A review by the Federal Reserve Bank of Chicago

Business Conditions

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The heavy loan demand and high interest rates that prevailed during 1966 resulted in a sharp rise in bank operating revenue and earnings. Gross revenues of Seventh District member banks last year were 17 percent above those reported for 1965, and net current operating earnings were up 18 percent despite the slower growth in assets in the late summer and fall.

Earnings relative to capital for the “average” member bank, as measured by the average of the individual bank ratios of net current earnings to capital accounts, were the highest in 10 years and increased more than in any year since 1959. Profits after taxes also rose, but by much less than earnings mainly because of larger losses on sales of securities. The average ratio of net income after taxes to capital was 9.2 percent, compared with 8.7 percent in the previous year. There was considerable variation among banks, with losses on securities reported mainly by the large banks.

Income and expenses

For the first time in several years income from current operations rose faster than expenses—but only slightly faster. The major portion of the gain in revenue was in loan interest and other charges on loans, reflecting

1 All figures on outstandings used in this article are based on condition statement averages for December 31, 1965, and June 30, 1966.
the average bank, interest earned on loans rose to 6.58 percent from 6.49 in 1965.

The average return on U. S. Government securities rose from 3.86 to 4.21 percent, as rates on some of these issues moved up to the highest levels in 40 years. Gross earnings on Governments were not much above the previous year, however, because of the reduction in the amount of these securities held.

All types of expenses increased. The two major expense components—salaries and wages and interest on time deposits—rose 10 and 21 percent, respectively. Interest on borrowed money, although still small in relation to total expenses, was sharply higher than in 1965, reflecting higher money market rates. The proportion of net operating revenue absorbed by interest on time deposits continued to rise.

There are still substantial differences among various banks on the importance of time deposit interest as an expense. In 1966 the average ratio of such interest to operating revenue ranged from 22 percent for Illinois banks with deposits of less than 2.5 million dollars to 45 percent for Detroit banks with deposits of more than 50 million. But the growth in the cost of time deposits has been the major factor affecting expenses of banks in all major District areas throughout the Sixties. Last year, in addition to the increased expenses due to higher rates paid and a larger aggregate volume of time and savings deposits, shifts from passbook savings into higher-yielding certificates of deposit, often within the same bank, added to interest costs.

A “loss” year

Years of highest earnings performance are typically years of relatively low bank profits. This pattern reflects the effect of nonoperating transactions (mainly losses on sales of securities and transfers to valuation reserves) which tend to reduce net income. To some extent the income-reducing effects of these transactions grow out of the same basic forces that increase earnings—rising interest rates and strong loan demand. During 1966, when
Federal Reserve policy was aimed at moderating the rate of growth in total bank credit, many banks sold securities in order to serve their loan customers. Pressure from these sales lowered prices of securities, entailing greater than usual losses.

Some of these losses undoubtedly resulted from tax considerations. Since capital losses are deductible from regular income for commercial banks, it is advantageous for banks, in years when market prices decline, to sell securities for which market value is below book value and to purchase other issues available at discounts. Sales of the latter may be made later, in years when earnings are relatively low, and the gains realized on such sales are taxable at the 25 percent rate. Such operations tend to further moderate year-to-year fluctuations in bank profits and, indeed, cause profits to move inversely with earnings in the short run.

In 1966 the “average” District bank showed an increase in net income after taxes in relation to both capital accounts and total assets despite losses on nonoperating transactions. But losses on securities were concentrated at the large banks, and for banks with deposits of 50 million dollars or more the average ratio of profits to capital declined. This reflected both the greater need of large banks to liquidate securities to meet loan demand, heaviest from large businesses, and the greater tax advantage in taking losses for large banks subject to the maximum corporate tax rates. The effect on profits at both large and small banks was much less, however, than in 1959 when the rise in interest rates closely followed the very sharp decline in yields (and rise in securities prices) that occurred in late 1957 and early 1958.

With some slackening of loan demand in recent months, banks have again been acquiring substantial amounts of U. S. Government and municipal securities. While rising prices of securities have increased the potential for capital gains, they also have entailed lower interest income. Recent reductions in lending charges, as well as lower loan-to-asset ratios, likewise will adversely affect operating revenues and, unless offset by reduced expenses, will result in lower earnings, though not necessarily lower net income after taxes.

Banks with a substantial volume of large-denomination certificates of deposit have already reduced the rates paid on these instruments. But most banks appear reluctant to adjust rates on either consumer-type CDs or passbook savings in response to changing monetary conditions.
Bank markets and services
Summary of three surveys of bank customers

While a major function of the Federal Reserve System is to provide monetary and credit conditions conducive to the achievement of full employment and sustained economic growth at stable prices, an important additional responsibility is the supervision of commercial banks in the public interest. Experience has demonstrated that unrestrained competition may endanger the solvency of some banks. On the other hand, there is strong reason to believe that a large measure of competition helps to assure that banks will be operated efficiently and provide their customers high-quality services at minimum prices. Public policy, therefore, undertakes to assure the maximum degree of competition consistent with the survival of banks.1

The execution of such policy requires information on the nature and quality of services offered by banks and the size and character of the areas from which banks draw their customers. For example, what determines the size of area a bank serves; how is area size affected by size of bank and size and type of customer; how do customers select a bank; what bank services do customers use; are customers satisfied with the quality, cost and number of bank services and how do customers view the services provided by non-bank financial institutions in comparison with those provided by commercial banks?

In an effort to acquire additional information on such questions, a number of surveys of bank customers are being conducted by the Federal Reserve System in various parts of the country. The Federal Reserve Bank of Chicago has undertaken in recent years surveys in several Midwest communities. This article summarizes the major findings of three surveys—of business firms and households in Appleton, Wisconsin and Elkhart, Indiana and of business firms in Cedar Rapids, Iowa.2

Manufacturing centers

Appleton, located in northeast Wisconsin, Cedar Rapids, in northeast Iowa, and Elkhart, in north central Indiana, are all dynamic manufacturing centers but differ in many other respects. The populations of Appleton and Elkhart are only about one-half that of Cedar Rapids which has some 100,000 inhabitants. Elkhart is only 15 miles from a larger metropolitan area—South Bend-Mishawaka. However, Cedar Rapids is more than 70 miles from the nearest larger centers—Des Moines and the Quad Cities (Davenport, Moline, East Moline and Rock Island); and Appleton, is about 100 miles from Milwaukee, the nearest major metropolitan area.

The three cities also differ with respect to banking structure. Unit banking prevails in


2Copies of the Cedar Rapids and Elkhart reports are available from the Federal Reserve Bank of Chicago; copies of the Appleton report will be available in the near future.
Iowa and Wisconsin, while countywide branch banking is permitted in Indiana. On the dates of the surveys, there were five banks in Appleton; six banks in Cedar Rapids with two additional banks in the adjoining, but considerably smaller, community of Marion and three banks in Elkhart which operated eight branches within the city limits. (Subsequent to the survey, two of the banks in Elkhart merged.) The banks in all three cities varied considerably in size.

The surveys were based on random samples of business firms in Appleton, Cedar Rapids and Elkhart and of households in Appleton and Elkhart. The surveys of Appleton and Elkhart were conducted in 1966 through the use of mail questionnaires. Replies were received from about 125 business firms and 170 households in Appleton, and 285 business firms and 165 households in Elkhart. The business firms in Cedar Rapids were visited personally in May 1965 by representatives of the Federal Reserve System. One hundred forty of the approximately 1,000 business firms in the immediate Cedar Rapids area were interviewed.

The samples of both businesses and households were selected to be representative of all firms and households in the areas surveyed. Nevertheless, great emphasis should not be placed on small differences in the survey results, especially for those classes or characteristics of respondents represented by small numbers of businesses or households.

While all three surveys were designed to answer the same basic questions, the survey questionnaires were slightly different. Thus, answers to some questions are available for only one or two of the areas.

**Firms use local banks**

All three surveys found the market areas for banking services to be strongly localized. Business firms, except for the very largest establishments, used banks in their own city almost exclusively.

Many of the businesses used more than one bank. This was the case for one-half of the Elkhart firms and more than one-third of the firms in Appleton and Cedar Rapids.

Quality of services was cited most frequently as the most important consideration in the selection of a primary bank. However, most firms also reported that their primary bank is the bank most convenient to them.

Business firms by and large do not consider banks located outside the community to be readily acceptable sources of banking serv-

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Banks in Wisconsin are permitted to maintain the branches they operated prior to 1947 when further organization of branch offices was prohibited. However, bank holding companies are permitted and two of the smaller Appleton banks are owned by the same interests that own each of the two largest banks.
ices. This was indicated by their answers to questions asking which banks would be considered if, for any reason, they were to change their present banking connection. Only about one-half of the firms in Appleton and Elkhart listed “alternative” banks, and, again, except for the very largest firms already using banks outside the local area, these alternatives were located largely within the respective cities.

Business firms that have given some consideration to alternative banking affiliations apparently are well informed of banking services available in their community. The large majority of the firms citing alternate banks reported that they are informed of prices and policies at such banks, primarily through direct contact.

**Bank loyalty strong**

Business firm loyalty to their banks appears very strong. Less than 10 percent of the firms in either Elkhart or Cedar Rapids reported having changed their primary bank within the last 10 years. It appears that once having selected a primary bank, firms change banks very infrequently—usually only after experiencing a substantial disappointment such as a loan turndown.

It may be that the “cost” of changing banks is quite high for business firms and that this discourages frequent changes. Business customers tend to develop a close relationship with their banks, which in turn acquire considerable expertise in serving the particular needs and problems of the firm. These banks, therefore, are able to provide established customers needed banking services with a minimum of inconvenience and cost. Such a relationship is developed only over a period of years and much time would be lost and considerable expense incurred by firms undertaking to make frequent changes in their banking connections.

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### Few customers consider a nonlocal bank an acceptable alternative

<table>
<thead>
<tr>
<th>Location of alternative</th>
<th>Business firms</th>
<th>Households</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Appleton</td>
<td>Elkhart</td>
</tr>
<tr>
<td>City</td>
<td>45</td>
<td>43</td>
</tr>
<tr>
<td>State</td>
<td></td>
<td></td>
</tr>
<tr>
<td>outside city</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>No alternative</td>
<td>54</td>
<td>49</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Almost all firms use the demand deposit services of their primary bank. Loans were the next most frequently used service, being reported by more than 60 percent of the firms. Comparatively few firms used time deposit services.

Relatively more of the large firms than small firms used bank loan services. Large firms borrowed primarily for working capital needs while small firms borrowed for a variety of purposes. The average size of loan, of course, varied directly with size of firm.

**Customers satisfied**

Business firms were generally satisfied with the quality of banking services, although deposit services were rated somewhat more favorably than loan services.

Few firms reported that they “shopped” for credit. Only 10 percent of Cedar Rapids respondents believed it necessary to contact a number of banks before entering into credit agreements. The vast majority believed that they were receiving the best possible terms at their banks, that rates were approximately uniform at all banks or that shopping entailed more trouble than it was worth.

Although commercial banks are very important, they are not the sole providers of credit to business firms. Firms may obtain credit from a large variety of nonbank insti-
tutions, including their suppliers, finance companies, acceptance companies, insurance companies, savings and loan associations and small business investment corporations. One-fifth of both the Appleton and Elkhart firms reported having obtained credit from nonbank sources at some time within recent years. Of these, the larger firms cited primarily the unavailability of sufficient credit at banks or the need for longer-term loans as the major reason for using nonbank credit; the smaller firms often noted lower costs and greater convenience as the reasons.

Most firms currently using credit from nonbank sources also reported having bank loans currently outstanding, suggesting that nonbank credit is used to supplement, not substitute for, bank credit. Those firms which had used nonbank credit in recent years rated bank loan services less favorably than those which had not used such credit.

**Households also bank locally**

Households also tend to use local banks almost exclusively. In Elkhart, for example, the only households with a primary bank outside the city also had the head of the household employed outside the city and typically used banks in the city of his employment. Households headed by retired persons tended to use a larger number of banks than households headed by employed persons, possibly reflecting the distribution of funds among a number of banks in order to make maximum use of deposit insurance coverage. More than two-thirds of the households reported that their primary bank was the bank most convenient to their place of residence, employment or both.

Appleton and Elkhart households also expressed an overwhelming preference for local banks in case they were ever to consider changing their present banking connections.

### Checking accounts are the most widely used service

<table>
<thead>
<tr>
<th>Service</th>
<th>Business firms</th>
<th>Households</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Appleton</td>
<td>Cedar Rapids</td>
</tr>
<tr>
<td>Checking account</td>
<td>98</td>
<td>100</td>
</tr>
<tr>
<td>Time deposit</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Loan</td>
<td>70</td>
<td>58</td>
</tr>
</tbody>
</table>

Less than 10 percent considered banks in neighboring cities as convenient alternatives for checking account services, savings accounts or loans. The majority of the households reported they were aware of interest rates paid by “alternative” banks on savings accounts while less than half reported they were aware of rates charged by these banks on loans. This undoubtedly reflects both the greater frequency of use of savings deposit services by households and the more extensive advertising by banks of rates paid on savings accounts.

The bank-customer relationship may be less strong for households than for business firms. In Elkhart proportionately more households than businesses reported having changed their primary banking connection in recent years. This may reflect either that banks value household customers less highly than business customers and thus act less vigorously to retain these accounts, or that households require less specialized banking services than do most businesses and thus find it easier and less costly to shift to different banks. Only a small number of households reported they had changed banks in recent years because they moved their residence or because a new branch had opened at a more convenient location.

Households tended to make greatest use of
bank checking services, followed respectively by savings account services and loan services.

Loan services were obtained almost exclusively at the primary bank. Higher-income households had larger loans outstanding and made proportionately greater use of mortgage loans, single payment personal signature loans and loans secured by stocks, bonds or insurance policies than did the lower-income households. The lower-income households used predominantly instalment loans. Households headed by white-collar workers made the greatest use of bank loan facilities, while retiree households used these services only infrequently.

**One-third bank by mail**

One-third of the Elkhart household respondents use the mail to conduct some of their business with commercial banks or nonbank financial institutions. The overwhelming number of these use local or nearby institutions. Only a small minority reported using West Coast or other distant institutions.

Households, like business firms, appear generally satisfied with the quality of banking services. Again, loan services were rated somewhat less favorably than deposit services, possibly reflecting the more widespread use of the latter.

More than half of the households reported currently using the services of one or more nonbank financial institutions, mostly savings and loan associations. The households used savings and loan associations and credit unions primarily for savings account services and mortgage companies for loans.

**Summary**

In summary, the surveys reveal that accessibility is the primary factor determining the selection of banks by both business firms and households. Almost all of the firms and households use only local banks and consider only other local banks as possible alternatives to their present banks. In addition, the large majority of households and, to a somewhat lesser extent, business firms use a primary bank that is most convenient to them.

Bank customers appear generally satisfied with the quality of bank services. Almost all customers use checking accounts and many households use time deposit services. Two-thirds of the firms and one-half of the households also use bank loan services. Nonbank financial institutions are used by about one-half of the households—which use them for both credit and savings services—and one-fifth of the firms—which use them primarily for credit.
Credit plays an extremely important role in modern agriculture and its importance seems certain to increase further. The amount of capital invested in United States agriculture and the amount of funds needed to carry on day-to-day farming activities have risen dramatically as farming has become increasingly technical and farms more highly mechanized. The value of agricultural assets nearly doubled during the past decade, and farmers' annual cash outlays for operating expenses have increased nearly one-half. These increases have been financed in part by annual additions to farm debt.

Total farm debt, currently estimated to total nearly 45 billion dollars, has more than doubled since the mid-Fifties. That commercial banks have provided about 6 billion dollars—or about one-fourth—of the more than 20 billion increase in outstanding farm debt since 1956, reflects their important role as a source of agricultural credit. This sharp advance in farm debt and the important role of banks in providing credit service to agriculture were important factors prompting the Federal Reserve System, in cooperation with the American Bankers Association and the Federal Deposit Insurance Corporation, to undertake a nationwide survey in 1966 of agricultural loans held by commercial banks.

The recent survey was similar to studies conducted in 1947 and 1956. A representative sample of bankers were requested to supply data concerning individual borrower and loan characteristics for a portion of their outstanding farm loans as of midyear. These data were then expanded to reflect the total of farm loans for all banks.

Nearly all banks extend credit to farmers

![Bar graph showing agricultural loans outstanding by state and loan amount categories.]

*This is the first in a series of articles on the 1966 agricultural loan survey.
Seventh District banks

The extension of at least some credit to agriculture by nearly all banks in the Seventh Federal Reserve District reflects the importance and wide dispersion of this industry in the Midwest. More than 90 percent of the more than 2,500 banks in the District had agricultural loans on their books as of mid-1966.

Such loans, nevertheless, are much more important at some banks than at others, both in terms of total value of such loans held and as a portion of all loans. For example, about one-half of the agricultural credit outstanding is held by approximately one-fifth of the banks. Nearly a third of the banks had 1 million dollars or more of farm loans outstanding; about 3 percent had more than 3 million outstanding.

Agricultural loans are a relatively large portion of total loans at many banks, especially many small banks. As of mid-1966 there were 1,330 banks—about half of the total number in the District—at which loans to farmers comprised 25 percent or more of their total loans outstanding. Moreover, at about one-fourth of the banks the proportion was 50 percent or more.

In Iowa, where agriculture is relatively more important, farm loans accounted for 50 percent or more of total loans in 60 percent of all banks; in Michigan, where agriculture is relatively less important, only 4 percent of the banks had such a large proportion of farm loans. (The small proportion for the Michigan banks is also the result of the existence of branch banking in that state. When banks operate offices in several communities, the number of banks serving predominantly agricultural customers tends to be reduced.)

Despite the widespread participation by District banks in the financing of agriculture, their relative importance as suppliers of agricultural credit has declined in recent years. These banks provided about 82 percent of the non-real estate debt and about 16 percent of the real estate debt outstanding at institutional lenders in 1956; in 1966 these proportions had declined to about 75 and 14 percent, respectively. There is some disagreement whether these declines indicate that farmers' credit needs are growing faster than the ability of commercial banks to serve them. A number of agricultural and banking spokesmen have concluded that this is the situation. Not all agree, however, and some have asserted that even if this situation does exist, it need not remain so—that banks can adapt and can serve the changing credit needs of agriculture quite adequately.

Banks in agricultural areas, as elsewhere, have experienced a rise in loans relative to deposits in recent years. This reflects the rapidly expanding loan demand and the less rapid pace of deposit growth. Also, the amount of credit required by most individual farmers has risen, reflecting changes in size and characteristics of farms. Many banks have not raised their capital, and thereby their

Banks were unable to grant some loans from their own resources because of legal limit

<table>
<thead>
<tr>
<th>Loans not granted to total farm loans outstanding (percent)</th>
<th>Size of capital and surplus*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100-</td>
</tr>
<tr>
<td></td>
<td>100-</td>
</tr>
<tr>
<td>Requests exceeding legal limits*</td>
<td></td>
</tr>
<tr>
<td>1.0-4.9</td>
<td>2,716</td>
</tr>
<tr>
<td>5.0-9.9</td>
<td>6,692</td>
</tr>
<tr>
<td>10.0-19.9</td>
<td>17,319</td>
</tr>
<tr>
<td>Total</td>
<td>26,727</td>
</tr>
</tbody>
</table>

*Amounts shown are in thousands of dollars.
maximum loan size. Consequently, they have been unable to provide comprehensive credit service to all of their farmer customers.

A portion of the survey, therefore, was designed to obtain information on the recent experience of country banks in serving farmers' credit needs and to identify any factors that tend to restrict the flow of agricultural credit.

Banks in the Seventh Federal Reserve District apparently have encountered only nominal difficulty in meeting farm credit demands. Indeed, more than 90 percent of the banks reported no difficulty in obtaining funds to serve their regular farm customers. This is consistent with the relatively small volume of loans in comparison with deposits at many country banks. Of the 1,330 "agricultural banks" (those banks at which loans to farmers comprise 25 percent or more of their total loans outstanding), 236 or nearly one out of five had loan-to-deposit ratios below 40 percent and 69 of these had loan-deposit ratios below 30 percent. In some instances these ratios may reflect restrictive lending practices; in others, relatively weak local demand for credit.

More than 150 District banks, about 6 percent of the total, did experience difficulty in obtaining adequate funds from their own resources to serve the credit requests of their farm customers. Generally, these banks had relatively high loan-deposit ratios. Nearly three-fourths of the banks had ratios of 60 percent or more, and 7 percent had ratios in excess of 70 percent.

Most of the banks reporting difficulty in serving the credit requirements of their farm customers apparently were aggressively seeking deposits. Overall, they reported paying higher rates on savings deposits than did banks with an abundance of funds available. More than half were paying the maximum rate of 4 percent for savings deposits while
about one-third reported paying rates of less than 3.5 percent. In comparison, only about one-third of those banks experiencing no difficulty reported paying maximum rates. Moreover, a relatively large proportion of those banks experiencing no difficulty (more than 10 percent) reported paying rates of less than 3 percent.

A more prevalent problem for Seventh District agricultural banks than their aggregate loan demand was the size of individual loans. As farms have expanded in size and in capital invested, the credit needs of some farmers have outgrown the maximum credit local banks can extend to individual borrowers. National banks cannot extend credit to individuals in amounts exceeding 10 percent of their capital and surplus, and state banks (although laws governing them vary from state to state) usually cannot loan more than an amount equal to 20 percent of capital and surplus to individual customers.

Because of the relative smallness of many rural banks the amount of funds that may be lent to an individual is severely restricted. As of mid-1966, more than two-fifths of the banks in the Seventh District had capital and surplus of 300 thousand dollars or less. More than 80 percent of these were agricultural banks. Moreover, of these agricultural banks, 562, or about 40 percent, had capital and surplus under 200 thousand dollars, and at 87 the capital and surplus were under 100 thousand. Largely because of the relatively small amount of credit that could be extended to individual customers, 430 banks, or about 17 percent of all banks in the District, were unable to grant loans to some of their farm customers because the loan request exceeded the banks' legal limit during the 12 months ending June 30, 1966.

Of the banks reporting loan requests that exceeded their loan limit, nearly one-third

had capital and surplus accounts of less than 200 thousand dollars, and nearly four-fifths had capital and surplus accounts of less than 300 thousand. About 2,000 loan requests were reported to have exceeded the local banks' maximum lending limit during the year ending June 1966; the aggregate value of such loans was about 33 million dollars, or about 2 percent of total farm loans out-
standing on June 30, 1966.

**Outside sources used**

A number of banks sought funds from outside sources in an attempt to obtain additional financing for their farm customers. More than one-third of the banks in the District, or a total of 978, utilized the services of other credit institutions during the 12-month period for this purpose.

The major source of such funds was other banks. A total of 840 banks, or about 85 percent of those utilizing outside sources, obtained at least a portion of their additional funds from other banks. Indeed, for about two-thirds of the banks, this was the sole source of such additional funds.

A number of the banks also obtained assistance from other financial institutions (in varying degrees). Of the 978 banks utilizing outside sources, nearly one-third obtained additional funds from insurance companies; 152 banks obtained 75 percent or more of their outside funds from this source. About 46 banks obtained at least some additional funds through Agricultural Credit Corporations; for 35 banks, such corporations were the chief source of additional funds.

**Participations**

Loan participation agreements between banks are the primary means utilized in obtaining additional funds from other banks to accommodate farm customers. As of midyear 1966, outstanding participation loans originated by reporting banks numbered about 2,000 and amounted to about 47 million dollars. Of the total amount originated by reporting banks, other banks held slightly over 20 million dollars.

While the volume of loan participations is sizable, it is small in comparison with the total volume of agricultural loans. The amount of participation loans accounted for only about 2 percent of total agricultural loans outstanding and the number of participations accounted for less than one-fourth of

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**Participation loans**

Participation loans originated by reporting bank

| Size of capital and surplus (thousand dollars) | Number | Total value (million dollars) | Held by reporting bank | Held by other bank | Participations to total agricultural loans outstanding (percent) | Value
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 200</td>
<td>573</td>
<td>7.4</td>
<td>5.1</td>
<td>2.3</td>
<td>0.59</td>
<td>2.13</td>
</tr>
<tr>
<td>200-300</td>
<td>736</td>
<td>14.8</td>
<td>10.2</td>
<td>4.5</td>
<td>0.42</td>
<td>3.87</td>
</tr>
<tr>
<td>300-500</td>
<td>382</td>
<td>13.9</td>
<td>6.5</td>
<td>7.4</td>
<td>0.18</td>
<td>2.91</td>
</tr>
<tr>
<td>500-1,000</td>
<td>19</td>
<td>1.6</td>
<td>0.9</td>
<td>0.7</td>
<td>0.02</td>
<td>0.34</td>
</tr>
<tr>
<td>1,000-2,000</td>
<td>105</td>
<td>2.8</td>
<td>1.2</td>
<td>1.6</td>
<td>0.10</td>
<td>1.36</td>
</tr>
<tr>
<td>2,000 and over</td>
<td>11</td>
<td>6.5</td>
<td>2.4</td>
<td>4.2</td>
<td>0.02</td>
<td>2.33</td>
</tr>
<tr>
<td>Total</td>
<td>1,826</td>
<td>47.0</td>
<td>26.3</td>
<td>20.7</td>
<td>0.25</td>
<td>2.06</td>
</tr>
</tbody>
</table>

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**Banks working with other financial institutions**

<table>
<thead>
<tr>
<th>Percent of outside funds obtained from each source (percent)</th>
<th>Source of outside funds</th>
<th>Correspondent banks</th>
<th>Insurance companies</th>
<th>Agricultural credit corporations (number of banks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>119</td>
<td>675</td>
<td>911</td>
<td></td>
</tr>
<tr>
<td>1-24.9</td>
<td>200</td>
<td>37</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>25-49.9</td>
<td>9</td>
<td>86</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>50-74.9</td>
<td>10</td>
<td>9</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>75 and over</td>
<td>621</td>
<td>152</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Not reported</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>978</td>
<td>978</td>
<td>978</td>
<td></td>
</tr>
</tbody>
</table>
1 percent of all farm loans.

The relative importance of participation loans, of course, varies widely among banks. The smaller banks account for the bulk of such loans, and as a result, participation loans at these banks make up a larger portion of their total farm loans than for larger banks. As of midyear, more than 90 percent of the number of participation loans outstanding and about three-fourths of the dollar value of such loans were originated by banks with under 500 thousand dollars in capital and surplus. Banks with under 300 thousand dollars in capital and surplus accounted for about 70 percent of the number and about one-half of the dollar value outstanding. Among individual banks, 86 originated participation loans in amounts in excess of 5 percent of their total farm loans outstanding; 71 banks had originated participation loans in amounts exceeding 10 percent of their total agricultural loans outstanding.

**A look to the future**

The problems surrounding the financing of agriculture in the years ahead will undoubtedly intensify. Pressures to enlarge farm size, the need to further mechanize and the trend toward a larger portion of production items being purchased off the farm—all point to a further increase in the credit demands of individual farm borrowers as well as additional growth in the overall volume of agricultural credit. Also, it is likely that many country banks will continue to find it difficult to attract sufficient deposits to keep pace with the expected rapid growth in farm credit requirements. Moreover, it may not be feasible for many of the small country banks to increase their maximum lending limit in order to accommodate all of their larger farm customers. Many rural banks, therefore, most likely will need to intensify their efforts to secure outside assistance to accommodate the larger size and volume of agricultural loans. Possibly because of difficulty in obtaining bank financing in the past, many farmers have apparently sought other sources of credit as indicated by the decline in the proportion of farm credit held by banks.

The degree to which rural banks can adapt to the rapid changes currently taking place will largely determine whether their role as a major supplier of farm credit is maintained or diminished further and will influence the development of modern agriculture.