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FORMS OF BANK LENDING TO SMALL BUSINESS IN THE ELEVENTH DISTRICT

This is the second of two articles published in this Bank's *Business Review*, relating to commercial bank lending to small business. Background information for this article, as for the preceding one, was developed in the course of participation by the Federal Reserve Bank of Dallas in a System-wide inquiry into small-business financing.

A discussion of the availability of bank credit to small firms must take into account the fact that small businesses borrow under a number of different arrangements. Generalizations about the credit standards required of small businesses are apt to be misleading because the credit standards required of a borrower vary with the type of loan which is requested. Similarly, the maturities of bank loans to small-business firms and the rates of interest involved depend, to some extent, upon the form of credit extension. The prevalence of a number of different forms of credit extension lends flexibility to the lending policies of commercial banks in meeting the credit requirements of small businesses. Since a number of small businesses do not meet sound banking requirements for loans on an unsecured basis, the existence of alternative borrowing methods permits their accommodation on terms which are satisfactory both to the bank and to the borrower.

Equipment Financing

Of the various forms in which bank credit is extended to small business, equipment financing is one of the two most commonly used. Only one bank of the 68 included in the Eleventh District

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS

survey of bank lending to small business indicated that equipment financing for small business is never extended. The financing of commercial and industrial equipment usually is handled on a direct-loan basis, although most banks also provide funds indirectly by purchasing paper from equipment dealers. The rediscounting of equipment paper from sales finance companies is not a common practice in the Southwest, reportedly because of the absence of demand.

Requests from small businesses for equipment financing come from virtually every line of business in which a relatively heavy investment in fixed assets is required. Thus, District banks indicated that the most important users of equipment financing are retail stores of nearly all kinds, cafes and restaurants, manufacturing firms, building contractors, oil well drilling contractors and oil well servicing firms, laundries, and commercial operators of motor vehicles.

The willingness of commercial banks to finance commercial and industrial equipment for small-business firms is influenced by a number of factors. Of great importance, certainly, are the nature and type of equipment for which financing is sought. Since commercial banks generally must look to the recovery value of equipment for protection should the borrower be unable to repay his indebtedness, most banks indicated a reluctance to extend direct loans for financing special-purpose equipment or equipment that is subject to rapid depreciation or obsolescence. Thus, equipment which has a limited market — such as oil well drilling rigs, oil well servicing equipment, the more complex types of industrial machines, and heavy earth-moving equipment — is not as readily financed as motor vehicles, store fixtures, commercial refrigeration units, and standard machine tools. Similarly, most banks reported a reluctance to finance equipment that is subject to extensive damage if not operated by employees with a relatively high degree of skill. Many types of earth-moving equipment, for example, fall into this category.

As a general rule, the banks indicated that they are cautious in providing equipment financing for new businesses in lines which have relatively high mortality rates or frequent changes in business ownerships. Firms of these types are service stations, small retail grocery stores, cafes and restaurants, and establishments serving alcoholic beverages. Except for the latter, however, established businesses in these lines do not appear to experience great difficulty in obtaining equipment financing. The survey results suggest that both new and established businesses serving alcoholic beverages find it difficult to obtain equipment financing. The reluctance of banks to finance such businesses reflects, in large measure, the possibility of damage to equipment and the possibility that violation of governmental regulations pertaining to the sale of alcoholic beverages will result in closing of the borrower's business establishment.

The terms on equipment loans to small businesses tend to be fairly uniform from one bank to another. Most of the commercial banks contacted in the survey finance between two-thirds and three-fourths of the purchase price of new equipment, and typical maturities on loans for new equipment were reported at 24 to 36 months. Reported rates on such loans usually range between 5 and 7 percent, with a preponderance of rates at 6 percent. In rural areas, however, slightly higher rates are customary. These terms apply to machine tools, commercial refrigeration units, store fixtures, construction equipment, and trucks and trailers. In general, the terms on equipment loans for store fixtures and construction equipment tend to be moderately more conservative than the terms on loans for financing other types of standard equipment.

The survey banks indicated that the amount of loans to small businesses for the purchase of used equipment generally ranges between 50 and 67 percent of the purchase price, with an average maturity of 18 to 24 months. In most cases, rates are approximately 1 percentage point higher than rates on loans to finance new equipment.

Unsecured Loans

At most commercial banks, lending to small business on an unsecured basis accounts for a major share of total lending activity involving small firms. Usually, unsecured loans are short-term credit extensions in the range of 30, 60, 90, or 120 days and are related to the financing of inventory, receivables, or other seasonal requirements. Sixty-two of the 68 banks represented in the survey reported that short-term, unsecured loans to small businesses comprise a principal form of credit extension to small firms.

While a number of small businesses in the District obtain short-term, unsecured loans under lines of credit established at their banks, in the majority of cases the relationship between small-business borrowers and their bank is not this formal. Practices vary widely with respect to the extension of unsecured lines of credit.

Thus, a number of banks represented in the survey have placed a large proportion of their small-business borrowers under unsecured lines, while at other banks the proportion of small-business borrowers having unsecured lines reportedly is quite small. At nearly all banks, however, the proportion of small-business borrowers having unsecured lines of credit was reported as being somewhat smaller than the proportion of large firms which borrow under unsecured lines. This fact is explained generally in terms of (1) the larger proportion of firms in the small-business population which do not meet the requirements set forth for obtaining unsecured lines of credit and (2) the relatively greater importance that large firms attach to securing such lines.

An examination of the standards which banks require for unsecured lines of credit indicates that size of business is not a strategic factor in determining whether an individual business applicant will be accommodated on this basis. Naturally, the amount of the line will be affected materially by the assets and financial strength of the applicant, but the characteristics which permit an individual firm to obtain an unsecured line are a history of successful management, adequate accounting records, profitable operations, the existence of an established and assured market for the products or services offered by the applicant, and a history of prompt repayment of indebtedness. In addition, firms must have favorable liquidity and net worth positions to qualify for unsecured lines.

In contrast to the prevalence of short-term, unsecured credit extensions to small firms, the survey banks reported a general reluctance to make unsecured loans to small businesses on a term basis — or for a period of longer than 1 year. In part, this attitude results from the traditional preference on the part of commercial bankers for confining their lending activity to short-term working capital loans and, in this respect, applies to both large and small businesses.

However, in large measure, the reluctance on the part of banks to provide longer-term unsecured credit to small businesses stems from possible dangers which are not always present in lending to large firms. On an unsecured loan, other things being equal, the degree of risk assumed by a commercial bank tends to vary directly with the length of the maturity of the loan — especially when the loan is to an individual, rather than a corporation. In essence, this relationship reflects the fact that a longer maturity extends the period of time during which the repayment ability of the borrower is subject to the vicissitudes of business, to the health of the business owner, and to other factors. The vulnerability of small businesses to sickness or death in the business management and the financial inability of most small businesses to weather protracted periods of adversity, consequently, are strategic considerations entertained by banks in evaluating small-business applications for unsecured term loans.

While most survey banks indicated a reluctance to make unsecured term loans to any borrower, it is apparent from the survey that large firms are more successful than smaller firms in obtaining credit accommodations on an unsecured term basis and that many of the unfavorable considerations attached to lending to small firms are not present in making unsecured term loans to large firms. The corporate form of organization, plus the greater financial strength of large business firms, may remove a number of the objections which are present in the consideration of term loans to small businesses.

The greater reluctance of banks to extend unsecured term loans to small firms is evidenced not only by the greater difficulty experienced by these firms in obtaining accommodation on this basis but also by the more conservative terms on which they are accommodated. While unsecured term loans to large firms sometimes feature maturities of 5 years or more, bankers contacted in the survey reported that small businesses are not accommodated with loans having maturities in excess of 3 years. In general, the survey results suggest that rates on unsecured term loans to small businesses are slightly higher than rates on comparable loans to larger business establishments. As is generally the case in other forms of lending, the rate differential usually results from higher operating costs involved in smaller loans and from the greater degree of risk assumed on loans to many small businesses.

Loans Secured by Guarantees and Endorsements

A large proportion of small firms whose credit standings do not meet the requirements for unsecured loans are accommodated on the basis of promissory notes endorsed or guaranteed by a third party. At 61 of the 68 survey banks, this form of lending to small business is a prevalent practice. The bulk of commercial bank lending to small business on the basis of endorsements and guarantees involves the extension of credit to firms with very small asset structures. Thus, small repair shops of all types, independent grocery stores, service stations, cafes, and other small retail outlets commonly were listed by survey banks as the principal recipients of credit extended on this basis.

Firms which borrow on the basis of guarantees and endorsements customarily borrow on promissory notes endorsed by a friend or relative of the borrower. Corporate guarantees are not used frequently in the District. Personal guarantees, though strongly preferred to endorsements at a number of banks, are not as commonly used. In addition to friends and relatives of borrowers, suppliers and other beneficiaries of a business firm are of significant importance in facilitating the credit accommodation of small firms by providing endorsements and guarantees. Most of the survey banks, however, indicated a reluctance to make endorsed and guaranteed loans if it appears that recourse to the guarantor or endorser is likely to prove necessary.

The maturities on endorsed and guaranteed loans vary markedly. In cases where the financial position of the endorser or guarantor is unusually strong, borrowers sometimes are able to obtain term financing on an endorsed or guaranteed basis. In most cases, however, it appears that typical maturities on these loans are less than 1 year, and quite often less than 6 months.

The extension of guaranteed and endorsed loans to large firms appears to occur less frequently than granting such credit to small business, and there are indications that borrowing on this basis may be slightly more difficult for larger firms. Because loans to large enterprises generally involve greater amounts, stronger endorsements or guarantees customarily are required in lending to these businesses. Moreover, in the case of guaranteed and endorsed loans to larger firms, endorsers and guarantors sometimes are required to put up collateral to support their contingent liability. In other respects, however, the bankers indicated that lending to small firms on the basis of endorsements and collateral does not differ significantly from lending to larger firms.

Construction Loans

Sixty of the survey banks reported that loans to small construction firms occur relatively frequently, while eight banks indicated that such loans are rarely or never extended. Most of the survey banks indicated that they confine their construction lending activity to those contractors who have an established deposit relationship. In addition, small contractors who obtain construction financing customarily are required to obtain a firm commitment from institutional or other lenders to take out the mortgage on each project which is being financed. Except for occasional differences in rates (linked sometimes to the size of compensating deposits), construction loans to small contractors and builders do not appear to differ from construction loans to larger contracting firms.

Maturities on construction loans to small builders customarily are linked to the period of actual construction, which, in most cases, was reported as 6 months or less for construction loans to finance residential building projects. On loans to finance commercial and industrial construction projects, maturities of 1 year or more commonly were reported. Rates on these loans generally were indicated to be within a range of 6 to 8 percent per annum.

Loans Secured by Collateral Unrelated to the Business

A significant portion of the small-business population is accommodated on the basis of loans secured by collateral unrelated to the business, and 59 of the 68 survey banks reported that such loans are a common feature of their lending operations. While there are several reasons accounting for the frequency with which small businesses borrow on this basis, the bankers indicated that a substantial proportion of the volume of such loans is made to small businesses whose credit standings are not sufficiently strong to enable them to command unsecured credit and whose business assets are not suitable for pledge. In addition, small businesses sometimes pledge nonbusiness collateral in order to obtain credit in excess of the amounts which can be obtained from banks on an unsecured basis or in order to obtain more favorable maturities and rates than could be obtained on unsecured borrowings.

Maturities on loans secured by a pledge of collateral unrelated to the business vary widely, since this form of borrowing is used both for short-term seasonal credit requirements and for term borrowing. The survey banks reported that rates range from 5 to 8 percent. Credit extensions to small firms on this basis do not differ from extensions to larger firms, except with respect to the amounts involved and, occasionally, with respect to rates. As a general rule, however, small businesses are more frequently accommodated on this basis because of the more frequent marginal character of their creditworthiness.

Mortgage Loans on Business Property

It is generally true that small businesses experience considerable difficulty in obtaining longer-term financing from their banks. In addition to equipment financing, which is a very common method of directly financing businesses on terms other than short term, a second method by which commercial banks extend longer-term financing to small businesses is the extension of mortgage loans on business property. This form of credit extension, while not used as frequently as most other means of extending bank credit, nevertheless is an important feature of the lending operations of the great majority of banks represented in the survey.

The bankers indicated that in the State of Texas, this form of credit extension would be more commonly used were it not for state statutes providing for "business homesteads" and carefully restricting the circumstances under which business homesteads may be subjected to forced sale in order to satisfy the claims of creditors. As a result of these statutes, small-business borrowing on business properties in Texas customarily is confined to borrowing for the purpose of (1) purchasing business property or (2) financing improvements upon business property.

Typical maturities on mortgage loans to small businesses were reported at 3 to 5 years, although maturities of as long as 10 years were cited occasionally. Rates on such loans generally were reported as approximately 6 percent. Practices with respect to lending to small business on a mortgage basis do not appear to differ materially from those involved in lending to larger firms, according to the survey banks.

Purchase or Acceptance of Pledge of Consumer Paper

The frequency with which individual banks reported the extension of credit in the form of purchases or acceptances of pledge of consumer paper from small retail stores and dealers indicates that this form of credit extension is of considerable importance to the small-business community. In virtually every District city and town covered in the survey, there was at least one bank (and frequently more) which reported being active in this type of financing. Of the 68 banks contacted in the survey, 40 reported that they commonly finance automobile dealers in this manner, and 49 indicated that they finance other small retailers by the purchase or acceptance of pledge of consumer paper. The specific small businesses which obtain bank loans in this form are automobile dealers, appliance and hardware stores, furniture stores, farm implement dealers, and (in isolated instances) such retail establishments as music stores, sporting goods stores, and other establishments which handle consumer durables.

In so far as these businesses are able to obtain bank credit on the basis of promissory notes executed by their customers, the most common method is by the sale of this paper. While the survey uncovered a number of instances in which business establishments borrow on the pledge of consumer paper supported by chattel mortgages and conditional sales contracts, the volume of credit extended to small businesses in this manner is smaller than the volume of consumer paper which banks purchase outright. In most cases, consumer paper is purchased from retail stores and dealers with full recourse, although arrangements under which the contingent liability of the dealer or store is limited (or removed altogether) are not uncommon.

Basically, the ability of a small enterprise to obtain bank credit by the sale of consumer paper is related to its financial strength and to the quality of the consumer paper that it generates. To the extent that banks purchase consumer paper with recourse to a store or dealer, they customarily are anxious to avoid acquiring an amount of paper which bears a disproportionate relationship to the ability of a small-business firm to assume the contingent liability. At the limited number of banks which purchase consumer paper without recourse, the ability of small-business firms to obtain funds by the sale of consumer paper is related more or less exclusively to the quality of the paper that they generate, although a deposit relationship with the purchasing bank frequently is required.

Accounts Receivable Financing

Of the 68 banks represented in the survey, 48 reported being active in providing accounts receivable financing for small-business firms. Outside of banks in smaller cities and rural areas, where this type of financing commonly is avoided because of the expense and administrative detail involved, accounts receivable financing is a standard form of credit extension. Not all small-business firms qualify for accounts receivable financing, however. Banks prefer, for example, that the size of each account receivable which is pledged be fairly large — generally above $50 and quite commonly much higher. Furthermore, although most banks reportedly have no formal minimum credit-rating standards on accounts that are acceptable for pledge, small businesses whose receivables are not of superior quality generally are not accommodated on this basis.

Even though there are exceptions, it appears from the survey results that the small businesses in the Eleventh District which are most commonly accommodated on the basis of their accounts receivable are those that manufacture goods and provide services on a contract basis for firms whose credit ratings are relatively high. Subcontractors of virtually all lines are listed by banks as obtaining accounts receivable financing, as are such lines of business as printing firms, seismograph exploration concerns, oil well drilling and servicing contractors, and trucking firms. In addition, many small-scale wholesalers and small manufacturers are accommodated on this basis. At a number of banks included in the survey, accounts receivable financing also is provided for retail stores.

Loans Secured by Inventory

Because of state laws restricting the creation of a valid lien against goods which daily are exposed for sale, inventory-secured loans in most of the Eleventh Federal Reserve District are confined largely to loans against warehoused inventories and inventories of automobiles and certain appliances, for which special arrangements are made. In addition to the legal complications which render it difficult for small businesses to obtain inventory-secured loans, further difficulties stem from reluctance on the part of a substantial number of banks to extend credit secured by inventories. The bankers indicated that this reluctance results largely from the administrative detail and expenses involved in handling these credits. Inventory-secured loans are not, therefore, one of the most frequently used methods of financing small business. Almost one-third of the 68 survey banks reported that accounts receivable financing for small business is provided infrequently.

To a number of lines of small business, nevertheless, the pledge of inventories constitutes the most important method of obtaining bank credit. Commodity dealers, for example, are important users of inventory-secured loans, as are wholesalers and distributors of petroleum products, foods and drugs, and a large variety of manufactured products. Manufacturers who warehouse their products prior to sale also are accommodated at those banks which handle inventory financing. In addition, of course, bank financing of the inventories of automobile, farm implement, and appliance dealers is quite common.

Banks indicated that the terms and conditions under which inventory financing is extended to small business do not differ noticeably from the terms and conditions applicable to inventory financing for larger firms. In general, the ability of both large and small business enterprises to obtain inventory financing depends upon the market and price stability of the inventory which is pledged and upon the general credit standing of the borrower.

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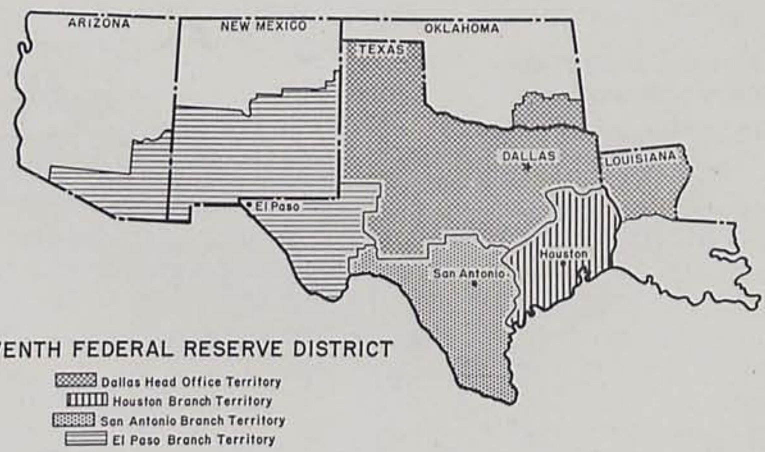


ELEVENTH FEDERAL RESERVE DISTRICT

BUSINESS REVIEW

BUSINESS, AGRICULTURAL, AND FINANCIAL CONDITIONS

DISTRICT SUMMARY

Seasonally adjusted department store sales in the Eleventh Federal Reserve District during August reached a new record. Again in August, year-to-year sales comparisons were stronger for the soft goods lines than for hard goods. New car registrations in August in the District's four largest market areas were one-third less than in August 1957 but were only slightly below the July level.

Agricultural conditions in most of the District continue favorable, although widespread rains — some of cloudburst proportions—have resulted in lowered grades and some losses in cotton yields. Fall pasture prospects remain favorable, and livestock are in good condition. Cash receipts from farm marketings in the District states during the first half of this year were one-third above the same period in 1957.

Continued strength in commercial and industrial loan demand highlighted recent changes at the weekly reporting member banks in the Eleventh District. During August, the District's country banks reported greater availability of free reserves, while a moderate decline was reported by the reserve city banks. Currency in circulation of the Federal Reserve Bank of Dallas rose during the 4 weeks ended September 17.

Employment of nonfarm workers in the District states showed a normal seasonal upturn in August, led by increases in trade and construction. Unemployment in Texas declined further to reach 5.1 percent of the labor force.

The value of construction contracts awarded in the District states during July, while down 10 percent from the June record, was sharply above a year ago. Residential awards continued to show strength, and nonresidential contracts were nearly double the year-earlier level.

Despite a 7-year low in crude oil stocks, the recent rise in production is scheduled to halt, at least temporarily, in October. An imbalance between gasoline and distillate stocks is one of the major problems facing the industry this fall.

TRADE

As a result of continued special sales and back-to-school promotions, department store sales in the Eleventh District during August, on a seasonally adjusted basis, were sharply higher than in July and were moderately above a year ago. The August seasonally adjusted sales index reached a new record of 172 percent of the 1947-49 average, compared with 162 in July and 169 in both July and August 1957.

Without adjustment, August sales were 11 percent more than in July but, because of one less trading day, were 2 percent below August 1957. During the first 2 weeks in September, sales were fractionally above a year ago, but for the year to date, cumulative sales were still 2 percent under the comparable year-earlier period.

Reports from District stores which furnish information on the distribution of sales by departments show that the dollar volume of sales in most departments in August was less than in August last year. In general, this fact is attributable to the decrease in the number of trading days. As in recent months, more strength relative to a year ago was apparent in soft goods lines than in hard goods. Men's and boys' wear sales

DEPARTMENT STORE SALES AND STOCKS

(Percentage change in retail value)

	NET SALES			STOCKS (End of month)	
	Aug. 1958 from			Aug. 1958 from	
Area	July 1958	Aug. 1957	8 mos. 1958 comp. with 8 mos. 1957	July 1958	Aug. 1957
Total Eleventh District	11	—2	—2	7	—6
Corpus Christi	19	—4	—6	6	—7
Dallas	12	—2	0	7	—6
El Paso	19	4	3	15	4
Fort Worth	16	4	—1	6	—5
Houston	4	—10	—9	2	—14
San Antonio	5	0	1	5	0
Shreveport, La.	14	—10	—6	7	—6
Waco	17	—4	—8	10	—9
Other cities	16	3	2	10	—1

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

Eleventh Federal Reserve District

(1947-49 = 100)

	SALES (Daily average)		STOCKS (End of month)	
Date	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted
1957: August	157r	169r	175r	175r
1958: June	147	162	156	168
July	144	162	155	163
August	160	172	165p	165p

r — Revised.
p — Preliminary.

SALES AT FURNITURE STORES AND HOUSEHOLD APPLIANCE STORES

(Percentage change in retail value)

	August 1958 from		
Line of trade by area	July 1958	August 1957	8 mos. 1958 comp. with 8 mos. 1957
FURNITURE STORES			
Total Eleventh District	2	—2	—1
Amarillo	—28	15	—15
Austin	8	—3	—2
Dallas	0	7	0
Houston	11	7	2
Lubbock	5	14	—
San Antonio	—7	—7	—7
Shreveport, La.	6	—9	6
Wichita Falls	—1	—15	—15
Other cities	—2	—7	—4
HOUSEHOLD APPLIANCE STORES			
Total Eleventh District	24	20	—
Dallas	31	22	—

increased 3 percent; and in the women's and misses' apparel departments, sales of blouses, skirts, and sportswear were up 4 percent. However, women's and misses' coats and suits and dresses showed sales decreases of 3 percent and 6 percent, respectively. In the homefurnishings departments, furniture and bedding sales were down 6 percent, as were sales of rugs, carpets, and linoleum. Major household appliance sales were 9 percent below August 1957, despite a 13-percent gain in air-conditioning unit sales.

August department store inventories in the District were 6 percent below a year earlier but were up 7 percent from the preceding month. Reports from a selected group of stores on orders outstanding, new orders, and receipts of merchandise show approximately seasonal month-to-month movements in August at levels which were 4 to 6 percent below August 1957.

New car registrations during August in the metropolitan areas of Dallas, Fort Worth, Houston, and San Antonio were 5 percent less than in July and 33 percent below August last year. Each of the individual areas showed decreases from both the previous month and a year ago. Month-to-month declines varied from 1 percent in Houston to 10 percent in Dallas, while the year-to-year declines were 9 percent in Fort Worth, 28 percent in San Antonio, 38 percent in Houston, and 39 percent in Dallas. Cumulative registrations for the four areas through the end of August were 26 percent under the corresponding year-earlier period.

AGRICULTURE

Weather conditions during the past month varied widely throughout the District. In the early part of the month, generally hot, open weather hastened maturity of crops; farmers made excellent progress in harvesting and in the preparation of land for fall planting. Subsequently, tropical storm Ella brought much-needed rain to central, coastal, and southern sections of the District, and a series of cool fronts triggered widespread rains — some of cloudburst proportions — throughout the District. Particularly heavy rains fell in the Texas Blacklands eastward into Louisiana and in south-central portions of Texas. The precipitation and accompanying cool weather slowed harvesting operations but provided much-needed moisture in range sections and for crops in western dry-land areas.

Recent rains improved prospects for a late cotton crop but have delayed openings of mature bolls and retarded harvest. The cotton crop in the District states is placed, as of September 1, at 6,040,000 bales, or 15 percent larger than the outturn in 1957 and 2 percent larger than the 1947-56 average. In Texas, indicated production is placed at 4,200,000 bales, or 16 percent above the 1957 output; in the other District states, production increases range from a 3-percent gain for Oklahoma to a 21-percent increase in New Mexico.

Harvesting of grain sorghums is virtually complete in eastern areas and is well advanced in the Low Rolling and Southern High Plains of Texas and in eastern New Mexico. The output of grain sorghums in the District is placed at 284,891,000 bushels, or 6 percent above the previous record crop harvested in 1957.

Late-planted peanuts also were helped by recent precipitation. Peanut output in the District states is estimated to be 58 percent greater than last year. Rice harvesting is in the final stages in the coastal areas of Louisiana and Texas. High winds and rains accompanying hurricane Ella resulted in some damage to rice, but losses are expected to be light. This year's rice crop may exceed the 1957 output by 12 percent.

Fall pasture prospects improved sharply during the past month as a result of widespread precipitation.

CROP PRODUCTION

Texas and Five Southwestern States

(In thousands of bushels)

	TEXAS			FIVE SOUTHWESTERN STATES[1]		
Crop	Estimated Sept. 1, 1958	1957	Average 1947–56	Estimated Sept. 1, 1958	1957	Average 1947–56
Cotton[2]	4,200	3,632	3,937	6,040	5,242	5,906
Corn	44,720	40,020	41,525	75,042	61,440	72,283
Winter wheat	77,441	33,669	43,687	200,039	81,912	118,313
Oats	43,552	35,260	23,852	67,640	53,558	39,918
Barley	8,694	5,481	1,892	33,162	23,711	12,241
Rye	270	180	240	2,175	1,255	817
Rice[3]	12,540	11,104	12,863	24,282	21,704	25,133
Sorghum grain	253,855	238,095	96,256	284,891	267,742	113,676
Flaxseed	360	126	827	385	164	1,146
Hay[4]	2,503	2,316	1,690	6,544	6,047	5,041
Peanuts[5]	250,325	159,840	213,524	406,225	256,640	324,617
Irish potatoes[6]	2,148	1,630	[7]1,498	5,390	4,495	[7]3,424
Sweet potatoes[6]	1,320	1,200	[7]1,370	6,376	6,146	[7]6,485
Pecans[5]	38,000	55,000	31,640	72,500	108,500	69,624

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
[2] In thousands of bales.
[3] In thousands of bags containing 100 pounds each.
[4] In thousands of tons.
[5] In thousands of pounds.
[6] In thousands of hundredweight.
[7] Average, 1949-56.
SOURCE: United States Department of Agriculture.

CASH RECEIPTS FROM FARM MARKETINGS

Five Southwestern States and United States

(Dollar amounts in thousands)

	January—June		
Area	1958	1957	Percentage change
Arizona	$ 194,507	$ 176,956	10
Louisiana	116,675	117,559	—1
New Mexico	68,964	54,984	25
Oklahoma	284,891	190,809	49
Texas	861,482	603,953	43
Total	$ 1,526,519	$ 1,144,261	33
United States	$13,868,003	$12,414,258	12

SOURCE: United States Department of Agriculture.

Forage supplies, particularly, were improved in the southern counties and Trans-Pecos area of Texas and in southern New Mexico. Pastures throughout most of the District are making good growth, and all classes of livestock are in good condition.

Cash receipts from farm marketings in the District states during January-June of this year totaled $1,526,519,000, or 33 percent above the comparable period in 1957. In the Nation, cash receipts are 12 percent greater than last year. All of the District states except Louisiana registered gains in receipts as compared with year-earlier totals.

FINANCE

As economic activities accelerated throughout the Southwest, many key banking measurements also expanded. Weekly reporting member banks in the Eleventh Federal Reserve District indicated a continued advance in commercial and industrial loans, with the total increasing $16 million in the 4 weeks ended September 17. Recent strength has been particularly noticeable in loan demand from metal and metal products manufacturers and construction firms, as production and building totals have risen in the past 90 days. On the other hand, credit requirements have slackened for transportation equipment manufacturers and sales finance concerns, the loan decline for the latter category being largely accounted for by continued slow sales of new automobiles.

Also important have been the continued gains in deposits. Total deposits of the weekly reporting member banks rose $33.8 million during the 4 weeks ended September 17 and on that date were 10.3 percent above a year ago. The recent rise was mainly in demand

CONDITION STATISTICS OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES

Eleventh Federal Reserve District

(In thousands of dollars)

Item	Sept. 17, 1958	Aug. 20, 1958	Sept. 18, 1957
ASSETS			
Commercial and industrial loans	$1,571,296	$1,555,274	$1,488,207
Agricultural loans	41,214	36,540	23,282
Loans to brokers and dealers in securities	20,352	24,068	17,903
Other loans for purchasing or carrying securities	182,343	184,398	151,713
Real-estate loans	231,429	224,133	191,344
Loans to banks	18,939	52,232	14,884
All other loans	642,039	657,273	626,135
Gross loans	2,707,612	2,733,918	2,513,468
Less reserves and unallocated charge-offs	45,818	45,729	42,652
Net loans	2,661,794	2,688,189	2,470,816
U. S. Treasury bills	69,433	84,307	115,591
U. S. Treasury certificates of indebtedness	199,877	233,772	112,068
U. S. Treasury notes	269,041	269,272	158,099
U. S. Government bonds (inc. gtd. obligations)	924,367	947,222	816,760
Other securities	323,127	311,255	278,001
Total investments	1,785,845	1,845,828	1,480,519
Cash items in process of collection	480,907	394,559	490,551
Balances with banks in the United States	543,247	494,530	454,297
Balances with banks in foreign countries	1,444	1,319	1,906
Currency and coin	49,220	49,030	48,776
Reserves with Federal Reserve Bank	576,190	571,803	613,383
Other assets	175,892	154,208	174,041
TOTAL ASSETS	6,274,539	6,199,466	5,734,289
LIABILITIES AND CAPITAL			
Demand deposits			
Individuals, partnerships, and corporations	2,931,438	2,838,928	2,831,982
United States Government	69,283	176,687	66,497
States and political subdivisions	143,661	170,506	162,394
Banks in the United States	1,127,875	1,050,190	945,355
Banks in foreign countries	15,924	21,084	19,084
Certified and officers' checks, etc.	68,917	74,039	85,228
Total demand deposits	4,357,098	4,331,434	4,110,540
Time deposits			
Individuals, partnerships, and corporations	1,073,360	1,069,971	799,975
United States Government	7,455	7,455	12,420
Postal savings	421	421	421
States and political subdivisions	221,291	221,668	206,983
Banks in the U. S. and foreign countries	7,070	1,903	6,750
Total time deposits	1,309,597	1,301,418	1,026,549
Total deposits	5,666,695	5,632,852	5,137,089
Bills payable, rediscounts, etc.	34,250	14,000	54,250
All other liabilities	82,927	61,134	89,784
Total capital accounts	490,667	491,480	453,166
TOTAL LIABILITIES AND CAPITAL	6,274,539	6,199,466	5,734,289

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. In thousands of dollars)

Item	August 1958	July 1958	August 1957
RESERVE CITY BANKS			
Reserve balances	$ 573,062	$556,469	$ 561,449
Required reserves	560,155	543,631	553,268
Excess reserves	12,907	12,838	8,181
Borrowings	3,616	300	18,984
Free reserves	9,291	12,538	—10,803
COUNTRY BANKS			
Reserve balances	441,295	430,508	454,515
Required reserves	379,787	378,562	400,662
Excess reserves	61,508	51,946	53,853
Borrowings	1,037	1,448	10,229
Free reserves	60,471	50,498	43,624
MEMBER BANKS			
Reserve balances	1,014,357	986,977	1,015,964
Required reserves	939,942	922,193	953,930
Excess reserves	74,415	64,784	62,034
Borrowings	4,653	1,748	29,213
Free reserves	69,762	63,036	32,821

deposits and was the net result of rather wide swings in the accounts of different types of depositors. The United States Government drew down its balances sharply, but individuals and businesses added a substantial amount to their demand accounts. Time deposits, especially those of correspondent banks, rose $8.2 million during the 4 weeks and were $283 million above the comparable date in 1957.

Moving counter to the national trend, daily average free reserves at Eleventh District member banks increased $6.7 million in August as the total reached $69.8 million. With the banks attracting additional demand and time deposits, required reserves expanded $17.7 million, but reserve balances provided a more than offsetting increase. Borrowings from the Federal Reserve Bank of Dallas advanced $2.9 million from July to August to reach a level of $4.7 million but declined nearly $25 million from a year earlier. The increase in free reserves was centered at the country banks, which showed a gain of $10 million. At reserve city banks, the principal change in free reserves arose from a $3.3 million increase in daily average borrowings from the Federal Reserve Bank.

NEW PAR BANK

The Airline State Bank of Houston, Houston, Texas, an insured, nonmember bank located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, August 29, 1958. The officers are: W. S. Pebworth, Jr., President, and M. K. Howard, Vice President and Cashier.

The Federal Reserve Bank of Dallas reported a $23.4 million decrease in its gold certificate reserves during the 4 weeks ended September 17. Federal Reserve notes in circulation showed a $9.7 million increase during the 4 weeks and a $40.1 million increase over the comparable date a year ago, as the rise in Federal Reserve currency in the Southwest accounted for more than two-fifths of the national gain from year to year.

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	Sept. 17, 1958	Aug. 20, 1958	Sept. 18, 1957
Total gold certificate reserves	$741,684	$765,132	$ 812,108
Discounts for member banks	6,150	1,000	38,969
Other discounts and advances	0	0	312
U. S. Government securities	975,940	991,523	911,059
Total earning assets	982,090	992,523	950,340
Member bank reserve deposits	966,613	965,139	1,019,972
Federal Reserve notes in actual circulation	752,772	743,027	712,636

OIL and GAS

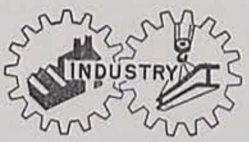
Having successfully completed a major inventory adjustment, the Nation's petroleum industry still faced a somewhat unbalanced situation as it entered the fall marketing season. Total demand for the four major refined products remained at a level slightly above a year ago but in the 5 weeks ended September 12, declined nominally from the previous 5-week period to a total of 6,879,000 barrels per day, despite some renewed interest in heavy industrial fuel oil.

On the other hand, crude oil production and refining, encouraged by the early summer demand picture and the improved inventory situation, moved upward in their usual delayed reaction. Crude oil production in early September rose 6 percent in the District and 3 percent in the Nation. District production, at 3,226,000 barrels per day, was 1 percent above a year ago. Crude oil imports in the 5 weeks ended September 12 averaged substantially below both the previous period and a year earlier.

The net balance of rising crude oil production and reduced imports was an increase in the crude supply. However, with advancing refinery activity, the enlarged crude supply was siphoned into products stocks. Consequently, crude oil stocks were reduced nearly 3 percent in early September and totaled 240,716,000 barrels on September 13 — the lowest level since early 1951.

Increasing the supply of products, crude runs to refinery stills rose 4 percent in the District and 1 percent in the Nation during early September. In addition, refined products imports increased 12 percent in the 5 weeks ended September 12 to a level 65 percent above a year earlier. In mid-September, total products stocks rose 2 percent but were still slightly below a year ago. Recognizing these potential supply problems, regulatory agencies in both Texas and New Mexico have reduced allowables for October. The Texas Railroad Commission has ordered an 11-day producing schedule, which trims the state allowable by about 246,000 barrels per day.

A second major discrepancy has developed within the products inventories. While gasoline stocks in early September were at virtually the same level as a year ago, distillate fuel oil inventories were well below the corresponding period in 1957. With the heating season approaching, larger stocks of fuel oil are needed; but as they are produced, gasoline will also be produced. The extent to which the industry can hold down its accumulation of gasoline while producing the needed light fuel oils will determine whether or not another overinventory problem develops.



Employment of nonfarm workers in the District states, after a greater than usual seasonal decline in July, showed a normal seasonal upturn in August to reach 4,268,700. Although the total continued approximately 2 percent below a year earlier, the 10,600-worker increase over July was about equal to the average July-August gain of the preceding 5 years. The largest month-to-month employment gains were recorded in trade and construction. Manufacturing employment, which had been declining throughout most of the year, rose slightly in August.

Mining activity and employment in the western areas of the District exhibited signs of improvement in late August and September. Two major companies announced plans to increase copper output at their Arizona and New Mexico mines, with one company changing from a 5-day week to a 6-day week and the other, from 4 days to 5 days. In addition, a 32-day-old strike which had limited potash production in New Mexico was ended on September 2.

Unemployment in Texas declined by another 10,800 persons in August to reach a total of 184,700, or 5.1 percent of the labor force. Furthermore, the number of persons filing claims for unemployment compensation in Texas decreased 8 percent between mid-August and mid-September, compared with a decrease of only 3 percent in the same period of 1957.

The value of construction contracts awarded in the District states in July, while down 10 percent from the June record, was 68 percent higher than the July 1957 total — a significant improvement in the year-to-year margin. Residential awards continued to show strength, and nonresidential contracts were nearly double the year-earlier level. Nonresidential awards in Dallas and Houston accounted for more than one-fourth of the total in this category, with each city reporting over $35 million in nonresidential awards during July. One chemical plant in Houston accounted for $20 million, while in Dallas, contracts for three building projects — classified as commercial, bank, and office — totaled $29 million. In August, Texas construction contract awards were down sharply from a record July level, according to the *Texas Contractor* series.

Over-all income data indicate that the general economy of the Southwest showed greater strength than the national economy during the 1957-58 slowdown in business. Personal income in Texas and the Southwest during 1957 showed gains of more than 7 percent over the 1956 totals, compared with a national increase of 5 percent. While agriculture accounted for the largest part of the region's gain, construction and manufacturing incomes also showed large increases relative to the Nation. More recent data on state tax collections during the 12 months ended June 1958 indicate that these collections were up 3 percent over a year earlier in the District states, compared with an increase of 2.6 percent for all states in the Nation. However, Texas tax collections, affected by the curtailment of petroleum production, rose only 1.5 percent.

NONAGRICULTURAL EMPLOYMENT

Five Southwestern States[1]

Type of employment	Number of persons			Percent change Aug. 1958 from	
	August 1958e	July 1958	August 1957r	July 1958	Aug. 1957
Total nonagricultural wage and salary workers	4,268,700	4,258,100	4,348,200	0.2	—1.8
Manufacturing	736,500	735,400	784,900	.1	—6.2
Nonmanufacturing	3,532,200	3,522,700	3,563,300	.3	—.9
Mining	241,900	241,400	271,800	.2	—11.0
Construction	316,300	312,700	326,000	1.2	—3.0
Transportation and public utilities	395,400	394,800	413,500	.2	—4.4
Trade	1,126,900	1,121,900	1,133,700	.4	—.6
Finance	191,900	191,600	186,300	.2	3.0
Service	533,100	532,400	524,900	.1	1.6
Government	726,700	727,900	707,100	—.2	2.8

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
e — Estimated.
r — Revised.
SOURCES: State employment agencies.
Federal Reserve Bank of Dallas.

BANK DEBITS, END-OF-MONTH DEPOSITS AND ANNUAL RATE OF TURNOVER OF DEPOSITS

(Dollar amounts in thousands)

Area	Debits to demand deposit accounts[1] August 1958	Percentage change from July 1958	Percentage change from Aug. 1957	Demand deposits[1] August 31, 1958	Annual rate of turnover Aug. 1958	Annual rate of turnover July 1958	Annual rate of turnover Aug. 1957
ARIZONA							
Tucson	$ 170,950	—9	11	$ 103,608	19.4	20.8	19.2
LOUISIANA							
Monroe	69,233	—5	1	49,896	16.6	17.8	15.8
Shreveport	258,605	—6	—6	176,557	17.4	18.4	17.3
NEW MEXICO							
Roswell	29,175	—13	—2	28,216	12.6	14.5	13.0
TEXAS							
Abilene	81,996	—3	—4	60,250	16.4	17.0	16.8
Amarillo	180,396	—5	0	117,453	18.5	19.7	20.5
Austin	167,630	—7	—1	126,498	15.8	16.7	16.7
Beaumont	133,770	—7	—13	103,781	15.6	16.4	17.3
Corpus Christi	186,943	—3	—10	113,563	20.2	21.1	22.0
Corsicana	15,760	1	—6	22,057	8.5	8.3	9.2
Dallas	2,153,933	—4	—7	1,065,968	24.5	25.7	27.8
El Paso	282,251	—4	3	153,556	22.3	23.3	23.5
Fort Worth	669,407	—9	—2	362,227	22.0	23.8	22.7
Galveston	86,201	—6	—18	67,742	15.2	16.3	18.6
Houston	2,178,594	—5	—4	1,195,234	21.8	23.2	22.7
Laredo	23,020	—13	—4	21,248	12.8	14.4	14.4
Lubbock	146,198	—1	10	101,414	17.3	17.5	16.8
Port Arthur	62,289	—11	—10	44,560	16.4	18.0	18.6
San Angelo	46,610	—5	—2	42,237	13.2	14.0	13.4
San Antonio	514,492	—9	—3	384,784	16.2	17.9	18.6
Texarkana[2]	18,216	—6	—7	16,341	13.4	14.3	14.3
Tyler	76,657	—4	—6	62,041	14.8	15.4	16.1
Waco	94,497	—4	1	68,833	16.9	17.8	17.9
Wichita Falls	97,771	—5	—2	107,913	10.9	11.4	11.4
Total—24 cities	$7,744,594	—6	—4	$4,595,977	20.3	21.5	21.8

[1] Deposits of individuals, partnerships, and corporations and of states and political subdivisions.
[2] These figures include only one bank in Texarkana, Texas. Total debits for all banks in Texarkana, Texas-Arkansas, including one bank located in the Eighth District, amounted to $40,575,000 for the month of August 1958.

NATURAL GAS: MARKETED PRODUCTION

(In millions of cubic feet)

Area	First quarter 1958	Fourth quarter 1957	First quarter 1957
Louisiana	568,100	521,300	518,600
New Mexico	206,200	202,300	196,300
Oklahoma	186,300	149,600	185,300
Texas	1,379,700	1,340,200	1,430,500
Total	2,340,300	2,213,400	2,330,700

SOURCE: United States Bureau of Mines.

CRUDE OIL: DAILY AVERAGE PRODUCTION

(In thousands of barrels)

Area	August 1958[1]	July 1958[1]	August 1957[2]	Change from July 1958	Change from August 1957
ELEVENTH DISTRICT	3,046.2	2,754.8	3,135.7	291.4	—89.5
Texas	2,689.8	2,399.3	2,771.1	290.5	—81.3
Gulf Coast	501.1	461.9	543.8	39.2	—42.7
West Texas	1,181.4	1,034.6	1,179.9	146.8	1.5
East Texas (proper)	152.8	128.5	176.7	24.3	—23.9
Panhandle	105.9	104.0	103.3	1.9	2.6
Rest of State	748.6	670.3	767.4	78.3	—18.8
Southeastern New Mexico	249.9	249.2	249.6	.7	.3
Northern Louisiana	106.5	106.3	115.0	.2	—8.5
OUTSIDE ELEVENTH DISTRICT	3,810.5	3,744.9	3,650.7	65.6	159.8
UNITED STATES	6,856.7	6,499.6	6,786.4	357.1	70.3

SOURCES: [1] Estimated from American Petroleum Institute weekly reports.
[2] United States Bureau of Mines.

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(In millions of dollars)

Item	Aug. 27, 1958	July 30, 1958	Aug. 28, 1957
ASSETS			
Loans and discounts	$4,364	$4,311	$3,984
United States Government obligations	2,732	2,581	2,492
Other securities	749	744	659
Reserves with Federal Reserve Bank	971	954	1,004
Cash in vault[e]	136	133	132
Balances with banks in the United States	1,057	1,089	938
Balances with banks in foreign countries[e]	1	1	2
Cash items in process of collection	412	424	404
Other assets[e]	244	239	241
TOTAL ASSETS[e]	10,666	10,476	9,856
LIABILITIES AND CAPITAL			
Demand deposits of banks	1,181	1,160	1,011
Other demand deposits	6,425	6,290	6,266
Time deposits	2,108	2,087	1,651
Total deposits	9,714	9,537	8,928
Borrowings[e]	11	14	41
Other liabilities[e]	93	80	103
Total capital accounts[e]	848	845	784
TOTAL LIABILITIES AND CAPITAL[e]	10,666	10,476	9,856

e — Estimated.

BUILDING PERMITS

Area	NUMBER Aug. 1958	NUMBER 8 mos. 1958	VALUATION (Dollar amounts in thousands) Aug. 1958	VALUATION 8 mos. 1958	Percentage change Aug. 1958 from July 1958	Percentage change Aug. 1958 from Aug. 1957	Percentage change 8 mos. 1958 comp. with 8 mos. 1957
ARIZONA							
Tucson	350	3,573	$ 1,006	$ 11,005	—43	—1	—19
LOUISIANA							
Shreveport	536	3,927	5,588	21,819	49	270	27
TEXAS							
Abilene	198	1,306	1,741	12,979	—15	31	29
Amarillo	247	2,089	2,281	18,205	4	19	—2
Austin	305	2,033	2,040	31,388	—56	—64	0
Beaumont	363	2,848	4,645	14,991	62	183	16
Corpus Christi	127	2,029	1,797	17,531	—41	20	59
Dallas	1,875	16,216	13,629	106,649	—46	41	17
El Paso	809	5,225	7,797	44,399	29	216	94
Fort Worth	740	5,339	5,522	36,473	—15	57	—1
Galveston	115	972	197	2,613	—30	9	—1
Houston	1,388	10,539	22,465	154,061	8	5	—3
Lubbock	347	2,110	3,773	26,521	—5	146	42
Port Arthur	148	1,407	346	8,044	—25	3	101
San Antonio	1,342	12,262	6,392	42,371	24	32	17
Waco	255	1,775	1,303	10,740	—61	14	5
Wichita Falls	163	1,191	922	4,972	110	79	—43
Total—17 cities	9,308	74,841	$81,444	$564,761	—12	35	12

VALUE OF CONSTRUCTION CONTRACTS AWARDED

(In thousands of dollars)

Area and type	July 1958	June 1958	July 1957	January—July 1958	January—July 1957
FIVE SOUTHWESTERN STATES[1]	$ 444,536	$ 496,248	$ 265,359	$ 2,397,155	$ 2,153,787
Residential	174,119	143,185	129,808	938,552	784,946
All other	270,417	353,063	135,551	1,458,603	1,368,841
UNITED STATES	3,607,056	3,819,582	2,900,681	20,369,554	19,838,686
Residential	1,557,443	1,364,231	1,286,937	8,057,400	7,750,251
All other	2,049,613	2,455,351	1,613,744	12,312,154	12,088,435

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
SOURCE: F. W. Dodge Corporation.