

BUREAU OF BUSINESS RESEARCH

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THE FINANCIAL POLICIES AND
PRACTICES OF AUTOMOBILE
FINANCE COMPANIES

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PREFACE

This study is an analysis of the financial and operating practices of automobile finance companies. Such companies usually perform a variety of credit operations which include financing the retail and wholesale purchases of automobiles, discounting receivables, financing the purchase of household and factory equipment. Some even make small loans, but these are incidental to the major activity. Consequently these companies could well be designated as intermediate banking companies; they perform essential banking functions in a field which the ordinary commercial banks have been reluctant to enter. Through the operation of these finance companies as intermediaries, wholesale credit is converted into retail credit. Borrowing most of their loanable funds from the commercial banks, they advance these funds to retail purchasers and retail dealers. The bank loans to the intermediate companies are rendered secure by the collateral provided by these companies, the notes and lien contracts. They are further secured against loss by the capital and surplus supplied by the finance companies, which therefore stand as a buffer between the banks and the ultimate borrowers. Thus loans which in themselves would not be suitable for commercial banking are made acceptable to the bank.

There are two major reasons for undertaking the study at the present time. First, there have been sharp variations in the policies of the companies and in the economic and social importance of this class of credit; second, there is a deficiency of quantitative data relating to these companies and their practices. The purpose here is to show recent changes as well as current practices of these companies in so far as the study, which has been limited to the financial statements and policies of the companies, makes this possible.

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