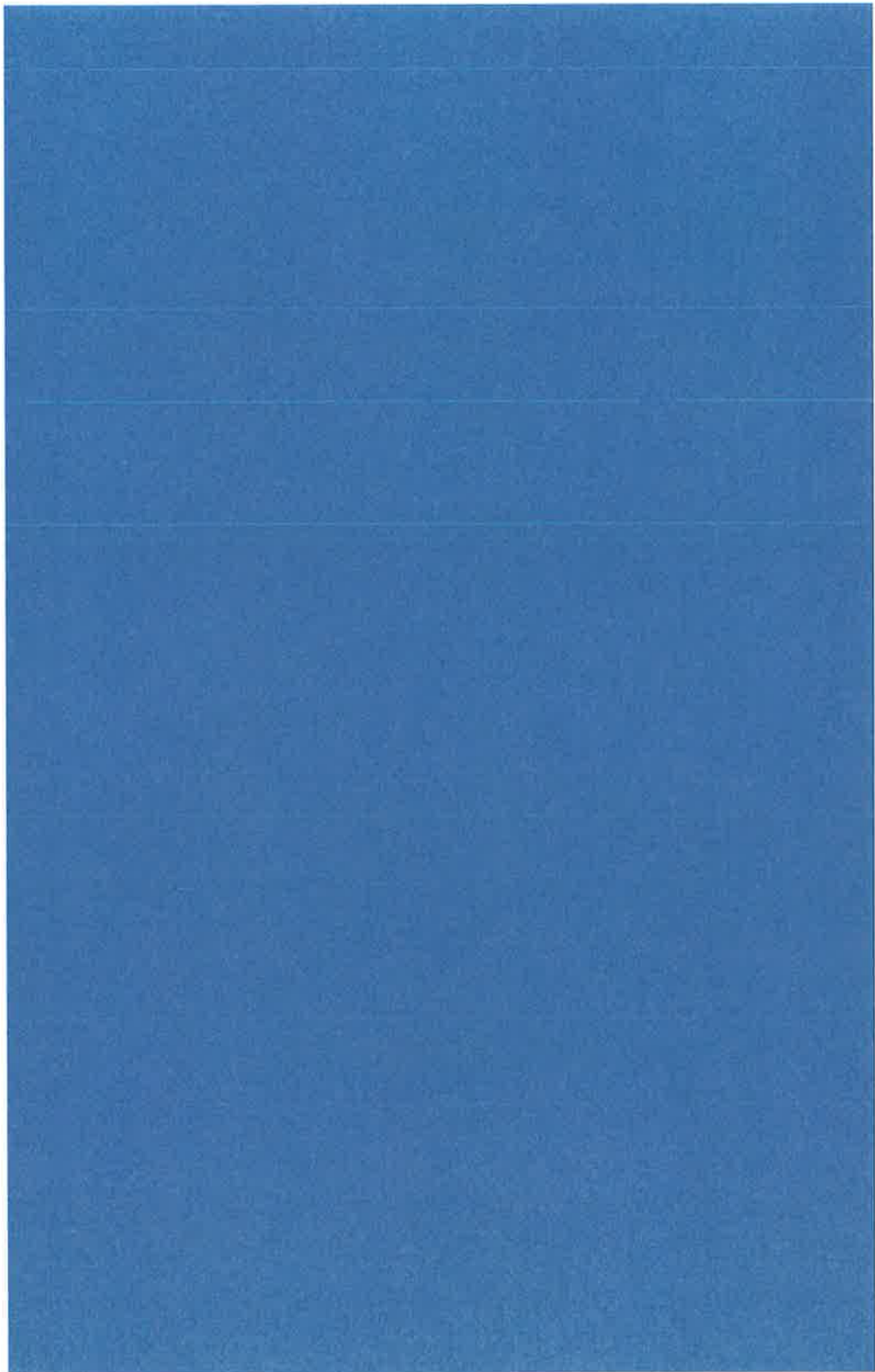


Servicing  
the  
Finance Subsidiary

*A.G. Becker & Co.*  
INCORPORATED



THE FINANCE GROUP  
THE FINANCE SUBSIDIARY DECISION  
OPERATING A FINANCE SUBSIDIARY  
FINANCING A FINANCE SUBSIDIARY

*A.G. Becker & Co.*  
INCORPORATED

*Established 1893*

CHICAGO

NEW YORK

SAN FRANCISCO

BOSTON

AND OTHER CITIES

*A. G. Becker & Co. Incorporated was founded in Chicago in 1893 to engage in the Commercial Paper business. To this financial service, continuously offered, we have over the years added all of the activities commonly embraced in the term "Investment Banking" as well as a complete service to the investing public.*

*With adequate capital resources, skilled distribution and staff facilities, broad experience and an established name in the banking and business worlds, we provide a full range of financial services for corporations, for municipalities and governmental agencies and for all types of investors. These services include the underwriting and distribution of securities; the maintenance of primary trading markets in securities so distributed; direct placement of issues with institutional and large individual investors; advisory service in fiscal matters; and complete brokerage facilities.*

*Chicago has remained our home office during our 70 years of service to the financial and investment community. A comparably sized and staffed New York office, opened more than 40 years ago, provides the same broad range of services that are available in Chicago. Offices in various other parts of the country generally perform a portion of such services.*

*We welcome the opportunity to make our facilities and experience available to all those seeking access to the capital markets, and to investors of all types interested in a soundly based, comprehensive investment service.*

## THE FINANCE GROUP

A. G. Becker & Co. Incorporated has historically assisted finance companies in solving their financial problems. As our finance company activities have increased in recent years, our commitment to the industry has broadened and a specialized Finance Group has evolved as part of our Corporate Banking Division. This Group, numbering six men exclusive of supervisory personnel and representing over 80 years of cumulative experience in the field, deals exclusively with finance company matters. Over the last five years, the Finance Group has effected long-term financing transactions involving over \$300 million for finance company clients, and has also assisted in arranging the placement of over \$7 billion in finance company commercial paper through our Commercial Paper department. Our work has covered both independent finance companies and finance subsidiaries of industrial and mercantile companies (sometimes referred to as "captives").

As part of the specialization of the Finance Group, we have surveyed and reviewed the operations of many finance companies to identify and better understand the necessary elements in profitable and well-managed operations. We believe this knowledge and experience in analyzing operations and appraising risk and profitability place us in a unique position to act as advisors both to finance companies and to investors in the securities of finance companies. We have been employed in both capacities in recent years and believe that our staff has the ability to counsel on a wide range of problems beyond those traditionally considered the province of investment bankers.

This booklet introduces a service designed by A. G. Becker & Co. to advise and assist corporate management in dealing with finance subsidiary matters. The service, directed by the Finance Group in our New York office, is intended to provide assistance in three basic areas:

- Determining the advisability of forming a finance subsidiary
- Operating a finance subsidiary
- Obtaining financing for a finance subsidiary.

## THE FINANCE SUBSIDIARY DECISION

In the course of our work in the finance industry we have frequently been asked by non-financial corporations, "Should we have a finance subsidiary?" With more than 250 finance subsidiaries in operation in the United States today, corporate management has become increasingly interested in their uses and advantages. There are many reasons why corporate management may wish to investigate the advisability of establishing a finance subsidiary. Usually management has identified a specific opportunity on which it might capitalize or a specific problem which might be solved through the formation of a finance subsidiary. It is important to focus on such an opportunity or problem and to consider all the alternative courses of action, of which establishing a finance subsidiary may be only one. Although many organizations have been strengthened by forming their own finance company, all alternatives and their ramifications should be thoroughly explored before establishing such a subsidiary.

Initially, management must determine what it hopes to accomplish by establishing a finance company. Will the subsidiary be operated primarily for profit . . . as an aid to sales . . . to improve the quality of receivables . . . to relieve pressure on the parent's borrowing capacity . . . or for other reasons? Each of these objectives probably requires a finance subsidiary with different characteristics. The goal will set the operating pattern for the subsidiary and will also determine the guidelines for evaluating its performance. For example, a finance company designed as a profit center would be organized differently, have different capital needs and personnel requirements, and operate with different credit policies than a sales-aid subsidiary. A profit-oriented subsidiary should be expected to earn an adequate return but not to provide as much assistance to the sales department as one established for sales purposes. These differences must be recognized and taken into account in preparing plans and projections for a finance company.

After deciding the purpose and expected operating pattern of a finance subsidiary, its internal compatibility with the parent company must be reviewed. Specifically, management must determine what effect a finance subsidiary will have on the short-term and long-term corporate objectives of the parent. This is necessary to

evaluate the parent's ability to marshal the resources required for operating a finance subsidiary of the type desired. How much capital is management willing and able to commit to the endeavor and what are the projected needs of the finance unit? Are personnel available in the parent organization to provide proper management for the finance subsidiary or must experienced outside personnel be added? Are accounting and data processing facilities adequate to support the new operation or must additional facilities be made available? These and comparable matters will bear importantly on the feasibility of entering the finance business. Careful projections are necessary to provide management with an accurate picture of these requirements.

Finally, management must examine several external factors relating not to the company itself but to outsiders and to the market it proposes to serve. Who and what will be financed by the subsidiary? How will the company's dealer organization (if any) be affected? What will be the reaction of the parent's competitors to the formation of a finance company? What competition will the subsidiary face? Will the company's creditors view a finance facility as a desirable adjunct to the company's present business? Answers to these and other appropriate questions should enable management to complete its projections of expected results and reach a final decision on the advisability of entering the finance business.

As outlined above, we believe the decision to form a finance company subsidiary is both complex and important. A finance subsidiary's operation and its effect upon other endeavors are in many cases unique and therefore new to corporate management. Our Finance Group's experience is available to assist management as a consultant in reviewing the advantages and disadvantages of forming a finance subsidiary.

## OPERATING A FINANCE SUBSIDIARY

The company that decides, after thorough study, to form its own finance facility, faces many policy decisions in establishing and operating its new subsidiary. (A company which has an established finance subsidiary faces these same decisions as it constantly reviews its policies.) Management must determine how it will manage, operate, and control the finance company. The following paragraphs outline some of the matters requiring attention in three general areas:

- Organization and personnel
- Credit policies and customer handling
- Control reporting and auditing.

Management must develop an organization plan for its finance subsidiary which not only fits into the parent company structure, but which also anticipates the needs of the finance company as it grows larger. It is necessary to consider whether branch offices will be required and, if so, why, where, when and how they should be established. Management must determine the size staff that will be needed. Qualified personnel must be selected and acquired and training programs established. A salary administration program based on carefully drawn job descriptions must be designed. It should provide personnel with the necessary incentive to achieve the goals management has formulated for the finance operation. All of these people-related problems are highly significant, since a finance company's employees are really a more important asset than the money advanced to customers.

Policies must also be established to guide personnel in their lending activities. Financing plans for various types of lending must be formulated, along with appropriate rate schedules. Forms and sample documents must be designed and personnel instructed in their use. A procedural guide or operating manual must begin to take shape to provide direction to employees in granting credit and dealing with customers. Dealers must be solicited, sold on the finance company's programs and educated in the company's operating procedures. Dealer floor planning programs, if needed, must be developed and credit lines established which give recognition to each dealer's volume and financial condition. A routine must



be developed for reviewing retail contracts submitted by dealers so as to provide rapid and efficient service. Collection procedures must be outlined and arrangements made for handling delinquent accounts and repossessions. In short, management must review the complete pattern of business expected in its finance subsidiary and attempt to anticipate its needs and formulate appropriate policies and procedures.

To maintain control over the operation, management must develop an accounting system as well as a series of key reports to keep itself and operating personnel well informed. These key reports will include current data on financing volume, delinquency levels, rejection ratios, maturities, yields, etc., in order to recognize trends as they develop. Further controls, however, will be needed, such as physical inspections of dealer stocks to prevent "selling out of trust" and verification of retail receivables to prevent fraud, as well as internal and external audit programs to assure that established policies are being followed at all levels. Management must be aware of developments throughout the company to be in a position to provide direction and institute any necessary corrective action.

The preceding examples of policies to be set and procedures to be established for a new finance subsidiary do not constitute an exhaustive list. Budgeting, financial planning, and the actual financing of the subsidiary have not been mentioned. Nevertheless, from the variety and scope of these questions, we hope to underline our belief that management is confronted with a very difficult planning task before a finance subsidiary's doors open for business and during the early phases of its development.

Of course, it is possible to omit the planning phase and let policies develop from operating experience, but we think that a thorough pre-planning effort will produce better operating results. Through Finance Group personnel experienced in the formation and operation of finance subsidiaries, A. G. Becker & Co. Incorporated is prepared to provide consulting services designed to guide management in planning, establishing and operating a finance subsidiary.

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December, 1966