MONTHLY

# Business Review

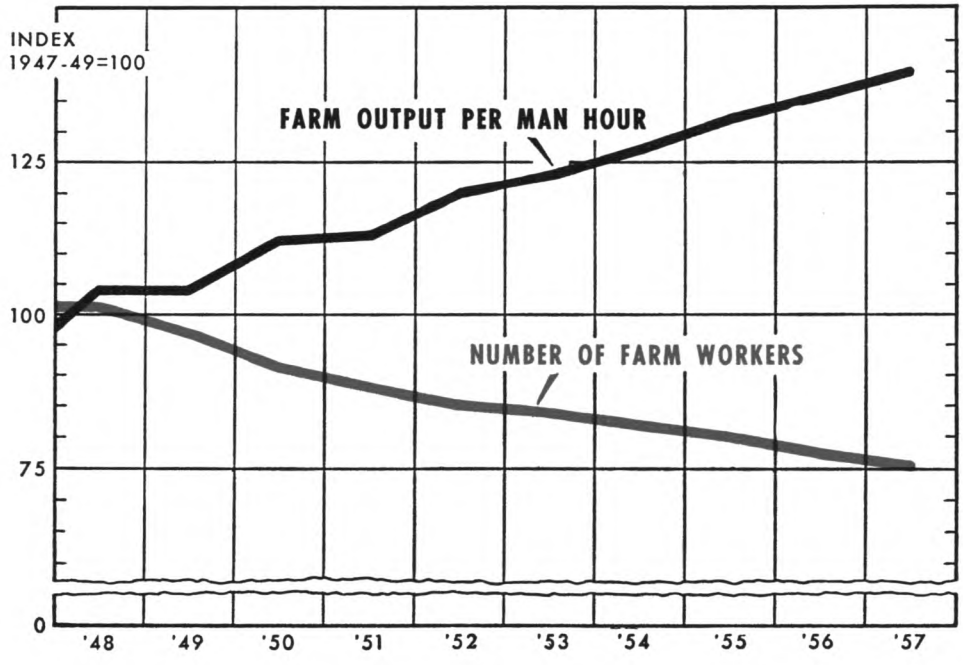
FEDERAL RESERVE BANK of CLEVELAND

August, 1958

IN THIS ISSUE



***Output per man-hour in agriculture has posted striking increases over the past 10 years. One fourth fewer farm workers are now required. The capital growth behind the trend has imposed large requirements upon farm finance.***



# Production Changes and Farm Finance

THE CONTINUOUS REVOLUTION in techniques of agricultural production has accelerated during the past decade and has accounted for very large increases in farm output. Further expansion in farm mechanization, the use of more efficient plant and animal strains, and substantial increases in the usage of commercial fertilizers — all have been accomplished through application of capital to farm enterprises in unprecedentedly large amounts. In effect, there has been a substitution of capital for labor and land; correspondingly, the requirements for financing farm operations have grown apace. A broad review of such developments is in order at this time.

The impact of technical change upon agricultural output is shown by the chart on the cover. Output per man-hour has steadily risen in the past 10 years and in 1957 was 35 percent higher than in 1948. Coupled with the increase in output per man-hour recorded during the past decade was a decrease of 26 percent in the total labor force of agriculture, and the downward trend continues. The gain achieved in agricultural output becomes even more impressive when it is realized that one fourth fewer farm workers now provide the food and fiber requirements of 18 percent more people.

## Farm Enlargement Requires Capital

The growth in agricultural productivity has been joined with an increase in the size of commercial family-operated farms. The increase in size of farm has been stimulated by cost economies which arise with larger, more efficient production units.

Efficient farmers have been able to expand their acreages, but only at a high cost which has required a large capital investment. Farmers are faced with the problem of using land as their primary factor of production; land is in relatively fixed supply. Thus, the acreage used in the production process has changed little during the past ten years; the supply of land cannot be changed as readily by the operation of the market mechanism as the supply of the other factors of production, namely, labor, capital and management. Since the supply of land is limited, there had to be a contraction in the number of farms to enable the more efficient farmers to expand the size of their plants. The total number of commercial farms dropped from 3.5 million in 1949 to 3.1 million in 1954, or nearly 10 percent in five years, and there is ample evidence that the downward trend is continuing.

Capital investment in today's farming operations is much greater than it was ten years ago. A limited supply of land, together with an increasing demand derived from cost advantages resulting from larger scale operations, has caused land prices to rise steadily. This influence is largely responsible for land prices currently being at an all-time high.

The average amount of capital invested in the land, livestock, and equipment required to operate a farm in 1957 was $27,000 as compared with $15,900 in 1948.[1] If the level of investment in the farm operation continues to increase at the same rate in the next ten years as in the past decade, the average farmer will have $45,000 invested in his business.

What have been the capital requirements of farmers in the Fourth Federal Reserve District? Several different types of farm operations comprise Fourth District agriculture. Classified by type of farm they are dairy, feed grain and livestock, tobacco, and general. With the exception of tobacco farms, data

(1) This amounts to a 70 percent increase, accruing over the same interval of time during which the general price level rose about 15 percent.

specifically relating to the capital requirements of farmers of this District are unavailable. Consequently, to answer the question about Fourth District farming, it is necessary to observe the capital requirements of farms in the United States, as shown by available data which are classified by type of farm and area location, and which are indicative of the agriculture of the Fourth District.

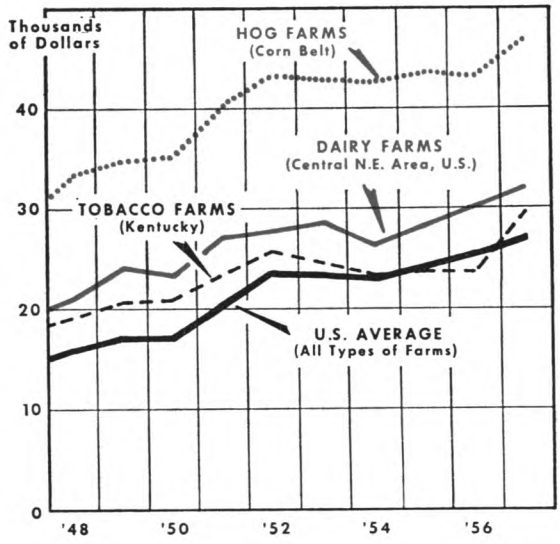
Acreage, total farm capital, and net farm income have been used as the criteria for comparison purposes. Thus, dairy farms located in Central Northeastern United States, New York, New Hampshire, and Pennsylvania may be taken as representative of the Fourth District dairy industry. The feed grain and livestock producing areas of the District may be represented by the hog farms in the Central Corn Belt, namely, Illinois, Iowa, and Minnesota. Data for the burley tobacco area of this District are directly available in terms of the Central Kentucky tobacco area located in the Bluegrass Region.

From these data it would appear that during the past ten years the requirements for agricultural capital in this District have been well above the national average, except in the case of tobacco farms where the investment fell temporarily below the national average for a period prior to last year. The capital invested in farms by type of enterprise is shown in an accompanying chart. In 1957, hog farmers had nearly $47,000 invested in their operations, while dairy farmers had an average investment of $32,000. The average investment of tobacco farmers was close to $26,000. These figures represent increases over the 1948 level amounting to 40 percent for hog farms, 52 percent for dairy farms, and 35 percent for tobacco farms.

## Capital Substitutes for Labor

Needs for labor-saving devices and for large quantities of other input factors such as fertilizers, in order to enable more intensive use of a given acreage, have also played a very important role in increasing the investment requirements of present-day farmers, and it seems reasonable to assume that

**AVERAGE CAPITAL INVESTMENT PER FARM**




such input factors will continue to have an expansive influence on capital investment in the future.

Among the important labor-saving innovations which have registered an especially large expansion in usage are tractors, trucks, corn pickers, hay balers, and field-forage harvesters. On a 1947-1949 base, the number of corn pickers on farms in the United States has tripled, while the number of hay balers and field-forage harvesters has quintupled since the base period. Other labor-saving devices which are becoming standard on many farms are materials-handling equipment, and herbicides to eliminate the need for cultivation of crops.

A comparison of the average investment in labor-saving devices by all types of farms in the United States with investment by the types of farms representative of Fourth District agriculture reveals that the average capital investment in machinery for the representative farms is much greater than for all farms in the nation at large. A final chart shows that investment in farm machinery by dairy and tobacco farmers more than doubled during the ten-year period from 1948-1957, while the hog farmer has increased his already large capital investment by nearly 80

percent. The especially rapid rise in investment by dairy farmers has been caused by expanded use of hay balers, field-forage harvesters, and conversion to bulk tank methods of handling milk. Substantial increases in machinery investment by tobacco farmers is apparently associated with the conversion from horsepower to mechanical power. Hay balers have also found increased usage on these farms. Although the percentage change of investment in machinery and equipment has not been as great on the hog type farms, the average dollar volume of investment is greater than for either the dairy or tobacco farms.

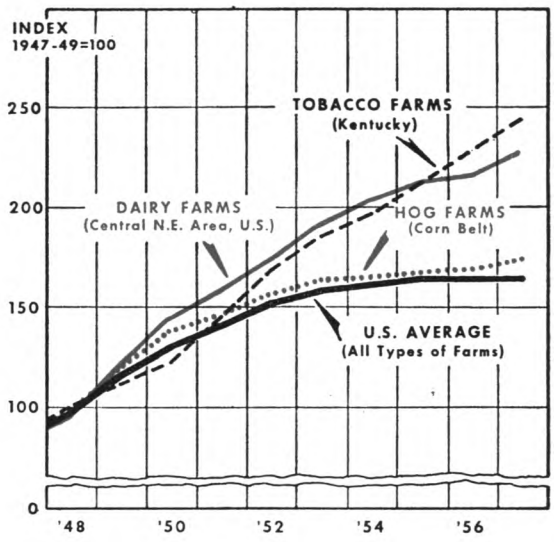
## "Land-Saving" Practices

Even though most of the innovations adopted by farmers are of the labor-saving kind, recognition should also be given to the substitution of capital for land. Illustrations of "land-saving" practices are land leveling, terracing, drainage, sod waterways, etc. The substitution of capital for land also takes place through the use of technological advances directed toward more intensified activity. The development and widespread usage of certified seeds, of hormone fortified feeds, and of fertilizers have enabled farmers to produce a larger volume of output on a given acreage, while at the same time increasing the quality of product. Such applications of improved farming practices and technological advances also have required new investments of capital, although frequently the amounts are not as large as in the case of machinery and equipment purchases.

## Farmers' Financial Needs

The chief revolutionary force behind the change which is occurring in the financial needs of farmers is the increased use of machinery and equipment. In financing the purchase of such equipment, loan officers of banks have placed greater emphasis than previously on loans carrying an intermediate maturity. They have found that loans with maturities of 2-3 years generally permit the borrower to

**INVESTMENT IN MACHINERY, PER FARM**




retire the loan from the increased income derived from the use of the equipment.

One factor which is important in determining the magnitude of capital requirements is found to stem from the relative degree of "divisibility" of capital. For example, hybrid seed or upgrading of livestock can be gradually introduced on an individual farm while a combine, corn picker, or equipment for bulk handling of milk calls for an immediate and complete change. To make this change requires a substantial investment. It would not be uncommon for a farmer to invest $5,000 or more when making the conversion from can to a bulk method of handling milk.

Changing habits of the farmer's customers have also caused changes in credit needs. Changes in human consumption patterns, such as increased consumption of meats and livestock products at the expense of cereals and other starchy foods, have required farmers to adjust their production programs. Most of the farmers who have made these types of adjustments have had to employ new capital.

Problems associated with a dynamic and competitive market have further increased the need for intermediate-term credit. In 1948, supermarkets accounted for 28 percent

of the nation's grocery business. Since then, the supermarket business has boomed. In 1957, supermarkets had increased their share of the total grocery business to over 60 percent. It is not unnatural for chain stores and the processors servicing them to demand a steady supply of a product possessing uniform quality. Such factors have caused farmers to look for a means of providing processors and retail stores an adequate supply of a high quality product while reducing operating costs at the same time.

To alleviate the supply and quality problems associated with the marketing of farm products, some farmers are considering the advantages afforded them by vertical integration or production on a contract basis. The integration of farm activity with another phase of the production or marketing process has generally required the investment of substantial amounts of capital, for along with integration and contract farming has gone product specialization.

## Banks Provide Additional Capital

Evidence that commercial banks have provided a substantial amount of the additional capital required by agriculture over the past ten years can be found in the growth of loans outstanding to farmers.

**Total Dollar Volume of Loans Outstanding to Farmers at All Insured Banks, December 31**

| | 1948 | 1957 | % change |
|---|---|---|---|
| | Million Dollars | | |
| United States | $2,846 | $5,020 | +76.3 |
| Fourth District | 179 | 286 | +60.0 |

The total dollar volume of loans (farm-real-estate-secured and non-real-estate loans) outstanding to farmers in the nation rose 76 percent in the ten years ended December 31, 1957. During the same period the average investment per farm rose 69 percent.

Over the past ten years the total dollar amount of loans outstanding to farmers in the Fourth District increased 60 percent. Data relative to the average investment per farm in the Fourth District are not available, but some indication of the change which may have occurred in the capital investment can be gained from the data available on the hog, dairy, and tobacco farms previously discussed. The increase in capital invested in these three types of farms in the ten-year period was 35 percent for the tobacco farms, 40 percent for the hog farms and 52 percent for the dairy farms. The proportionate increase in investment was somewhat less for these farms than for the average of all farms in the nation, even though the rate of investment in machinery rose at a more rapid rate than for the nation as a whole.

A substantial portion of the credit provided by banks in recent years has been for intermediate-term investments, as already noted. Some indication of the extent to which banks have provided intermediate-term credit is afforded by data available from the Agricultural Loan Survey conducted by the Federal Reserve System as of June 30, 1956.

**Farm Loans for Intermediate-Term Purposes Outstanding, June 30, 1956**

| | As a Percent of | |
|---|---|---|
| | Loans Secured by Farm Real Estate | Non-Real-Estate Loans |
| United States | 20% | 38.4% |
| Fourth District | 13 | 52.2 |

The proportion of farm loans outstanding for intermediate-term investments (e.g., for machinery and equipment or for improvement of land or buildings) represented a much greater portion of the non-real-estate loans in the Fourth District than for the nation at large. The greater proportion of bank credit being used for intermediate-term purposes in the Fourth District is probably due in part to a sharper increase in machinery investment than occurred nationally, as shown in the final chart.

# Terms of Bank Loans to Business

## *Fourth District Member Banks*

DURING THE PERIOD between October 1955 and October 1957, the average interest rate paid by business borrowers to Fourth District member banks increased by one fifth. This was the principal outcome of an unrelenting pressure upon the available supply of funds during a period of monetary restraint. Analysis of the upward movement in interest rates during this period, as well as changes in other conditions of bank lending to business—security requirements, maturities, and average loan size—is the subject of this article.

### Conditions of Borrowing — A Package

Each bank loan is a package deal with rate, maturity, and security specified in the loan contract. Therefore, the allocation of bank credit during a period of large loan demand and monetary restraint could be accomplished by the commercial banks through the instrumentality of reduced maturities, increased security requirements, or higher interest rates. Higher interest charges, however, stand out as the principal change in the conditions of bank lending to business which actually occurred between 1955 and 1957.

One fifth of the total amount of business loans outstanding at the time of the 1955 Survey were unsecured loans, scheduled to mature in one year or less, and carrying interest charges below 4 percent. (See Table 1.) The most typical package of terms in 1957, accounting for about one fourth of the total amount outstanding, also included a maturity of one year or less and no security, but carried an interest rate which was generally between 4 percent and 5 percent.

When the conditions of bank lending to business are viewed separately, the interest charged remains the dominant factor. Nearly half of the dollar volume of business loans outstanding in 1955 carried rates below 4 percent in contrast to a similar share carrying rates between 4 percent and 5 percent in

Table 1

TERMS OF BORROWING, 1955 AND 1957

Fourth District Member Banks

| Interest Rate | Total | Loans of One Year or Less | | Loans Longer Than One Year | |
|---|---|---|---|---|---|
| | | Secured | Unsecured | Secured | Unsecured |
| | Percent of Total Amount Outstanding—October 5, 1955 | | | | |
| Under 4% | 47.5% | 6.1% | 20.2% | 6.7% | 14.5% |
| 4% - 5% | 25.2 | 6.5 | 7.2 | 7.4 | 4.1 |
| 5% - 6% | 17.2 | 5.3 | 4.2 | 7.5 | 0.2 |
| 6% & over | 10.1 | 4.1 | 2.4 | 3.5 | 0.1 |
| All Rates | 100.0% | 22.0% | 34.0% | 25.0% | 19.0% |
| | Percent of Total Amount Outstanding—October 16, 1957 | | | | |
| Under 4% | 8.0% | 0.3% | 1.4% | 0.8% | 5.5% |
| 4% - 5% | 45.4 | 7.6 | 23.5 | 7.5 | 6.8 |
| 5% - 6% | 33.1 | 10.3 | 8.7 | 11.3 | 2.8 |
| 6% & over | 13.5 | 5.0 | 3.1 | 5.1 | 0.3 |
| All Rates | 100.0% | 23.2% | 36.7% | 24.7% | 15.4% |

Note: Details may not add to totals, due to rounding.

NOTE: This is the third of a series of articles on the results of two Surveys of bank lending to business conducted by the Federal Reserve System in 1955 and 1957. See also, "Results of the 1957 Business Loan Survey, General Summary, Fourth District," *Monthly Business Review*, June 1958, and "Business Borrowers at Fourth District Banks," July 1958 issue.

**Table 2**

BUSINESS LOANS OUTSTANDING, BY INTEREST RATE, 1955 AND 1957

Fourth District Member Banks

| Interest Rate | October 5, 1955 | | | | October 16, 1957 | | | | Percent Change 1955 to 1957 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Percent of Total | | | | Percent of Total | | | |
| | Number of Loans | Amount Outstanding[1] | Number of Loans | Amount Outstanding | Number of Loans | Amount Outstanding | Number of Loans | Amount Outstanding | Number of Loans | Amount Outstanding |
| Under 4% | 3,532 | $ 911,746 | 4.2% | 47.5% | 1,181 | $ 220,953 | 1.3% | 8.0% | —66.6% | — 75.8% |
| 4% - 5% | 12,640 | 484,286 | 14.9 | 25.2 | 8,595 | 1,250,202 | 9.8 | 45.4 | —32.0 | +158.2 |
| 5% - 6% | 23,683 | 330,971 | 27.8 | 17.2 | 25,681 | 912,943 | 29.2 | 33.1 | + 8.4 | +175.8 |
| 6% - 8% | 31,432 | 153,640 | 36.9 | 8.0 | 36,800 | 296,442 | 41.8 | 10.8 | +17.1 | + 92.9 |
| 8% & over | 13,749 | 40,010 | 16.2 | 2.1 | 15,775 | 73,675 | 17.9 | 2.7 | +14.7 | + 84.1 |
| All Rates | 85,036 | $1,920,653 | 100.0% | 100.0% | 88,032 | $2,754,215 | 100.0% | 100.0% | + 3.5% | + 43.4% |

[1] Amounts in thousands.

1957. Loans with rates between 5 percent and 6 percent nearly doubled in relative importance, while the share of loans carrying the highest rates increased by a small margin. The upward movement in interest rates was accompanied by corresponding changes in terms governing security and maturity of loan. However, over-all changes in security and maturity were slight. That is, the share of the amount of loans outstanding that was unsecured was unchanged between 1955 and 1957 and the share of loans scheduled to mature in one year or less increased slightly.

It appears, therefore, that the allocation of bank credit was accomplished principally through the upward pressure of market forces on the cost of borrowing. The data presented in Table 2 clearly reflect the increased cost of borrowing. They also indicate that expansion of loan volume was proportionately largest at rates below 6 percent. It is generally known that large banks charge lower rates and make the bulk of the loans to large business. (See Table 5.) Thus, they would be expected to participate in the expansion of business loans in the 4 percent to 6 percent range. This was the case in the interim between the fall of 1955 and the fall of 1957, when banks with deposits in excess of $500 million increased their loans to business by more than 50 percent while reducing security holdings by one fifth. Thus, large banks apparently did find higher interest rates necessary to "ration" their loanable funds.

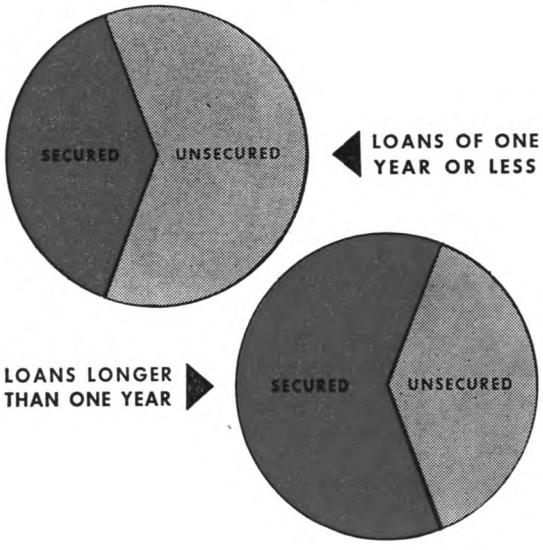
It is doubtful, however, that this process had gone beyond the large banks by the fall of 1957. The volume of outstanding loans with interest rates of 6 percent or more grew at a rate commensurate with the total expansion of business loans. The upward movement in borrowing costs ended at 6 percent. Moreover, banks of intermediate size with deposits between $50 million and $250 million apparently had room for further loan expansion. This bank-size group increased its total loans relatively more than the large banks, sustained no reduction in investment holdings, and posted a substantial gain in deposits; but the relative growth in business loans of the intermediate-size banks was well behind that of the large banks.

The natural relationship between large banks and large business, together with the legal limitations on the size of loan a bank can make to a single customer, appears to have the effect of reducing the period of time required for monetary restraint to take hold. Had large borrowers been able to move down the bank-size scale to satisfy their demands, it is likely that rate changes would have come more slowly at the large banks. These same forces provide small borrowers with a "vested" interest in small banks as a source of credit.

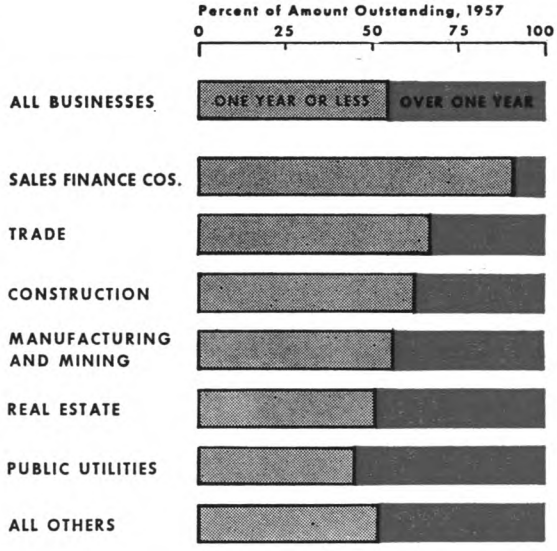
Information collected in the fall of 1957 through direct interviews with a representative group of Fourth District member banks confirms these findings. Bank interviews revealed that the maturity, security, and average size of loan were largely tailored to the needs of the business borrower and to his credit-worthiness. A majority of the banks reported that standards of credit-worthiness, such as borrowers' equity in the business, available collateral, and proven record of sound management, had not been tightened in 1957. Therefore, explanations of changes in terms other than interest rates, to the extent that such changes occurred between 1955 and 1957, should be sought in areas outside of monetary restraint.

For example, security requirements (that is, collateral, endorsement, or guarantee) increase as the maturity of the loan is extended. As indicated in the accompanying chart, about 60 percent of loans maturing in less than one year were unsecured in 1957 and 40 percent of loans carrying longer maturities were unsecured. These ratios were also typical of 1955, despite the moderate extension of the average maturity of member bank loan portfolios.

**PROPORTION OF LOANS SECURED**
***Amount Outstanding, 1957, Fourth District Member Banks***




**MATURITY OF LOANS ACCORDING TO BUSINESS OF BORROWER**
***Fourth District Member Banks***




## Terms by Type of Business

What then determines the maturity of business loans? Apparently, the major influence on maturity of loan is the business of the borrower, pointing again toward a "tailor-made" loan. The accompanying chart reveals the marked differences among business borrowers in the relative importance of short-term loans. In 1957, about nine tenths of the dollar volume of bank-held debt of *sales finance companies,* which shift readily between borrowing from banks and borrowing from nonbank investors on their own short-term paper, was scheduled to mature in one year or less. *Trade firms* and *construction firms,* which borrow largely to meet seasonal needs, had more than three fifths of their obligations scheduled to mature in one year or less. *Real estate firms,* by the nature of their business, made greater use of long-term loans. In the case of *public utilities,* greater reliance on longer-term bank loans appears

to be related to prospective long-term financing in the capital markets.

The impact of type of business is quite evident when maturity and security are compared as part of the tailor-made package. The general tendency for short-term loans to be unsecured does not hold for each type of business. Between 1955 and 1957, *public utilities* and *manufacturing and mining firms* sharply increased the proportion of their bank borrowing with maturities of one year or less, while the percentage of loans that was unsecured rose only slightly. This probably reflects the ability of large firms to obtain the terms most suitable to their needs.

In 1955, *construction* and *real estate firms* had from one half to three fourths of their outstanding bank loans in short maturities, but less than four tenths were unsecured. The availability of pledgeable real estate assets accounts, in part, for this deviation from the general relationship between short-term and unsecured loans. *Trade firms,* which are generally small in size, increased their ratio of short-term loans to total loans between 1955 and 1957, but decreased the ratio of unsecured to total loans. The bank interviews revealed that inventory, accounts receivable, and buildings were the main sources of collateral for small trade firms. Moreover, some banks indicated that security requirements had been increased somewhat for retail outlets because they feared that the retail stores had overextended credit to customers.

## Terms by Size of Borrower

An earlier analysis of interest rates and size of borrower,[1] based upon a limited sample of banks, revealed the fact that increased borrowing costs, applicable to all sizes of business between 1955 and 1957, were relatively greater for large than for small business. Table 3 and the chart on page 11 provide supporting data from the two loan Surveys. The average interest rate charged to small firms increased less than one tenth while the average rate charged to large firms increased by nearly one third. The only comment that should be added to Table 3 is the fact that about 96 percent of the amount of loans outstanding in 1957 with rates under 4 percent were loans made at least two months prior to the survey date.

The earlier analysis also mentioned the cost savings to banks in making single large loans rather than many small loans. The primary advantage of lending to large business is the reduced cost and risk, some of which can be passed on by lower interest charges. A prime determinant of interest rates, therefore, is size of loan, which is directly related to size of business. The typical loan size for different sizes of business can be inferred from Table 4. While small borrowers have not been entirely excluded from relatively large loans,

**Table 3**
INTEREST RATES CHARGED
BY RELATIVE SIZE OF BORROWER[1]
1955 and 1957

Fourth District Member Banks

| Interest Rate | Relative Size of Borrower | | | |
|---|---|---|---|---|
| | All Sizes | Small | Medium | Large |
| | Percent of Total Amount Outstanding—1955 | | | |
| Under 4% | 47.5% | 12.8% | 41.8% | 82.5% |
| 4% - 5% | 25.2 | 33.3 | 29.8 | 12.5 |
| 5% - 6% | 17.2 | 30.6 | 19.2 | 3.6 |
| 6% - 8% | 8.0 | 18.5 | 7.4 | 1.2 |
| 8% & over | 2.1 | 4.8 | 1.8 | 0.2 |
| All Rates | 100.0% | 100.0% | 100.0% | 100.0% |
| | Percent of Total Amount Outstanding—1957 | | | |
| Under 4% | 8.0% | 3.1% | 6.9% | 12.3% |
| 4% - 5% | 45.4 | 17.6 | 35.6 | 72.0 |
| 5% - 6% | 33.1 | 50.6 | 41.8 | 12.8 |
| 6% - 8% | 10.8 | 23.2 | 13.3 | 1.3 |
| 8% & over | 2.7 | 5.5 | 2.4 | 1.6 |
| All Rates | 100.0% | 100.0% | 100.0% | 100.0% |

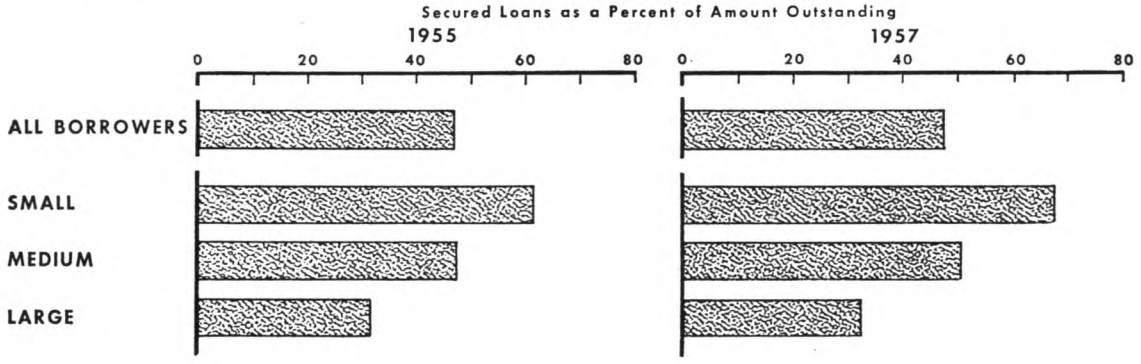
[1] See *Monthly Business Review*, June, 1958, p. 9, for description of relative size.

[1] *Monthly Business Review*, Federal Reserve Bank of Cleveland, "Interest Rates on Large and Small Bank Loans," March, 1958.

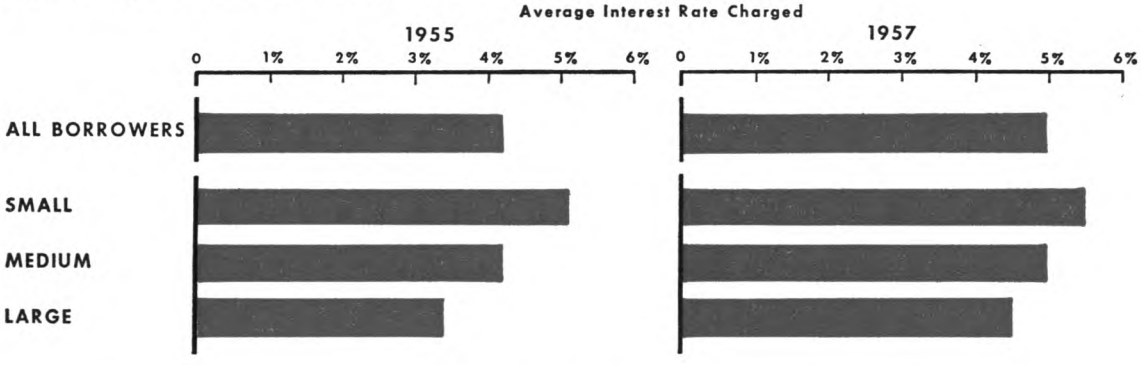
## TERMS OF BUSINESS BORROWING, 1955 AND 1957, BY RELATIVE SIZE OF BORROWER[1]

*Fourth District Member Banks*

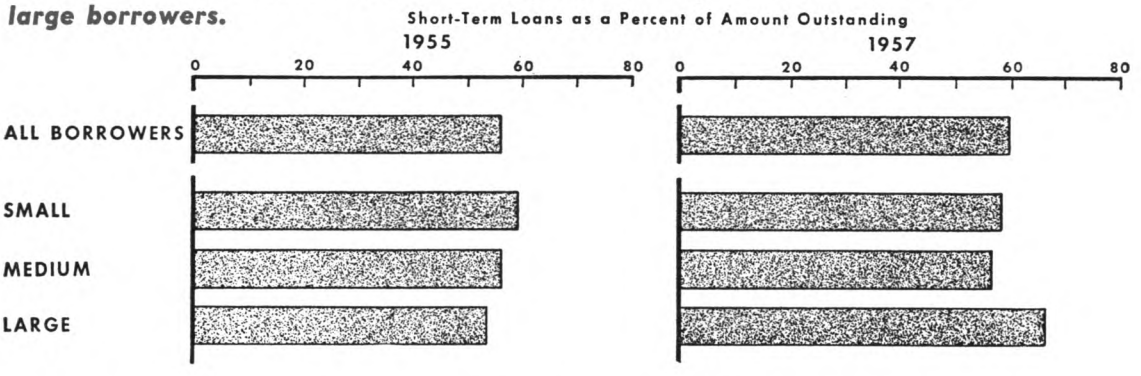
***Although* SECURED LOANS *are used more by small than by large borrowers,***




***and* INTEREST RATES *are higher for small borrowers,***




***the* MATURITY OF LOANS *does not vary significantly between small and large borrowers.***




(1) See *Monthly Business Review*, June, 1958, p. 9, for description of relative size.

Table 4

PERCENTAGE DISTRIBUTION OF AVERAGE SIZE[1] OF BUSINESS LOANS BY SIZE OF BORROWER, 1957

Fourth District Member Banks

| Size of Borrower (total assets in thousands) | Average Size of Loan (in thousands) | | | | | | |
|---|---|---|---|---|---|---|---|
| | All Sizes | Less than $10 | $10-25 | $25-50 | $50-100 | $100-500 | $500 and over |
| | Percent of Total Number of Loans Outstanding | | | | | | |
| Under $50 | 100.0% | 87.3% | 11.7% | 1.0% | .... | .... | .... |
| $50 - 250 | 100.0 | 49.4 | 31.0 | 13.9 | 5.0% | 0.7% | .... |
| $250 - 1,000 | 100.0 | 20.4 | 21.9 | 22.1 | 21.9 | 13.0 | 0.7% |
| $1,000 - 5,000 | 100.0 | 8.6 | 12.5 | 11.6 | 16.4 | 41.8 | 9.1 |
| $5,000 - 25,000 | 100.0 | 1.8 | .... | 2.6 | 9.9 | 41.3 | 44.4 |
| $25,000 - 100,000 | 100.0 | .... | 1.3 | 9.7 | 4.3 | 32.7 | 52.0 |
| $100,000 and over | 100.0 | .... | 1.4 | 5.7 | 13.3 | 19.6 | 60.0 |
| All Sizes | 100.0% | 59.4% | 20.9% | 9.2% | 5.5% | 3.8% | 1.2% |

[1]Average size based on original amount of loan.

sometimes as large as their total assets, the typical loan amount is roughly one fifth to one tenth of their total assets. Relatively large firms appear to borrow, at least on individual bank loans, amounts substantially below one tenth of their assets. The ability of large firms to borrow in the capital and money markets probably accounts for this difference.

Although the percentage of the amount of loans outstanding that was unsecured was unchanged in the aggregate between 1955 and 1957 and the percentage that was short-term (one year or less) increased slightly, differences in these respects between large and small borrowers were apparent. Small borrowers, which typically rely more on secured loans, increased the secured share of their outstanding bank loans, while large borrowers relied less on secured loans. On the other hand, large borrowers increased the short-term share of their outstandings between 1955 and 1957, while short-term loans comprised about three fifths of total dollar indebtedness of small borrowers in both years.

The actual maturity of business loans is clouded by the practice of rolling over short-term loans. The prevalence of this practice was revealed in the analysis of the 1955 Survey,[2] and its status in 1957 will be reviewed in a later article. One change already brought out by bank interviews was that some banks had realistically reappraised the practice of granting longer maturities, in effect, by rolling over short-term loans. These banks concluded that the longer maturity should be provided when the loan was made and adjusted their practices accordingly.

[2] See *Monthly Business Review*, "Continuous Borrowing Through Short-Term Bank Loans," September, 1956.

## Terms by Size of Bank

Reflecting the direct relationship between size of borrower and size of bank, differences among bank-size groups in terms of borrowing and changes in terms between 1955 and 1957 closely parallel differences among the size groups of business borrowers. However, changes in individual bank policies and practices, as well as changes in the banking structure, bring about shifts in the relative importance of terms that are not discernible when the analysis is made by size of business.

For example, the largest relative increase in average interest rates charged among smaller banks, those with less than $50 million in total deposits, occurred at banks with deposits totalling less than $2 million.

Table 5

AVERAGE INTEREST RATES BY SIZE OF BANK

Fourth District Member Banks

| Size of Bank (Total Deposits in millions) | Average Interest Rates | |
|---|---|---|
| | October 5, 1955 | October 16, 1957 |
| $500 and over | 3.7% | 4.6% |
| $250 to $500 | 4.1 | 5.0 |
| $100 to $250 | 4.1 | 5.1 |
| $50 to $100 | 4.9 | 5.2 |
| $20 to $50 | 5.0 | 5.3 |
| $10 to $20 | 5.1 | 5.7 |
| $2 to $10 | 5.4 | 5.6 |
| Under $2 | 6.1 | 6.8 |
| All Bank Sizes | 4.2% | 5.0% |

This apparent exception was the result of relatively large growth in secured loans with maturities in excess of one year and interest charges at 6 percent or more. Such terms characterize small instalment loans used to finance business expenditures for equipment. Higher rates at the smallest size group of banks were, therefore, more a result of further spreading of instalment lending than a result of credit stringency.

For the same reason, the proportion of loans with maturities of one year or longer increased between 1955 and 1957 at smaller banks, principally those with deposits totalling less than $20 million.

With two exceptions, the share of secured loans in portfolios of the various bank-size groups changed only slightly between 1955 and 1957. Loans secured by banks in the $100 million to $250 million size-class increased from 38 percent of the total amount outstanding in 1955 to 56 percent in 1957. Much of this shift can be attributed to changes in bank structure which increased the number and size of individual banks in this class. When smaller banks are absorbed into larger branch systems, the existing structure of loans is, of course, also absorbed. Policies in absorbed offices often change slowly. Therefore, with smaller banks generally carrying a larger share of secured loans, their absorption into larger systems can be expected to raise the proportion of secured loans held by the new consolidated bank.

The other exception occurred at the smallest banks where the share of loans carrying security increased from 58 percent in 1955 to 62 percent in 1957. This change further supports the claim that instalment lending to finance equipment grew to a greater extent at these banks than did other types of business loans.

## NOTES ON FEDERAL RESERVE PUBLICATIONS

Among the recent statements on Federal Reserve policy and related matters are:

"Borrowing from the Federal Reserve Bank — Some Basic Principles", by Karl R. Bopp, President, Federal Reserve Bank of Philadelphia. (An address, reprinted in the June 1958 issue of the *Business Review*, Federal Reserve Bank of Philadelphia.)

"Banks and Rural Development", by Charles N. Shepardson, member, Board of Governors of the Federal Reserve System. (Remarks at Conference on Rural Development Program, Memphis, Tenn., June 17, 1958.)

"Financing Small Business", by Eliot J. Swan, First Vice President, and Robert S. Einzig, Assistant Vice President, Federal Reserve Bank of San Francisco. (Presented at Conference of Directors of the Federal Reserve Bank of San Francisco and its Branches, May 28, 1958.)

Copies are available at the Federal Reserve banks or Board of Governors, Washington, D. C., as indicated above.

# *Around the Fourth District—*

**BANK DEBITS, JUNE AND FIRST HALF**

(12 Medium-size Cities, Fourth District)

| | | June '58 % change from yr. ago | First Half '58 % change from yr. ago |
|---|---|---|---|
| Mansfield | Ohio | + 8% | − 6% |
| Middletown | Ohio | + 6 | − 3 |
| Hamilton | Ohio | + 5 | − 2 |
| Zanesville | Ohio | + 3 | − 5 |
| Lexington | Ky. | + 1 | − 1 |
| Lorain | Ohio | − 2 | − 9 |
| Covington-Newport | Ky. | − 4 | − 3 |
| New Castle | Pa. | − 5 | − 9 |
| Wheeling | W. Va. | −10 | −12 |
| Lima | Ohio | −12 | − 7 |
| Springfield | Ohio | −13 | − 9 |
| Warren | Ohio | −14 | −17 |

* * * *

*Steel production* in the Cleveland-Lorain area recovered early in August to the halfway point between the 1958 low of 25% of capacity and the weekly average of 85% which prevailed in August a year ago.

* * * *

Fourth District *production of all major crops*—corn, wheat, oats, soybeans, and tobacco—will be greater than in 1957, according to the July 1 crop report. However, wet weather since that date has endangered full realization of the prospective increases.

* * * *

Cincinnati *department store sales* in June were unchanged from a year earlier, but all other reporting areas in the District registered year-to-year declines. On a seasonally adjusted basis, however, Wheeling-Steubenville and Erie, as well as Cincinnati, showed slight improvement from May.

* * * *

By the latter part of July, close to 13,000 persons in Cleveland who had exhausted their *unemployment* benefits under the regular law had begun to file for extended benefits authorized by the Temporary Ohio Unemployment Compensation Act of 1958. At the same time, an additional 40,500 claims were being filed for unemployment compensation under the regular law. The total of 53,500 indicated a decline of 6,500 from the peak of about 60,000 jobless persons at the end of April who were either filing for unemployment compensation or who had already exhausted their benefits at that time.

* * * *

Real estate loans in the combined portfolios of 17 Fourth District weekly reporting banks posted a new record high at the end of July.

*(The above items are based on various series of District or local data, which are assembled by this bank and distributed upon request in the form of mimeographed releases.)*

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FOURTH FEDERAL RESERVE DISTRICT