Home and Auto Boom Spurs Bank Lending

Customers of banks are borrowing more money this spring than they usually do during the first part of the year. Since the business revival began last fall, demand for bank credit has apparently been greater in the Sixth District than in the nation. District member banks increased their loan portfolios in the first four months of 1955 by 103 million dollars, in contrast to only a 14 million-dollar rise in the same period last year. Although local conditions played some part in the higher demand for loans, in general the rise in loan portfolios at District banks reflected the same forces as those responsible for the national economic recovery that began last fall.

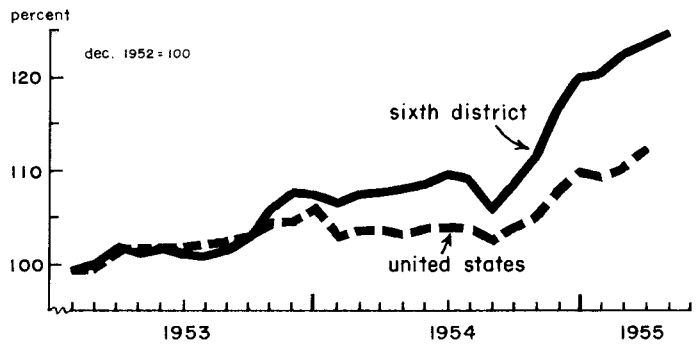
During the first half of 1954 while loans at all banks in the nation remained relatively stable, total loans at District banks expanded, with most of the rise occurring at banks outside of the major cities. Accordingly, the seasonal pick-up in loan demand in the fall, coinciding as it did with a general revival in business activity, came on top of a moderate, steady expansion in bank credit in the smaller towns of the District. From June 1954 through the first quarter of 1955, District member bank loans rose by nearly 13 percent, in contrast to an 8-percent rise for all member banks. In April, 288 of the 374 District member banks had higher loan portfolios than a year ago.

In general, the types of loans most in demand at Sixth District banks are those most in demand throughout the nation. Particularly significant has been the expansion in real-estate loans and loans to individuals for the purchase of consumer durables. Loans to business firms accounted for almost half of the District increase over a year ago, but many of these loans reflected increased credit needs of builders and building supply companies, as well as greater credit requirements of trade firms.

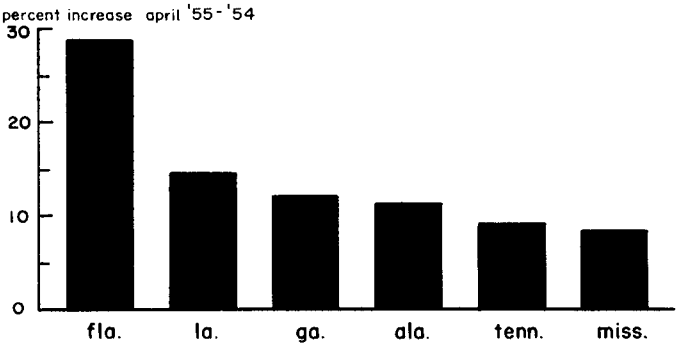
About one-fourth of the rise in total bank loans since last fall and nearly half of the rise since December have occurred in instalment and single payment loans to individuals, mostly for the purchase of durable goods. Rising automobile sales appear to be prominent in accounting for the growing volume of direct consumer loans by banks. Perhaps of equal or even greater importance has been the indirect financing of consumer purchases of durables through bank loans to sales finance companies and to retailers, enabling them to extend credit to their customers. Some of the loan expansion has been necessary to finance higher inventories required by larger sales volumes.

Over one-third of the loan increase at District banks

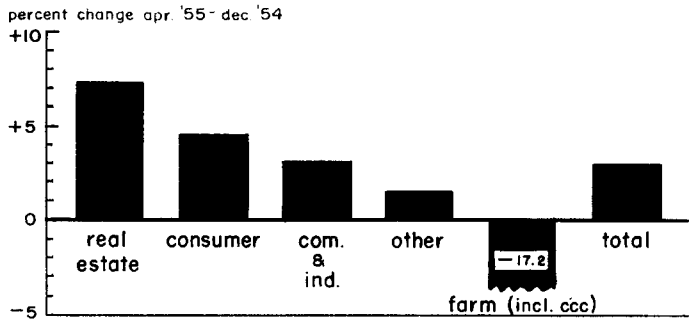
Loan expansion at District member banks has exceeded that at member banks in the nation in recent months.



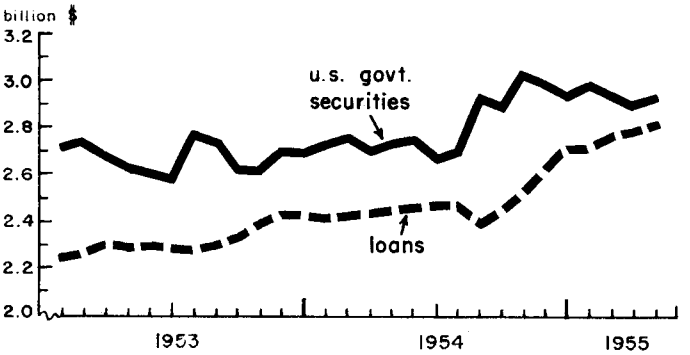
Florida led the other District states in the member bank loan advance over a year ago.



Real estate and consumer loans at District member banks have increased more this spring than other types of loans.



To make the loan expansion possible, banks reduced their holdings of Government securities.



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this spring is accounted for by real-estate loans, and half of the dollar volume of these loans is on residential property. The extent of recent bank loan demand arising from the housing boom, however, is not accurately measured by loans secured by owned mortgages. Not included in the 414 million dollars of real-estate loans held in mid-April by District member banks was a sizable volume of temporary loans to construction and real-estate firms and of business loans to building material firms and suppliers, all of which also represented uses of bank financing associated with the current building boom.

The rising demand for bank loans, of course, has created some problems at District banks. In some months since the first of the year deposits have risen less than loans. Furthermore, at 19 percent of the District member banks, deposits for the first four months of 1955 were actually below a year ago. Only a few banks have been able to meet the expanding loan demand out of an increase in deposits; most District banks have been forced to make other provisions for funds.

Many banks, of course, were able to handle the increased loan demand by drawing on idle reserves, correspondent balances, or other cash assets. A number of banks, however, sold Government securities or did not replace those that matured, thus freeing funds with which to meet loan demands. In general, it was banks in the larger District cities that sold Government securities, whereas banks in medium-size and small cities increased their holdings of securities.

In addition to providing funds for loan expansion by shifting cash assets or by selling securities, some District banks chose to increase their borrowings, either from other commercial banks or from the Federal Reserve Bank of Atlanta. On May 18, for example, District banks in major cities were borrowing twice as much from other banks as they were a year earlier, and their borrowings from the Federal Reserve Bank were also double last year's figure.

Prospects for continued loan expansion during the remainder of 1955 are good if the current business revival continues. Normally an expansion of business credit needs starts around mid-year and if these seasonal requirements are added to the already heavy demands for credit, banks should experience a growing volume of lending in the remainder of the year. There is the possibility, of course, that some of the normal summer and fall rise in demand for credit came earlier than usual this year. Nevertheless, the high volumes of durable sales and building construction have shown little slackening and should be the basis for strong credit demands in the immediate future.

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Farmers' Financial Liquidity Weakens

For some people in the Sixth District the 1954 economic recession was a mild one; for some there simply was no recession; but for many farmers the recession had a bite to it. Farm cash receipts and net income in parts of the District declined significantly from 1953 levels because of reduced acreages of cotton, lower prices for some products, and drought damage to the important peanut, corn, and tobacco crops. Adverse farm income developments were accompanied by a weakening in farmers' financial liquidity: their holdings of bank deposits dwindled and their debts mounted.

Farmers' holdings of demand deposits at all commercial banks in the District were 14 percent lower at the end of January 1955 than a year earlier, according to a demand deposit ownership survey made by the Federal Reserve Bank of Atlanta. Farmers in Alabama and the District portion of Mississippi suffered the greatest loss of demand deposits in the District. The reductions were modest for the state of Georgia and the District portion of Louisiana. In Florida, however, a 25-percent gain occurred.

Time deposits in rural areas increased further in 1954, but in some trade areas strongly influenced by agricultural income, deposit growth was apparently dampened by reductions in farmers' savings. Although time deposits at all District country banks increased about 18 percent between December 1953 and December 1954, such deposits at country banks in the Dothan, Alabama, trade area, where income from hogs, cotton, and peanuts is important, rose only 8 percent. In the Hattiesburg-Meridian-Laurel trade area of Mississippi, heavily dependent on cotton for its income, time deposits rose only 7 percent in 1954. The same percentage gain occurred in the Lafayette-Iberia-Houma trade area of Louisiana, where rice and sugar cane are important. On the other hand, in the Orlando trade area of Florida, where citrus production is important, a 21-percent gain was registered in 1954, compared with a rise of 15 percent in 1953.

The general decline in farmers' income and deposits was accompanied by a sizable expansion in their debt to production credit associations, commercial banks, and Federal Land Banks. At production credit associations, which carry about 22 percent of the region's short-term farm debt, outstanding loans to farmers increased about 9 percent, with gains showing up in all states. There was also some growth in farmers' debt to all commercial banks in the region, judging from the slight increase in total farm loans outstanding (excluding loans guaranteed by CCC) at District member banks between December 1953 and December 1954.

Most of the growth in total loans at banks was associated with a marked shift from non-real-estate to real-estate loans outstanding—a shift apparently brought about by the tendency for bankers to seek farm real-estate mortgages to secure farm loans made for operating purposes

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