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In this issue:

Southeastern Banks and SBA Increase
Lending to Minority Enterprises

Supercalifragilisticexpialidocious
Growth Returns to Florida

District Banking Notes: Borrowings

District Business Conditions



Southeastern Banks and SBA Increase Lending To Minority Enterprises

By John M. Godfrey

Banks are helping to increase the business opportunities available to minorities by doing what banks have traditionally done best—extending credit to business firms. This has been in response to growing public concern for improving the economic, political, civil, and social conditions of minorities and other disadvantaged persons.

Undoubtedly, the most publicized financing programs for minority businesses are those of the Small Business Administration (SBA), programs that are generally used in conjunction with bank credit. Based upon the SBA's past experience in extending credit to some of the nation's 5.2 million small businesses, the SBA was a logical choice to help the nation's 250,000 existing small minority businesses and to aid new minority firms.

Although this article focuses on the extension of bank credit to minority businessmen through SBA programs, banks help to finance minority businesses in many other ways. Banks, both those that make SBA loans and those that do not participate in SBA programs, extend credit to minorities under a variety of existing bank credit programs. Some minority businessmen are regular bank business customers. Mortgage credit is available to finance homes and businesses, and consumer instalment and noninstalment credit is also extended. Although most of the minority-owned banks are small institutions, they too can be an important source of credit for minority businessmen in the cities they serve. (The role of minority-owned banks in financing minority businesses outside of the SBA programs, however, is not developed in this article.)

Since 1953, the SBA has made financial assistance available to many small business firms, including small minority enterprises, that were unable to secure credit on reasonable terms from banks or other credit sources. To be eligible for SBA help, businesses must be independently owned and must not exceed certain size limits: wholesale trade, up to \$15 million in annual sales; retail trade and service firms, up to \$5 million in yearly sales or receipts; manufacturing firms, from 250 to 1,500 persons in total employment; and construction firms, average annual sales during the last three years not to exceed \$5 million. By comparison to these maximum size limits, however, most minority firms are not even "small," they are really "tiny."

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"Operation Business Mainstream"

The SBA did not begin to place a special emphasis on financing minority enterprise until recently. This new emphasis began in 1968, when the SBA restructured its credit programs. It was refined further in March of 1969, when the SBA established its "Operation Business Mainstream" in order to utilize all of its programs in increasing the business opportunities for minority businessmen. Prior to this time, the newly formed American Bankers Association's Urban Affairs Committee had worked with the SBA in order to focus the banking industry's commitment, leadership, and know-how on meaningful programs for improving urban life. The Urban Affairs Committee recognized the problems confronting minority businessmen in their attempts to secure adequate financing and committed the commercial banking industry to promote "the development of opportunities for minority ownership and management of business enterprises through intensified lending and managerial assistance efforts of banks."

Now, Operation Business Mainstream attempts to provide all of the SBA's services in one package to minority businessmen. In the Southeast,¹ these services are directed by SBA personnel from the Atlanta Regional Office and offices in Birmingham, Charlotte, Columbia, Jackson, Jacksonville, Knoxville, Louisville, Nashville, New Orleans, and Marshall, Texas. In addition, the SBA has established "out-reach" offices in the inner city of some of the larger cities and SBA personnel visit most of the larger metropolitan areas of each state that does not have offices.

By assuming an active role through Operation Business Mainstream, the SBA attempts to explain the programs they have available in the areas of financing, management, and technical assistance. Minority Enterprise Representatives also help to direct prospective entrepreneurs into sound business opportunities, sometimes including "buy-outs" of existing small business firms. Then, the MER become the applicant's "advocate" by helping prepare the necessary financial statements and business projections and arranging the financing. In Operation Business Mainstream, the SBA recognizes that disadvantaged minorities often need help in obtaining financing and in running the business.

Two SBA Programs

Financial assistance to minority enterprises is usually provided by the SBA under either of two

programs: the older Business Loan Program established in 1953 or the newer Economic Opportunity Loan Program established by the Economic Opportunity Act of 1964. The Economic Opportunity Loan Program, the backbone of the minority lending programs, did not really take off until 1968 and 1969, when the SBA initiated a concerted effort to stimulate minority enterprise.

Three forms of financial assistance are available under both the Business Loan Program and Economic Opportunity Loan Program.

1. Under the *loan guarantee plan*, the SBA may guarantee a certain percentage of the loan principal and accrued interest subject to certain loan size limitations.
2. Under the *immediate participation plan*, the SBA may directly lend a certain portion of the funds while the bank lends the remainder. The bank's participation is not guaranteed by the SBA.
3. And, the SBA may, subject to the availability of funds, make *direct loans* to small businesses.

Under each of the three plans, the small businessman may use SBA credit to arrange financing for a variety of business operations. He can finance an existing plant or expand or convert existing buildings to a new use. He may also use SBA credit to buy equipment, fixtures, supplies, materials, and to satisfy working capital needs. On the other hand, SBA financial assistance is usually not available for the purpose of "buying-out" existing owners or repaying existing debt, unless the new financing will assist in preserving an existing business or place a firm's finances on a sounder footing. (The intent of this provision is to avoid allowing a bank or another creditor to substitute an SBA guaranteed loan or credit for an unprotected loan or equity position.)

The concept of the SBA loan guarantee is similar to Veterans Administration (VA) mortgage guarantees and Federal Housing Administration (FHA) insurance programs. Because of the reduced risk and other advantages involved in making VA and FHA home loans, those programs encourage banks and other lenders to make mortgage credit available to home-owners on more reasonable terms (lower interest rates, smaller down payments, and longer maturities) than if guarantees are unavailable. And, as the VA and FHA insurance programs undoubtedly served as a catalyst to get banks—traditionally short-term lenders—to make long-term mortgage loans, so the intention of SBA programs is to get banks to make more term credit available to small business firms.

The Business Loan Program

SBA financial assistance approved under the older Business Loan Program is based on sound financial

¹For the purposes of this article, the Southeast includes the entire SBA Region IV—the states of Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee—plus Louisiana in SBA Region VI.

principles and, when provided to minority enterprises, is generally available only to the larger, more established firms. An important qualification for receiving credit under this program is that the borrower must be able to collateralize the loan. To determine if there is a reasonable prospect that the loan can be repaid, the SBA and the bank, when one is involved, are required to examine past earnings and the future prospects for the business. Moreover, the bank and the SBA must be satisfied that the borrower satisfactorily meets the other "C's" of credit. In addition, the SBA weighs the impact that its financing will have in stimulating additional employment in an area.

When the SBA guarantees a bank loan, it may guarantee up to 90 percent of the loan or up to \$350,000, whichever is less. The bank is free to set its interest rate at the current maximum of 8½ percent. Bank loans with SBA guarantees comprise better than three-fourths of the total credit extended through the Business Loan Program.

When the SBA directly extends, rather than guarantees, credit, its share may not exceed \$150,000 in the case of a participation loan or \$100,000 with a direct loan. But in either case, the interest rate on the SBA's portion is 5½ percent, whereas the bank's rate must not exceed 7½ percent. The low interest charge is a major advantage to borrowers of this type of SBA credit.

Because of the special financing requirements of contractors, the SBA will guarantee a bank line of credit for the contractor to draw on and waive certain lien rights to make bonding easier to arrange. The SBA, working with the Minority Contractors Assistance Project, Inc. (MCAP), can also guarantee up to 90 percent of construction performance bonds as large as \$500,000. Minority contractors in two Southeastern cities have benefited directly from MCAP's financial and technical assistance programs. Working through local banks, the two Southeastern MCAP associations—in Atlanta, the Atlanta Associated Contractors and Trade Council, Inc.; and in New Orleans, the Amalgamated Building Contractors of Louisiana, Inc.—have helped make lines of credit available to their members so they can obtain working capital loans and bonding.

The maximum maturity of all SBA guarantees, direct loans, and participations depends upon the use of the loan proceeds. Loans for construction purposes may run for 15 years. Working capital loans are usually restricted to five years; others are limited to ten years.

The Economic Opportunity Loan Program

When minority loan applications are processed under the new Economic Opportunity Loan Program, the SBA applies more relaxed eligibility criteria than must be used under the regular

Business Loan Program. For example, primary stress is placed upon the applicant's character and projected ability to repay the loan. The applicant's equity in the business and available collateral to protect the loan are less important considerations than under the regular Business Loan Program. If the SBA feels there is a reasonable chance for the minority enterprise to succeed, financial assistance is generally provided on softer terms and does not have to meet the strict test of being a "bankable" loan.

Because the Economic Opportunity Loan Program allows the SBA to make financial assistance available under softer terms than under the Business Loan Program, the risk of default is greater. Therefore, SBA assistance to any one minority firm is considerably smaller than under the Business Loan Program. The SBA may directly lend, participate, or guarantee a minority enterprise loan under the Economic Opportunity Loan Program only up to \$50,000. However, the maturity of these loans may run for as much as 15 years.

In the formative stages of approving minority loans, the SBA was agreeable to approving loan guarantees of some minority enterprise loans up to 100 percent of the principal in order to attract banks into the program. Now, however, they no longer consider loan guarantees of more than 90 percent to be a sound credit practice. In recent years, 70 percent of the total financial assistance extended under the Economic Opportunity Loan Program has involved direct SBA loans. And, in contrast to the Business Loan Program, only 30 percent involved guarantees.

There are significant differences in the average size of loans in the two SBA programs. In the Business Loan Program, bank loans with SBA guarantees averaged nearly \$50,000, whereas direct loans by the SBA averaged only \$20,000 each. Credit extended through the Economic Opportunity Loan Program averaged considerably less, about \$13,500 to each firm.

SBA Loans in the Southeast

Since the banking industry made a commitment to expand minority business lending, there is considerable evidence that Southeastern banks are making increasing amounts of credit available to minority enterprises. During the last four years, nearly 3,500 minority enterprise loans have been approved by the SBA in the Southeast involving the extension of more than \$40 million in bank and \$29 million in nonbank SBA credit.

Despite this growth, such credit still represents only a small fraction of total business borrowing at Southeastern banks. At the end of 1971, commercial banks in the Southeast had nearly \$12 billion outstanding in business loans. By

TABLE 1
SBA MINORITY ENTERPRISE LOANS—SOUTHEASTERN STATES
(By Type of Program)

| | Number | | | | Volume (\$ Thousands) | | | |
|-----------------------------------|----------|---------|---------|---------|-----------------------|---------|---------|---------|
| | 1969 FY* | 1970 FY | 1971 FY | 1972 FY | 1969 FY | 1970 FY | 1971 FY | 1972 FY |
| Economic Opportunity Loans | | | | | | | | |
| Direct | 336 | 404 | 504 | 523 | 3,450 | 4,769 | 6,028 | 7,002 |
| Participation | 16 | 26 | 13 | 4 | 264 | 472 | 241 | 59 |
| Guaranty | 192 | 199 | 182 | 170 | 2,357 | 2,694 | 2,453 | 2,375 |
| Total | 544 | 629 | 699 | 697 | 6,071 | 7,935 | 8,722 | 9,436 |
| Business Loans | | | | | | | | |
| Direct | 23 | 2 | 10 | 136 | 543 | 24 | 293 | 2,726 |
| Participation | 35 | 43 | 32 | 14 | 1,515 | 1,911 | 1,058 | 380 |
| Guaranty | 139 | 99 | 150 | 216 | 5,975 | 4,354 | 7,844 | 10,567 |
| Total | 197 | 144 | 192 | 366 | 8,033 | 6,289 | 9,195 | 13,673 |
| Total Loans | | | | | | | | |
| Direct | 359 | 406 | 514 | 659 | 3,993 | 4,793 | 6,321 | 9,728 |
| Participation | 51 | 69 | 45 | 18 | 1,779 | 2,383 | 1,299 | 439 |
| Guaranty | 331 | 298 | 332 | 386 | 8,332 | 7,048 | 10,297 | 12,942 |
| Total | 741 | 773 | 891 | 1,063 | 14,104 | 14,224 | 17,917 | 23,109 |

*FY — Fiscal Year ending June

way of comparison, total SBA minority loans represent only about one-half of one percent of the total banks' business loan volume. And even though minority business loans are increasing at a considerably faster rate than other business loans, there is no getting around that when compared with the total supply of business credit extended by banks, SBA minority loans are but a drop in the total credit bucket. But at least the SBA programs have widened the credit spigot for minority firms and provided them with greater access to credit at banks.

Loans approved under the Business Loan Program have accounted for most of the dollar growth in SBA minority loans during the last four years. Except during fiscal year 1970 (July 1969 — June 1970), when credit conditions were tight, SBA loan guarantees with banks advanced strongly each year. Meanwhile, credit extended *directly* by the SBA has increased every year but changed in form. In the early years, for every two dollars the SBA extended via direct loans, about one dollar in credit was extended by SBA bank participation loans. During the 1972 fiscal year, less than one-half million dollars in participation loans was extended as compared with nearly \$10 million in direct SBA loans.

At the same time, total SBA credit in the Southeast exceeded \$23 million, a 29-percent gain from the year before. This involved 1,063 loans, nearly one-fifth more than the year before. More than half of the money was extended under the stiffer requirements of the Business Loan Program and represented SBA guaranteed bank loans.

In the Southeast, the largest volume of SBA minority lending activity occurs in Florida and, particularly, in the greater Miami area. One contributing factor is that south Florida has a large

Cuban business population that qualifies for SBA assistance. And some of the Latin American owned banks and other banks in Miami were serving Cuban businessmen before they became active in the SBA programs. A larger proportion of the Miami loans seems to be made to existing firms rather than new businesses, a contrast to the record of some other parts of the Southeast.

Banks in both Jacksonville and Miami have also contributed to minority business financing in a way that complements their SBA lending, namely, by investing in two Minority Enterprise Small Business Investment Companies (MESBIC). A MESBIC is a SBA licensed, but privately owned and operated financing vehicle designed to furnish equity capital and long-term loan funds to small minority businesses. Thus, the MESBIC can inject seed and venture capital into a minority business enterprise while allowing the banks to supply short- and intermediate-term funds to the firm.

The extent of the recent financial participation by the Florida banks in their local MESBIC varies. As of June, three Jacksonville banks each invested \$100,000 and one supplied \$25,000 to Florida Crown M. E., Inc. In Miami, where the maximum subscription allowed any one investor in that MESBIC is \$15,000, five banks contributed a total of \$57,500 to Urban Ventures, Inc. These two Florida MESBIC's have also received investments from other local companies, including insurance and mortgage companies.

Banks in Louisiana, North Carolina, and Georgia also rank high among the other Southeastern states in making SBA minority enterprise loans. The activity of banks in these and other states is summarized in Table 2.

In Georgia, for example, two of the largest Atlanta banks were early entrants in the SBA

TABLE 2
SBA MINORITY ENTERPRISE LOANS
(By State)

| | | Number | | | | Volume (\$ Thousands) | | | |
|----------------|---------------|----------|---------|---------|---------|-----------------------|---------|---------|---------|
| | | 1969 FY* | 1970 FY | 1971 FY | 1972 FY | 1969 FY | 1970 FY | 1971 FY | 1972 FY |
| Alabama | Direct | 27 | 37 | 47 | 52 | 241 | 478 | 619 | 719 |
| | Participation | 7 | 25 | 9 | 4 | 137 | 538 | 233 | 100 |
| | Guaranty | 32 | 22 | 12 | 23 | 778 | 753 | 282 | 474 |
| | Total | 66 | 84 | 68 | 79 | 1,156 | 1,769 | 1,134 | 1,293 |
| Florida | Direct | 93 | 119 | 216 | 289 | 905 | 1,262 | 2,397 | 4,120 |
| | Participation | 6 | 5 | 5 | 1 | 343 | 270 | 245 | 15 |
| | Guaranty | 118 | 97 | 154 | 124 | 3,333 | 1,846 | 4,609 | 3,922 |
| | Total | 217 | 221 | 375 | 414 | 4,581 | 3,378 | 7,251 | 8,057 |
| Georgia | Direct | 55 | 66 | 59 | 82 | 319 | 615 | 636 | 1,098 |
| | Participation | 9 | 9 | 7 | 2 | 278 | 209 | 261 | 58 |
| | Guaranty | 54 | 39 | 28 | 40 | 1,088 | 1,047 | 1,182 | 1,324 |
| | Total | 118 | 114 | 94 | 124 | 1,685 | 1,871 | 2,079 | 2,480 |
| Kentucky | Direct | 27 | 27 | 23 | 30 | 355 | 368 | 355 | 542 |
| | Participation | — | 2 | 2 | — | — | 27 | 38 | — |
| | Guaranty | 21 | 26 | 9 | 12 | 429 | 506 | 278 | 571 |
| | Total | 48 | 55 | 34 | 42 | 784 | 901 | 671 | 1,113 |
| Louisiana | Direct | 29 | 43 | 41 | 81 | 660 | 586 | 559 | 1,267 |
| | Participation | 1 | 7 | — | — | 250 | 755 | — | — |
| | Guaranty | 7 | 15 | 39 | 97 | 101 | 554 | 1,447 | 3,433 |
| | Total | 37 | 65 | 80 | 178 | 1,010 | 1,895 | 2,006 | 4,700 |
| Mississippi | Direct | 26 | 52 | 37 | 31 | 372 | 751 | 642 | 570 |
| | Participation | 12 | 7 | 12 | 5 | 274 | 124 | 223 | 82 |
| | Guaranty | 14 | 16 | 19 | 12 | 176 | 677 | 743 | 908 |
| | Total | 52 | 75 | 68 | 48 | 822 | 1,552 | 1,608 | 1,560 |
| North Carolina | Direct | 41 | 43 | 51 | 36 | 459 | 524 | 667 | 658 |
| | Participation | 7 | 6 | 1 | — | 185 | 267 | 60 | — |
| | Guaranty | 44 | 51 | 36 | 36 | 1,605 | 974 | 968 | 1,276 |
| | Total | 92 | 100 | 88 | 72 | 2,249 | 1,765 | 1,695 | 1,934 |
| South Carolina | Direct | 51 | 1 | 28 | 45 | 594 | 1 | 331 | 518 |
| | Participation | 6 | 5 | 4 | 3 | 231 | 88 | 106 | 84 |
| | Guaranty | 18 | 10 | 9 | 19 | 199 | 117 | 186 | 379 |
| | Total | 75 | 16 | 41 | 67 | 1,024 | 206 | 623 | 981 |
| Tennessee | Direct | 10 | 18 | 12 | 13 | 88 | 208 | 114 | 236 |
| | Participation | 3 | 3 | 5 | 3 | 81 | 105 | 134 | 100 |
| | Guaranty | 23 | 22 | 26 | 23 | 623 | 574 | 601 | 655 |
| | Total | 36 | 43 | 43 | 39 | 792 | 887 | 849 | 991 |

*FY — Fiscal Year ending June

minority lending programs and are particularly interested in expanding their minority loans. And, like many other larger Southeastern banks, they have been willing to make a substantial commitment to ensure the success of their programs.

Another large Atlanta bank is a notable exception in that it does not participate with the SBA. It is, nevertheless, committed to helping improve the conditions of minorities through a subsidiary, which allows this bank to make high-risk minority loans and undertake other minority development programs in those cities where it has branches. By employing a subsidiary, it can limit the bank's exposure and extend credit on terms that the bank is prohibited from doing directly. In the last four years, this bank's subsidiary has made over 230 minority enterprise loans, totaling more than \$2 million, and has served as an example of how a bank can, on its own, aid minority businessmen in the financing of their operations.

During any one year, only about one in ten of the more than 2,500 Southeastern banks participates

in the SBA minority lending programs. The level of participation, however, tends to understate the availability of SBA credit in those states where branch banking is permitted. One bank may be active in several different markets where it has branches. On the other hand, banks that are not active are, nevertheless, familiar with SBA programs and procedures.

The Organization of Bank Minority Loan Programs

Because SBA programs are different and minority loans, in particular, involve somewhat complex credit problems, many banks centralize their minority lending operations. Some of the larger banks also often use an inner-city branch office to make and service minority business loans. All branch offices, however, generally serve as points where initial inquiries about SBA loan programs can be received and the inquirer referred to the special minority loan officer.

Typically, most banks assign a special loan officer

to handle all SBA minority loans for their bank. This allows bank personnel to develop the necessary expertise in extending credit to minority businesses; at the same time, bank management can maintain the proper degree of control and direction over the minority loan program.

Through experience, many banks have found that seasoned commercial loan officers are best suited to work in their minority loan programs. Making minority enterprise loans tends to involve some of the most difficult credit decisions a bank faces. And, yet, because this program requires a deep commitment by the loan officer to help the minority businessman succeed, a balance between the experience of an older loan officer and the enthusiasm of the younger banker seems necessary.

In the early stages of making minority loans, some banks initially tried using inexperienced and/or uncommitted lending personnel in an attempt to reduce personnel costs for their minority loan operations. Then, as loan payments fell into arrears and losses rose, banks were forced to use more qualified and dedicated personnel.

There are some banks that do not centralize their SBA minority lending but make it available at all branches. Such a decentralized approach has some disadvantages and, therefore, may result in fewer minority loans being made by the bank than if the operation were centralized. If each branch or loan officer is evaluated as a profit center, the branch or loan officer may be reluctant to put a minority loan on the books. They realize that the chances of default are higher than normal and do not want a bad loan on their record. They may pass over several reasonable prospects because they are waiting for a "good" minority loan (as judged by regular credit standards). Thus, experience would seem to indicate that as long as minority loans entail more risk than other commercial loans, they are best handled and evaluated through a separate bank program and by one responsible person who is committed to making minority loans.

Reviewing Minority Credit Requests

While the number of credit approvals in the Southeast has increased, so has the total number of loan applications. In most cases, the minority loan officers must review a number of applicants and business situations before they find the right combination of applicant and business that they feel will have a reasonable chance of success. For every loan package approved, the bank may review from two to a dozen other situations that are not considered satisfactory. In addition to the prospects developed by the banks themselves, the SBA and other groups interested in promoting minority enterprise often refer applicants to local banks and help to prepare the loan applications.

If an application is complete, the SBA can usually

approve or reject a bank's request for a guarantee in three to ten days. In the Southeast, the SBA approves from 80 to 90 percent of the applications it accepts. Therefore, while some proposals are withdrawn for lack of complete supporting data and other reasons, only 10 percent or less are actually disapproved by the SBA.

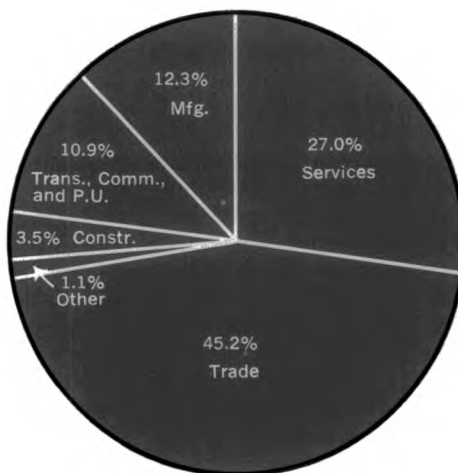
Collateralizing Minority Loans

In approving minority loans, the banks and the SBA try to ensure that the borrower collateralizes the loans as fully as possible. But herein lies a basic problem: If most minority borrowers had sufficient collateral to support a regular business loan, they would not normally need SBA-secured credit but could obtain a regular bank loan if it were not for the longer maturity involved.

Therefore, because sufficient collateral is a major problem for minority borrowers, the SBA and the banks are authorized to accept a wide variety of collateral. Acceptable as security on SBA credit are mortgages on land, buildings, equipment, and chattels; assignment of warehouse receipts; and guarantees and personal endorsements. Because of the SBA guarantees, banks also can accept as collateral some security that they would otherwise be prohibited from using as collateral; i.e., second mortgages.

Banks must sometimes look beyond the normal standards of collateral and recognize the personal contributions of the owners as a valuable form of

Among new minority businesses receiving SBA credit, trade and services predominate



Note: Figures represent number of loans for U.S. in 1971.

capital. In some cases, the investment of "sweat equity" may be all that a minority businessman has to contribute in the way of capital. He may actually have a negative net worth, but because he is still in business shows he has determination and some business ability. And these ingredients are important assets in any business enterprise.

Problems Banks Face in Making Minority Loans

Experience with minority lending programs shows that a major obstacle to considering a minority loan application (indeed, this is generally a problem with most small businesses) is the lack of adequate past financial data on which to project future expectations. Many small businesses simply do not keep adequate records because they do not see the value of using financial data as a management tool. At times, bankers have to undertake a real educational job to show these businessmen how important it is for them to use financial data in managing their firm. Nor are prospective new minority business ventures exempt from this same problem; for here, too, many new proposals often lack proper supporting financial records and necessary projections. A great deal of bank and SBA assistance in the preparation of the loan application is often necessary before the business situation can really be evaluated.

Debt vs. Equity Financing

Banks recognize that when any business firm relies almost entirely on debt financing, that firm will operate under greater financial uncertainties than one able to raise sufficient equity capital. Sound credit standards suggest that bank loans are not good substitutes for equity capital, and this is aside from any consideration that equity serves to protect the firm's creditors from possible losses. Equity also serves as a cushion that the firm can fall back on if initial start-up costs are high or during other periods when the cash flow might not be sufficient to meet debt repayments. To overcome this problem, there have been proposals that would allow the SBA to guarantee bank equity investments in business firms. Greater use of the MESBIC concept is a further solution to this problem.

Heavy initial debt financing also makes additional financing more difficult to arrange and places banks in a difficult position. Since SBA financing is not designed to meet either short-term needs or the additional financing needs of the firm, the minority firm must turn to his banker for short-term credit and for unexpected contingencies. Therefore, as a rule of thumb, many banks recognize that they must be willing to increase their financial commitment to a minority firm for an additional 10 percent of the original loan if more credit is needed. And in the beginning, if the loan officer feels that he could

not increase the bank's exposure for an additional unguaranteed side note, he really should not make the loan at all, otherwise he would be doing the applicant a disservice.

For these reasons, banks generally prefer firms with low capital requirements. Many service and retail trade firms are in the low capital category, particularly those that do not have to stock large inventories and that do not require heavy use of accounts receivable.

Following Up Loan Approvals

Making successful minority enterprise loans not only requires careful evaluation before the credit is extended, but also a great deal of follow-up work afterwards by the bank loan officer. And, because of the additional effort and follow-up service that is required, one loan officer may not adequately handle more than 30 to 40 minority loans at any one time. Since the managers of many minority firms often lack basic managerial expertise (although they may well possess the technical skills of their trade) the loan officer must be ready to see that the businessman receives additional financial and nonfinancial help if it is necessary.

In making minority loans, bankers become aware that minority pride, or a defeatist attitude, may prevent the minority businessman from seeking outside advice or help on his own until it is too late to easily correct his problem. For this reason, minority loan officers must develop close personal contacts and a good working relationship with the minority businessman if small problems are to be prevented from developing into major difficulties. This does not mean the banker should attempt to run the business, but he can be there to spot problems as they develop and see that the owner gets the assistance that will help him to correct his difficulty.

Banks and SBA, through their other specialized programs, are in a good position to secure help for minority businesses. The most basic assistance often comes in securing needed accounting, legal, and managerial help. And because of their prominence in and knowledge of a business community, they often are able to enlist the aid of other businessmen and businesses in helping minority firms. Even establishing trade credit may be a problem for some minority firms, for without trade credit they must pay cash for all their supplies and material. If the local banker stands behind them, however, he can help the minority businessmen establish trade credit and open the doors of suppliers and new customers to them.

The Return to Banks

At best, most banks can expect no quick (or only small) monetary profits after they establish a

minority loan program. The start-up costs can be a heavy drain on the interest income generated from minority loans, but this experience is not unlike other new services that generated large initial losses. For example, many banks have experienced net losses when they introduced charge cards and have long provided such loss leaders as trust departments. But experience shows that the results of minority lending will not be nearly as successful if the program is not approached as if it will eventually be profitable. Minority loans should be treated as loans and not as civic minded grants or gifts that the bank will just write off and never recover. The latter approach is unfair to the minority businessman; he needs help, not a gift that results in his failure. If banks make only a partial commitment or take a token approach, they are nearly certain to sustain losses for themselves (and more importantly, for the minority firms) without developing any of the advantages that more experience in minority lending would eventually generate for the bank.

The overall return on minority loans tends to be lower than for regular business loans for a variety of reasons. Compensating deposit balances are generally not required with minority loans, although they are a normal part of most commercial loan agreements that increase the effective rate of return to the bank. Moreover, not all of the interest payments accrue to the bank. The bank must pay one-fourth of one percent of the previous year's loan balance to the SBA for the loan guarantee.

Bankers cite other causes for the low profitability of minority loans. Administrative costs in making small loans are high relative to the loan principal, minority loans being no exception. Working with the SBA does require additional documentation, and there are delays in obtaining approvals. Moreover, many small business firms tend to be slow in making their payments and, on occasion, have large overdrafts on their checking accounts, although this is not always the case.

Individual banks with an established minority loan track record report their loan loss experience varies from 1 percent to 20 percent of their SBA minority loan volume, with the SBA covering 90 percent of this loss. These losses do not take into account any additional side notes that the banks have made to the borrower, which may eventually double the exposure of the banks to losses. This loss experience is pretty much in line with that reported by the SBA. In the Southeast, the SBA must "buy back" about 10 percent of the loans it has guaranteed. But, in only about half of the "buy back" situations must the firm be liquidated by the SBA.

When the SBA buys back one of its guaranteed loans from a bank, it can usually be counted on to pay off the guaranteed portion of the loan and the accrued interest promptly—within 15 days. The SBA

guarantee only repays the bank; it does not absolve the businessman from his financial obligation to the SBA and the bank. The SBA can foreclose on the pledged collateral to recover its interest in the loan, and the bank can obtain a judgment on any assets to recover its losses. Almost unanimously, bank loan officers indicate a great deal of concern for the welfare of the minority loan applicant and go to great lengths to protect him from the consequences of a failure.

The lower range of the reported loss figures reported by banks may reflect some of the newer loans that have not yet become delinquent or may reflect a tendency by the banks to delay charging off loans as long as there is a chance that a workout situation will succeed. (Since the SBA guarantee covers the accrued interest payments as well as the loan principal, banks do not feel as much pressure to cut their losses as quickly as they might with a business conventional loan. They know they will be able to recover most of the interest and principal.)

Some of the larger losses reported by banks involved loans that they approved when their programs were new and represent loans that experience now indicates they should avoid. These charge-offs should be calculated as part of the initial cost of developing expertise in a minority enterprise lending program. And as any banker realizes, if he is running a lending program without any defaults, this is a sure sign that he is not making as many loans as he should be making.

Developing Expertise in Minority Lending

As banks become more involved in making minority enterprise loans, they develop the expertise to select better those business situations that have a reasonable chance of success. One approach that has certain advantages is to place a qualified person in a going business. In some cases, an experienced employee of the business can be found that will make a suitable owner when the old owner wishes to retire or leave the business. In financing a "buy-out" situation, however, banks have learned to examine the situation carefully. In some cases, the current owners are only trying to salvage something out of a failing situation and this may be particularly true if the business is located in a transitional neighborhood.

Banks and the SBA have found that franchise operations may open up opportunities for minorities to establish successful businesses and have found that there are definite advantages in working with a *tested* franchise operation that are not available in most new business operations. Generally, the franchiser sells the business as a package and can provide the franchisee with valuable training, technical assistance, and management advice before operations begin and with the much needed follow-up help after the business begins operation.

Financing a franchise operation may include many of the same disadvantages involved in "buy-out" situations. In addition, the franchiser may not have a sound concept or the terms of the agreement may not be advantageous to the minority franchisee.

Leased businesses are another form of business operation that bankers will scrutinize carefully before considering financing. Gasoline service stations are a good example of a leased operation and bankers generally report mixed results in working with minority-owned service stations. This is, however, a field where the entry is generally open to minorities and one where they may have some previous work experience.

In order to reduce the failure rate, banks usually avoid, or at least examine, more closely firms that are extremely small and that are likely to remain so. Firms without much potential for growth include one-man operations or "mom and pop" businesses, particularly small eating establishments and grocery stores. Financing these firms is not only risky but does little in the way of creating employment opportunities.

Banks also are reluctant to finance business operations that are likely to remain as only a part-time job for the owner. But, if the owner has another job, the income from the second job may allow him to plow back all his profits into the company or to work without having to draw a salary from the new business until it is firmly established. The same is also true when the owner has a working spouse or partner that can provide an outside source of income. Bankers recognize these as ways of building up equity in the new firm.

Why Some Banks Don't Make SBA Loans

Concern over possible losses is merely one reason banks give for not actively promoting a minority lending program at their bank. Many are aware of the inherent problems and costs involved in improperly extending intermediate- and long-term credit to small, and generally new, minority business firms. A successful minority lending program, as noted before, requires considerable investment in skilled personnel, funds, and time, and some banks recognize that this would require more resources than they are prepared to undertake. Experience would seem to bear this out: Those banks with the most successful programs are the ones that have been willing and able to expend a considerable amount of resources to fully develop their programs. But some of the larger and more highly specialized banks have not actively promoted minority lending. And it is these banks that one would expect to establish a special minority loan program.

Still, lack of bank participation in SBA minority lending programs does not necessarily indicate a lack of support of minority enterprise financing. Some banks feel that if a loan is good enough to be

made, the bank itself should make it, and if the loan is not bankable, then the bank should not lean on a Government guarantee. A strong feeling exists at some banks that extending credit to minorities is a job better left to private enterprise and that the Federal Government through the SBA should stand clear.

Banks' experience in dealing with the SBA in the past may also account for some of their unwillingness to become involved with SBA minority enterprise programs now. Until recent years, it was a common complaint that the SBA required voluminous paper work in connection with loan applications and follow-up reports and often took excessive lengths of time to process loan applications. In the last few years, the SBA has reduced these delays and paper work.

What Makes For Successes?

Some successful minority businessmen have worked previously in their respective fields and brought with them considerable technical expertise. But prior experience is not the sole ingredient for launching a successful firm; there is no substitute for administrative and managerial ability. And because minorities generally lack a business background, deficiencies in administration and management are often the major causes of failure among minority businesses.

Examples of failing and successful minority enterprises abound. A typical success story (and showing the difference proper financing and managerial and technical assistance can make in launching a minority businessman into the economic mainstream) is the case of a black general contractor. He was located in one of the Southeast's most rapidly growing cities, had the necessary technical qualifications to complete large projects, but was caught in a vicious trap. Like most other minority contractors, he was unable to obtain any large construction jobs because he could not obtain the necessary bid, payment, and performance bonds. The bonds were not obtainable because he lacked the required working capital. Yet, he could not raise the working capital without being able to bid on a large construction contract, and the latter required bonding. However, through an SBA guaranteed loan at a local bank, he received the necessary working capital funds that enabled him to be bonded and to bid on and successfully complete a low-income apartment project. Once he had proved his ability to complete this large job, new avenues of bonding and financing opened up for him. Now he has gone on to win other contracts, including the construction of a luxurious townhouse condominium development.

Success can come in less grandiose forms of business activity. Retail trade stores and personal service firms are areas that minorities have long

successfully operated, particularly those stores located in and serving the minority community. Grocery stores, service stations, and eating establishments lead the list. Many minority businessmen, however, still have a difficult time in successfully competing in markets that depend on trade from the entire community. In many cases, they face tough competition from more experienced established businesses. But perhaps the greatest disappointment to the minority businessman comes when members of his own community do not patronize him.

Conclusions

To sum matters up, the SBA loan programs—despite certain drawbacks common to minority enterprise lending—do provide banks with tangible and intangible advantages. The SBA loan programs can provide a bank with a financial program that allows it to extend credit to customers it might otherwise have had to turn down.

The bank can usually develop a profitable financial relationship with the successful minority firms that will continue in the future. In addition to reducing the risk of making minority loans, the SBA guaranteed loan allows banks to take second mortgages as collateral and to make loans in excess of their statutory loan limits.

Other features of the SBA loans offer further advantages to banks. The SBA guaranteed portion of the loan provides banks with an investment as

safe as a Government bond. The SBA guaranteed portion may serve as collateral for the banks' Treasury Tax and Loan Account and for advances from the Federal Reserve Banks. The guaranteed portion of SBA loans may also be used as collateral for trust accounts at banks. Some states allow banks to pledge the guaranteed portion for public funds.

And, even though most SBA loans generally have long maturities, the guaranteed portion of the loan can provide the bank with a certain amount of liquidity. Bank examiners consider the guaranteed portion of the loan in computing certain liquidity ratios and generally do not classify the guaranteed portion of the loan even if they feel the entire loan should be written up. Because of the guarantee, that portion can be sold to investors while the bank continues to service the entire loan.

By serving small minority businesses, bank personnel learn directly of the problems and needs of the disadvantaged and can relate their experience to other bank personnel. The contact with minority firms can also be advantageous to the banks in understanding conditions in the inner city and provides tangible evidence that banks are helping solve some of the country's pressing social problems. Finally, a bank's commitment to aid minority enterprises offers an opportunity for concerned, and generally young, bankers to ply their trade in a manner beneficial to both their bank and to the minority businessman who has long had to operate outside the economic mainstream.■

Bank Announcements

August 31, 1972
LAKE COUNTY BANK
Leesburg, Florida

Opened for business as a nonmember. Officers: Fred Sinclair, president; and Don K. Baker, vice president. Capital, \$400,000; surplus and other capital funds, \$400,000.

September 13, 1972
RUTLAND CENTRAL BANK
St. Petersburg, Florida

Opened for business as a nonmember. Officer: Hubert Rutland, president. Capital, \$800,000; surplus and other capital funds, \$600,000.

September 15, 1972
BARNETT BANK OF NORTH JACKSONVILLE
Jacksonville, Florida

Opened for business as a nonmember. Officers: James H. Taylor, president; and Thomas W. O'Neil, vice president. Capital, \$400,000; surplus and other capital funds, \$350,000.

September 19, 1972
**SECOND NATIONAL BANK
OF WEST HOLLYWOOD**
Hollywood, Florida

Opened for business. Officers: Maynard Abrams, chairman; W. A. Hofman, president; H. C. Satchell, executive vice president; and J. W. Snyder, vice president and cashier. Capital, \$400,000; surplus and other capital funds, \$600,000.

September 21, 1972
GAINESVILLE ATLANTIC BANK
Gainesville, Florida

Opened for business as a nonmember. Officer: Hugh E. Shiver, president.

(Continued on p. 179)

Supercalifragilisticexpialidocious Growth Returns to Florida

By William D. Toal

The recent tempo of Florida's economy suggests that after a brief pause in 1970, the rapid growth experienced during the Fifties and Sixties has returned once again to the Sunshine State. Much has been written about Florida's boom of the past two decades, with recent attention being focused on central Florida's economic growth, a phenomenon stimulated to a large measure by the Disney World development. Florida's renewed economic expansion, however, is much more widespread geographically than is commonly acknowledged. We might well borrow a word from a Disney movie and ask, "Is the recent uptick in Florida's economy a return of 'supercalifragilisticexpialidocious' growth?"

Throughout 1971 and thus far in 1972, the economic pace of the Sunshine State quickened. The unemployment rate, one indicator of economic activity, has been heading downward since early 1971. In order for this to have taken place, there had to be a sharp expansion in employment because the civilian labor has been growing rapidly. Except for the fourth quarter of 1971, this growth in jobs has been forthcoming, with nonfarm employment expanding at a pace generally greater than that of 1970 and almost as fast as that of the Sixties. Although the expansion in jobs has taken place among all types of industries, with the possible exception of Federal Government employment, the sharpest contrast with 1970 is in construction and manufacturing, particularly durable manufacturing. Both of these industries reversed the sharp job losses of 1970 with gains beginning in 1971 that continued into 1972.

Two Freezes Hit Florida

Personal income has also expanded at a brisk pace, especially during the last three quarters of 1971. The country's inflationary problems have, of course, accelerated income growth measured in dollar terms. Even though the wage-price freeze held down the growth of the wage and salary portion of personal income in 1971's fourth quarter, a sharp rise in farm proprietors' income maintained personal income growth at the previous quarter's rate. In the first quarter of this year, despite a sharp pickup in wage and salary disbursements following the wage-price freeze, personal income growth slowed, as farm cash receipts dropped and contributions to Social Security increased.

Throughout 1971, Florida farmers fared very well, despite a severe freeze that caused crop receipts to nose-dive early in the year. Both crop and livestock receipts were up sharply over the previous year, with crop receipts providing most of the irregular quarterly fluctuations. So far in 1972, the

farmers' outlook continues rosy, despite the first quarter decrease in farm cash receipts. Citrus sales are expected to reach a new record in dollar value for the year.

Although a general boom is taking place in Florida, the biggest boom of all is in construction activity. Measured by construction contract awards, the construction sector advanced strongly throughout most of 1971. These rapid gains not only continued but, in fact, accelerated during the first half of 1972. This robust performance has been centered in the residential area, which had slackened off in 1970. Florida is well known for its rapidly expanding construction sector. This expansion is directly related to the State's fast population growth and has been helped along by a sharp rise in mortgage lending by savings and loan associations, which have enjoyed rapid increases in new saving since mid-1970. The recent residential construction boom has made Florida's construction activity of the Fifties and Sixties look paltry by comparison.

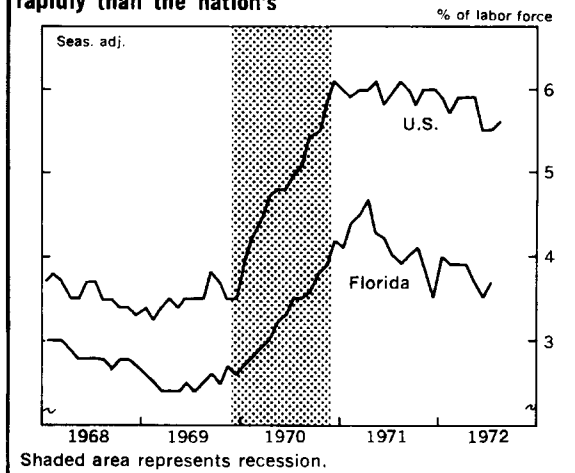
Florida banks have also participated in the economic revival. Rising personal income and strong employment gains have stimulated deposit growth in the last year and a half. Growth in demand deposits picked up strongly in 1971, after little growth the preceding year. Florida banks have used these additional funds to expand both loans and investments at a more rapid rate than in 1970.

The 1970 Slowdown

This renewed expansion of the Florida economy at a pace equal, if not exceeding, the average growth rate of the Sixties has been a welcome breath of fresh air for Floridians after a rather sluggish 1970. Previous articles in this Review have documented that Florida was affected adversely by the national recession of 1969-1970.¹ But it is generally believed that Florida, because of its economy's unique structure and unique growth pattern, has suffered smaller economic contractions than nationally. A comparative look at Florida and U. S. unemployment rates in the chart substantiates this. Florida's unemployment rate did rise in tandem with the nation's unemployment rate; but the extent of its rise was much less than nationally, and its decline began much sooner.

What is so unique about Florida's economic growth and economic structure that allows it to weather national recessions so comfortably? To begin with, unlike other states, Florida's growth has been triggered by one very important characteristic—its population growth. The rapid

Florida's unemployment rate has recently fallen more rapidly than the nation's



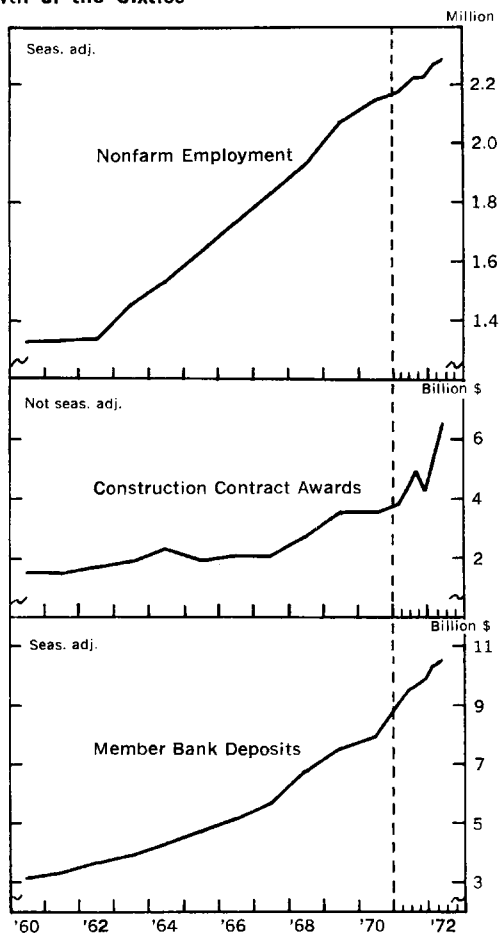
growth in Florida's population, stimulated by in-migration of people seeking the many advantages of the Sunshine State's climate and location, is the driving thrust to its economic growth. Just how rapid has this population growth been? Florida's population has been rising at a much faster pace than nationally throughout the past two decades and on into the present. The long-run trend in population advance did slow down somewhat in the Sixties, but it was still nearly three times as fast as nationally.

Structure and Stability

The Florida economy, spurred on by rapid population gains, has thus developed in a unique way; its economic structure is more heavily weighted toward serving local markets, rather than exporting goods and services to other states and regions of the country. As compared with the nation, a higher proportion of Florida's work force is employed in the services and trades and a smaller proportion is employed in manufacturing, particularly in durable manufacturing. This economic structure reflects the internal focus of Florida's economy. A smaller proportion of heavy industry, which is usually more closely tied to national economic developments, means that Florida is less dependent on the nation's economic environment than most states and, consequently, is able to move through national economic recessions with a minimum of discomfort. This, of course, does not immunize Florida from all economic ills. For example, the State has a larger proportion of its work force in construction than does the nation; and construction, particularly residential, did take a dip in 1970. Moreover, Florida's tourist industry,

¹Arnold Dill, "Florida's Torrid Growth Cools a Bit," this Review, February 1970, pp. 27-31.

Florida's recent growth matches or exceeds its rapid growth of the Sixties



Note: For 1971 and 1972, quarterly data are shown. Quarterly data for construction contract awards and deposits are expressed at annual rates. Data for 1960 through 1970 are annual totals except for nonfarm employment, which is an annual average. Total construction contract awards are shown by permission of F. W. Dodge Division, McGraw-Hill Information Systems Company.

which caters to a national market, is influenced by general economic tides. In general, however, the Sunshine State's economy, because it relies less on nationally oriented industry, feels national downturns less severely.

One other facet of Florida and its economy has strengthened its resistance to national economic woes. The lure of sunshine, easy living, and, perhaps, tax advantages has brought about a massive influx of retirees. Proportionate to its size, Florida has a larger number of older and retired people than do most other states. As a result of this older age distribution, transfer income (i.e., Social Security payments) and property income (e.g., private pension and interest income) make up a substantially greater portion of personal income in Florida than they do nationally. These sources of

income have traditionally remained more stable than wage and salary disbursements, which are less important in Florida's personal income make-up than they are nationally. This too, of course, has added to the stability of Florida's economy.

Florida's Growth Spreads Out

Most areas now appear to be expanding at approximately the pace that characterized the decade of the Sixties, indicating that rapid economic growth has certainly returned to Florida. Employment during the last year and a half increased at almost as fast a pace as that experienced during the Sixties. And construction activity, particularly residential, has been booming. Although some of this surge may be related to a bounce-back after a rather sluggish 1970, there can be little doubt that Florida is once again back on the growth track.

The breadth of this expansion has been even more impressive. While in the past, Florida's growth has been largely limited to the lower two-thirds of the State, today's expansion appears to be reaching every nook and cranny of Florida. The Panhandle region, in particular, the State's last economic frontier, is now beginning to come alive; and, of course, the effects of Disney World on central Florida have by now become common knowledge. Furthermore, Jacksonville, Florida's first industrial center, appears to be readying for a new round of expansion.

As the table shows, only the Melbourne-Titusville-Cocoa metropolitan area suffered employment losses from the same time period one year ago. With the reductions in aerospace expenditures, this area, the home of the Cape Kennedy space facility, has undergone a contractionary transition for several years now. The designation of the Cape as the launching site for the space shuttle program has, however, given this part of the State at least some hope for a partial revival.

"A Case of Comic Relief"

To the northwest of the Cape, though, things are really jumpin'. Mary Poppin's expression, "supercalifragilisticexpialidocious," probably comes close to describing the impact Disney World has had on central Florida and, in particular, the Orlando area. While the Disney complex was initially expected to have a first-year attendance of 8 million, this figure has since been revised upward—first to 10 million and then to 12 million, as droves of people have become infatuated with Mickey and his Magic Kingdom. The employment at the Park has reached over 10,000 workers and now ranks as Florida's largest employer, replacing another Orlando firm, Martin Marietta, for this

Economic Growth Hits Most Corners of Florida

| | Unemployment (% of Labor Force) | | Nonfarm Employment (Thousands) | | |
|------------------------------------------------|------------------------------------|------|-----------------------------------|-------|-----------|
| | 2nd Quarter 1972 | 1971 | 2nd Quarter 1972 | 1971 | % Chg. |
| Daytona Beach | 3.2 | 3.4 | 47.8 | 46.0 | 3.9 |
| Fort Lauderdale- Hollywood | 3.1 | 3.9 | 191.0 | 181.4 | 5.3 |
| Jacksonville | 2.3 | 2.4 | 194.3 | 193.0 | 0.7 |
| Lakeland-Winter Haven | 5.5 | 7.1 | 78.8 | 73.5 | 7.2 |
| Miami | 4.9 | 6.1 | 528.0 | 519.3 | 1.7 |
| Melbourne-Titusville-Cocoa (Brevard County) | 5.3 | 6.3 | 70.9 | 71.3 | -0.6 |
| Orlando | 3.0 | 4.1 | 169.7 | 153.0 | 10.9 |
| Pensacola | 2.5 | 2.7 | 71.8 | 69.2 | 3.8 |
| Tallahassee | 1.8 | 1.6 | 49.0 | 46.3 | 5.8 |
| Tampa-St. Petersburg | 2.3 | 3.1 | 334.1 | 315.5 | 5.9 |
| West Palm Beach | 4.1 | 4.9 | 113.4 | 111.0 | 2.2 |

distinction. The boom caused by Disney World has spread out all over central Florida. Lakeland, Tampa-St. Pete, and even the Brevard County area have felt the economic shock waves. Many large residential and commercial complexes have been announced. And then, of course, the announcement of the Ringling Brothers Barnum and Bailey Circus facility, which is to be built 30 miles southwest of Disney World, will make central Florida even more of a tourist mecca.

In the northeast corner of the state, Jacksonville, whose growth had been slower than in other areas of Florida, continued to post only a modest employment advance over the last year and a half, despite a low unemployment rate. The recent announcement of Westinghouse-Tenneco to build a plant on nearby Blount Island that will produce offshore floating nuclear power plants should provide a big boost to Jacksonville's economy in the future. When in full production, this plant could employ as many as 10,000 workers, with an annual payroll of approximately \$100 million. Construction of this facility will provide

an immediate impact on the Jacksonville economy and contribute additional steam to construction activity, which revived during the past year.

The Panhandle area has also begun to participate in Florida's growth. In fact, this region may possibly be Florida's newest growth center. The discovery of oil in the Jay Fields in the northwest corner of the State will provide a lift that cannot be underestimated. More generally, residential housing projects along and near the Panhandle's Gulf Coast, along with a surge of road construction, have also bolstered this region's economy. In South Florida, where economic activity has been expanding at a fever pitch, evidence suggests that some of the rapid growth may be shifting from southeast Florida to southwest Florida along the Gulf Coast. The recent designation of two new metropolitan areas in this region, Fort Myers and Sarasota, confirms this view.

The Questions Ahead

Whether Florida in the Seventies will match or exceed the economic strides it made in the Sixties is, of course, still an open question. There does appear sufficient evidence, however, based on the last year and a half's experience, to indicate that the Sunshine State's economy is off and flying again. Moreover, the current surge of economic expansion appears to be touching all corners of the Peninsular State. Many Floridians, convinced that their state can and will achieve a rapid rate of growth in the current decade, have raised another question: "What *kind* of growth will be best for all Floridians in the long run?" A growth that is balanced, protects Florida's many natural resources, and safeguards the environment is the answer most often given. Thus, as "supercalifragilisticexpialidocious" growth returns to Florida, the question remaining in many people's minds is not, "Will growth be rapid?" but, "What *kind* of rapid growth will it be?" ■

Bank Announcements (Continued from p. 175)

September 21, 1972

THE BANK OF CORAL SPRINGS Coral Springs, Florida

Opened for business as a nonmember. Officer: R. L. Hofmann, president. Capital, \$600,000; surplus and other capital, funds, \$400,000.

September 25, 1972

FIRST NATIONAL BANK OF JAY Jay, Florida

Opened for business. Officers: C. D. Bailey, chairman; Jesse L. Golden, president; Charles Stephens,

vice president and cashier; Sara Youngblood and Virginia Hendricks, assistant vice presidents; and Larry Booker and Evelyn Westmoreland, assistant cashiers. Capital, \$250,000; surplus and other capital funds, \$417,989.

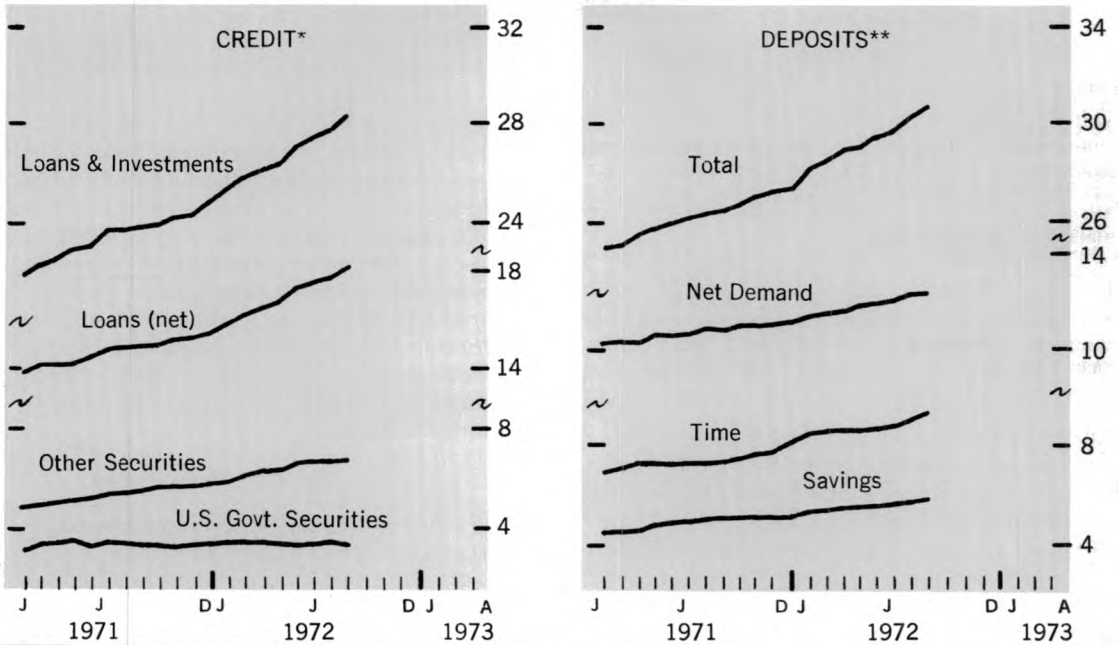
September 26, 1972

BANK OF CENTRAL MISSISSIPPI Carthage, Mississippi

Opened for business as a nonmember. Officer: H. M. Mitchell, president. Capital, \$250,000; surplus and other capital funds, \$240,000.

BANKING STATISTICS

Billion \$



LATEST MONTH PLOTTED: AUGUST

* Figures are for the last Wednesday of each month.

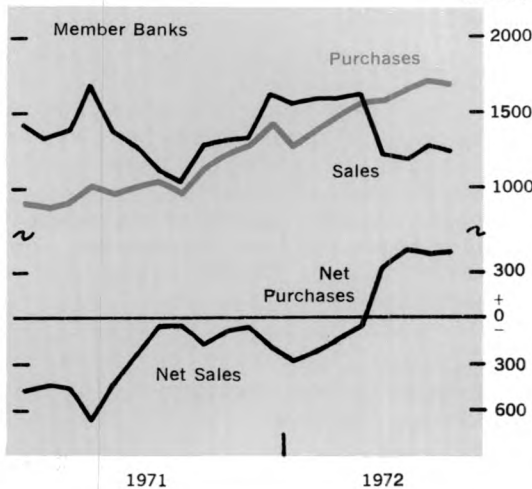
** Daily average figures

SIXTH DISTRICT

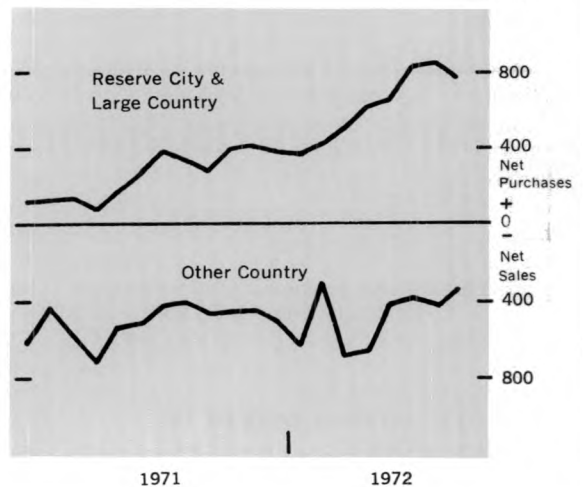
BANKING NOTES

FEDERAL FUNDS TRANSACTIONS

Million \$



Million \$



Note: Net purchases (purchases less sales); net sales (sales less purchases)

SIXTH DISTRICT MEMBER BANK BORROWINGS INCREASE

District member banks have stepped up their borrowing from other banks and from the Federal Reserve Bank of Atlanta to satisfy loan and investment needs. In fact, the District, normally a net lender or seller of Federal funds, moved in late April to a position as a net borrower or buyer.¹ (The last time the District was a net borrower was in 1969 and early 1970.) From the first of May through the middle of September, purchases of Federal funds have exceeded sales by a daily average of \$400 million.²

All types of member banks—reserve city banks, the very large country banks, and the other country banks—increased their Federal funds buying and reduced their Federal funds selling. Reserve city and very large country banks, customarily net borrowers, expanded their net borrowings from \$460 million in January to \$775 million in August. The other country banks, customarily net lenders, maintained their net lending position but reduced their loans of Federal funds by \$280 million since the beginning of the year. In August, their net lending position was \$350 million.

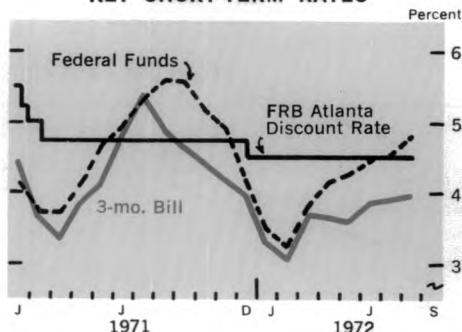
These changes are not the result of just a few banks borrowing more or lending less but have come from an increase in the number of borrowers and a decrease in the number of lenders. While only 110 banks borrowed Federal funds in January, 162 did so in August. Virtually all of the additional banks buying Federal funds were medium and small country banks. At the same time, the total number of member banks selling Federal funds dropped from 460 to 437. (Many banks, of course, are both buyers and sellers of Federal funds.) Consequently, the number of net borrowers between January and August, increased from 70 to 110; the number of net lenders decreased from 430 to 382.

A combination of conditions contributed to the District's reversed position in Federal funds volume from net lender to net borrower. Strong loan gains during 1972 combined with continued purchases of securities have exceeded the growth in deposits at both reserve city and country banks. Total member bank credit (loans and investments) from April to August increased about \$675 million more than deposits. And these circumstances have caused banks

¹Federal funds transactions involve the borrowing (purchase) or lending (sale) of reserve balances of member banks at Federal Reserve Banks, usually for one business day and at a specified rate of interest.

²This figure and others, unless noted otherwise, represent a daily average.

KEY SHORT-TERM RATES



FEDERAL FUNDS TRANSACTIONS (Millions of Dollars)

| | January 1972 | | | August 1972 | | |
|--------|--------------|-------|------|-------------|-------|------|
| | Purchases | Sales | Net | Purchases | Sales | Net |
| Ala. | a | a | - 97 | a | a | - 98 |
| Fla. | 343 | 528 | -185 | 490 | 417 | + 73 |
| Ga. | 437 | 392 | + 45 | 652 | 182 | +470 |
| La.* | 126 | 184 | - 58 | 154 | 157 | - 3 |
| Miss.* | a | a | - 19 | a | a | + 11 |
| Tenn.* | 166 | 198 | - 32 | 173 | 235 | - 62 |

a Omitted to prevent possible disclosure

* Sixth District portion

Note: Amounts are averages of daily figures.

to cut into the sale of excess reserves and to depend increasingly on borrowed reserves.

The temporary slowdown in the growth of time and savings deposits may have been a less important reason behind the banks' changed attitude toward Federal funds. During April (when transition from net lender to net borrower occurred), seasonally adjusted time and savings deposit inflows sharply dipped. Member banks gained only \$4 million in new time deposits and, at the same time, decreased loans of Federal funds by more than \$340 million.

The Federal funds rate, which, until June, was below the discount rate has been another notable influence on the District's reversed Federal funds position. Thus, banks have been encouraged to utilize Federal funds rather than obtaining funds from the discount window. But, as one might expect, the volume of member bank borrowings from the Federal Reserve has increased since June, when the Federal funds rate first traded above the discount rate. The overall volume of borrowing, however, is still low, compared with 1966 and 1969.

JOSEPH E. ROSSMAN, JR.

Sixth District Statistics

Seasonally Adjusted
(All data are indexes, unless indicated otherwise.)

| | Latest 1972 | Month ago | One Month ago | Two Months ago | One Year ago | | Latest 1972 | Month ago | One Month ago | Two Months ago | One Year ago |
|------------------------------------------|----------------|--------------|---------------------|----------------------|--------------------|---------------------------------|----------------|--------------|---------------------|----------------------|--------------------|
| SIXTH DISTRICT | | | | | | Unemployment Rate | | | | | |
| INCOME AND SPENDING | | | | | | (Percent of Work Force) | | | | | |
| Manufacturing Payrolls | Aug. | 147 | 147 | 146 | 134 | Aug. | 4.8 | 5.0 | 5.1 | 5.3 | |
| Farm Cash Receipts | June | 135 | 114 | 133 | 135 | Aug. | 41.2 | 40.9 | 41.5 | 40.5 | |
| Crops | June | 151 | 151 | 140 | 167 | FINANCE AND BANKING | | | | | |
| Livestock | June | 138 | 107 | 139 | 130 | Member Bank Loans | Aug. | 180 | 178 | 176 | 153 |
| Installment Credit at Banks* (Mil. \$) | | | | | | Member Bank Deposits | Aug. | 165 | 165 | 160 | 143 |
| New Loans | Aug. | 455 | 447 | 452 | 411 | Bank Debits** | Aug. | 183 | 168 | 165 | 151 |
| Repayments | Aug. | 381 | 416 | 392 | 370 | FLORIDA | | | | | |
| EMPLOYMENT AND PRODUCTION | | | | | | INCOME | | | | | |
| Nonfarm Employment | Aug. | 116 | 116 | 116 | 113 | Manufacturing Payrolls | Aug. | 146 | 147 | 144 | 139 |
| Manufacturing | Aug. | 109 | 108 | 108 | 106 | Farm Cash Receipts | June | 159 | 140 | 131 | 147 |
| Nondurable Goods | Aug. | 108 | 108 | 109 | 107 | EMPLOYMENT | | | | | |
| Food | Aug. | 101 | 102 | 102 | 101 | Nonfarm Employment | Aug. | 128 | 128 | 126 | 123 |
| Textiles | Aug. | 104 | 105 | 105 | 102 | Manufacturing | Aug. | 112 | 111 | 111 | 109 |
| Apparel | Aug. | 106 | 107 | 105 | 106 | Nonmanufacturing | Aug. | 131 | 131 | 129 | 125 |
| Paper | Aug. | 110 | 111 | 111 | 107 | Construction | Aug. | 132 | 132 | 132 | 128 |
| Printing and Publishing | Aug. | 115 | 115 | 115 | 114 | Farm Employment | Aug. | 100 | 104 | 85 | 103 |
| Chemicals | Aug. | 104 | 104 | 104 | 104 | Unemployment Rate | | | | | |
| Durable Goods | Aug. | 109 | 108 | 108 | 105 | (Percent of Work Force) | Aug. | 3.3 | 3.4 | 3.5 | 4.0 |
| Lbr., Wood Prods., Furn. & Fix. | Aug. | 103 | 103 | 102 | 99 | Aug. Weekly Hrs. in Mfg. (Hrs.) | Aug. | 41.1 | 41.7 | 41.3 | 40.7 |
| Stone, Clay, and Glass | Aug. | 111 | 110 | 110 | 106 | FINANCE AND BANKING | | | | | |
| Primary Metals | Aug. | 108 | 108 | 104 | 103 | Member Bank Loans | Aug. | 208 | 201 | 196 | 169 |
| Fabricated Metals | Aug. | 117 | 117 | 117 | 115 | Member Bank Deposits | Aug. | 193 | 191 | 185 | 167 |
| Machinery | Aug. | 127 | 125 | 125 | 117 | Bank Debits** | Aug. | 230 | 222r | 219 | 189 |
| Transportation Equipment | Aug. | 104 | 101 | 102 | 105 | GEORGIA | | | | | |
| Nonmanufacturing | Aug. | 119 | 119 | 119 | 114 | INCOME | | | | | |
| Construction | Aug. | 109 | 109 | 109 | 107 | Manufacturing Payrolls | Aug. | 142 | 142 | 144 | 133 |
| Transportation | Aug. | 116 | 116 | 116 | 113 | Farm Cash Receipts | June | 117 | 132 | 128 | 130 |
| Trade | Aug. | 119 | 119 | 119 | 116 | EMPLOYMENT | | | | | |
| Fin., ins., and real est. | Aug. | 126 | 125 | 125 | 121 | Nonfarm Employment | Aug. | 115 | 115 | 115 | 113 |
| Services | Aug. | 124 | 124 | 124 | 119 | Manufacturing | Aug. | 105 | 104 | 105 | 104 |
| Federal Government | Aug. | 98 | 98 | 98 | 100 | Nonmanufacturing | Aug. | 120 | 119 | 120 | 117 |
| State and Local Government | Aug. | 126 | 126 | 126 | 118 | Construction | Aug. | 108 | 109 | 108 | 107 |
| Farm Employment | Aug. | 82 | 86 | 86 | 87 | Farm Employment | Aug. | 82 | 78 | 80 | 93 |
| Unemployment Rate | | | | | | Unemployment Rate | | | | | |
| (Percent of Work Force) | Aug. | 4.2 | 4.3 | 4.2 | 4.7 | (Percent of Work Force) | Aug. | 3.9 | 4.1 | 3.7 | 4.0 |
| Insured Unemployment | | | | | | Aug. Weekly Hrs. in Mfg. (Hrs.) | Aug. | 40.3 | 40.7 | 40.9 | 40.2 |
| (Percent of Gov. Emp.) | Aug. | 2.2 | 2.4 | 2.4 | 2.9 | FINANCE AND BANKING | | | | | |
| Aug. Weekly Hrs. in Mfg. (Hrs.) | Aug. | 41.0 | 41.1 | 41.1 | 40.6 | Member Bank Loans | Aug. | 184 | 181 | 179 | 152 |
| Construction Contracts* | Aug. | 228 | 189 | 195 | 140 | Member Bank Deposits | Aug. | 151 | 152 | 148 | 134 |
| Residential | Aug. | 309 | 251 | 247 | 181 | Bank Debits** | Aug. | 206 | 201 | 203 | 177 |
| All Other | Aug. | 150 | 127 | 143 | 100 | LOUISIANA | | | | | |
| Electric Power Production** | May | 174 | 173 | 168 | 166 | INCOME | | | | | |
| Cotton Consumption** | July | 86 | 86 | 86 | 90 | Manufacturing Payrolls | Aug. | 138 | 137 | 137 | 125 |
| Petrol. Prod. in Coastal La. and Miss.** | Sept. | 126 | 125 | 123 | 123 | Farm Cash Receipts | June | 122 | 106 | 120 | 122 |
| Manufacturing Production | June | 276 | 271 | 269 | 258 | EMPLOYMENT | | | | | |
| Nondurable Goods | June | 237 | 233 | 234 | 222 | Nonfarm Employment | Aug. | 107 | 107 | 107 | 104 |
| Food | June | 187 | 186 | 185 | 180 | Manufacturing | Aug. | 102 | 101 | 102 | 100 |
| Textiles | June | 273 | 267 | 266 | 247 | Nonmanufacturing | Aug. | 108 | 108 | 108 | 105 |
| Apparel | June | 291 | 286 | 290 | 283 | Construction | Aug. | 84 | 85 | 86 | 82 |
| Paper | June | 218 | 215 | 215 | 201 | Farm Employment | Aug. | 73 | 83 | 75 | 80 |
| Printing and Publishing | June | 163 | 163 | 164 | 167 | Unemployment Rate | | | | | |
| Chemicals | June | 298 | 297 | 299 | 262 | (Percent of Work Force) | Aug. | 6.6 | 6.3 | 5.9 | 6.7 |
| Durable Goods | June | 324 | 317 | 311 | 300 | Aug. Weekly Hrs. in Mfg. (Hrs.) | Aug. | 42.8 | 42.3 | 42.5 | 42.2 |
| Lumber and Wood | June | 197 | 192 | 193 | 182 | FINANCE AND BANKING | | | | | |
| Furniture and Fixtures | June | 186 | 184 | 183 | 179 | Member Bank Loans | Aug. | 166 | 161 | 159 | 139 |
| Stone, Clay, and Glass | June | 182 | 179 | 185 | 169 | Member Bank Deposits* | Aug. | 157 | 156 | 153 | 138 |
| Primary Metals | June | 208 | 205 | 200 | 208 | Bank Debits** | Aug. | 165 | 153r | 161 | 147 |
| Fabricated Metals | June | 269 | 270 | 267 | 244 | MISSISSIPPI | | | | | |
| Nonelectrical Machinery | June | 427 | 409 | 398 | 400 | INCOME | | | | | |
| Electrical Machinery | June | 716 | 707 | 650 | 631 | Manufacturing Payrolls | Aug. | 167 | 170 | 168 | 143 |
| Transportation Equipment | June | 423 | 407 | 413 | 392 | Farm Cash Receipts | June | 156 | 140 | 169 | 156 |
| FINANCE AND BANKING | | | | | | EMPLOYMENT | | | | | |
| Loans* | | | | | | Nonfarm Employment | Aug. | 115 | 115 | 114 | 112 |
| All Member Banks | Aug. | 189 | 184 | 181 | 156 | Manufacturing | Aug. | 121 | 121 | 121 | 114 |
| Large Banks | Aug. | 175 | 170 | 169 | 144 | Nonmanufacturing | Aug. | 112 | 112 | 112 | 110 |
| Deposits* | | | | | | Construction | Aug. | 91 | 93 | 92 | 97 |
| All Member Banks | Aug. | 171 | 169 | 165 | 148 | Farm Employment | Aug. | 77 | 91 | 88 | 78 |
| Large Banks | Aug. | 150 | 150 | 146 | 132 | ALABAMA | | | | | |
| Bank Debits** | Aug. | 198 | 190r | 192 | 168 | INCOME | | | | | |
| ALABAMA | | | | | | EMPLOYMENT | | | | | |
| INCOME | | | | | | Nonfarm Employment | Aug. | 109 | 108 | 108 | 107 |
| Manufacturing Payrolls | Aug. | 148 | 144 | 146 | 130 | Manufacturing | Aug. | 108 | 107 | 107 | 106 |
| Farm Cash Receipts | June | 145 | 62 | 165 | 157 | Nonmanufacturing | Aug. | 109 | 109 | 109 | 107 |
| EMPLOYMENT | | | | | | Construction | Aug. | 97 | 96 | 95 | 101 |
| Nonfarm Employment | Aug. | 109 | 108 | 108 | 107 | Farm Employment | Aug. | 76 | 75 | 76 | 83 |

| | | Latest Month 1972 | One Month Ago | Two Months Ago | One Year Ago | | | Latest Month 1972 | One Month Ago | Two Months Ago | One Year Ago |
|---------------------------------|------|----------------------|---------------------|----------------------|--------------------|---------------------------------|------|----------------------|---------------------|----------------------|--------------------|
| Unemployment Rate | | | | | | EMPLOYMENT | | | | | |
| (Percent of Work Force) | Aug. | 4.2 | 4.2 | 4.3 | 4.9 | Nonfarm Employment | Aug. | 115 | 115 | 115 | 111 |
| Avg. Weekly Hrs. in Mfg. (Hrs.) | Aug. | 40.6 | 41.1 | 40.9 | 40.5 | Manufacturing | Aug. | 109 | 109 | 109 | 104 |
| FINANCE AND BANKING | | | | | | Nonmanufacturing | Aug. | 119 | 119 | 119 | 114 |
| Member Bank Loans* | Aug. | 189 | 180 | 183 | 163 | Construction | Aug. | 116 | 116 | 116 | 107 |
| Member Bank Deposits* | Aug. | 172 | 167 | 168 | 145 | Farm Employment | Aug. | 88 | 88 | 92 | 90 |
| Bank Debits** | Aug. | 187 | 181 | 193 | 160 | Unemployment Rate | | | | | |
| | | | | | | (Percent of Work Force) | Aug. | 3.7 | 3.9 | 3.9 | 4.6 |
| | | | | | | Avg. Weekly Hrs. in Mfg. (Hrs.) | Aug. | 40.8 | 40.8 | 40.5 | 40.4 |
| TENNESSEE | | | | | | FINANCE AND BANKING | | | | | |
| INCOME | | | | | | Member Bank Loans* | Aug. | 185 | 180 | 179 | 154 |
| Manufacturing Payrolls | Aug. | 148 | 149 | 147 | 138 | Member Bank Deposits* | Aug. | 165 | 163 | 158 | 139 |
| Farm Cash Receipts | June | 156 | 106 | 134 | 138 | Bank Debits** | Aug. | 166 | 161 | 173 | 149 |

*For Sixth District area only; other totals for entire six states

**Daily average basis

†Preliminary data

r-Revised

N.A. Not available

Note: Indexes for bank debits, construction contracts, cotton consumption, employment, farm cash receipts, loans, petroleum production, and payrolls: 1957=100. All other indexes: 1957-59=100.

Sources: Manufacturing production estimated by this Bank; nonfarm, mfg. and nonmfg. emp., mfg. payrolls and hours, and unemp., U.S. Dept. of Labor and cooperating state agencies; cotton consumption, U.S. Bureau of Census; construction contracts, F. W. Dodge Div., McGraw-Hill Information Systems Co.; petrol. prod., U.S. Bureau of Mines; industrial use of elec. power, Fed. Power Comm.; farm cash receipts and farm emp., U.S.D.A. Other indexes based on data collected by this Bank. All indexes calculated by this Bank.

Debits to Demand Deposit Accounts

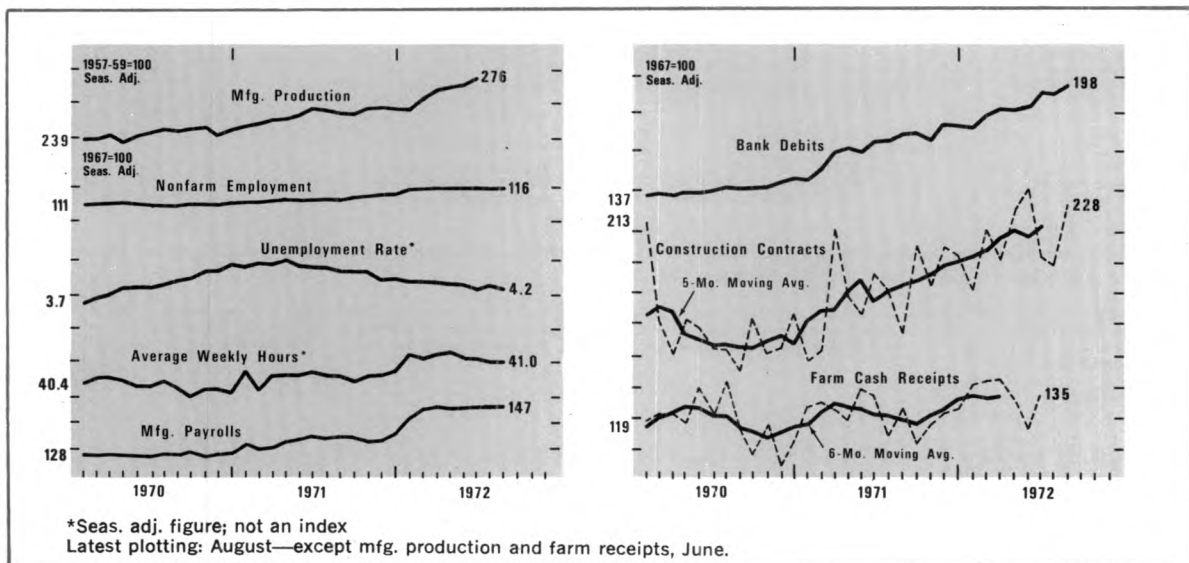
Insured Commercial Banks in the Sixth District (In Thousands of Dollars)

| Percent Change | | | | | | Percent Change | | | | | | |
|--------------------------------------------|--------------|--------------|-------------------|--------------|--------------------------------------|-----------------|----------------|--------------|-------------------|--------------|--------------------------------------|-----|
| | | | Aug. 1972 From | | Year to date 8 mos. 1972 | | | | Aug. 1972 From | | Year to date 8 mos. 1972 | |
| Aug. 1972 | July 1972 | Aug. 1971 | July 1972 | Aug. 1971 | from 1971 | Aug. 1972 | July 1972 | Aug. 1971 | July 1972 | Aug. 1971 | from 1971 | |
| STANDARD METROPOLITAN STATISTICAL AREAS | | | | | | Dothan Selma | | | | | | |
| Birmingham | 3,201,483 | 2,769,381 | 2,307,711 | +16 | +39 | +27 | 131,118 | 119,906 | 115,375 | +9 | +14 | |
| Gadsden | 88,237 | 81,190 | 83,834 | +9 | +5 | +4 | 65,927 | 58,121 | 54,858 | +13 | +20 | |
| Huntsville | 268,523 | 257,365 | 246,571 | +4 | +9 | +9 | 133,006 | 129,056 | 104,057 | +3 | +28 | |
| Mobile | 950,581 | 866,423 | 805,109 | +10 | +18 | +19 | 58,901 | 57,611 | 48,045 | +2 | +23 | |
| Montgomery | 519,216 | 503,880 | 525,753 | +3 | -1 | +9 | 146,539 | 141,522 | 128,953 | +4 | +14 | |
| Tuscaloosa | 175,061 | 161,626 | 145,903 | +8 | +20 | +10 | 24,085 | 29,226 | 25,554 | -18 | -6 | |
| | | | | | | | 748,296 | 735,602 | 620,381 | +2 | +18 | |
| | | | | | | | 1,473,602 | 1,414,660 | 1,295,809 | +4 | +14 | |
| Bartow-Lakeland- Winter Haven | 667,167 | 591,631 | 451,775 | +13 | +48 | +21 | 148,083 | 148,519 | 176,586 | -1 | -16 | |
| Daytona Beach | 314,710 | 329,470 | 252,144 | -4 | +25 | +27 | 79,522 | 90,595 | 71,772 | -12 | +11 | |
| Ft. Lauderdale- Hollywood | 1,678,377 | 1,466,863r | 1,206,404 | +14 | +39 | +23 | 155,695 | 148,890 | 146,109 | +5 | +7 | |
| Ft. Myers | 222,438 | 213,535 | 202,158 | +4 | +10 | +7 | 21,459 | 22,815 | 16,519 | +6 | +30 | |
| Gainesville | 211,960 | 191,272 | 175,714 | +11 | +21 | +18 | 111,872 | 105,615 | 105,526 | -6 | +6 | |
| Jacksonville | 3,349,064 | 3,118,999 | 2,506,061 | +7 | +34 | +28 | 58,822 | 51,566 | 52,351 | +14 | +12 | |
| Melbourne- Titusville- Cocoa | 329,566 | 341,191 | 283,361 | -3 | +16 | +15 | 36,076 | 31,350 | 46,044 | +15 | -22 | |
| Miami | 5,050,907 | 4,996,964 | 4,295,277 | +1 | +18 | +12 | 50,388 | 47,869 | 33,867 | +5 | +49 | |
| Orlando | 1,241,730 | 1,192,727 | 996,622 | +4 | +25 | +26 | 122,756 | 123,286 | 106,230 | +0 | +16 | |
| Pensacola | 387,239 | 371,511 | 338,023 | +4 | +15 | +15 | 91,261 | 84,468 | 84,461 | +8 | +8 | |
| Sarasota | 335,326 | 332,951 | 255,395 | +1 | +31 | +25 | 14,723 | 14,149 | 15,695 | +4 | -6 | |
| Tallahassee | 661,239 | 604,157 | 420,808 | +9 | +57 | +96 | 8,490 | 7,268 | 7,268 | +2 | +19 | |
| Tampa-St. Pete | 3,046,998 | 2,909,793 | 2,507,598 | +5 | +22 | +21 | 63,004 | 60,550 | 50,742 | +4 | +24 | |
| W. Palm Beach | 838,063 | 853,817r | 689,591 | -2 | +22 | +15 | 50,896 | 49,341 | 48,027 | +3 | +6 | |
| | | | | | | | 15,911 | 15,218 | 13,787 | +5 | +15 | |
| | | | | | | | 29,657 | 31,902 | 29,564 | -7 | +0 | |
| Albany | 164,120 | 162,706 | 138,817 | +1 | +18 | +16 | Hattiesburg | 108,719 | 114,921 | 91,188 | -5 | +19 |
| Atlanta | 11,411,781 | 10,667,057r | 9,304,513 | +7 | +23 | +18 | Laurel | 63,364 | 64,920 | 52,047 | -2 | +22 |
| Augusta | 424,966 | 409,416 | 383,185 | +4 | +11 | +13 | Meridian | 105,997 | 102,733 | 91,429 | +3 | +16 |
| Columbus | 394,343 | 363,273 | 351,170 | +9 | +12 | +11 | Natchez | 47,028 | 47,764 | 46,272 | -2 | +2 |
| Macon | 459,512 | 453,096 | 399,230 | +1 | +15 | +15 | Pascagoula- | | | | | |
| Savannah | 459,806 | 422,184 | 394,017 | +9 | +17 | +12 | Moss Point | 149,799 | 131,110 | 120,824 | +14 | +24 |
| Alexandria | 211,771 | 208,285 | 167,093 | +2 | +27 | +14 | Vicksburg | 56,034 | 59,088 | 56,718 | -5 | -1 |
| Baton Rouge | 1,152,734 | 1,093,787r | 966,646 | +5 | +19 | +13 | Yazoo City | 30,767 | 37,556 | 35,649 | -18 | -14 |
| Lafayette | 236,121 | 226,914 | 198,716 | +4 | +19 | +15 | | | | | | |
| Lake Charles | 192,670 | 195,154 | 177,222 | -1 | +9 | +9 | Bristol | 128,702 | 116,145 | 105,708 | +11 | +22 |
| New Orleans | 3,697,893 | 3,330,676 | 3,259,869r | +11 | +13 | +7 | Johnson City | 141,320 | 146,029 | 119,238 | +3 | +19 |
| | | | | | | | Kingsport | 227,504 | 216,010 | 180,764 | +5 | +26 |
| Biloxi-Gulfport | 250,517 | 215,913 | 191,221 | +16 | +31 | +16 | District Total | 60,212,776 | 57,075,977r | 49,982,394r | +5 | +20 |
| Jackson | 1,235,388 | 1,098,534 | 1,025,981 | +12 | +20 | +13 | | | | | | |
| Chattanooga | 942,207 | 945,746 | 948,273 | -0 | -0 | +1 | Alabama | 7,325,461 | 6,625,552 | 5,935,106 | +11 | +28 |
| Knoxville | 748,320 | 759,538 | 697,181 | -1 | +7 | +8 | Florida | 20,226,772 | 19,548,534r | 16,221,507 | +3 | +25 |
| Nashville | 2,701,498 | 2,667,549 | 2,310,568 | +1 | +17 | +20 | Georgia | 16,604,350 | 15,632,055r | 13,883,066r | +6 | +20 |
| | | | | | | | Louisiana¹ | 6,569,380 | 6,078,048r | 5,723,417r | +8 | +15 |
| | | | | | | | Mississippi¹ | 2,701,715 | 2,504,236 | 2,259,900 | +8 | +20 |
| | | | | | | | Tennessee¹ | 6,785,098 | 6,687,552 | 5,959,398 | +1 | +14 |
| OTHER CENTERS | | | | | | | | | | | | |
| Anniston | 101,173 | 95,339 | 89,654 | +6 | +13 | +11 | | | | | | |

¹District portion only

Figures for some areas differ slightly from preliminary figures published in "Bank Debits and Deposit Turnover" by Board of Governors of the Federal Reserve System.

District Business Conditions



The regional economy advanced further as labor market conditions continued strong. Bank lending expanded briskly in August, and the construction sector also moved up somewhat. A strong agricultural sector suffered some damage from dry weather, and some sectors experienced price weakness. Consumer borrowing resumed growth after a sluggish performance in July.

The unemployment rate declined to 4.2 percent in August, matching the lowest rate recorded in over two years. Nonfarm employment continued to expand, marking the fourth consecutive monthly gain. A strike in Louisiana depressed construction employment slightly. Most of the other nonmanufacturing industries posted job increases. Manufacturing industries also added jobs. Most of these gains were in Georgia's transportation equipment industry and were associated with completion of automobile model changeovers. Average factory hours declined slightly but remained well above year-ago levels.

Throughout the District in general, a strong demand for bank loans has caused banks to reduce their acquisition of securities and to rely more heavily on borrowed reserves. Business borrowing at some of the larger District banks came to life in September, following a lull during the summer months. Over the mid-month corporate tax payment date, business borrowing by service, construction, and trade firms was strong.

The value of construction contract awards moved upward in August. Nonresidential awards rebounded after two months of decline, with two contracts for electric generating plants responsible for strength. Residential awards were also up, as

Florida continued to lead the region in growth. Residential mortgage rates rose slightly in August. Inflows at thrift institutions continued strong.

The agricultural price level edged downward in August, reflecting price weakness in the livestock sector. Eggs and broilers registered the sharpest price declines. Some price firming was evident in early September. All District states registered gains in farm cash receipts through July 1972, as compared with the corresponding months of 1971. Crop conditions continued good throughout the region; however, some areas suffered from dry weather. Cotton production in 1972 is expected to be one-fourth higher in District states than it was in the abnormally low year of 1971. Indications are that the greatest increase will be in Mississippi.

Consumer instalment credit outstanding at commercial banks spurted further in August. Extensions increased slightly in all categories except auto loans, where the decline was slight. Net extensions of instalment credit were the strongest since November 1971, primarily because repayments fell sharply from the high level of July. Sales of domestically produced autos fell slightly in August but continued substantially above the same month last year. Department store sales figures through July show significant increases on a year-to-date basis.

Note: Data on which statements are based have been adjusted whenever possible to eliminate seasonal influences.