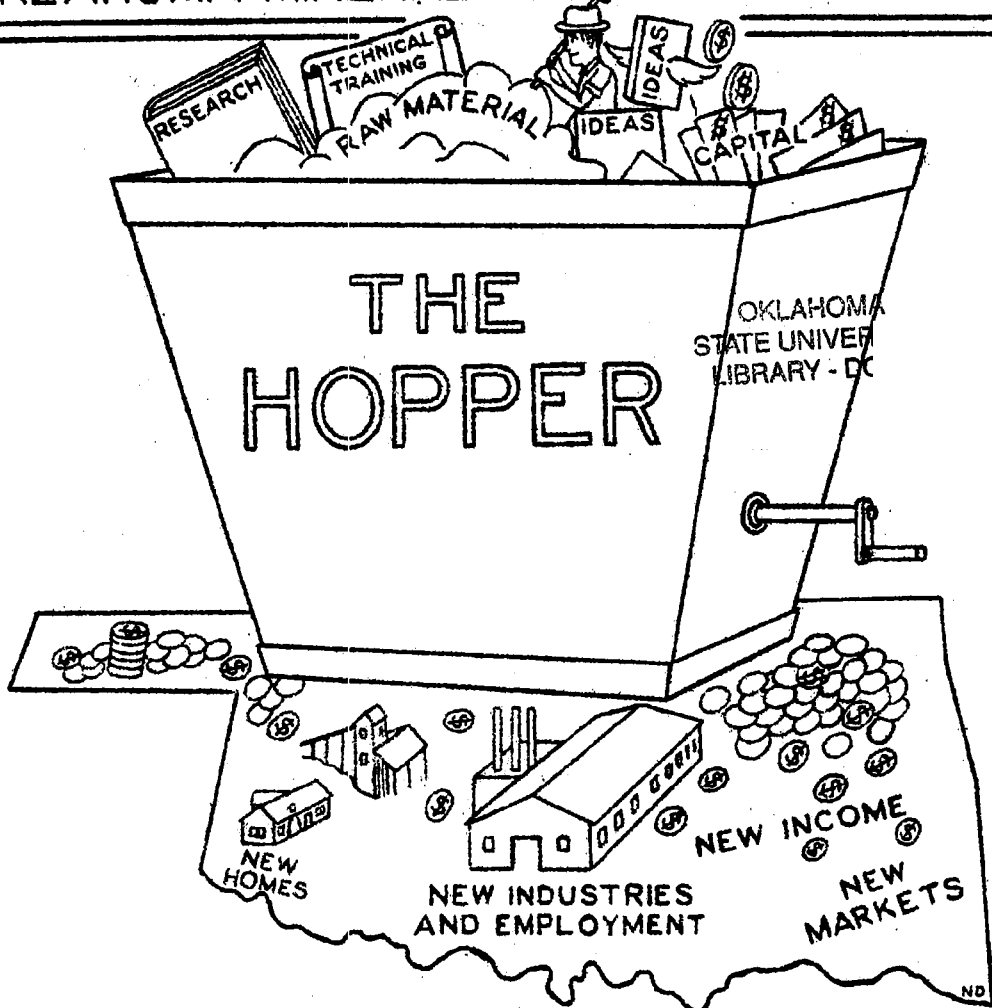


OKLAHOMA MINERAL INDUSTRIES CONFERENCE



PUBLISHED IN THE OFFICE OF THE
OKLAHOMA GEOLOGICAL SURVEY
NORMAN, OKLA.

HOPPERATOR'S PAGE

A nationally known columnist recently hailed the development of "...the kind of building material we have dreamed about..... It has the same insulation value as cork; it is soundproof; it is as easy to clean as the inside of a bath tub; it can be obtained in any color, and the colors, inside and outside the building, are as everlasting as the material itself.

"Houses built of it have been approved by the technical division of the national housing authority and the federal housing authority, and over 2,000 architects and engineers from all over the world have come to inspect them and marvel."

The product described by the columnist evidently is ready for the market. In view of the enthusiastic acceptance of the product described, there is obviously a very large potential market.

Again, attention is called to the fact that a new material made entirely from an abundant, low-cost Oklahoma mineral resource and capable of possessing all the qualities described above has been developed in the laboratories of the Oklahoma Geological Survey. (THE HOPPER, August, 1945, and May, 1946). This bit of Survey research seems to offer an exceptionally attractive idea for a new and potentially profitable industry, but our material still is in the stage developed in the laboratory. Why doesn't someone take the idea and go with it?

FINANCING INDUSTRIES IN THE SOUTHWEST

By

Eugene McElvaney, Vice President
First National Bank in Dallas

(Address before the Oklahoma Mineral Industries
Conference at Ada, Oklahoma, November 7, 1946.)

I am genuinely pleased over the opportunity of appearing before you to discuss some angles of a common interest in which you, the leaders of industry in this great State, and we as bankers have a great mutual stake. I salute you for looking ahead --for planning the future economy of your State, for getting ready now for the changes and developments which will inevitably take place in the future.

In this mundane world we're always having to deal with finance and monetary considerations of some kind. Every human enterprise, even charitable and religious undertakings, are dependent upon money or credit from some source. None has the remotest possibility of endurance or survival unless the source be adequate, constantly available, and correctly employed. It's well then that in any discussion of ways and means of promoting and developing new industries full consideration be given to these sources of money and credit, so essentially the life blood of any economic enterprise. Ideas are fertile in the brain of the inventor and the technician. Nature has endowed this region with vast natural resources which challenge the imagination and hold limitless possibilities for your future economy. Assuming the possibility of financial gain, men are willing to assume risks incident to business and to give of their time and talents and financial means, large or small. But to convert these resources into a successful combination for achieving the maximum benefits to the greatest number of people takes money or credit from some

source, regardless of the size of the enterprise. And let me say right here that United States Steel or Standard Oil Company of New Jersey were not born overnight. They stemmed from small and humble beginnings. They started because some guy had an idea and the courage to back it up; and also because he was able to convince some other guy that the idea was worth risking money. Strangely enough it so frequently happens that the guy with the idea has no money--certainly not enough, and that's the \$64 question: how to get the guys with the ideas to tap the guys with the money? That's financing, and that's what you wanted me to talk about--"Financing New Industries in the Southwest."

Perhaps any discussion of this subject should be approached with at least two observations with respect to the economic environment in which many new industries in these latter years have been born. Be it remembered that many new business enterprises were conceived as necessitous adjuncts to the war effort. They were born in an atmosphere totally different from that which had heretofore nurtured the birth and normal development of new business undertakings under what we have come to term our system of free enterprise. Particularly in the manufacturing and contracting fields, any man or group of men with any semblance of mechanical talent or experience in the machine world, with or without any concept of financial management, suddenly found themselves as thriving entrepreneurs doing an enormous volume of business they did not have to solicit, from a single customer whose unlimited credit they didn't have to question, and on a basis of profit that was almost non-competitive. The customer, in this case Uncle Sam, even furnished the machines and in many instances the plant facilities, to say nothing of the sources of the raw materials. He even furnished the credit to conduct the business and in amounts out of all proportion to the capital contribution of the owners. No need for a credit department; no need for a sales force;

no need for a marketing division; no necessity for the ordinary minimum standards of fixed and working capital; just speed, volume, delivery! Everything sacred to the creed of good and efficient and comprehensive business management was sacrificed on the altar of speed, volume, and delivery.

Considering a background so favorable to quick profits against an enormous leverage of small restricted capital, and considering too the almost complete removal of all the disciplinary and challenging factors operative in any normal competitive market, one might feel that such conditions would constitute an ideal environment for the beginning of any business. But I submit to you that no business could come into being under more adverse circumstances. Business talent and ability, like character, are challenged, developed and strengthened by adversity and tough going--by competition. We may enjoy money prosperity when things are handed out on a silver platter by government edict but business doesn't develop capacity or gain moral or economic stature. The high standards of American business and industrial life were developed by competition, and the removal of competition invariably lowers both business and living standards. The conditions I have described have not altogether changed. The unprecedented demand for both durable and consumer goods, growing out of four years cessation of civilian production, created a sellers' market which only today, and only in a few lines, shows some little signs of a more reserved and discriminating buying public.

The other observation I want to make with respect to the general economic background into which new industries have come into being in recent years and against which all future business undertakings must be launched, has to do with the operation of government, which you know and I know has reached so deeply and so treacherously into American economic and social life as to involve the future

well-being and security of every American citizen. This tentacle-like grip of government Bureaucracy has extended into and hampered and hamstrung practically every field of human endeavor. It has involved a fiscal policy so reckless and extravagant in its operation as to insult the sober judgment of any ordinary intelligent citizen. It has engendered a political philosophy so vicious in its implications as to threaten, if indeed it has not already badly damaged, the very foundations of American Democracy.

Perhaps you think these facts are unrelated to your business or to the business you're talking about at this conference; perhaps I'm out of order in referring to them, but I don't think so; and I want to say here and now that unless we, as free-born citizens, unite our thinking and our public action in the direction of restoring government to the Congress of the United States; unless we recommit ourselves and our entire citizenry to the humble, honest virtues of thrift and hard work and individual initiative; unless we reverse this policy of profligate waste of public money; unless we abandon this fallacy that the government owes its citizens a living and controls their destiny from the cradle to the grave--then I submit that conferences such as this are useless and what I or anybody else might have to say on the subject of financing industry will be largely academic.

I make the foregoing observations because they are things we ought to be thinking about and they are things that will even now or later probably have a definite bearing on money matters generally and on financing of industry in particular.

Even under the conditions I have described; even knowing how far we have come along the bewitching and dangerous path of National Socialism; even in the face of a public debt of 250 billion dollars, and no one knows yet how much money that is, I

still have an abiding faith in both the virility and common sense of the American people and in the ultimate survival of our system of government. My discussion will continue on the premise that our former system of free enterprise will be restored and preserved.

When we talk about financing industry our consideration should begin, of course, with the initial outlay of private capital. That's a fundamental consideration. There is no substitute for some reasonable proportion of the capital requirements of any business being contributed by the owners. While there are many acceptable variations of the proportion, as I will later discuss, no reliable source either of fixed or working capital is open to any business enterprise which is not fortified to some extent by an outlay of cash or tangible and marketable assets contributed by the owners commensurate with the volume and risk of the business. Such minimum requirements are not for the sole protection of the creditors, but should provide a safeguard for the stability of the business itself against inevitable contingencies. Moreover it constitutes, psychologically at least, some evidences of the owner's confidence in his own enterprise. Many a business undertaking, well conceived in principle and founded on perfectly logical profit possibilities, has succumbed for want of adequate private initial capital. Most new businesses are apt to suffer a period of loss before they can become established and volume stepped up to minimum profit requirements. Research and sales promotion are intangible burdens resting particularly heavy on new business undertakings and are essentially a call on the owner's capital. No measure of favorable prospects; no intangible value attaching to untried or unproven patents, regardless of how attractive they may seem; no appreciation of assets above their intrinsic or readily salable value--none of these or similar intangibles offer any substitute for owner's capital to cover owner's risks.

There are, of course, many ways in which private capital can be raised, ranging all the way from underwriting investment houses, where the size and scope of the business would justify a wide distribution of stock requiring S.E.C. clearance, to private negotiations where the sale of stock would be in limited amounts and subject only to the laws of the State in which the stock originated. These avenues of course are fairly well known and need no comment. It is probably in the field of commercial banking that lie the greatest possibilities for financing new industries, if we can assume, as mentioned above, that a sufficient initial capital outlay has been provided by the owners or stockholders to afford some reasonable background of protection against inherent risks in any business.

In the field of Commercial Banking the alert, progressive and forward looking banker has not sacrificed sound banking principles in constantly adjusting accepted credit practices to meet changing conditions and the requirements of newly developed industries. Many illustrations could be offered in testimony. Possibly the outstanding example is the attitude of bankers today toward the oil and gas industry. Once regarded as a purely speculative and hazardous business, the oil man formerly had in his producing leases little or no basis for credit. With the advent of the East Texas Oil Field there was thrown on our doorstep in Dallas the greatest single potential asset we had ever encountered in the State of Texas. To ignore it was manifest folly. To risk lending our money for its development was contrary to all precedent in banking circles. We chose to study it and analyze its possibilities in terms both of the economic development of our State and the potential profit to our own institution. We employed competent engineering talent and followed their advice. We loaned moderately at first, feeling our way but confident we were right. We felt that we made a signal contribution to this great industry and

helped enable it in turn to spread immeasurable prosperity throughout the entire Southwest. Today our total loans to the oil industry are approaching the billion dollar mark and we have no safer or more profitable business on our books. What happened in our own institution has happened in countless others. What happened in the case of oil has happened in numerous other industries and it can and will happen in still other industries which may now be in their infancy. The commercial bank today, regardless of some representations to the contrary, stands in peace as in war the first and most satisfactory available source of credit for financing both established and new industries in the constant development of a greater economy in the Southwest.

I think the attitude of our own bank is fairly representative of the constant desire of bankers everywhere to be alert to the needs of industry, to be constructive in their approach to any loan requirement, and to do everything in reason to meet it rather than decline it.

Many avenues are open to us in meeting the requirements of industry in cases where proportion of capital to contemplated volume is somewhat less than would ordinarily be desired, but where the management factor commands confidence and the possibility of future successful operation is fairly well assured. What are some of these avenues?

Millions of dollars to commercial bank credit is extended on pledged accounts receivable, and that method of financing has enabled many a sub-normal business to carry on until its profits improved working capital and enabled it to command normal open credit. To drilling contractors we extend a regularly accepted credit against completed drilling contracts, which enables the driller to receive payment in cash on the completion of the well and to take all of his discounts.

Field warehousing in recent years has opened up unlimited possibilities for extending credit on inventories that can be segregated and placed under custody of independent field warehousing concerns who lease the borrowers own premises for storage. This permits a convenient flexible arrangement for temporary realization of cash on inventory.

Frequently we have been able to use bonafide orders as an acceptable basis of credit, where we can determine costs, availability of raw materials and the proven ability and capacity of the borrower to produce and deliver the merchandise.

Many industries by virtue of the nature of their operations are able to repay loans only out of earnings from a refinancing or processing operation or from gradual production over extended periods. In those instances where known sources of raw material are owned or are available at fixed prices and the outlet is reasonably assured at a fairly well determined margin of profit, credit is readily available at commercial banks over extended periods. I refer to such operations as gravel production, rock quarries, or standing timber, and the oil and gas business as previously mentioned. It could well extend to numerous mineral and mining operations and similar fields of endeavor.

In many instances where a business has assets of questionable value marketwise we have been able to find a potential market and thus create a bankable asset by securing a responsible commitment of purchase at a given figure and within a given time.

Many businesses have available cash value of life insurance carried on the lives of the principals or partners which constitute a perfectly bankable asset. The volume of this type of credit has grown tremendously in commercial banks in recent years and has released millions of dollars of useful and needed credit to commercial channels.

In the real estate field commercial banks have financed millions of dollars of plant facilities when properly amortized and frequently real estate holdings required in a business constitute a perfectly sound basis of credit.

The added weight of personal endorsement and guaranties of the principal owners of a business is frequently used as a source of needed financing where a corporation is short of adequate fixed or working capital.

While machinery and equipment and tools in trade are the least desirable basis of credit, nevertheless the old instrumentality of the chattel mortgage has started many a business going and pulled many a one over the hump. We use it every day in our business where other elements of the risk are sound and reassuring.

Substantial outside facilities are at our command in those cases where we don't feel like assuming the full risk. R.F.C. permits commercial banks to make secured loans which with a few exceptions by simple notification are automatically guaranteed by the R.F.C. up to 75 percent. In other instances R.F.C. will entertain secured loans on the basis of commercial bank participation as low as 10 percent. Where commercial bank credit is completely denied, R.F.C. frequently handles loans of a secured but non-liquid character.

Even if the loan requirements of a given business or industry cannot be met at the outset the commercial banker is in position to discuss ways and means by which the requirements can be met. He can frequently give sound advice that will be helpful in so shaping the affairs of a business as to enable it to qualify for needed credit. He can point out sources of additional fixed capital; he can help find interested markets; he can recommend available talent; he can help find sources of raw

materials. A banker is somewhat of a Jack-of-all-trades. He has many contacts in many directions--he should have more than financial resources to be placed at the disposal of his customers. Anybody can lend money on government bonds. The essence of the banking business is discernment--it's imagination--it's courage--it's resourcefulness. The best business we have on our books today is not necessarily the business which has come to us ready made from prosperous concerns; it's the business which we have carefully nourished from humble beginnings--it's the business we have ourselves helped build by a little vision, a little confidence in the human equation, and a willingness to take some reasonable risk in developing a man's business talent. That's banking in its finest form, and the kind of bank which caters to that kind of business--and I tell you it's right across the street from you in your own town or your neighboring city--is an asset to the community and to the economy of the entire region it serves.

I frequently think of the so-called "New Business" departments featured and emphasized by so many city banks. They really are not "New Business" departments at all--they merely attempt to transfer already established business from one institution to another. "New Business" as I see it is created in the financing of new and growing enterprises. That business is new business because we helped bring it into being. It exists through the mutual efforts of ourselves and the borrower where it didn't exist before, and whenever we in the banking business by the extension of credit can help create profits and prosperity for our customers--we create profits and prosperity for ourselves. That's constructive, creative banking, and I believe for the asking that it's available to every honest, ambitious, capable hardworking American citizen who has confidence in himself and in his chosen task. America, thank God, still has that kind of people--and, believe it or not, that kind of banks.