Term Loans Gain In Importance

District bankers are making more and more credit available to business customers on a long-term basis. In mid-October 1957, one outstanding business loan out of three was originally granted for a term of over one year. Two years earlier, less than one in five was a term loan, that is, with a maturity of over one year.

These data are from the Survey of Business Loans as of October 16, 1957, conducted by this Bank in cooperation with the Board of Governors of the Federal Reserve System. The Survey revealed that on that date District member banks had 33,643 term loans amounting to 445 million dollars, outstanding to business firms. Two years earlier, the date of a similar survey, they had 21,176 loans, totaling 300 million dollars. This represented a gain of 59 percent in number and 49 percent in amount. In contrast, the dollar amount of short-term loans, those with original maturities of one year or less, increased only 21 percent in the two-year period.

Term loans have gained favor rapidly in the postwar period, as is illustrated by the rise from 76 million dollars in 1946 to 445 million in late 1957. Most types and sizes of businesses are now receiving a greater proportion of their bank credit in this form. On the other side of the desk, most bankers are finding longer maturities a feasible means of employing bank funds.

Bankers have adapted their lending practices to meet the needs of business firms who had to supplement their own capital with large amounts of borrowed funds in order to expand productive capacity during recent years. They have financed equipment purchases under conditional sale agreements and have provided for instalment payments on term loans. They have also directed more attention to the long-run prospects of a business in passing on loan applications. Taken together these developments suggest that today's bankers view term loans somewhat differently than bankers a generation ago, who thought bank loans should be restricted to self-liquidating loans of very short term.

Although banks of all sizes located in all sections of the District make term loans, most of the dollar volume is concentrated at larger banks. Banks with deposits over 100 million dollars, for example, accounted for 52 percent of the dollar volume of term loans. Banks with deposits between 10 million and 100 million dollars held 42 percent of term loans outstanding and those with deposits of less than 10 million dollars held only 6 percent.

Sixth District banks increased their term loans to most types of businesses between 1955 and 1957. Loans to trade and service firms, the most important long-term borrowers, rose 63 percent and 28 percent, respectively. It is also significant that sales finance companies and food processors, the only business groups to show a decline in total loans, enjoyed a sizable increase in term loans.

Although most size groups shared in the rise in term loans, the smaller firms tended to show the greatest rate of gain. Firms with assets of less than 250,000 dollars increased their term borrowings 69 percent, compared with 42 percent for large firms. In contrast, short-term loans to small business increased only slightly between 1955 and 1957, but rose sharply to large firms.

Interest rates of all types rose during this period in response to the heavy demand for funds. Rates on term loans were no exception. The average rate charged on loans of over one year maturity rose from 4.7 percent in 1955 to 5.8 percent in 1957, an increase of 1.1 percentage points. Rates on short-term loans advanced somewhat less, however, from 4.5 percent to 5.2 percent.

The 1957 Survey indicates that District bankers are extending a sizable amount of funds on a long-term basis to new businesses. About 40 million dollars, or 9 percent of the total amount of business term loans outstanding, went to firms organized in the preceding two years.

W. M. Davis

Business Loans with Maturities of Over One Year
Sixth District Member Banks, October 5, 1955, and October 16, 1957
(Millions of Dollars)

Business of Borrower	Assets of Borrowers							
	All Businesses*		Less than $250,000		$250,000-$5,000,000		Over $5,000,000	
	1955	1957	1955	1957	1955	1957	1955	1957
All businesses	297.8	444.6	89.9	152.0	135.5	208.8	51.9	57.7
Manufacturing and mining, total	61.8	108.8	13.9	24.1	25.5	60.7	20.5	21.9
Food, liquor, and tobacco	10.2	11.4	3.9	5.2	5.4	4.9	.3	1.2
Textiles, apparel, and leather	10.2	14.5	.6	1.6	4.8	8.0	4.6	4.9
Metals and metal products	12.5	39.8	3.7	5.1	3.5	30.5	5.2	2.8
Trans., com., and pub. utilities	14.5	13.3	1.5	3.2	3.5	4.9	9.2	4.9
All other	14.4	29.8	4.2	9.0	8.3	12.4	1.2	8.1
Trade, total	69.5	113.2	29.3	51.3	31.4	44.2	4.6	16.0
Wholesale trade	22.1	30.4	7.3	10.0	13.5	18.0	.6	2.0
Retail trade	47.4	82.8	22.0	41.3	17.9	26.2	4.0	14.0
Other, total	166.5	222.6	46.7	76.6	78.6	103.9	26.8	19.8
Commodity dealers	.7	3.1	.6	1.2	—	1.1	—	.8
Sales finance companies	1.1	4.0	.2	2.8	.7	1.2	—	—
Trans., com., and pub. utilities	47.2	44.8	5.0	7.5	22.0	25.3	19.6	10.6
Construction	18.6	27.4	9.2	7.1	8.5	15.6	**	—
Real estate	29.1	63.4	7.3	19.1	17.3	32.1	.1	3.0
Service firms	44.0	56.4	18.4	31.8	17.3	17.7	2.5	3.7
All other nonfinancial businesses	25.8	23.5	6.0	7.1	12.8	10.9	4.6	1.7

*Includes loans to firms whose size was not ascertained.
**Less than $50,000.