# Fifth District Bank Loans: 1965 - 1972

**Introduction** Between 1965 and 1972 insured commercial banks in the Fifth District exhibited higher growth rates than the national average in all major loan categories except financial loans. This article reviews briefly recent growth trends and the changing composition of bank lending in the District and the nation.

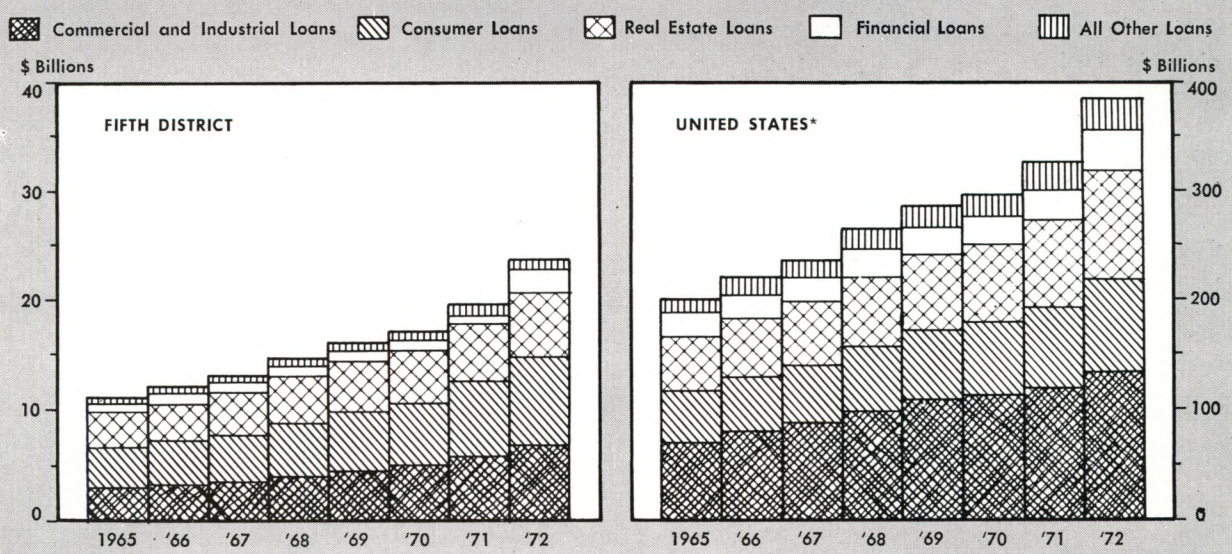
During the period the size and strength of real estate loans by commercial banks in both the District and the nation stood in sharp contrast to the traditional position of the commercial banks as primarily lenders to businesses and consumers. Considering the long-term nature of real estate lending, compared to the relatively short-term nature of bank liabilities, sizable increases in mortgage loans apparently represented a bold step for many commercial bankers. The combination of increased proportions of time deposits among bank liabilities and moderate total loan demand at commercial banks relative to the supply of funds in 1971 and 1972, however, largely explains this development in bank lending.

Another interesting loan category of increasing importance to banks is consumer loans. Financial analysts have begun to predict that during the 1970's consumer loans may well overtake commercial and industrial loans as the dominant type of bank lending. During 1965-1972, the consumer loan category showed strong growth, which, in turn, meant that many individuals used the District's, and the nation's, banks to finance the purchase of automobiles, appliances, furniture, and mobile homes as well as, among other things, repairs and modernization of older homes, education, travel, and emergency situations. Individuals increasingly used installment loans and

Chart 1

**INSURED COMMERCIAL BANK LENDING**

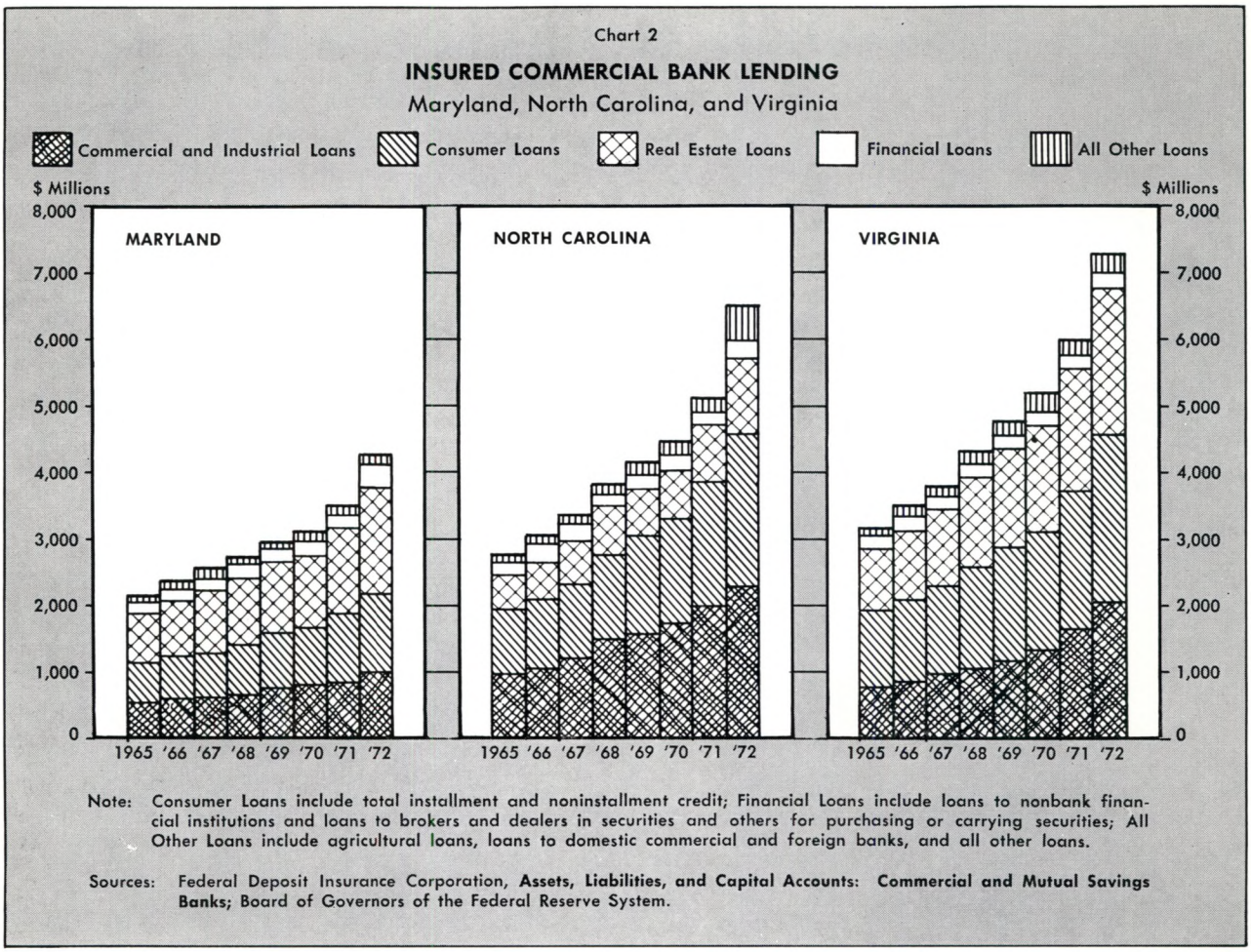
Fifth District and United States




* Includes the District of Columbia.

Note: Consumer Loans include total installment and noninstallment credit; Financial Loans include loans to nonbank financial institutions and loans to brokers and dealers in securities and others for purchasing or carrying securities; All Other Loans include agricultural loans, loans to domestic commercial and foreign banks, and all other loans.

Source: Board of Governors of the Federal Reserve System.

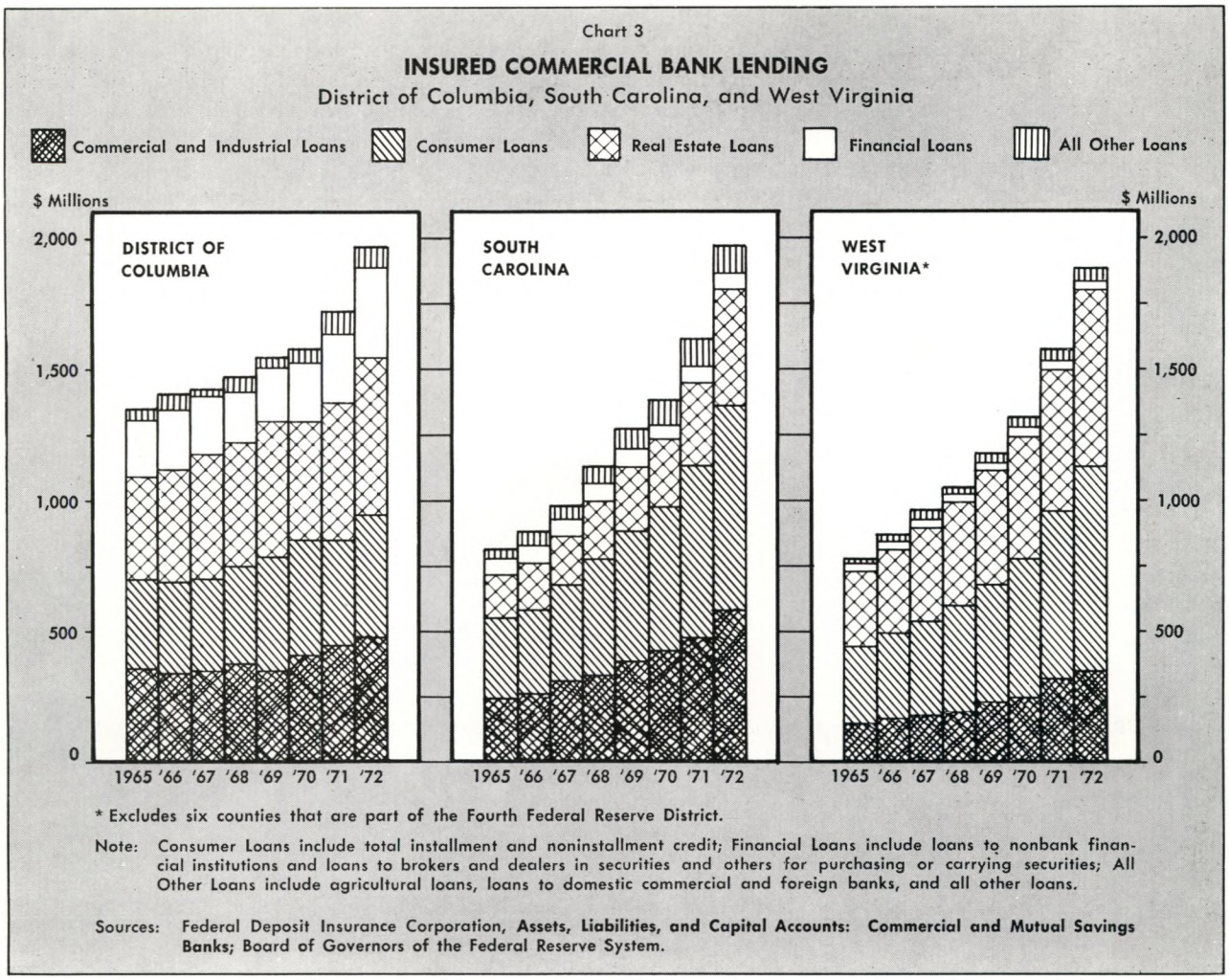



credit cards to handle miscellaneous personal expenditures. Bank credit card lending, moreover, has become more important, as credit cards change from mere cash substitutes to a means of financing big-ticket items.

When change takes place gradually and undramatically, it often goes unnoticed. Looking at Fifth District loan activity in retrospect for 1965-1972 should make changes in bank loan portfolios more clearly visible. The table and three charts accompanying this article highlight and summarize the changes during this period.

**Fifth District and U. S. Banks** Chart 1 compares bank lending in the Fifth District with the U. S. during 1965-1972. For the Fifth District, consumer loans consistently had the largest dollar amounts outstanding in each year from 1965 to 1972. The District growth rates for commercial and industrial loans and for real estate loans, however, closely approximated the growth rate of consumer loans for the overall period. Financial loans in the Fifth District advanced at a much slower pace in comparison. Apparently this type of lending tends to be concentrated at large "money market" banks. Among those types of loans included in the "other" category, agricultural loans, i.e., loans to farmers exclusive of real estate loans, grew at a rate closely paralleling the District's financial loan growth rate. The remaining prominent type of loan in the "other" category, loans to domestic commercial and foreign banks (which exclude Federal funds sold), increased sharply in both the U. S. and the Fifth District during 1971 and 1972, with the rate of increase for the District much greater than for the U. S.

Commercial and industrial loans for the U. S. showed disappointing growth compared to the District. Nevertheless, in each of the years 1965-1972, the loan category with the largest amount of dollars outstanding at all insured U. S. banks was commercial and industrial loans.




**Maryland, North Carolina, and Virginia Banks** In Chart 2 Maryland, North Carolina, and Virginia were grouped together because the total volume of bank loans outstanding in each of these states was similar. Total bank loan growth in North Carolina and Virginia, especially during 1971 and 1972, far outstripped the pace set by Maryland banks. In all three states, as in the District as a whole, financial loans were a small portion of total lending and demonstrated only moderate growth for the period discussed. For these three states and the Fifth District, consumer loans have been the largest loan category for the entire period in terms of dollars outstanding. The largest single loan category in the District may be seen in Chart 2 in the form of consumer loans in Virginia. In contrast to North Carolina and Virginia, where bank lending has been dominated by business and consumer loans, the largest amount of bank lending in Maryland was in the form of real estate loans. Bank lending in North Carolina and Virginia differed in this 1965-1972 period in that business loans were dominant in the former state while consumer loans were dominant in the latter. In the "all other loans" category, much of the growth in 1971 and 1972 for the District and for the U. S. was attributable to loans to domestic commercial and foreign banks. Agricultural loans for North Carolina and Virginia were relatively sizable but grew rather slowly. Agricultural loans in Maryland were modest in both overall size and growth.

**District of Columbia, South Carolina, and West Virginia Banks** In Chart 3 the District of Columbia, South Carolina, and the West Virginia portion of the Fifth District,[1] also grouped together on the basis of size, are compared. Although South Carolina and the Fifth District portion of West Vir-

[1] Six West Virginia counties in the northern panhandle of the state are part of the Fourth Federal Reserve District.

ginia have small loan volume in terms of dollars outstanding, the growth rates for these two states in the consumer, real estate, and commercial and industrial loan categories were greater than for the other states, the whole District, or the United States. Yet, in the District of Columbia growth rates were modest since they were only about half the rate for all insured U. S. banks. Growth in financial loans was, not surprisingly, insignificant except for the District of Columbia, whose banks expanded these loans at the same rate as the overall Fifth District rate. While South Carolina and West Virginia banks achieved similar overall growth rates in their loan portfolios, the composition of their portfolios differed noticeably. Both states expanded consumer loans appreciably, but South Carolina apparently placed greater emphasis on business loans while real estate loans were dominant in West Virginia. The marked increase in all other loans in 1971 and 1972 appears to be attributable more to certain miscellaneous types of loans than to domestic commercial and foreign bank loans as was the case with the states in Chart 2. Agricultural loans were small and have shown little growth. Quite obviously, such would be the case for the District of Columbia, but agricultural loans would be expected to be more sizable in West Virginia and South Carolina. This apparent anomaly may be explained in part by the use of end-of-year rather than midyear figures, since fewer agricultural loans would be outstanding in December as opposed to June. Further, commercial banks have typically permitted various Federal Government agencies to handle the bulk of agricultural lending.

**Trend and Cyclical Movements** Since 1965 total bank loans at all U. S. and Fifth District banks have exhibited a relatively steady upward trend. Such behavior largely reflects the underlying economic growth characterizing this period. Although the rate of increase of bank loans may fall off when the growth of real economic output declines, as long as the growth of nominal output remains positive, continued increases in the total quantity of bank loans outstanding will most likely occur. On those two occasions between 1965 and 1972 when the pace of economic activity slowed markedly (1967 and 1970), bank loan portfolios similarly grew more slowly. Thus, there is some evidence of cyclical movement within the more dominant upward trend of the period.

Table I

**GROWTH RATES OF TOTAL BANK LOANS**

(Percent)

| Area | 1965 to 1966 | 1966 to 1967 | 1967 to 1968 | 1968 to 1969 | 1969 to 1970 | 1970 to 1971 | 1971 to 1972 | Average[1] |
|---|---|---|---|---|---|---|---|---|
| United States[2] | 8.8[3] | 7.8 | 11.4 | 8.2 | 3.9 | 10.0 | 18.5 | 9.8 |
| Fifth District | 9.4 | 6.9 | 12.2 | 9.6 | 7.0 | 14.8 | 22.2 | 11.7 |
| Maryland | 10.5 | 4.8 | 8.8 | 8.9 | 5.1 | 13.7 | 21.3 | 10.4 |
| North Carolina | 10.3 | 10.3 | 13.7 | 8.9 | 6.5 | 15.3 | 26.9 | 13.1 |
| Virginia | 10.1 | 8.5 | 13.8 | 10.4 | 9.0 | 15.1 | 21.5 | 12.6 |
| District of Columbia | 3.7 | 1.6 | 2.7 | 5.7 | 1.1 | 9.1 | 14.3 | 5.5 |
| South Carolina | 8.7 | 10.8 | 13.8 | 13.5 | 8.5 | 16.9 | 22.1 | 13.5 |
| West Virginia[4] | 11.0 | 10.7 | 9.5 | 11.9 | 12.0 | 19.5 | 20.0 | 13.5 |

[1] Equally weighted mean of the seven year-to-year growth rates.

[2] Includes the District of Columbia.

[3] All growth rates are positive.

[4] Excludes six West Virginia counties that are part of the Fourth Federal Reserve District.

Sources: Percentages computed from Federal Deposit Insurance Corporation and Board of Governors of the Federal Reserve System data.

Both trend and cyclical movements in bank loan behavior are illustrated by the growth rates presented in Table I. These growth rates are percentage rates of change for total loans from year-end to year-end. The average growth rate is simply an arithmetic mean of the seven yearly growth rates. Thus, total bank loans for the U. S. grew at an average rate of 9.8 percent per year from the end of 1965 to the end of 1972, as contrasted to an 11.7 percent rate for the Fifth District. Loans at District banks have shown a stronger upward trend in recent years because the processes of industrialization and urbanization have spread throughout the District more rapidly than they have across the nation during the sample period. Within the Fifth District, the more highly developed and urbanized areas of Maryland and the District of Columbia showed slower average rates of growth. Alternatively, West Virginia and South Carolina, which have traditionally been the least urbanized and industrialized areas in the Fifth District, had the highest average rates of growth in total loans.

An examination of the yearly growth rates in Table I reveals the presence of some cyclical movement. Slower-than-average growth rates were evident among all geographic categories in 1967 and 1970, while higher-than-average growth rates were particularly apparent in 1971 and 1972. The term "mini recession" has frequently been applied to 1967 while the period from November 1969 through November 1970 has been designated a full-fledged recession. A broad economic recovery emerged during 1971 and accelerated through 1972. The growth rates of bank loan portfolios across the nation and in each of the Fifth District areas exceeded the total period averages in 1972 by extremely wide margins.

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