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Income, Expenses, Profits

As was shown in an earlier chapter, the functions performed by industrial banking companies have had a marked effect upon the financial structure of these institutions. In the record of their income, expenses and profitability, their functional character is reflected even more sharply.

INCOME

The income of industrial banking companies, like that of other consumer credit agencies, is derived mainly from interest and discounts on loans. Other sources of income are interest and dividends on securities, delinquency charges, insurance commissions, recoveries on loans previously charged off, profits on sales of securities, interest on bank deposits, rents and miscellaneous minor items. These sources vary in importance, of course, with the nature and diversity of operations of a given company; a firm engaged in what is in effect a general banking business will draw its income from a wide variety of sources, while a company which concentrates upon a straight consumer loan business will have a correspondingly less complicated income structure.

The relative significance of the different income sources is evidenced by several collections of data. Information collected by the North Carolina Banking Department, pertaining to industrial banking companies in that state, both Morris Plan and others, is presented in Table 40. These data cover a relatively small group of companies but they serve to indicate that interest and discounts on loans are of pre-

TABLE 40

PERCENTAGE DISTRIBUTION OF TOTAL INCOME OF NORTH CAROLINA INDUSTRIAL BANKING COMPANIES, 1928–38, BY SOURCE OF INCOME[a]

Year	Number of Companies	Source of Income					
		Interest and Discounts on Loans	Interest and Dividends on Securities	Other Current Operating Earnings	Recoveries on Loans and Profits on Assets Sold[b]	Total[c]	
1928	48	77.8	.2	21.6	.4	100.0%	$1,638
1929	45	85.2	.2	13.5	1.1	100.0	1,619
1930	41	82.7	.3	15.3	1.7	100.0	1,644
1931	40	78.9	.3	19.5	1.3	100.0	1,697
1932	43	66.6	1.0	31.1	1.3	100.0	1,286
1933	33	70.4	2.0	24.8	2.8	100.0	800
1934	30	67.1	2.8	27.2	2.9	100.0	873
1935	29	63.9	3.7	28.1	4.3	100.0	1,020
1936	29	65.8	3.1	24.5	6.6	100.0	1,182
1937	32	67.0	2.8	26.0	4.2	100.0	1,348
1938	33	71.1	2.0	23.1	3.8	100.0	1,461

[a] Based on *Reports of the Condition of the State Banks,* State of North Carolina, Banking Department.
[b] Includes reductions in valuation allowances.
[c] Dollar figures in thousands.

dominant importance as a source of income. Year-to-year changes in the relative weight of this item during the period 1928-38 show no consistent trend, and it may be that the changes here revealed are traceable primarily to changes in the composition of the group of companies for which reports are available.

The significance of interest and discounts as a source of income is revealed also by Table 41, based on reports made to the Federal Deposit Insurance Corporation by insured

TABLE 41

PERCENTAGE DISTRIBUTION OF TOTAL INCOME OF INSURED INDUSTRIAL BANKING COMPANIES, 1934–38, BY SIZE OF COMPANY AND SOURCE OF INCOME[a]

Year	*Size of Company*[b]	*Number of Companies*	Source of Income: Interest and Discounts on Loans	Interest and Dividends on Securities	Commissions, Fees, Collections, Exchanges, etc.	Other Current Operating Earnings	Recoveries on Loans[c]	All Other Recoveries[d]	Total[e]	
1934	All Companies	60	61.6	7.7	16.7	3.7	6.2	4.1	100.0%	$8,788
	Under $100	18	64.5	4.6	21.3	4.8	3.9	.9	100.0	436
	100– 200	22	66.8	6.2	19.0	3.8	2.5	1.7	100.0	1,214
	200– 300	8	66.7	1.7	10.2	13.9	5.5	2.0	100.0	598
	300– 500	5	67.4	2.1	17.5	6.4	3.3	3.3	100.0	783
	500– 1000	4	68.3	6.7	12.5	1.6	6.4	4.5	100.0	1,693
	1000 & over	3	55.1	10.8	18.0	2.5	8.2	5.4	100.0	4,064
1935	All Companies	62	64.1	6.0	17.0	3.3	6.3	3.3	100.0	10,233
	Under $100	18	64.5	8.3	17.6	3.6	4.0	2.0	100.0	505
	100– 200	22	64.9	6.1	19.7	2.2	2.1	5.0	100.0	1,576
	200– 300	10	65.3	1.9	16.4	8.0	6.8	1.6	100.0	795
	300– 500	5	72.5	1.4	14.1	6.3	4.0	1.7	100.0	845
	500– 1000	3	76.3	3.0	8.8	2.4	5.6	3.9	100.0	1,559
	1000 & over	4	58.4	8.1	19.3	2.6	8.3	3.3	100.0	4,953
1936	All Companies	63	66.4	4.2	15.2	3.0	7.5	3.7	100.0	12,264
	Under $100	17	70.3	3.2	17.9	1.9	2.2	4.5	100.0	464
	100– 200	20	66.6	5.6	17.2	.7	4.0	5.9	100.0	1,555
	200– 300	13	66.6	3.3	18.9	4.8	4.1	2.3	100.0	1,370
	300– 500	5	72.8	1.1	14.6	4.6	6.5	.4	100.0	786
	500– 1000	4	76.3	2.0	8.8	3.7	4.1	5.1	100.0	2,324
	1000 & over	4	61.2	5.5	16.2	2.7	11.2	3.2	100.0	5,765

TABLE 41

PERCENTAGE DISTRIBUTION OF TOTAL INCOME OF INSURED INDUSTRIAL BANKING COMPANIES, 1934–38, BY SIZE OF COMPANY AND SOURCE OF INCOME[a] (*concluded*)

Year	*Size of Company*[b]	*Number of Companies*	Source of Income: Interest and Discounts on Loans	Interest and Dividends on Securities	Commissions, Fees, Collections, Exchanges, etc.	Other Current Operating Earnings	Recoveries on Loans[c]	All Other Recoveries[d]	Total[e]	
1937	All Companies	69	71.1	4.1	13.7	4.3	4.8	2.0	100.0%	$14,018
	Under $100	20	70.3	2.6	20.6	2.6	1.3	2.6	100.0	543
	100– 200	20	70.1	4.4	18.1	1.4	2.8	3.2	100.0	1,645
	200– 300	16	70.9	3.8	14.9	4.1	4.7	1.6	100.0	1,919
	300– 500	5	74.4	.8	14.0	5.3	4.5	1.0	100.0	848
	500– 1000	3	74.5	2.7	15.9	2.2	4.4	.3	100.0	1,465
	1000 & over	5	70.3	4.9	11.4	5.5	5.6	2.3	100.0	7,598
1938	All Companies	71	71.8	3.8	15.3	2.2	3.4	3.5	100.0	13,825
	Under $100	21	72.9	3.0	19.0	2.7	1.2	1.2	100.0	569
	100– 200	19	72.3	3.8	17.6	.9	3.8	1.6	100.0	1,604
	200– 300	17	71.9	1.6	17.7	2.1	2.6	4.1	100.0	2,069
	300– 500	7	71.1	3.9	13.0	7.1	2.7	2.2	100.0	1,112
	500– 1000	2	79.7	.6	15.7	1.0	1.4	1.6	100.0	508
	1000 & over	5	71.2	4.6	14.2	1.8	3.9	4.3	100.0	7,963

[a] Based on year-end data supplied by the Federal Deposit Insurance Corporation.
[b] As measured by total equity account (capital, surplus and undivided profits), in thousands of dollars. Each level is inclusive of the lower figure and exclusive of the higher.
[c] Includes reductions in valuation allowances on loans.
[d] Includes reductions in valuation allowances on assets other than loans, and profits on assets sold or exchanged.
[e] Dollar figures in thousands.

industrial banking companies. From this table it appears that the size of the company, as measured by the total of capital, surplus and undivided profits, does not stand in any significant relationship to the percentage of income derived from interest and discounts on loans.

An important difference between industrial banking companies and commercial banks is brought out by a comparison of the income structures of the two types of institutions. Data published by the Federal Deposit Insurance Corporation indicate that for insured commercial banks interest and discounts on loans varied between 31.0 and 38.1 percent of total income over the period 1934-38.[1] Table 41, however, shows that for insured industrial banking companies this proportion was about twice as high during the same period. This divergence between the two types of institutions reflects differences in both asset structure and investment policy; as was noted in Chapter 3, industrial banking companies keep a much larger proportion of their total assets in loans and discounts than do commercial banks.

A final collection of data on sources of income is presented in Table 42, in regard to three separate groups of companies: Indiana industrial banking companies of the investment type; a mixed group of companies reporting to the American Industrial Bankers Association; and companies reporting to the Morris Plan Bankers Association. Again interest and discounts are seen to constitute the chief source of income, amounting in 1937 to approximately 75 percent of the total income of these companies.

The three tables here presented show also the relative unimportance, as a source of income, of interest and dividends on securities. In 1935, when the North Carolina industrial banking companies represented in Table 40 received a higher proportion of their total income from this source than in

[1] Federal Deposit Insurance Corporation, *Annual Report,* for the year ended December 31, 1938, Table 137, pp. 212-13.

TABLE 42

PERCENTAGE DISTRIBUTION OF TOTAL INCOME OF INDUSTRIAL BANKING COMPANIES REPORTING TO THE AMERICAN INDUSTRIAL BANKERS ASSOCIATION, 1936–37, TO THE MORRIS PLAN BANKERS ASSOCIATION, 1937, AND TO THE INDIANA BANKING DEPARTMENT, 1937, BY SOURCE OF INCOME

Source of Income	*Members of AIBA*[a] 1936	*Members of AIBA*[a] 1937	*Members of Morris Plan Bankers Association*[b]	*Indiana Industrial Banking Companies*[c]
Interest and discounts on loans	74.7	73.3	75.6	78.7
Fees and charges	15.4	13.1	13.2	[d]
Delinquency charges	1.0	5.1	1.5	1.7
Insurance commissions	1.6	1.4	[d]	2.4
Interest and dividends on securities	0.2	0.8	[d]	3.3
Interest on bank balances	[d]	[d]	[d]	.1
Rent received	2.0[e]	0.9[e]	[d]	2.1
Recoveries on loans	4.1	3.2	[d]	3.7
Profits on assets sold or exchanged	[d]	[d]	[d]	.2
Other income	1.0	2.2	9.7	7.8
TOTAL[f]	100.0%	100.0%	100.0%	100.0%
	$2,201	$1,953	[g]	$ 603
Number of companies	47	37	[h]	8

[a] Based on data supplied by the American Industrial Bankers Association, covering both investment and non-investment types of institutions.
[b] Based on data supplied by the Morris Plan Bankers Association.
[c] Based on *Annual Report* of the Department of Financial Institutions of the State of Indiana, for the year ended June 30, 1938, p. 89; data are for the calendar year 1937, and pertain to companies authorized to issue investment certificates.
[d] Not reported separately.
[e] Reported as real estate income.
[f] Dollar figures in thousands.
[g] Total income not given.
[h] Data are for all reporting Morris Plan banking companies; the number reporting is not given in the statement of the Morris Plan Bankers Association, but it represents a majority of the companies.

any other year, the figure was only 3.7 percent, as compared with 0.2 percent in the low years 1928-29. After 1935 this source of income for the North Carolina companies declined gradually until it stood at 2.0 percent in 1938. Table 42 shows a comparable low figure for Indiana industrial banking companies in 1937, and still lower ones for members of the American Industrial Bankers Association; Morris Plan companies do not report this income source separately. Table 41, covering insured companies—a group which generally holds a larger proportion of total assets in investment securities—corroborates the evidence in Table 40 that in recent years interest and dividends on securities have tended to decline in relative importance as a source of income. The proportion represented by this item fell from 7.7 in 1934 to 3.8 percent in 1938 for the entire group of companies; for the companies whose equity account was $1,000,000 or more the figure was well over average, and it tended to be lowest for the companies in the $200,000-1,000,000 groups.

In regard to income from securities the insured industrial banking companies stand in significant contrast to the insured commercial banks. For the latter, according to reports made to the Federal Deposit Insurance Corporation,[2] investment income varied between 26.7 and 30.4 percent of total income during these same years, and showed no consistent downward trend; it was lowest—26.7 percent—in 1936, and rose considerably in 1937, though it fell again in 1938. For commercial banks the income arising from security investments is nearly equal to the income from interest and discounts on loans, but for industrial banking companies this type of income is scarcely more than an incidental part of the earnings structure.

A group of related items may be considered together as a third source of income: recoveries on loans or other assets previously charged off; profits from the sale or exchange of

[2] *Ibid.*, p. 212.

assets; and reductions in valuation allowances. Table 41 indicates that for insured industrial banking companies this composite source provided, for the group as a whole, about one-tenth of total income in 1934-36, and about 7 percent in 1937-38. These items too are considerably less important for insured industrial banking companies than for insured commercial banks. For the latter their significance in total income varied between 16 and 27 percent during the years 1934-38, approximately three-fourths of this non-operating income originating in investment activity.[3] Year-to-year changes in the proportion of total income arising from recoveries on loans may indicate changes in economic conditions, reflected in a new development in collection experience, but also they may merely indicate changes in managerial policy, reflected in the relative volume of charge-offs and subsequent recoveries.

Chief among the other sources of industrial banking company income are various charges and fees, and insurance commissions. Income from property rented and interest on bank balances may also supply some incidental funds. The relative importance of these items may be gauged from Table 42, although these data should not be interpreted too literally, for companies are likely to follow different procedures in classifying such sources of income. It seems clear, however, that insurance commissions and delinquency charges are but minor sources of income for industrial banking companies.

On loans and discounts the ratio of earnings to total loan account, as contrasted to their ratio to total income, has tended to decline in recent years for those industrial banking companies whose deposits are insured by the Federal Deposit Insurance Corporation. In 1935 interest and discounts on loans, plus fees, commissions and charges, amounted for these companies to $9.38 per $100 of average loan account, but

[3] *Ibid.*, p. 212.

this figure had fallen to $8.73 by 1938.[4] During this same period commercial bank income from loans remained fairly stable, in relation to average loan account, ranging from $5.75 per $100 in 1935 to $5.91 in 1938.[5]

Also the average rate of income from security investments has tended to fall in recent years for insured industrial banking companies, declining from $4.07 per $100 of securities owned in 1935 to $3.24 in 1938.[6] This rate has fallen too for insured commercial banks—from $3.51 per $100 of securities owned in 1935 to $3.27 in 1938.[7]

EXPENSES

The main items of expense incurred by industrial banking companies are salaries and wages, interest paid on deposits and outstanding investment certificates, interest and discounts on borrowed money, losses resulting from the charging off of defaulted loans and from the sale of assets, and taxes.

Table 43, pertaining to the same group of North Carolina industrial banking companies, shows that salaries, wages and fees constituted (except in 1932) the greatest single item of expense during the years 1928-38, ranging from one-fifth to two-fifths of total expenses over this period; the proportion represented by this item decreased in the years 1928-32, and thereafter rose to a figure considerably beyond its 1928 level. Also for the group of insured industrial banking companies the proportion of expenses accounted for by salaries, wages and fees has increased in recent years; as can be seen from

[4] Computed from data provided by the Federal Deposit Insurance Corporation.
[5] Federal Deposit Insurance Corporation, *Annual Report,* for the year ended December 31, 1938, p. 57.
[6] Computed from data provided by the Federal Deposit Insurance Corporation.
[7] Federal Deposit Insurance Corporation, *Annual Report,* for the year ended December 31, 1938, p. 57.

TABLE 43

PERCENTAGE DISTRIBUTION OF TOTAL EXPENSES OF NORTH CAROLINA INDUSTRIAL BANKING COMPANIES, 1928–38, BY TYPE OF EXPENSE[a]

Type of Expense	*1928*	*1929*	*1930*	*1931*	*1932*	*1933*	*1934*	*1935*	*1936*	*1937*	*1938*
Interest on time and savings deposits	21.3	20.4	23.2	21.9	21.2	18.2	11.7	17.0	18.3	16.9	16.8
Interest and discounts on borrowed money	9.1	9.7	5.8	4.9	4.6	3.0	1.8	1.4	.9	1.9	1.1
Salaries, wages and fees	29.6	29.0	27.8	26.0	19.7	28.1	27.9	31.5	39.5	38.7	39.1
Taxes (other than income)	12.4	12.4	10.6	8.0	9.0	10.2	10.0	13.6	9.5	9.4	9.2
Other current operating expenses	23.4	23.8	23.9	21.1	25.0	23.2	21.2	25.3	23.5	26.4	23.6
Charge-offs and losses on assets sold[b]	4.2	4.7	8.7	18.1	20.5	17.3	27.4	11.2	8.3	6.7	10.2
TOTAL[c]	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	$1,092	$1,186	$1,336	$1,589	$1,136	$753	$796	$748	$744	$863	$958
Number of companies	48	45	41	40	43	33	30	29	29	32	33

[a] Based on *Reports of the Condition of the State Banks*, State of North Carolina, Banking Department.
[b] Not reported separately.
[c] Dollar figures in thousands.

TABLE 44

PERCENTAGE DISTRIBUTION OF TOTAL EXPENSES OF INSURED INDUSTRIAL BANKING COMPANIES, 1934–38, BY SIZE OF COMPANY AND TYPE OF EXPENSE[a]

Year	*Size of Company*[b]	*Number of Companies*	Type of Expense: Interest on Time and Savings Deposits	Interest and Discounts on Borrowed Money	Salaries, Wages and Fees	Taxes (including income taxes)	Other Current Operating Expenses	Losses on Loans	All Other Losses	Total[c]	
1934	All Companies	60	19.9	1.0	27.8	2.6	25.0	15.4	8.3	100.0%	$8,411
	Under $ 100	18	17.9	.6	27.9	7.8	22.8	16.9	6.1	100.0	408
	100– 200	22	16.2	.6	28.6	4.2	27.9	18.8	3.7	100.0	1,157
	200– 300	8	13.2	4.2	28.2	7.2	26.6	20.0	.6	100.0	500
	300– 500	5	16.2	.8	34.1	4.3	30.8	8.2	5.6	100.0	654
	500– 1000	4	14.8	3.4	32.7	3.2	28.1	13.2	4.6	100.0	1,497
	1000 & over	3	24.2	.0	24.9	.7	22.2	15.6	12.4	100.0	4,195
1935	All Companies	62	19.1	.8	29.9	3.6	26.8	12.5	7.3	100.0	8,875
	Under $ 100	18	19.2	.3	30.4	9.5	21.4	16.0	3.2	100.0	401
	100– 200	22	17.2	.4	29.2	6.1	28.2	12.5	6.1	100.0	1,315
	200– 300	10	14.4	1.4	31.3	7.5	29.0	14.8	1.6	100.0	627
	300– 500	5	17.4	.3	37.6	5.0	29.9	7.0	2.8	100.0	685
	500– 1000	3	17.3	3.8	33.4	2.7	32.0	9.5	1.3	100.0	1,338
	1000 & over	4	21.0	.0	27.6	1.9	24.6	13.5	11.4	100.0	4,509
1936	All Companies	63	18.9	.7	31.3	2.7	26.0	10.3	10.1	100.0	9,688
	Under $ 100	17	18.8	.3	34.9	7.0	24.3	8.2	6.5	100.0	341
	100– 200	20	18.4	.4	31.5	4.5	25.5	11.6	8.1	100.0	1,144
	200– 300	13	17.5	.8	30.8	5.5	28.0	9.0	8.4	100.0	1,096
	300– 500	5	17.4	1.2	39.0	2.6	27.1	8.6	4.1	100.0	580
	500– 1000	4	17.1	2.4	35.8	1.1	29.2	9.1	5.3	100.0	1,892
	1000 & over	4	20.3	.0	28.5	2.0	24.3	11.1	13.8	100.0	4,745

TABLE 44

PERCENTAGE DISTRIBUTION OF TOTAL EXPENSES OF INSURED INDUSTRIAL BANKING COMPANIES, 1934–38, BY SIZE OF COMPANY AND TYPE OF EXPENSE[a] (*concluded*)

Year	*Size of Company*[b]	*Number of Companies*	Type of Expense: Interest on Time and Savings Deposits	Interest and Discounts on Borrowed Money	Salaries, Wages and Fees	Taxes (including income taxes)	Other Current Operating Expenses	Losses on Loans	All Other Losses	Total[c]	
1937	All Companies	69	19.7	.4	32.2	3.2	26.4	8.0	10.1	100.0%	$11,102
	Under $ 100	20	18.9	.3	36.9	6.3	26.5	4.5	6.6	100.0	396
	100– 200	20	18.1	.9	32.8	5.0	25.2	8.1	9.9	100.0	1,169
	200– 300	16	18.6	.9	31.3	5.1	27.8	10.2	6.1	100.0	1,477
	300– 500	5	17.8	1.6	38.6	3.0	28.3	8.8	1.9	100.0	634
	500– 1000	3	16.4	.8	33.5	1.7	31.4	7.4	8.8	100.0	1,294
	1000 & over	5	21.2	.2	31.1	2.5	24.9	7.7	12.4	100.0	6,132
1938	All Companies	71	19.3	.3	34.4	3.5	26.3	8.2	8.2	100.0	10,588
	Under $ 100	21	19.0	.2	38.3	8.2	23.7	6.0	6.0	100.0	415
	100– 200	19	16.6	.3	31.1	4.6	21.6	9.8	9.8	100.0	1,315
	200– 300	17	17.1	.2	31.7	4.7	29.2	12.9	12.9	100.0	1,607
	300– 500	7	18.9	.8	36.3	3.3	29.7	7.3	7.3	100.0	909
	500– 1000	2	12.8	2.3	40.7	2.3	33.1	6.5	6.5	100.0	384
	1000 & over	5	21.0	.1	35.0	2.6	25.9	6.9	6.9	100.0	5,958

[a] Based on year-end data supplied by the Federal Deposit Insurance Corporation.
[b] As measured by total equity account (capital, surplus and undivided profits), in thousands of dollars. Each level is inclusive of the lower figure and exclusive of the higher.
[c] Dollar figures in thousands.

Table 44, it rose steadily from nearly 28 percent in 1934 to nearly 35 percent in 1938. Except in 1938, when they were about average, the companies whose equity account was $1,000,000 or more had the lowest proportion of expense

TABLE 45

PERCENTAGE DISTRIBUTION OF TOTAL EXPENSES OF INDUSTRIAL BANKING COMPANIES REPORTING TO THE MORRIS PLAN BANKERS ASSOCIATION AND TO THE INDIANA BANKING DEPARTMENT, 1937, BY TYPE OF EXPENSE

Type of Expense	*Members of Morris Plan Bankers Association*[a]	*Indiana Industrial Banking Companies*[b]
Salaries and wages	31.1	31.9
Director and loan committee fees	[c]	1.8
Interest on investment certificates	22.2	21.3
Interest on borrowed money		2.5
Rent	5.0	4.3
Advertising	5.9	6.8
Auditing	[c]	.6
Taxes	7.8[d]	8.7
Losses on loans	9.2	9.4
Losses on securities sold		.1
Credit information	[c]	.8
Other expenses	18.8	11.8
TOTAL[e]	100.0%	100.0%
	[f]	$ 452
Number of companies	[g]	8

[a] Based on data supplied by the Morris Plan Bankers Association.
[b] Based on *Annual Report* of the Department of Financial Institutions of the State of Indiana, for the year ended June 30, 1938, p. 89; data are for the calendar year 1937, and pertain to companies authorized to issue investment certificates.
[c] Not reported separately.
[d] Includes payments for licenses.
[e] Dollar figure in thousands.
[f] Total expenses not given.
[g] Data are for all reporting Morris Plan banking companies; the number reporting is not given in the statement of the Morris Plan Bankers Association, but it represents a majority of the companies.

for this item, and the $300,000-500,000 companies had the highest (again with the exception of 1938). These various findings as to the relative importance of salary expense are corroborated in Table 45 for Morris Plan companies and for industrial banking companies in Indiana.

As for the firms reporting to the American Industrial Bankers Association, the data presented in Table 46 show that the proportion of expenses accounted for by salaries and wages does not differ significantly between the investment and the non-investment institutions. In 1936 and 1937 the figures reported by the AIBA members were very nearly the same as those shown for the same years for the other groups of companies discussed (with the single exception of the North Carolina companies, for which salaries represented a relatively larger item).

The next most important expense item for industrial banking companies is the cost of borrowing money from banks or of obtaining funds from depositors or purchasers of investment certificates. Table 43 shows that for the North Carolina companies the two items, interest paid on deposits and interest paid on borrowings, varied widely in relation to total expenses over the eleven-year period. The former item tended to decline in relative importance from 1928 to 1934, increased from 12 to 17 percent in 1935 and thereafter remained fairly constant; interest on borrowings decreased fairly steadily throughout the period, from 9 to 1 percent. This item represented a much smaller proportion for the group of insured companies, but for them too it declined in the period 1934-38—from 1 to 0.3 percent, as shown in Table 44; for these companies interest on time and savings deposits remained fairly steady, at about one-fifth of total expenses. Size of institution seems to bear no significant relation to the relative importance of these expenses, except for the fact that in each of the years 1934-38 the companies of $1,000,000 or more in equity account reported the highest

TABLE 46

PERCENTAGE DISTRIBUTION OF TOTAL EXPENSES OF REPORTING MEMBERS OF AMERICAN INDUSTRIAL BANKERS ASSOCIATION, 1936–37, BY TYPE OF EXPENSE[a]

Type of Expense	1936 Investment Companies[b]	1936 Non-Investment Companies	1936 All Companies	1937 All Companies
Salaries	29.0	32.6	30.0	33.8
Rent	3.4	5.9	4.1	3.9
Advertising	3.7	2.9	3.5	3.7
Interest on deposits, investment certificates and bank loans	20.2	7.2[c]	16.4	18.3
Interest on bonds and payments on preferred stock	.9	2.9	1.5	3.3[d]
Charge-offs and provisions for losses	14.4	15.2	14.7	10.8
Insurance and bond premiums	1.6	1.8	1.6	1.8
Provisions for taxes	7.8	10.8	8.7	8.4
Other expenses	19.0	20.7	19.5	16.0
TOTAL[e]	100.0%	100.0%	100.0%	100.0%
	$1,010	$420	$1,430	$1,190
Number of companies	25	21	46	34

[a] Based on year-end data supplied by the American Industrial Bankers Association.
[b] Investment companies are those companies that accept deposits or sell certificates.
[c] Represents interest on bank loans only.
[d] Represents payments on preferred stock only.
[e] Dollar figures in thousands.

percentage of total expense for interest on time and savings deposits.

As was pointed out in Chapter 3, the acceptance of deposits and the sale of investment certificates constitute a major source of working funds for firms which can be classified as industrial banking companies under the definition used in this volume. The value of this criterion is demonstrated in Table 46, in which companies reporting to the American Industrial Bankers Association are divided, for the year 1936, into two groups, investment and non-investment. The non-investment companies, of course, had no expenses for funds obtained from deposits and investment certificates. For payments on bank borrowings, however, and on bonds and preferred stock, they had a higher proportion of expense than did the group of investment companies.

All industrial banking companies incur some expense on charged-off loans, and although in any one year charge-offs, net of recoveries, may amount to as little as 1 percent, or even less, of the loans made during that year, it is not to be inferred that such losses are of negligible significance. Nor can the importance of such losses be measured solely by a computation of their relation to total expenses over a given period of time; a considerable proportion of wages and other expenses should be included in any calculation of the total cost of collecting industrial loans, and this procedure would involve a highly arbitrary scheme of cost allocation. It is not possible, therefore, to do more than show the relative importance of the loss expense item alone, as compared with other types of expense.

Table 43 indicates that for North Carolina firms charge-offs and losses from the sale of assets amounted, together, to widely varying proportions of total expenses, ranging from 4 to 27 percent over the period 1928-38; they were relatively most important in the years 1931-34. Industrial banking firms insured by the Federal Deposit Insurance Corporation submit reports from which losses on loans may be computed separately from other losses. The data in Table 44 show that for all insured companies losses on loans fell from 15 percent of total expenses in 1934 to 8 percent in 1937-38; losses on securities showed less variation, ranging from 7 to

10 percent with no discernible trend. Losses incurred through the sale of securities were far less for the group of Indiana industrial banking companies covered in Table 45, amounting to only 0.1 percent of total expenses in 1937; these companies' losses on loans were about 9 percent in that year, and the loss percentage on loans and securities combined was practically the same as that of the Morris Plan companies reporting for 1937. For the members of the American Industrial Bankers Association, represented in Table 46, the figure on combined losses in 1937 was not greatly different—around 11 percent—and the data for 1936 show little variation between the investment and the non-investment institutions in this respect.

The relative importance of taxes as an item of expense is also to be gauged from the tables already presented. Although the data on tax expenditures for North Carolina companies, as given in Table 43, do not include the corporation income tax paid by these firms, the tax item nevertheless amounted to approximately 10 percent of total expenses in the period 1928-38, ranging between 8 percent in 1931 and nearly 14 percent in 1935. Expenditures for taxes, including income taxes, by insured industrial banking companies were much lower, as Table 44 indicates; in the years 1934-38 they fluctuated narrowly around 3 percent of total expenses. Comparable data in Tables 45 and 46 are in rough conformity with those for the North Carolina companies; here too taxes, including corporation income taxes, accounted for about 10 percent, or less, of total expenses.

It was pointed out above that in the years 1935-38 insured industrial banking companies experienced a decrease in their average loan income per $100 of loan account. But their current operating expenses (exclusive of charge-offs, losses on assets sold or exchanged and increases in valuation allowances) also declined during this period, falling from

$7.14 per $100 of average loan account in 1935 to $6.42 per $100 of average loan account in 1938.[8]

PROFITS

The profit record of industrial banking companies over a period of years reveals that despite depression lows these institutions have shown a remarkable earning capacity. Table 47 shows that in the period 1922-38 the net earnings of Morris Plan banking companies averaged about 10 percent of total equity account. From an average of nearly 12 percent in the years 1922-29 they fell to 3 percent in 1933, but thereafter recovered fairly rapidly, and by 1937 had reached nearly 14 percent, a level never before attained by Morris Plan institutions. It is true, however, that these data pertain to a changing group of companies, and are thus subject to some criticism. Therefore it is worth noting that figures on 86 identical Morris Plan companies corroborate the evidence presented here that net earnings have in recent years represented a higher proportion of equity funds than they did before the depression; for the 86 companies this figure was 13 percent in 1938, as compared with 11.5 percent in 1929.[9]

Table 48, based on reports to the Federal Deposit Insurance Corporation by insured industrial banking companies, shows, for 1934-38, net profits after income taxes and net profits after the total of income taxes, dividends and interest on capital. Of the two sets of figures the former are the closer to those in Table 47, but they are not strictly comparable because they are not exclusive of interest on capital notes and debentures. It is not likely, however, that these profit percentages would be much lower if they excluded this item; as was indicated in Chapter 3, these insured com-

[8] Computed from data provided by the Federal Deposit Insurance Corporation.
[9] Industrial Finance Corporation, *Annual Report to Stockholders,* for the year ended January 31, 1939, p. 5.

TABLE 47

NET PROFITS OF REPORTING MORRIS PLAN BANKING COMPANIES, 1922–38, IN DOLLARS AND IN PERCENT OF TOTAL EQUITY ACCOUNT[a]

Year	*Number of Companies*	*Net Profits*[b]	
1922	c	$1,506,004	9.0%
1923	c	1,925,192	10.8
1924	100	2,472,154	12.8
1925	106	2,842,317	13.3
1926	106	3,003,419	12.8
1927	106	3,029,129	12.0
1928	108	3,152,490	11.4
1929	108	3,129,773	11.2
1930	108	2,604,511	8.5
1931	106	1,957,525	6.7
1932	102	1,046,049	4.0
1933	92	696,187	3.0
1934	92	1,412,847	6.2
1935	92	2,357,201	9.8
1936	89	2,861,569	11.8
1937	86	3,480,097	13.6
1938	86	3,581,858	13.0

[a] Based on data from Industrial Finance Corporation annual reports to stockholders. With the exception of 1938, the data for each year are from the annual report for the year ended January 31, two years later; data for 1938 are from the report for the year ended January 31, 1939.
[b] Net profits after income taxes and interest paid on capital notes and debentures. For the percentage figures the base, total equity account, comprises paid-in capital, surplus and undivided profits. For 1934-38 these data are as of the end of the year; for all other years surplus and undivided profits are as of the end of the year and capital is an average of figures for the beginning and for the end of the year.
[c] Number of companies not given.

panies obtained but a negligible proportion of their funds from borrowings—never as much as 2 percent and in 1938 only 0.1 percent of total assets.[10] It is not possible to determine the extent to which these profit percentages would be

[10] Table 2, p. 60.

TABLE 48

NET PROFITS OF INSURED INDUSTRIAL BANKING COMPANIES, IN DOLLARS AND IN PERCENT OF TOTAL EQUITY ACCOUNT, 1934–38, BY SIZE OF COMPANY[a]

Year	*Size of Company*[b]	*Number of Companies*	*Net Profits After Taxes*[c]		*Dividends and Interest*[d]	*Net Profits After Taxes, Dividends and Interest*[e]	
1934	All Companies	60	$ 377	2.4%	$ 415	$ – 38	– .2%
	Under $ 100	18	28	2.3	36	– 8	– .7
	100– 200	22	57	1.8	54	3	.1
	200– 300	8	98	5.7	52	46	2.7
	300– 500	5	129	7.0	67	62	3.4
	500– 1000	4	196	7.1	171	25	.9
	1000 & over	3	–131	–2.6	35	–166	–3.3
1935	All Companies	62	1,358	7.1	627	731	3.8
	Under $ 100	18	104	8.4	64	40	3.2
	100– 200	22	261	7.7	102	159	4.7
	200– 300	10	168	6.9	66	102	4.2
	300– 500	5	160	8.4	83	77	4.0
	500– 1000	3	221	10.8	93	128	6.2
	1000 & over	4	444	5.5	219	225	2.8
1936	All Companies	63	2,180	11.2	811	1,369	7.0
	Under $ 100	17	107	9.2	45	62	5.3
	100– 200	20	363	11.9	115	248	8.2
	200– 300	13	238	8.0	112	126	4.2
	300– 500	5	175	9.7	71	104	5.8
	500– 1000	4	371	13.9	137	234	8.8
	1000 & over	4	926	11.9	331	595	7.6
1937	All Companies	69	2,402	11.3	932	1,470	6.9
	Under $ 100	20	121	9.1	51	70	5.2
	100– 200	20	410	13.5	111	299	9.8
	200– 300	16	374	10.1	147	227	6.1
	300– 500	5	173	9.1	77	96	5.0
	500– 1000	3	141	7.1	75	66	3.3
	1000 & over	5	1,183	12.8	471	712	9.1
1938	All Companies	71	2,638	13.0	1,091	1,547	7.6
	Under $ 100	21	124	8.3	51	73	4.9
	100– 200	19	209	6.5	140	69	2.2
	200– 300	17	385	9.6	168	217	5.4
	300– 500	7	157	6.2	85	72	2.8
	500– 1000	2	99	7.8	77	22	1.8
	1000 & over	5	1,664	21.1	570	1,094	13.9

[a] Based on year-end data supplied by the Federal Deposit Insurance Corporation.
[b] As measured by total equity account (capital, surplus and undivided profits), in thousands of dollars. Each level is inclusive of the lower figure and exclusive of the higher.
[c] Net profits after income taxes, in thousands of dollars and in percent of total equity account at beginning of year.
[d] Dividends paid on preferred and common stock and interest paid on capital notes and debentures, in thousands of dollars.
[e] Net profits after income taxes, dividends and interest on capital notes and debentures, in thousands of dollars and in percent of total equity account at beginning of year.

reduced if they were expressed in the same way as those in Table 47, but even without such adjustment they reveal that the insured companies, as a group, had a less favorable earnings record during the years 1934-38 than did the entire group of reporting Morris Plan companies.

When the insured companies' profit ratios are examined with reference to the size of the institution, it appears that the largest companies, those with a total equity account of $1,000,000 or over, had the greatest variation in earnings during 1934-38. In 1934 these companies showed a loss in their percentage for net profits after income taxes, the only loss recorded for this item by any group of companies during the entire five-year period; in 1938, however, these companies' net earnings after income taxes amounted to 21 percent of total equity account, the highest proportion found for any size class. Neither set of net profit percentages reveals any close relation between size of company and earning capacity. This lack of correlation is borne out by earnings data, not presented here, for North Carolina industrial banking companies. In 1934 and 1935 firms in that state were classified into three size classes, and in 1934 the largest companies were found to have the lowest ratio of net profit (after income taxes and preferred stock dividends) to total equity account, while in 1935 they had the highest.

The high earnings record of industrial banking companies is further illustrated in Table 49, which compares, for insured industrial banking companies and commercial banks, net profits after payment of income taxes, and after payment of income taxes, dividends and interest on capital, per $100 of total assets. For both items the industrial banking companies are shown to have had higher rates, in all five years of the period 1934-38. The explanation is to be found, of course, in the differences in the asset distributions of the two types of institutions. Industrial banking company assets, as has previously been noted, are almost exclusively short-term

TABLE 49

SELECTED EXPENSE, EARNINGS AND PROFIT ITEMS, PER $100 OF TOTAL ASSETS, FOR INSURED INDUSTRIAL BANKING COMPANIES AND INSURED COMMERCIAL BANKS, 1934–38[a]

Item	1934		1935		1936		1937		1938	
	Industrial Bank. Cos.	Commercial Banks	Industrial Bank. Cos.	Commercial Banks	Industrial Bank. Cos.	Commercial Banks	Industrial Bank. Cos.	Commercial Banks	Industrial Bank. Cos.	Commercial Banks
Total current operating expenses	$6.25	$2.48	$5.77	$2.24	$5.34	$2.09	$5.19	$2.11	$5.23	$2.09
Net current operating earnings	1.42	1.00	1.73	.92	2.11	.83	2.27	.86	2.36	.78
Net profits after income taxes	.37	−.75	1.10	.43	1.49	.98	1.37	.69	1.58	.54
Net profits after taxes, dividends and interest[b]	−.04	−1.17	.59	..	.94	.56	.84	.28	.91	.14
Number of institutions	60	14,124	62	14,110	63	13,956	69	13,783	71	13,645

[a] For industrial banking companies based on data supplied by the Federal Deposit Insurance Corporation. For commercial banks based on Federal Deposit Insurance Corporation, *Annual Report*, for the year ended December 31, 1938, Table 137, pp. 212-13. Total assets of industrial banking companies are as of the end of the year; those of commercial banks are averages of assets at beginning, middle and end of year.

[b] After income taxes, dividends paid on preferred and common stock and interest paid on capital notes and debentures.

consumer loans. Commercial bank assets, on the other hand, are about evenly divided among cash, investment securities (public and private) and loans and discounts. Moreover, only a relatively small part of the loans and discounts of commercial banks would carry rates of interest as high as those required by industrial banking companies. It is because of their relatively high rate of net current operating earnings that industrial banking companies are able to show higher profit ratios than commercial banks, for the latter spend considerably less per $100 of total assets than the former on current operating expenses.