by other units, including one large local company in the National Credit Office sample.