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### *The Volume of Accounts Receivable Financing*

THE PRINCIPAL AGENCIES supplying funds to business enterprises on the basis of open accounts receivable are factoring companies, commercial finance companies and commercial banks. The general nature of the factors' functions has already been suggested; the term commercial finance company will be used to signify non-bank agencies purchasing or taking assignments of open accounts on a non-notification basis, generally with recourse on the borrower. Many of these companies engage in other activities, such as the purchase of instalment sales contracts, but we shall limit this study to their open accounts financing. While all three of these agencies overlap at some points with regard to the services they offer and the types of clients they serve, it will be convenient to develop estimates of the volume of receivables financing transacted and describe the institutional character of the market in terms of this classification of agencies, particularly in view of the fact that previous estimates have been based on this same division. The agencies will be dealt with in the order of their historical development as receivables financing institutions.

It has been estimated that the total volume of receivables financing transacted in 1940 amounted to roughly \$2 billion and that the 1941 volume reached \$2.6 billion. Of the 1940 volume approximately \$800 million was conducted by factoring companies, \$411 million by commercial finance companies and \$826 million by commercial banks. It is estimated that the 1941 volume was divided as follows: \$1,150 million by factors, \$536 million by commercial finance companies, and \$952 million by commercial banks. The procedures followed in deriving these estimates are described in this chapter.

### Factors

Various estimates have been made of the growth and present magnitude of the business conducted by factoring companies, the first of the agencies to engage in receivables financing. It is probable that these estimates overstate the volume of factoring because of the difficulty in drawing a clear line between this type of financing and receivables financing conducted on a non-notification basis. One writer estimates the volume of sales factored during 1938 at about \$1 billion.<sup>1</sup> This writer places the volume of sales factored in 1917 at \$200 million and at \$550 million for 1933. Another estimate, submitted to the National Recovery Administration, contains annual volume figures for the period 1928-33 inclusive. The estimate was based on the volume of business transacted by a number of factoring companies, varying from 16 to 20 over the period; in view of the concentration of factoring in the few large companies the series probably represents at least 90 percent of the total volume of old-line factoring. It places the 1928 factoring volume at \$345 million (16 companies) and the 1933 volume at \$543 million (20 companies).

After 1933, data are not available on the volume of business conducted by all the factoring companies covered in the NRA estimate, but information is available for most years on the volume of seven of the leading factors. In 1933 the volume of sales factored by the seven companies made up about two-thirds of the volume reported for the 20 companies represented in the NRA estimate. Changes in the volume for these seven companies have been used as a basis for industry estimates on the assumptions that (a) their share of the total factoring volume has not changed substantially over the period 1933-41, and (b) that the NRA estimate for 1933 represents 90 percent of total factoring volume in that year.<sup>2</sup>

<sup>1</sup>George Mills, "Remarkable Growth of the Factoring Industry: Its Expansion into New Fields," *The Annalist* (April 1, 1938) p. 452.

<sup>2</sup>The latter assumption is strengthened by the fact that the Mills estimate and the NRA estimate agree for 1933. See Appendix A for a statement of the method used in making the National Bureau estimate of factoring volume.

The results of this estimating procedure, shown in Table 1, indicate that factoring volume has about doubled since 1933. The 1941 volume (nearly \$1,150 million) shows an increase of almost 25 percent over the 1940 volume (nearly \$800 million<sup>3</sup>).

Table 1—ESTIMATES OF THE VOLUME OF ACCOUNTS RECEIVABLE FINANCED BY FACTORING COMPANIES, 1928-41  
(dollar figures in thousands)

Year	Volume of Sales Factored by Seven Factors <sup>a</sup>	No. of Factors Included	NRA Estimate <sup>b</sup>	
			Volume	National Bureau Estimate of Total Factoring Volume <sup>c</sup>
1928	..	16	\$344,980	..
1929	..	17	485,220	..
1930	..	17	505,450	..
1931	..	17	490,750	..
1932	..	18	436,830	..
1933	\$369,797	20	542,510	..
1934	434,636	..	..	\$700,000
1935	451,015	..	..	726,000
1936	495,085	..	..	797,000
1937	536,184	..	..	863,000
1938	423,038	..	..	681,000
1939	464,724	..	..	748,000
1940	490,549	..	..	790,000
1941	710,205	..	..	1,143,000

<sup>a</sup> Includes James Talcott, Inc.; Mill Factors Corporation; Commercial Factors Corporation; Meinhard Greeff and Company, Inc.; William Iselin and Co., Inc.; Textile Banking Company, Inc.; and Edmund Wright Ginsberg Corporation. See Appendix A for a statement of the method used in making estimates for certain of these companies.

<sup>b</sup> See Owen T. Jones, "Factoring," *Harvard Business Review* (Winter, 1936) p. 187.

<sup>c</sup> This estimate was derived as follows: the NRA estimate for 1933 was raised by 10 percent and its ratio to the 1933 volume of sales factored by the seven major factoring companies in column 1 (1.61) applied to the sales of these seven factors for the years 1934-41, inclusive.

### Commercial Finance Companies

The second area of receivables financing in point of historical development is the non-notification financing of open ac-

<sup>3</sup> This estimate of 1940 volume is exactly the same as that given by Roy A. Foulke, *The Sinews of American Commerce* (Dun & Bradstreet, Inc., 1941) p. 190. In view of this exact agreement it should be indicated that the estimates were arrived at independently.

counts receivable by commercial finance companies. There are no data sufficiently broad in coverage to provide a basis for estimating the growth of receivables financing of this type over any period, but it is possible to make a fairly reliable estimate of its present volume.

The outstanding notes and open accounts receivable arising out of non-notification financing are available for year ends for 1940 and 1941 for seven major commercial finance companies<sup>4</sup> as is also the volume of receivables acquired during 1940 by three of these companies. Estimates of the 1940 and 1941 volume of non-notification financing transacted by the seven major commercial finance companies were derived by applying to their year-end outstandings an average ratio of volume to outstandings. The ratio used was based on a study of published figures of three companies and unpublished turnover data for two other companies. On this basis it was estimated that the 1940 volume for the major companies was \$346 million and the 1941 volume \$466 million.

In addition to these companies there are a number of smaller sales finance companies indicating varying amounts of open accounts receivable, both of the old-line factoring type and the non-notification type, in their financial reports at the end of 1939. These data were raised to an estimate for 1940 year-end outstandings by applying to them the percentage increase shown by the seven major factoring companies covered in Table 1. This produced an estimate of 1940 year-end outstandings of approximately \$1.5 million. On the basis of the ratio of outstandings to volume which was used to estimate volume for the major commercial finance companies, this amount of outstandings represents a 1940 volume of \$15 million for these smaller companies. In view of the increased volume transacted by the major commercial finance companies

<sup>4</sup>These include Commercial Credit Company, a national company, and the following regional companies: American Business Credit Corporation, Bankers Commercial Corporation, Finance Company of America at Baltimore, Walter E. Heller and Co., Manufacturers Trading Corporation and Seaboard Commercial Corporation.

in 1941 it is probable that these smaller companies did approximately \$20 million of non-notification financing in 1941.

Finally, there are a number of relatively small local companies engaging primarily in non-notification financing. There is little information to be used in making an estimate of their number and of their average annual volume of business but interviews with various experienced members of the industry suggest that they number about 100 and that their average annual volume would be approximately \$500,000 each. This would place the annual volume of these companies at about \$50 million; this estimate will be used for both 1940 and 1941.

Summarizing these estimates, the total 1941 volume of the non-notification branch of receivables financing is about \$536 million divided as follows: major national and regional commercial finance companies—\$466 million; regional and local sales finance companies—\$20 million; local commercial finance companies—\$50 million.

#### *Commercial Banks*

It remains to estimate the volume of receivables financing transacted by commercial banks. In this case also, the financing is almost exclusively of the non-notification type although there is at least one bank that conducts a "factoring" business, that is, notification, non-recourse receivables financing. In order to make an estimate of the present quantitative importance of their accounts receivable financing, a sample of commercial banks was surveyed by questionnaire.<sup>5</sup>

The results of this survey, presented in Table 2, show that the ratio of accounts receivable loan balances to total loans and discounts was lowest—.2 percent—for the 32 reporting banks in the largest size group, namely those with total deposits of over \$50 million. The relative importance of accounts receivable loan balances was somewhat higher in other size classes of banks but in no case did the ratio rise above 2 percent of total loans and discounts. Applying the ratios

<sup>5</sup> See Appendix B for a statement of the nature of this sample.

Table 2—ESTIMATE OF TOTAL OUTSTANDING ACCOUNTS RECEIVABLE LOAN BALANCES OF COMMERCIAL BANKS AS OF DECEMBER 31, 1940, BY DEPOSIT SIZE OF BANK (dollar figures in thousands)

Deposit Size of Bank <sup>a</sup>	Banks Responding to Questionnaire Survey				Total Loans and Discounts of All In- sured Commer- cial Banks <sup>b</sup>	Estimate of Total Accts. Receivable Loan Balances Outstanding at End of 1940
	Number	Total Accts. Rec. Loans Outstanding	Total Loans and Discounts	Accts. Receiv- able Loans in % of Total Loans		
\$5,000 or less	196	\$1,001	\$134,352	.7%	\$4,827,719	\$33,794
5,000-10,000	39	1,003	89,679	1.1	1,266,521	13,932
10,000-50,000	59	8,029	404,398	2.0	2,661,226	53,225
Over 50,000	32	6,432	2,717,821	.2	8,281,876	16,564
ALL INSURED COMMERCIAL BANKS						\$117,515

<sup>a</sup> Each size class is exclusive of the lower limit and inclusive of the upper.

<sup>b</sup> Federal Deposit Insurance Corporation, *Annual Report, 1940*, p. 171.

calculated for reporting banks to the total loans and discounts outstanding at the end of 1940 in all insured commercial banks produces an estimate of the accounts receivable loans of commercial banks, outstanding at the end of 1940, of \$118 million. In view of the fact that total loans and discounts of banks were about 15 percent higher at the end of 1941 than at the end of 1940, it is estimated that there were about \$135 million of bank receivables loans outstanding at the end of 1941. On the assumption that these loan balances are outstanding, on the average, for about 50 days,<sup>6</sup> it is estimated that the 1940 annual volume of commercial bank accounts receivable financing was about \$826 million and the 1941 volume about \$952 million. This places commercial bank receivables financing at a level roughly equal to that conducted by factors and at about twice the amount conducted by commercial finance companies. Adding these estimates we arrive at a total of receivables financing conducted during 1940 by all three types of agencies of roughly \$2 billion; the total for 1941 was approximately \$2.6 billion.

<sup>6</sup> This assumption is supported by evidence introduced in Chapter 5.