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Characteristics of Clients

FOR THE PURPOSES of the present study the most important characteristics of concerns using receivables financing are size, industrial type and credit standing. Adequate information on these three characteristics would make it possible to show the extent to which the different financing agencies serve the same types of customers and would also define the market areas in which the various agencies are most active. It is very difficult to assemble data on the clients of particular types of agencies and it has therefore been necessary to describe only the main outlines of the factoring and non-notification markets.

Clients of Factors

Very little information is available on the size characteristics of the individual clients of factoring companies. It is known, however, that textile manufacturers, converters and selling agents comprise the bulk of the concerns that utilize factoring services. Table 7 gives the size distribution of all corporations in the textile industry, indicating the outlines of the principal market for factoring services.

It will be seen in Table 7 that most of the concerns producing textile mill products are small but that the large companies make more than half of the sales. Of the 7,128 textile corporations submitting balance sheets with their 1937 Federal corporation income tax returns, 85 percent had assets of less than $500,000 but these accounted for only about 25 percent of the total sales. It may be that financial and other considerations make it more likely that the relatively small concerns will seek factoring services but there is only indirect statistical evidence to test this hypothesis. Furthermore, there

Table 7—Total Assets and Gross Sales of Textile Manufacturers, 1937, by Asset Size [a]
(dollar figures in thousands)

Asset Size [b]	*Number of Corporations*	*Total Assets*		*Gross Sales*		
		Amount	Percent	Amount	Percent	Average per Corp.
Under $50	3,177	$61,025	1.7%	$177,199	4.1%	$56
50–100	987	70,316	1.9	168,151	3.9	170
100–250	1,128	180,283	5.0	356,927	8.2	316
250–500	665	237,953	6.5	400,920	9.2	603
500–1,000	506	355,083	9.8	518,908	11.9	1,026
1,000–5,000	538	1,130,749	31.2	1,340,289	30.9	2,491
5,000–10,000	77	508,870	14.0	499,366	11.5	6,485
10,000 and over	50	1,083,827	29.9	881,839	20.3	17,637
Total	7,128	$3,628,106	100.0%	$4,343,599	100.0%	$609

[a] Based on *Statistics of Income for 1937,* Part 2, pp. 101-02. Includes income and deficit corporations submitting balance sheets with 1937 corporate income tax returns.
[b] Each size class is inclusive of the lower limit and exclusive of the upper.

are indications that even the largest concerns use the services of the factor, if not for all of their sales at least for all sales of a specific division of their business. It seems to be generally agreed that most of the clients of factors range in total asset size from $100 thousand to $3 million and that the concerns at the upper end of this range account for most of the factoring volume. Certain clients of factors, among them some of the largest concerns in the textile industry, have total assets greatly in excess of $3 million. Likewise, there is a wide range in amounts of receivables originated by individual clients and held by the factor at any one time. These amounts range, for the bulk of clients, between $30,000 and $300,000, with most of the factoring business originating in the larger accounts.[1] A few clients would have much more than $300,000 of unmatured sales held by the factor at any one time.

Going beyond their traditional specialization in textile financing, factors have recently extended their services to other industries. The information available on the extent of this diversification and on the chief characteristics of the companies served is fragmentary and comes from statements made in advertising matter, financial reports and stock prospectuses. In these sources the following industries are mentioned as served by certain factoring companies: shoes, men's clothing, furniture, bottles, paper, radio tubes, rubber goods, carpets, gloves, home furnishings, petroleum products, glass, liquor, furs, lumber, coal, and metal products. Doubtless this list could be added to; it is generally estimated in the trade that at this time, in the early stages of non-textile factoring, these lines account for about 10 percent of factoring volume.

It should be emphasized that some companies have been more aggressive than others in going into non-textile factor-

[1] Clients are in most instances manufacturers, converters and selling agents and vary in number for different factors from 100 to 400. The six large factors purchased receivables in amounts varying from $31 million to nearly $122 million. These data have not been used to compute average size of clients because of the wide differences in size and because, in many cases, clients sell receivables to the factor while making little if any use of the factor's funds. Their need is apparently exclusively for the credit approving, collection and risk-taking services of the factor.

ing; some companies still restrict themselves exclusively to that field, and some, within textiles, to woolen and worsted trades. Also, the volume developed outside of textiles is sometimes accepted by factors on a recourse basis. In this respect it represents an operation closely akin to that of the non-notification commercial finance companies, but it differs in the important respect that the factors notify the trade customers and collect the accounts.

There is virtually no information available on the characteristics of the customers of the factor's clients, namely, those whose obligations are purchased when a factoring company buys receivables. But it seems reasonable to infer from the nature of the factor's clients—and this inference is verified by individuals in the trade—that these debtors are mainly in the cutting-up trade, manufacturing, jobbing and retailing. One factoring company reported that the $14.6 million of receivables on its books on September 30, 1936 represented debts of 17,000 customers spread throughout the country. This would make an average balance per client's customer (that is, trade debtor) of about $800; further information shows that during 1936 the factor purchased, on the average, about $5,000 of receivables for each of its client's customers.

Clients of Non-Notification Financing Agencies

The principal characteristics of concerns utilizing the receivables financing services of commercial banks and commercial finance companies can be described with considerable factual detail on the basis of information assembled from 24 banks and 2 commercial finance companies. These institutions were asked to supply certain information on each of their clients. Because of the similarity of the services offered by the banks and commercial finance companies, reports from both types of agencies are combined in the following tables. In Table 8, which distributes the reported loan balances according to the main business activity of the vendor or assignor of the receivable, it is shown that clients are predominantly from the manufacturing industries; this group comprised 220

Table 8—NUMBER AND AMOUNT OF ACCOUNTS RECEIVABLE LOAN BALANCES, BY MAIN BUSINESS ACTIVITY OF CLIENT[a]

Main Business Activity of Client[b]	*Number of Clients*	*Loan Balances Reported*	
		Amount	Percent
Mining and extraction	*4*	*$51,016*	*.4%*
Construction	*11*	*348,616*	*2.6*
Manufacturing	*220*	*9,581,232*	*70.1*
Food and kindred products	11	689,995	5.0
Textile mill products	20	1,235,881	9.0
Apparel and other finished fabric products	23	1,157,023	8.5
Furniture and finished lumber products	22	1,096,054	8.0
Paper and allied products	12	684,722	5.0
Printing, publishing and allied industries	11	155,580	1.1
Leather and leather products	10	345,264	2.5
Stone, clay and glass products	14	171,205	1.3
Iron and steel and products	31	599,924	4.4
Transportation equipment (excluding autos)	13	294,047	2.2
Machinery	25	791,982	5.8
Other manufacturing	28	2,359,555	17.3
Wholesaling	*69*	*1,920,108*	*14.0*
Food and kindred products	12	135,271	1.0
Textile mill products, apparel and other finished fabric products	6	359,869	2.6
Lumber and lumber basic products	7	432,199	3.2
Metals and their products	13	499,000	3.6
Machinery	10	175,000	1.3
Chemicals and allied products and products of petroleum, coal and natural gas	7	27,049	.2
Other wholesaling	14	291,720	2.1
Retail trade	*24*	*1,524,150*	*11.2*
Service	*33*	*237,127*	*1.7*
TOTAL	361	$13,662,249	100.0%

[a] Data supplied by 24 commercial banks and 2 commercial finance companies.
[b] Classified according to the Standard Industrial Classification.

of the 361 clients and 70 percent of all loan balances reported. Within the manufacturing group there is a very wide distribution of clients; the most important are manufacturers of textile mill products, apparel, and furniture and other finished lumber products. It is interesting that not one of the eleven specific groups of manufacturing industries accounted for as much as 10 percent of the loan balances reported. After manu-

Table 9—NUMBER AND AMOUNT OF ACCOUNTS RECEIVABLE LOAN BALANCES, BY AVERAGE LOAN BALANCE AND BY CLIENT'S TOTAL ASSETS [a] *(dollar figures in thousands)*

Average Loan Balance [b]	ASSET SIZE [b]															
	Under $50		*$50-200*		*$200-500*		*$500-1,000*		*$1,000-2,000*		*$2,000-3,000*		*$3,000 and Over*		*Total*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Under $1	18	$10.3	3	$1.6	..	..	..	..	..	..	..	..	..	..	21	$11.9
1–2.5	29	45.4	17	29.1	..	..	1	$2.0	..	..	..	..	..	..	47	76.5
2.5–5	19	92.6	12	38.6	6	$21.2	..	..	..	..	..	..	..	..	47	152.4
5–10	26	175.9	28	200.1	3	21.1	2	17.9	..	..	..	..	..	..	59	415.0
10–25	6	74.9	33	521.8	13	228.3	9	135.6	1	$17.2	..	..	2	$31.5	64	1,009.3
25–50	2	71.5	13	428.4	19	625.2	7	263.7	3	95.0	..	..	..	..	44	1,483.8
50–100	..	..	6	364.5	20	1,245.5	11	750.5	5	362.5	1	$70.0	..	..	43	2,793.0
100–200	..	..	..	..	7	937.0	4	588.5	5	736.1	2	312.1	..	..	18	2,573.7
200–500	..	..	..	..	..	..	2	671.3	1	350.0	1	247.0	4	1,185.3	8	2,453.6
500 and over	..	..	..	..	..	..	..	..	..	..	1	640.0	2	1,950.0	3	2,590.0
TOTAL	110	$470.6	112	$1,584.1	68	$3,078.3	36	$2,429.5	15	$1,560.8	5	$1,269.1	8	$3,166.8	354	$13,559.2
Percent		3.5%		11.7%		22.7%		17.9%		11.5%		9.4%		23.4%		100.0%

[a] Data supplied by 24 commercial banks and 2 commercial finance companies.
[b] Each size class is inclusive of the lower limit and exclusive of the upper.

facturing, the next most important classes of clients are wholesalers and retailers, accounting for 14 percent and 11 percent, respectively, of reported balances. This table shows clearly that non-notification financing has a far greater industrial diversification than old-line factoring.

Table 9 shows the total assets of clients obtaining funds through the sale or assignment of accounts receivable to commercial finance companies and banks. It is obvious that this type of financing is used to a surprising extent by very small firms; 110 (about 31 percent) of the 354 clients classified had total assets of less than $50,000. However, these small concerns borrowed less than 4 percent of the total balances reported. Concerns with total assets of less than $200,000 accounted for 63 percent of the total clients and 15 percent of the loan balances reported. It is clear, therefore, that while the small firms constitute a majority of the borrowers, their balances are far less important than the balances of the less numerous larger clients.

In Table 10 additional data are presented covering the operations of one medium-sized regional commercial finance company. This table is of particular interest in that it shows the wide range in amounts of receivables held for different industrial types of trade debtors. These average amounts vary all the way from $19 for what are probably retailers of artificial flowers to $20,011 for the customers of construction and engineering concerns.

Two sets of facts permit a further description of the concerns borrowing on the non-notification assignment of their accounts receivable and reflect, indirectly, the financial strength of these concerns. In general, the evidence indicates, first, that these concerns do not continue to finance themselves on this basis for a long period of time with any particular financing agency and, second, that they infrequently borrow concurrently from a second institution. With regard to the first consideration the following data show that, for the sample of cases studied, the average period over which current receivables borrowers have been clients of a particular lender is only

Table 10—AVERAGE AMOUNT OF RECEIVABLES HELD BY ONE REGIONAL COMMERCIAL FINANCE COMPANY PER CLIENT AND PER TRADE DEBTOR, DECEMBER 31, 1940, BY INDUSTRY OF CLIENT

Industry of Client	*Average Amount of Receivables Held*	
	Per Client	Per Trade Debtor
Auto parts, accessories and equipment	$11,054	$232
Brushes	4,159	154
Building materials	13,264	276
Cellulose products	1,136	76
Chemical compounds and fluids	2,516	387
Clothing (men's)	15,422	313
Clothing (women's)	4,953	127
Coal	11,459	164
Construction and engineering	40,021	20,011
Electrical appliances and equipment	19,580	113
Flowers (artificial)	535	19
Foodstuffs	10,628	140
Furniture (wholesale)	17,440	764
Glassware	23,528	392
Hardware	15,608	202
Household goods and equipment	6,389	55
Household utensils	39,101	99
Industrial equipment and supplies	5,137	266
Jewelry	4,080	102
Leather and hides	22,290	2,123
Lumber and plywood	28,671	746
Medical supplies and drugs	5,572	138
Metal novelties and specialties	3,509	44
Miscellaneous	4,828	3,863
Notions and beauty supplies	37,549	333
Oil (fuel)	5,592	205
Optical supplies	16,471	289
Paint and varnish	11,266	99
Plumbing and heating supplies	13,691	522
Printing, lithography, binding	7,551	145
Radios	22,000	324
Rags and waste	9,191	1,451
Ribbons	7,821	42
Rubber goods and novelties	18,461	471
Steel and metals	50,920	828
Tobacco	895	179
Tools and dies	261	261
Toys and play equipment	3,783	52
Twine and cordage	12,905	215
Wines and liquors	10.558	175
Yarn and cloth	3,328	1,331

about two years. This average is based on reports from non-notification agencies classifying their present clients according to the year in which their first receivables loan was granted.

Year of First Receivables Loan	*Number of Present Clients*
1941	98
1940	119
1939	89
1938	54
1937	25
1936	14
1935	18
1934	5
1933	3
1932	2
1930	1
1927	1
Number reported	429
No information	8
TOTAL	437

Average number of years present clients have been receiving loans from reporting agencies: 2.07 [a]

[a] Average computed by assuming that clients reported as receiving first receivables loan in 1941 were served one-half year by the time the survey was made, that those reported for 1940 had been served for one year, 1939 concerns for two years, etc. Based on data supplied by 24 commercial banks and 2 commercial finance companies.

These data do not bear directly on the question of how long, on the average, receivables financing is used by borrowers since they relate only to present borrowing clients. Since these clients will continue to use the financing agency's services for some additional period the data do not indicate the whole span of the client's patronage of a given agency. The findings correspond roughly, however, to impressions and definite statements obtained in the field; the actual span of use is generally stated at about 3½ to 4 years, although some agencies claim that customers may use their facilities for 5 or 6 years, or even longer. One agency reported that its customers either improved in a short time to the point where they could obtain the needed funds on other bases, enjoying more favorable rates because of a better credit standing, or tended to deteriorate to the extent that they could not obtain credit at all. It was stated that this would generally be true of the business as a whole, with the qualification that in old-line factoring the client's patronage continues over a much longer period.

Finally, some banks have maintained that receivables financing is properly considered as an "interim" form of obtaining funds. By this method, companies that would otherwise be inadequately financed, or totally without borrowed capital, are able to obtain funds. But if the company does not show signs of improvement in its financial position, the lender will break relations with the borrower.

Non-notification financing appears in many cases to be an exclusive method of short-term financing. Out of 358 receivables borrowers on which information was available, 173 used this as their only source of borrowed funds. Of the other concerns, some received additional funds from their receivables financing agency on some other basis than on the assignment of receivables, some acquired these additional funds from another agency, or, more rarely, from both the reporting agency and another lender. Because of the technical difficulties and added credit risk involved in taking assignments of receivables from a concern which also assigns part of its receivables to another agency, the lender almost never makes loans on this basis.

These two sets of facts constitute only indirect evidence and are by no means conclusive as regards the financial position of borrowers utilizing non-notification financing arrangements. However, in showing that these borrowers are very likely to be dependent upon receivables financing as the only source of funds and that the borrowers do not continue to use this source for long periods of time, the evidence suggests that the clients are, in many instances, in impaired financial position. This generalization was confirmed by numerous discussions with credit officers having experience in this field. It may be said, therefore, that the non-notification accounts receivable financing technique is used mainly by relatively small concerns of limited financial strength with the qualification that there are some concerns that use the service not because of an inability to obtain credit otherwise but because the receivables loans and the ancillary services provided by the receivables financing agency are deemed unique and desirable in themselves.

The borrowers reported in this survey were analyzed also with respect to their net worth, in an effort to throw some further light on the relative financial strength of non-notification borrowers. The results of this analysis show, first, that the size of the borrower's loan balance is closely related to the absolute amount of the company's net worth, increasing with increases in the amount of net worth. This relation is almost exactly the same as that displayed in Table 9 on asset size of borrower and amount of loan balance. Analysis of the ratios of net worth to total assets presented in Table 11 shows that there is a wide disparity among borrowers. Of the $13.5 million in receivables loan balances reported, approximately 1 percent had been lent to companies with a net worth deficit, 9 percent to concerns with net worth of less than 20 percent of total assets and about 12 percent to companies with net worth of 80 percent or more of total assets. In view of the fact that the ratio of net worth to total assets of all corporations in the United States reporting net income for tax returns in 1937 was nearly 60 percent and that this was true also of all corporations with total assets of less than $500,000, we

Table 11—ACCOUNTS RECEIVABLE LOAN BALANCES, CLASSIFIED BY RATIO OF BORROWER'S NET WORTH TO TOTAL ASSETS [a] (*dollar figures in thousands*)

Ratio of Net Worth to Total Assets [b]	*Number of Companies*	*Loan Balances Reported*	
		Amount	Percent
Under 20%	27	$1,273.3	9.4%
20–40	89	4,292.2	31.9
40–60	115	3,294.7	24.5
60–80	86	2,886.8	21.4
80 and over	27	1,607.5	11.9
Deficit	6	123.4	.9
TOTAL	350	$13,477.9	100.0%

[a] Data supplied by 24 commercial banks and 2 commercial finance companies.
[b] Each class is inclusive of the lower limit and exclusive of the upper.

may infer from Table 11 that the average ratio of owner's equity to total assets for receivables borrowers was considerably less than for all companies. While this is not conclusive evidence that the group of receivables borrowers is relatively weak financially, it tends to support that view.