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The Relationship of Mercantile Credit Ratings to Delinquent Accounts in Albuquerque, New Mexico 1951-1953

Lowry G. Kinzer

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THE RELATIONSHIP OF MERCANTILE CREDIT RATINGS TO DELINQUENT
ACCOUNTS IN ALBUQUERQUE, NEW MEXICO, 1951 THROUGH 1953

By
Lowry G. Kinzer

A Thesis
In partial fulfillment of the
Requirement for the Degree of
Master of Business Administration

The University of New Mexico
1957

THE RELATIONSHIP OF INDUSTRY AND AGRICULTURE TO THE
ACCOUNTS FOR ALTERNATIVE INVESTMENT STRATEGIES



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MASTER OF ARTS

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DEAN

Oct 12, 1957
DATE

Thesis committee

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MASTER OF ARTS

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NEW YORK STATE DEPARTMENT OF INSURANCE

STATEMENT OF THE PROBLEM

How useful are the ratings of a mercantile credit agency to the businessmen of a given metropolitan area, as judged by the delinquent accounts referred for collection to that agency.

STATEMENT OF THE PROBLEM

How useful are the results of a research in terms
agency to the business as a given marketing step, as
judged by the delinquents' records referred for collection
to that agency.

CHAPTER I

CREDIT RATINGS AND CREDIT REPORTS

Mercantile credit is an essential element in the American distribution system. Mercantile credit is that credit which is extended by merchants to business customers in the process of selling goods, and it facilitates the movement of goods through the channels of distribution. The successful granting of mercantile credit requires that credit losses be held to a minimum, and this, it is felt, can be done only if the grantor of credit has adequate information about the ability of his customers to make satisfactory payment.

Those who have the responsibility for granting credit to customers have given considerable thought to the problem of securing adequate information, and a number of tools and techniques have been developed over the years to aid the credit manager to secure the information which will enable him to make correct credit decisions. One of these aids is the mercantile credit agency whose operations are designed to provide to the grantor of credit (credit manager) detailed information which bears on the ability of a prospective account to satisfactorily meet his obligations.

The specific assistance offered takes two forms: credit ratings and credit reports. The credit rating is a

MEANS OF CREDIT RATING AND CREDIT REPORTS

Merchandise credit is an essential element in the American distribution system. Merchandise credit is credit which is extended by merchants to business customers in the process of selling goods, and it facilitates the movement of goods through the channels of distribution. The successful granting of merchandise credit requires that credit losses be held to a minimum, and this, it is felt, can be done only if the grantor of credit has adequate information about the ability of his customers to make satisfactory payment.

Those who have the responsibility for granting credit to customers have given considerable thought to the problem of securing adequate information, and a number of such methods have been developed over the years to aid the credit manager to secure the information which will enable him to make correct credit decisions. One of these methods is the merchandise credit agency whose operations are designed to provide to the grantor of credit (credit manager) detailed information which bears on the ability of a prospective customer to satisfactorily meet his obligations.

The specific assistance offered by these agencies is a credit rating and credit report. The credit rating is a

letter or numerical designation assigned to a company according to some standardized system which is supposed to represent a composite appraisal of the firm's ability to meet its obligations. The credit report is a summary (usually in standardized form) of the various aspects of a firm's operations that are thought to have a bearing on the firm's credit ability. The detailed conditions summarized in the credit report are reflected in, and determine the nature of, the composite credit rating.

This credit rating service has achieved considerable success (especially as a business venture) and has developed general use over the past century. Yet even the merchants who make use of the service continue to suffer losses from delinquent accounts. The question with which this investigation deals concerns whether the credit rating service actually does enable the merchant who uses it to extend credit with improved chances of securing repayment. Do the credit ratings accurately indicate the credit ability of the rated firms?

Approach to the problem. If it were possible to examine all the credit extensions made by mercantile businesses to their customers and to determine whether the experience with regard to satisfactory or unsatisfactory payment bore any significant relations to the credit ratings

letter or numerical designation assigned to a security account-
ing to some standardized system which is supposed to represent
a composite appraisal of the firm's ability to meet its
obligations. The credit report is a summary of the firm's
standardized (and) of the various aspects of a firm's oper-
ations that are thought to have a bearing on the firm's credit
ability. The detailed conditions summarized in the credit
report are reflected in, and determine the nature of, the
composite credit rating.

This credit rating service has not yet been developed
sufficiently as a business venture, and has developed
general use over the past century. Yet even the services
who make use of the service continue to suffer losses from
delinquent accounts. The question which arises in invest-
ment decisions concerns whether the credit rating service
actually does enable the investor who uses it to extend
credit with improved chances of receiving repayment. Do the
credit ratings accurately indicate the credit ability of
the rated firms?

Although the firm's credit rating is a very important
examine all the credit extensions made by the firm's
banks to their customers and to determine whether the
experience with regard to extensions of credit is
payment have any significant relation to the credit rating

assigned to the debtor firms, then it would be possible to reach certain conclusions concerning the effectiveness of credit ratings. While such an enormous undertaking is beyond the scope of this investigation, it does attempt to develop useful information on a more limited scope by examining a portion of the delinquent accounts cleared through the Dun and Bradstreet office in Albuquerque, New Mexico, with reference to the credit ratings assigned to the delinquent firms by Dun and Bradstreet.

If it can be shown that all (or a major portion) of these delinquent accounts were those of firms with low ratings, then it would appear that credit had been extended either without reference to the Dun and Bradstreet rating or credit had been granted despite the low credit rating. In either case Dun and Bradstreet rating would appear to be correct.

If, on the other hand, it can be shown that a major portion of these delinquent accounts were those of firms with high ratings, then it would appear that the Dun and Bradstreet ratings were incorrect.

Experience shows that many delinquent accounts are those of firms which receive neither high nor low ratings. In the case of these firms with intermediate ratings, credit can not be granted purely on the basis of the rating but can be done only after examination of a credit report. Then there are several possibilities concerning the reason for

assigned to the auditor firm, then it would be possible to
reach certain conclusions concerning the effectiveness of
credit ratings. While such an exercise necessitates a review
the scope of this investigation, it does attempt to determine
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If, on the other hand, it can be shown that a major
portion of these delinquent accounts were those of firms
with high ratings, then it would appear that the Dun and
Bradstreet ratings were incorrect.

Experience shows that many delinquent accounts are
those of firms which receive either high or low ratings.
In the case of these firms with high ratings, credit
can not be granted solely on the basis of the rating but
can be done only after examination of a credit report. Then
there are several possibilities concerning the reason for

improper credit extension:

1. The creditor ignored the credit report; either
 - a. he did not use the report, or
 - b. he disregarded the report.
2. The creditor used the credit report; either
 - a. the creditor misinterpreted the report, or
 - b. the report itself was not useful, because
 - (1) there is incorrect appraisal by Dun and Bradstreet, or
 - (2) the criteria of appraisal is not useful to the creditor.

In order to make some evaluation of the usefulness of Dun and Bradstreet credit ratings and reports, with respect to avoiding delinquent accounts, it was decided to examine the ratings and reports concerning all accounts which subsequently became delinquent and were referred for collection through the Albuquerque Dun and Bradstreet office.

Limitations. The method employed in this study is subject to a number of limitations. The principal ones are:

1. Since the total amount of credit extended to Albuquerque merchants during this period is unknown, the proportion of credit extended that was delinquent also is not known. There is no basis for determining the volume of delinquency.

2. With respect to delinquent accounts placed with Dun and Bradstreet for collection, we do not know in which individual cases credit was granted on the basis of a Dun

Impover credit extension:

- 1. The creditor ignored the credit report; either
 - a. he did not use the report, or
 - b. he disregarded the report.

- 2. The creditor used the credit report; either
 - a. the creditor misinterpreted the report or
 - b. the report itself was not useful, because
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 - (2) the criteria of appraisal is not useful to the creditor.

In order to make some evaluation of the usefulness of Dun and Bradstreet credit ratings and reports, with respect to avoiding delinquent accounts, it was decided to examine the ratings and reports concerning all accounts which subsequently became delinquent and were referred for collection through the Albuquerque City and Bradstreet Office.

Limitations. The method employed in this study is

subject to a number of limitations. The principal ones are:

- 1. Since the total amount of credit extended to Albuquerque merchants during this period is unknown, the proportion of credit extended that was delinquent also is not known. There is no basis for determining the volume of delinquency.

- 2. With respect to delinquent accounts, almost all Dun and Bradstreet for collection, we do not know to what individual cases credit was granted on the basis of a Dun

and Bradstreet rating or report. We have, however, attempted to overcome this limitation by a dividing of the delinquent accounts into those of subscribers and those of non-subscribers to Dun and Bradstreet's service. The nature of information obtained by non-subscribers from other sources is impossible to determine.

3. It is difficult to determine that the delinquent accounts examined in this study are representative of all delinquent accounts in the Albuquerque area, nor do we know whether the amounts examined or the Albuquerque area are representative of national circumstances. However, it is estimated by the Albuquerque office of Dun and Bradstreet that throughout the United States Dun and Bradstreet processes approximately 25 per cent of all the delinquent accounts, and that this same percentage is a conservative estimate of the proportion handled in the Albuquerque area.

Since this study of the usefulness of credit rating and credit reports is confined to examining Dun and Bradstreet, some explanation of that service is in order. This is the purpose of the following chapter.

and Bradstreet rating or report. However, it is not possible to overcome this limitation by a division of the total number of accounts into those of subscribers and those of non-subscribers to Dun and Bradstreet's service. The nature of information obtained by non-subscribers from other sources is insufficient to determine.

3. It is difficult to determine that the information accounts examined in this study are representative of all delinquent accounts in the Algonquin area, but it is not clear whether the accounts examined of the Algonquin area are representative of national circumstances. However, it is estimated by the Algonquin office of Dun and Bradstreet that throughout the United States Dun and Bradstreet processes approximately 25 per cent of all the delinquent accounts, and that this area represents a conservative estimate of the proportion handled in the Algonquin area. Since this study of the magnitude of credit ratings and credit reports is confined to examining Dun and Bradstreet some explanation of that service is in order. This is the purpose of the following chapter.

CHAPTER II

DEVELOPMENT OF THE MERCANTILE CREDIT AGENCIES

Although the Panic of 1837 was the moving influence in the development of The Mercantile Credit Agency, many merchants had been giving thought to the problems of credit evaluation for some time. As movement of the sales territory started inland, there developed a need for closer observation of credit extensions.

A trader would carry letters of reference from a clergyman or local banker and his purchases were often limited to one source of supply where he was known. Profits were large and losses high as might be expected. Spot cash discounts were high and the spirit of economic adventure ran high.

It was a period of wasteful plenty until the demand of the Jackson administration for specie payment on government lands brought with it a severe punishment of guilty and innocent alike. The withdrawal of specie from normal channels of trade and collapse of the entire banking structure of the country left business prostrate. Lack of a supported money and the resultant lack of credit robbed the axles of trade of a necessary lubricant.¹

Something needed to be done to prevent a reoccurrence of such a disaster. Far sighted businessmen knew that they

¹ "The Mercantile Agency", The Story of Impartial Credit Reporting, (New York: Dun and Bradstreet, Inc., 1949), p. 5-7.

DEVELOPMENT OF THE MERCHANTS CREDIT SYSTEM

Although the Point of 1873 was the starting point in the development of the Merchant's Credit System, merchants had been giving thought to the problem of credit evaluation for some time. An awareness of the same difficulty started inland, there developed a need for closer cooperation of credit extensions.

A trader would carry letters of reference from a foreigner or local banker and his purchases were often limited to one source of supply where he was known. Letters were large and losses high as might be expected. Such was the case where high and the spirit of accountants' adventure was high.

It was a period of constant change and the demand of the business administration for a more payment on government bonds brought with it a reversal of the old and a new order. The withdrawal of specie from normal channels of trade and collapse of the entire banking structure of the country left business prostrate. Lack of a response money and the resulting lack of credit raised the axes of trade of a necessary adjustment.

Something needed to be done to prevent a recurrence of such a disaster. An elected business man knew that they

1 "The Merchant's Credit System," The Story of Inland Credit Reporting, (New York: Dun and Bradstreet, Inc., 1907), p. 27.

must take the lead to remedy the haphazard procedure of credit granting. Thus, on August 1, 1841, Lewis Tappan ran the following opening announcement in regards to the formation of The Mercantile Agency:

This agency has been established with the concurrence of many experienced merchants in this city and in the country for the purpose of obtaining, in a proper manner, intelligence for the responsibility of merchants visiting the market from different parts of the country to purchase goods from time to time--the same to be imparted with proper limitations and restrictions, to such merchants and others, as may be disposed to patronize The Agency, and become subscribers thereto. The terms, and the plan and greater detail will be made known as above. Merchants interested in such sales are respectfully invited to visit the office.²

From this humble beginning The Agency began to expand. In 1846 Benjamin Douglas was taken into The Agency as a partner, and in 1854 he purchased The Agency. Through this consolidation, The Agency was instrumental in opening offices in important communities on the new highways, rail junctions, rivers, and along the Great Lakes. In 1859, R. G. Dun purchased The Agency, and the organization became the R. G. Dun and Company.

During these early years there were many other credit reporting agencies organized. The most significant was the Bradstreet Company. In 1855, John M. Bradstreet and his two sons established a New York office of the "John M. Bradstreet and Sons Improved Mercantile and Law Agency for Cities."

² Ibid., p. 14-15.

must take the lead in... of credit

Granting. Thus, on August 11, 1846...

following opening announcement in regard to the location

of the Mercantile Agency

This agency has been established with the assistance of many experienced merchants in this city and in the country for the purpose of obtaining, in a proper manner, intelligence for the responsibility of merchants... purchase goods from time to time... with proper limitations and restrictions... Agency, and become acquainted therewith... the plan and greater detail will be made known as above... Merchants interested in such matters are respectfully invited to visit the office.

From this humble beginning the Agency began to expand. In 1846 Benjamin Douglas was taken into the Agency as a partner, and in 1854 he purchased the Agency. Through this acquisition the Agency was instrumental in opening offices in important communities on the New England, West Indian, rivers, and along the great lakes. In 1857, H. C. Dow joined the Agency, and the organization became the H. C. Dow and Company.

During these early years there were many other credit reporting agencies organized. The most significant was the Bradstreet Company. In 1857, John A. Bradstreet and his sons established a new York office of the Bradstreet and Sons Improved Mercantile and Law Agency and Office.

In 1876 the business was incorporated as Bradstreet's Improved Mercantile Agency by Charles F. Clark who acquired control. For eighty years there was competition in supplying nationwide credit information.

The growth of the agencies was not unopposed however. In 1851, the Mercantile Agency had its critical test of the basic function of impartial credit reporting. Two disgruntled merchants of Norwalk, Ohio, brought a libel action against The Agency. The plaintiffs won the damage action but an immediate appeal was taken. National attention had been attracted, as a legal precedent would be established to determine the right of impartial credit reporting to exist. In 1869 the New York Court of Appeals held that a credit report was a "privileged communication."

With the legality of credit reporting established, the two competing agencies expanded steadily. In the early part of 1933 the two national agencies merged, and in 1942 Dun and Bradstreet merged with the Credit Clearing House, a credit reporting agency specializing in serving the apparel trades. Dun and Bradstreet currently lists 161 district offices, sub-offices and reporting offices in the United States, with seventeen in Canada and fifty-nine in other foreign countries outside the Iron Curtain. These offices cover approximately seventy thousand cities, towns, and hamlets in the United States and Canada.

In 1876 the business was incorporated as First National Bank of New York
New York Agency by Charles F. Blair and associated owners.
For eighty years there was continuous and increasing activity
wide credit information.
The growth of the agency was not unsteady however.
In 1851, the New York Agency had its critical test of the
basic function of impartial credit reporting. The disreputable
merchants of Newark, Ohio, brought a libel action against
The Agency. The district was the passage action but an
immediate appeal was taken. National attention had been
attracted, as a local precedent would be established to deter
mine the right of impartial credit reporting to exist. In
1869 the New York Court of Appeals held that a credit report
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With the legitimacy of credit reporting established,
the two competing agencies expanded steadily. In the early
part of 1933 the two national agencies merged, and in 1934
Dun and Bradstreet merged with the Credit Classification Bureau, a
credit reporting agency specializing in serving the financial
trades. Dun and Bradstreet's membership lists for districts
offices, sub-offices and reporting offices in the United
States, with branches in Canada and fifty-nine in other coun-
tries outside the United States. These offices cover
approximately seventy thousand cities, towns, and villages in
the United States and Canada.

Principal function. The principal function of Dun and Bradstreet is the same today as it was in 1841; to provide an impartial source of credit information to all types of business. The credit report for any business may be of three types.

First, for that group of small or uncomplicated businesses in which approximately 71 per cent of the businesses are classified, a "synopsis" form of report is used. This report, being of the simplest type, conveys to the subscriber the essential facts in the minimum amount of space. See Illustration IA and IB for an example of the reporter's synopsis form.

Second, for those concerns of a specialized nature which have minor organizational complications a "specialized" is prepared. Specialized reports have the same organization as synopsis reports; however, the analysis of information under each heading is more detailed.

Lastly, for those concerns with net worth in excess of \$50,000, with subsidiaries, and of a complicated nature, there is the "analytical" report. Again, the organization for the analytical report is the same as for the synopsis or specialized reports. However, topics that are included under other headings in the synopsis and specialized report, are independent sections in the analytical report. The analytical report consists of full balance sheets, profit

Financial Statement

and Bradstreet in the early days. It was in 1841 that the first annual report of a business was published. This report was a simple statement of the business for the year. It was a statement of the business as a whole, and it was a statement of the business as a whole. The first report for any business was of three types.

First, for that group of small or unorganized businesses in which approximately 90 per cent of the businesses are classified, a "synopsis" form of report is used. This report, being of the simplest type, conveys to the subscriber the essential facts in the minimum amount of space. For illustration A and B are an example of the synopsis form.

Second, for those concerns of a specialized nature which have minor organizational qualifications a "specialized" report is prepared. Specialized reports have the same organization as synopsis reports; however, the analysis of information under each heading is more detailed.

Lastly, for those concerns which are of a large size, of \$50,000, with subsidiaries, and of a diversified nature there is the "analytical" report. Again, the organization for the analytical report is the same as for the synopsis or specialized reports. However, besides that are included under other headings in the synopsis and specialized reports are independent sections in the analytical report. The analytical report consists of full balance sheets, profit

and loss statements, sales information, and dividend figures for the last three years of operation. This report is the most detailed and complete report prepared by Dun and Bradstreet.

Credit reporting is based on the following assumptions:

1. Credit ability can be measured by others.
2. One can establish useful criteria for measuring credit ability in others.
3. Businesses will use this credit information.

The reporter employed by Dun and Bradstreet obtains this information by personal interview if at all possible; if, however, the firm does not cooperate, the reporter finds other sources of information. These may be neighboring businesses, supply houses, or any other contact that is believed to be important. If satisfactory relations are developed during this initial contact, all other requests for information may be made via mail or telephone. It is estimated by Dun and Bradstreet that 90 per cent of all credit contacts are satisfactory.

After contact by the Dun and Bradstreet reporter, each business is assigned a rating. A rating is a symbol which summarizes and classifies all of the elements of character, capacity, and capital of a business enterprise, and the trend of its current financial position. A rating reflects, as accurately as possible, the facts and the analysis of these facts given in the report. When a rating is assigned to a

and loss statements, calculations, and other financial data for the last three years of operation. The report is the most detailed and complete report prepared by the business.

Credit reporting is based on the following assumptions:

1. Credit ability can be ascertained by direct
2. One can establish credit ability by direct
3. Businesses will use credit in the future.

The reporter employed by Dun and Bradstreet obtains this information by personal interview if he is possible; however, the firm does not accept the reporter's word as other sources of information. Where the reporter has no direct contact with the business, or any other contact that he believes to be important, it is necessary to investigate during this initial contact, all other persons who have contact with the business. It is determined by Dun and Bradstreet that 90 per cent of all credit contacts are satisfactory.

After contact by the Dun and Bradstreet reporter, each business is assigned a rating. A rating is a figure which summarizes and classifies all of the elements of creditworthiness, and capital of a business enterprise, and the trend of its current financial condition. A rating is given as accurately as possible, the facts and the analysis of those facts given in the report. When a rating is assigned to a

business enterprise, the rating is shown on the report and also in the Reference Book. When no rating is assigned to a concern listed, the symbol "--" (Blank Blank) is shown on the report. The symbol "NQ" (Not Quoted) is shown for concerns and business styles not listed in the Reference Book.

Ratings fall into two classes, namely:

1. capital rating combined with credit rating, and
2. numeral rating--which is combined with capital and credit rating.

Capital rating with credit rating. A capital rating accompanied by a credit rating uses two symbols in conjunction: one symbol to show estimated financial strength, and the second to indicate the composite credit appraisal. A capital rating with credit rating is normally applicable and is assigned in every case where there is adequate assurance of ownership, there is proper organization according to law, the exact or approximate amount of tangible net worth has been established, and the facts determined and analyzed give assurance that some reasonable degree of financial stability exists. The Rating Key provides symbols to indicate different capital brackets of "Estimated Financial Strength." Broadly speaking, the capital rating assigned are indicative of the capital bracket within which the tangible net worth of the concern falls.

business enterprise, the rating is shown in the report and
also in the Reference Book. Also the rating is referred to
a concern listed, the symbol is shown in the report and
the report. The symbol is shown in the report and
concern and business symbol are listed in the Reference Book.

Rating table for concerns, 1937

1. Capital rating assigned with symbol, letter, and
2. Numerical rating assigned to concerns with symbol
and credit rating.

Capital rating with symbol, letter, and credit rating

accompanied by a credit rating letter and symbol in concerns
list; one symbol to show financial strength, and
the second to indicate the concern's credit standing.
Capital rating with symbol, letter, and credit rating
is assigned in every case where there is adequate assurance
of ownership, there is proper management, and the concern is in
the exact or approximate amount of business and assets have
been established, and the book is maintained and revised give
assurance that some reasonable degree of financial stability
exists. The Rating key contains symbols for financial strength
and capital products of concerns and financial strength.
Broadly speaking, the capital rating assigned and indicates
of the capital product which the concern has worth
of the concern falls.

The Rating Key provides symbols indicative of the relative composite credit appraisal to accompany each capital rating symbol. In the capital range Aa through L, there are four credit rating symbols for each capital rating bracket graded as "High," "Good," "Fair," and "Limited." The selection of the credit rating involves a composite credit appraisal, and the determination of the relative credit classification. The key to the credit ratings appears on the following page, and several broad composite credit appraisals are discussed below.

The composite credit appraisal selected depends upon the existence of eight primary conditions as applied to a particular case. When all of these conditions are met, a "High" credit rating invariably applies. These eight primary conditions are:

- I. Sound legal constituency of the enterprise--that is, proper organization according to law and adequate assurance of ownership.
- II. Generally in business for one year and preferably three or more years
- III. Experienced, well-balanced management--no gap in antecedents
- IV. No criticized failures or fires
- V. Financial affairs in healthy condition
- VI. Financial statements regularly submitted or made available on request for use in the report
- VII. Trend points to a continued healthy condition
- VIII. Obligations retired according to agreement.

The Rating Key consists of a list of relative composite credit symbols to accompany each rating symbol. In the capital rating system, there are four credit rating symbols for each capital rating. The rating is graded as "High", "Good", "Fair", and "Limited". The selection of the credit rating involves a composite credit appraisal, and the determination of the relative credit classification. The key to the credit ratings appears on the following page, and several broad composite credit appraisals are discussed below.

The composite credit appraisal selected depends upon the existence of eight primary conditions as applied to a particular case. When all of these conditions are met, a "High" credit rating is usually applied. These eight primary conditions are:

- I. Sound legal constitution of the enterprise--that is, proper organization according to law and adequate authority of management.
- II. Generally in business for one year and preferably three or more years.
- III. Experienced, well-trained management--no key is adequate.
- IV. No unduly large number of lines.
- V. Financial affairs in healthy condition.
- VI. Financial statements regularly submitted or made available on request and are in the report.
- VII. Trend points to a constant healthy condition.
- VIII. Obligations related according to agreement.

Partial KEY TO RATINGS

The Key is given in part below and in this position in the book to serve only as a quick reference. The explanatory notes with the Key on the inside front cover of this book should be consulted for interpretation of the ratings.

ESTIMATED FINANCIAL STRENGTH				COMPOSITE CREDIT APPRAISAL			
				<i>High</i>	<i>Good</i>	<i>Fair</i>	<i>Limited</i>
AA	Over	\$1,000,000	- - - - -	A1	1	1½	2
A+	Over	750,000	- - - - -	A1	1	1½	2
A	\$500,000 to	750,000	- - - - -	A1	1	1½	2
B+	300,000 to	500,000	- - - - -	1	1½	2	2½
B	200,000 to	300,000	- - - - -	1	1½	2	2½
C+	125,000 to	200,000	- - - - -	1	1½	2	2½
C	75,000 to	125,000	- - - - -	1½	2	2½	3
D+	50,000 to	75,000	- - - - -	1½	2	2½	3
D	35,000 to	50,000	- - - - -	1½	2	2½	3
E	20,000 to	35,000	- - - - -	2	2½	3	3½
F	10,000 to	20,000	- - - - -	2½	3	3½	4
G	5,000 to	10,000	- - - - -	3	3½	4	4½
H	3,000 to	5,000	- - - - -	3	3½	4	4½
J	2,000 to	3,000	- - - - -	3	3½	4	4½
K	1,000 to	2,000	- - - - -	3	3½	4	4½
L	Up to	1,000	- - - - -	3½	4	4½	5

CLASSIFICATION AS TO BOTH ESTIMATED FINANCIAL STRENGTH AND CREDIT APPRAISAL

FINANCIAL STRENGTH BRACKET		EXPLANATION
1	\$125,000 to \$1,000,000 and Over	{ When only the numeral (1, 2, 3, or 4) appears, it is an indication that the estimated financial strength, while not definitely classified, is presumed to be within the range of the (\$) figures in the corresponding bracket and that a condition is believed to exist which warrants credit in keeping with that assumption.
2	20,000 to 125,000	
3	2,000 to 20,000	
4	Up to 2,000	

NOT CLASSIFIED OR ABSENCE OF RATING

The absence of a rating, whether as to estimated financial strength or as to credit appraisal, and whether expressed by the hyphen (-), the dash (—), or by the (x) sales listing (see below), or by the omission of any symbol, is not to be construed as unfavorable but signifies circumstances difficult to classify within condensed rating symbols and should suggest to the subscriber the advisability of obtaining additional information.

LISTINGS ONLY AS TO ESTIMATED ANNUAL SALES

When, after investigation has been made, the information obtained regarding concerns listed in the Reference Book is not sufficiently conclusive to permit the assignment of any of the symbols in the above Key to Ratings, in preference to listing these names with no indication of their relative importance, the symbols (1x, 2x, 3x, and 4x) may be used to express, in wide ranges, the stated or estimated annual sales as an index to assist in appraising size. These sales symbols have no other significance; credit appraisal is neither inferred nor implied. The sales bracket ranges are as follows:

ESTIMATED ANNUAL SALES BRACKET

1x	\$500,000 and Over	Annual Sales	3x	\$10,000 to \$75,000	Annual Sales
2x	\$75,000 to \$500,000	“ “	4x	Up to 10,000	“ “

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In exceptional instances a "High" credit rating may be assigned where one or more of these conditions are not apparent, if the deficiency is offset by other conditions which are exceptionally favorable. Concerns with "High" credit ratings are considered premium risks and presumably the Reference Book rating is sufficient as the basis for granting credit.

When all, or practically all, of the conditions outlined above for a "High" credit rating are met, but to a somewhat lesser although still satisfactory degree, a "Good" credit rating applies. The breaking point between the "Good" and the "High" ratings would thus appear to be an almost invisible line that attempts to separate the highest ratings. "Good" may be defined as a rating that may be granted to commercial establishments where there is a slight element of risk involved.

A "Fair" credit rating may reflect a top-heavy but still not a dangerous financial condition. "Fair" simply means a third degree credit position reflecting a continued though reduced status of business stability compared with the "Good" credit risk. "Fair" is the intermediate or borderline credit appraisal, and, consequently, is one of the most important ratings. To understand the importance of this rating, it is only necessary to remind the reader that the largest number of firms are included in this classification.

is exceptional instances a "High" credit rating may be assigned where one or more of these conditions are apparent, if the delinquency is offset by other considerations which are exceptionally favorable. Companies with "High" credit ratings are considered premium risks and accordingly the Reference Book rating is substituted as the basis for granting credit.

When all, or practically all, of the above conditions are met for a "High" credit rating, the rating is assigned somewhat lesser although still superior to the "High" credit rating applies. The preceding policy applies to "High" and the "High" ratings would thus stand as the highest available line that accords to separate and highest rating "Good" may be defined as a rating that may be granted to commercial establishments where there is a minimum amount of risk involved.

A "Fair" credit rating may be given a company which still not a dangerous financial condition. "Fair" rating means a third degree credit position reflecting a certain though reduced status of business stability compared with the "Good" credit risk. "Fair" is the intermediate or middle line credit appraisal, and, consequently, is one of the most important ratings. To understand the importance of this rating, it is only necessary to recall the fact that the largest number of firms are included in this classification.

All rated firms that do not qualify in "High," "Good," or "Limited" are placed in this category. The very granting of this rating signifies that additional information should be obtained by the subscriber before a credit decision is made.

"Limited" is the lowest composite credit appraisal that is assigned by Dun and Bradstreet, and it indicates that additional information must be obtained to appraise the risk. This rating is the most frequently misunderstood classification of all the ratings, and it is the unwritten law of Dun and Bradstreet that only under the most extreme cases of impending business collapse may this rating be used.

Numerical credit ratings. The second class of ratings used by Dun and Bradstreet convey two distinct conclusions. The first is that tangible net worth or financial strength is within one of the four broad capital ranges designated by the Key to Ratings. The second conclusion is that sufficient information is not available to permit the assignment of any of the symbols in the Key to Ratings. In this case the concern is rated only as to estimated annual sales. The relative credit value attached to each of the four Numerical Ratings is identical, that is, the concern rated 3 is just as acceptable a credit risk, even though operating with smaller capital, as the concern rated 1.

The absence of a rating, in itself, has no significance other than the fact that the Key to Ratings provides

All rated firms that do not qualify in "Rating" class
"Limited" are placed in this category. The very presence of
this rating signifies that additional information should be
obtained by the subscriber before a credit decision is made.
"Limited" is the lowest category and is assigned

that is assigned by Dun and Bradstreet, and it indicates that
additional information must be obtained to complete the rating.
This rating is the most technical, and is assigned to firms
of all the ratings, and it is assigned to firms that
and Bradstreet that only under the most extreme cases of
pending business collapse.

Investment grade ratings. The second class of ratings
used by Dun and Bradstreet covers the business conditions.
The first is that ratings are given on financial strength
is within one of the four broad categories of ratings
by the Key to Ratings. The second measurement is based on
of any of the symbols in the Key to Ratings. In this case
the concern is rated only as to its creditworthiness. The
relative credit value assigned to each of the four categories
Ratings is identical, that is, the concern rated "A" is
as acceptable a credit risk, even though operating with
smaller capital, as the concern rated "B".

The absence of a rating, in a case, has an effect
cases other than the fact that the Key to Ratings is

no rating which accurately reflects certain facts, or their absence, in the report. A - (blank) symbol is shown in the report when any one or more of the following circumstances exists:

1. Where comprehensive investigation fails to disclose sufficient information upon which to base a rating.
2. When source and amount of starting capital are lacking in a report on a new business. The importance of this information decreases with time, but in some instances such a deficiency may have continuing importance.
3. When the business is reported under a fictitious or assumed name and the agency lacks assurance of ownership.
4. When the nominal principals are acting for undisclosed actual ownership or control.
5. When there is some legal obstruction, such as ownership in the hands of a minor, or, in some states, a married woman.
6. When the business is under, or less than a year previous has emerged from, a general extension, composition settlement, bankruptcy proceedings, receivership, or Federal Court reorganization.
7. When the moral risk on any grounds is extremely unfavorable.
8. When there are significant gaps in the antecedents of the principals.
9. When a general mortgage or indenture exists, under which all, or nearly all assets, particularly inventory, are pledged as collateral.
10. When serious losses have been or are being sustained and there is a strong possibility of losses by creditors.

no rating which accurately reflects certain...
 absence, in the report. A - (blank) should be used in
 report when any one or more of the following conditions
 exists:

1. Where comprehensive investigation fails to disclose sufficient information upon which to base a rating.
2. When source and amount of financing reported are lacking in a report on a new business. The nature of this information compares with that of some instances such as a deficiency may have continuing importance.
3. When the business is reported under a fictitious or assumed name and the agency lacks knowledge of ownership.
4. When the principal principals are missing for valid closed actual ownership or control.
5. When there is some legal characteristic, such as ownership in the hands of a third party, in some states, a married woman.
6. When the business is under, or less than a year previous has changed from a general partnership composition collection, partnership, proprietorship, or other form of organization.
7. When the report is on any grounds is extremely unfavorable.
8. When there are significant gaps in the statements of the principals.
9. When a general category of substance exists under which all, or nearly all assets, particularly inventory, are pledged as collateral.
10. When serious losses have been or are being sustained and there is a strong possibility of losses by creditors.

11. When a critically unbalanced financial condition exists.
12. When failure appears imminent.³

Not quoted (NQ) may also be granted for those businesses that are not listed in the Dun and Bradstreet Standard Industrial Classification, and usually is assigned to professions, divisions of government, and non-profit organizations. General information, on a very limited scale, is obtainable in the credit report however.

It must be remembered that although Dun and Bradstreet gives ratings for the aid of the subscriber, a rating is not a credit recommendation. Extensions of credit is the sole responsibility of the creditor, and the Dun and Bradstreet ratings and reports are provided merely as an aid--to provide information on which a sound credit judgement can be made. Subscribers are expected to use not only the ratings but also the reports, and on the basis of these to make their own judgments.

³ Dun and Bradstreet, Inc., "Rating Principles and Practices," (Unpublished Reporting Manual used as a Reporter's Guide for scoring credit reports in connection with Dun and Bradstreet confidential reports, New York City, New York, December, 1949), pp. 1-12.

11. When a critically unbalanced financial condition exists.

12. When failure appears imminent.

Not quoted (N) may also be granted for those business concerns that are not listed in the Dun and Bradstreet Industrial Classification, and usually is assigned to public utility, divisions of government, and nonprofit organizations. General information, as a very limited basis, is obtained in the credit report however.

It must be remembered that although Dun and Bradstreet gives ratings for the aid of the subscriber, a rating is not a credit recommendation. Extension of credit is the responsibility of the creditor, and the Dun and Bradstreet ratings and reports are provided merely as an aid to the subscriber on which a sound credit judgment can be made. Subscribers are expected to use not only the ratings but also the reports, and on the basis of their own credit judgments.

2 Dun and Bradstreet, Inc., Rating Principles and Practices, (Unpublished reporting manual used as a reference Guide for scoring credit reports in connection with Dun and Bradstreet confidential reports, New York City, New York, December, 1949), pp. 1-12.

CHAPTER III

DELINQUENT ACCOUNTS REFERRED TO DUN AND BRADSTREET IN ALBUQUERQUE, NEW MEXICO, 1951 THROUGH 1953

During the period 1951 through 1953, some 451 delinquent accounts were referred to the Albuquerque Office of Dun and Bradstreet for collection. Of these 451 delinquent, 268 were referred by non-subscribers, and 183 were referred by subscribers of Dun and Bradstreet. It should be remembered that it is not necessary for a business to subscribe to Dun and Bradstreet credit reports in order to place with it an account for collection.

For each delinquent account placed with Dun and Bradstreet for collection, the active files were examined for a credit report on the debtor. This credit report was examined to determine the credit rating and the character of the report. Table I on the following page shows the distribution of delinquent accounts according to credit rating and composite credit appraisal. Table II shows the percentage distribution of these same accounts.

From an analysis of these tables the following information is obtainable from Table II:

1. There is little difference between the experience, as far as only delinquencies are concerned, between subscribers and non-subscribers. This does not mean, however,

DELINQUENT ACCOUNTS REFERRED TO DUN AND BRADBURY

IN ALBUQUERQUE, NEW MEXICO, 1951 THROUGH 1953

During the period 1951 through 1953, some 500 delin-

quent accounts were referred to the Albuquerque Office of

Dun and Bradstreet for collection. Of these 451 delinquent

288 were referred by non-subscribers, and 163 were referred

by subscribers of Dun and Bradstreet. It should be remembered

that it is not necessary for a business to subscribe to Dun

and Bradstreet credit reports in order to place with it an

account for collection.

For each delinquent account placed with Dun and Brad-

street for collection, the active files were examined for a

credit report on the debtor. This credit report was examined

to determine the credit rating and the character of the

report. Table I on the following page shows the distribution

of delinquent accounts according to credit rating and charac-

ter of report. Table II shows the percentage dis-

tribution of these same accounts.

From an analysis of these tables the following obser-

vation is obtainable from Table II:

1. There is little difference between the experience,

as far as only delinquencies are concerned, between sub-

scribers and non-subscribers. This does not mean, however,

TABLE I

Delinquent Accounts Referred to Dun and Bradstreet's
Albuquerque Office 1951 through 1953

Credit Rating	All Accounts	Referred by	
		Subscribers	Non-subscribers
High	0	0	0
Good	49	20	29
Fair	158	70	88
Limited	56	19	37
Not Rated	188	74	114
Total	451	183	268

Source: Table VII and VIII in Appendix A

TABLE II

Percentage Distribution of Delinquent Accounts Referred to Dun
and Bradstreet's Albuquerque Office 1951 through 1953

Credit Rating	All Accounts	Referred by	
		Subscribers	Non-subscribers
Total	100.0	100.0	100.0
High	00.0	00.0	00.0
Good	10.9	10.9	10.8
Fair	35.0	38.3	32.8
Limited	12.4	10.4	13.8
Not Rated	41.7	40.4	42.6

Source: Calculated from data in Table I

TABLE I
 Delinquent Accounts Reported to the Office through 1957

Credit Rating	All	
	Accounts	Subscribers
High	0	0
Good	49	40
Fair	135	70
Limited	36	13
Not Rated	188	74
Total	404	197

Source: Table VII and VIII in Appendix A

TABLE II

Percentage Distribution of Delinquent Accounts Reported to the Office through 1957

Credit Rating	All	
	Accounts	Subscribers
Total	100.0	100.0
High	0.0	0.0
Good	12.1	20.3
Fair	33.4	35.5
Limited	8.9	6.6
Not Rated	46.6	37.6

Source: Calculated from data in Table I

that Dun and Bradstreet subscribers were either better off or worse off than the non-subscribers, as it is impossible to know the relative number of credit extensions made by each group. It should be noted, however, that Dun and Bradstreet subscribers referred fewer, and possibly suffered fewer, delinquencies than non-subscribers.

2. Among the delinquent accounts placed for collection, there were none rated "High" by Dun and Bradstreet. Although it is known that the rating is given to fewer concerns than those rated "Good" and "Fair," the evidence indicates that few, if any, fail to meet their obligations. This appears to indicate that a Dun and Bradstreet rating of "High" is a correct appraisal of the credit risk.

3. Since none of the delinquent accounts were rated "High," it follows that the delinquencies were those of accounts with a Dun and Bradstreet rating indicating that caution should be observed and that a credit report should be drawn and a careful appraisal made before granting credit.

4. It is logical to expect that, assuming a Dun and Bradstreet rating was consulted, relatively fewer credit extensions would be made to accounts with "Limited" ratings than to those with "Good" or "Fair" ratings because:

- a. the rating is a very definite caution signal, and
- b. the content of a credit report would of necessity be very unfavorable.

that Dun and Bradstreet subscribers were either better off or worse off than the non-subscribers, as if it is impossible to know the relative number of credit extensions made by each group. It should be noted, however, that Dun and Bradstreet subscribers referred to, and possibly written fewer, delinquencies than non-subscribers.

2. Among the delinquent accounts placed for collection, there were none rated "High" by Dun and Bradstreet. Although it is known that the rating is given to fewer accounts than those rated "Good" and "Fair," the evidence indicates that few, if any, fail to meet their obligations. This appears to indicate that a Dun and Bradstreet rating of "High" is a correct appraisal of the credit risk.

3. Since none of the delinquent accounts were rated "High," it follows that the delinquencies were those of accounts with a Dun and Bradstreet rating indicating that caution should be observed and that a credit report should be drawn and a careful appraisal made before granting credit.

4. It is logical to expect that, assuming a Dun and Bradstreet rating was assigned, relatively fewer credit extensions would be made to accounts with "High" ratings than to those with "Good" or "Fair" ratings.

- a. the rating is a very definite credit signal and
- b. the extent of a credit report would necessarily be very unfavorable.

The fact that non-subscribers had apparently the same experience as subscribers in the "Limited" class indicates that the credit conditions were so obviously poor as to make improbable the advisability of extending credit even without access to Dun and Bradstreet ratings or reports.

5. There is a substantial difference in the number of delinquencies referred in the intermediate credit ratings of "Good" and "Fair." This difference appears to be in line with credit risk involved, as it is only logical to assume that there would be fewer delinquent accounts in those firms rated "Good" than those rated "Fair." It is known that more concerns are rated "Fair" than are given any other rating except the catchall rating of "Not Rated," and it is only logical to find that there are more delinquencies in this class. A "Good" rating signifies that there is a slight element of risk; "Fair" indicates a lesser status of business stability. A credit report is not deemed absolute, necessary to correctly analyze a "Good" rating, while it is a necessity for the "Fair" rating. Thus our evidence tends to show that firms rated "Good" will go delinquent fewer times than firms rated "Fair," indicating Dun and Bradstreet ratings are correct appraisals of the intermediate credit risks.

6. The largest number of delinquent accounts are classified as those "Not Rated." When a creditor grants

The fact that non-subscribers are generally in the same category as subscribers in the "Bad" class indicates that the credit conditions were an obviously poor as to take probable the advisability of extending credit over without access to Dun and Bradstreet ratings or reports.

5. There is a substantial difference in the number of delinquencies referred in the immediate credit ratings of "Good" and "Fair." This difference appears to be in line with credit risk involved, as it is only logical to assume that there would be fewer delinquent accounts in those firms rated "Good" than those rated "Fair." It is known that more concerns are rated "Fair" than are given any other rating except the categorical rating of "Not Rated," and it is only logical to find that there are more delinquencies in this class. A "Good" rating indicates that there is a slight element of risk; "Fair" indicates a lesser degree of suchness. A credit report is not based on a single necessity to correctly categorize a "Good" rating, while it is a necessity for the "Fair" rating. Thus our evidence tends to show that firms rated "Good" will be delinquent fewer times than those rated "Fair." Considering the fact that delinquent ratings are correct expressions of the delinquency are credit risks.

6. The largest number of delinquencies occurred in those classified as those "Not Rated," when a credit report

credit to these firms, he is actually taking the risk as he sees it. This is because:

- a. There is little information in the report (financial statement is withheld).
- b. If a report is drawn (as suggested by Dun and Bradstreet in their instructions to subscribers) very little information may be obtainable because:
 - (1) It is a catchall classification.
 - (2) There may not be any cooperation on the part of the investigated business.

Dun and Bradstreet ratings indicate a smaller number of delinquent accounts among subscribers than non-subscribers, which indicates that credit conditions were so poor even among the subscribers (who might have drawn a Dun and Bradstreet report) as to indicate that credit should not be granted even with availability to the Dun and Bradstreet ratings and reports.

Although the evidence is far from being conclusive, there does appear to be some direct relationship between the ratings assigned and the subsequent experience with delinquency, indicating some degree of usefulness of the Dun and Bradstreet ratings. However, since the total number and amount of credit extensions is not known, it is not possible to know the relative frequency with which credit was satisfactorily given or withheld on the basis of Dun and Bradstreet ratings.

credit to these firms, he is actually taking the views
he sees fit. This is because:

- a. There is little information in the report
(L. annual statement is withheld).
- b. If a report is drawn (as suggested by us
and Bradstreet) to their instructions to sub-
scribers) very little information may be
obtainable because:
 - (1) It is a carefully classified
 - (2) There may not be any cooperation on
the part of the investigated business.

Dun and Bradstreet ratings indicate a similar number of
delinquent accounts among subscribers and non-subscribers,
which indicates that credit conditions were no more exact
among the subscribers (who might have been a Dun and Brad-
street report) as to indicate that credit should not be
granted even with availability to the Dun and Bradstreet
ratings and reports.

Although the evidence is far from conclusive,
there does appear to be some direct relationship between
the ratings assigned and the subsequent experience with
delinquency, indicating some degree of usefulness of the
Dun and Bradstreet ratings. However, since the total num-
ber and amount of credit extended is not known, it is not
possible to know the relative frequency of delinquent credit
was satisfactorily given or withheld on the part of Dun
and Bradstreet ratings.

CHAPTER IV

THE VALIDITY OF THE YARDSTICKS FOR CREDIT RATINGS IN RELATION TO DELINQUENT ACCOUNTS

The preceding analysis has been concerned with the usefulness and adequacy of the composite Dun and Bradstreet ratings. These composite ratings are, as has been stated previously, based on information which is summarized in the credit report.

The credit report is prepared in sections, each of which is devoted to one or more aspects, considered to be criteria, of the credit ability of the rated concern. These are:

1. Current ratio
2. Condition and trend
3. Payments
4. Business organization
5. Experience of principals in line
6. Education of the manager.

These six measurements (yardsticks) of credit ability are based on the experience of The Agency in reporting and analyzing credit information. These yardsticks of credit are also widely recognized by businessmen who are in the business of granting credit as being tools for effective analysis.

CHAPTER IV

THE VALIDITY OF THE ALPHABETIC RATING SYSTEM
RATINGS IN RELATION TO BUSINESS CREDIT

The preceding analysis has been conducted with a
business and adequacy of the reports has been
ratings. These composite ratings are, as has been stated
previously, based on information which is furnished in the
credit report.

The credit report is prepared in sections, each of
which is devoted to one or more aspects, conditions or
criteria, of the credit ability of the rated concern. These

are:

1. Current ratio
2. Condition and trend
3. Payments
4. Business organization
5. Experience of principals in line
6. Education of the manager.

These six measurements (measures) of credit ability
are based on the experience of the agency in reviewing and
analyzing credit information. These standards of credit
are also widely recognized by businessmen and are in the
business of granting credit and using such an analysis.

Our purpose here is to examine these individual criteria to determine whether the delinquencies can be explained by the way in which the delinquent firms did or did not measure up to the criteria. However, before examining these delinquent accounts, there are several limitations that must be kept in mind. First, the sales problem may dictate the movement of goods despite the risk involved. Second, the debtor may be an old and valued account that has been carried for some time despite the fact that payments have been getting slower and slower. Third, a new outlet is established with the possibility for future growth, and although the present credit picture is not the best, credit is advanced in the hope that it will not only be repaid but will result in increased sales. Fourth, the human element may be such that the information contained in the report is disregarded or improperly used. Finally, a basic difficulty is that there is no information on non-delinquent (good) accounts upon which to make comparisons. An attempt was made to obtain the information, but it was impossible to overcome the difficulties. Businessmen could not remember all the good accounts they granted credit due to Dun and Bradstreet reports.

Current ratio. The first factor to be considered in the preparation of a credit report by Dun and Bradstreet

Our purpose here is to examine these objectives
criteria to determine whether the information can be ex-
plained by the way in which the information is obtained
did not measure up to the criteria. However, before exam-
ing these delinquent accounts, there are several limitations
that must be kept in mind. First, the same procedure may
dictate the reversal of goods despite the fact that
Second, the dealer may be an old and reliable account that
has been carried for some time because the dealer has
merits have been getting better and better. Third, a new
outlet is established with the possibility of future growth
and although the present credit picture is not the best,
credit is advanced in the hope that it will not only be
repaid but will result in increased sales. Fourth, the
human element may be such that the information contained
in the report is disregarded or improperly used. Fifthly,
a basic difficulty is that there is no information on the
delinquent (good) accounts upon which to base judgments.
An attempt was made to obtain the information, but it was
impossible to overcome the difficulties. Businesses could
not remember all the good accounts they granted credit to
to Dun and Bradstreet reports.

Current rating. The first factor to be considered
in the preparation of a credit report by the Dun and Bradstreet

is the "Current Ratio." Current ratio is the ratio of current assets to current liabilities, and is usually thought of as the most important ratio in comparative financial statement analysis. This ratio is perhaps the most controversial of all the six factors, because it is the only factor that is left for the subscriber to draw his own conclusions, correct or incorrect. The current position is only satisfactory when there are sufficient assets of great enough liquidity to meet the current liabilities as they mature, and sufficient to meet any shrinkage and costs to be incurred in the event of liquidation.

The credit analyzer should look "behind" the figures, take into consideration the processes by which the figures were accumulated, and even go so far as to investigate the differences which might characterize the many items that have been lumped together under each descriptive term. "To the 'analyst' who takes his figures as they come and no questions asked, there can be only one admonition: the more implicitly you trust figures, the greater the lies they will tell you."⁴ Are the accounts receivable current and collectible? This is a good question to ask yourself when analyzing the current ratio. We must be suspicious.

⁴ H. M. Sommers, "Here we have a financial statement; What does it mean?" Credit and Financial Management, 53: 18-22, January, 1951.

is the "Current Ratio." Current ratio is the ratio of current assets to current liabilities, and is usually computed as the most important ratio in comparative financial statement analysis. This ratio is perhaps the most controversial of all the six factors, because it is the only factor that is felt for the subscriber to draw his own conclusions, correct or incorrect. The current position is only satisfactory when there are sufficient assets of fixed enough liquidity to meet the current liabilities as they mature, and sufficient to meet any unanticipated costs to be incurred in the event of liquidation.

The credit analyst should look behind the figures, take into consideration the processes by which the figures were accumulated, and even go as far as to investigate the differences which might characterize the many items that have been lumped together under each descriptive term. The 'analyst' who takes his figures as they come and no questions asked, there can be only one explanation: the more implicitly you trust figures, the greater the risk they will tell you. "Are the accounts receivable current and old?" "Is this a good question to ask yourself when analyzing the current ratio? What is suspicious?"

What does it mean? Current and Financial Management, 23, 18-22, January, 1951.
E. M. Johnson, "There we have a financial statement."

The proportions of the 451 accounts having specified current ratios are shown in Table III.

TABLE III
Percentage Distribution of Delinquent Accounts
According to Current Ratio

PERCENTAGE OF DELINQUENT ACCOUNTS	CURRENT RATIO
46	.0 to 1.9
20	2.0 to 3.9
09	4.0 to 5.9
04	6.0 to 7.9
04	8.0 to 9.9
17	OVER 9.9

The widely accepted "rule of thumb" is that a current ratio of less than two to one indicates a high degree of credit risk. As shown in Table III, 46 per cent of the delinquent accounts failed to meet the minimum standard. If these accounts had been rejected, the delinquencies would have been substantially reduced. If a minimum of four to one was used, some 66 per cent of the delinquencies could be avoided. Thus, it appears that application of this criterion could have avoided a large number of delinquencies. That current ratio is not a perfect single criterion is

The proportion of current accounts having a current

current ratio are shown in Table III.

Table III

Percentage Distribution of Delinquent Accounts According to Current Ratio

PERCENTAGE OF DELINQUENT ACCOUNTS	CURRENT RATIO
45	0.50 to 1.0
30	0.25 to 0.50
20	0.10 to 0.25
10	0.05 to 0.10
5	0.01 to 0.05
2	0.00 to 0.01

The widely accepted ratio of two to one is a current ratio of less than two to one indicates a high degree of credit risk. As shown in Table III, 45 per cent of the delinquent accounts failed to meet the minimum standard. If these accounts had been rejected, the delinquencies would have been substantially reduced. If a minimum of two to one was used, some 55 per cent of the delinquent accounts could be avoided. Thus, it appears that application of this criterion could have avoided a large number of delinquencies. That current ratio is not a perfect single criterion is

indicated by the fact that 17 per cent of the delinquencies have a ratio of over ten to one. This can be explained as:

1. the agency reports incorrect information, or
2. the rated business falsified its balance sheet, or
3. there are other important factors besides the current ratio.

Condition and trend. The second factor considered in a credit report is "Condition and Trend." This is a condensation of the entire findings of the reporter so far as sales, profits, and financial condition are concerned. See Appendix B for location in the credit report.

Condition has to do only with the financial aspects of the business, and is usually stated in the jargon of the reporter's own analysis. Here are some of the typical remarks: "indebtedness small;" "debt heavy for cash, and volume increasing or (decreasing);" "full indebtedness not determined;" etc.

Trend is concerned with the sales and profits, and is considered jointly with the condition of the business, thus combining two factors into one. The reporter usually uses a standard jargon with a view to keeping the two factors uniform. When the reporter considers sales, he attempts to compare present with previous sales for as many years as are available to arrive at a definite trend. The same is

indicated by the fact that the portion of the balance sheet
have a ratio of over 100 to one. This can be explained as

1. the agency reported a higher ratio of 100 to one
2. the ratio was inflated by a large amount
3. there are other important factors besides the current ratio

Condition and Trend. The second factor considered

in a credit report is "Condition and Trend." This is a
condensation of the entire findings of the reporter as to
as sales, profits, and financial condition are concerned.
See Appendix B for location in the credit report.

Condition has to do only with the financial aspects
of the business, and is usually stated in the form of the
reporter's own analysis. Here are some of the typical phrases
"indebtedness small;" "debt heavy for cash, and returns in-
creasing or (decreasing);" "full indebtedness not determined;"
etc.

Trend is concerned with the sales and profits, and
is considered jointly with the condition of the business,
thus combining two factors into one. The reporter usually
uses a standard figure with a view to keeping the two factors
uniform. When the reporter considers sales, he attempts to
compare present with previous sales for an early year as
are available. He arrives at a definite trend. The same is

done with profitability. Some typical remarks are--"sales increasing, operations profitable;" "sales steady, profitable;" and "moderate profits, with sales steady."

In order to determine the general effectiveness of the condition and trend as a factor in the credit appraisal, the 451 delinquent accounts are classified as to this factor in Table IV.

TABLE IV

Percentage Distribution of Delinquent Accounts
According to Condition and Trend

PERCENTAGE OF DELINQUENT ACCOUNTS	CONDITION AND TREND
56	NOT PROFITABLE
30	PROFITABLE
09	NOT DETERMINABLE
05	DETAILS DECLINED

There are two conditions that must be recognized before any conclusions may be drawn concerning the condition and trend as a basis of credit analysis. First, just as a business that is profitable may not pay its obligations for one reason or another, the same holds true for a business that is not profitable. However, the business that is profitable would probably pay its bills quicker than a

done with profitability. Some typical reasons are: increasing operational profitability; better assets; profitable; and "moderate growth, with sales steady".

In order to determine the general effectiveness of the condition and trend as a factor in the credit appraisal, the 451 delinquent accounts are classified on 50 lines in Table IV.

TABLE IV
Percentage Distribution of Delinquent Accounts According to Condition and Trend

CONDITION AND TREND	PERCENTAGE OF DELINQUENT ACCOUNTS
NOT PROFITABLE	36
PROFITABLE	30
NOT DEFINITELY	09
DAILY RECEIVED	25

There are two conditions that must be recognized before any conclusions may be drawn concerning the condition and trend as a basis of credit appraisal. First, there is a business that is profitable but has a high delinquency rate for one reason or another. The same holds true for a business that is not profitable. However, one business that is profitable would probably pay its bills faster than a

business that is not making money. Second, there is a necessity for interpreting the reporters' jargon, in order to fully understand the report.

Fifty-six per cent of the 451 delinquent accounts have a condition and trend that was not profitable, while for 30 per cent it was profitable. The remaining 14 per cent gives little indication as to successful operation; 9 per cent was not determinable and 5 per cent withheld financial details. Since this 14 per cent does not indicate successful operation, it is only proper to assume that the condition and trend is not profitable. Seventy per cent of the delinquent accounts in this study have a condition and trend that is not profitable. If this yardstick of credit is properly followed in the analysis of the credit risk, there is every reason to believe that the delinquent accounts can be reduced.

Payments. The third factor of a credit report considered by Dun and Bradstreet is "Payments." Payments refers to the promptness with which the firm pays its obligations. Payments is located on the back page of the Reporters' Synopsis Form under its own heading. To assemble this ledger experience that goes to make up the payments section, Dun and Bradstreet requests that all known and logical suppliers of the firm fill out a "Request For Credit Experience Form." See Appendix B.

business that is not making money. Second, there is a
necessity for interpreting the accountants' figures in order
to fully understand the reports.

Fifty-six per cent of the delinquent accounts
have a condition and trend that was not profitable, while
for 30 per cent it was profitable. The remaining 14 per
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sidered by Dun and Bradstreet is Payments. Payments
refers to the promptness with which the firm pays its obli-
gations. Payments is located on the back page of the
Reporters' Reports under the heading "Payments." To ascertain
this ledger experience there goes to make up the Payment
section. Dun and Bradstreet reports (Dun and Bradstreet
logical suppliers of the firm and a ledger for credit
Experience form." See Appendix A.

After the reporter has assembled all the trade experience that is available, he uses a sample summary of the suppliers' ledger information as being representative of the total group. To further summarize the reporters' findings, there is a prominent place on the first page of the credit report under the heading, Synopsis. If a subscriber wants information about all the creditors' accounts, he may obtain it by writing to Dun and Bradstreet.

"How does he pay others? is the most important single question to be answered when determining the justification of credit."⁵ The author knows of case after case when Dun and Bradstreet disregarded the other factors of credit granting when it was determined that the firm in question was prompt in payment of its' obligations.

Because special line agencies have been outspoken in their attacks on Dun and Bradstreet concerning the lack of completeness of the trade or ledger information, The Agency has acknowledged the criticism by building up the payments section of the report. Through the use of a weighted sample of the suppliers' ledger information, Dun and Bradstreet has overcome this criticism.

⁵ F. W. Martin, "Report from a Travelling Creditman," Credit and Financial Management, 52:28-9, January, 1950

After the report has been prepared all the data available
once that is available, he must make a complete study of the
suppliers' ledger information as being representative of
the total group. To further emphasize the importance of this
task, there is a prominent place on the first page of the
credit report under the heading, "Summary". It is understood
wants information about all the suppliers' accounts, he may
obtain it by writing to Dun and Bradstreet.

"How does he pay attention to the way in which the
question to be answered when preparing the report, and
of credit." The exact nature of the question to be
and Bradstreet designed the classification of credit
granting when it was determined that the time in question
was prompt in regard to the classification.

Because special data are often very hard to get
in their attitude on the part of the credit department, the
of completeness of the data on which the report is
Agency has acknowledged the criticism by stating in the
payments section of the report. Through the use of a
weighted sample of the suppliers' ledger information, the
and Bradstreet has obtained this criticism.

2
F. W. Smith, Report on the Credit Department
Credit and Financial Management, 1922, Chapter, 197

The 451 delinquent accounts are presented in Table V according to the six methods of payment designated by Dun and Bradstreet.

TABLE V
Percentage Distribution of Delinquent Accounts
According to Payments

PERCENTAGE OF DELINQUENT ACCOUNTS	PAYMENTS
02	DISCOUNTS
10	PROMPT
43	SLOW
25	C. O. D.
18	CASH
02	NOT ESTABLISHED

Discount and Prompt indicate that the account made payment on or before the due date. These businesses are premium risks because they take advantage of lower price. Two per cent of the delinquent accounts referred to Dun and Bradstreet took their discounts while 10 per cent paid promptly. This means that a total of 12 per cent of the total 451 delinquent accounts paid their suppliers satisfactorily.

Accounts which are slow or where a payment record has not been established and those where the supplier

The #51 delinquent accounts are presented in Table V according to the six methods of payment indicated in the and Bradstreet.

TABLE V
Percentage Distribution of Delinquent Accounts according to Payment

PERCENTAGE OF DELINQUENT ACCOUNTS	PAYMENT BY
10	IN CASH
15	BY CHECK
25	BY CREDIT
35	BY DISCOUNT
45	BY OTHER
55	BY OTHER
65	BY OTHER
75	BY OTHER
85	BY OTHER
95	BY OTHER
100	BY OTHER

FACTORY

has not been established and such was the condition
 Accounts which are also given a payment record
 factory.
 total #51 delinquent accounts and their respective
 properly. This means that a total of 15 per cent of the
 Bradstreet took their discounts while 10 per cent paid
 Two per cent of the delinquent accounts referred to in and
 premium risks because they had advantage of lower rates.
 payment on or before the 5th day. These delinquent are
 discount and profit margins of the accounts are

attempts to protect himself by demanding C. O. D. or cash payment are accounts which have a poor payment record. Experience has shown that they are poor credit risks. Of the total 451 delinquent accounts that were referred to Dun and Bradstreet for collection, 88 per cent have unsatisfactory payment records.

That this yardstick failed to detect only 12 per cent of the accounts that subsequently became delinquent is fairly strong evidence of its effectiveness. If this yardstick of credit is properly followed in the analysis of the credit risk, there is every reason to believe that the delinquent accounts can be reduced substantially.

Business organization. Business organization is the fourth basis of credit ratings as determined by Dun and Bradstreet, and is located prominently in two places on the credit report. The first location is the heading, Business Names, at the top left of the report. The second is under the heading of History, with definite statements as to organization. Business organization data used in this study are taken from this second location.

Business organizations are formed and conducted according to law, which defines the rights of individuals acting singly or in organization, and at the same time, the rights of the creditor. "Business organizations are

attempts to protect himself by demanding a...
payment are accounts which have a poor payment record.
Experience has shown that even the most credit-worthy...
the total \$51 delinquent accounts...
Dun and Bradstreet for collection...
factory payment records.

This this variation failed to detect...
of the accounts that subsequently became delinquent...
fairly strong evidence of an...
risk of credit is properly...
credit risk, there is every reason to believe that the
delinquent accounts can be reduced substantially.

Business organizations...
fourth basis of credit...
Bradstreet, and in...
the credit report...
ness names, at the top...
under the heading of...
to organization...
study are taken from this...

Business organizations...
according to law, which...
setting aside...
the rights of the...

ERA

divided into three important groups from a legal standpoint--

1. Individual Ownerships
2. Partnerships
3. Corporations.⁶

There may be many variations of each type or group of organization; however, for purposes of the problem the variations are considered as within the group that it is most common.

Individual ownerships may be defined as a single individual (or family) that assumes full responsibility and liability for its acts. Partnerships are distinguished from individual ownerships by admitting control by two or more persons, who assume full liability for its obligations.

The oft-quoted definition of Chief Justice Marshall in the famous Dartmouth College case that a corporation is an artificial being, invisible, intangible, and existing only in the contemplation of the law completes the definition of the third group of business organization.

The percentage distribution of delinquent accounts according to business organization of the 451 delinquent accounts shows that 63 per cent are individual ownerships; 25 per cent are partnerships; 12 per cent are corporations. This compares favorably with the distribution of business

⁶ Arthur E. Thevenet and Charles Benson, Twelve Discussions on Fundamentals of Credit, (New York: R. G. Dun and Company, 1931), p. 17.

divided into three categories:

1. Individual Ownership
2. Partnership
3. Corporation

There may be many variations of each type or group of organization; however, for purposes of this problem the variations are considered as being the same as in most cases.

Individual ownership may be defined as a single individual (or individuals) who assumes full responsibility and liability for the debt.

Partnership is defined as a business organization from individual ownership by which the control by two or more persons, who assume full liability for the obligations.

The oft-quoted definition of partnership is in the famous *Bartholomew* case, which states that a partnership is an association of persons, whether by contract or otherwise, for the purpose of carrying on a business.

The percentage distribution of business ownership according to business organization of the 40 different accounts shows that 61 per cent are individual ownership.

25 per cent are partnership, 11 per cent are corporation. This compares favorably with the distribution of business

⁶ Arthur E. Shover and Charles J. Shover, *Business Organization and Management*, 2d Edition, McGraw-Hill Book Company, 1937, p. 11.

organization in the United States. "There are roughly 3,500,000 business enterprises in the United States, divided as follows on the basis of their type of organization: proprietorships, 70 per cent; corporations, 20 per cent; and partnerships, 10 per cent."⁷

Since the proportion of the 451 delinquent accounts in this study is approximately the same as those throughout the United States, there is no reason to suppose that business organization has much significance with respect to delinquent accounts. It also appears that business organization has no significance as a yardstick of credit except as to legal responsibility.

Experience of principals in the line. The fifth factor of a credit report considered by Dun and Bradstreet is "Experience of principals in the line." See Appendix B. The word principal or principals is understood by the subscribers to mean the active manager of the enterprise, or that person who is directly responsible for the conduct of the business. This is established by the use of a statement referring to the responsible party. Where there is more than one principal, as in the case of partnerships,

⁷ Henry E. Hoagland, Corporation Finance, (New York and London: McGraw-Hill Book Company, Inc., 1947), p. 10.

organization in the United States, and the amount of
3,300,000 business transactions in the United States, divided
as follows on the basis of kind of organization:
Proprietorships, 30 per cent; Partnerships, 25 per cent;
and corporations, 45 per cent.

Since the creation of the 1917 definition of business
in this study is suggested, the same as those mentioned
the United States, there is no reason to suppose that this
new organization has not been included in the report of
deficient accounts. It is suggested that the same
ratio has no significance as a condition of legal
as to legal responsibility.

Experiences in business in the United States
factor of a credit record, and the amount of
is "experience of business in the United States."
The word principal or proprietor is used here by the
writers to mean the active manager of the business, or
that person who is directly responsible for the conduct of
the business. This is established by the fact of a
and referring to the respective parts. There is
more than one principal, as in the case of partnerships.

Henry R. ...
and London ...

the author has used the pertinent information that concerned the one that was more directly responsible for the conduct of the business.

The 451 delinquent accounts are presented in Table VI according to the total years experience of the principals.

TABLE VI

Percentage Distribution of Delinquent Accounts
According to Experience of Principals in the Line

PERCENTAGE OF DELINQUENT ACCOUNTS	EXPERIENCE OF PRINCIPALS IN THE LINE
46	0 to 5
21	6 to 10
12	11 to 15
10	16 to 20
11	OVER 21

Of the 451 delinquent accounts placed with Dun and Bradstreet for collection, two out of every three concerns had principals who had 10 years or less experience in their line. Thus, it appears that caution should be used in granting credit to firms whose principals have less than 10 years experience. This statement appears to have additional weight when it is remembered that the term experience is defined as any experience within a related

the author has used the following classification of the subjects
 the one that was most directly responsible for the success
 of the business.
 The 471 delinquent accounts were processed as follows:
 VI according to the total years' experience of the delinquent.

TABLE VI

Percentage Distribution of Delinquent Accounts
 According to Experience of Delinquent

PERCENTAGE OF DELINQUENT ACCOUNTS	EXPERIENCE OF DELINQUENT
44	1-5 years
21	6-10 years
13	11-15 years
10	16-20 years
12	21 years and over

Of the 471 delinquent accounts placed into the
 brackets for collection, 220 out of every three accounts
 had delinquents who had 10 years or less experience in their
 line. Thus, it appears that a rather high percentage of
 delinquent credit is from those who have had less than
 10 years' experience. This suggests a need to have
 additional weights when it is recommended that the
 experience is defined as any experience which is not

trade. This in itself would tend to overstate the experience and thus increase the number of years of experience in the line. However, despite the possibility of overstatement, it appears that delinquent accounts can be reduced if this yardstick of credit is followed.

It appears that in those instances where there is short experience, the other criteria should probably be applied with more vigor. If all suppliers were to deny credit to all concerns whose principals had fewer than ten years experience, there would be few people getting sufficient experience to qualify for credit purposes. The findings do not suggest that the experience should be used as a principal criterion.

Education of the manager. The final factor of a credit report considered by Dun and Bradstreet is "Education of the manager." Although there is not an indicated position or location for this factor in the credit report, there is usually a statement referring to education under the heading of History. This statement usually concerns the owner or manager, and has little if any significance with reference to any other individual. Education is usually revealed when an individual is giving a personal history or summary of the business.

Credit men consider that there are so many measurable factors of credit analysis that education is a secondary

credit. This in itself would tend to prevent the...
ence and thus increase the number of years of...
in the line. However, because the possibility of...
ment, it appears that...
if this practice of credit is followed.

It appears that in those instances where...
short experience, the other criteria should probably be...
applied with some vigor. It is suggested that...
credit to all persons whose...
years experience, there would be...
about experience to qualify for credit...
findings do not suggest that the...
as a principal criterion.

...
credit report...
of the manager...
them or location for...
is usually a...
heading of history...
owner or manager...
reference to any other...
revealed when an...
on summary of the...
Credit...
factors of credit analysis...

consideration at best, as successful completion of a venture (going to school) is more important than mere attendance. This is confirmed by the fact that in all the research the author did in this study, there is only one statement concerning education. "Illiteracy is a serious handicap to overcome and while higher education is not an essential in business life an illiterate person cannot expect the same consideration from a credit standpoint as one with a fair education."⁸

The statement in the credit report concerning education usually takes the form of placing the manager within one of three definite classifications. These classifications are: common school, high school, and college. No attempt is made to state the number of years of attendance except in cases where the reporter desires to make such a statement. Successful completion may or may not be included in the report, while course of study, or training in the occupation, is not mentioned.

The importance of this factor as compared to the other factors in credit reports, considered by the reporter in his analysis, can not be determined. The directive from Dun and Bradstreet does not mention the importance of the education of the manager other than to say that a statement

⁸ Arthur E. Thevenet and Charles Benson, Twelve Discussions on Fundamentals of Credit, (New York: R. G. Dun and Company, 1931), p. 27.

consideration at least as essential as that of a person
(going to school) in order to obtain the necessary
This is outlined by the fact that in all the countries
author did in this study, there is much the same
earning situation. The answer is a simple one: the
overcome and while higher education is not an essential
business life an illiterate person cannot expect to
considerable from a credit standpoint as one with a fair
education."

EFFICIENCY

The statement in the report that "efficiency is
the usually stated aim of education" is one of the
one of these beliefs which are held by the majority
and common school, high school, and college. No attempt
is made to state the number of years of education
in cases where the report has been made with a view
and. Successful completion of the report is
the report, while some of the, or the, or the,
occupation, is not reported.

The importance of this factor is suggested by the
other factors in the report, which are mentioned in the report
in his analysis, and not to be overlooked. The general
but not to be overlooked does not mean that the importance of the
education of the worker should not be considered.

© 1917 by the American Psychological Association
and Company, 1917, p. 17.

concerning the education will be included in the report under the heading of History.

The percentage distribution of delinquent accounts according to education of the manager shows that 18 per cent of managers of the delinquent accounts had a common (grade) school education; 69 per cent had a high school education; and 13 per cent had a college education.

According to the 1950 New Mexico Census of Population Report PB 31, 40.8 per cent of managers of the delinquent accounts had a common school education; 33.6 per cent had a high school education; and 16.1 per cent had a college education.

It appears that the proportion of the 451 delinquent accounts is approximately the same as those throughout the state of New Mexico, there is little reason to suppose that education of the manager has anything to do with the delinquent accounts. It also appears that education of the manager has little significance as a yardstick of credit ability.

Conclusions as to effectiveness of the yardsticks of credit. To determine the general effectiveness of the yardsticks of credit, six factors were selected from the Dun and Bradstreet credit report. The factors selected are given the greatest weight in the credit decision, not only

concerning the education of the children in the region
under the heading of history.
The percentage distribution of the children according
to education of the parents from 1910 to 1920
of course of the children's parents is as follows:
(Grade) school education; 42 per cent of high school
education; and 13 per cent of college education.
According to the 1910 census the percentage of children
Report No. 21, 40.8 per cent of children of the children
parents had a college education, 19.2 per cent had
a high school education, and 11.1 per cent had a college
education.

It appears that the percentage of the children
parents is approximately the same as those who give the
state of New York, there is a large increase in
education of the parents has resulted in a large
parent-education. The percentage of children of
manager has little to do with the parents' education
ability.

Generalization as to the education of the children
of parents. To determine the percentage of children
of parents, it is necessary to know the percentage of
Dan and Elizabeth's children. The percentage of
given the greatest value of the children's education.

by the reporter that rates the business, but also the businessman that uses the reports in his own credit analysis.

With respect to current ratio, condition and trend, payments, and experience of the principals in the line, it seems that delinquent accounts can be substantially reduced if the information is used and the criteria applied. On the other hand, since it appears that the proportion of the delinquent accounts of the type of business organization and the education of the manager have little significance with respect to the ability of a business to meet its obligation, they are relatively unimportant as yardsticks of credit ability.

THE CONVENIENCE
EVERYONE BOND
EFFICIENCY

CHAPTER V

SUMMARY AND CONCLUSIONS

People who are concerned with granting mercantile credit, have long been interested in reducing delinquent accounts. This interest led to the establishment of mercantile credit agencies. The mercantile credit agency attempts to provide current and pertinent information about the ability of a firm to repay its obligations. The specific assistance offered takes two forms: credit ratings and credit reports.

In this study 451 delinquent accounts referred to the Albuquerque, New Mexico Office of Dun and Bradstreet from 1951 through 1953 were examined to determine whether Dun and Bradstreet ratings and reports were useful in preventing or reducing credit losses.

With respect to the credit rating, the evidence showed that:

1. Of those concerns rated "High" by Dun and Bradstreet, there was not a single delinquency. Since there was no evidence of delinquency among concerns rated "High", we may conclude that this rating gives a fairly clear indication of the credit ability of the rated concern and is useful in credit analysis.

SUMMARY AND CONCLUSIONS

People who are concerned with financial matters, credit, have long been interested in knowing the reasons accounts. This interest led to the establishment of the credit agencies. The agencies which supply information to provide current and pertinent information about the ability of a firm to pay the obligations. The agencies assistance offered takes the form of credit ratings and credit reports.

In this study 511 delinquent accounts referred to the Albuquerque, New Mexico Office of the Administrator from 1951 through 1957 were examined in order to determine the reasons for delinquency and to determine the reasons for delinquency on the part of the debtor.

With respect to the credit rating, the findings showed that:

1. Of those accounts rated "High" by the credit agency, there was not a single delinquent. Since there was no evidence of delinquency among accounts rated "High" we may conclude that this rating gives a fairly accurate picture of the credit ability of the rated account and is useful in credit analysis.

2. Experience with delinquencies of accounts in the lowest classes--"Limited" and "Not Rated"--indicates that for these concerns the credit ability is so poor that prospective creditors readily discern their condition and extend less credit and suffer fewer losses than they do with concerns rated in the intermediate credit groups.

3. The evidence showed that the largest number of delinquencies occurred among the concerns with intermediate credit ratings of "Good" and "Fair" and that there were substantially more in the "Fair" group than in the "Good" group. This would seem to conform to the expected proportions of businesses having good or fair credit ability. However, ratings of "Good" and "Fair" can not be taken as conclusive in themselves and (within the framework of the Dun and Bradstreet service) require that credit be granted only upon the basis of a careful examination of a credit report. Therefore, the usefulness of these two ratings depends in large part upon the usefulness of the credit report and the criteria upon which it is based.

The evidence gathered with respect to the usefulness of the criteria upon which the credit report is based showed that, if the information that is given in the credit report is properly used and the criteria applied with respect to current ratio, condition and trend, payments, and experience of the principals in the line, delinquent

2. Experience with... lowest disease... for these countries... positive creative results... less credit and... serves raised in the laboratory...

3. The evidence... delinquencies... credit ratings of... substantially more... group. This would... tions of business... However, ratings of... conclusive in character... and Bradstreet... only upon the basis... report. However, the... depends in large part... report and the other... The evidence gathered...

of the criteria... showed that... report is properly... past to current... experience of the... BAC CON ERVA S V B R ER L I C I

accounts and credit factors can be obtained. It is
that it is reasonable to consider that the law and
credit ratings used in determining the credit
are useful in determining the credit risk.

THE CONTINENTAL
TRAVELERS' COMPANY
NEW YORK

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APPENDIX A

TABLES VII AND VIII

EFFICIENCY
ASSEMBLE BOND
RAG CONTENT

AMERICAN

STATIONERY COMPANY

EFFICIENCY

ASABLE BOND

RAG CONTENT

TABLE VII

Tabulation of 183 Delinquent Accounts of Dun and Bradstreet Subscribers in Albuquerque, New Mexico, 1951 to 1953, According to Estimated Financial Strength and Composite Credit Appraisal

	ESTIMATED FINANCIAL STRENGTH OF DEBTOR	COMPOSITE CREDIT APPRAISAL			
		High	Good	Fair	Limited
A	\$500,000 to 750,000				
B+	300,000 to 500,000			1	
B	200,000 to 300,000		1	1	
C+	125,000 to 200,000		2		
C	75,000 to 125,000		3	1	
D+	50,000 to 75,000			4	
D	35,000 to 50,000			17	5
E	20,000 to 35,000		2	15	3
F	10,000 to 20,000		3	22	6
G	5,000 to 10,000		3	6	3
H	3,000 to 5,000		3	1	1
J	2,000 to 3,000		1		1
K	1,000 to 2,000		2	2	
L	Up to 1,000				
COMPOSITE CREDIT APPRAISAL					
	Not Quoted	8			
	Blank	54			
	1X	4			
	2X	7			
	3X	1			

TABLE VI
 Tabulation of 1957 Performance Report of the
 Graduate Subordinate in Accounting, and
 1957 to 1959, according to the
 Strength and Estimated Financial

Grade	ESTIMATED FINANCIAL STRENGTH OF SERVICE		COMPOSITE GRADE APPRAISAL	
	High	Good	Not Graded	Blank
A	200,000 to 250,000			
B+	150,000 to 200,000			
B	100,000 to 150,000			
C+	50,000 to 100,000			
C	25,000 to 50,000			
D+	10,000 to 25,000			
D	5,000 to 10,000			
E	2,000 to 5,000			
F	1,000 to 2,000			
G	500 to 1,000			
H	200 to 500			
J	100 to 200			
K	50 to 100			
L	25 to 50			

TABLE VIII

Tabulation of 268 Delinquent Accounts of
Non-subscribers in Albuquerque, New Mexico,
1951 Through 1953 According to Estimated
Financial Strength and Composite Credit Appraisal

ESTIMATED FINANCIAL STRENGTH OF DEBTOR	COMPOSITE CREDIT APPRAISED			
	High	Good	Fair	Limited
A \$500,000 to 750,000				
B+ 300,000 to 500,000				
B 200,000 to 300,000				
C+ 125,000 to 200,000		1	1	
C 75,000 to 125,000		1	2	1
D+ 50,000 to 75,000		1	1	2
D 35,000 to 50,000		2	25	8
E 20,000 to 35,000		1	15	5
F 10,000 to 20,000		4	24	7
G 5,000 to 10,000		5	13	13
H 3,000 to 5,000		5	2	
J 2,000 to 3,000		4	3	1
K 1,000 to 2,000		4	2	
L Up to 1,000		1		
COMPOSITE CREDIT APPRAISAL				
Not Quoted	27			
Blank	74			
1X	3			
2X	8			
3X	2			

TABLE VIII

Estimation of the Critical Level of Non-Adherence in Administrative Law Cases (1973-1974) According to Financial Strength and Specific Level of Adherence

ESTIMATED FINANCIAL STRENGTH OF DEBTOR	DEBTOR'S SPECIFIC LEVEL OF ADHERENCE
A 250,000 to 350,000	
B+ 200,000 to 250,000	
B 150,000 to 200,000	
C+ 125,000 to 150,000	
C 75,000 to 125,000	
D+ 50,000 to 75,000	
D 35,000 to 50,000	
E 20,000 to 35,000	
F 10,000 to 20,000	
G 7,000 to 10,000	
H 5,000 to 7,000	
I 3,000 to 5,000	
X 1,000 to 3,000	
L 0 to 1,000	
COMPOSITE CREDIT RATING	
Not Rated	
Black	
IX	
SX	
3X	



11

RS See Check

For
ing
er

APPENDIX B

CREDIT REPORTING FORMS

Form:
TING:

MARKED:
BY WORTH:

is since
 register

is
 born
married
of

RE:
NAME OF IT

ARTING

Account

Source?

ES?

LAURIS?

Details

to

Account

Owns

per occupied

(2001)

PHYSICIAN
ERASABLE BOND
BAS CONTENT

ERASABLE BOND

30% WAX CONTENT

EFFICIENCY

ERASABLE BOND

WAX CONTENT

Dun & Bradstreet, Inc.

REPORTERS' SUMMARY FORM

RS

See Attached Memo
 Check

STATEMENT Fin Stat Est <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	SALES <input type="checkbox"/>	P&L P&L Est <input type="checkbox"/> <input type="checkbox"/>	REF	Rptr No	Town Not Visited <input type="checkbox"/>
---	-----------------------------------	---	-----	---------	--

OR CD DATE A N

BUSINESS NAMES	LINE OF BUSINESS	ADDRESS Town & Zone _____ State _____ County _____ No & St _____
----------------	------------------	---

Copy from previous

PRINCIPALS (Names & Titles)

1. _____ 2. _____
 3. _____ 4. _____
 5. _____ 6. _____

STARTING: SUMMARY

STARTED: _____ PAYMENTS: Prompt Disc. Slow Weekly Monthly

NET WORTH: \$ _____ SALES: \$ _____

WRITE LAST

HISTORY (Insert hyphen Copy from previous)

is unregistered on _____ Used for buying selling
 registered by _____

<input type="checkbox"/> is born _____ <input type="checkbox"/> married _____ e of _____	Partnership formed _____	Incorporated _____ on _____ Authorized capital \$ _____ consists _____ shares \$ _____ par Common and _____ shares \$ _____ par Preferred.
--	--------------------------	--

REPORTER'S NOTES

TERMS OF PURCHASE?

STARTING CAPITAL?
Amount?

Source?

RES?

FLURES?

See R55

OPERATION—LOCATION (Copy from previous)

Retails (_____%) Wholesales (_____%), S.I.C. _____, Manufactures (_____%) S.I.C. _____, Operates

REPORTER'S NOTES

_____ % cash; remainder _____ terms.

accounts _____ Territory covers _____ Employs _____

Owens Rents _____ story _____ building located _____

_____ floor measures _____ by _____ feet. Premises

See R55

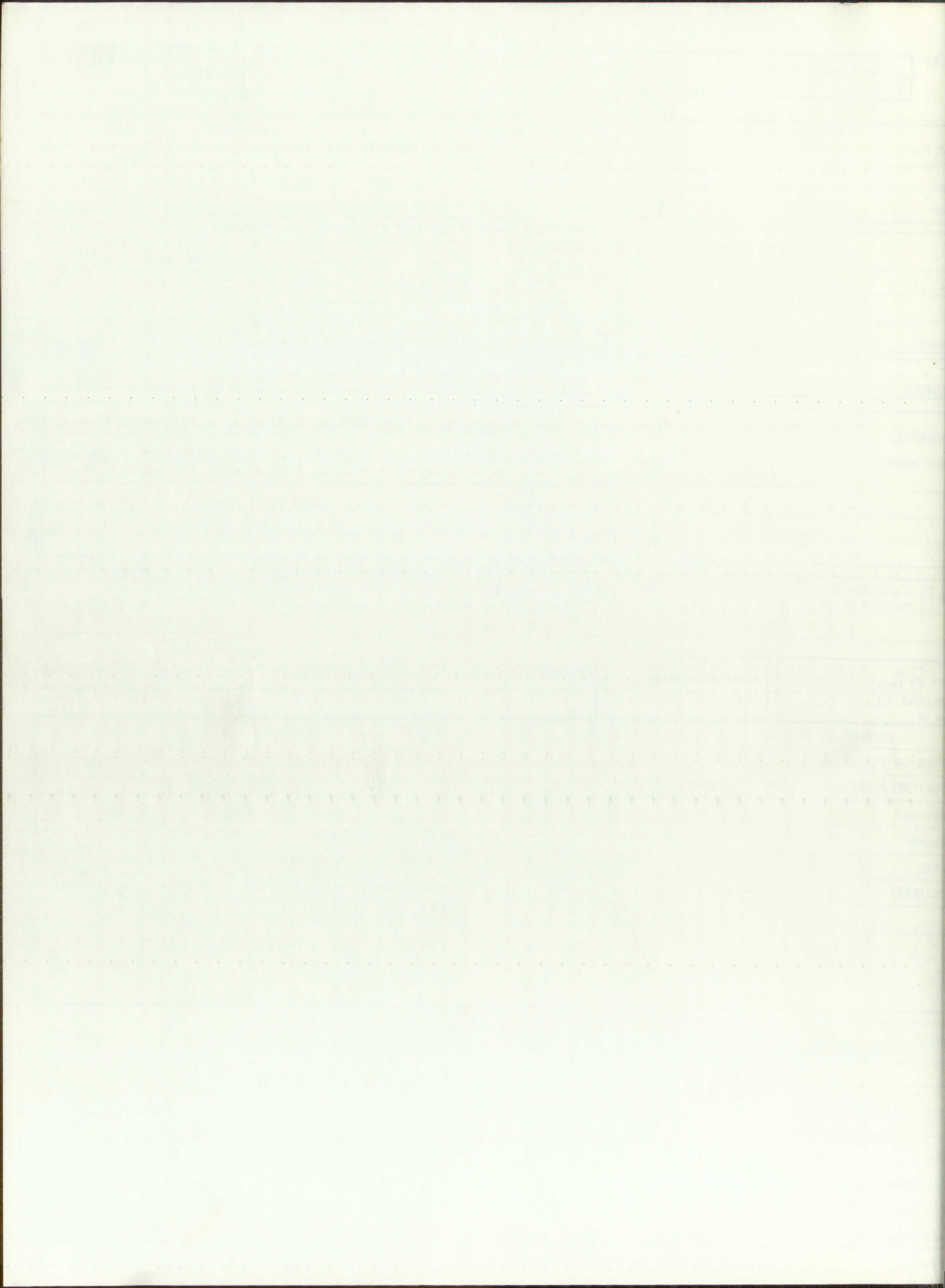


Illustration IB

STATEMENT MADE TO DUN & BRADSTREET, INC. FOR USE OF SUBSCRIBERS AS A BASIS FOR CREDIT AND INSURANCE

Financial statement at _____ 19____ -cents omitted: Estimated financial condition at _____ 19____

ASSETS	LIABILITIES	WEEKLY	MONTHLY	YEARLY
Cash—On Hand.....	18. Accts Payable—Not Due..	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cash—In Bank.....	19. Accts Payable—Past Due..	FROM _____ TO _____		
Accts Rec.....	20. Notes Payable.....	35. NET SALES \$ _____		
Notes Rec.....	21. Owing Bank(s).....	36. GROSS PROFIT \$ _____		
MDSE <input type="checkbox"/> Cost <small>{ Explain Other }</small>	22. Owing _____	37. SALARIES AND DRAWINGS OF OWNER(S) \$ _____		
U. S. Govt Bonds.....	23. Owing on Fixt & Equip....	38. NET PROFIT OVER AND ABOVE SALARIES AND DRAWINGS OF OWNER(S) \$ _____		
TOTAL CURRENT	24. Taxes (Fed & State).....	39. _____ \$ _____		
Fixt & Equip <small>(Less Dep.)</small>	25. Accrued Expenses.....	40. _____ \$ _____		
R. E. & Bldgs <small>(Less Dep.)</small>	26. _____	41. _____ \$ _____		
Prepaid Expenses.....	27. TOTAL CURRENT			
	28. Mtges on R E.....			
	29. Reserves.....			
	30. _____			
	31. NET WORTH..... <small>{ If Prop or Part }</small>			
	32. CAPITAL STOCK.. <small>{ If a</small>			
	33. SURPLUS..... <small>{ Corp }</small>			
TOTAL	34. TOTAL			

REAL ESTATE: (Address & Description)	Title	Value Mkt. <input type="checkbox"/> Cost <input type="checkbox"/>	Mortgage	Mortgage Due Date	<input type="checkbox"/> Annl. Pay. <input type="checkbox"/> Mo. Pay.	<input type="checkbox"/> Annl. Inc. <input type="checkbox"/> Mo. Inc.

MONTHLY RENT \$ _____, LEASE EXPIRES _____ MONTHLY PAYMENTS \$ _____ on _____ CONTINGENT
 BT \$ _____, FIRE INSURANCE: on MDSE \$ _____; FIXTS \$ _____; BLDGS \$ _____ MDSE on CONSIGN \$ _____

(Source of Figures)

	SIGNED:	Date:	
	Name of Business		
	BY		TITLE:
	BY		TITLE:

REPORTER'S NOTES

END—Sales? Profits? Fin. Condition?
 PLANATIONS—ST items? Suits?
 Judgments? Condition? Losses?
 Slow Payments? Contingent Debt?
 CURRENT INTERVIEW—Sales? Profits?
 Figures Up To Date?
 BANK CHECK—Cash Confirmed? Loans?
 Terms? Relations? Reason for Loans?

See RSS

PAYMENTS

Buys from _____ suppliers bill to bill, other purchases cash. See attached ledger experiences. See experiences on TR. 13.

AUTHORITIES: Bank _____ Others _____

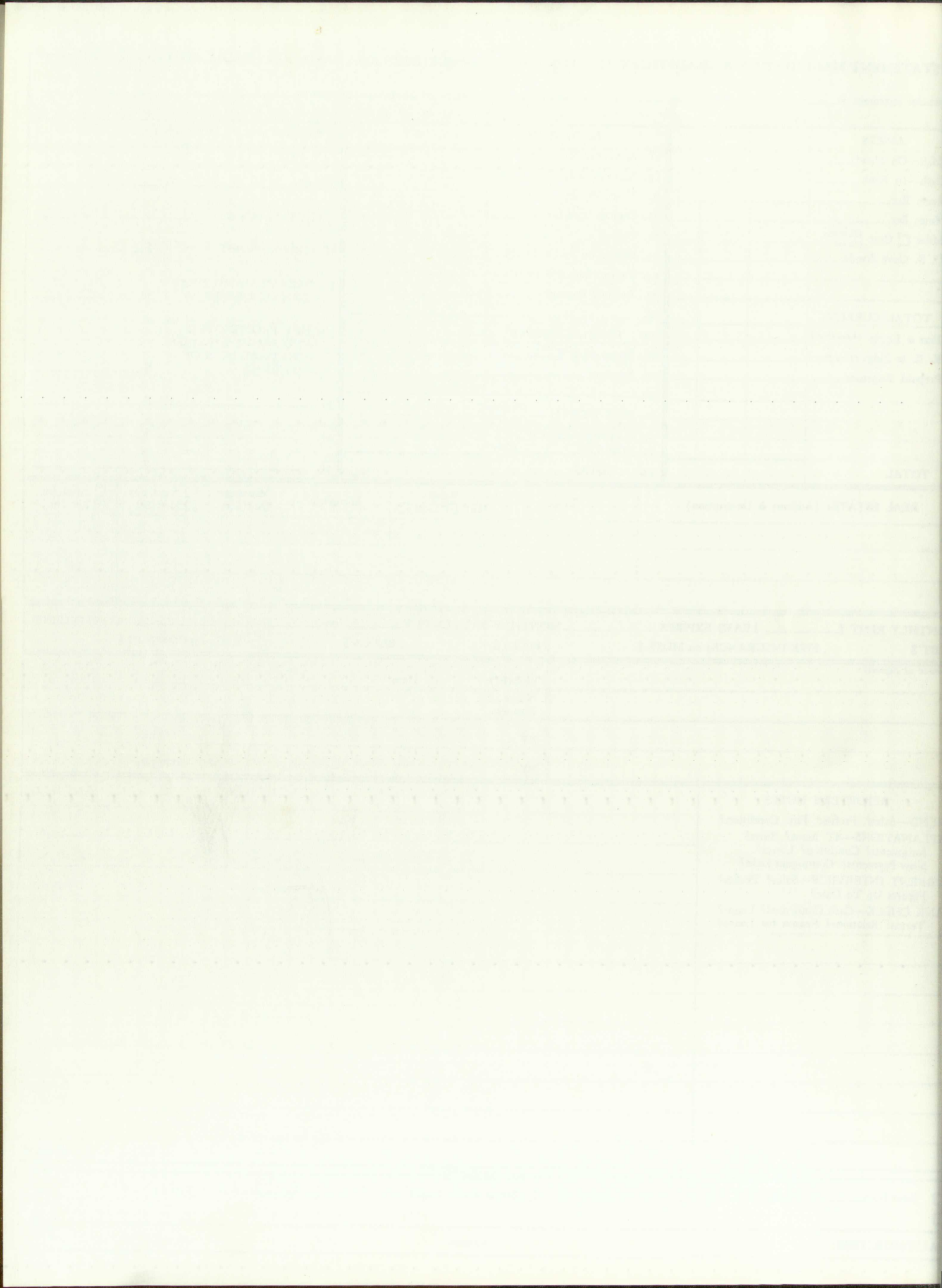


Illustration II

REQUEST FOR CREDIT EXPERIENCE

The rapid flow of credit facts expedites the movement of goods and contributes to maintaining open credit as a fundamental in the economy of this country.

DUN & BRADSTREET, Inc.

LEDGER EXPERIENCE ON	101
----------------------	------------

NO EXPERIENCE WITHIN PAST YEAR

SOLD	FROM (Date)		
	TO (Date)		
HIGH CREDIT <small>(Within a year)</small>	\$	OPEN ACCT. <small>(Omit cents)</small>	NOTES <small>(Omit cents)</small>
NOW OWING	\$	\$	\$
PAST DUE	\$	\$	\$
	Since	Since	Since
ANTICIPATES			
DISCOUNTS			
PROMPT			
SLOW		DAYS SLOW	DAYS SLOW
PAYS CASH..... <input type="checkbox"/> OWN OPTION <input type="checkbox"/> OUR REQUEST <input type="checkbox"/>			
TERMS <small>(Please give in detail)</small>			
FIRST SALE..... <input type="checkbox"/>			
CREDIT REFUSED.... <input type="checkbox"/> { DATE _____			
ACCT IN DISPUTE <input type="checkbox"/> { REASON: _____ PLEASE GIVE ON REVERSE SIDE.			
REMARKS: PLEASE ALSO USE THE REVERSE SIDE FOR COMMENTS OR EXPLANATIONS REGARDING SLOWNESS, UNJUST CLAIMS, RETURNS, OR ANYTHING ELSE OF SIGNIFICANCE. ANY OTHER INFORMATION, FAVORABLE OR UNFAVORABLE, YOU CAN GIVE REGARDING THIS ACCOUNT, WILL BE APPRECIATED.			

9X-6 (20394)

A PROMPT REPLY WILL BE APPRECIATED

IMPORTANT!

Special care should be taken to prevent loss or damage of this volume. If lost or damaged, it must be paid for at the current rate of typing.

Date Due	
APR 14 1958	JUN 20 1966
MAY 2 1958	JUN 27 RECD
APR 9 - 1962	
APR 11 RECD	JUL 25 1966 AUG 10 RECD
NOV 24 1962	JAN 16 '82
NOV - 8 RECD	RECD UNM JAN 17 '82
JAN 11 1963	
JANN-13 RECD	
AUG 11 1965	
AUG 9 RECD	



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