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Volume Author/Editor: Ernst A. Dauer

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# Sources of Funds

IN ANY business enterprise the sources of funds depend on the relative ease with which funds of different types are obtainable, and this in turn is affected by the character of the company's assets, the seasonal and cyclical fluctuations in its volume of business, its rapidity of growth, its demonstrated or anticipated stability of profits and continuity of operations, its size, and any other aspect of its operations which affects its position as a potential borrower. These factors also determine its financial policy, causing the management to choose one source of financing rather than another.

Characteristic of the consumer instalment financing agencies was the high proportion, relative to other credit institutions, of funds obtained through use of equity capital. However, during the period 1929-1941 these agencies attained flexibility in the sources of their funds through the increased use of borrowed money, chiefly short-term borrowings.[1] They were, in general, able to adjust the volume of funds to the demand for accommodation, increasing borrowings when demand arose and paying them off when demand declined. In effect, these consumer instalment financing agencies secured funds at wholesale from other financial institutions, chiefly banks, and retailed the proceeds to consumers.

Over the period 1929-41, the sources of funds of the consumer instalment financing agencies give evidence of their progress toward maturity. The chief change was a gradual lowering of the proportion of equity funds in each type of institution. Also, as we shall see in Chapter 7, borrowed funds, both long- and short-term, were obtained at much lower rates in the last few years of the period than were available a decade earlier. This resulted from the

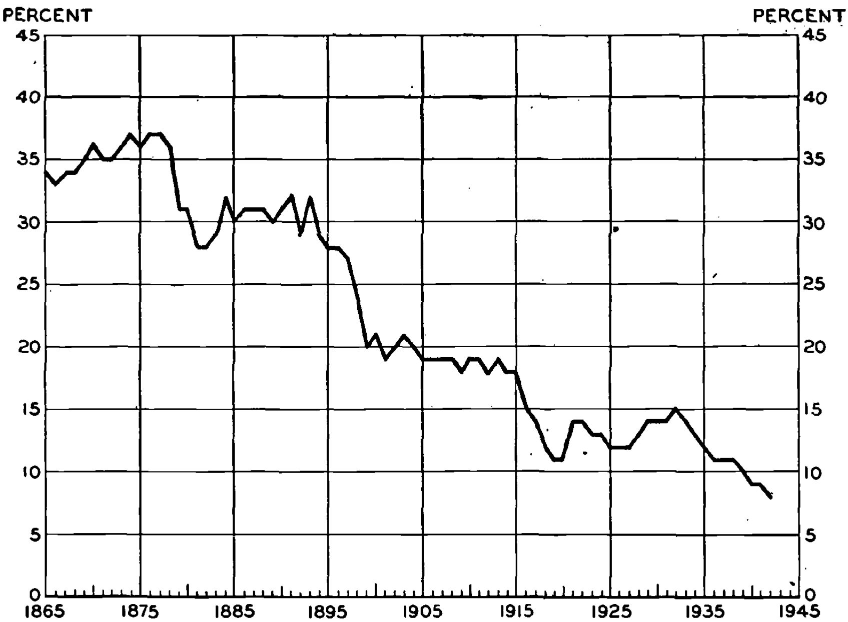
[1] Long-term debt was an unimportant source of funds in all types of consumer instalment financing agencies. Although some companies included in the income tax sample showed an increase in the proportion of long-term debt in 1933, this can be attributed to a concurrent contraction in their total assets except in those instances in which the increase occurred through an extension of maturing short-term obligations of institutions in difficulty.

much wider acceptance of these companies by banks, and in the money market generally, as their sound credit character became evident.

In contrast to the consumer agencies, commercial banks were characterized by low equity proportions throughout the period under review, although even for them these low net worth proportions have not always existed. From the inception of the national banking system until about 1895, the total net worth of all

CHART I

NET WORTH RATIOS OF NATIONAL BANKS, 1865–1942[a]




[a] Represents net worth in percent of total assets at or about June 30 of each year. Based on Annual Reports of the Comptroller of the Currency.

national banks fluctuated between 30 and 40 percent of total assets, as can be seen from Chart I. In the rapid expansion of assets at the turn of the century the proportion dropped rapidly to about 20 percent, a level retained until the opening of the First World War. During the next few years assets again expanded rapidly, and by 1919 net worth amounted to only 11 percent of total assets. Over the next decade or so it fluctuated slightly, reaching about 15 percent in 1932. But with the very rapid expansion in the deposits of all national banks during the years 1932-36 and 1938-42 the net worth proportion declined to an all-time low of 8.2 percent.

It might be presumed that as a rule a reduction in a company's capital ratio could result only from the deliberate choice of its management. However, part of the rapid expansion in deposits experienced by commercial banks during the period 1933-41 occurred without either voluntary action on the part of bank management or a concomitant increase in suitable earning assets, but simply as the result of the purchase of monetary metal (chiefly imported gold) by the United States Treasury. Also, purchases of government securities by some banks resulted in increased deposits in others without purchases on their part.

None of the specialized agencies was faced with a comparable problem, for the nature of their business is not such as to produce an expansion of borrowed funds without their conscious action. As for the industrial banks, their deposits consist, either entirely or largely, of time and savings deposits; they have therefore had a somewhat greater measure of control over the volume of funds accepted, through variation in the rate of interest paid on such deposits.

## COMPARISON OF THE AGENCIES

In general, a substantial proportion of the total funds of credit unions, personal finance companies, non-investment type industrial banking companies, and sales finance companies has consisted of owners' equity or net worth. Credit unions, being mutual institutions, receive practically all their funds from the sale of shares to members;[2] only an insignificant proportion is borrowed, chiefly from other credit unions.

The net worth proportion of the personal finance companies was the highest of all of the non-mutual agencies. As shown in Table 2,

[2] The "shares" of credit unions, like those of building and loan associations and the deposits of mutual savings banks, occupy a peculiar legal status. In the present discussion our interest lies in whether funds are obtained from ownership or from borrowing, and therefore emphasis is placed upon the fact that these shares have the characteristics of common stock equity, in that they bestow residual rights to assets and income, subject to statutory limitations. If our interest lay in the analysis of credit union solvency we should have to consider the shares as the equivalent of deposits, since it is general practice to permit their withdrawal upon demand; the cushion which protects the shareholders is limited to the amount of surplus, undivided profits and surplus reserves.

net worth averaged between two-thirds and four-fifths of total assets in each of the years for which the income tax data are available. The distribution of companies according to the proportion

TABLE 2

NET WORTH OF CONSUMER INSTALMENT FINANCING AGENCIES AND COMMERCIAL BANKS IN PERCENT OF TOTAL ASSETS, YEAR-END 1929, 1933, 1936[a]

| *Agency* | *Total Net Worth* | *Preferred Stock* | *Common Equity* |
|---|---|---|---|
| *229 sales finance companies* | | | |
| 1929 | 39.2% | 11.9% | 27.3% |
| 1933 | 53.9 | 16.4 | 37.5 |
| 1936 | 33.8 | 11.1 | 22.7 |
| *179 personal finance companies* | | | |
| 1929 | 67.7 | 17.8 | 49.9 |
| 1933 | 81.1 | 20.4 | 60.7 |
| 1936 | 66.0 | 15.7 | 50.3 |
| *92 non-invest. type indust. bkg. cos.* | | | |
| 1929 | 57.3 | 13.4 | 43.9 |
| 1933 | 68.6 | 16.4 | 52.2 |
| 1936 | 56.2 | 12.1 | 44.1 |
| *112 invest. type indust. banks* | | | |
| 1929 | 16.1 | .2 | 15.9 |
| 1933 | 20.9 | .3 | 20.6 |
| 1936 | 16.4 | 1.2 | 15.2 |
| *All national banks* | | | |
| 1929 (7,408 banks) | 13.3 | .0 | 13.3 |
| 1933 (5,159 banks) | 13.3 | .7 | 12.6 |
| 1936 (5,331 banks) | 10.2 | 1.1 | 9.1 |

[a] For instalment financing agencies, based on tabulations prepared by the Income Tax Study. For commercial banks, based on Annual Reports of the Comptroller of the Currency; the number of national banks is as of December 31.

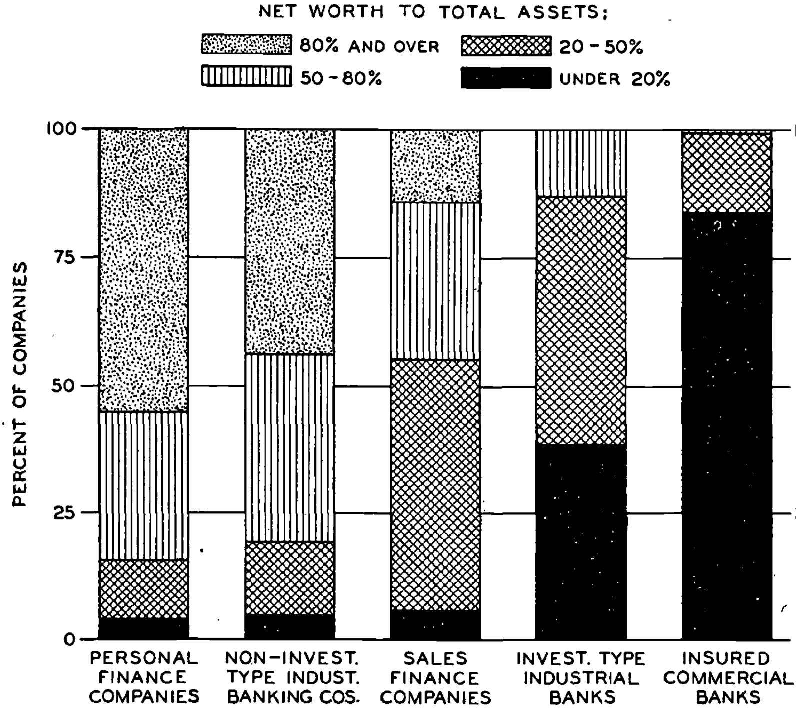
of total funds represented by net worth (Chart II) shows that high net worth proportions were characteristic of personal finance companies. In materially more than half of the companies, net worth represented at least 80 percent of total funds in 1936; among the types of agencies, this was by far the largest percentage of companies showing such a high net worth proportion.[3] In addition, net worth was less than half of total funds in only a relatively small proportion of the personal finance companies.

Except in rare instances personal finance companies did not

[3] About 10 percent of the personal finance companies reported a capital structure consisting entirely of net worth. These companies that reported no liabilities were smaller institutions, practically all of them having assets of less than $100,000.

CHART II

NET WORTH RATIOS OF CONSUMER INSTALMENT FINANCING AGENCIES AND COMMERCIAL BANKS, 1936[a]




[a] Represents percentage distribution of companies, arranged according to ratios of net worth to total assets. For personal finance, sales finance and non-investment type industrial banking companies, and for investment type industrial banks, based on tabulations prepared by the Income Tax Study; in regard to these agencies net worth and total assets are year-end figures. For insured commercial banks, based on data from Federal Deposit Insurance Corporation, pertaining to the year 1938; in regard to banks that were members of the Federal Reserve System, net worth and total assets are averages of figures for call dates during the year, and in regard to non-member banks they are averages of figures for the beginning, middle and end of the year. Cash depositories, banks designated in this study as insured industrial banks, and banks that submitted reports covering less than the full year's operations or whose operations were materially affected by mergers during the year are not included.

obtain funds through long-term borrowings.[4] Their short-term borrowings were, among those of all the agencies, the least important, being the converse of their high net worth proportions. Figures

[4] In the income tax sample the definition of long-term borrowings—obligations with a maturity exceeding one year—was much more comprehensive than is prescribed by recent usage in the field of investment finance. In fact it includes all liabilities which the accountant does not regard as "current liabilities." Definitions of the terms used and of the content of the tabulated data are presented in Appendix A.

on borrowings are shown in Table 3. Among the companies included in the income tax sample, about one-quarter of total funds were obtained on a short-term basis—in the form of commercial paper, discounted notes receivable and notes payable—in the good

TABLE 3

LONG- AND SHORT-TERM DEBT OF CONSUMER INSTALMENT FINANCING AGENCIES IN PERCENT OF TOTAL ASSETS, YEAR-END 1929, 1933, 1936[a]

| | | *Short-Term Debt*[c] | | |
|---|---|---|---|---|
| *Agency* | *Long-Term Debt*[b] | Notes & Accounts Payable | Deposits & Invest. Certifs. | Total |
| *229 sales finance companies* | | | | |
| 1929 | 3.0% | 50.6% | 1.1% | 51.7% |
| 1933 | 2.9 | 36.1 | 1.8 | 37.9 |
| 1936 | 2.0 | 55.9 | 1.3 | 57.2 |
| *179 personal finance companies* | | | | |
| 1929 | 4.0 | 26.0 | .5 | 26.5 |
| 1933 | 3.3 | 13.3 | .3 | 13.6 |
| 1936 | 5.1 | 26.3 | .2 | 26.5 |
| *92 non-invest. type indust. bkg. cos.* | | | | |
| 1929 | 3.7 | 32.3 | 2.1 | 34.4 |
| 1933 | 6.9 | 18.8 | 1.5 | 20.3 |
| 1936 | 12.5 | 24.0 | 2.2 | 26.2 |
| *112 invest. type indust. banks* | | | | |
| 1929 | .3 | 6.2 | 73.3 | 79.5 |
| 1933 | 2.7 | 2.7 | 69.8 | 72.5 |
| 1936 | .5 | 2.4 | 75.9 | 78.3 |

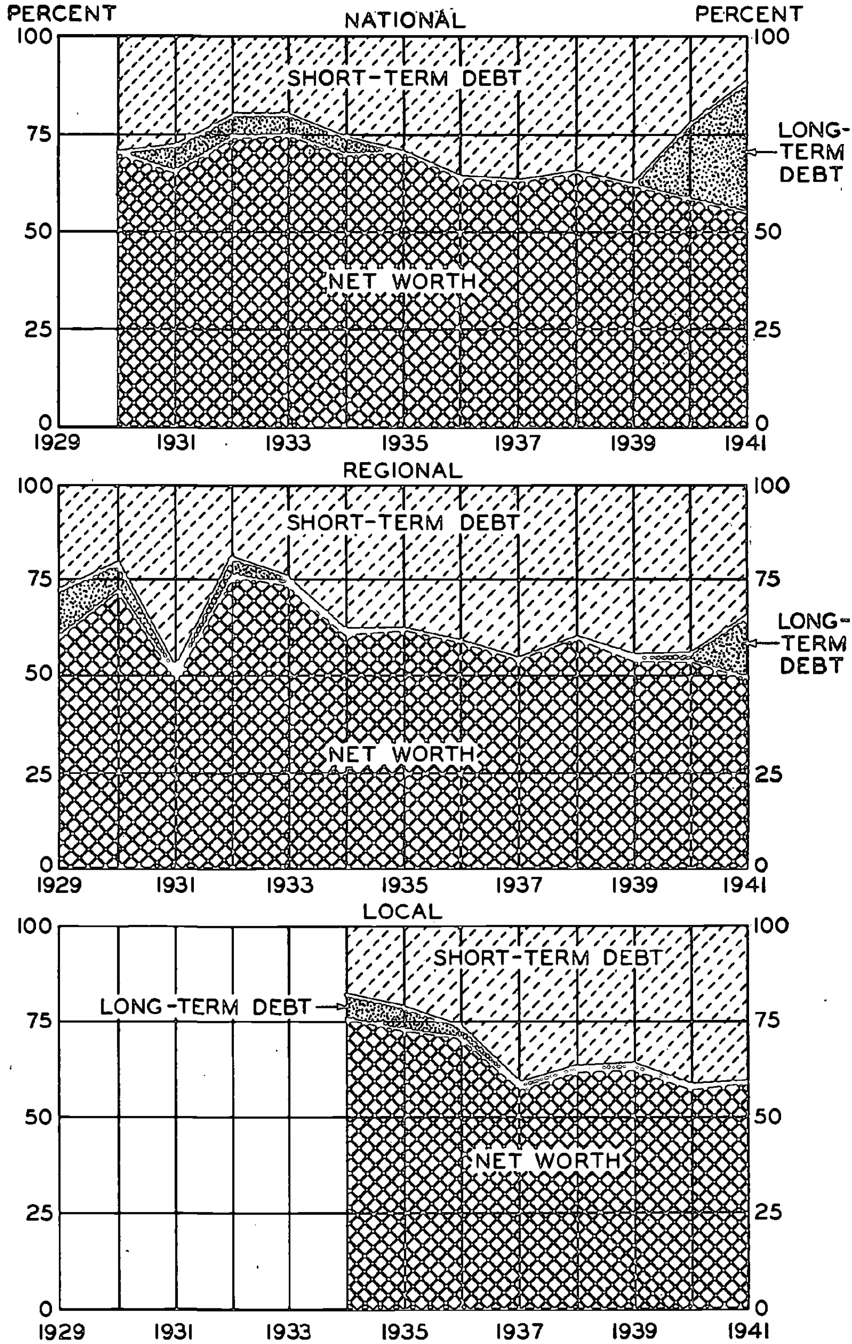
[a] Based on tabulations prepared by the Income Tax Study.
[b] All obligations maturing more than one year after the date of the balance sheet.
[c] Including bonded debt maturing less than one year after the date of the balance sheet.

years 1929 and 1936, while in the depression year, 1933, short-term borrowings averaged only about one-eighth of total funds. About one-quarter of these companies reported no short-term debt in 1936; somewhat more than one-quarter reported short-term debt of less than 10 percent of total assets, and very few reported such debt in excess of 50 percent of total assets.

The small proportion of short-term debt among personal finance companies reflects the difficulty encountered in securing access to the short-term money market and to commercial banks. The personal finance company faced the reluctance of the banker to recog-

CHART III

Sources of Funds of Personal Finance Companies, 1929–41[a]




[a] Footnote on opposite page.

nize the soundness or the ethical justification of its chief asset, which he construed as loans for consumption purposes, largely to improvident borrowers.[5]

Personal finance companies, because they were considered the least creditworthy, made the most use of preferred stock (in relation to total assets) as an alternative source of funds from outsiders (Table 2).

Among the national, regional and local personal finance companies included in the National Credit Office sample, the proportion of net worth declined over the period as a whole from about three-quarters of total funds in 1929 to about one-half in 1941 (Chart III), reflecting a gradually wider acceptance of these institutions in the money markets. There was some year-to-year fluctuation in the proportion of short-term debt due to fluctuations in the volume of business.[6]

In sales finance companies net worth represented a materially lower proportion of total funds than in personal finance companies. Among the companies included in the National Credit Office sample, this proportion fluctuated sharply between 1929 and 1941, increasing and decreasing as the volume of business contracted and expanded (Chart IV). Fluctuations in the net worth proportions were due to the practice within these agencies of relying on larger proportions of borrowed money for their funds. Borrowed funds increased as business expanded and were paid off as business de-

[5] A description of sources of funds in the small loan business prior to the period covered here appears in M. R. Neifeld, *Personal Finance Comes of Age* (New York 1939) pp. 98-99.

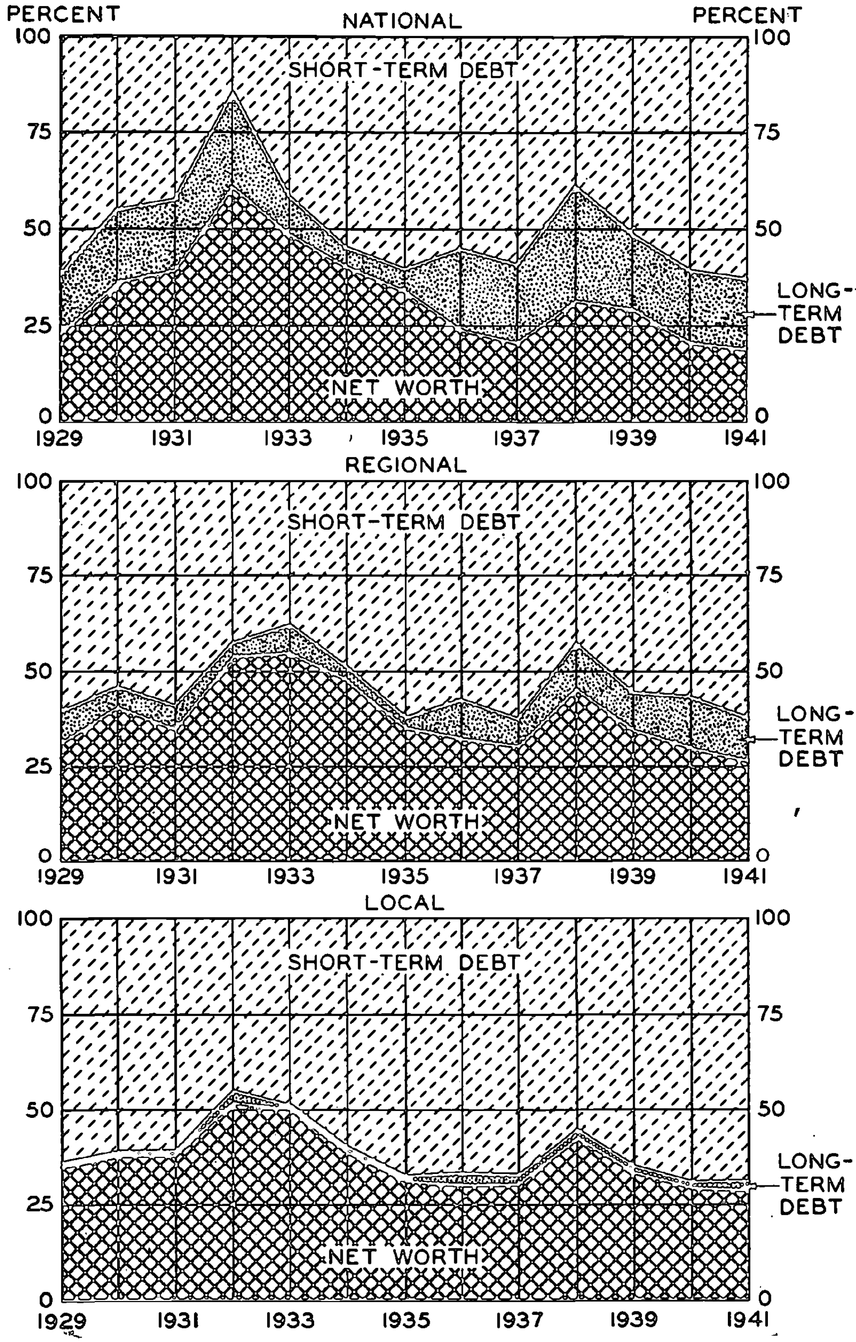
[6] For national and regional personal finance companies the chart reveals that during 1933-36 the short-term debt increased sharply; during the same period, however, the short-term debt of the companies in the income tax sample increased only to the level shown in 1929 (see Table 3, above). The differences between the two sets of data for 1936 appear to result from the larger companies' greater ability to borrow, since the proportions shown in the chart approximate those of the larger companies in the income tax group. For figures on the sources of funds of 274 personal loan licensees in Indiana, classified according to corporate affiliation and legal form of organization, see National Bureau of Economic Research (Financial Research Program), *Personal Finance Companies and Their Credit Practices*, by Ralph A. Young and Associates (New York 1940) p. 42.

FOOTNOTE TO CHART III

[a] Represents distribution of net worth and liabilities in percent of total assets. Based on data from the National Credit Office, Inc. The number of companies for each year and the amount of year-end total assets may be found in Appendix Tables B-1 and B-2. Miscellaneous liabilities have been omitted from total liabilities in computing the distributions for this chart.

CHART IV

SOURCES OF FUNDS OF SALES FINANCE COMPANIES, 1929–41[a]




[a] Footnote on opposite page.

creased, while net worth or equity changed little. Their borrowings were chiefly short-term commercial paper, discounted notes receivable and notes payable; deposits were either non-existent or insignificant in amount.[7]

Not only did sales finance companies in the aggregate derive a materially higher proportion of funds from these sources than did the other types of institutions (Table 3) but they also showed the greatest frequency of use of these sources. In 1936 more than four-tenths of the companies included in the income tax sample had short-term funds amounting to more than 50 percent of total assets, and seven-tenths had such funds in amounts exceeding 30 percent of total assets.

The high proportion of short-term debt in the capital structure of sales finance companies is evidence of the high credit standing accorded this type of enterprise, and implies a recognition of the high quality of their principal asset—the instalment receivable. A loan made against it was usually secured by the net worth not only of the borrowing sales finance company and consumer-purchaser of the goods, but sometimes of the retail dealer as well; in addition, there was usually the ultimate security of a disposable asset of reasonably ascertainable value. The paper was liquidated currently out of the income of the consumer-purchaser.

Bankers, in fact, did not require sales finance companies to maintain the traditional current ratio of two times current liabilities, or better, as is evidenced by the high proportion of these companies with short-term debt exceeding 50 percent of total assets. Instead they made a "liquidity" requirement: a borrowing sales finance company should be able to liquidate its current liabilities out of its collections within a specified period, usually about six months.[8]

[7] These represent dealers' deposits or "hold-backs," and actually they constitute either a reserve for bad debts (set up by the customer himself against notes discounted with recourse) or a current liability, to the extent that they are not needed to cover losses, and will be returned to the dealer.

[8] See National Bureau of Economic Research (Financial Research Program), *Commercial Banks and Consumer Instalment Credit,* by John M. Chapman and Associates (New York 1940) p. 210; also *Sales Finance Companies and Their Credit Practices,* by Wilbur C. Plummer and Ralph A. Young (New York 1940) pp. 70-72.

FOOTNOTE TO CHART IV

[a] Represents distribution of net worth and liabilities in percent of total assets. Based on data from the National Credit Office, Inc. The number of companies for each year and the amount of year-end total assets may be found in Appendix Tables B-1 and B-2. Miscellaneous liabilities have been omitted from total liabilities in computing the distributions for this chart.

Common equity owners usually regard the sale of preferred stock as the most expensive type of "borrowing." But to the corporate management of consumer instalment financing agencies the use of preferred stock generally seems a less expensive means than the sale of common stock. The explanation lies in the high dividend yield and the high "earnings yield" required by investors in the common stock of these agencies, a condition readily apparent in quotations on the major stock exchanges.

This situation probably explains why sales finance companies resorted to preferred stock financing as frequently as did personal finance companies. In comparison with either personal finance or non-investment type industrial banking companies they obtained not only a larger proportion of total funds through borrowing, but also a larger proportion of equity funds from preferred stockholders. The largest companies tended to rely most frequently on preferred capital and by being able to borrow a large proportion of total funds from short-term sources, attained a degree of flexibility in their long-term financing which permitted them to utilize whichever segment of the capital market became the most favorable.

The non-investment type industrial banking companies had almost as high net worth proportions as the personal finance companies (Table 2). In almost half of the companies included in the income tax sample net worth in 1936 represented more than 80 percent of total funds and in only a small proportion was it less than 50 percent (Chart II).[9]

Like personal finance companies, non-investment type industrial banking companies had relatively high proportions of preferred stock (in relation to total funds) and obtained a relatively small proportion of total funds—averaging from one-fifth to one-third in the years for which income tax data are available—from outsiders in the form of short-term debt (Table 3). Long-term debt, of relatively little importance in 1929, increased in 1933 and 1936, the increase reflecting changes in a relatively few large companies which dominated the sample.

Investment type industrial banking companies showed by far the lowest net worth proportion among the consumer instalment

[9] A few smaller companies—with total assets of less than $100,000—reported no liabilities.

financing agencies included in the income tax sample. Averaging about 16 percent of total funds in both 1929 and 1936 and only 21 percent in 1933, their net worth proportions were only slightly higher than those of commercial banks (Table 2). At least part of their low capital ratio reflects the practice of these industrial banks in showing loans in gross amounts and in accumulating payments in the form of hypothecated deposits on the liability side of the balance sheet.

Correction for this "overstatement" would increase the percentage of net worth of these banks in 1936 from 16.4 percent to a figure between 20 and 25 percent of total assets.[10] Even with this "correction," however, the net worth proportion for industrial banks is intermediate between the other consumer instalment financing agencies and commercial banks. Moreover, nearly nine-tenths of these companies had net worth of less than 50 percent of total funds in 1936 (Chart II).

In the early 1920's equity funds probably constituted more than two-fifths of the total funds of investment type industrial banking companies, with investment certificates providing about one-third and borrowings another fifth.[11] Over the succeeding decade, with the fourfold expansion in total assets, equity funds dropped to almost one-fifth in the early thirties and borrowings decreased to less than one-tenth, while the sale of investment certificates—and deposits in a relatively few institutions—accounted for almost three-fourths of total funds.

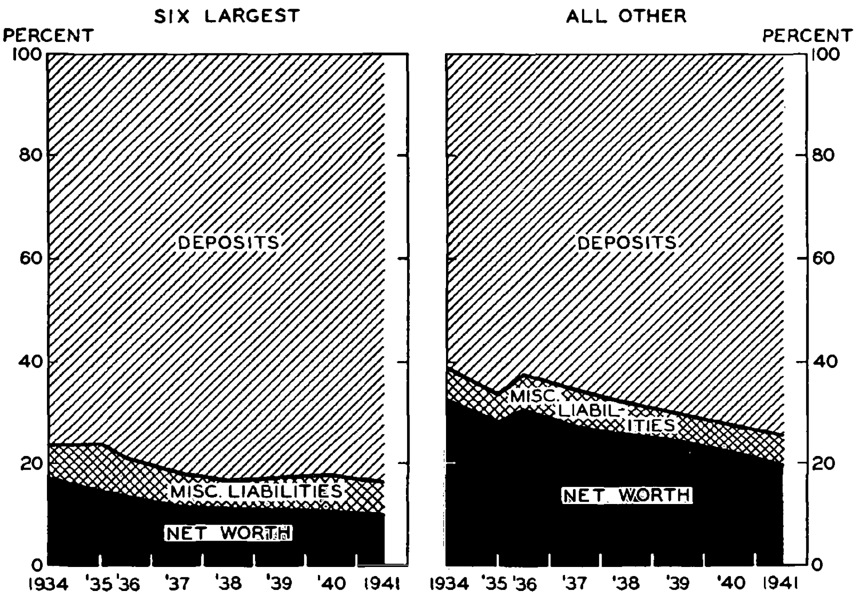
[10] For several reasons the amount of "overstatement" cannot be determined exactly, the most important reason being that some of these companies reported loans and deposits on a "net" basis. In National Bureau of Economic Research (Financial Research Program), *Industrial Banking Companies and Their Credit Practices*, by Raymond J. Saulnier (New York 1940) p. 60, aggregate figures for 60 to 71 insured industrial banks show hypothecated deposits varying from 17.2 to 18.4 percent of total assets for year-end dates, 1934-38; in each of these years some of the banks reported their loans and deposits on a net basis, a method specified in the instructions issued by the Commissioner of Banks for the State of New York. In an individual institution hypothecated deposits may easily amount to from 40 to 50 percent of total loans. The exact proportion of hypothecated deposits depends upon the average maturity of the loans, and upon the constancy or variation of loan volume from month to month. The above correction of the "overstatement" is based on the assumption that the hypothecated deposits of all these companies, combined, represents from 18 to 35 percent of total assets.

[11] Since the only data available on the earlier years pertain to Morris Plan companies —*ibid.*, p. 58—it is probable that a large proportion of the borrowings represented advances from the parent corporation or its affiliates; other companies would probably have shown a smaller proportion of borrowings. It is also likely that deposits were non-existent or proportionately insignificant.

With the establishment of the Federal Deposit Insurance Corporation and the subsequent extension of insurance to the bulk of industrial banking companies in those states in which they acquired the status of "banks," borrowings practically disappeared and deposits continued to grow while the net worth proportion diminished. In recent years industrial banks, like commercial banks, have been able as a group to attract a sufficient volume of deposits to free them from the necessity of borrowing from other sources. This is evident from Chart V, which covers all insured industrial banks for the years 1934-41.

CHART V

SOURCES OF FUNDS OF INSURED INDUSTRIAL BANKS, 1934–41[a]




[a] Represents distribution of net worth and liabilities in percent of total assets. Based on data from Federal Deposit Insurance Corporation, representing averages of figures for beginning, middle and end of year, except in 1934 and 1935, when year-end figures are used. For most of these years the amount of borrowed funds cannot readily be determined, and therefore this item has here been incorporated with miscellaneous liabilities.

With the development of personal loan departments by competing commercial banks there was a complementary development of "commercial bank" activities by the industrial banks and a consequent increase in the proportion of demand deposits. This development was accelerated in the last three years of the period under review but the proportion of demand deposits was still small in 1941.

For these industrial banks, as for commercial banks, the use of preferred stock was a post-crisis phenomenon, such stock consisting almost entirely of preferred capital furnished by the Reconstruction Finance Corporation as a part of the bank rehabilitation program of 1933 and subsequent years.[12]

Between 70 and 80 percent of the funds of investment type industrial banks included in the income tax sample were short-term, consisting almost entirely of deposits and investment certificates. Even after allowance is made for hypothecated accounts the proportion of funds obtained by investment type industrial banking companies from deposits and investment certificates remains considerably in excess of the short-term debt of the other types of agencies. This proportion differed sharply as between the various companies, partly because those that had acquired the status of banks were able to obtain a higher proportion of funds in the form of deposits than those that obtained their funds through the sale of investment certificates.

Moreover, industrial banks showed a relatively high concentration in the larger urban centers, where capital requirements for the organization of a bank are around 100,000 or 200,000 dollars. A bank in such a center thus showed a high proportion of equity capital until it had acquired a substantial amount of deposits. Differences in the degree of acceptability accorded this type of institution in different parts of the country probably also played a large part in determining the extent to which an individual company could trade upon equity.

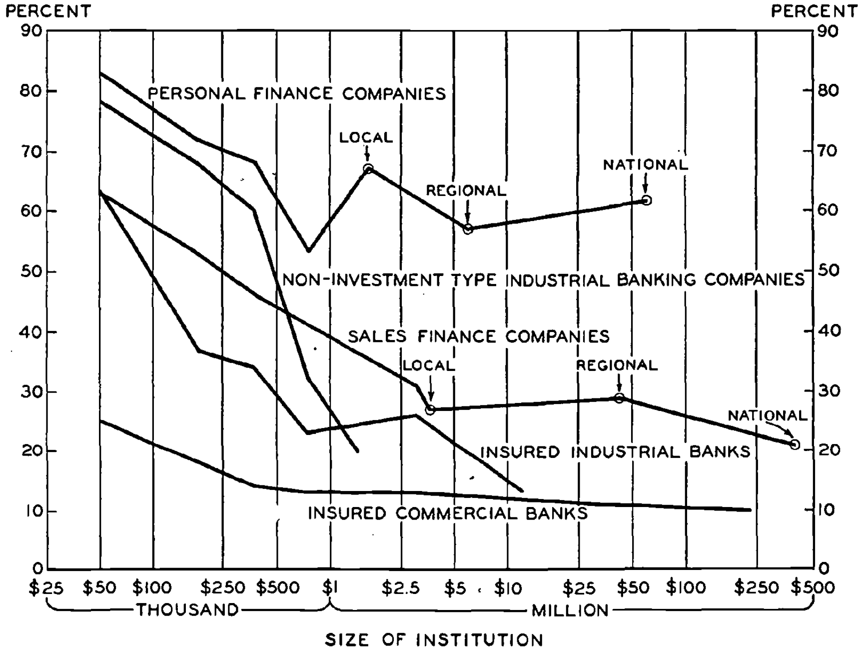
## INFLUENCE OF SIZE

Within each type of agency the differences in the net worth ratios between companies may be attributed to a considerable degree to differences in size. Chart VI reveals that in 1936, for each type of agency, the net worth ratio decreased as company size increased. Consumer instalment financing agencies with total

[12] Capital notes and debentures—issued in states which did not permit the issuance of preferred stock without double liability—sold to the RFC by insured banks, have been considered a part of preferred stock in this study, in accordance with the general practice of the federal bank supervisory agencies.

CHART VI

RELATIONSHIP OF SIZE AND NET WORTH RATIOS OF CONSUMER INSTALMENT FINANCING AGENCIES AND COMMERCIAL BANKS, 1936[a]




[a] Represents averages of net worth in percent of total assets for companies in arbitrary size groups, as measured by total assets (or deposits, in the case of banks). Points for net worth ratios were located midway between the size groups, except for the highest size group and for the national, regional and local sales finance and personal finance companies, where points were located at the averages of total assets (or deposits) for the companies included.

For the smaller sales finance and personal finance companies, and for non-investment type industrial banking companies, based on tabulations prepared by the Income Tax Study; for the national, regional and local sales finance and personal finance companies (some of which are included in the income tax samples), based on data from the National Credit Office, Inc.; in regard to these agencies, net worth and total assets are year-end figures and size is based on total assets.

For insured industrial and commercial banks, based on data from Federal Deposit Insurance Corporation, pertaining to the year 1939 for commercial banks; in regard to banks that were members of the Federal Reserve System, net worth, total assets and deposits are averages of figures for call dates during the year, and in regard to non-member banks they are averages of figures for the beginning, middle and end of year; size is based on deposits. Total assets and deposits of insured industrial banks are net, after deduction of hypothecated deposits. Cash depositories, banks designated in this study as insured industrial banks, and banks that submitted reports covering less than the full year's operations or whose operations were materially affected by mergers during the year are not included with insured commercial banks.

assets of less than $100,000 had an average net worth ratio of more than 60 percent, regardless of type. The degree of decrease accompanying the increase in size varied from one type of institution to another: the decline was least among the personal finance companies and greatest among insured industrial banks.[13] The decline was greatest, too, among the companies with assets of less than 5 million dollars; beyond that point the decrease continued, but less markedly.

The relatively high net worth shown by the smallest companies may be explained, in part at least, as follows: a company that starts with a net worth of $25,000 has a very high proportion of net worth as long as it remains small; the ratio decreases as the amount of borrowed funds increases. In general, the lower net worth ratios shown by the larger companies are indicative of their more ready access to borrowed funds and of the stronger credit position which accompanies wider diversification of the risk.[14] Moreover, there is a rather deep-seated prejudice—not ignored by lenders—which confuses size with strength and contributes to the creation of a larger proportion of borrowed funds in larger companies. The very low net worth ratio shown by the largest industrial banks, approaching that of commercial banks of the same size, may be attributed to the great growth in deposits among the large institutions, a growth characteristic also of large commercial banks during this period.

Among insured commercial banks, also, the smaller the bank, the higher the proportion of net worth to total assets, although the degree of variation is not so great as among consumer instalment financing agencies. The net worth ratios of insured commercial banks located in centers of approximately the same size are consistently lower as we pass from the smaller to the larger banks;

[13] Data for all insured industrial banks are presented in the chart, instead of the income tax data on investment type industrial banking companies, because the former are corrected for hypothecated deposits and are therefore comparable to the figures for the other agencies. The ratios shown by the two sets of data on industrial banks do not differ materially. The figures covering the largest sales finance and personal finance companies merge in an almost continuous line with those from the income tax data.

[14] In all these agencies the proportion of total funds represented by short-term borrowings varied directly with size of company, the largest companies showing the highest percentages. This is the counterpart of the relationship between size of company and the proportion of total funds derived from equity, and particularly from common equity, sources.

on the other hand, there is no relationship between the size of the center and the net worth ratio among banks of approximately the same size. This is contrary to the commonly held view that the large growth in commercial bank deposits in recent years, and consequent decline in net worth ratios, has been typical more often of larger than of smaller centers, irrespective of size of bank.

The variation in the net worth ratios of commercial banks is probably related to unevenness in the growth of deposits from 1933 to 1941, a development particularly conspicuous in certain urban centers. It probably occurred in a number of agricultural communities as well, but in such communities commercial banks have usually had a relatively high net worth ratio; in certain parts of the country this may well have been the result of supervisory insistence, or of a conservative tendency, derived from custom, in view of the catastrophe hazard in banks whose lending and deposit risks are not diversified.

These differences between one type of agency and another, in net worth ratios, were shown in Chart VI to hold for all size groups.[15] Taken size for size, personal finance companies had the highest net worth ratios of any of the consumer financing agencies. The non-investment type industrial banking companies had the next highest ratios,[16] while the sales finance companies showed sharply lower ratios in almost all size groups, and investment type industrial banking companies showed the lowest ratios of any type of agency.

[15] It should be borne in mind that the various types of institutions differ materially in their size composition. The very small enterprise is predominant among personal finance and non-investment type industrial banking companies, while investment type industrial banking companies are predominantly large; sales finance companies are more evenly distributed according to size. See Appendix Table B-3.

[16] Definitional differences between these two types of agencies are not clear-cut, and overlapping may account in part for the very high net worth proportion shown by the non-investment type industrial banking companies; the very low ratios of the largest companies in the latter group may be ignored, since they pertain to only 4 companies.