# Banking & Finance

AN EIGHTH DISTRICT PERSPECTIVE

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# Eighth District Banks and the Fed's Newly Proposed Bank Capital Standards

In July, the Federal Reserve System asked for comments on proposed revisions to its capital adequacy guidelines for state member banks and bank holding companies. The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) recently issued similar proposals. Although there are differences in the definitions of primary and secondary capital, the proposals share common minimum percentage standards for primary and total capital/asset ratios. These minimums are 5.5 percent for the primary capital/asset ratio and 6 percent for the total capital/asset ratio.

The tables on page 2 summarize how Eighth District banks measure up to the proposed capital standards using the Fed's proposed definitions of primary and total capital.

## Capital Ratios and Total Assets

Table 1 shows how measured average capital/asset ratios differ across banks in the Eighth District and the nation when the banks are divided into four categories by size of assets. The information for each of the seven states shown incorporates only those banks located within the geographical boundaries of the Eighth District. Capital ratios were derived from the June 30, 1984, Reports of Condition.

There are three general observations that can be made about the data in table 1. First, the capital ratios are inversely related to the asset sizes of the banks: the smaller the bank, the larger are the capital/asset ratios. This pattern shows up clearly for the Eighth District and U.S. average capital ratios displayed at the bottom of table 1. In the Eighth District, the primary capital ratio declines from 9.1 percent for the smallest asset size category to 6.4 percent for the largest; total capital declines similarly, from 9.1 percent to 6.6 percent. The same pattern emerges at the national level.

Second, on average, the larger Eighth District banks have somewhat higher capital ratios than similar-size banks throughout the rest of the nation. For the two larger asset size categories, Eighth District banks' capital ratios exceed comparable U.S. banks' ratios by at least one-half of one percentage point.

Third, there is considerable diversity in the capital ratios among banks in the Eighth District. For example, the differences in capital ratios between banks located in the Eighth District portions of Kentucky and Tennessee range from 1 to 3 percentage points, depending upon the asset category.

## Capital Ratios and Federal Regulatory Agencies

Table 2 lists Eighth District banks by their respective federal regulatory agency and shows their average capital ratios using the Fed's measures. It also indicates the number of banks whose capital ratios were less than the Fed's specified minimums for capital adequacy. The purpose of this comparison is to determine the number of banks that would be affected if all federal agencies adopt measures and standards similar to those in the Fed's proposal.

The results indicate that only a small percentage of banks in the Eighth District and the nation would fail to meet the Fed's standards if they were applied across all banks. Only 360 of 14,380 banks nationwide had primary capital ratios less than 5.5 percent; only 508 banks had total capital ratios below 6 percent. Of the 1,055 Fed-regulated banks nationwide, 29 had deficient primary capital ratios and 35 had deficient total capital ratios.

The table also reveals that there are sizeable differences among banks' capital ratios, depending upon the relevant federal regulatory agency. For the United States as a whole, capital ratios at FDIC-regulated (state nonmember) banks are about 2 percentage points higher than those at Fed-regulated (state member) banks, with OCC-regulated (national) bank capital ratios only slightly above those of Fed-regulated banks. This ordering is somewhat different for Eighth District banks. Although FDIC-regulated banks have the highest average capital/asset ratios, OCC-regulated banks have the lowest capital ratios.


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**Table 1**
**Average Capital Ratios by Bank Total Asset Sizes Using the Fed's Proposed Definitions.**

| State or Region | Total Assets Less than $100 Million | | | Total Assets Between $100-$500 Million | | | Total Assets Between $500 Million-$1 Billion | | | Total Assets More Than $1 Billion | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Primary Capital Ratio | Total Capital Ratio | Number of Banks | Primary Capital Ratio | Total Capital Ratio | Number of Banks | Primary Capital Ratio | Total Capital Ratio | Number of Banks | Primary Capital Ratio | Total Capital Ratio | Number of Banks |
| Arkansas | 9.6% | 9.7% | 227 | 8.1% | 8.3% | 29 | 6.5% | 7.0% | 2 | 5.5% | 6.1% | 1 |
| Illinois | 9.0 | 9.0 | 277 | 8.0 | 8.2 | 17 | — | — | 0 | — | — | 0 |
| Indiana | 9.0 | 9.0 | 82 | 8.1 | 8.1 | 13 | 8.5 | 8.5 | 2 | — | — | 0 |
| Kentucky | 9.7 | 9.8 | 162 | 10.0 | 10.0 | 20 | 13.0 | 13.0 | 1 | 6.9 | 7.0 | 3 |
| Mississippi | 9.3 | 9.3 | 65 | 8.0 | 8.3 | 9 | 7.4 | 7.4 | 2 | — | — | 0 |
| Missouri | 8.6 | 8.6 | 367 | 7.8 | 7.9 | 50 | 7.3 | 7.3 | 1 | 6.8 | 6.8 | 3 |
| Tennessee | 8.6 | 8.7 | 83 | 7.0 | 7.2 | 10 | — | — | 0 | 5.4 | 5.9 | 3 |
| Eighth District | 9.1 | 9.1 | 1,263 | 8.2 | 8.3 | 148 | 8.0 | 8.2 | 8 | 6.4 | 6.6 | 10 |
| United States | 9.2 | 9.2 | 12,061 | 7.8 | 8.0 | 1,864 | 7.3 | 7.7 | 192 | 5.7 | 6.0 | 263 |

Source: June 30, 1984, Reports of Condition

**Table 2**
**Average Capital Ratios by Regulatory Agency Using Fed's Proposed Definitions**

| | Regulatory agency | Number of banks | Primary Capital | | Total Capital | |
|---|---|---|---|---|---|---|
| | | | Ratio | Number of banks deficient | Ratio | Number of banks deficient |
| Arkansas | FDIC | 181 | 9.40% | 3 | 9.57% | 3 |
| | OCC | 74 | 7.90 | 2 | 8.10 | 3 |
| | FED | 4 | 7.19 | 0 | 7.91 | 0 |
| Illinois | FDIC | 170 | 8.83 | 0 | 8.89 | 0 |
| | OCC | 104 | 8.60 | 1 | 8.66 | 1 |
| | FED | 20 | 9.55 | 0 | 9.58 | 0 |
| Indiana | FDIC | 58 | 8.95 | 1 | 8.96 | 1 |
| | OCC | 31 | 8.26 | 0 | 8.26 | 3 |
| | FED | 8 | 8.91 | 0 | 8.93 | 0 |
| Kentucky | FDIC | 147 | 10.45 | 2 | 10.50 | 2 |
| | OCC | 34 | 7.62 | 0 | 7.72 | 0 |
| | FED | 5 | 7.04 | 0 | 7.10 | 0 |
| Mississippi | FDIC | 61 | 8.26 | 1 | 8.31 | 1 |
| | OCC | 14 | 8.94 | 0 | 9.05 | 0 |
| | FED | 1 | 10.15 | 0 | 10.15 | 0 |
| Missouri | FDIC | 321 | 8.41 | 2 | 8.45 | 3 |
| | OCC | 77 | 7.12 | 1 | 7.15 | 4 |
| | FED | 23 | 8.65 | 1 | 8.67 | 1 |
| Tennessee | FDIC | 84 | 8.07 | 5 | 8.15 | 7 |
| | OCC | 10 | 5.66 | 1 | 6.05 | 2 |
| | FED | 2 | 7.11 | 0 | 7.61 | 0 |
| Eighth District | FDIC | 1,022 | 8.92 | 14 | 8.98 | 17 |
| | OCC | 344 | 7.41 | 5 | 7.55 | 13 |
| | FED | 63 | 7.89 | 1 | 7.99 | 1 |
| United States | FDIC | 8,509 | 8.07 | 167 | 8.26 | 246 |
| | OCC | 4,816 | 6.40 | 164 | 6.64 | 227 |
| | FED | 1,055 | 6.02 | 29 | 6.32 | 35 |

Source: June 30, 1984, Reports of Condition

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# EIGHTH DISTRICT BANKING DATA
(dollar amounts in millions)

## Small Weekly Reporting Banks[1]

### REGION I
(eastern Missouri and southern Illinois)

| Selected Assets | Aug 1984 | Sept 1984 | Oct 1984 | Percent Change Year-to-Date |
|---|---|---|---|---|
| U.S. Treasury and Government Agency Securities | $ 651 | $ 650 | $ 654 | 11.0% |
| Other Securities | 181 | 183 | 187 | -16.1 |
| Federal Funds Sold | 119 | 137 | 136 | -17.1 |
| Total Loans and Leases-Gross | 1,448 | 1,464 | 1,480 | 11.4 |
| Secured by Real Estate | 641 | 650 | 652 | 11.6 |
| Commerical and Industrial | 442 | 448 | 459 | 14.2 |
| To individuals | 247 | 248 | 249 | 12.2 |
| **Selected Liabilities** | | | | |
| Total Deposits | 2,331 | 2,360 | 2,383 | 4.9 |

### REGION II
(Arkansas, northern Mississippi, western Tennessee)

| Selected Assets | Aug 1984 | Sept 1984 | Oct 1984 | Percent Change Year-to-Date |
|---|---|---|---|---|
| U.S. Treasury and Government Agency Securities | $ 372 | $ 371 | $ 367 | 7.9% |
| Other Securities | 198 | 196 | 196 | -13.7 |
| Federal Funds Sold | 23 | 38 | 35 | -41.7 |
| Total Loans and Leases-Gross | 1,364 | 1,380 | 1,394 | 6.8 |
| Secured by Real Estate | 479 | 495 | 503 | 28.6 |
| Commercial and Industrial | 549 | 545 | 529 | -1.9 |
| To individuals | 248 | 251 | 268 | 21.3 |
| **Selected Liabilities** | | | | |
| Total Deposits | 1,886 | 1,944 | 1,927 | 0.7 |

### REGION III
(western Kentucky and southern Indiana)

| Selected Assets | Aug 1984 | Sept 1984 | Oct 1984 | Percent-Change Year-to-Date |
|---|---|---|---|---|
| U.S. Treasury and Government Agency Securities | $ 498 | $ 501 | $ 499 | 5.7% |
| Other Securities | 227 | 226 | 226 | -3.8 |
| Federal Funds Sold | 139 | 146 | 135 | -34.8 |
| Total Loans and Leases-Gross | 1,108 | 1,120 | 1,138 | 12.3 |
| Secured by Real Estate | 414 | 420 | 434 | 10.2 |
| Commercial and Industrial | 342 | 335 | 324 | 2.5 |
| To individuals | 270 | 280 | 283 | 19.4 |
| **Selected Liabilities** | | | | |
| Total Deposits | 1,857 | 1,879 | 1,874 | 1.4 |

[1]A sample of commercial banks with total assets less than $300 million.

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# EIGHTH DISTRICT BANKING DATA

(dollar amounts in millions)

## Large Weekly Reporting Banks[2]

| Selected Assets | Aug 1984 | Sept 1984 | Oct 1984 | Percent Change Year-to-Date |
|---|---|---|---|---|
| Total Loans | $11,839 | $11,962 | $12,025 | 10.0% |
| Secured by Real Estate | 2,507 | 2,513 | 2,511 | 11.8 |
| To Financial Institutions | 1,111 | 1,092 | 1,035 | 14.6 |
| Agricultural | 118 | 123 | 124 | 27.8 |
| Commercial and Industrial | 4,514 | 4,527 | 4,652 | 12.6 |
| To Individuals | 2,278 | 2,312 | 2,346 | 5.6 |
| All Others | 1,311 | 1,395 | 1,357 | 1.7 |
| Total Investments | 3,045 | 3,072 | 3,004 | – 1.1 |
| U.S. Treasury and Government Agency Securities maturing in: | | | | |
| 1 year or less | 788 | 836 | 781 | 34.9 |
| 1 through 5 years | 581 | 567 | 588 | – 36.7 |
| over 5 years | 480 | 469 | 428 | 48.6 |
| Securities of State and Political Subdivisions | 1,195 | 1,198 | 1,206 | – 2.7 |
| **Selected Liabilities** | | | | |
| Total Deposits | $14,347 | $14,677 | $14,794 | 3.5% |
| Demand Deposits Adjusted[3] | 1,745 | 1,831 | 2,047 | 37.2 |
| Other Transaction Balances[4] | 972 | 985 | 1,009 | 1.1 |
| Total Non-transaction balances | 8,948 | 9,066 | 9,269 | 11.3 |
| MMDAs | 1,797 | 1,886 | 1,913 | 25.4 |
| Time Deposits of $100,000 or more | 3,460 | 3,391 | 3,500 | 13.3 |

## Selected Eighth District Interest Rates[5]

| | Aug 1984 | Sept 1984 | Oct 1984 | Year Ago Oct 1983 |
|---|---|---|---|---|
| Super NOW Accounts | 7.75% | 7.63% | 7.46% | 7.31% |
| Money Market Accounts | 8.95 | 8.84 | 8.63 | 8.30 |
| Time certificates and time deposits less than $100,000: | | | | |
| 92 through 182 days | 10.58 | 10.45 | 9.85 | 9.05 |
| over 1 year but less than 2½ years | 10.84 | 10.77 | 10.32 | 9.51 |
| 2½ years and over | 10.90 | 10.89 | 10.48 | 9.69 |

[2]Large banks are those with total assets greater than $750 million.

[3]All demand deposits except those of the U.S. government and commercial banks less cash items in the process of collection.

[4]Includes NOW, Super NOW, ATS and accounts permitting telephone or pre-authorized transfers.

[5]Average interest rates paid on new deposits by a sample of large and small commercial banks.

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