

NEIL H. JACOBY and RAYMOND J. SAULNIER

Financing Inventory On Field Warehouse Receipts

Financial Research Program

Studies in Business Financing

NATIONAL BUREAU OF ECONOMIC RESEARCH

FINANCIAL RESEARCH PROGRAM OF THE
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Studies in Business Financing, 6

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NEIL H. JACOBY and RAYMOND J. SAULNIER

FINANCING INVENTORY ON
FIELD WAREHOUSE RECEIPTS

Financial Research Program

Studies in Business Financing, 6

NATIONAL BUREAU OF ECONOMIC RESEARCH

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Preface

THE BUSINESS FINANCING PROJECT, of which this study is a part, is the second major investigation to be initiated under the National Bureau's Financial Research Program, with the support of grants from the Association of Reserve City Bankers and the Rockefeller Foundation. Work on the project began early in 1940, with three major objectives: first, to trace from business accounting records the structural and cyclical changes that have occurred in the financial organization of business enterprise since the turn of the present century; second, to determine the cross-sectional pattern for recent years of business credit demands; and third, to describe the adaptations that financing institutions providing short- and medium-term credit have made over the past decade in response to changing demands for their services.

Research activities have been carried on under two main divisions: one, entitled "Changes in the Financial Structure of Business Enterprise, 1900-1940" is concerned primarily with the first objective; the other, "Contemporary Relations Between Business Enterprise and Financial Institutions," is devoted specifically to the second and third objectives. Under each division a number of technical studies have been developed from special primary materials, the findings of which are to be made the basis of broader interpretive studies.

Under the second division of the project, two of the technical studies, *Term Lending to Business* and *Accounts Receivable Financing*, were published in 1942; a third, *Financing Equipment for Commercial and Industrial Enterprise*, was published in 1943. *Financing Inventory on Field Warehouse Receipts* is the last of these special monographs.

With a few exceptions dictated by the amount and character of the data available, each of the four studies of special lending

techniques has a common pattern of treatment: (a) development of the financial technique; (b) size and organization of the market; (c) characteristics of the credit services; (d) methods of credit extension; and (e) income, cost and profitability. Their preparation has required extensive interviews with officers of specialized financing agencies and commercial banks, in the main lending centers east of the Mississippi. The statistical basis of the studies has been provided by special tabulations and questionnaire replies prepared by financial institutions representative of all regions of the country.

We wish to acknowledge our obligation to the officers of these institutions for their generous participation in interviews which were frequently lengthy, and for their cooperation in supplying special tabulations of statistical information. A major contribution to the completion of this study of business loans secured by field warehouse receipts was made by officers of several national and regional field warehouse companies. Each of these companies generously provided us with detailed information on individual field warehouses which they were currently operating. It would have been impossible to complete the present study without the factual basis provided by this unique collection of data and without the aid of these experienced warehousemen in matters of interpretation.

Between 1900 and the outbreak of the present war, the changing demands of business for short- and medium-term credit produced two major types of adaptation on the supply side of the business financing market. The first of these was the marked change that came about in the lending policies and techniques of commercial banks; the second was the growth of non-bank lending agencies especially organized to meet the newer credit needs of the period. The rapidity with which these adaptations were made is perhaps responsible for the fact that little is known of their character and extent. Whatever the reason, it seems clear that there is inadequate understanding of recent changes in the functioning of commercial banks as business financing agencies, and still less understanding of the part played by non-bank agencies in the business credit market.

The financing of inventories through the extension of credits secured by field warehouse receipts is one of the ways in which

banks have accommodated themselves to changes in the demand for business credit. In recent years, the field warehouse receipt has come into increasing use as a security device, with increasing numbers of commercial banks adapting their lending techniques to the use of this instrument. It is the purpose of this study to trace the development of field warehousing, to estimate the quantitative importance of loans secured by field warehouse receipts, to describe the characteristics of the business enterprises using this method of financing and to describe the techniques followed in establishing the warehouse and in extending credit on the receipt as a security device.

The investigations which resulted in this study were completed before the entry of the United States into the present World War. While it has not been possible to deal with the effects that our participation in war have had upon field warehouse receipt financing the study does describe the development of field warehouse receipt loans up to the outbreak of hostilities and states the position of this type of bank lending at that time. It is essentially, therefore, a study of business lending under peacetime conditions, a feature that should add to its usefulness as a guide to problems of business financing during the postwar period.

RALPH A. YOUNG

February, 1944

Director, Financial Research Program

Authors' Acknowledgments

THE AUTHORS HAVE BEEN ASSISTED in the conduct of this study by a considerable number of people, all of whom have given most generously of their time and experience. Chief among these are Ralph A. Young, Director of the Financial Research Program, and Winfield W. Riefler of the Institute for Advanced Study, who participated in the planning of the study and have followed it with close attention through its development. Their knowledge of the field of finance and of financial research methods has been a major support upon which the authors have leaned heavily at all stages of the work. It is a pleasure to acknowledge this obligation and to express our gratitude, not only for their technical counsel, but also for the personal encouragement they have given throughout the course of the investigation.

The officers of a large number of banks contributed to the investigation in two important ways; first, by providing special statistical tabulations and answering questionnaires concerning loans made by their institutions on the security of field warehouse receipts and, second, by giving the authors, through lengthy interviews, the benefit of their intimate knowledge of the problems and techniques of field warehouse receipt financing. Without their cooperation it would have been impossible to have completed the investigation satisfactorily. For this assistance the authors wish to express their sincere appreciation.

We wish also to extend our special thanks to the officers of the field warehouse companies who made a major contribution to the investigation by providing us with special tabulations concerning the characteristics of warehouses operated by them, and by discussing with us the problems and techniques of this type of warehousing. Members of the examining staffs of the Office of the Comptroller of the Currency, the Board of Governors of the

Federal Reserve System, the Federal Reserve Bank of New York, and the Federal Deposit Insurance Corporation have discussed certain aspects of field warehouse receipt financing with the authors and we are very grateful to them for their generous assistance.

Dr. Lorine Pruette carried the responsibility of editing the manuscript and has completed this task with great skill. The authors wish to take this opportunity to express to her their very sincere appreciation for the many contributions she has made to the organization of the study and to the readability of the text.

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housing companies also accept such receipts as credit facilitating devices.

Lending against field warehouse receipts poses unique problems of credit appraisal for the lending agency. The authors discuss the credit standards and practices developed in extending such credit.

89 pp. 12 Tables 3 Charts

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Neil H. Jacoby is Professor of Finance in the School of Business and Secretary of the University of Chicago. He was formerly engaged in investment banking in Chicago. As Supervisor of the Legal and Research Division of the Illinois State Department of Finance he had charge of all rules and regulations for state tax laws. He is the author of *Retail Sales Taxation*, co-author of *Intergovernmental Fiscal Relations in Illinois*, and is widely known as a participant in the University of Chicago Round Table. Dr. Jacoby has been associated with the Financial Research Program of the National Bureau of Economic Research since 1940.

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STUDIES in BUSINESS FINANCING

Early in 1940 the National Bureau of Economic Research, as part of its Financial Research Program, began the study of changes in the financial structure and behavior of American business since the beginning of the century. This study, known as the Business Financing Project, has been conducted under grants from the Association of Reserve City Bankers and the Rockefeller Foundation.

FINANCING INVENTORY ON FIELD WAREHOUSE RECEIPTS is the fourth volume prepared by Dr. Neil H. Jacoby and Dr. Raymond J. Saulnier as part of the National Bureau's series, *Studies in Business Financing*. Previous volumes were TERM LENDING TO BUSINESS, ACCOUNTS RECEIVABLE FINANCING, and FINANCING EQUIPMENT FOR COMMERCIAL AND INDUSTRIAL ENTERPRISE. Other studies in the series include THE FINANCING OF LARGE CORPORATIONS, by Dr. Albert R. Koch and FINANCING SMALL CORPORATIONS, by Dr. Charles L. Merwin.