# Trade Loans Now and in 1946

## Retailers and Wholesalers Still Most Important Bank Loan Customers

At certain seasons of the year, sales at retail stores are especially heavy. Christmas, Easter, and Mother's Day, as well as the post Fourth of July days and Labor Day, when the harvest sales begin, all mean busy times for retailers. In planning for these sales peaks, retailers must have skilled buyers and trained personnel—people who know and understand merchandising. They also need operating capital to finance the large inventories necessary to meet their customers' demands. Stores that have a large volume of charge accounts need funds to carry their accounts receivable, which rise substantially during these peak periods.

Retailers secure funds in various ways. Some have enough money in the business itself to get through the heavy sales periods. Others have to borrow. Those who have to borrow usually find their local commercial banks willing and able to meet their needs.

Wholesalers frequently find themselves in a similar position. When they are called upon to fill unusually heavy orders for their retail customers and see that they are short of cash, they can ordinarily obtain a short-term loan from their local bank.

Retailing and wholesaling are dynamic and ever-changing sectors of the business scene. Changes occur continuously, not only in merchandising methods but also in the structure of the trade. These changes have considerable impact upon trends in bank loans to businesses.

Bankers in the Sixth District had an opportunity recently to examine changes in the borrowing traits of the area's merchants when the Federal Reserve System released a benchmark study, the Survey of Business Loans. This study is a detailed review of the loans carried by member banks in this Federal Reserve District and other Districts throughout the United States as of October 5, 1955. By comparing the results of this survey with a similar one made in 1946, District bankers should be able to answer such questions as, Are trade concerns as important as loan customers today as they were 10 years ago? Have changes in the trade structure of the South since the late 1940's affected lending practices?

### Characteristics of Trade Loans

Retailers and wholesalers are the most important class of business borrowers at District member banks; they account for 42 out of every 100 loans. Typically, trade loans are smaller than loans made to other types of business organizations. They are most frequently used to finance inventory purchases, to permit extension of credit to customers, to provide additional working capital, and sometimes for expansion purposes. Over 80 percent of these loans are short-term, that is, they mature in less than a year.

In analyzing the results of the 1946 and 1955 business loan surveys, we should recognize that the surveys took place in different economic climates. The 1946 figures reflect a wartime economy still dominated by shortages of consumer goods, especially durables, and by retail firms with considerable amounts of cash and Government bonds on hand; the 1955 figures mirror a fully-employed peacetime economy with no severe shortages. Still, since trade loans generally serve the same purpose today as they did in 1946, the shifts that have taken place do reflect changes in the District economy.

**Trade Loans at Sixth District Member Banks**
**As Percent of Total Business Loans**
**October 5, 1955**

| | | *Size of Bank (Deposits in Millions of Dollars)* | | | | |
|---|---|---|---|---|---|---|
| *Type of Loan* | *All Banks* | *Less than 10* | *10-20* | *50-100* | *20-50* | *Over 100* |
| | | *(Percent of Number of Loans)* | | | | |
| Trade . . . | 42.0 | 50.2 | 49.7 | 33.9 | 35.4 | 38.7 |
| Wholesale . | 8.6 | 6.8 | 8.5 | 7.0 | 9.4 | 10.3 |
| Retail . . | 33.4 | 43.4 | 41.2 | 26.9 | 26.0 | 28.4 |
| | | *(Percent of Amount Outstanding)* | | | | |
| Trade . . . | 26.0 | 40.5 | 33.1 | 25.6 | 27.0 | 22.9 |
| Wholesale . | 11.0 | 6.9 | 10.3 | 8.4 | 11.8 | 12.1 |
| Retail . . | 15.0 | 33.6 | 22.8 | 17.2 | 14.2 | 10.8 |

### Survey Findings Summarized

Between 1946 and 1955, the amount of money tied up in trade loans at member banks in this District rose from 220 million dollars to 403 million dollars, a rise of 83 percent. At the same time, borrowings of all businesses rose from 562 million dollars to 1,429 million dollars, or 153 percent. Thus, trade loans today are less important in the loan portfolios of District banks than they were a decade ago. A similar decline took place in the number of loans outstanding. Trade loans, however, remain the most important single category of business loans made, both in number and amount outstanding.

Looking behind the over-all figures of the District, we find a substantial difference in the importance of trade loans at small and large banks. The majority of small bankers continue to look to local merchants as their best customers. One reason for this is that in small towns customers are scarce, and then too bankers can obtain higher rates on trade loans than on other types of loans. This tendency is even more pronounced today than it was in 1946. Banks with assets of less than 10 million dollars, according to the 1955 survey, made one-half of their short-term and long-term loans to trade concerns. Trade loans accounted for 41 percent of outstandings at these banks. In contrast, the larger banks, those with assets over 100 million dollars, placed only 39 percent of their loans, representing 23 percent of their loanable funds, with trade concerns. Today, the larger banks rely less upon trade loans than in 1946; they are considerably more dependent upon loans to industrial concerns, sales finance companies, and the services trades.

The business loan survey revealed several differences between this District and the nation. Trade concerns are

relatively more important outlets for bankers' funds in the Sixth District. This is true even though the average trade loan in this area is only three-fourths as large as the average trade loan nationally. Several factors account for this seeming paradox. The main thing is that the typical trade organization in this District is smaller than its national counterpart. The 1954 Census of Business shows an average sales volume of 805,000 dollars for District wholesalers and 89,200 dollars for District retailers. Comparable figures for the United States are 926,300 dollars for wholesalers and 98,600 dollars for retailers.

Between 1946 and 1955, interest rates on trade loans rose from an average of 3.7 percent to 4.8 percent. This increase is similar to that for all loans. The rate varied with size of borrower: Retailers with assets over 25 million paid 3.1 percent for short-term and long-term funds. Retailers with assets under 50,000 dollars paid an average of 5.9 percent on short-term loans and 7.0 percent on long-term. Since October 5, 1955, the date of the survey, rates to all borrowers have likely risen further.

**Average Interest Rates, by Size of Borrower and Maturity**

**Sixth District Member Banks**
**October 5, 1955**

| | *Size of Borrower (Assets in Thousands of Dollars)* | | | | | |
|---|---|---|---|---|---|---|
| *Type of Loan* | *All Borrowers* | *Under 50* | *50-250* | *250-5,000* | *5,000-25,000* | *Over 25,000* |
| | *(Maturity of Less Than One Year)* | | | | | |
| Trade . . . | 4.7 | 5.8 | 5.1 | 4.3 | 3.5 | 3.1 |
| Wholesale . | 4.4 | 5.5 | 5.0 | 4.2 | 3.3 | . . |
| Retail . . . | 4.9 | 5.9 | 5.2 | 4.5 | 3.7 | 3.1 |
| All Businesses . | 4.5 | 5.7 | 5.1 | 4.4 | 3.8 | 3.3 |
| | *(Maturity of One Year or Longer)* | | | | | |
| Trade . . . | 5.2 | 6.9 | 5.3 | 4.7 | 3.8 | 3.2 |
| Wholesale . | 4.8 | 6.6 | 5.3 | 4.5 | 4.0 | 4.0 |
| Retail . . . | 5.5 | 7.0 | 5.9 | 4.9 | 3.8 | 3.1 |
| All Businesses . | 4.9 | 6.8 | 5.8 | 4.7 | 3.8 | 3.2 |

## *Reasons for Changes in Trade Loans*

The greater industrialization and the changing character of both retailing and wholesaling in the District since the late 1940's have resulted in a considerable diversification in loan portfolios of commercial banks. Growth in manufacturing, construction, and sales finance company activities between 1946 and 1955 has tended to make retailers and wholesalers less important borrowers at District banks. Bankers extended over 200 percent more funds in 1955 to finance the greater industrialization, increased building, and expanded consumer borrowing in the Southeast. The larger banks in the District, those with assets over 100 million dollars, secured most of this new business and became less reliant upon trade concerns as an outlet for their funds.

In the retail field, the major changes have been in the number and size of establishments, their inventory requirements, and their credit extensions. In 1954, according to the Census of Business, there were about 3,000 fewer retail establishments in the District states than there were in 1948. This 2-percent decline has been about the same as in the nation as a whole. If it were not for an offsetting gain in the rapidly growing state of Florida, however, the decline in the District would be closer to 8 percent. The most severe decrease in number of retail establishments occurred in the grocery field. Apparently, the neighborhood full-service food store has found competition from self-service supermarkets too strong, for there were 11,500 fewer of the former in District states in 1954 than in 1948.

Looking at such a decrease in the number of potential bank customers, one might expect a decline in the number of loans to retailers. Actually, the opposite has been true. The increase in the inventory and credit needs of retailers since 1946 has apparently outweighed the decrease in the number of outlets. In 1946, retailers of automobiles and household appliances, for example, held little inventory under floor-plan loans because they were able to sell their merchandise as quickly as it was received. Today, floor-planning of durables is a regular practice. In fact, if retailers are to keep their sales volume up, they must have on hand a large selection of styles, colors, and designs for their customers to choose from. The amount of stock necessary to conduct a retail business has increased and will likely continue large.

The present emphasis upon consumer instalment buying and other types of easy-payment plans is another reason why retailers find their financial needs greater. In 1946, when the average American had a considerable store of United States war bonds and other types of liquid savings, credit buying was not so prevalent. Today, more and more products are being sold to consumers on an instalment basis.

In contrast to the retail picture, we find that the number of wholesale establishments has increased substantially—20 percent between 1948 and 1954 in this District. Nationally, a rise of 16 percent was recorded. In addition, the average wholesaler sells 15 percent more goods today than he did in the late 1940's. Despite these gains, however, wholesalers are considerably less important as loan customers at District banks than they were earlier.

Between 1946 and 1955, loans to wholesalers at District banks dropped from 21.0 percent to 11.0 percent of the total amount outstanding in all business loans. In number of loans outstanding, the proportion going to wholesalers moved downward from 14.2 percent in 1946 to 8.6 percent in 1955.

We can reconcile these divergent trends in part through a closer look at the Census figures. A good share of the growth in wholesale establishments has taken place in the industrial marketing field. In 1954, there were 40 percent more manufacturers' agents, industrial distributors, and other types of industrial middlemen in this District than in 1948. Many of these new wholesale establishments were actually agents of national concerns who decided to enter the growing Southeastern markets. Such national concerns do not look to local financial institutions for their capital requirements as much as local establishments do.

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