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Monthly Review

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Southern Banking Adapts to Changes in Population and Income

In District states, a new bank or branch was formed on the average of once a week during the decade of the Fifties. During this same period, total bank deposits in the District increased about $1,675,000 a day. Viewed from day to day, these changes probably did not appear spectacular. The cumulative process of change, however, has produced a banking structure very different from that of ten years ago.

Today, there are many more bank offices than there were in 1950. Banks are also of larger deposit size. Bank offices and resources are now distributed differently among areas within District states. Finally, the composition of bank assets and liabilities is dramatically changed.

The modifications in the structure of banking that have taken place in this part of the South since 1950 have resulted basically from the banking system's adaptation to a changing environment. In this article, therefore, we shall review the degree to which banks in various areas within our region have responded to population, income, and other economic changes. We shall then focus on some of the main adjustments in our banking structure that have evolved as a result of the adaptation process and attempt to assess their significance for banking.

Population Change: The Key to Bank Office Growth

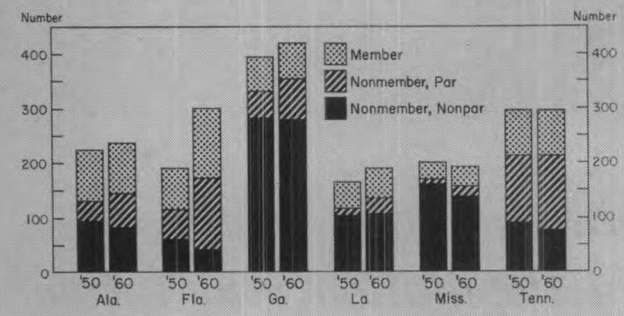
During the Fifties, the number of bank offices—banks and branches—rose 33 percent in Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee, states lying wholly or partly in the District. This increase was influenced by income and population, which expanded 95 percent and 21 percent, respectively, between 1950 and 1960. Bank office growth, however, appears to be more closely related to population than to income.

Increases in the number of bank offices were greatest in Florida and Louisiana, states that experienced the highest rates of expansion in population. In these states, the number of bank offices increased in excess of 50 percent, compared with increases of between 20 and 31 percent in Alabama, Tennessee, Georgia, and Mississippi, where population growth was less rapid. In this latter state, the number of offices expanded, despite a slight decline in population.

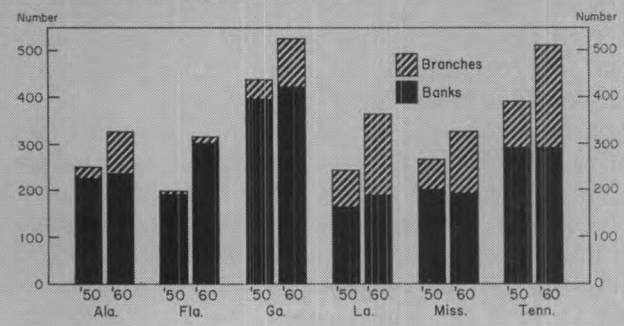
In each District state there were some counties in which the number of bank offices increased, despite population declines. During the Fifties, about 68 banks and branches were formed in such counties, and only 15 banks were liquidated. Why, you might ask, did the number of bank offices increase slightly or remain unchanged in some counties that lost population? The answer is that income and the location of bank offices relative to population are also determinants of office growth in a county. In some instances, moreover, they may exert more influence on the rate and direction of change in bank offices than population.

Counties that gained population, however, still accounted for most

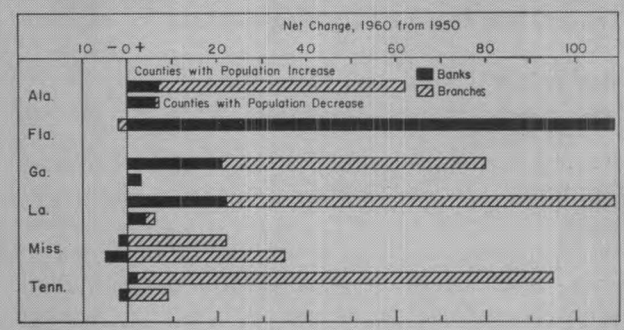
The total number of insured commercial banks rose in all District states except Mississippi and Tennessee. Nonmember banks throughout District states increased at a less rapid rate than member banks, and the number of nonpar banks declined.



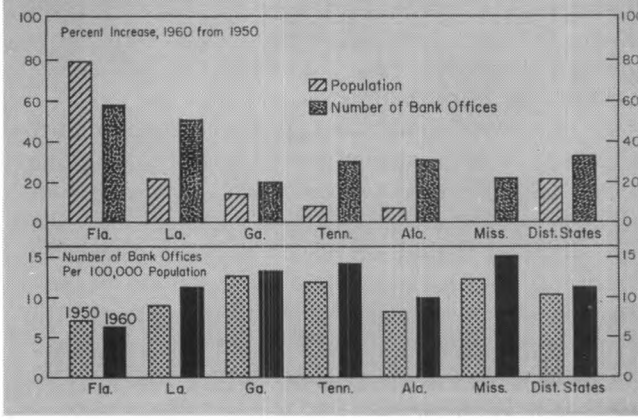
The number of offices (banks and branches) rose in each District state. Except in Florida, branches accounted for most of the increase in bank facilities.



Most of the increase in the number of bank offices occurred in counties in which population increased. Only in Mississippi did the number of bank offices rise substantially in counties where population declined.



In all District states except Florida, the number of bank offices increased more rapidly than population. As a result, the number of new offices serving every 100,000 people rose in those states.



of the increase in the number of bank offices formed between 1950 and 1960. During this period, the establishment of bank offices was concentrated in about half of the District counties where population increased. Such counties, for example, accounted for 187 of the 216 new banks established. Similarly, 309 of the 348 newly established branches, exclusive of offices at military bases, were in counties experiencing population increases. About 9 percent of all new branches represented unit banks that were absorbed by another existing bank and converted into a branch office. Most of these "converted" branches were also located in counties that gained population. In such counties, the liquidation of banks and the discontinuance of branches only slightly offset the formation of new offices.

Bank offices were opened in areas of population growth because bankers recognized that if they were to serve effectively as recipients and sources of funds they must have offices in reasonably close proximity to their customers. During the Fifties, new concentrations of consumers and businesses developed in suburban areas outside metropolitan centers. Some of the banking services required by suburban customers were provided by downtown banks, whose financial capacity increased markedly during the decade. Frequently, however, bank offices were erected in the suburbs. Some of these offices are mainly depositories established by existing downtown banks. Others provide a wide range of banking services. Suburban offices, moreover, frequently have parking facilities and drive-in windows, conveniences that attract customers and are not generally available at city banks.

Because the number of bank offices grew slightly in some areas of population decline and expanded rapidly in places of population increase, bank facilities grew faster than population in all states except Florida. As a result, the average number of bank offices serving every 100,000 people in District states rose from 10.3 to 11.3 between 1950 and 1960.

In 1960, the number of bank offices per 100,000 people ranged from 15.1 in Mississippi to 6.5 in Florida. Variations are due largely to differences in the way population is distributed among District states. Thus, with population more dispersed in Mississippi than in Florida, bank customers in the former state require more bank offices of smaller size.

While growth in the number of bank offices is generally a response to economic and demographic changes, the form additional offices take within a state is largely a reflection of state banking laws. In Florida, where branch banking is prohibited, practically all the offices established during the Fifties were new banks, as shown in the accompanying chart. In the other five District states, where limited area branch banking is permitted—largely within county limits—the increase in demand for banking facilities was met primarily through the establishment of branches.

The more rapid growth in the number of offices relative to population in states permitting some degree of branching is probably the result of economic and competitive factors. It is usually easier and often more profitable for an existing bank to expand its facilities than for a new bank to raise the necessary capital and enter

the field. Existing banks, moreover, may in some instances open a branch in anticipation of a profitable operation at some future date, when population and financial activity expand further. This latter situation is probably most prevalent in areas where several large branch banking systems are competing for branch locations.

During the Fifties, the number of branches in all District states rose 133 percent, whereas the number of banks increased only 11 percent. There was also a sharp rise in the number of banks operating one or more branches. As a result, unit banks accounted for 58 percent of all bank offices at the end of 1960, compared with 75 percent ten years earlier.

Unraveling the Puzzle

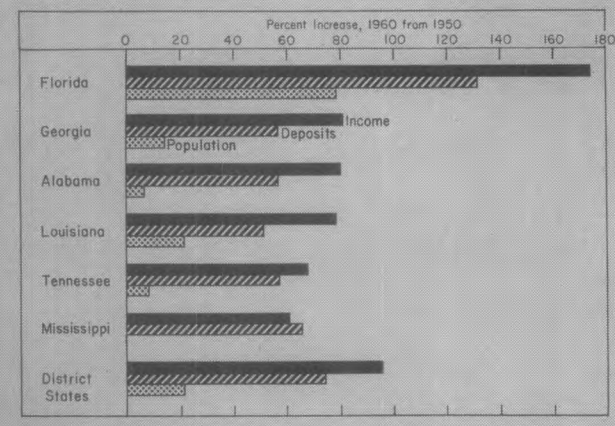
Although population changes have a decided impact on the formation of bank offices, they appear to offer a less satisfactory explanation of growth in total bank deposits than do changes in income. Frequently, of course, population and income in an area move in approximately the same way. At the state level, growth in total deposits at banks was highly correlated with expansion in income and generally associated with population change, as may be seen in the accompanying chart. At the county level, however, population and total deposits frequently moved in opposite directions.

In counties throughout the District where population declined during the Fifties, total deposits rose 62 percent. This change was only moderately lower than the 76-percent increase in deposits at banks in counties where population increased. In Alabama, Louisiana, Mississippi, and Tennessee, total deposits at banks in counties that lost population rose *more* than those at banks in counties where population increased. Although the deposits at banks in areas of population decline rose rather sharply, they still accounted for only about 12 percent of total deposits at all insured banks in 1960.

The puzzle of why growth in total deposits at banks in areas of population decline exceeded expansion in deposits in many areas of population gain is somewhat easier to solve if deposits are broken down by type. When this is done, we find that demand and time deposits have expanded at remarkably different rates. Throughout the District, demand deposits increased 64 percent in counties that gained people, compared with a 25-percent rise in counties that lost population. Time deposits, however, rose 171 percent at banks in the latter category, whereas at banks in the former group they rose 143 percent.

Demand Deposits Demand deposits generally followed population movements. Not only did they grow more rapidly in areas of population growth than in areas of population decline, but they grew fastest in counties having very high rates of population increase. Between 1950 and 1960, for example, demand deposits rose 114 percent in counties where population expanded 50 percent or more. Although the rate of growth in demand deposits declined progressively in counties with lower rates of population increase, deposits rose 25 percent in counties that lost population.

In the District, expansion in total deposits of all insured commercial banks corresponded closely with growth in personal income and was generally associated with population change.



During the Fifties, total deposits rose more in areas of population growth than in areas of decline. Deposits rose sharply in many areas losing population, however, mainly because of a marked growth in time deposits.

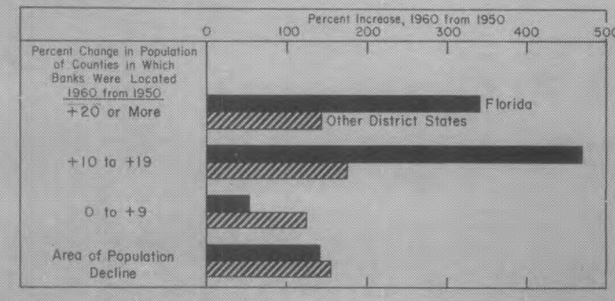
	Percent Increase in Deposits at Banks in Counties that Gained Population			*Percent Increase in Deposits at Banks in Counties that Lost Population*		
	Demand	*Time*	*Total*	*Demand*	*Time*	*Total*
Alabama	43	111	56	16	219	60
Florida	114	235	132	38	141	73
Georgia	45	107	57	10	209	52
Louisiana	45	125	51	19	152	57
Mississippi	43	178	66	49	124	68
Tennessee	38	105	55	26	160	68
District	64	143	76	25	171	62

The rise in demand and time deposits in counties where population declined was partly due to expansion in income.

	Percent Change, 1960 from 1950			*Percent Increase 1958 from 1950**
	Demand Deposits	*Time Deposits*	*Population*	*Income*
Alabama				
Walker	+ 18	+ 152	—15	+ 42
Covington	+ 26	+ 285	—12	+ 32
Georgia				
Coffee	+ 9	+ 225	— 8	+ 43
Laurens	+ 16	+ 207	— 2	+ 62
Tennessee				
Campbell	+ 27	+ 89	—19	+ 13
Putnam	+ 50	+ 251	— 2	+ 44

* Except in Georgia, where change was 1956 from 1947.

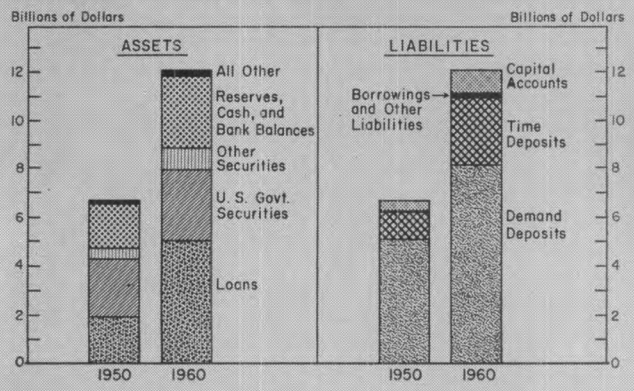
Growth in total loans at all member banks in the District generally was most rapid in counties where population increased.



During the Fifties, expansion in the number and resources of District banks was accompanied by a decline in the number of small banks, those with total deposits of $2 million or less.

Deposit Size ($ Mil.)	1950 Member	1950 Nonmember	1950 Total	1960 Member	1960 Nonmember	1960 Total
Less than 1	19	268	287	7	122	129
1 - 2	56	225	281	24	207	231
2 - 5	110	180	290	99	339	438
5 - 10	69	43	112	102	137	239
10 - 25	52	22	74	103	67	170
25 - 50	16	1	17	33	13	46
50 - 100	14	0	14	19	2	21
100 - 250	12	0	12	18	0	18
250 or more	3	0	3	6	0	6
TOTAL	351	739	1090	411	887	1298

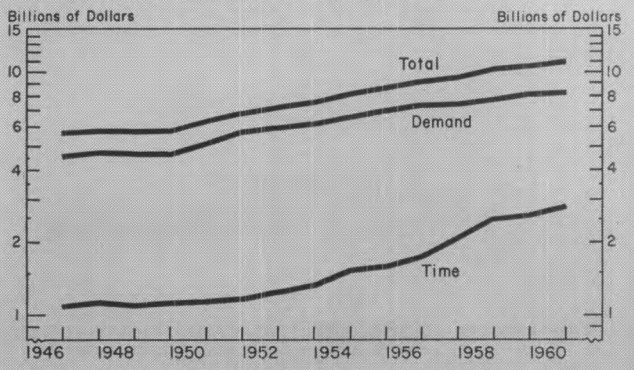
Marked shifts occurred in the assets and liabilities of District member banks. There was a sharp rise in the proportion of total assets accounted for by loans. Time deposits also accounted for a larger proportion of total liabilities.



Total loans and time deposits of member banks accounted for larger proportions of total deposits in 1960 than they did in 1950 in each District state.

	Total Loans as a Percent of Total Deposits 1950	Total Loans as a Percent of Total Deposits 1960	Time Deposits as a Percent of Total Deposits 1950	Time Deposits as a Percent of Total Deposits 1960
Alabama	34	48	20	28
Florida	24	41	16	26
Georgia	43	55	15	21
Louisiana	28	43	16	23
Mississippi	28	47	20	22
Tennessee	36	48	25	31
District	32	46	18	26

District member banks, particularly those in growth areas with "high" loan-deposit ratios, require a steady inflow of deposits to finance economic expansion.



This figure was almost equal to the deposit gain in counties that experienced population increases of 10 percent or less.

Expansion in income apparently explains the increase in demand deposits at banks in many counties that lost population. In Putnam County, Tennessee, for example, income rose 44 percent between 1950 and 1958, while population declined 2 percent during the Fifties. Growth in income in this county, as in others that lost population, stemmed from changes in industry, commerce, and agriculture that resulted in higher per capita output. Thus, even though population declined, income growth generated a 50-percent rise in demand deposits. Generally, however, income expanded less rapidly in areas of population decline than in areas where the number of people increased.

Time Deposits Income changes and to some extent population movements seem to explain changes in demand deposits. This combination of elements, however, does not satisfactorily answer the question of why time deposits expanded at faster rates in most areas of population gain than in those of decline. We have indicated that income during the Fifties rose less in counties that lost population. If this is so, you might wonder what accounted for the rapid growth in time deposits of banks in counties where population declined. Could it be that people in areas of population decline save a larger share of their incomes and have a decided preference for keeping their funds in banks rather than other financial institutions? Or is it because the number of savings and loan associations and credit unions is small relative to banks in these areas?

Counties that lost population during the Fifties are generally synonymous with rural counties. In such counties, credit unions and savings and loan associations are less prevalent than in urban areas of rapid population growth. Since the main business of savings and loan associations is mortgage lending on residential properties, they have tended to locate in areas where population growth and household formations stimulate housing demand. Thus, nonbank financial institutions in these areas have apparently attracted a larger share of the total flow of savings than they have in areas of population decline.

Loans Like total deposits, total loans at District member banks rose in counties that lost population, but at a slower rate than at banks in counties with population gains. Loans at banks in the former category, for example, rose 155 percent between 1950 and 1960, while those at banks in the latter group increased 193 percent. In counties where population rose 50 percent or more, loans expanded 325 percent. In areas where economic growth proceeds at a rapid pace, loanable funds may also flow in from outside the county and thus foster income and deposit expansion.

Some Results of a Decade of Change

In the process of adapting to economic and population change during the past decade, total bank deposits increased much more rapidly than the number of banks. Thus, in 1960 the average deposit size of insured com-

mercial banks in the District was $8.7 million, compared with $5.5 million in 1950. This increase in average size was accompanied by a decline in the number of small banks. Only 28 percent of the total number of banks in District states had deposits of less than $2 million in 1960, compared with 52 percent ten years earlier.

Most of these small banks were located in counties that lost population during the Fifties. Since these were also the counties where economic expansion and income proceeded at a rather slow pace, it is not surprising that the proportion of loans to assets at these small banks changed little over the period. The increase in the proportion of loans to assets at District member banks rose progressively with deposit size, however, and at banks with deposits of more than $10 million, increased from about one-fourth in 1950 to more than two-fifths in 1960. The rise in the proportion of loans to assets at larger banks primarily reflects their location in urban areas of rapid economic and population growth.

Since these larger banks account for a major share of total lending, loans at all banks increased as a percent of assets, while investments declined. In 1950, total investments of all District member banks accounted for 57 percent of earning assets—loans and investments—compared with 42 percent in 1960. Even though the proportion of investments to assets declined from 1950 to 1960, the share of total earnings accounted for by investments rose from 27.9 percent to 28.6 percent because of the sharp rise in interest rates, particularly on U.S. Government securities. Over this same period, income from loans as a percent of total earnings and total earnings as a percent of total assets also increased.

During the Fifties, the liabilities of small banks changed in a different way from those of larger banks. At small banks, for example, time deposits as a percent of total deposits increased from about 20 percent to 32 percent between 1950 and 1960. The ratio of time to total deposits increased more slowly at larger banks, and at those with deposits of $50 million or more the ratio increased from 19 percent to 24 percent. The more rapid rate of time deposit growth at small banks than at large ones is, as we indicated earlier, probably due mainly to differences in the degree of competition for savings.

Time deposits at all District member banks accounted for 26 percent of total deposits in 1960, compared with 18 percent in 1950. Most of the difference between total deposits and total liabilities of banks consists of their capital accounts, since banks have relatively small amounts of borrowings or other liabilities. For all member banks, the ratio of total capital accounts to total assets rose from 7.3 percent to 8.4 percent.

When we compare the financial statements of banks in 1950 and 1960, then, the two most significant structural changes on the asset and liability sides of the ledger are the rise in the proportion of total loans to total assets and the increase in the proportion of time to total deposits. These changes have, moreover, occurred at banks in all District states, as may be seen in the accompanying table. At this point, many bankers may be wondering how the composition of their assets and liabilities will adjust to the economic environment of the Sixties.

Changes in the Sixties

If expectations concerning Southern economic growth during the Sixties are realized, the framework within which banking must function will be characterized by expanding output, employment, and income. This suggests that banking's main response must be to provide the credit required by a growing economy. Further shifts, therefore, may be forthcoming in the asset and liability structure of Southern banks.

The loan-deposit ratio of District member banks in December 1960 was 46 percent, higher than at any time in recent decades. Since this ratio is about six percentage points lower than that of the nation's banks, it may be reasonable to expect some further rise in the years ahead. This may occur if the South's economy continues to advance rapidly and the economic structure of this region comes to approach more nearly that of the nation. Even if loan-deposit ratios rise further, however, it is likely that loan expansion in the Sixties will be more closely related to deposit growth than during the Fifties.

How may District banks attract the deposits needed to help finance economic growth? They might compete more effectively for deposits but, for the most part, deposit expansion results from conditions outside the sphere of direct influence of commercial banks. Only indirectly can banks affect the rate of economic growth. Yet, if the South's economy moves forward more rapidly than the nation's in the Sixties, deposits will be attracted here from other parts of the country. This occurred between 1950 and 1960, when District member banks' share of total member bank deposits in the nation rose from 4.7 percent to 5.7 percent.

The policy actions of the Federal Reserve in the years ahead will, of course, be an important determinant of the growth in deposits of commercial banks. What actions may be required in the Sixties will, of course, depend on the nature of the events that unfold. Since policy is flexible, however, the Federal Reserve can move quickly and adjust its actions to the needs of the economy. As in the past, the commercial banks can also be counted on to adapt themselves to a constantly changing environment.

ALFRED P. JOHNSON AND ALBERT A. HIRSCH

Detailed tables relating changes in population to changes in number of bank offices and bank deposits, as well as tables showing changes in the banking structure, 1950-60, are available on request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta 3, Georgia.

Bank Announcement

The First Bank and Trust Company of Jacksonville, Jacksonville, Florida, a newly organized nonmember bank, opened for business on November 17 and began to remit at par for checks drawn on it when received from the Federal Reserve Bank. Officers are E. L. Crossett, Jr., President; J. C. Spink, Jr., Vice President and Cashier; Carl L. Hasty, Assistant Cashier; Rex W. Mixon, Vice President and Trust Officer; and Thomas F. Simmons, Assistant Trust Officer. Capital totals $700,000, and surplus and undivided profits, $700,000.