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Financial Research Program
Studies in Business Financing

NATIONAL BUREAU OF ECONOMIC RESEARCH

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Studies in Business Financing

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Preface

STUDIES IN BUSINESS FINANCING, the second major investigation of the National Bureau's Financial Research Program, was begun early in 1940 under grants from the Association of Reserve City Bankers and the Rockefeller Foundation. This project has had three major objectives: 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 for recent years the cross-sectional pattern of business credit demands; and third, to describe the adaptations that financing institutions providing short- and medium-term credit have made in response to changing demands for their services.

Research activities have been carried on under two main divisions: "Changes in Financing American Business Enterprise, 1900-40," concerned primarily with the first objective, and "Contemporary Relations Between Business Enterprise and Financial Institutions," devoted specifically to the second and third objectives. Because of the breadth of the field covered by these two divisions, it proved expedient to prepare a number of complementary technical studies under each, in order to develop and systematize materials in limited areas for later use in more general interpretative studies. While each of the technical studies is of restricted scope, together they build up a more complete analysis of changes and adaptations in business financing than would otherwise be possible. Studies prepared under the two divisions will be summarized in a final interpretative volume.

Accounts Receivable Financing is one of the four technical studies prepared under the second division by Neil H. Jacoby and Raymond J. Saulnier. *Term Lending to Business* was the first publication in this series on contemporary relations between business and lending agencies. Other studies cover equipment financing and field warehousing.

The preparation of each of these studies has required extensive interviews with officers of specialized financing agencies and commercial banks in the main lending centers east of the Mississippi; further statistical information has been assembled through special questionnaires. We wish to acknowledge our obligation to these officers for their generous help, as well as to the financial agencies that cooperated in supplying statistical information through questionnaires. Without this cordial assistance, these studies would be far less rich in factual detail and the treatment would be far less adequate.

Changing demands of business for short- and medium-term credit have produced two major types of adaptations on the supply side of the business financing market. Commercial banks have made marked changes in their lending policies and techniques while lending agencies have developed outside the private banking system to meet newer kinds of credit needs. The rapidity with which these adaptations have been accomplished is perhaps responsible for the fact that little is known of their character and extent. Accounts receivable financing, particularly in its non-notification aspect, constitutes one of the most interesting and important of these changes in business financing methods.

This study attempts to present the development of all receivables financing through the operations of factors, commercial finance companies and commercial banks; to develop estimates of its quantitative importance; and to show the types of clients served and types of services offered by each of the principal receivables financing agencies.

RALPH A. YOUNG

January, 1943

Director, Financial Research Program

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So many others have assisted in the conduct of the investigation that it is impossible to make specific acknowledgments. The officers of nearly 300 commercial banks made possible, through their completion of questionnaires, the estimates of commercial bank receivables loan volume. A number of bank officers have made indispensable contributions to the work through extensive interviews and by preparing the special schedules of information that provide the main statistical basis of our discussion of bank non-notification financing. Officers of a number of commercial finance companies and factoring companies have talked with the authors at considerable length, thus giving us the benefit of their wide experience in a field little known by those outside it and, further, have permitted us to study at first hand the technical operations of their companies. The study has profited greatly from the wholehearted support of these men and the concerns they represent; the

authors are especially pleased to make grateful acknowledgment of their very kind assistance.

The authors wish, also, to express their gratitude to the staffs of Dun & Bradstreet, Inc., and the National Credit Office, Inc., for their cooperation. Members of the examining divisions of the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York and the Federal Deposit Insurance Corporation have discussed with us certain aspects of receivables loans as made by commercial banks and we are deeply appreciative of their help.

Lorine Pruette undertook editorial responsibility on the manuscript and has made contributions to the sharpness and readability of the discussion for which we are most grateful. Renée S. Courtney was responsible for the checking of statistical details and for much of the task of seeing the manuscript through the press.

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Accounts Receivable Financing

